US auto industry slump leads to more job losses

Larry Roberts
13 March 2001

The slowdown in the auto industry that has resulted in the loss of tens of thousands of jobs is now widely acknowledged to be part of a recession gripping the entire manufacturing sector of the US economy. According to a report published by Challenger, Gray & Christmas, the international outplacement firm, 22,697 of the 142,208 job cuts announced in February were in the auto industry. Since the beginning of the year, motor vehicle makers and parts suppliers have wiped out 57,656 jobs.

For the first time in over four years the unemployment rate in Michigan—where up to one-third of all of the auto industry's jobs are located—rose above the national level, to 4.5 percent. In January the manufacturing sector in Michigan alone lost 65,000 jobs, the largest decline in five months. Other Midwestern states, including Ohio and Indiana where the auto industry accounts for a significant portion of economic output, were also hit hard.

After nearly a decade of record sales and corporate profits, purchases of cars and trucks fell sharply in the fourth quarter of 2000. Rising fuel prices, the fall on the stock market, worries about job security and a decrease in consumer confidence all led to the decline. Analysts say it wouldn't be surprising that after 10 years of booming sales, where on average every household in the United States has replaced one and a half new cars, consumers will now cut spending for the next several years.

The Big Three US auto companies—Ford, General Motors and DaimlerChrysler—have all reduced first-quarter output between 17 and 26 percent. Over the last several months GM announced plans to permanently cut 15,000 jobs worldwide; Ford said it will eliminate 4 to 5 percent of its workforce, primarily through attrition; and DaimlerChrysler announced it was permanently cutting 26,000 jobs at its US-based Chrysler Group.

On March 2, the US Chrysler Group announced it was eliminating 2,715 salaried workers' positions by the end of the month, after only 2,300 white-collar employees accepted the company's voluntary severance packages. The layoffs are part of a plan to restore profitability to Chrysler, which lost $1.3 billion in the fourth quarter of 2000, and a total of $1.8 billion over the last six months of the year.

The company's “turnaround” plan, announced by DaimlerChrysler Chairman Juergen Schrempp, called for cutting 5,000 salaried employees and 1,300 contract workers this year, as well as 19,500 production jobs by 2003. Of the blue-collar job cuts, 1,300 will be carried out by the end of 2001, 4,200 in 2002 and 2,300 in 2003. The job cuts will take place in the US, Canada, Mexico, Brazil and Argentina.

In addition to its permanent job cuts, No. 1 carmaker General Motors is temporarily closing 14 of its 29 plants in North America, with several plants closing for as long as five weeks. GM cut production by 21 percent after acknowledging that it had a 102-day supply of vehicles in dealers' parking lots, instead of the 60-day norm.

Auto analysts now expect sales to reach 16 million to 16.5 million units this year, compared to 17.4 million in 2000. In January sales were down 6.2 percent compared to the same period last year, with Chrysler witnessing the worst decline, 16 percent. Ford's sales decline was 11 percent, and GM's 5 percent. The slump in sales by the US automakers coincided with a continued loss in market share to their European and Japanese competitors.

While the slowdown has had a severe social impact, many Wall Street investors and corporate executives see it as an opportunity to eliminate “excess capacity” in the global auto industry, which has depressed profit margins. “In a convoluted way, a downturn provides the opportunity for a cleansing of over capacity,” said Thomas E. Evans, chairman of the Collins & Aikman Corporation, which makes textile and plastic parts for auto interiors and has closed 3 of its 65 plants. “It creates an acceptable moment to take cost-cutting steps that a lot of managers wanted to do anyway.”

The auto slump has also had a staggering impact on the auto parts supply sector, which has already been squeezed for price reductions by the Big Three automakers. In order to cut costs and meet lower demand for parts, the suppliers have eliminated the jobs of thousands of workers, who in most cases are paid lower wages and have less unemployment benefits than their counterparts in the Big Three assembly plants.

Last week TRW, the second biggest producer of air bags, announced the firing of 1,000 salaried workers as part of its cost-cutting proposals. Delphi Automotive, the world's largest supplier, laid off 4,200 workers the week of March 5. Since the beginning of the year, Tenneco Automotive has laid off 405 salaried workers; American Axle, a Detroit auto parts maker, cut 750 salaried and hourly workers; and Federal Mogul cut 1,100 salaried workers and eliminated 200 other positions. Dana Corporation, based in Toledo, Ohio, closed 11 plants last year and cut 10,000 of its 85,000 jobs.

There is growing speculation that many parts suppliers will not survive the coming shake-out in the industry as the economy continues to slow down. “It's clearly a turbulent time for the auto suppliers, and in my opinion not everybody's going to get out of this,” said David Cole, director of the Center for Automotive Research at the Environmental Research Institute of Michigan.

In many cases the job cuts announced by the automakers and parts suppliers do not include contract workers, who make up a growing number of auto employees. Chrysler is cutting 1,800 of its contract workforce that once totaled over 5,000. GM is cutting 1,100 of 11,000 contract workers, and Ford is cutting 250 out of 3,000. Delphi has announced that it is cutting back its contract workforce but has not specified the number of layoffs.

Firms that supply technical contract workers are themselves conducting job cuts. Rapid Design Service, which supplies technical workers to GM and Delphi, has laid off 600 of its 2,200 workers. Engineering Service Group of Southfield, Michigan recently laid off 200 employees, and Modern Engineering of Troy, Michigan is also making cuts.

The job cutting in the automotive sector coincides with new reports indicating a continuing slowdown in manufacturing. The National Association of Manufacturers released a recent report stating 80 percent of industrial producers expect zero growth or a shrinkage in industrial activity during the first half of 2001. The National Association of Purchasing Management, an organization of corporate purchasing executives, reported that the industrial sector of the economy, accounting for one-fifth of all US economic activity, recorded its seventh straight month of decline in February.