

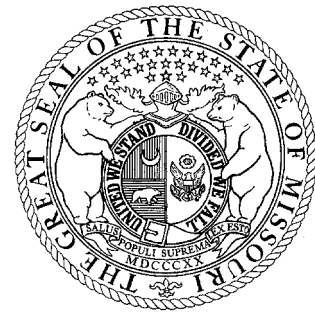
THE AUTOMOBILE INDUSTRY IN MISSOURI

Overview

Missouri's connection to the automobile industry extends back many decades to the 1920s, when the Ford Motor Company began production of its Model T at a multi-story factory on Forest Park Boulevard in St. Louis.¹³³ General Motors followed soon thereafter, constructing a large multi-story complex, first in St. Louis and then two assembly plants in the Kansas City area. The industry's dominance in the state's manufacturing base resulted in Missouri being considered second only to Michigan in the production of cars and trucks for many years. While this scenario has changed in recent decades, Missouri's automotive industry continues to be a strong player in national figures. For instance, in 2000, Missouri ranked second in the United States in truck production, trailing only Michigan (1,112,230 trucks in 2000). Among the SLC states, Missouri ranked second in 2001 gross state product figures (GSP), both in terms of the actual number (\$5.6 billion contribution to the state's GSP) and in terms of percentage contribution to GSP (3 percent).

Automobile Production in Missouri

According to 2003 information forwarded by the state's department of economic development, Missouri has five major automobile assembly plants: two DaimlerChrysler plants in Fenton; two Ford plants in St. Louis and Kansas City; and a General Motors plant in Wentzville. In fact, the location of four of the five plants in the St. Louis metropolitan area makes St. Louis the only metropolitan area outside Michigan to have plants of all the Big Three. Figure 17 graphically presents the location of these plants while table 29 provides some additional details.



State Facts

Percent of Total Workforce	8
Direct Employment	36,200
Auto-Related Employment	91,200
Auto-Dependent Employment	221,200
Wages	\$7.6 Billion
New Vehicle Dealerships	519
Dealership Annual Sales	\$14 Billion
Production Facilities	6
Vehicles Produced	1,175,533
New Registrations	361,872
Registered Vehicles	4,579,629
Publicly-Owned Vehicles	33,347
Licensed Drivers	3,857,000
Total Miles Driven	67 Billion

Source: 2002 Ward's Motor Vehicle Facts & Figures

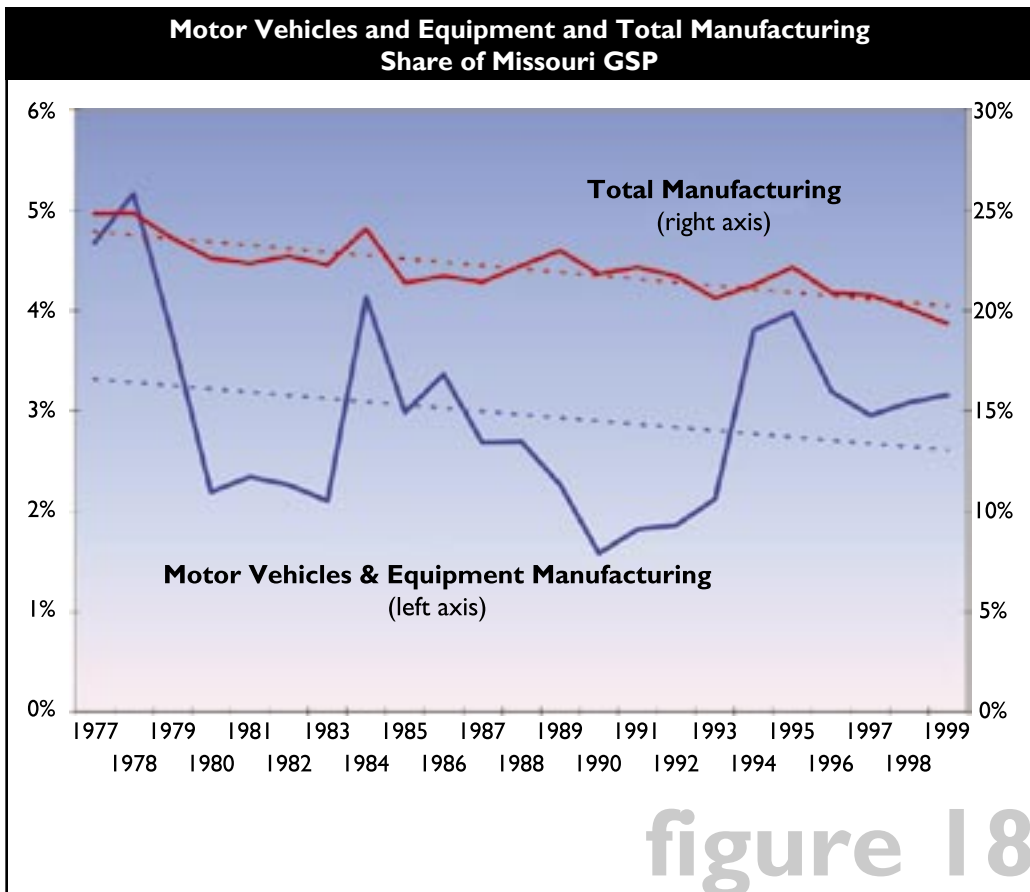


Source: Missouri Department of Economic Development

Vehicles Produced at Missouri Automobile Plants		
Company	City & County	Vehicle Produced
DaimlerChrysler	Fenton North, St. Louis County Fenton South, St. Louis County	Caravan; Town & Country; Voyager; Ram Pickup
General Motors	Wentzville, St. Charles County	Savana; Express
Ford	Claycomo, Clay County Hazelwood, St. Louis County	F-150; Explorer; Escape; Mountaineer; Tribute

Source: Missouri Department of Economic Development

As noted by the Missouri Department of Economic Development, the importance of the automobile industry to the Missouri economy is probably greater than reflected in charts displaying employment levels. As a result of the high wages of the industry, along with the high value added in automobile assembly processes, the industry tends to have a disproportionate impact on economic measures such as total wages, personal income and GSP. Figure 18 demonstrates the share of Missouri GSP produced by the automobile industry, along with a graphical representation of the state's total manufacturing sector.



Source: Missouri Department of Economic Development

As indicated in figure 18, manufacturing's contribution to Missouri has been inching downward over the past two decades, to slightly less than 20 percent. (Even nationally, the contribution of the manufacturing sector to overall gross domestic product has been declining, with the service sector's output gaining significantly.) It should be noted that the motor vehicle industry's performance remains much more variable in comparison to total manufacturing. The drastic fluctuations, with the industry's contribution falling by more than half in certain years and then advancing rapidly in other

years, does have serious ramifications for the stability of the overall state economy.

Alongside the automobile industry juggernauts in Missouri, employing hundreds of workers—the five assembly plants each employ several thousand workers (Ford in Kansas City: 5,600 employees; DaimlerChrysler in Fenton North: 5,000 employees; Ford in Hazelwood: 3,000 employees; General Motors in Wentzville: 3,000 employees; the second DaimlerChrysler plant in Fenton South: 2,700 employees)—there are myriad parts suppliers that cumulatively employ thousands of Missourians. For instance, Holland Binkley Company in Warrenton manufactures truck and trailer steel parts, landing gear, tandem sliders and roll-formed components and employs 550 workers; Modine Manufacturing in Joplin produces truck engine oil coolers and employs 180 workers; Hayes Lemmerz International in Sedalia manufactures steel and aluminum automobile and truck wheels and employs 770 workers; Avatar Components Corporation in Marshfield manufactures transmission components and employs 50 workers; and Best Built Parts in Springfield manufactures truck and automobile clutches and drivelines and employs 20 workers. Hence, the economic impact of these numerous firms continues to contribute to the state’s GSP and revenue base along with providing thousands of jobs.

» *Ford*

As indicated at the outset, Ford’s relationship with the state of Missouri goes back to the 1920s, when the company established an assembly plant in the city of St. Louis. In the late 1940s, the company closed its St. Louis

plant and set up a new facility in Hazelwood, a suburb of St. Louis, close to the city’s international airport. In the early 1960s, the company also built a plant at the western end of the state in Claycomo, near Kansas City, Missouri. In 1977, the company began production of the Ford Fairmont at its Claycomo facility and very soon, production of the Fairmont and full-size pickup trucks pushed employment at this facility to over 5,000 employees. In 1983, Ford ceased production of the Fairmont and began production of the Ford Tempo and Mercury Topaz at its Claycomo site. Then, in 1993, Ford discontinued production of the Tempo and Topaz and replaced these cars with the Ford Contour and Mercury Mystique, also at the same site. In the mid-1990s, in response to the growing demand for sport-utility vehicles, Ford phased out production of the Aerostar minivan series at its Hazelwood plant and converted the plant to manufacture Explorer SUVs. Then, in 1999, at its Claycomo plant, Ford discontinued passenger car production and converted the facility to solely manufacture SUVs. Finally, in 2002, Ford announced that it will close its Hazelwood facility later in this decade.



An SUV outside the Ford Assembly Plant in St. Louis, Missouri

According to the Missouri Department of Economic Development, employment levels at both these Ford facilities remain quite substantial. In particular, the Claycomo facility employs 5,600 individuals and the Hazelwood facility employs another 3,000 persons. Hence, the announcement in 2002, that the company intended to phase out its production plant in Hazelwood by the middle of this decade was met with great concern by current employees, their families and government officials. In response to the possible closure of this facility, the department initiated, and released in 2002, a study assessing the potential impact of this closing on the state’s economy. While the study’s estimates hinged on the facility closing in 2004, the

potential losses were estimated for the next decade. Some of the key findings of the study concluded that:

- » In 2004, the state would lose 0.41 percent of total GSP due to the layoffs, a \$753.3 million loss. By 2013, the state would have lost 0.32 percent of total GSP, a \$714.9 million loss.
- » In 2004, the loss of 2,600 jobs at the facility would translate into the loss of 8,950 ancillary jobs in the state; a total of 11,550 jobs and \$546.3 million in lost wages. By 2012, the state would lose 8,369 jobs and \$457.7 million in lost wages. These job losses would percolate to the durable manufacturing (most pronounced), services and retail trade sectors.
- » In 2004, the state is expected to lose \$25.16 million in state tax revenue due to the plant closure. However, decreased demand for public services due to the decline in population in the town of Hazelwood would save the state \$2.62 million. Hence, by 2012, it is estimated that the state's net losses would amount to \$17.73 million.
- » Along with the state's expected economic losses, the St. Louis metropolitan area, the immediate vicinity of the plant, would face the pinch of this Ford plant closure more directly. In this regard, the forecast is that the metropolitan area would lose 0.8 percent of total gross regional product, or \$631 million, as a result of the layoffs in 2004. By 2013, the region would continue to lose 0.62 percent of total gross regional product (or \$612 million).



Ford's Hazelwood,
Missouri, Plant

In late September 2003, more information on the status of the possible closure of the Ford plant in Hazelwood emerged when it was announced that the state of Missouri had offered a \$9 million incentive package to Ford to ensure the operation of the Hazelwood assembly plant for at least the next four years.¹³⁴ Although the package is smaller than many had expected, it is the first step in a long-term effort to keep the plant open beyond 2007. (This initial figure does not include any county or city tax breaks even though the city of Hazelwood and St. Louis County are planning to provide tax abatements to help with the financing on the plant.) A critical factor in the plant's continued operation is finding a new vehicle to replace the lineup of Ford

Explorer, Mercury Mountaineer and Lincoln Aviator sport-utility vehicles now assembled there, a task that may require more incentives in the future. Analysts contend that as these models face growing competition, demand for them probably will ebb in coming years, and Ford would have to introduce newer models to compete with other manufacturers. The \$9 million incentive package announced by Missouri Governor Holden includes job-training assistance as well as brownfield and development tax credits to Ford.

» *General Motors*

After Ford, General Motors is the automobile company with the longest association with Missouri, having built a large multi-story assembly complex in St. Louis in the 1920s. The company followed this St. Louis plant with two additional assembly plants in the western corner of the state, one in the Leeds district of Kansas City, Missouri, and one in the Fairfax district of Kansas City, Kansas, during the 1930s. Given the widespread global economic contraction in the early 1970s, General Motors was forced to lay off workers on its second shift at its Leeds facility in 1974. The improving economy enabled the company to reinstate this second shift with the introduction of its front wheel-drive "X-Car." In addition, by the late 1970s, employment levels at its St. Louis facility reached a peak of 12,000 workers producing full-size

Chevrolet passenger cars, Chevrolet pickup trucks and Corvettes. By the early 1980s, though, souring economic conditions and engineering and quality control problems resulted in both the X-Car at the Leeds facility and Corvette production at the St. Louis facility being discontinued. In fact, in 1983, General Motors decided to close the Leeds facility and consolidate operations at the Fairfax plant. General Motors also ended production of its truck line at the St. Louis facility. In 1989, after phasing out the St. Louis facility, General Motors opened a new assembly plant in Wentzville, Missouri. In 1993, once again in response to the negative economic climate, the company shuttered the Wentzville plant, though by 1995, this facility was refurbished and re-opened to manufacture full-size vans.

According to the Missouri Department of Economic Development, the Wentzville facility, which manufactures the Savana and Express full-size vans, employs about 3,000 workers.

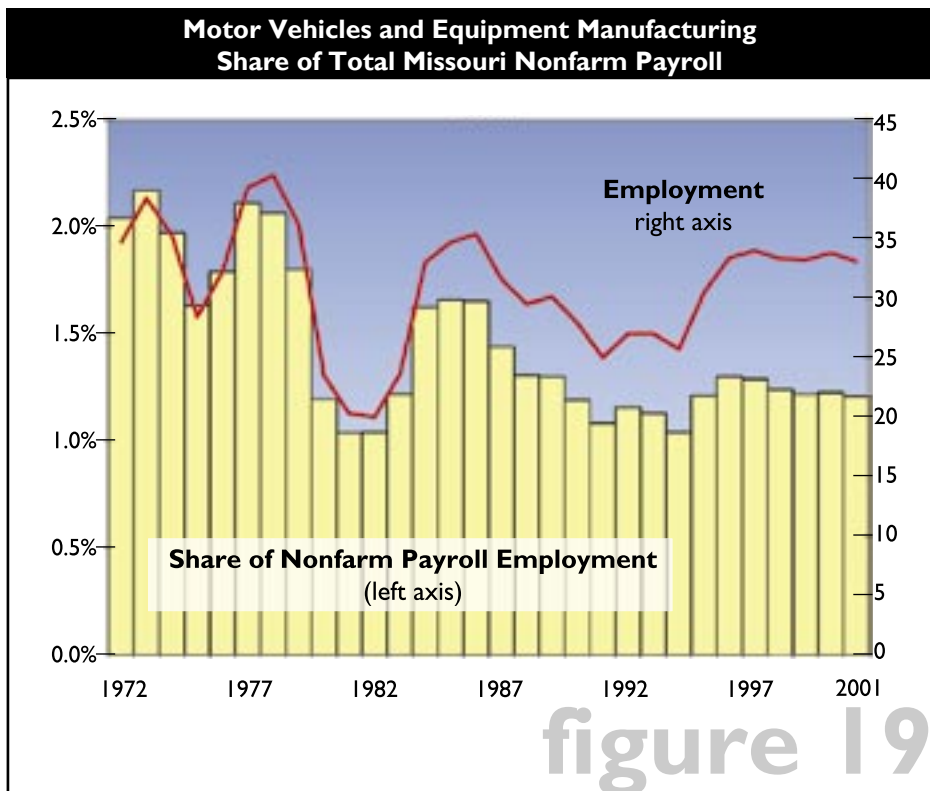
» *DaimlerChrysler (formerly Chrysler)*

Chrysler Corporation's beginnings in Missouri occurred several decades after Ford and General Motors entered the state in the 1960s, when the company built two assembly plants in Fenton, a suburb of St. Louis, Fenton North and Fenton South. Manufacturing continued at these facilities for about two decades, and then in 1980 the company discontinued pickup truck production at its Fenton North facility, resulting in the plant's closure. The improving global economy enabled the company to reopen the facility to produce its new line of Dodge Caravan and Plymouth Voyager minivans by 1986. Then, in 1990, Chrysler discontinued passenger car production and shut its Fenton South location, even though Fenton North operated with about 5,000 employees. In 1995, after completing a refurbishing of Fenton South, including an automated and roboticized production line, Chrysler reopened this facility to produce the hugely popular minivan lines. Fenton North was reconfigured to produce pickup trucks.

According to the Missouri Department of Economic Development, Chrysler's Fenton North plant employs about 2,700 workers, while the Fenton South facility operates with about 5,000 workers.

Automobile Industry's Impact on Employment Levels in Missouri

The automobile industry's impact on generating direct, indirect and induced jobs remains one of its most positive features and the Missouri Department of Economic Development presents valuable information in this connection. Even though employment levels in the industry have held up reasonably well over a period of three decades, the overall trend has been downward as automakers have shifted their operations to locations farther South. The other concern in this area has been its cyclical nature, as consumer demands for vehicles produced at the different Missouri plants have shifted radically with the ebb and flow of the overall economy. Hence, graphing the employment trend in the automobile industry presents a line that fluctuates rather significantly. Yet, this cyclical nature enables multiple shifts to be deployed at the different plants during positive economic times when demand remains high. Similarly, during economically-sluggish times, production is curtailed with shifts at these plants being reduced as well. Another factor that has to be considered in employment levels is the larger consumer shifts being reflected in automobile production. For instance, the growing demand for sport-utility vehicles in recent times has resulted in certain plants being shuttered for extensive periods while they are retooled and reconfigured to reflect the production demands of these vehicles.



Source: Missouri Department of Economic Development

As depicted in figure 19, motor vehicles' share of total employment in Missouri has declined over the past three decades, from about 2 percent in the 1970s, to about 1.2 percent in more recent times. (It is important to note that these employment figures refer to direct employment levels in Missouri's auto plants.)