OFFICE OF THE STATE COMPTROLLER
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United States Auto Industry and the New York State Economy

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New York State's economy is interdependent with the major U.S. automobile makers through New York State based auto- related jobs and billions of dollars of debt held by New York based financial institutions. A collapse of one or more of the major auto makers would further exacerbate New York's already gloomy economic situation. The extraordinary actions currently under consideration by Congress are necessary to assure the ultimate survival of these companies. Failure to act would have dramatic and far-reaching consequences. However, taxpayers must be assured that this restructuring contains sufficient conditions to provide for an orderly and fiscally sound transition, as well as provisions to protect their interests going forward.

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Background

The debate in Congress as to whether to provide financial assistance to the Big Three U.S. auto makers (Ford Motor Company, General Motors Corporation and Chrysler, LLC) in order to avert bankruptcy or rapid downsizing has ramifications far beyond Detroit. Automobile parts manufacturers, dealers, banks and other companies in New York State have significant employment and financial investments tied to the future of these corporations. As policy makers and congressional leaders review the plans and proposals put forward by the auto industry, New York leaders need to consider how the decline of this industry could result in additional job losses, impact financial institutions in New York State which hold auto industry debt and exacerbate the recession in this State.

Auto-Related Employment

Auto-related manufacturing, especially of component parts, constitutes an important segment of New York's employment base particularly in Buffalo and Rochester. According to the Center for Automotive Research, approximately 3.2 percent of New York's workforce is employed either directly by or works in businesses dependent upon automobile manufacturing, the seventh largest concentration among the states. Including related and spin-off employment, the automotive industry generates annual wages and benefits estimated in excess of $12 billion in New York State.

Direct automotive industry employment in New York exceeds 30,000 jobs and another 200,000 employees work in auto-related businesses such as parts suppliers and other sub-contractors. The State is home to 20 automotive facilities that are owned and operated by automobile manufacturers including parts distribution, corporate offices, research and development, sales and marketing centers, financial centers, and engineering and design facilities.

In addition, there are nearly 200 auto parts manufacturers in New York who are supplied with materials and parts by about 150 minority-owned sub-contractors. The State supports approximately 4 percent of the nation's auto parts related manufacturing jobs, which produce almost 5 percent of the nation's auto parts shipments by value.

Most of the auto parts manufacturing positions are concentrated in areas of Western New York. In the Buffalo-Cheektowaga-Tonawanda corridor, more than 16,000 people are employed in the manufacture of auto components. Almost 30 percent of the total manufacturing payroll in this region comes from automotive parts makers, which provide almost one-quarter of the region's manufacturing jobs.

Motor Vehicle Parts Manufacturers

	Number of Establishments	**Value of Shipments** ($ in millions)	**Annual Payroll** ($ in millions)	**Paid Employees**
New York Total	191	9,654.0	1,629.4	30,736
Buffalo-Cheektowaga-Tonawanda	29	5,395.4	899.1	16,321
Rochester	12	1,726.8	235.2	4,638

Source: U.S. Census of Manufacturing 2002

Large employers in the Buffalo area, such as the General Motors engine plant with 1,380 employees and other component manufacturers, such as Delphi and American Axle, would be negatively impacted by a halt in production. The effect on these companies is of particular concern. In June 2008 American Axle closed a plant in Buffalo and a second in Tonawanda is set to close in 2009. Over 200 American Axle employees accepted job buyouts associated with the closure of these plants. Delphi is still struggling to emerge from bankruptcy.

Auto parts related manufacturing also accounts for 6 percent of the total manufacturing employment base and about 6.8 percent of the manufacturing payroll in the Rochester area. In addition, General Motors has a Fuel Cell Center in Honeoye Falls with about 500 engineering jobs dedicated to implementation of this evolving technology. Syracuse, Ithaca-Cortland, Utica and Nassau-Suffolk counties also have substantial automotive parts related manufacturing with employment estimated in excess of 10,000.

An extended disruption in the supply of new vehicles or the discontinuation of a brand could impact the Big Three automobile dealerships. In many areas, especially small towns, these dealerships provide a steady source of employment and economic activity. Under the

General Motors restructuring plan, 1,750 dealerships nationwide would be eliminated. According to the National Automobile Dealers Association, the State's 1,100 new vehicle dealerships employ more than 49,000 New Yorkers with average annual salaries of around $50,000. These dealers account for approximately 10.5 percent of all the retail jobs in the State and have an average annual payroll of about $2.2 million.

A June 2008 Office of the State Comptroller report on the economy of the Buffalo metropolitan region noted that employment in the area has shown extremely slow growth since 2003. Manufacturing in the region represents 11 percent of all jobs and 11 percent of the State's manufacturing jobs. Further job loss through auto factory closures or layoffs would create significant hardship not only on employees and their families, but on the surrounding towns that rely on these businesses.

Potential Impact on Financial Markets

The *New York Times* recently estimated that more than $100 billion in debt is owed by the Detroit auto makers to financial institutions.[1] The potential bankruptcy or rapid downsizing by any or all of the three major companies could create exposure for financial institutions, including many based in New York. The risk includes loans directly to the corporations as well as to various affiliate companies of the major car makers. Failure to fulfill these obligations would add yet another cost to a banking sector already in crisis. The detrimental effects on State finances arising from the current upheaval on Wall Street have already become clear. Further job losses and declines in tax revenue resulting from multiple large defaults by the automakers would clearly worsen the impact on the State.

Summary Conclusion

While congressional leaders evaluate the Detroit auto makers' case for federal assistance and the possible commitment of taxpayers dollars, a key consideration must be whether federal inaction would imperil not only a particular industry or part of the country, but the economy as a whole.

In New York, direct and indirect wages associated with the auto industry total nearly $12 billion, and approximately 3.2 percent of New York's workforce is employed in businesses associated directly or indirectly with the automobile industry. More than half of the direct manufacturing employment is located in and around Buffalo and Rochester, and anything that impacts the Big Three auto makers could have a significant impact on these struggling areas.

While the last three recessions in New York State have averaged more than two and one-half years in length, the last three national recessions have averaged less than one year.[2] The Office of the State Comptroller projects losses of as many as 225,000 job losses as a result of the current recession. Shocks in other sectors are likely to seriously exacerbate the impact of the current recession.

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[1] Kouwe, Zachary and Louise Story. "Big Three's Troubles May Touch Financial Sector." *New York Times*. November 24, 2008: 1.

[2] New York State Department of Labor. "Index of Coincident Economic Indicators (ICEI) for New York State." October 2008. <www.labor.state.ny.us/workforceindustrydata/icei.shtm>.

The auto industry deserves scrutiny, question and debate as to whether it has done all it could to prepare for the changing needs and interests of the American car buying public. Consumer spending is down in all areas, including automobiles whether they are made by the Big Three or others. The loss or downsizing of one or more of these auto makers will have serious repercussions in this State due to the size of the industry and financial investment in New York. It is unfortunate that the survival of these companies now requires extraordinary government intervention. But this intervention, whatever its final form, must assure an orderly and fiscally sound result. To achieve these objectives clear oversight responsibility must be defined and sufficient conditions imposed on all relevant parties.