Battered Auto-Parts Makers Could Face More Pain

Job Losses May Hasten As Detroit's Big Three Shift Buying Overseas

By Jeffrey McCracken
Wall Street Journal
August 13, 2007

While the struggles of Detroit's Big Three auto makers make headlines, U.S. auto-parts makers have slashed more than four times as many manufacturing jobs as the big auto makers during the past six years, and the shakeout appears likely to accelerate.

In that period, about 185,000 supplier manufacturing jobs have been eliminated in the U.S., compared with about 38,000 auto-assembly jobs, according to the Bureau of Labor Statistics. Large suppliers that have recently filed for bankruptcy protection, such as Delphi Corp. and Collins & Aikman Corp., are each eliminating more than 10,000 jobs.

General Motors Corp., Ford Motor Co. and Chrysler LLC have shown some progress toward restructuring their unprofitable North American operations. Likewise, some parts makers have become more-efficient competitors. Delphi is expected to emerge from bankruptcy protection with lower costs and only a fraction of its prebankruptcy work force. Last month, Lear Corp. shareholders rejected an offer by investor Carl Icahn to buy the majority of the company he doesn't own, with an eye toward better results ahead.

Still, industry observers say woes among parts makers could get worse as the U.S. auto giants shift more purchasing to lower-wage countries, in part to offset their own high labor costs. At the same time, Asian auto makers such as Toyota Motor Co. are producing more cars and trucks in the U.S., but they use fewer traditional U.S.-based suppliers than their Detroit rivals.

Many small U.S. suppliers are succumbing to higher raw-materials prices and pressure from lower-cost competitors. Now, tightening credit markets are drying up the easy money that allowed suppliers to delay or fund slow restructurings, say supplier and auto-maker purchasing executives. If U.S. vehicle demand doesn't pick up from the sluggish pace of the past three months, more parts makers could start to skid.

The largest auto-supplier trade group estimates that about 500 North American auto-parts makers are being eliminated or consolidated each year. The trade group predicts there will be about 5,000 North American parts suppliers by 2010, down from 8,000 in 2004.

The supplier industry is estimated to be a $500 billion business globally by revenue, with about $191 billion of that from North America, according to various studies.

"This last year we've really been seeing our smaller suppliers -- that is, those who have annual sales of $250 million or lower -- start to struggle or go under, mostly because they've been hit by the rise in raw materials like plastic or steel," said Bo Andersson, GM head of global purchasing. Mr. Andersson buys about $88 billion of products and services from 3,800 suppliers globally, including 1,900 in North America. GM a few years ago had about 5,000 suppliers globally. "We'd like to keep those small suppliers because they have something we don't have at GM: an entrepreneurial edge. So we will try to help them keep going," he said. GM buys about $58 billion a year from vendors in North America.

Ford, meanwhile, wants to slash at least half of its 2,500 global suppliers.

FTI Consulting, a New York-based firm involved in the bankruptcy proceedings at Delphi and Tower Automotive Inc., says the slowing of the debt market will hasten the pace of auto-supplier liquidations, bankruptcies and consolidations. "The caution that's currently being experienced in the credit markets increases the likelihood that some suppliers will be unable to restructure due to their inability to raise some additional financing or refinance their existing debt," said Randall Eisenberg, senior managing director with FTI. "If they can't fund the turnaround, they may run out of liquidity."

Small suppliers, said ArvinMeritor Inc. Senior Vice President Phil Martens, are also suffering because "they aren't globally diverse, are too dependent on one customer or even too dependent on one product line." ArvinMeritor, of Troy, Mich., is a maker of parts such as brake and suspension systems with annual sales of about $6 billion.

In part led by the GM-funded buyouts at Delphi, the job losses at parts suppliers have quickened through the first six months of 2007. Thirty thousand positions were eliminated, bringing auto-parts employment down to 612,000. In 2000, there were about 839,000 such jobs.

The Center for Automotive Research, a research group, says trends indicate supplier employment could shrink to about 500,000 by 2011 as about 40,000 auto-supplier jobs are trimmed each year. Geographically, many suppliers and supplier jobs are shifting out of states like Michigan, Ohio and Indiana and going south to states like Alabama, or further south to Mexico, and also to Asia. "We call it island hopping, as suppliers jump south and then east to China," said Sean McAlinden, chief economist with the center. "The pressure is from all of the global-purchasing groups to cut the cost of manufacturing."

Mr. McAlinden said auto makers can't buy everything overseas. Some components, such as air-conditioning units, are too big to ship economically. Other parts are so cheap it would cost more to ship them long distance than to manufacture them in the U.S.

Wages for many remaining U.S. auto-parts workers aren't as lucrative as they were, according to Bureau of Labor Statistics data. Auto-parts workers, on average, make about $21.30 an hour, compared with the $16.80 average hourly wage for all U.S. production workers. In 1994, the average gap was wider in percentage terms. Back then, parts workers on average earned more than $16 an hour, compared with about $12 an hour for manufacturing workers as a whole.

Auto-assembly jobs, by comparison, now pay about $30 an hour. That reflects the tendency of Asian and European auto makers to pay their U.S. employees at roughly the same hourly rate as employees represented by the United Auto Workers at plants owned by the Detroit auto makers, though their benefits aren't as rich.

The next trend, which could eventually stabilize auto-supplier employment in North America, may well be a wave of Asian-based auto suppliers pushing to open up plants in the U.S., said Jim Orchard, president of the North America business of French parts maker Faurecia SA.

--Terry Kosdrosky contributed to this article.