Responsible Investing

Worker Strikes Underscore Importance of DEI Policies: U.S. Auto Industry at Inflection Point

By: Yijia Chen, CFA | & Alejandro Zamorano | October 27, 2023

KEY POINTS

1. Post-pandemic, more workers are looking for flexible work schedules and better pay and benefits. Unsurprisingly, auto companies' compensation and DEI policies are key to successful negotiations with the UAW.
2. Electric vehicles (EVs) are moving from niche to mainstream, with 10.5 million in sales worldwide in 2022, an increase of 55% year-on-year.
3. Current government policies are powerful, supportive tailwinds for U.S. automakers' transition to EVs.

Washington - In the U.S., quit rates and labor shortages are up across many industries post-pandemic — and workers are flexing their negotiating muscles. Following recent strikes by health care workers, screenwriters and actors, U.S. autoworkers are now on picket lines, demanding four-day work weeks, reinstatement of pension plan payments, wage increases and greater job security.

After reaching a tentative agreement with Ford on October 25, the United Auto Workers (UAW) continues to negotiate with General Motors (GM) and Stellantis (formerly Chrysler) — the other two of the "Big Three" U.S. automakers. In our view, these actions represent an inflection point for an industry that is moving to compete in the burgeoning EV market. As worker expectations have shifted toward more flexible work schedules and better pay and benefits, auto companies' compensation and diversity, equity and inclusion (DEI) policies are front and center in negotiations with the UAW.

Auto workers in the driver's seat

The last UAW contract dates to 2019, before the pandemic and subsequent jump in inflation, and it carries worker concessions made during the 2008-2010 recession. The pricing power of U.S. auto companies has surged over the past couple years on high vehicle demand coupled with supply shortages.

The union believes the Big Three now have the financial strength to repay past concessions and guarantee richer future compensation and benefits for autoworkers. For example, adjusted operating margins have increased since 2019, doubling for some of the Big Three automakers. Moreover, high payments to executives have not been well received. For example, GM CEO Mary Barra was paid 362 times the median worker's salary in 2022, up from 203 times in 2019.

In view of global competitive pressures, we believe a stable labor environment will be key for the Big Three to successfully transition to EVs, and it is in their interest to negotiate a package now that can take them into the next decade.

The future is electric (vehicles)

The current price of EV technology has dropped to a point where it can compete with conventional internal combustion cars, thanks largely to China. Some Chinese EV makers have sizeable cost advantages compared to their peers, which like Tesla, have spent a decade building an integrated EV supply chain. In a mature automotive market saturated with trucks and SUVs, we think EVs are the last major new route to growth.

Detroit is in the process of turning to greater EV car and truck production, with the full backing of the U.S. government. The Inflation Reduction Act (IRA) aims to electrify most new vehicles within a decade and reshore the supply chain. Therefore, most subsidies in the IRA tie eligibility to domestic content and manufacturing, including bonuses for employers paying federally defined prevailing wages.

The benefits in the IRA and the current administration's ambition to transform the country's auto industry into an EV powerhouse are powerful tailwinds for the success of these negotiations.

Why a stable workforce is vital

The U.S. is the second-largest producer of vehicles in the world, after China. The late arrival of Detroit's Big Three to the EV space means they will need to catch up to their peers' decades of work in just a few years. This presents a new set of challenges for the U.S. auto companies and their workers. To ramp up EV production and compete successfully in the global market, a stable workforce with few or no operational disruptions is essential.

Not only is Detroit's path to electrify vital for the auto industry, but it has far-reaching significance for the economy. The U.S. auto sector, including manufacturers, parts suppliers, dealerships and others, contributes 3%-5% to GDP and supports 9.6 million jobs.[1] The current strikes have cost the U.S. economy over $9 billion, according to consulting firm Anderson Economic Group.

With the future U.S. auto industry's transition to electrification on the line, the willingness of the Big Three to address workers' expectations for better work-life balance, job security and improved total compensation is crucial. The outcome of these negotiations has vast implications for the industry, workers and economy alike.

Bottom line: The recent UAW workers' strike underscores how critical a company's compensation and DEI policies can be to ensuring its future viability and competitiveness. This is especially true when an industry must "retool" to compete on a global scale in a growing market like EVs.

Learn more about global labor trends post-pandemic in our diversity white paper, "Reshaping Worker Expectations: From the Great Resignation to the Great Reshuffle." To read, click here.

1. Alliance for Automotive Innovation, November 30, 2022, press release, "Auto Innovators: New Data on Auto Industry's Economic Impact."

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