517,000 Ontario jobs at risk

If Big Three automakers go out of business, the entire economy will be devastated, report says

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Ontario would lose 517,000 jobs within five years if the Big Three automakers went out of business, according to a new provincial report obtained by the *Star*.

The review, prepared for the Ministry of Economic Development and to be released today, warns the collapse of General Motors, Ford and Chrysler would send lasting shock waves through the economy.

If auto output by U.S.-based manufacturers in Canada were cut in half, at least 157,000 jobs would be lost right away, 141,000 of them in Ontario. By 2014, job losses would rise to 296,000 nationally, including 269,000 here.

If production were to cease completely, 323,000 jobs would be lost immediately in Canada, including 281,800 in this province, rising to 582,000 nationally and 517,000 in Ontario by 2014.

The Ontario Manufacturing Council, an arm's-length provincial government panel, commissioned the 11-page report, which was prepared by the Centre for Spatial Economics. The report paints a gloomy picture if governments at Queen's Park, in Ottawa, and in Washington do not bail out the automakers.

"The depreciation of the dollar, lower interest rates, and lower production costs eventually help the economy to partially recover (over the following five years, 2015 to 2019) but the loss of the Detroit Three leaves a permanent dent in Canada's economy in terms of jobs and output," the report says.

"For any Canadians who feel that the auto industry is expendable to our economy, this report is a wake-up call," Economic Development Minister Michael Bryant said in an interview yesterday.

"This report suggests that even under a scenario where half the auto sector is lost, our economy (in Ontario) basically craters and brings the whole rest of the (Canadian) economy with it," Bryant said.

The damage would extend well beyond the auto and related parts industries to housing and a broad range of consumer spending, said Jayson Myers, an economist who is president of Canadian Manufacturers and Exporters.

Myers is a co-chair of the manufacturing council with Jim Stanford, economist for the Canadian Auto Workers union.

"We were surprised how big the impact is. ... It shows the importance of ensuring we maintain production here."

The impact on citizens would be huge, Bryant predicted.

"If the auto industry is somehow allowed to part (from) our economy, it's the equivalent of a nuclear winter with lasting effects ... and would require enormous cuts to public services plus massive deficits every year."

North American automobile demand is already down to 11 million vehicles from a previous 19 million.

"Let's hope that doesn't last long," said Myers. "I'm pretty certain we will see demand rebound, but certainly it won't rebound to 19 million units."

Because automakers have been offering plenty of sales incentives and rebates in the past few years, which eat into future sales, "it's not going to be easy" to get demand up given the economic crunch facing consumers, Myers said.

Nor could Japanese-based automakers like Toyota and Honda, which already build cars and trucks in Ontario, be expected to fill the void left by GM, Ford and Chrysler.

"The economic impacts estimated by this analysis are likely to understate the true economic impact for several reasons, despite the possibility that foreign vehicle producers could expand production in Canada," the report states.

First, "a permanent contraction of the motor vehicle industry would negatively impact the U.S. and, indeed, the global economy, reducing the demand for Canadian exports from all industries."

That would depress prices of commodities such as oil and minerals, hurting resource-rich provinces like Alberta and Saskatchewan.

Second, the bankruptcy of any of the Big Three automakers might have serious implications for their pension funds and retirees' incomes.

Third, the study suggests "more than 80 per cent of the parts industry would vanish in the event of the failure of all three Detroit companies," which would temporarily disrupt foreign automakers' production in North America.

A subsequent housing slump would cast a pall over construction jobs as well as hurt the retail, insurance, real estate and financial services sectors, the report said.

Bryant said it underscores the necessity of keeping the Big Three in business.

"We have to mitigate the impact as much as possible."

The study comes as Ottawa and Queen's Park are preparing a $3.4 billion (Cdn.) emergency aid package if Washington comes through with a $14 billion (U.S.) rescue.

The U.S. Senate last week rejected a $14 billion bailout, but President George W. Bush is expected to resurrect it as early as this week.

In Canada, both levels of government are still determining how much money Ottawa and Queen's Park would each contribute.

Both Prime Minister Stephen Harper and Premier Dalton McGuinty have been in constant contact and Ottawa is talking with the White House to track the status of the U.S. bailout, Bryant said.

In the wake of Harper's offer of help for automakers, Alberta Premier Ed Stelmach yesterday urged assistance for his province as well.

Stelmach asked Ottawa to match the $2 billion Alberta is spending on carbon capture and storage technology to fight climate change, saying it would generate tax revenue and create manufacturing jobs across the country.

100% scenario

- Production cut 100%
- 323,100 jobs lost nationally right away; 281,800 in Ontario.
- By 2014, 582,000 jobs lost nationally, 517,000 in Ontario

50% scenario

- Production cut 50%
- 157,400 jobs lost nationally right away; 141,000 in Ontario.
- By 2014, 296,000 jobs lost nationally, 269,000 in Ontario.

REPORT METHODOLOGY

The provincial report, commissioned by the Ontario Manufacturing Council and prepared by the Centre for Spatial Economics, explored two scenarios.

The 100 per cent scenario assumes the Detroit Three cease production entirely and that their collapse reduces production by the Canadian automotive parts industry by 80 per cent. Foreign vehicle manufacturers are assumed to maintain current production levels using imported parts.

The 50 per cent scenario assumes that the collapse of one of the Detroit Three or a merger leads to total vehicle production falling by 50 per cent and reduces production by the Canadian automotive parts industry by 45 per cent. Foreign vehicle manufacturers maintain production. The Detroit Three's automobile dealership network is rationalized, with a 30 per cent drop in employment.