Special Commentary — September 28, 2023

At Stake in the Strikes

The Impact of the UAW Strikes on Output, Jobs and Inflation

Summary

While the ongoing United Auto Workers strike impacts all three major automakers, the number of picketers even after the latest escalation sums to just over 18,000, not even half the number of strikers involved in the strike against General Motors in 2019. Yet angst is elevated because the combination of a well-capitalized union and an unusually tight labor market make for a potentially long standoff, adding yet another hurdle to taming inflation without a decline in economic activity.

For now, the surgical approach to the walk-offs is helping to limit the hit to production and union workers' income despite all three of the major automakers being in the crosshairs. Yet the renewed threat to motor vehicle dealer inventories could temporarily thwart the downward trend in autos inflation, which has been an influential source in lowering both headline and core inflation since early 2022. This report explores how the longer the strike goes on, the worse the potential impact on the economy.

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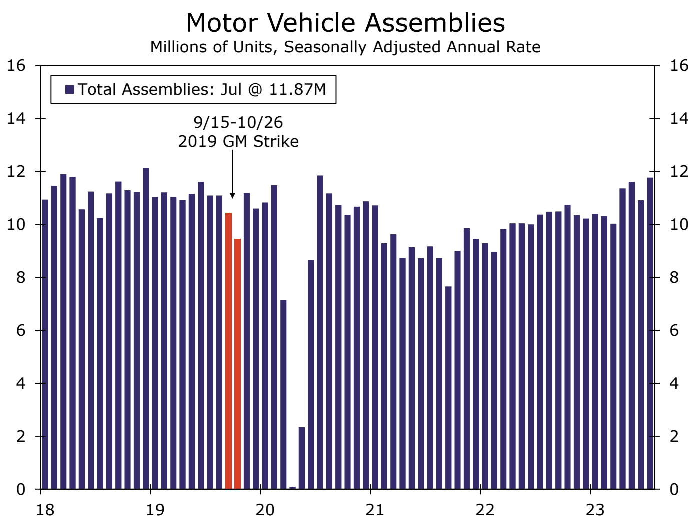
Three Strikes and You're Just Getting Started

While the ongoing strike in the automotive sector is the first of its kind in that it impacts all three major domestic automakers, the number of picketers even after the latest escalation still sums to just over 18,000. The contract of the United Auto Workers Union, or UAW, expired on September 14, and in failing to reach new labor deals with General Motors (GM), Ford and Stellantis, resulted in nearly 13,000 workers across the three Detroit car companies walking out for the first time. Then on September 22, the strike was extended with 5,600 more workers walking out of 38 GM and Stellantis parts plants.

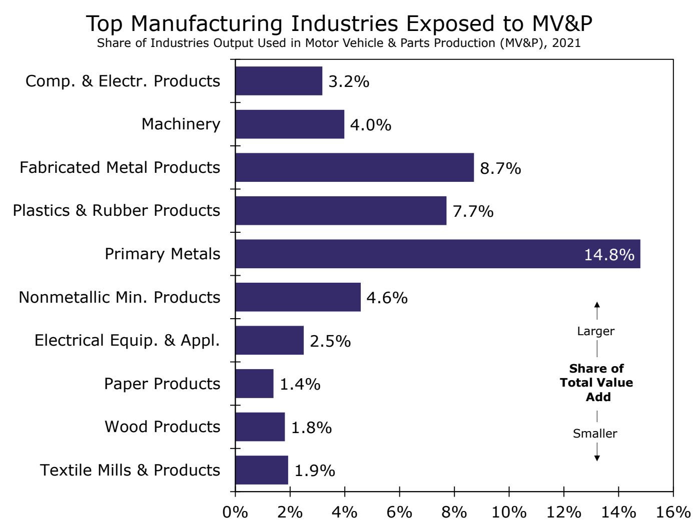
Even after the escalation, the total number of autoworkers striking today is fewer than half the number involved in the GM strikes of 2019. So why is the economic angst so high that for the first time ever a sitting president is visiting picket lines? The answer has to do with the fact that a well-capitalized union and an unusually tight labor market set things up for a potentially long standoff and adds a fresh headwind to current efforts to reduce inflation without crippling growth. As we explain in this report, the longer the strike, the worse the impact on the economy. The near-term effects can be seen easily in terms of output measures such as auto assemblies and inventories. Longer term, higher labor costs mean more expensive vehicles, repairs and related services, which complicates the Federal Reserve's job of getting inflation in check.

Ramping Up Disruption

Right now the economic impact of the UAW strike is small, but the scope for disruption widens and worsens the longer this standoff continues. Although the affected automakers are not as dominant as they once were, the three combined still produce about half of all light vehicles manufactured in the United States annually.[1] For now, only particular plants are being affected, and even though the strike has now lasted for only two weeks, we will likely see a decline in the September vehicle assemblies data, which will weigh on the industrial production, durable goods and GDP data. In 2019, when about 48,000 workers were on strike at all GM plants for nearly six weeks, assemblies slipped by about 1.6 million on an annualized basis (chart). Motor vehicles and parts industrial production slid 11% at the time. We are only two weeks in on the current shutdown with less than half as many workers on strike.



Source: Federal Reserve Board and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

There is scope for this to last longer and eventually be more impactful than the strikes of four years ago, however. While any prior strike period can be instructive for thinking about implication of the current one, the 2019 experience is quite different. From the UAW's perspective, instead of a blanket strike at one automaker as it did then with GM, this strike impacts all three. While it is wider in scale, the opening gambit was more measured with only about 13,000 workers initially taking part in the walkouts. With an estimated total membership approaching 150,000, even with the second round escalation, about 9 out of 10 union autoworkers have stayed on the job. By focusing the strikes on the plants where the most profitable vehicles are built, the union gets maximum leverage in terms of impact on the automaker's bottom line while allowing more people to continue to draw a paycheck.

The strike could also damage auto suppliers, particularly with some parts facilities now directly in the crosshairs. In looking at the biggest inputs used in motor vehicle & parts production, the top 10 manufacturing industries that supply to the auto sector represent about 5% of total value add in the economy (chart). The expansion of the strikes at the end of last week targets this vulnerability. The UAW orchestrated walk-outs of all 38 parts-distribution centers operated by General Motors and Stellantis in 20 states. Ford has been excluded from further shutdowns for now as the UAW rewards the Blue Oval for progress in negotiations.

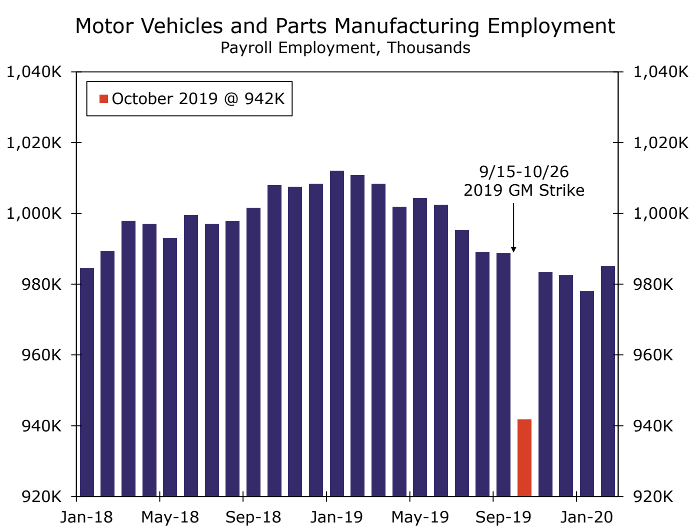
While it is always the case that the longer a strike goes on, the worse the impact will be, the tactics in this particular standoff point to how this dynamic could be amplified. In other words, the latest escalation not only threatens the parts-side of the auto-manufacturing business, it also highlights how this stakes-raising approach from the UAW could imply a steadily worsening impact on production. The union is paying striking workers $500/week. Because the UAW has an $825M strike fund, if push came to shove, it could afford to keep up those payments to all the big-three members for 11 weeks.

The union fund might be able to hold out that long, but making ends meet on $500/week might prove untenable for striking households. Earlier in this cycle, consumers had excess savings and the ability to boost purchasing power with credit cards. But excess savings are drying up, a dynamic that is more pronounced for working class families. Meanwhile, credit is both harder to find and more expensive. That makes income from work all the more important in supporting household spending ahead.

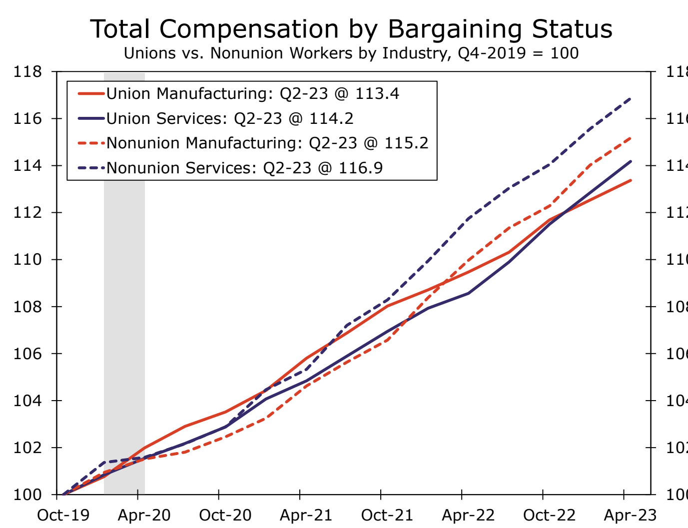
Labor Fallout: A Month-Long Strike Would Muddy Employment Data

So what sort of imprint will the UAW strike leave on the labor market? On the immediate horizon, the answer is not much. Notably, the work stoppages should not affect the September employment report due on October 6. The survey week stretched from September 10-16, meaning workers who walked off the job on the 15th were on the payroll for part of the week and will thus be included in the September tally of nonfarm payroll employment. Similarly, the strike began too late to affect the household survey, which is used to calculate the unemployment rate.

Should the strike stretch through the entirety of the October 8-14 survey week, however, the impact will be more visible in the October Employment Situation report released November 3. Striking workers would no longer be included on company payrolls, leading to a noticeable drop in employment at motor vehicle & parts manufacturing establishments, as was the case in the 2019 GM strike (chart). However, losses would go beyond how many workers would be on strike that week due to related layoffs. The disruptions to carefully choreographed supply chains have already led to layoffs at other Ford, GM and Stellantis facilities. Unlike workers on strike, workers laid off are eligible for unemployment insurance. Therefore, the knock-on effects of the strike to employment could show up earlier than the October employment report via a lift to initial jobless claims.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

In contrast to the establishment survey of payrolls, workers on strike would still be considered "employed" in the household survey, specifically as "with a job not at work" due to a labor dispute.

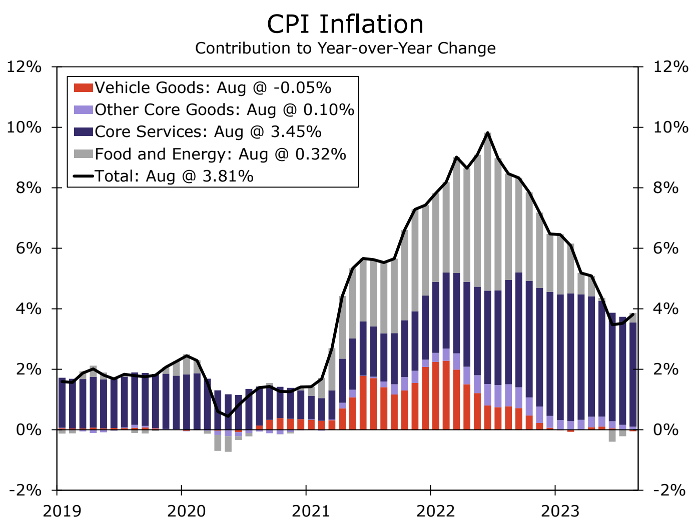
Therefore, the impact to the unemployment rate would be limited to the secondary effects of layoffs related to the strike. But once the strike concludes and laid off workers are called back, any increase in the unemployment would likely reverse, while the level of payrolls would bounce back.

Yet beyond the immediate noise to employment numbers, the dispute speaks to a still-strong jobs market and higher inflation environment that has emboldened unions to ask for hefty pay and benefit increases. The latest ask from the UAW is reported to be a 30% pay increase over four years. It has left the automakers' offers for approximately 20% pay bumps over four years on the table, suggesting that the ultimate wage increase will be at least about 5% annualized—above the 3-3.5% wage rate consistent with inflation returning to 2% over time, assuming the recent trend in productivity persists. Furthermore, the UAW has asked for the reinstatement of automatic cost of living adjustments (COLAs), already conceded to by Ford, which would push nominal pay growth even higher and further impede wage growth from returning to a pace conducive to the Fed's inflation target.

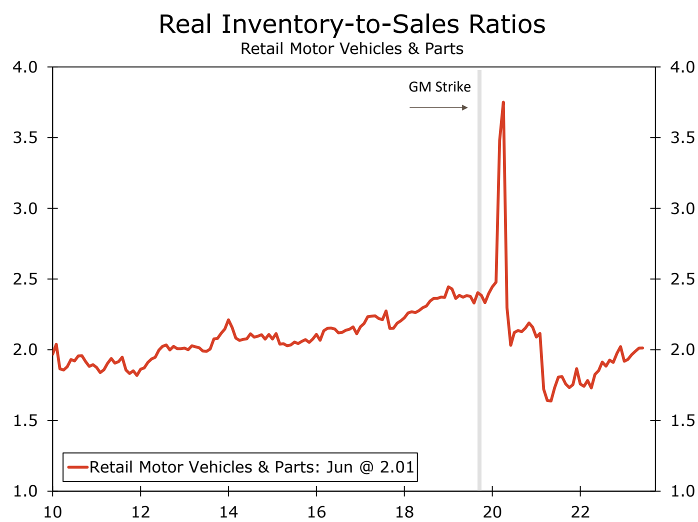
Total compensation growth for unionized manufacturing jobs since the end of 2019 has lagged that of non-union manufacturing and services jobs (chart), suggesting part of the push for higher pay is catch up to compensation gains made in other lines of work since the tumult of the pandemic. But as our equity research colleagues point out, the UAW's initial demands would more than double the Detroit automakers' average hourly labor costs up from $66 to $136.[2] Even under the assumption the UAW does not get its most recent, lower ask, the prospect for a sharp rise in labor costs is likely to dent demand for unionized workers down the road while the industry undergoes a costly transition to electric vehicles.

Fresh Challenge to the Inflation Fight

The UAW strike therefore creates both a short-term and a medium-term hurdle to returning inflation to the Fed's 2% target. New and used vehicles were a prominent source in inflation's surge to a four-decade high, but have also been a key driver of inflation's subsequent slowdown (chart). After acute parts' shortages in 2021 and 2022, the balance between the supply and demand for autos has gradually improved (chart).

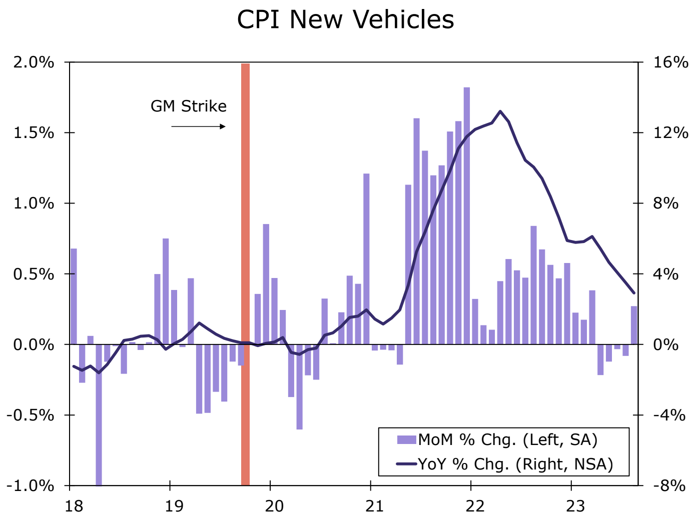


Source: U.S. Department of Labor and Wells Fargo Economics

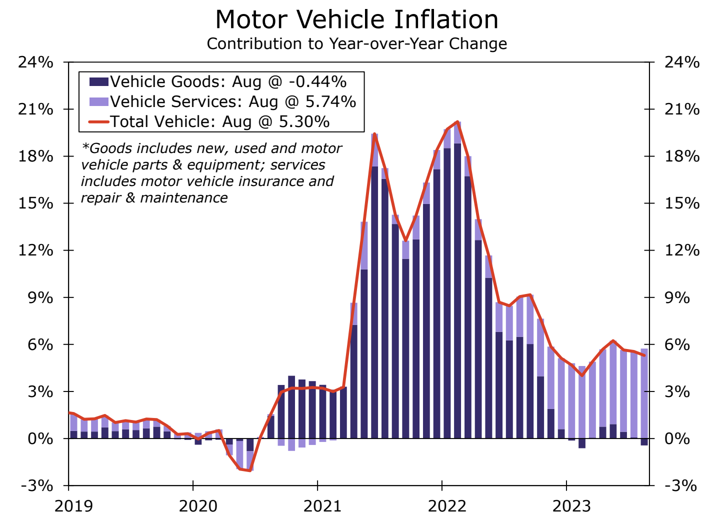


Source: U.S. Department of Commerce and Wells Fargo Economics

Yet inventories relative to sales remain well below pre-pandemic levels, making any reduction in production a headwind to further disinflation over the upcoming months. Following the 2019 strike at all GM facilities, new vehicle pricing picked up modestly (chart). While thus far the impact to vehicle production has been more limited, we suspect renewed concerns over securing inventory due to the chance for an extended strike could temporarily thwart the disinflationary trend in vehicle prices. The recent slowdown in price growth for parts and equipment may similarly stall, with elevated prices for vehicles and parts keeping inflationary pressure up on motor-vehicle related services like insurance and maintenance (chart).



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Strike Impact Small for Now, but Yet Another Headwind to Pulling Off the Soft Landing

While the current UAW strike is historic in that it simultaneously affects all three of the Detroit automakers, its more surgical approach is helping to limit the initial hit to production and striking workers' income. However, the limited number of members walking off the job thus far affords greater longevity for the strike fund while leaving room for the strike to expand further. Therefore, the scale of disruption has scope to increase as the strike drags on. We expect both industrial production and vehicle sales to be somewhat lower in the near term, which will weigh on GDP growth and further add to concerns that the current expansion is struggling to retain traction. At the same time, the strike is making it more difficult to tame inflation. We look for the disinflationary trend in vehicles to pause in the near term amid renewed concerns over inventory, while an expected jump in labor compensation costs will further challenge the timing in which inflation can return to 2% on a sustained basis, and the cost to the rest of the economy to get it there.

Endnotes

1–"UAW launches historic strike against Big Three automakers" *The Washington Post*. Jeanne Whalen and Lauren Kaori Gurley. September 15, 2023. (Return)

2–"UAW Update: Base Case Looking More Like Best Case" *Wells Fargo Equity Research*. Colin Langan, Kosta Tasoulis and Selina Liu. August 10, 2023. (Return)

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