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'Can't be understated': Suppliers, dealers brace for impact of a UAW strike at automakers

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Auto industry stakeholders are bracing for a potentially unprecedented strike by United Auto Workers members early Friday morning that could have more impact than the 40-day strike against General Motors Co. in 2019.

Contracts with General Motors Co., Ford Motor Co. and Jeep maker Stellantis NV expire at 11:59 p.m. Thursday, and UAW President Shawn Fain told members Wednesday that the union would conduct targeted strikes at certain plants against each automaker that hasn't reached a tentative agreement by the deadline.

If that happens, suppliers fear that the impact, especially if a strike is prolonged, could be devastating to a supply chain that's already been disrupted by shortages, inflation and an electrification transformation. Dealers are stocking up on parts for repair as well as new and used vehicles. Autoworkers themselves say they've made their own preparations to withstand a strike in hopes of achieving a fair contract.

Meanwhile, Fain has pushed back on questions about the potential economic effects of a strike, pointing to robust profits by the Detroit automakers in recent years, high rates of executive compensation, the lack of real wage gains for autoworkers, and the fact that new-vehicle price increases have outpaced worker compensation gains.

"It's not going to wreck the economy; it's going to wreck the billionaire economy," Fain said Wednesday on "Good Morning America." "The billionaire class is running away with everything; the working class is being left living paycheck-to-paycheck and feeding off the scraps. ... We're not the problem."

The effects of a strike, large or small, would ripple through the industry and reliant communities, affecting thousands of other workers at suppliers, dealers and ancillary businesses in plant towns.

“We do think the potential for a D3 strike can’t be understated as it relates to the supply chain,” said Tony Sapienza, spokesperson for German supplier ZF Group, which has 53 manufacturing sites in North America, including five in Michigan. “If a prolonged strike occurs, we would have significant concerns for the health of our Tier 2 and Tier 3 suppliers as well as the industry’s ability to start up quickly.”

Although its domestic output has shrunk in the last 50 years, the auto sector as of 2021 still represented 6.56% of Michigan's gross domestic product, according to the U.S. Department of Commerce data obtained by Charles Ballard, a professor emeritus of economics at Michigan State University. By comparison, it made up 12% of Michigan's economy in 2003 and 25% in 1965.

“If a strike of the same relative magnitude had happened 60 years ago, it would have done a whole lot more damage to the Michigan economy than this one is going to do,” Ballard said, adding that the damage would depend on the length of the strike.

As long as a strike doesn’t go on “forever and ever … eventually those negative effects will be offset by the fact that the workers involved have more pay.”

After four more years of automakers making major profits, UAW leaders want to recover what was bargained away to save the companies during the Great Recession and bankruptcies. The union's initial proposal from more than a month ago sought a 46% wage increase (40% not compounded), though that request since has dropped at least to 36% not compounded.

Workers and their allies have argued that their demands are only fair given the automakers’ profits and executives’ salaries. The Detroit Three made a combined $21 billion in profit in the first half of 2023, significantly higher than the same time frame last year.

“What the UAW is fighting for is not radical,” said Sen. Bernie Sanders, Independent of Vermont, in a statement Tuesday. “It is the totally reasonable demand that autoworkers, who have made enormous financial sacrifices over the past 40 years, finally receive a fair share of the record-breaking profits their labor has generated.”

Willie Brooks, 52, of Belleville is a repair technician at Stellantis’ Jefferson North Assembly Plant and has been a UAW member for 27 years. He says he’s made financial preparations in the event of a strike like taking care of his mortgage payments for the next few months ahead of time. He's also held off on getting a new vehicle, despite driving a 2001 Chevy Tahoe with more than 300,000 miles and a 2007 Tahoe with more than 210,000 mikes.

"I want to see what happens with negotiations," he said, noting he wants the return of cost-of-living adjustments and for differences in benefits and wages between workers to be addressed. "The cost of living has gone up, and if you work the same job, you should get the same pay. They're doing the same job and getting $18, while we're getting $32. It needs to be addressed."

David Nuculaj is the owner of Motor City Sports Bar & Grill, a popular spot for autoworkers since it's across Mound Road from the Stellantis Warren Truck Assembly Plant. He hopes that a strike won't happen, and if it does, it will be short.

"Being across the street from a Chrysler plant, there will be a lot less people in here due to striking," Nuculaj said. "They'll go from a 40-hour work week to getting $500."

Still, Nuculaj says if there is a strike, he's offered the use of his parking lot and restrooms to the workers. His father and uncles worked at American Axle & Manufacturing Holdings Inc. before the work they did went to Mexico.

"They know what it's like," Nuculaj said. "I feel for everybody and know what everyone is going through. It shows them that we support them and that we are with them."

In Michigan, unemployment is a safety net for workers without a job because of company layoffs, plant closures and other factors out of a worker's control, Unemployment Insurance Agency Director Julia Dale said in a statement. In general, employees on strike aren't qualified to receive benefits.

"The auto industry and the jobs associated with it are a cornerstone of Michigan's economy. The Michigan Unemployment Insurance Agency is hopeful an agreement can be reached between the Big Three and its employees that is mutually beneficial to both sides," she said. "Each claim filed will be evaluated by UIA staff on its own merits to determine whether a worker qualifies for payments."

In 2019, all UAW-represented employees at GM went on strike for 40 days. It cost GM $3.6 billion, the company said.

Patrick Anderson, founder of East Lansing consultancy Anderson Economic Group, which has done work for Ford and GM, released a report last month estimating that a 10-day national strike against all three automakers would cost the U.S. economy $5.6 billion. That includes $859 million in lost wages, which includes autoworkers and people who work for suppliers.

“I’d like to tell you that I think (the economic impact) could be substantially less” than the union’s strike against GM in 2019, he said. “But I don’t think it will be. I think it’s more likely to be more.”

The union and the automakers “don’t have just a gap between them, they have a gulf between them,” he said. The UAW’s demands include elements that “are going to be viewed as bankruptcy risks” for automakers that are keeping an eye on a potential recession.

Supplier concerns

A strike would weigh heavily on the supply chain. When GM workers went on strike for 40 days in 2019, Lear Corp. pinned a large part of its 41% decline in fourth-quarter net income on the walkout, American Axle & Manufacturing Holdings Inc. estimated it lost $243 million in sales from the strike and Aptiv PLC said it lost about $200 million in revenue.

The blow could be even more devastating for suppliers in 2023, following a global pandemic, high rates of inflation, parts shortages and a transition to electric vehicles.

"Big decisions are being postponed — decisions related to growth, hiring, entering into new contracts, etc.," said Alex Calderone, president of Calderone Advisory Group, a Birmingham-based operational and financial consultant to automotive suppliers. "The strategy right now revolves around conserving cash and ensuring that they are maximizing their liquidity and ability to weather a potential storm."

He noted that not only have suppliers been buffeted by numerous headwinds in the last few years, but they also often lack the ability to raise prices the way the automakers can because they're locked into multi-year contracts.

Suppliers already have seen "significant margin erosion across their product portfolios" in the last few years, he said: "They're just not in a position right now, financially, to take more hits."

More than two weeks would create a “crisis" in the supply chain, ZF Group's Sapienza said, and four weeks would be “catastrophic.”

The Detroit News reached out to more than 30 automotive suppliers on the topic. Most declined to wade into the negotiations, though several said especially if the union strikes all three automakers, the impact could be immediate and far-reaching across the continent.

Lear Corp. declined to comment, but during its second-quarter earnings call last month, Chief Financial Officer Jason Cardew explained the midpoint of the company's 2023 financial guidance suggests a $350 million sales impact from a potential strike. The Southfield-based seating and electrical systems supplier is projecting $22.3-$23.1 million in net sales for the year.

Cardew said Lear can take a look at discretionary spending and some customer negotiations if a walkout happens.

"We did see a little bit higher decremental margins during the GM strike in 2019, because that business in seating, in particular, was the most vertically integrated of all the customers that we have," Cardew said. "It's a little less so with Ford and Stellantis. So it depends on the customer that's impacted. And just to give you kind of some frame of reference, each week of downtime, if all three customers were to go down, it's about $140 million of revenue."

Anna LeCloarec, spokesperson for mechatronics supplier Brose Fahrzeugteile GmbH & Co. KG, declined to provide specifics on plans for a possible walkout.

"Much like the rest of the supplier community, we are preparing internally for the eventuality of a strike," she said in an email. "As always, our priority is to safeguard Brose jobs and minimize the impact of such events on the livelihood of our employees."

Dealer worries

Jim Walen, a Seattle dealer of Chrysler, Jeep, Dodge and Ram products, is concerned about how the talks will affect the automaker's competitiveness in the marketplace against foreign and domestic competitors with non-unionized workforces.

He's also worried "there could be a long strike and that's going to financially hurt both the UAW, the workers that we depend on and the companies that make vehicles."

Walen has been stocking up on parts and new vehicles to make it through a strike.

"I feel for the short and medium term, we'll be OK ... but the long term, I'm very, very concerned," he said.

But he believes "American workers need to be treated fairly and that the companies deserve a fair return on their investment."

Ford dealer Jim Seavitt, owner of Village Ford in Dearborn, has also been stocking up as best he can on parts to be able to repair his customers' vehicles during a strike. Ford has said it will have salaried employees working parts warehouses in the event of a strike against the automaker.

"I think that Ford has been the best at handling this, and I'm optimistic that we won't get a strike, and if we do, hopefully, we get a short one," Seavitt said.

In a post shared earlier this month, Michelle Krebs, senior analyst at auto information resource Cox Automotive Inc., said Stellantis' inventories were "bloated" and the highest in the industry. At the end of July, Ram was at 111 days, Jeep was at 95 days of supply, Ford was at 77, GMC was at 66 and Chevrolet was at 51. The industry average is 58 days.

Since the onset of the COVID-19 pandemic, dealers have learned to adapt their businesses by not keeping as much inventory on the ground as in years past. As of Monday, Seavitt had 345 new vehicles in stock, which would last him a month. Pre-pandemic, he would have been carrying 500-to-600 cars.

“I won't do that anymore, and Ford doesn't want me to do that anymore,” he said.

The effects of demand outpacing supply since the pandemic have led to increased pricing. For example, the average transaction price for a Detroit Three vehicle in August 2023 was $54,382, up from $41,407 in August 2019, according to data from Edmunds.com Inc., a vehicle information website.

A strike, depending how widespread and how long, could put additional pressure on inventories, which could further reduce incentive usage and push up prices across the marketplace, experts say.

“If you're looking, if you're already shopping, this is not going to affect you,” said Ivan Drury, director of insights at Edmunds.

But if a consumer’s car purchase is more than a few months out, “you might be at the whims of the UAW and the Big Three and what's going on with their willingness to negotiate.”

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