The State of the Industry: The Suppliers' Perspective

State of Michigan Treasury
May 15, 2013

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OESA – Original Equipment Suppliers Association

OESA Mission – Serving 440 Members

Mission

OESA advances the business interests of automotive original equipment suppliers by:

- ✓ ***providing a forum*** to address issues of common interest
- ✓ ***serving as a resource*** for industry information and analysis
- ✓ ***promoting the interests*** of the OE supplier community
- ✓ ***serving as a voice and positive change agent*** for the industry

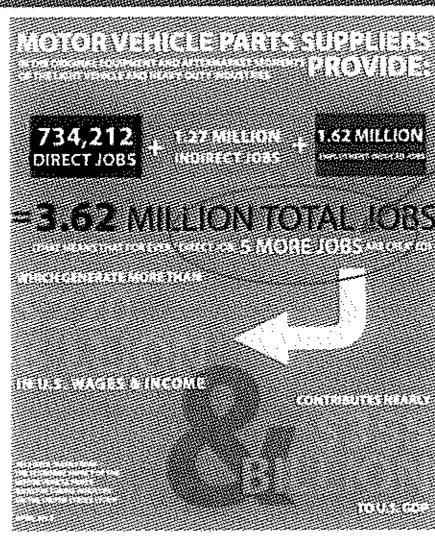
OESA is an affiliate of the Motor & Equipment Manufacturers Association

The State of the Industry:
The Suppliers' Perspective

Presentation Outline:

- **Economic Significance of the Automotive Supplier Industry**
- The Current Landscape
- Going Forward

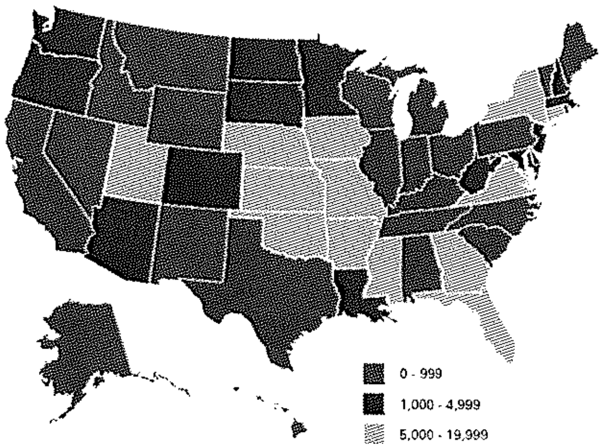
The Economic Significance of the U.S. Supply Base



Jobs Multiplier: 4.93

Source: IHS/MEMA 2013 Economic Impact Study

U.S. Motor Vehicle Parts Manufacturing: 11 States Have More than 20,000 Direct Employment



Source: IHS/MEMA 2013 Economic Impact Study

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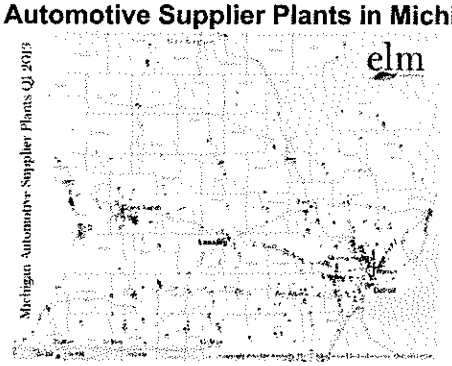
U.S. Motor Vehicle Parts Manufacturing: Michigan is the Number One Automotive Supplier State

State	Direct	Indirect	Expenditure-Induced	Total
TOTAL	734,222	1,267,005	1,619,894	3,621,121
Michigan	102,624	118,705	164,886	386,215

Source: IHS/MEMA 2013 Economic Impact Study

1214 Automotive Supplier Plants in Michigan



Source: ELM Analytics

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North America 2013-2015 Production Consensus Forecast
Incremental, Consistent Trend Growth
(Volumes represent NA Car, Lt Truck class 1-5)

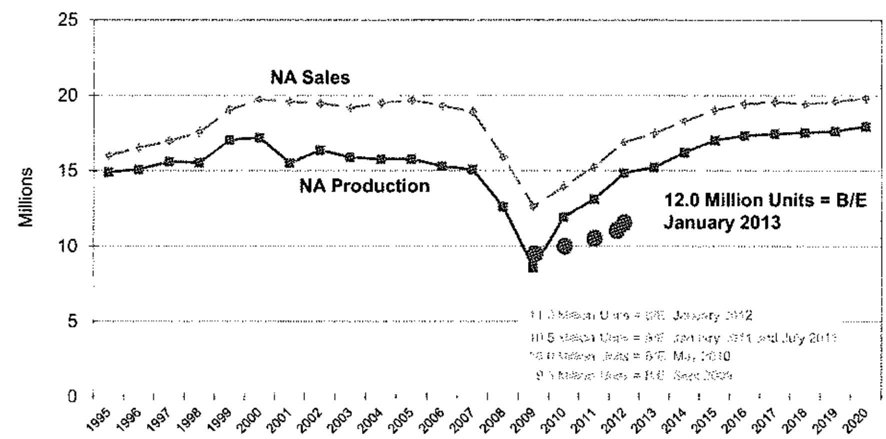
(in millions)	2013 1Q Forecast	2013 2Q Forecast	2013 3Q Forecast	2013 4Q Forecast	2013 Forecast	2014 Forecast	2015 Forecast
pwc *Autofacts*	3.96	4.16	3.83	3.86	15.81	16.24	17.19
	3.89	4.17	3.95	3.89	15.90	16.22	17.05
LMC	3.93	4.13	3.97	3.84	15.86	16.61	17.47
RLk	3.99	4.06	3.85	4.00	15.91	16.30	16.6
IRN	3.95	4.23	3.84	3.74	15.76	16.30	16.35
GUGGENHEIM	3.86	4.13	3.85	3.96	15.80	16.04	16.28
Forecast Average	3.93	4.15	3.88	3.88	15.84	16.29	16.82
Forecast Spread	0.13	0.17	0.14	0.26	0.15	0.57	1.19
Reference:2012 Actual Average	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		

Δ compares prior reported forecast volume

Last Updated: February 2013

Capacity is Tight: Supplier Break Even Points Can be Tested to a 12 Million Unit Level - Or a 24% Decline from Forecast

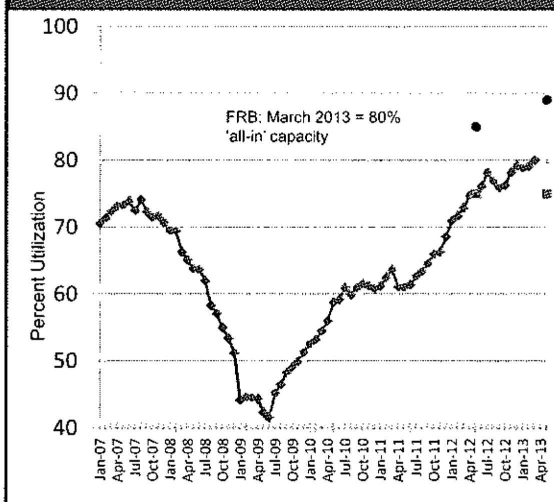
North American Light Duty Sales, Production and Breakeven



Production will increase by 83 percent between 2009 and 2013 (using a 15.7 million projection) while break even levels will increase by just 26 percent.

Sources: IHS Automotive (Jan 2013) and January 2013 OESA Automotive Supplier Barometer

The Supply Base Did Reduce Capacity in 2008-10 Bottlenecks Exist Throughout the Supply Chain



Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012 and May 2013:

- **Supplier Current Running Capacity (89%)**
- **Current + Warm-idled capacity (80%)**
- **Current + Warm + Cold-idled capacity (75%)**

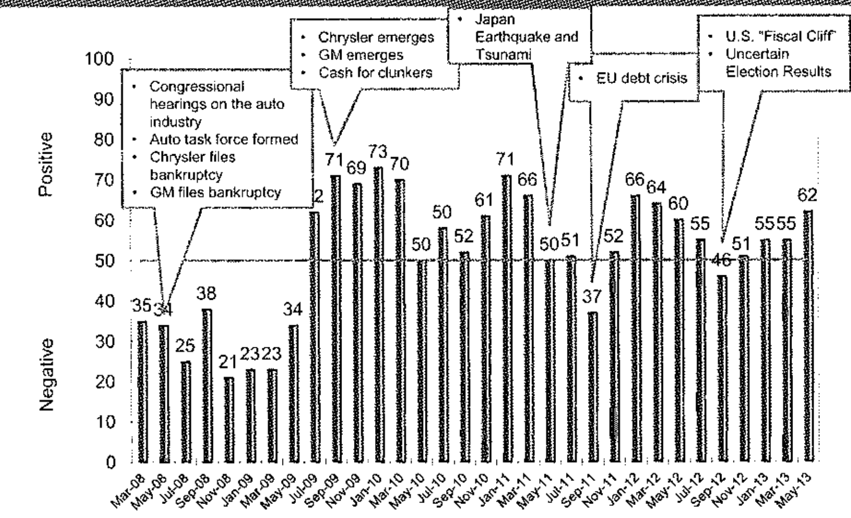
·When asked about utilization rates, the upper quartile of companies are running at 95%; 85% including their warm and cold-idled capacity– and this is at a 16 million unit run rate

·The lower quartile companies are operating at 80%; 65% including all available capacity

NAICS 3363 capacity utilization corrected in March 2013 to reflect updates in FRB dataset

Source: U. S. Federal Reserve Board of Governors

12 Month Supplier Sentiment Index Is Increasing . .
As Long as You Ask About NA and Not Europe



No. of Responses = 92

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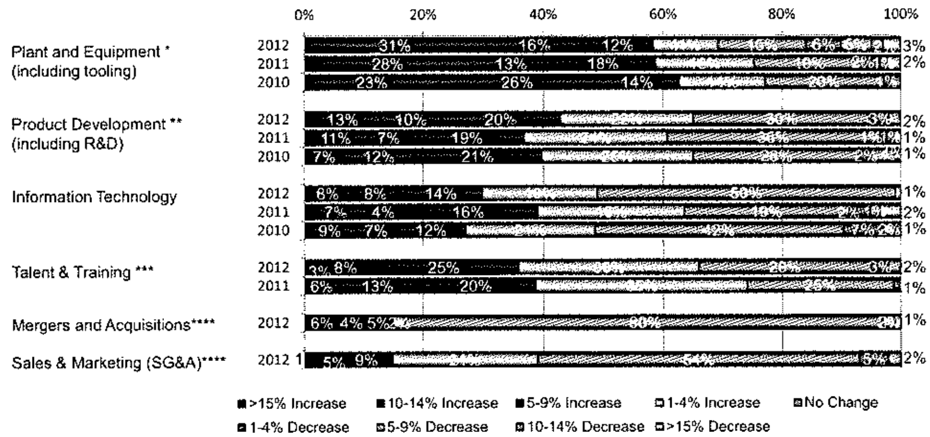
Capital Investments Will Continue to Grow Well Into the Future
Change in Investments for 2013 Compared to 2012



* This category was just called Plant and Equipment in 2010 and 2011 surveys
** This category was just called R&D in 2010 and 2011 surveys
*** Data for 2010 is not available
**** Data for 2010 and 2011 are not available

No. of Responses = 100-101

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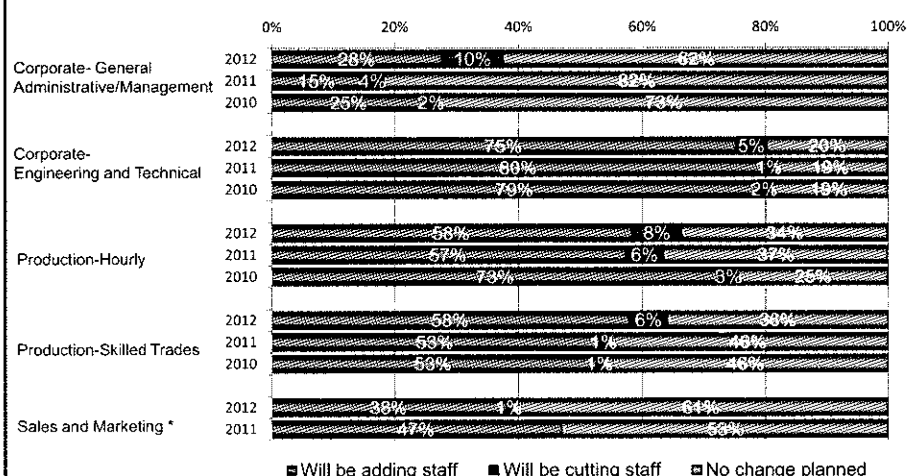
OESA Members Are Looking To Expand Workforces . . .
Will you be expanding your workforce in the next 6 months?



* 2010 data not available. Was not a category in Nov. 2010 survey

No. of Responses = 100-101

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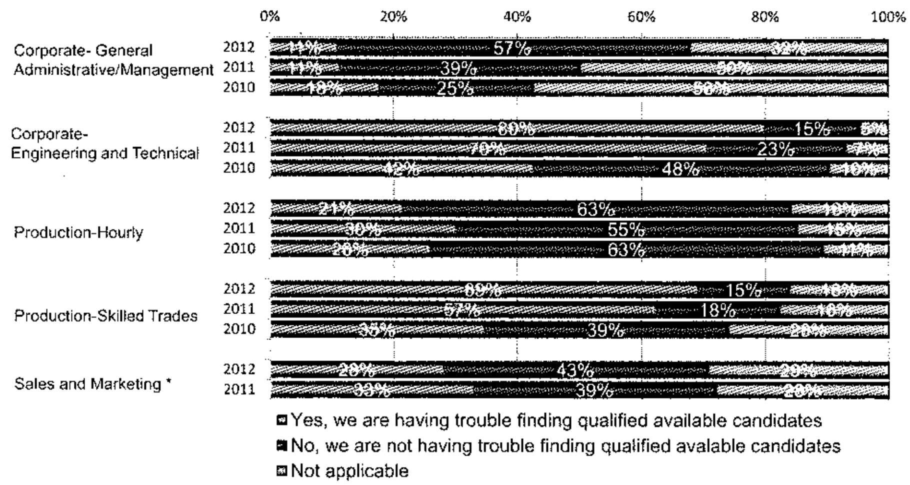
OESA Members Are Hiring But Are Increasingly Finding It Harder to Find Qualified Candidates

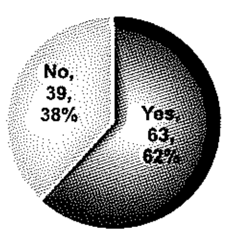


* 2010 data not available. Was not a category in Nov. 2010 survey

No. of Responses = 65-84

Suppliers are Flexing Up to Match OEM Production Schedules

Are you running alternate schedules to increase productivity or flexibility to meet customer demands (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?

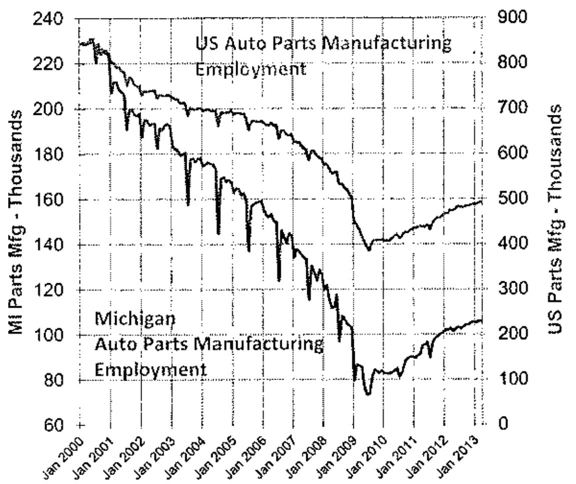


If yes, please describe and comment on the work arrangement.

- Three Shift Operations
- Three Crew Operations
- 4 - 10 Hour Shifts
- 12 Hour Shifts
- 24/7 Operations
- Overtime

No. of Responses = 102

U.S. and Michigan Automotive Parts Manufacturing Employment Will Continue to Climb, But Not to Historic Levels



- U.S. parts manufacturing employed 845,000 persons in January 2000 bottoming out in July 2009 at 390,000 – it has since rebounded to a projected level of 493,500 employees in March 2013.
- Michigan supplier sector had 229,000 persons in January 2000 versus a projected level of 105,800 in March 2013.
- Michigan employment fell faster due to its concentration and increased southern geographic footprint.
- Supplier employment will comeback slowly. Suppliers are using contract workers before permanent hires are made – all suppliers are very reluctant to add fixed costs.

Updated to include March preliminary employment (not seasonally adjusted values)

Source: US Bureau of Labor Statistics
Includes only the narrow NAICS 3363 Code.

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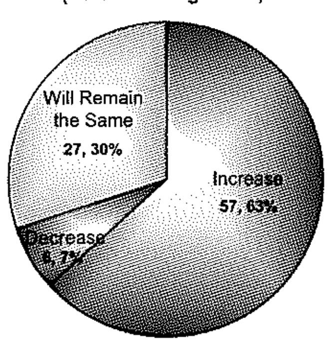
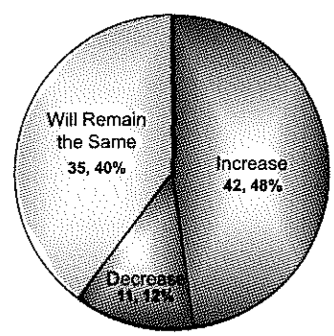
Over the Next Five Years, Suppliers Will Deepen the North American Supply Chain –Through Their Own Value Add and Sourcing

The percent of your total value add (vertical integration)



Your sourcing (as a percent of your total COGS)



No. of Responses = 88-90

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Suppliers Will Support the Industry's 16 Million Unit Year. The Issue is "How Do We Get There?"

The top issues suppliers face while meeting increased levels of production and record program launches:

- Production Overtime Premiums
- Skilled Labor Shortages
- Internal Manufacturing Capacity Constraints
- Inbound/Outbound Expedited Freight

No. of Responses = 99-103

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Thank You

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