

Trade war, falling sales take center stage at Michigan auto industry conference

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Anxiety dominated the proceedings at last week's Management Briefing Seminar, an annual gathering of auto industry analysts and executives to discuss strategic challenges and forecast the future of the industry. The meeting, held in Traverse City, Michigan, is sponsored by the Center for Automotive Research (CAR), a leading industry think tank.

This year the event took place in the midst of contract negotiations between US auto companies and the United Auto Workers, which are being conducted behind a veil of silence. The conference was held far from the prying eyes of autoworkers, some 250 miles away from Detroit at an exclusive resort. The proceedings, however, served to partially reveal the line of attack automakers will follow as they seek to offload their crisis onto the backs of workers with the help of their lackeys in the leadership of the United Auto Workers.

While the industry is still awash in cash, there is now general agreement that the decade of record profits initiated by the Obama administration's bailout of the Detroit automakers in 2009 is now coming to an end, as the auto companies confront growing recessionary headwinds, rising research and development costs, and geopolitical tensions.

The mood among the participants was summed up by one European auto parts executive who declared, "There is a German saying, 'Die fetten Jahre sind vorbei,' which translates to 'The fat years are over,'" Anderson said. "Well, the fat years are indeed over in Europe." But the outlook was no more optimistic in any other part of the world.

The issues discussed generally fell under three categories: declining sales in industrialized and developing countries, the massive costs associated with electric vehicle (EV) and autonomous vehicle (AV) research and the growing threat of trade war, especially between the US and China.

The auto industry is entering what is expected to be a long-term slump in sales, with developed markets in Europe, the US, Japan and Korea expected to contract over the next five to seven years, industry analyst Jeff Schuster told *Automotive News*. "This leaves countries that are highly volatile—Brazil, Russia, India, Turkey, China—to drive growth globally," Schuster said. "But right now, many of these countries are in a decline, and that's a risk to the long-term global market."

China, which has been the chief driver in global sales growth and is now the largest auto market in the world, saw its first decline new vehicle sales in two decades in 2018. In his presentation to the conference, Schuster predicted a further 5 percent decline in sales this year. Worldwide auto sales are expected to decline by 3 percent.

Of 13 major global auto companies, 7 saw substantial sales declines in 2018. The largest dip came from Ford, which lost 372,000 in sales last year. Significantly, the UAW is reportedly considering making Ford its target in this year's contract negotiations.

Western Europe is the only region where sales are currently expected to remain steady in 2019. But Europe is rapidly heading towards recession, and the German economy, the largest in Europe, is already contracting. This downturn is particularly concentrated in manufacturing, especially the auto industry, where exports have declined due to slowing world trade and the vulnerability of Germany to growing trade frictions between the US and China. Europe has also been threatened with auto tariffs by the Trump administration.

More stringent European Union-wide vehicle emissions standards have the potential to open up a "competitive gap" between US and European automakers if such standards succeed in pushing the latter towards higher environmental performance, said German engineering executive Uwe Grebe. However, it is far from certain

whether European automakers will actually be able to meet the new emissions standards by 2020—carbon dioxide emissions actually rose last year – opening them up to 32 billion Euros in fines.

In order to shore up profits, automakers are seeking to reduce capacity through plant closures and mass layoffs. Schuster estimates that the “utilization rate,” or the ratio of actual production to total capacity, will fall to 63 percent.

Auto companies have already carried out a global wave of layoffs over the past 12 months, including tens of thousands of job losses in North America and Europe, 350,000 layoffs in India and 220,000 in China. Earlier this week, French automaker PSA announced it would close two of its plants in China and cut its workforce in the country by half. A pullout from China altogether remains a possibility.

Attendees pointed to the unexpectedly high cost of investment in emerging technologies, especially electric vehicles (EVs) and autonomous vehicles (AVs) as a major drag on profit. Consultant Dietmar Ostermann explained that research and development in these technologies have reduced profit margins for parts suppliers by 2.5 percentage points, from 7 to 4.5 percentage points.

When and even whether these new technologies will become profitable is uncertain. Electric vehicles are not expected to attain cost parity with traditional gas-powered vehicles until 2027, and fully autonomous cars are not expected to reach the market for another 20 years. However, their potentially revolutionary impact, as well as the huge potential for savings in labor costs, is compelling companies to invest rather than risk falling behind their rivals.

The US automakers, which have invested heavily in higher margin but less fuel efficient SUVs and pickup trucks, lag far behind China and the rest of the world in EV sales, according to Schuster. Due to more stringent government emissions regulations, China is by far the largest EV market in the world, with more than 1 million annual sales expected this year (a small fraction, however, of total overall vehicle sales of 30 million).

The growing drive towards trade war and protectionism was identified as a major threat to both supply chains and consumer demand. While this threat is centered in the United States, other areas are potential flashpoints, especially the European Union, where protracted Brexit negotiations have failed to produce an agreement. Analyst Jeff Schuster warned that the increasingly likely prospect of a no-deal Brexit could shrink the light vehicle market

in Britain by 15 percent, and increase the likelihood of closure of British plants producing for the European market.

But the most significant concern was the developing trade war between the United States and China. Michael Dunne, the CEO of a Hong Kong-based consulting firm, told the audience that the growing rift between the US and China was not a passing phenomenon but will be a permanent feature of the world economy in the near future. “It’s not a trade war—it goes much deeper,” Dunne said. We are going to be at it for 10–20 years with China.”

The replacement of NAFTA by the US-Mexico-Canada Agreement (USMCA) is aimed at refashioning North America into a US-dominated trading bloc positioned against China and other American rivals. A key provision in the new trade agreement prohibits signatories from entering into a free trade agreement with “non-market countries,” a measure clearly aimed against China.

The auto industry views the imposition of tariffs with anxiety because it produces cars through extensive global supply networks which could be seriously disrupted. An analysis of US trade policies released by CAR earlier this year predicted a substantial rise in production costs of vehicles sold in the US as a result of Trump’s trade policies, resulting in a contraction in annual light vehicle sales of 1.3 million and the loss of hundreds of thousands of jobs in the United States.

However destructive such measures may be, the decline of US economic hegemony (of which the declining market share of the Detroit automakers is one stark expression), makes such measures necessary from the standpoint of American imperialism. In particular, the United States cannot permit the emergence of China as a major economic and geopolitical rival capable of challenging its dominance in Eurasia. This was summed up by recent statements by Secretary of State Mike Pompeo that Chinese economic growth is a national security threat, as well as by Trump’s justification of auto industry tariffs on national security grounds.



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