Bloomberg

GM, Ford Accelerate Shift to Mexico Workers Making $26 a Day

By Thomas Black - Jun 9, 2010

June 9 (Bloomberg) -- Mexico's share of North American auto production may rise at a quicker pace as General Motors Co., Ford Motor Co. and Chrysler Group LLC seek out workers making less than 10 percent of what their U.S. counterparts earn.

The lower labor costs may help the U.S. companies build smaller cars profitably amid demand for fuel-efficient vehicles in the wake of last year's recession. Mexico's gains will come at the expense of workers in the U.S. and Canada, said Dennis DesRosiers, president of DesRosiers Automotive Consulting Inc.

"There is going to be more capacity put into North America and Mexico is going to get more than its fair share," DesRosiers said from Richmond Hill, Ontario.

Moves to Mexico may speed up when Chrysler and GM reduce some of the political pressure they face by paying back government bailout money, said Michael Robinet, vice president of global forecasting for CSM Worldwide in Northville, Michigan. The U.S. government has distributed about $80 billion in the Auto Industry Financing Program to support the industry.

DesRosiers says Mexico's share of North American auto production will rise to 19 percent over the next decade from an average 12 percent in 2000 to 2009. Over the same period, the U.S. will lose 7 percentage points to 65 percent of the market and Canada's share will hold at 16 percent, he said.

Average Wages

GM workers in Mexico earn wages and benefits of 340 pesos a day ($26.40) on average, or less than $4 an hour, said Tereso Medina, head of the union for GM's 5,000 workers in Saltillo, a city that makes one in four Mexican autos. Ford workers in the U.S. earn about $55 an hour with benefits, compared with $50 an hour for Toyota Motor Corp.'s U.S. workers, Lewis Booth, Ford's chief financial officer, said on a Jan. 28 conference call.

Representative John Dingell, a Michigan Democrat, said U.S. automakers that received government assistance should work to preserve U.S. jobs.

"I understand the economic argument for the off-shoring of production, but I think the practice is reprehensible," Dingell said in an e-mail. "U.S. automakers have benefitted greatly from federal largesse and should feel morally compelled to retain and create as many domestic jobs as possible."

In addition to labor costs, automakers are attracted to Mexico because of the North American Free Trade Agreement and the country's proximity to the U.S., Robinet said. Other benefits include Mexico's more than 30 free-trade accords with European Union members, Japan, Colombia and other countries, and quality that matches the U.S. and Canada, he said.

Union Concessions

U.S. and Canadian unions have made concessions to bring costs at older factories in line with Toyota's and Honda Motor Co.'s U.S. plants. Ron Gettelfinger, the outgoing United Auto Workers president, oversaw an agreement to allow lower wages for new hires.

Even with the UAW concessions, Mexico remains attractive, Medina said.

“For the new strategies of the automobile industry, this region should benefit,” Medina said in an interview.

Christine Moroski, a UAW spokeswoman, declined to comment.

Mexico stands to benefit from more stringent U.S. fuel- efficiency requirements because it’s more profitable to make small cars where labor costs are lower, Robinet said.

Chrysler announced in February it’s spending $550 million to retool its factory in Toluca to assemble the Fiat 500 model.

Last month, Ford reopened an assembly plant in Cuautitlan to build 2011 Fiesta cars. The factory will generate 2,000 jobs and is part of $3 billion in investments announced since 2008. In the U.S., Ford has closed four assembly plants since 2006 and plans to close four more facilities by the end of 2011.

Ford’s Investment

Mexico was responsible for 14.2 percent of Ford’s U.S.- Mexican car production last year, and 16 percent in 2008, compared with 11.8 percent in 2006, according to company data.

For every dollar Ford invested in Mexico during the past five years, the company spent $7 in the U.S., said James Tetreault, vice president for North American manufacturing. Ford’s two Mexican assembly plants have operated for more than 30 years, he said.

“In North America, it’s all about utilizing our existing footprint,” Tetreault said in a phone interview from Dearborn, Michigan. “It’s not like we’re building greenfield plants and moving production to Mexico.”

Ford fell 17 cents, or 1.5 percent, to $11.05 at 4:15 p.m. in New York Stock Exchange composite trading. The shares have gained 11 percent this year.

U.S. car and light truck production declined every year to 8.45 million in 2008 from 11.5 million in 2005, according to Ward’s Automotive Yearbook. In Mexico, output rose every year to 2.08 million in 2008 from 1.61 million in 2005, the data show.

Auto Production

Production fell in both countries last year, by 28 percent to 1.5 million units in Mexico and 34 percent to 5.56 million in the U.S., according to Ward’s.

This year, U.S. production in April rose 40 percent from a year earlier to an annualized rate of 7.05 million vehicles. Mexico’s output jumped 77 percent and is on pace to top 2008, according to the Mexican Automobile Industry Association.

GM has announced investments of $3.67 billion in Mexico since November 2007, including a new assembly plant in San Luis Potosi, said Mauricio Kuri, a company spokesman in Mexico City.

The company has closed five U.S.-based assembly plants and put three more on standby since June 2005, Tom Wilkinson, a GM spokesman, said in an e-mail.

A significant portion of Chrysler’s production of the Fiat 500 will be sold in South America, said Jodi Tinson, a spokeswoman.

“Mexico is in an ideal position as a bridge between Nafta and Latin America because of the country’s free-trade agreements with its neighbors to both the north and south,” Tinson said in the e-mailed response to questions.

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