



Vehicle Prices and Investment in Canada

Labour's share is still only a small fraction (or 3.7 per cent) of the average vehicle price

Auto manufacturing is a complex process involving many different cost components; each of which contributes to the final "sticker price" on a new car. The cost of labour is one of many cost elements of auto making, and it is certainly a key ingredient for high quality and productivity. But the role of labour cost in the overall picture is often given far greater attention than warranted, often creating the false impression that investment is won or lost based on the wages paid to workers – they're not. And as discussions around future auto investment take centre stage during 2016 Unifor-Detroit Three auto negotiations, it's important to put labour costs into proper perspective.

Car production and hours

The Canadian operations of the Detroit Three auto manufacturers (General Motors, Ford and Fiat Chrysler) have traditionally built larger and higher-end vehicles (these are listed in Table 2). This is partly the result of Canada's reputation for high quality workmanship, but also other historical and geographical factors. Conservative estimates peg production time for these vehicles at about 25 hours for passenger cars and about 30 hours for minivans and mid-sized crossover vehicles (factory-specific production data is no longer made publicly available). As technology improves and new production methods are implemented, these production hours continue to decline.

Direct production costs: parts and labour

In-house manufacturing for these automakers is mostly limited to final assembly and powertrain

production, as nearly all vehicle component parts and materials are produced by independent suppliers. These purchased parts comprise the lion's share of automaker production costs, or about 55 per cent of the sale price of a new Unifor-built vehicle (see Table 1 below). Direct labour costs, on the other hand, account for 3.7 per cent of that final price tag, or about \$1,680 per car.

Other cost components

In addition to parts and labour, there are various other cost factors embedded into the final price of a new car, including:

- Overhead, engineering, research and development costs, which account for 13 per cent of the final price (or more than \$6,000 per vehicle on average);
- Advertising costs, which account for nearly \$1,600 per vehicle on average;
- Taxes and other levies, which account for \$7,466 per vehicle on average; and
- Dealer and manufacturer profit mark-ups, which account for 6 per cent of the final price (or \$3,120 per vehicle on average).

On top of these "sticker price" costs, most buyers finance their vehicle purchases through car loans with banks or other financial institutions. Estimates suggest that 85 per cent of new cars are purchased through loans, costing a car-buyer an additional \$2,633 in interest over a standard four-year term (at a fixed term rate of 2.7 per cent). These financing costs, alone, add an extra 5 per cent to the total cost of a car.

Putting labour costs into perspective

When thinking about the role of labour in new vehicle prices, and where the money ends up, consider that automakers spend nearly as much on advertising as on production labour. Manufacturer and dealer profits are nearly double the cost of production labour. And governments and bankers together receive nearly five times as much from the sale of a new vehicle than the workers who built it.

It is simply not credible to argue that the entire future of Canada's auto industry hinges on workers cutting

wages to secure investment. Labour costs are one of many important factors that drive investment decisions, including: access to capital, research and development support, transport infrastructure, productivity, government incentives, the regulatory environment, and more.

A highly skilled and productive workforce is critical to the success of the auto industry, and labour costs are part of the picture. Ultimately, Canada's auto industry will be shaped by much broader economic factors, and its future hinges on proactive government policy.

Table 1

Cost Components: Average Unifor-built Vehicle			
Vehicle Manufacturing			
Purchased parts and supplies	55%		\$26,028
Direct production labour	4%		\$1,680
Production Overhead			
Research and development	2%		\$1,047
Warranty, depreciation, maintenance	8%		\$3,650
Corporate Overhead			
General and administrative	3%		\$1,425
Selling			
Transportation	2%		\$930
Advertising	3%		\$1,596
Dealer gross mark-up	2%		\$1,170
Net Profit			
Automaker profit margin	4%		\$1,950
Taxes and levies			
Average Canadian sales tax	12%		\$5,633
Transport freight fees	4%		\$1,733
Other taxes and levies	>1%		\$100
	TOTAL	100%	\$46,942

Sources: Unifor research and estimates from: "Automobile Industry Retail Price Equivalent and Indirect Cost Multipliers," United States Environmental Protection Agency, 2009; Company annual reports (2015); "Annual Financial Profile of America's Franchised New-Car Dealerships," National Automobile Dealers Association (2015); Industry Canada, Manufacturing Costs by Category; Centre for Automotive Research.

Table 2

Unifor Labour Costs and Vehicle Prices				
Vehicle	Mid-priced	Purchase Price	Estimated Labour Per Vehicle	Per cent of Price
General Motors				
<i>Buick Regal</i>	Premium II (1SP)	\$43,968	\$1,500	3.4%
<i>Cadillac XTS</i>	Premium Collection	\$71,300	\$1,500	2.1%
<i>Chevrolet Impala</i>	LT 1LT FWD	\$38,144	\$1,500	3.9%
<i>Chevrolet Equinox</i>	LT FWD	\$35,590	\$1,800	5.1%
<i>GMC Terrain</i>	SLE-2	\$36,789	\$1,800	4.9%
Average		\$45,158	\$1,620	3.9%
Ford				
<i>Edge</i>	SEL	\$40,037	\$1,800	4.5%
<i>Flex</i>	SEL AWD	\$45,245	\$1,800	4.0%
<i>Lincoln MKT</i>	3.5L V6 AWD	\$59,008	\$1,800	3.1%
<i>Lincoln MKX</i>	3.7L V6 TI-VCT	\$53,800	\$1,800	3.3%
Average		\$49,522	\$1,800	3.7%
Fiat Chrysler				
<i>Chrysler 300</i>	S model	\$52,177	\$1,500	2.9%
<i>Dodge Challenger</i>	R/T Shaker	\$49,937	\$1,500	3.0%
<i>Dodge Charger</i>	R/T	\$49,377	\$1,500	3.0%
<i>Chrysler Town & Country</i>	Touring-L	\$42,993	\$1,800	4.2%
<i>Dodge Grand Caravan</i>	SXT Premium Plus	\$34,588	\$1,800	5.2%
<i>Chrysler Pacifica</i>	Base model	\$51,169	\$1,800	3.5%
Average		\$46,707	\$1,650	3.6%
Detroit 3 Average		\$46,942	\$1,680	3.7%

Sources: Vehicle prices: as of May 3, 2016, Auto makers' Canadian websites, no purchased vehicle options, and includes freight, A/C tax and average Canadian sales tax. Production hours: Unifor estimates, conservatively based on industry reports for final assembly hours-per vehicle, including average hours-per-engine and hours-per-transmission. Industry reports, previously produced by Harbour Consulting are no longer available (as of 2008). Labour costs: conservative assumptions of costs as "all-in" including hourly wages, statutory taxes - CPP & EI - time off, non-wage benefits.

