AP: McTevia Discusses Impact of Auto Cuts

GM buyouts will further change the face of the U.S. auto industry

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DETROIT – For a U.S. auto industry already undergoing a sea change, General Motors Corp.'s offer to buy out more than 100,000 autoworkers will only bring more upheaval that could result in weaker unions, thousands of jobless Baby Boomers and higher sticker prices on vehicles, eventually.

“We're going to see major, major changes in the way vehicles are manufactured and who's going to be doing the manufacturing,” said James McTevia, a Detroit-area restructuring consultant. “We haven't seen the last of it yet.”

Under GM's plan – one of the largest corporate buyouts in history – GM is offering between $35,000 and $140,000 to 113,000 U.S. hourly workers as part of its goal of cutting 30,000 jobs by 2008. GM also will bankroll early-retirement buyouts at Delphi Corp., its former parts division and major supplier. Up to 17,000 hourly workers at Delphi could be eligible for a $35,000 payment to retire.

GM and Delphi haven't said how many workers are expected to take the deal, but JPMorgan auto analyst Himanshu Patel predicts as many as 39,000 GM workers could leave the company. McTevia said that will mean many autoworkers in their late 40s and early 50s will be retiring even though they have many productive years left.

While those workers will get pensions and health care benefits from GM, their benefits may not be as rich as they once were. GM is currently seeking federal court approval for a plan to make retirees pay more for their health care, and could continue to whittle away at those benefits in the future.

“What are these people going to do in an economy that's changing when their experience is automotive-driven?” McTevia said. “How are they going to fit into our society?”

The number of automotive retirees likely will grow. Many analysts predict similar buyouts at Ford Motor Co. and at auto suppliers who are struggling with the same high costs, fierce competition and overcapacity that plagues GM. GM lost $10.6 billion in 2005. Ford earned $2 billion, but lost $1.6 billion in its North American operations.

“I think it's a matter of time before Ford says, 'Me too,'” said Erich Merkle, director of automotive forecasting for the consulting firm IRN Inc.

Already this year, Ford has offered buyouts to some 15,400 workers, including 11,900 who work at former Visteon Corp. plants now under the control of Automotive Components Holdings LLC, a Ford-managed company. At a plant Ford is closing in Edison, N.J., 33 percent of the 200 workers offered buyouts this year have taken them, Ford spokeswoman Marcey Evans said.

The exodus weakens the United Auto Workers, which has been watching a steady erosion of its membership for the last few decades. There were 622,000 UAW members in 2004, down from 1.6 million active members at the UAW's peak in 1970.

“They are going to have fewer people to represent in their collective bargaining, and that's going to have some effect on their negotiating ability,” McTevia said.

At the same time, the ranks of nonunion autoworkers are growing, as companies like Toyota Motor Corp. and Hyundai Motor Co. expand their presence in the United States. While GM's hourly U.S. workforce shrank by more than half – or 114,800 workers – between 1994 and 2004, Toyota's total U.S. manufacturing workforce, which includes salaried plant employees, rose 90 percent, from 11,182 to 21,225.

Sean McAlinden, chief economist with the Center for Automotive Research in Ann Arbor, said 35 percent of workers at auto companies and suppliers are unionized, down from nearly 65 percent in the mid-1970s.

Still, most analysts are quick to say GM's buyouts will be good for the overall industry. GM has far too much plant capacity for its shrinking market share, which has dropped from 44 percent of the U.S. market in 1980 to 26 percent last year. GM's North American plants were running at 87 percent of their total capacity last year, according to Harbour Consulting. By comparison, Toyota's plants were running at full capacity.

McAlinden said every active worker costs GM around $130,000 a year, compared to just $15,000 a year for retired workers, so the buyouts make a lot of financial sense. If GM lowers its capacity, he added, it will no longer have a glut of cars that need big discounts to sell. That will allow GM to charge slightly higher prices and lessen the pressure on other automakers to offer costly incentives, he said. Right now, incentives per vehicle can approach $4,000 or more.

Merkle added that GM had to take aggressive action because it can't sustain the kind of losses it saw last year, and that action will benefit the entire industry.

“It's a matter of time before GM files for bankruptcy if these issues aren't addressed,” Merkle said.