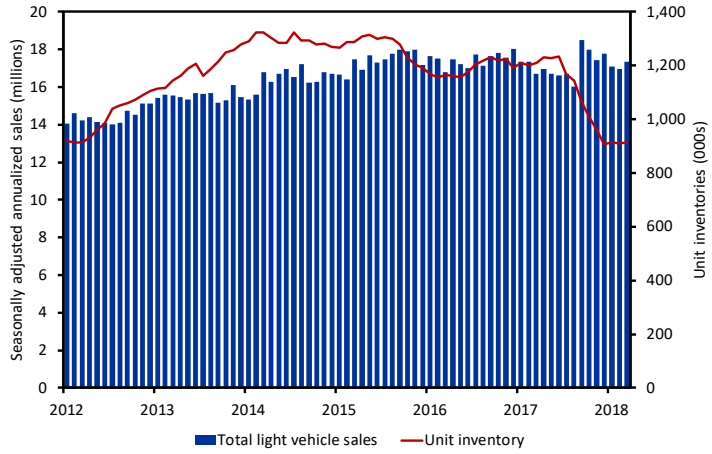
STATE OF MICHIGAN ECONOMY

In the front sections of this issue, we delve into what could be a sea change in automobile production—a subject that affects Michigan more than any other industry. Auto manufacturers have gotten the message that consumers want crossover vehicles (CRVs) and sport utility vehicles (SUVs). Traditional cars are declining in their appeal. So the industry has begun moving in the direction of light trucks, which include pickups, CRVs, and SUVs. In this section, we look at what that change could mean for Michigan.

On April 25, 2018, the earth shook—well, at least in Michigan. On that day, Ford Motor Company announced it would cease production of all but two of its models for the North American market. The company intends to continue to produce the Mustang in Flat Rock, Michigan, and in China it will come out with the Focus Active, which will be produced for the 2019 market, according to *Automotive News*. Gone is the Fiesta, as well as mainstays Taurus and Fusion.

U.S. Light Vehicle Sales and Inventories



Although total sales have edged downward in recent months, light truck sales have risen in each year since 2010, topping 11 million units last year—nearly double what they were in 2010.

Why? Likely for two reasons. First, the market preference among buyers has shifted to light trucks over cars. It is important to note that while many think of trucks as the F-150, RAM, and Silverado, most crossover (CUV) and sport utility (SUV) vehicles are built on a car platform, and so they are classified as "light" trucks. A second reason for the decision is likely based on profitability: the industry has reported for quite some time that cars tend to be low-margin sales and most profits come from higher-margin trucks, CUVs, and SUVs.

What does this mean for Michigan? In the first quarter of 2018, car production for Ford at the Michigan Assembly Plant in Wayne was up nearly 40 percent from 2017, where the plant produced a combination of C-Max and Focus. In 2017 the plant produced 45,158 cars, and in the same period in 2018 it produced 62,774 units according to *Automotive News*. Despite this increase, on March 2, the company submitted a Worker Adjustment and Retraining Notice (WARN) to the state indicating a mass layoff of all 2,000 workers at the Michigan Assembly Plant effective in early May. The same day, *Automotive News* reported Ford would retool the plant and reopen in October to produce the new version of the Ford Ranger pickup, as well as the new version of the Bronco SUV, which *Road and Track* reports will be out for the 2020 model year. The last Ranger was produced in 2011, and the last Bronco was produced in 1996.

So is this good or bad news for the state? Certainly, any new capital investment in a final assembly plant and retaining jobs is a win. Using the Upjohn Institute's economic impact and forecasting model provided by Regional Economic Models Inc. (REMI), we can estimate the impact of the switch on the state. Based on the REMI model, for every job producing cars at the Wayne plant, another four jobs are produced across the state. These are due not

Production Numbers for Michigan Assembly Plants, 2017 Q1 and 2018 Q1

	Status for 2019	1st qtr. 2018	1st qtr. 2017	Change, 2017–2018 (%)
Flat Rock (cars)				
Ford Mustang	In production	28,558	41,805	–31.7
Lincoln Continental	Questionable	5,284	9,924	–46.8
Total		33,842	51,729	–34.6
Michigan Assembly (Wayne) (cars)				
Ford C-Max	Gone	2,656	4,667	–43.1
Ford Focus	Gone	60,118	40,491	48.5
Ranger	New			
Total		62,774	45,158	39.0
Dearborn Platform Truck Assembly (trucks)				
Ford F-Series (13th gen., aluminum body)	In production	98,242	97,244	1.0
Total		98,242	97,244	1.0
Detroit Chassis (trucks)				
Ford F-Series platform	In production	5,248	5,608	–6.4
Total		5,248	5,608	–6.4
Total cars		189,737	202,936	–6.5
Total trucks		625,229	616,319	1.4
Car discontinued		62,774	45,158	39.0
Car kept		33,842	51,729	–34.6
Trucks		103,490	102,852	0.6
Share of cars (%)		50.92	47.74	6.7
Share of trucks (%)		16.55	16.69	–0.8
Share of all vehicles (%)		24.55	24.38	0.7

SOURCE: *Automotive News.*

only to the supply chain but also to households providing labor for goods and services to both the direct jobs as well as the suppliers. For the latter, think of convenience stores, restaurants, and health care as examples.

So each job going to a Michigan Assembly Plant worker has, in the past, produced four tangential jobs. But with the plant converting to light trucks and utility vehicles, that spinoff effect will triple: the number of additional jobs estimated when the plant begins production of light trucks is about 12 new jobs per direct production worker.

Why such a big difference? Cars tend to be less complex, with few amenities, and so are less costly. Light trucks, on the other hand, often have more complex lines (variations in a particular brand), more amenities, and more technology—all of which can require a more extensive supply chain and then correspondingly more households to support the direct and supplier-based workforce.

In the long run, for Michigan, this spells only good things, according to Yen Chen, a researcher at the Center for Automotive Research (CAR) in Ann Arbor. While the demand for the existing product at the plant was declining, the demand for light trucks, including CUVs and SUVs, will likely continue to grow, as oil prices are expected to be stable and these vehicles have become more fuel efficient.