McTevia provides insight to Booth Newspapers on auto/labor contracts

'Long way to go' for auto industry
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By Rick Haglund
DETROIT -- While some analysts have called the new labor contracts at the Detroit Three automakers "transformational," don't expect them to transform Michigan's job-killing economy any time soon.

And for auto suppliers, which also comprise a big chunk of the state's economy, the labor contracts' ban on outsourcing could darken the already bleak business conditions many of them are facing.

"I think the new contracts are a start," said James McTevia, president of McTevia & Associates, a business turnaround firm in Bingham Farms. "But labor and the domestic automakers still have a long way to go."

The pacts signed by General Motors Corp., Ford Motor Co. and Chrysler LLC with the United Auto Workers union are projected to save the automakers billions of dollars in retiree health care costs and significantly narrow the labor cost gap between themselves and Japanese automakers.

New retiree health care trusts, known as Voluntary Employee Beneficiary Associations, or VEBAs, will shift $100 billion in retiree health care obligations off the automakers' books into union-run funds.

And new two-tier wage agreements will allow the Detroit Three automakers to hire many new workers at about $14 an hour -- half of what current workers earn.

"I think the contracts are a great signal that everyone's on board" in the restructuring of the domestic auto industry, said James Kamsickas, president of International Automotive Group North America in Dearborn.

IAC North America, with sales of $3.5 billion, was formed earlier this year from the acquisition of Lear Corp.'s interior business and several operations of the defunct Collins & Aikman Corp.

Kamsickas said it's "too preliminary" to assess the impact of the contracts on suppliers.

The contracts contain a ban on outsourcing, but the specifics are unclear. He said the contracts likely will force suppliers to seek more business from automakers worldwide.

A new University of Michigan economic forecast predicts the Detroit automakers will continue to shed

jobs and market share over the next two years, despite the favorable contracts.

The forecast, released Friday, predicts auto-related employment in Michigan will shrink by 22,000 jobs through the end of 2009.

And about a quarter of the Detroit Three's 62,748 hourly workers in Michigan in 2010 will be paid at the lower-tier wage, according to U-M and the Center for Automotive Research in Ann Arbor.

Market share of the Detroit Three automakers will fall from 50.4 percent this year to 47.6 percent in 2009 as foreign competition intensifies.

"No risk is more significant to the Michigan economy than the uncertainties swirling around the extreme makeover of the domestic auto industry," U-M economist George Fulton, Joan Crary and Saul Hymans wrote in their forecast.

It could take several years for the contracts to have a positive impact on automakers' profitability.

Ford and Chrysler aren't forecasting a return to profitability until 2009.

GM, which posted a $39 billion loss in the third quarter of this year, mostly due to a noncash writeoff of unused tax credits, isn't issuing profit forecasts.

Analysts say one reason the new contracts won't give the automakers an immediate profit boost is the VEBAs do not take effect until 2010.

Plus, analysts are predicting a slowdown in car and truck sales next year.

"That's going to have a bigger impact on the state's economy than the labor contracts," said Erich Merkle, an auto industry analyst at IRN Inc. in Grand Rapids.

Sean McAlinden, chief economist at the Center for Automotive Research, predicted at the U-M forecasting conference last week Detroit won't close its collective $12 billion labor-cost gap with Toyota Motor Corp. until 2016.

"That's pretty much why (the UAW) agreed to cut their wages -- survival," McAlinden said, referring to the new two-tier pay scale.

A ban on outsourcing and lower entry-level wages at the automakers also could mean less new work for suppliers, which are struggling because of reduced production volumes by domestic automakers.

"There's not going to be the kind of business available to them under these contracts that there was before," McTevia said.

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