Detroit Automakers Race To Keep Up With Sales

Tom Krisher, AP Auto Writer

DETROIT (AP) — Auto sales are growing so fast that Detroit can barely keep up.

Three years after the U.S. auto industry nearly collapsed, sales of cars and trucks are surging. Sales could exceed 14 million this year, above last year's 12.8 million.

The result: Carmakers are adding shifts and hiring thousands of workers around the U.S. Carmakers and parts companies added more than 38,000 jobs last year, with industry employment averaging 717,000 for 2011. And automakers have announced plans to add another 13,000 this year, mostly on night shifts.

But there's a downside. The newfound success is straining the factory network of the Detroit automakers, as well as the companies that make the thousands of parts that go into each vehicle. This could lead to shortages that drive up prices.

And it also has auto executives in a quandary. They got into trouble in the first place largely because their costs were too high. Now, they fear adding too many workers.

Ford, for instance, is "squeezing every last component, transmission, engine out of the existing brick and mortar," says Jim Tetreault, vice president of North America manufacturing.

Still, the hiring surge bolsters the argument of those who supported the federal bailout of General Motors and Chrysler in 2008 and 2009. The bailout has been a major issue in the days leading up to Tuesday's Michigan Republican presidential primary.

And the hiring is good news for communities around the country that saw hundreds of thousands of manufacturing jobs disappear. Starting in 2005, GM, Ford and Chrysler closed 28 factories and eliminated 88,000 jobs. Parts companies cut another 234,000.

Now, if sales hit 15 million by 2015, as some experts predict, the three Detroit automakers could hire another 20,000 people, predicts Sean McAlinden, chief economist for the Center for Automotive Research in Ann Arbor, Michigan.

"You can only squeeze so much out of the same amount of people," says Itay Michaeli, an auto analyst at Citi Investment Research.

Laurie Schmald Moncrieff, president of a small parts-manufacturing company near Flint, Michigan, says when demand for auto parts collapsed, she shifted production to parts for companies in green energy, aerospace and defense.

Now, automakers and other parts suppliers have her on speed dial, trying to line up everything from fuel pump parts to tools that make hoses. She just added six workers and may hire another five. "I see tremendous growth coming in the near-term," she says.

Like many parts suppliers, she's having trouble finding people with the skills to run machinery in her plant.

The hiring binge couldn't have happened at a better time for Michigan. Many of the new auto jobs came around the Great Lakes where the Detroit Big Three have most of their factories.

The bailout that helped bring the jobs could be a deciding factor in who wins the Republican presidential nomination. Both front-runners, Rick Santorum and Mitt Romney, opposed the bailout, and Tuesday's Michigan primary will show whether Romney damaged his chances in his native state.

Romney stuck to his stance on Monday, saying in an appearance on Fox News that President Barack Obama favored the United Auto Workers union in the bailout. The president "was paying off the people that supported him and that, by the way, are trying to get him re-elected," Romney said.

But in a state where unemployment was above 14 percent just three years ago, any jobs are welcome. And Michigan is not the only region to benefit. Ford is adding positions in Louisville, Kentucky, Chicago and near Kansas City, Missouri. Chrysler is adding jobs in Belvidere, Illinois, and General Motors is hiring at plants in Tennessee, Kentucky, Texas and New York.

New jobs with auto companies don't pay as well as the old ones. Under union contracts, companies can pay new hires around $16 per hour, a little more than half the pay of longtime workers.

Foreign carmakers are also shifting production to the U.S. because of higher sales and the weak dollar, which cuts the profits they get from selling vehicles exported to America. Nissan is adding workers in Tennessee. Toyota just hired staff at a new plant in Blue Springs, Mississippi. Honda is hiring in Alabama and Ohio. Hyundai and Kia plants in Alabama and Georgia are running flat-out but can't meet demand for some models such as the Hyundai Sonata and Elantra.

The sales rebound comes with risks that are familiar to Detroit. Crank up production too much and carmakers have to sell vehicles at deep discounts. Boost production too little, and companies could run short of vehicles such as pickup trucks. And even if they find the right balance now, automakers are leery of raising long-term costs by adding plants and workers.

Six years ago, Detroit's automakers were losing billions, in part because they had too many plants and workers. And union contracts forced them to pay workers even if plants were shut down. So automakers kept the factories running regardless of whether vehicles would sell in order to cover expenses. They built too many cars and trucks and sold them cheap, sometimes at a loss.

Now, they're doing everything they can to keep costs under control.

Growth is putting the squeeze on Hyundai and Kia factories. But the affiliated companies will build as many vehicles as possible at two U.S. plants before constructing a new factory. John Krafcik, Hyundai's U.S. CEO, says the first choice is to find areas inside the plants that are slowing the assembly lines and fix them, "because plants are expensive."

GM also will try to handle growth by stretching factories, says North American President Mark Reuss. But he thinks the company will have to hire more workers if sales this year reach 13.5 million or beyond.

Auto factories in North America will reach 90 percent of their capacity if sales hit 14 million, says Michael Robinet, managing director of IHS Automotive Consulting, which forecasts auto production.

The lack of factories, though, could cause automakers to run short of pickup trucks this year, says McAlinden.

Detroit automakers, which dominate truck sales, had far too many pickup factories just seven years ago. They have closed eight truck plants since 2005, removing the ability to build 2.25 million pickups a year. With only nine North American pickup plants left, they may have cut too much, McAlinden says.

Last year Americans bought 1.8 million pickups, an 11 percent increase over 2010, as the economy improved and small and large businesses began replacing their aging vehicles. Pent-up demand is fueling the sales. The average age of a truck on U.S. roads has reached a record 11 years.

If sales increase as projected, companies also could run short of compact cars and small SUVs.

It adds up to what could be a challenging but profitable year for the industry, says Schmald Moncrieff, who runs the Michigan parts factory.

"A lot of things are going to start breaking loose all at once," she says.

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