Transitioning Automotive Communities to What’s Next

Roads to Renewal: A Summit on the Changing Automotive Industry

April 15, 2009

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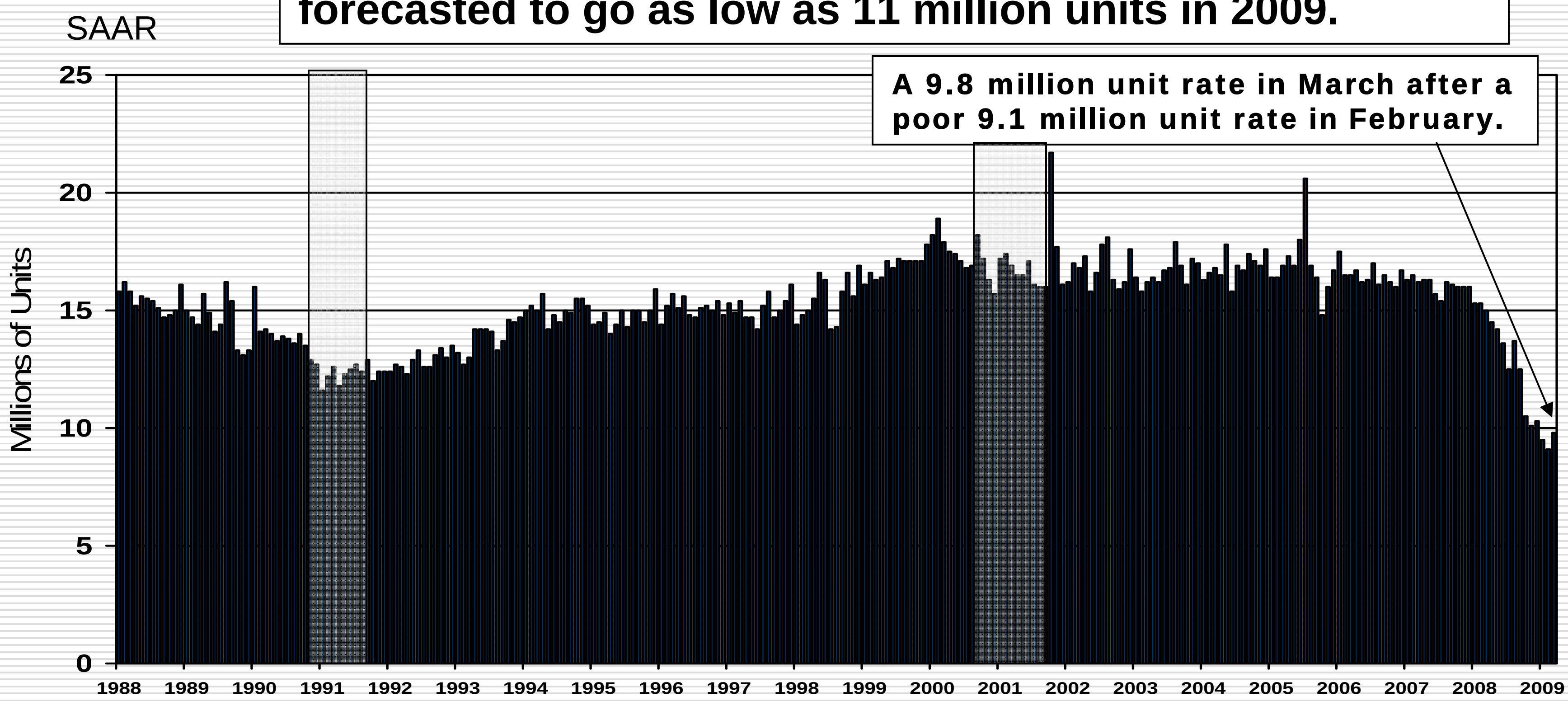
Outline

- This time is different.
- The auto industry is too big ignore.
  - Can you change partners?
  - Klier and Rubenstein’s recommended strategies
- Now what
  - What we know about displaced workers
  - Matching displaced auto-related workers to jobs that are being created
  - Diversification—a long-term strategy
    - Three elements of regional change

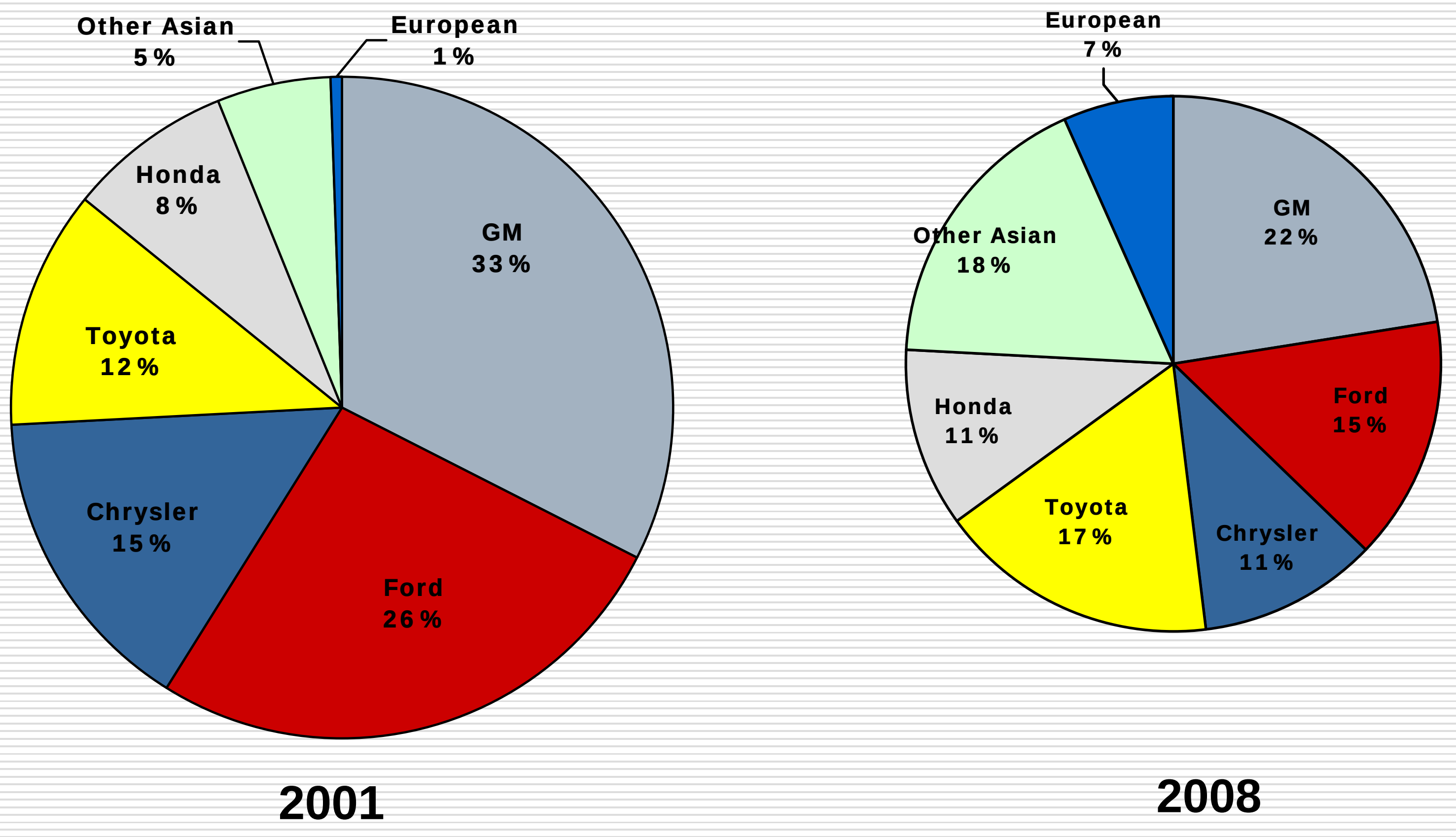
This downturn is much deeper than the previous two recessions.

Car and light truck sales reached 16.1 million units in 2007, dipped to 13.3 million units in 2008, and are now forecasted to go as low as 11 million units in 2009.



Source: BEA.

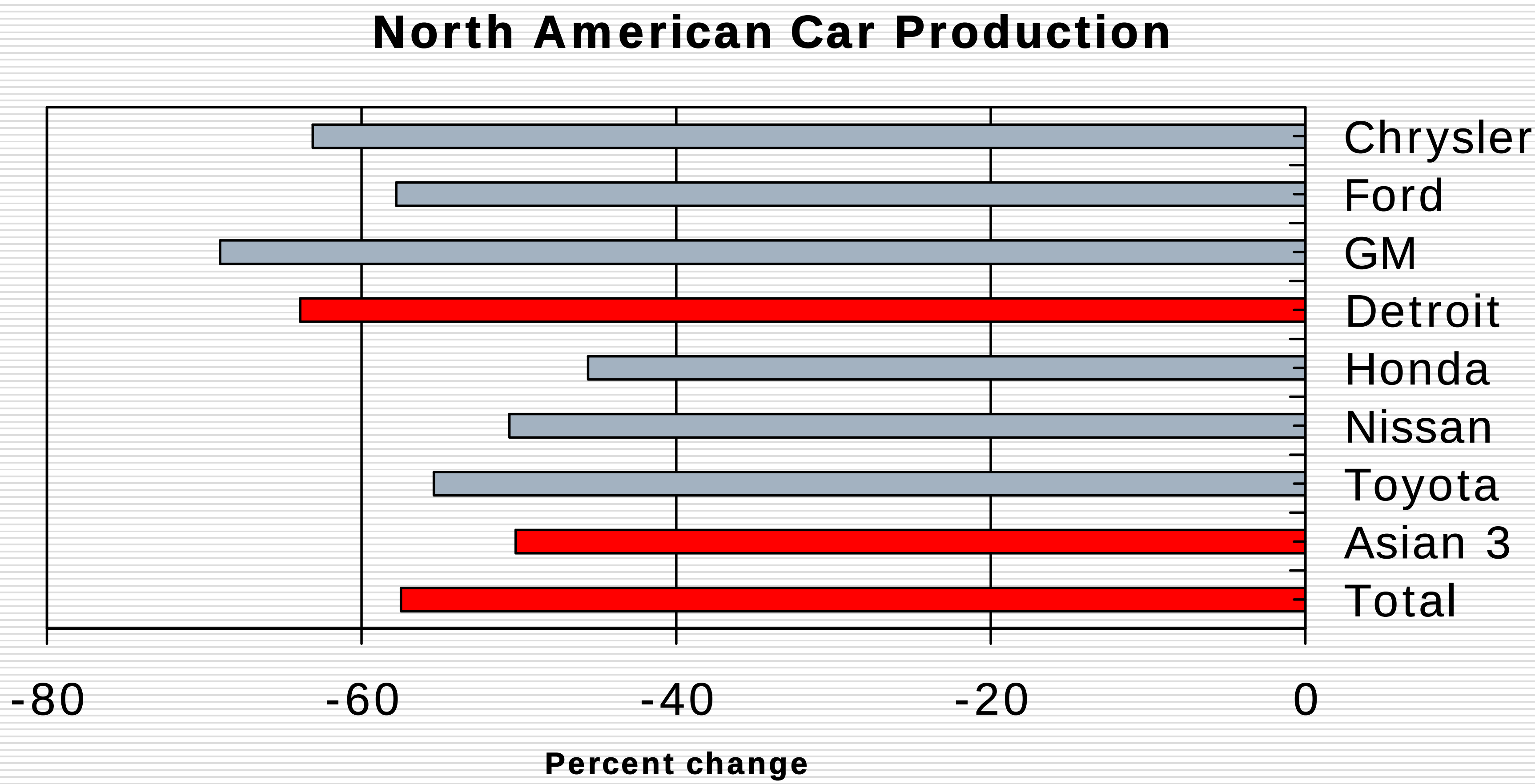
A smaller slice of a smaller pie: *In 2001, the Detroit Three controlled 74%; it fell to 48% in 2008.*



Source: *Wards AutoWorld.*

Production levels have plunged.

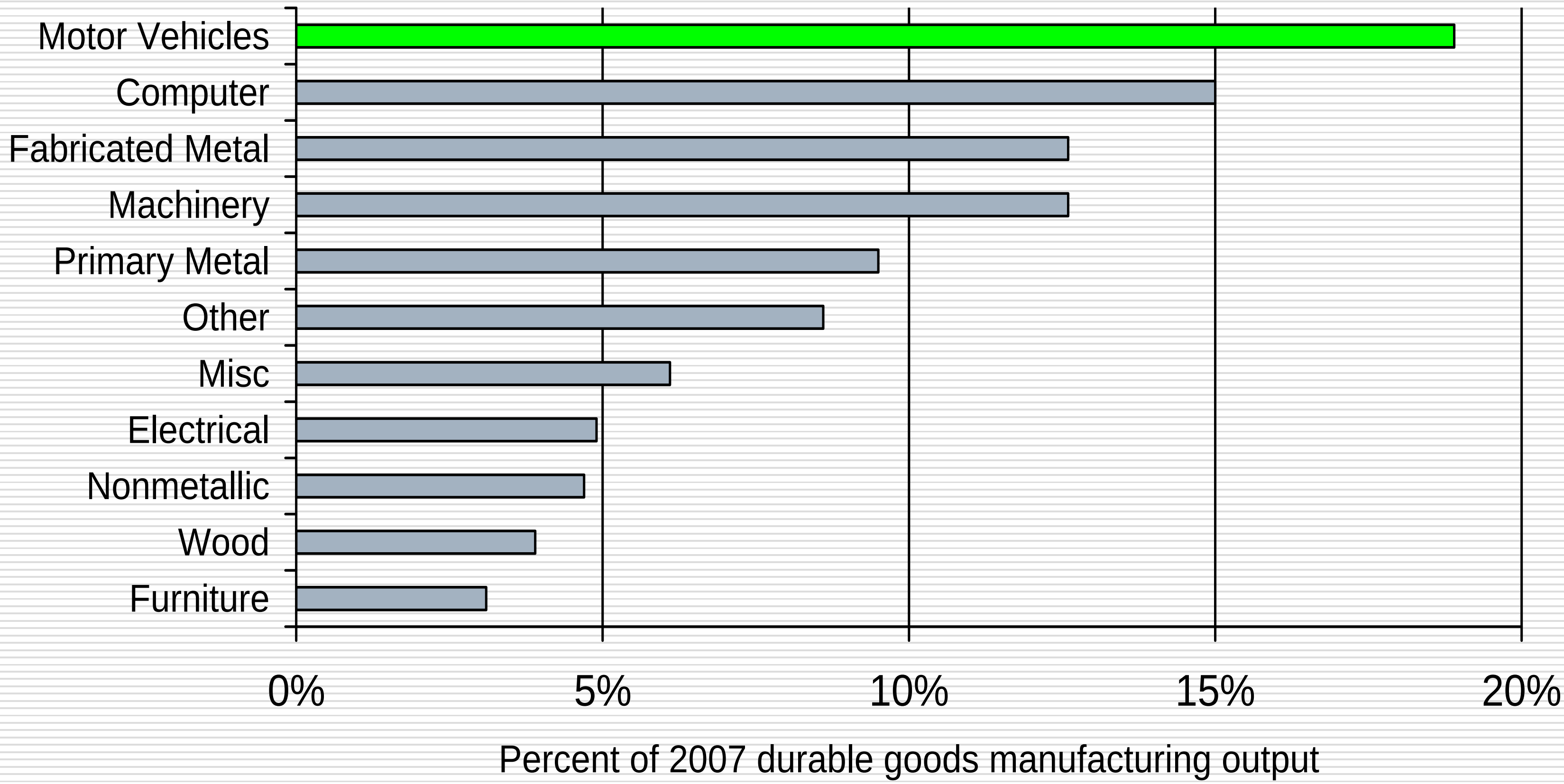
Jan-Feb 2008 to Jan-Feb 2009



Source: Ward’s AutoInfoBankhttp://wardsauto.com/keydata/NAProductionSummary0902/

Too big to ignore:

Autos are the leading durable goods sector.



Source: BEA.

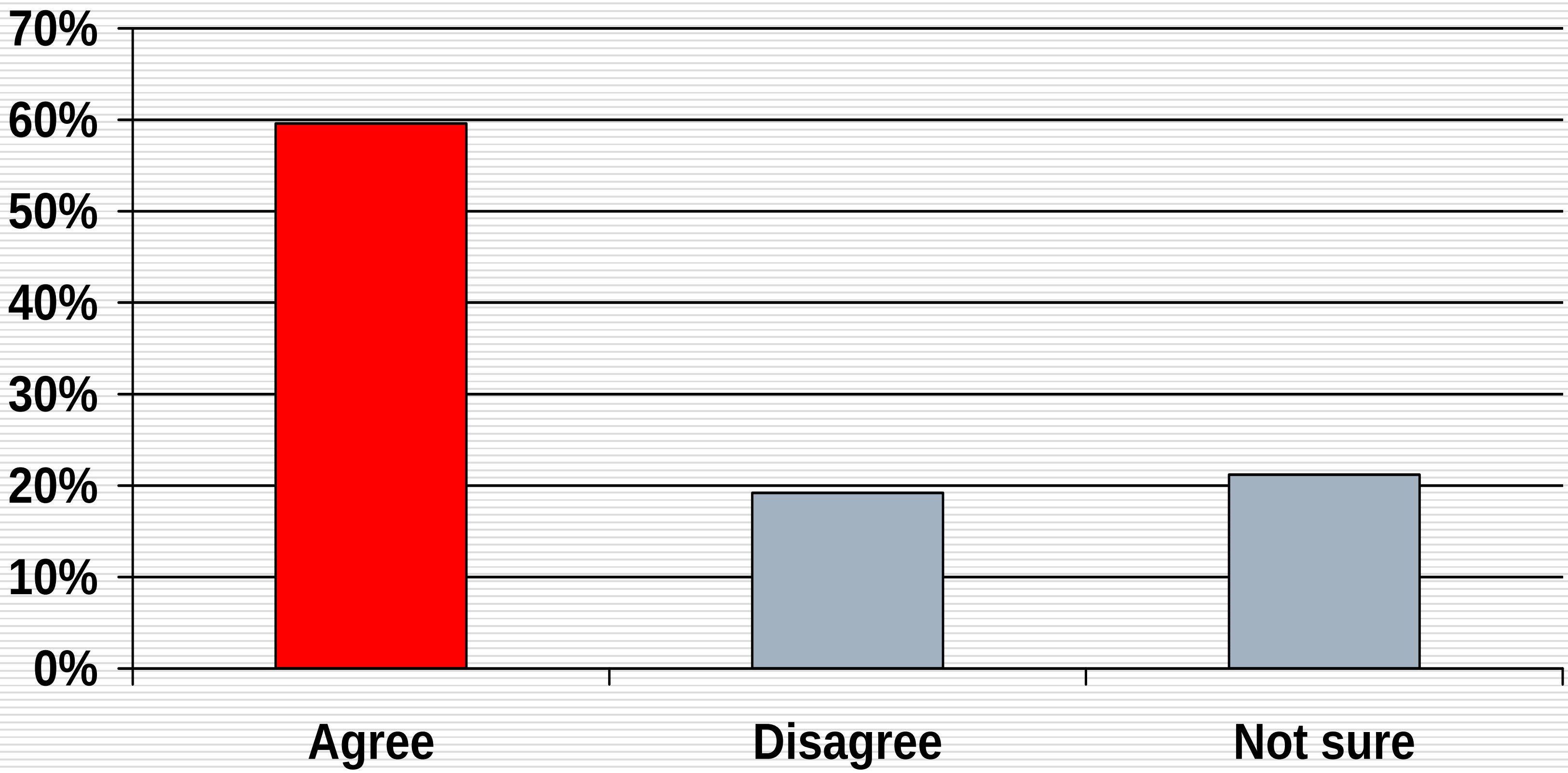
Changing partners?

How the suppliers rank the top six automakers:

- 1. Toyota
- 2. Honda
- 3. Nissan
- 4. Ford
- 5. General Motors
- 6. Chrysler

Source: Industry Week, October 2008.

"My company has been involved with a component pricing dispute with a Detroit automaker in the past two years."



Source: *Ward's Auto World* Survey of Suppliers, August 2007.

Current Survival Strategies*

- System integration
- High-tech module developers
- Low-cost parts makers

*Klier and Rubenstein, *Who Really Made Your Car,* Upjohn Institute, 2009.

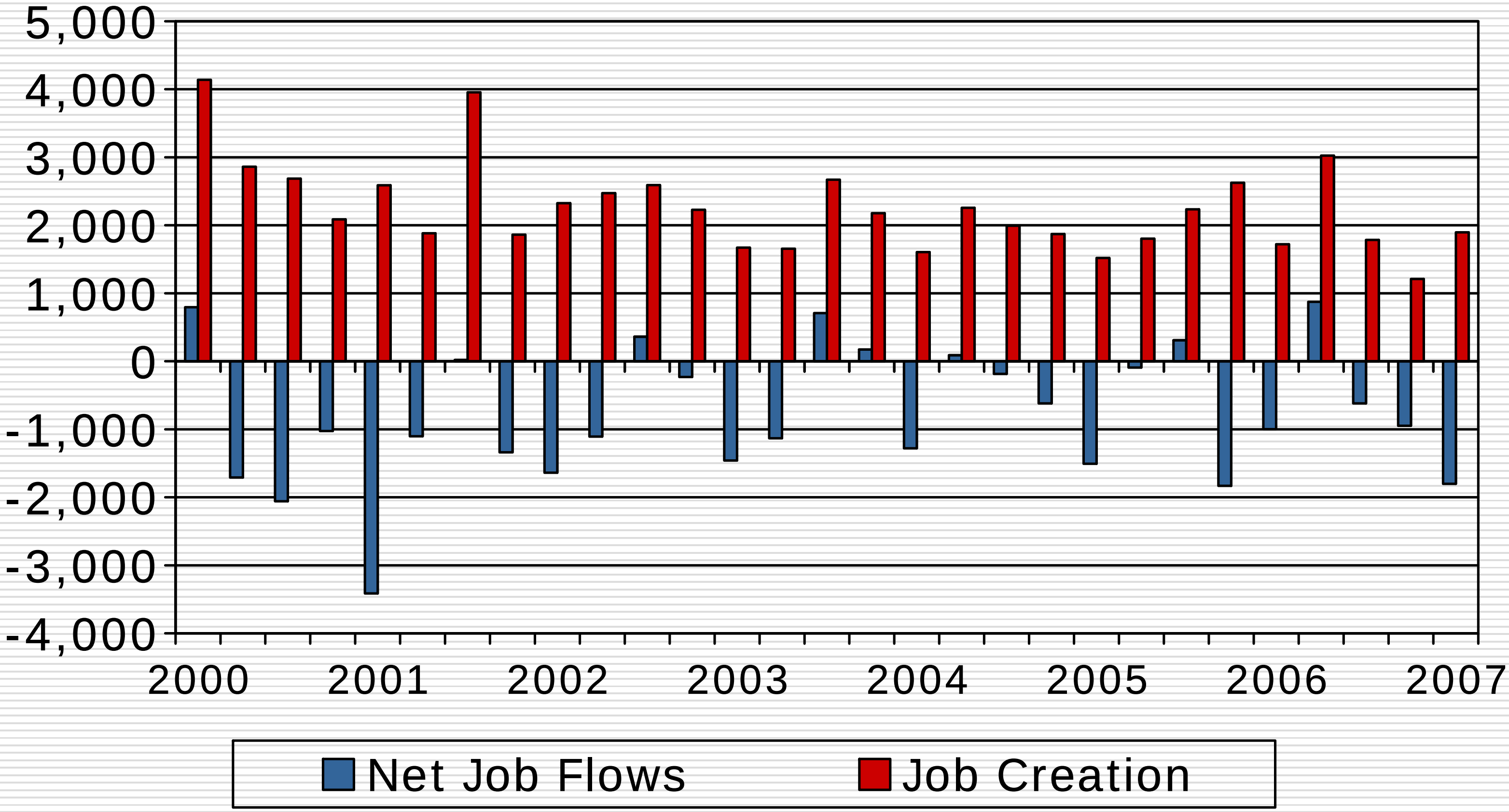
What about the impacted workforce?
What do we know:

- Displaced older workers are unlikely to regain the same level of earnings and will likely be out of work longer than younger workers.
- Employment growth may be very sluggish during the approaching recovery, making it difficult for older displaced workers to find suitable employment
- There exists strong evidence of age discrimination
- However, there is much that we still don’t know.

Even in down times, manufacturers are creating jobs.

- New products are being introduced.
- New markets are being explored.
- Some are taking share from their competitors.
- ***Can communities improve current efforts to match these new jobs with displaced workers?***

An example: *Total job creation in manufacturing has averaged more than 2,000 jobs per quarter in the Grand Rapids MSA.*



Job creation excludes recalls.

Source: BLS & U.S. Census.

Provide opportunities for retraining- *components of an effective job training system.*

- Based on a firm understanding of the local labor market.
- Based on the skills and abilities of displaced workers.

Diversification is a long-term commitment.

- There are no “green fields” out there.
- Picking emerging industry is extremely risky—*Now take my ethanol plant…. please!*
- Three elements of regional change

Transformation depends on identifying interaction of three key elements of regional economies:

Global Factors

- Demographic change
- Environmental
- Political/Social

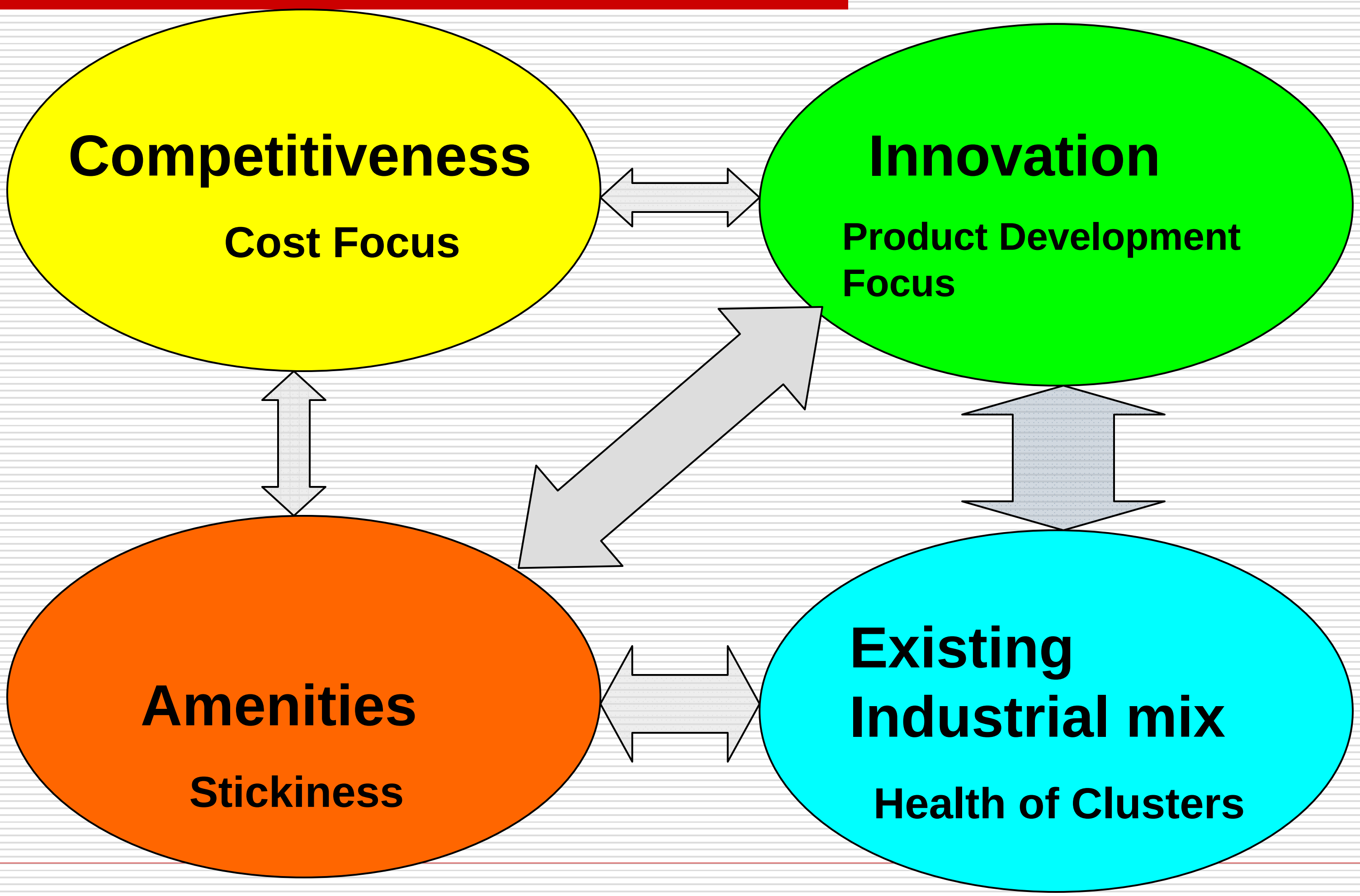
Technological Change

- Applications
- Feasibility
- Survivability

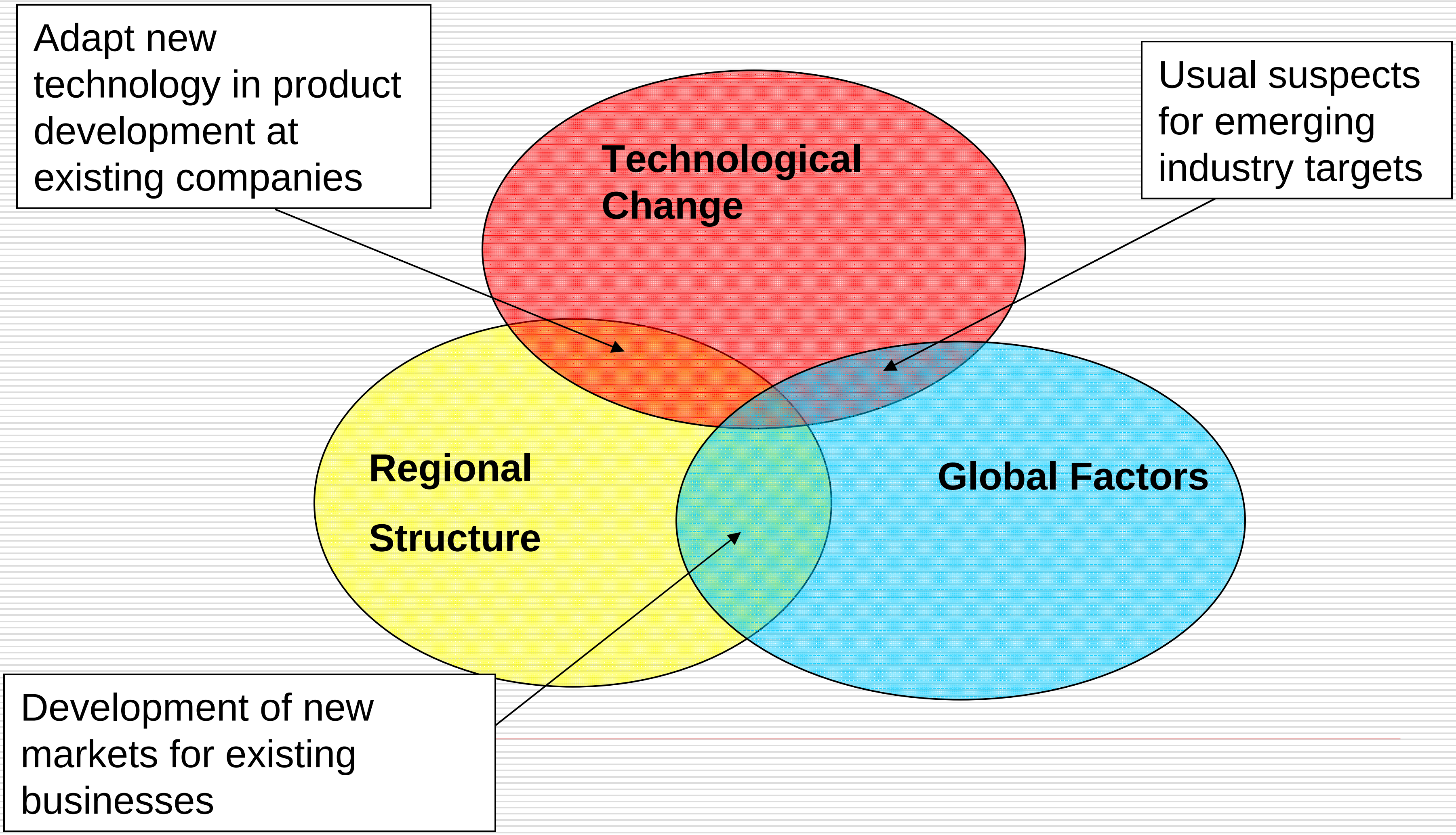
Regional Structure

- Export base activities across all industries
- Non-export base activities

Interaction Between Factors



Emerging Industry Opportunities



Closing Thoughts

- Avoid jumping on the bandwagon in trying to attract the next best thing.
  - Competition is fierce—32 states are going after life sciences.
  - If industry clusters matter at all, then it is risky to go after industries that are currently not in the region.
  - Many of the usual suspects are top heavy with highly educated professionals, meaning that “job chains” that reach the underemployed and unemployed will not be created.

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