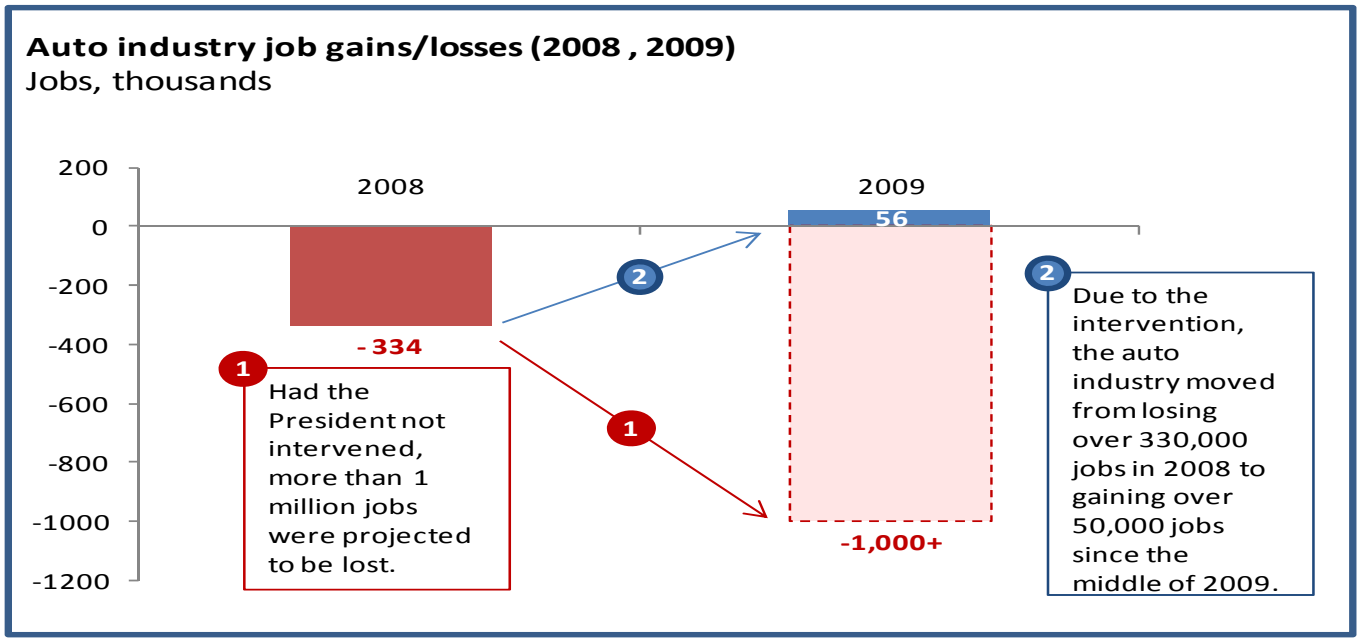
REBUILDING THE AMERICAN AUTO INDUSTRY
JULY, 2010

When President Obama took office, the American auto industry was on the brink of collapse. The President made a difficult decision to provide support to General Motors (GM) and Chrysler on the condition that all stakeholders make the sacrifices necessary to fundamentally restructure these companies and put them on a path to viability. This summer, there are growing signs of a revival in the American auto industry: plants are adding shifts and hiring workers; manufacturers are returning to profitability; the auto supply industry has stabilized; and exports of U.S. vehicles are increasing. In addition, the Administration has made an historic set of investments designed to position America as a leader in the global race to produce the advanced vehicles of the 21st century. Advanced technology vehicles are appearing in showrooms, new factories are breaking ground to manufacture and assemble electric vehicles, and innovations once at risk of being scrapped, are now being designed and made in America.

JOBS: ***Following the large job losses associated with the collapse of auto sales in 2008-09, 2010 is on track to be the strongest year of job growth in the auto industry since 1999.***

- In the year before GM and Chrysler emerged from bankruptcy, the auto industry shed 334,000 jobs. In the year since, auto industry employment has increased by 55,000 jobs. This is the fastest year-over-year growth in auto employment since 1999. [BLS]

- According to estimates from December 2008, failing to intervene in the auto industry and the resulting liquidation of GM and Chrysler could have resulted in the loss of nearly 1.1 million additional jobs.[1] Other estimates at the time suggested that the near-term jobs at risk from liquidation could have been even higher.[2]



Source: BLS.

[1] See White House Office of the Press Secretary, *Fact Sheet: Financing Assistance to Facilitate the Restructuring of Auto Manufacturers to Attain Financial Viability,* Dec. 19, 2008.
[2] See Mark Zandi, Testimony before the U.S. Senate Banking Committee, "The State of the Domestic Auto Industry: Part II," Dec. 4, 2008. The Center for Automotive Research, "CAR Research Memorandum: The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers," Robert E. Scott, "When Giants Fall: Shutdown of one or more U.S. automakers could eliminate up to 3.3 million U.S. jobs." These studies estimate the direct and indirect jobs at risk, but do not account for the jobs that would have been created at other firms, like Ford or the domestic plants of foreign automakers, had GM and Chrysler no longer been competing with them.

These industry-wide numbers are born out in the recent experience of the big three automakers:

- **Working through the Summer Shutdown:** Nine of GM's eleven manufacturing and assembly plants, including Hamtramck, skipped the customary summer plant shutdown to meet growing consumer demand. Chrysler's Jefferson North plant, which is building the 2011 Jeep Grand Cherokee, also remained open.

- **Adding Shifts:** Within the last year, four GM facilities and a Chrysler plant have added shifts to address growing demand. At GM plants in Kansas, Indiana, Michigan and Ohio these shifts will result in over 3,000 new jobs. A second shift at Chrysler's Jefferson North Assembly plant will yield an additional 1,100 jobs. A recent $400 million investment to convert Chicago's Ford Assembly Plant for production of the 2011 Explorer will add 1,200 direct jobs and 600 supplier jobs. In total, the big three will have added as many as 11,000 new jobs before the end of 2010.

RETURN TO PROFITABILITY AND COMPETETIVENESS: ***In the first quarter of 2010, all three American automakers posted operating profits. This is the first time this has happened since 2004. In addition, the industry saw the first IPO of an American car company since 1956 and GM has announced its intention to go public later this year.***

- **Profitability:** In July, Ford announced a $2.6 billion profit for the second quarter – its fifth straight quarterly profit. GM achieved a net profit of $865 million in the first quarter of 2010, its first since 2005. And Chrysler reported a 2010 first quarter operating profit of $143 million.

- **Increasing exports:** Exports of vehicles and parts from January to May 2010 increased by 57% over the same period one year ago. Sales to China are doing particularly well. Within the first five months of 2010, exports of vehicles and parts to China were up 283% year-on-year, totaling $1.85 billion, with overall U.S. exports to China up by 39%, totaling $35.5 billion.

- **Investor Optimism:** This summer has also brought signs of investor optimism about the potential longer-term profitability of the U.S. auto industry. In June, Tesla Motors, which has developed a line of electric vehicles, launched the first IPO of a U.S. auto company since 1956, raising $226 million in capital.

REPAYING TAXPAYERS: ***The prospect of taxpayer repayment and a faster-than-anticipated exit from government involvement in the industry has improved.***

- In April, GM repaid its $6.7 billion loan to the U.S. Treasury five years before its maturity date. This leaves a remaining U.S. government interest of $2.1 billion in preferred stock and 60.8% of the common equity. GM has announced its intention to pursue an IPO later in 2010, which will be the next significant milestone in exiting the government's investment.

- In May, Chrysler Financial repaid $1.9 billion to the Treasury that was made available through the Trouble Asset Relief Program (TARP). Chrysler Financial has already fully repaid (with interest) the $1.5 billion TARP loan that it received to support auto financing.

- The industry is becoming less dependent on government support. Last year, the U.S. Treasury terminated its Warranty Commitment Program, which covered all warranties on new vehicles purchased during the restructuring period. The Supplier Support Program, which made financing available to suppliers with limited access to credit, will wrap up this month, returning its full $5 billion investment to the taxpayer with interest.

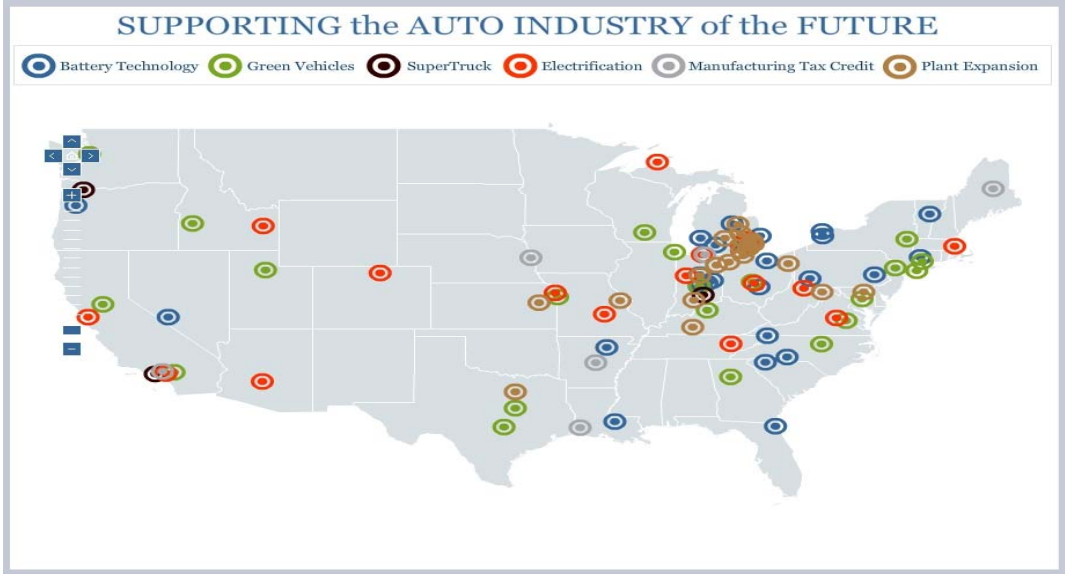
SUPPORTING CONSUMERS AND INDUSTRY DEMAND: ***The Administration has taken a multi-faceted approach to bolster both production capacity and consumer buying power.***

- **Boosting Demand Through Cash-for-Clunkers:** During the summer of 2009, the Car Allowance Rebate System (CARS), or Cash for Clunkers, provided $3,500 or $4,500 bonuses to buyers who traded in light motor vehicles with mileage ratings of 18 miles per gallon or less and purchased a new car or truck with an improved gas mileage rating. Based on extensive survey data collected by the Department of Transportation, 35 percent of consumers would not have replaced their vehicle without the program, and among the remainder, car sales were pulled forward from several years in the future to a period when demand was desperately needed.[3] Despite predictions of a post-program slump, over the seven months following the end of the program the average annual sales rate was 10.7 million, an increase of more than 1 million cars and light trucks over the pace in the three months preceding the program.

- **Supporting Suppliers:** Today, in part due to the support provided by the Treasury Department's Automotive Supplier Support Program (ASSP), the auto supply base is becoming more stable: after experiencing 54 bankruptcies in early 2009, bankruptcy filings have largely subsided since October 2009. Based on industry surveys, only 10% of suppliers are in violation of their debt covenants. The ASSP terminated as scheduled in early April, having been repaid in full including interest.

- **Making Credit Available:** The Treasury Department's Term Asset Backed Securities Loan Facility (TALF) helped to unfreeze the auto financing market. Through TALF, automotive finance companies have raised over $41.5 billion of securities to-date backed by retail auto loans and leases since the program's launch in February 2009. Through January 2010, the Federal Reserve estimates that TALF supported more than 2.6 million individual auto loans and leases.

REBUILDING AN INNOVATIVE INDUSTRY OF THE FUTURE: ***The Administration has invested over $12 billion in five promising advanced vehicle technologies, across the supply chain and throughout the innovation spectrum.***



To view the interactive version of this map, click HERE.

[3] http://www.cars.gov/files/official-information/CARS-Report-to-Congress.pdf

- **Manufacturing the world's most advanced vehicles:** Automakers plan to introduce more than 20 electric-drive models over the next two years, and the Administration is helping support the development of this technology in the United States, providing loans or grants to 8 of these models. A $1.6 billion DOE loan is helping Nissan, which could have built the all-electric Leaf anywhere in the world, locate in Tennessee. A $528 million loan is helping Fisker reopen a shutdown GM plant to build plugin hybrids in Delaware. A $465 million loan is helping Tesla reopen the shutdown NUMMI plant to build all-electric sedans in California. A $16 million tax credit is helping THINK!, an electric car startup, bring EV production to Indiana.

- **Accelerating the next-generation of gasoline vehicles:** A $5.9 billion loan to Ford from DOE is helping reequip factories in Illinois, Kentucky, Missouri, Michigan and Ohio to produce more fuel efficient cars and will help create or save 35,000 jobs. These loans will improve the fuel economy of nearly 2 million new cars sold every year by up to 20 percent.

- **Building the most competitive supply chain for these vehicles:** The Recovery Act provided cost-shared grants to 30 battery and component factories in 19 states, which will have the capacity to support 500,000 electric-drive vehicles a year by 2015. The U.S., which produced 2% of the world's advanced batteries in 2008, will have the capacity to produce up to 40 % of the world's lithium-ion batteries for vehicles in 2015. High volume manufacturing will drive down the cost of batteries 70 percent by 2015.

  Progress in the vehicle supply chain is visible, creating thousands of jobs already. The supply chain strengthens our future position because clusters of factories, workers, engineers, and scientists are collaborating to maintain U.S. leadership. In Michigan alone, the Recovery Act is supporting 14 vehicle projects, including: several large battery factories (e.g. A123, GM, Johnson-Controls, Dow-Kokam, and LG Chem), electric-drive component factories (e.g. GM, Ford), and three workforce training programs (University of Michigan, Michigan Technological University, and Wayne State).

- **Long-term innovation for tomorrow:** The Administration is accelerating innovation across five advanced vehicle technologies that will fundamentally reduce our dependence on oil: electric-drive, advanced combustion, sustainable biofuels, natural gas, and fuel cells. In batteries, more than a dozen advanced research projects through the Advanced Research Projects Agency-Energy are pursuing breakthroughs to reduce costs by 90 percent and increase energy density six-fold.

- **Building the marketplace for these new vehicles**. The Administration is helping build the marketplace for a wide-range of technologies by investing in the infrastructure to support electric, natural gas and other advanced vehicles; training mechanics, engineers, and first responders who will service and build the new industry; and providing business and consumer incentives to encourage adoption and deployment of vehicles.

- **A clear regulatory environment:** In 2009, the Administration raised fuel standards on cars and light-trucks for the first time since 1985, increasing the fleet average from roughly 25 mpg to 35.5 mpg by 2016. The Administration also harmonized three fuel standards that had previously complicated the industry's efforts to build more fuel-efficient vehicles. In 2010, the President directed federal agencies to develop the first ever fuel standards for heavy-duty trucks, and extend light-duty standards to 2025.

SUPPORTING AUTO COMMUNITIES: ***Beyond investments to stabilize and grow an innovative auto sector, the Administration has been working to revitalize communities where plants have closed and jobs have been lost.***

Just over one year ago, the President created the White House Council on Automotive Communities and Workers by Executive Order to help these communities begin their recovery. The Council is comprised of the heads of all domestic cabinet agencies and key White House offices. Much work remains to be done, but in the last year, the Council has been able to:

- ***Support Workers and Their Families:*** The Department of Labor has provided over $50 million in National Emergency Grants targeted to laid-off auto workers. Workers in Delaware, California, Wisconsin, Missouri, Ohio, and Michigan have accessed benefits and training through these emergency grants. For example, in Delaware, following closure of the Wilmington GM and Newark Chrysler facilities, Council staff began working with local officials to access an emergency grant for training as well as funds from the Economic Development Administration to construct a training center in green-energy industries. Nationally, an additional $75 million was set aside for workers in auto communities through the Department's competitive Recovery Act grants. These funds will provide workers with training for jobs in green industries and the health care sector, sectors that many auto communities are working to strengthen.

- ***Put forward the largest environmental and economic development effort for former manufacturing sites in our nation's history***: The Council, with its partners at the Department of Justice, Treasury and Environmental Protection Agency (EPA), has proposed an initiative that would make $800 million available to help clean up and redevelop over 90 shuttered auto manufacturing sites in 14 states. This initiative is on track to become effective by the end of 2010, far faster than anyone expected. When fully implemented, it will represent the largest environmental and economic development effort for former manufacturing sites in our nation's history. These funds will build on the work the Council has been doing with individual communities to support the redevelopment of plants. Some examples of these efforts include:

    - In Dayton, Ohio, Council and EPA staff has been working with city and state officials to redevelop a former GM and Delphi Harrison plant into a site for high-tech industry called "Tech Town."

    - In Wilmington, Delaware, Fisker Automotive purchased the town's former GM plant and, with the assistance of a $529 million loan from the Department of Energy, will produce plug-in hybrids and create several thousand jobs.

    - In Fremont, California, the U.S. Department of Commerce awarded grant money to help the city move forward with redevelopment plans for the shuttered New United Motor Manufacturing Plant Inc. (NUMMI). Toyota and Tesla Motors announced plans in May to purchase NUMMI as a production facility for Tesla's new electric sedan in 2012. The reopening is expected to create 1,000 new jobs.

- ***Support Suppliers*****:** Because auto suppliers are frequently located in a cluster around the auto plants, the impact on the community or region when a plant shuts down is magnified. In April 2010, with the Council's assistance, the U.S. Commerce Department and the Ohio Department of Development worked together to sponsor a series of workshops for auto suppliers in Ohio, serving over 170 companies. In addition, the Council coordinated an inter-agency process in response to the New United Motor Manufacturing Inc. (NUMMI) closing in California, which led to aggressive outreach to suppliers affected by the closing and helped to prevent further layoffs.

- ***Create High Growth Jobs:*** Auto communities left at risk by plant closures are benefitting directly from government support of shovel-ready projects in alternative energy technology. The Departments of Energy (DOE) and the Treasury, through their 48 (c) Advanced Energy Manufacturing Tax Credit, have made available $7 billion for capital investment in manufacturing projects that have been unable to secure the necessary financing. Xunlight Corporation, a Toledo company and leading producer of solar panels, was awarded a tax credit worth $34.5 million for the production of a lightweight photovoltaic solar energy model.