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**Economic Impact of the Closing
of the Hazelwood Ford Plant
on the St. Louis Metropolitan Statistical Area**

by

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On January 11, 2002, the Ford Motor Company announced a drastic restructuring plan for its North American operations. The major highlights of the plan include cutting 35,000 jobs (10% of the company's workforce), eliminating less-popular models, and reducing production capacity via plant closings in Edison, New Jersey; Oakville, Ontario; Brook Park, Ohio; Dearborn, Michigan; and Hazelwood, Missouri. Although the other plants will be closed as soon as possible, Ford plans to maintain production at the Hazelwood plant until the middle of the current decade. This gives workers at the Hazelwood facility the benefit of having two-to-three years to locate alternative employment or obtain new work skills. Nevertheless, the loss of approximately 2,500 high-paying manufacturing jobs will have a significant negative effect on the economy of the St. Louis Metropolitan Statistical Area (MSA).

The Ford Company's presence in St. Louis dates back to 1907. Throughout the early part of the 20th century, St. Louis was a major producer of the Model T and Ford farm tractors. In 1948, the company opened a production facility in Hazelwood, which is still in operation. Over the years, the Hazelwood plant has produced Mercurys and police cars, and was the sole production facility for the Aerostar minivan.¹ Currently, the plant produces Ford's flagship vehicle, the Explorer, which accounts for nearly one-fifth of Ford's total profits.² However, recent problems with the Explorer, including increased competition in the sport utility vehicle market and the recall of 13 million Bridgestone/Firestone tires worth \$3 billion, have caused sales of the Explorer to decline.³ The slump in Explorer sales, combined with the company's unsuccessful ventures into other auto-related industries, has caused a serious erosion of Ford's profits. Ford hopes the new restructuring plan will ease its financial pressures by increasing profitability through cost-cutting measures and reduction of excess production capacity.

Even though the announcement of the closing of the Hazelwood plant came as a surprise to local Ford workers and community leaders, the loss of manufacturing jobs is not a new phenomenon in the St. Louis area. In fact, manufacturing employment has been declining in St. Louis, and in the nation as a whole, since the 1950s. In 1951, manufacturing industries employed 47.5% of the total workforce in the St. Louis MSA. By 1997, manufacturing accounted for only 17.2% of total employment in the area.⁴ Like other manufacturing

¹ Miller 2002

² Nicklaus, "Excess...", 2002

³ Garsten, "Ford Plant...", 2002

⁴ U.S. Census Bureau, *County Business Patterns*

workers who have lost their jobs in the past, workers at the Hazelwood Ford plant will have to find new jobs. However, the continued decline of manufacturing industries in the St. Louis MSA will make it difficult for the displaced workers to locate jobs in automobile production or related industries. Therefore, most of the workers will have to obtain new skills and/or education that enable them to find employment in other manufacturing industries or service producing industries. In either case, it will be difficult for the workers to find employment with salaries rivaling those paid by Ford.⁵

Despite Ford's announcement, labor unions and local and state politicians have vowed to lobby Ford officials, hoping to convince them to reverse the decision. If the unions and politicians are successful, St. Louis can continue to claim the prestige of being the only metropolitan area outside Michigan with manufacturing facilities from all three big American automakers.⁶ However, if they are unsuccessful, the loss of jobs will add to the decline of manufacturing employment in the area. In addition, the loss of these jobs will have negative effects that resonate throughout the entire regional economy.

The effects the closing of the Hazelwood Ford plant will have on the area economy can be grouped into three different categories: direct impacts, indirect impacts, and induced impacts. Direct impacts include all losses resulting directly from the closing of the plant, such as the region's loss of jobs or the workers' loss of employment income. The second type of impact, the indirect impact, involves losses sustained by industries engaged in commerce with Ford. For example, local companies that supply Ford with parts, services, and materials, such as tires and legal counsel, will experience decreased demand for their products. In order to compensate for lost revenue resulting from decreased demand, Ford's supplier companies may be forced to cut employment and/or reduce spending. The third and final type of impact, the induced impact, effects previously unaffected industries through changes in the spending patterns of households and companies that have suffered direct or indirect impacts. For instance, households supported by Ford employees are likely to reduce spending until employment is obtained through other sources. In addition, households supported by

⁵ Automobile production and aerospace production are among the highest paid manufacturing industries, with annual average wages of \$55,000 and \$58,000 respectively. The average annual wage of workers at the Hazelwood Ford plant is \$62,500 including overtime pay (Nicklaus, "Ford...", 2002).

⁶ Nicklaus, "Ford...", 2002

employees of Ford's supplier companies are likely to reduce spending due to increased unemployment risk, and supplier companies are likely to reduce spending due to decreases in revenue caused by the loss of sales to Ford. Spending cuts by these households and companies will resonate through the economy, negatively impacting industries that were previously unaffected by the closing of the Ford plant. More specifically, retailers and manufacturers will suffer as households reduce purchases of clothes and electronics, attractions and restaurants will experience a decline as households cut spending on movies and meals, and professional sales will suffer a decrease in purchases of large items, such as cars, furniture, appliances, and real estate.

The following tables illustrate how the Hazelwood Ford plant closing and the subsequent loss of 2,500 jobs will affect different aspects of the regional economy, including employment, labor income, output, total value added, and taxes. Each table separates direct, indirect, and induced impacts, and lists the industries that are expected to be most greatly affected by the plant closing.

Table One- Industries with Greatest Projected Losses in Employment

The closing of the Hazelwood Ford plant will result in a loss of approximately 11,377 jobs in the St. Louis MSA. These jobs include full- and part-time workers of employer firms as well as self-employed individuals. After the motor vehicle industry, the wholesale trade industry will incur the second largest loss, losing an estimated 1,250 jobs.

Industry	Loss in Employment			
	Direct	Indirect	Induced	Total
Motor Vehicles	-2,500	-69	-6	-2,575
Wholesale Trade	0	-1,120	-130	-1,250
Automobile Repair and Services	0	-692	-37	-729
Eating & Drinking	0	-150	-402	-552
Personnel Supply Services	0	-332	-67	-399
Motor Vehicle Parts and Accessories	0	-355	-2	-357
Motor Freight Transport and Warehousing	0	-274	-38	-312
Hospitals	0	0	-244	-244
Miscellaneous Retail	0	-7	-213	-220
Food Stores	0	-2	-174	-176
Real Estate	0	-71	-104	-175
Other Industries	0	-2,094	-2,294	-4,388
Total	-2,500	-5,166	-3,711	-11,377

Source: IMPLAN

Table Two- Industries with Greatest Projected Losses in Labor Income

Labor income includes compensation paid to employees by employer firms and income earned by sole proprietors. While the direct impact of the closing of the Ford plant will result in a loss of almost \$208 million in local labor income, the local economy will lose an additional \$335 million in labor income through indirect and induced impacts. This brings the total loss of labor income in the St. Louis MSA to almost \$543 million.

Industry	Loss in Labor Income- 2001 Dollars			
	Direct	Indirect	Induced	Total
Motor Vehicles	-\$207,806,944	-\$5,768,505	-\$490,100	-\$214,065,549
Wholesale Trade	\$0	-\$58,973,996	-\$6,863,105	-\$65,837,101
Automobile Repair and Services	\$0	-\$20,728,074	-\$1,092,315	-\$21,820,389
Motor Vehicle Parts and Accessories	\$0	-\$17,781,254	-\$85,164	-\$17,866,418
Legal Services	\$0	-\$7,735,048	-\$3,745,126	-\$11,480,174
Motor Freight Transport and Warehousing	\$0	-\$9,858,540	-\$1,383,424	-\$11,241,964
Doctors and Dentists	\$0	\$0	-\$10,721,660	-\$10,721,660
Hospitals	\$0	-\$6,991	-\$9,578,098	-\$9,585,089
Computer and Data Processing Services	\$0	-\$6,464,756	-\$2,279,986	-\$8,744,742
Personnel Supply Services	\$0	-\$6,611,089	-\$1,340,942	-\$7,952,031
Maintenance and Repair, Other Facilities	\$0	-\$5,727,355	-\$1,984,994	-\$7,712,349
Other Industries	\$0	-\$79,118,814	-\$76,754,215	-\$155,873,029
Total	-\$207,806,944	-\$218,774,422	-\$116,319,129	-\$542,900,495

Source: IMPLAN

Table Three- Industries with Greatest Projected Losses in Output

Output, which accounts for total industry production within a given year, will decrease by an estimated \$2.64 billion as a result of the closing of the Ford plant. As expected, industries involved in auto-related production and services will suffer the greatest losses.

Industry	Loss in Output- 2001 Dollars			
	Direct	Indirect	Induced	Total
Motor Vehicles	-\$1,677,192,320	-\$46,557,116	-\$3,955,552	-\$1,727,704,988
Wholesale Trade	\$0	-\$152,685,200	-\$17,768,756	-\$170,453,956
Motor Vehicle Parts and Accessories	\$0	-\$79,075,456	-\$378,737	-\$79,454,193
Automobile Repair and Services	\$0	-\$61,046,880	-\$3,217,010	-\$64,263,890
Motor Freight Transport and Warehousing	\$0	-\$30,249,838	-\$4,244,884	-\$34,494,722
Owner-occupied Dwellings	\$0	\$0	-\$28,855,430	-\$28,855,430
Public Building Furniture	\$0	-\$28,538,810	-\$76,942	-\$28,615,752
Banking	\$0	-\$12,205,464	-\$13,272,155	-\$25,477,619
Real Estate	\$0	-\$10,251,101	-\$15,033,845	-\$25,284,946
Refrigeration and Heating Equipment	\$0	-\$23,614,332	-\$249,541	-\$23,863,873
Eating and Drinking	\$0	-\$5,350,358	-\$14,315,775	-\$19,666,133
Other Industries	\$0	-\$211,569,940	-\$203,450,092	-\$415,020,032
Total	-\$1,677,192,320	-\$661,144,495	-\$304,818,719	-\$2,643,155,534

Source: IMPLAN

Table Four- Industries with Greatest Projected Losses in Total Value Added

The closing of the Ford plant is expected to decrease total value added in the region by \$925 million. Total value added accounts for the value added to intermediate goods and services by industry.

Industry	Loss in Total Value Added- 2001 Dollars			
	Direct	Indirect	Induced	Total
Motor Vehicles	-\$387,213,152	-\$10,748,635	-\$913,218	-\$398,875,005
Wholesale Trade	\$0	-\$104,566,424	-\$12,168,928	-\$116,735,352
Automobile Repair and Services	\$0	-\$34,407,896	-\$1,813,205	-\$36,221,101
Motor Vehicle Parts and Accessories	\$0	-\$23,449,754	-\$112,314	-\$23,562,068
Owner-occupied Dwellings	\$0	\$0	-\$22,090,862	-\$22,090,862
Banking	\$0	-\$9,104,153	-\$9,899,806	-\$19,003,959
Real Estate	\$0	-\$7,191,965	-\$10,547,440	-\$17,739,405
Motor Freight Transport and Warehousing	\$0	-\$13,233,328	-\$1,857,000	-\$15,090,328
Legal Services	\$0	-\$8,372,369	-\$4,053,701	-\$12,426,070
Doctors and Dentists	\$0	\$0	-\$11,862,006	-\$11,862,006
Eating and Drinking	\$0	-\$2,861,866	-\$7,657,400	-\$10,519,266
Other Industries	\$0	-\$126,862,731	-\$114,072,455	-\$240,935,186
Total	-\$387,213,152	-\$340,799,121	-\$197,048,335	-\$925,060,608

Source: IMPLAN

Table Five- Tax Losses of Federal and State/Local Governments

The loss of 2,500 jobs will have a large impact on the tax revenues of the region. The table below illustrates the expected loss incurred by two major recipients of tax revenue: federal government entities not engaged in defense and state/local government entities not engaged in education. Combined, the two institutions will lose an estimated \$206 million. The sources of taxation whose tax payments will decrease include:

- § **Employee Compensation-** Taxes and payments paid by employees and/or employers based on the amount of employee compensation paid, including Social Security, unemployment insurance, taxable medical and/or retirement plans, disability insurance, and workman's compensation insurance
- § **Proprietary Income-** Federal social insurance taxes and payments paid by self-employed people, including Social Security, unemployment insurance, and taxable medical and/or retirement plans
- § **Household Expenditures-** Taxes and payments made by households, including estate and gift taxes, income taxes, personal non-tax payments (fines, fees, etc.), motor vehicle fees, licenses, and personal property taxes
- § **Enterprise-** Taxes and payments made by enterprises, including corporate income taxes and dividend payments to government entities for investments
- § **Indirect Business Activities-** Taxes and payments incurred through indirect activities of business, such as custom duties; excise taxes; payments and taxes for assorted licenses, fees, and fines; property taxes; sales taxes; severance taxes; and non-tax payments to state and local government entities for rents, royalties, and assessments

Tax Loss by Institution- 2001 Dollars			
Source of Taxation	Tax-Receiving Institution		Total
	Federal Government Non Defense	State/Local Government Non Education	
Employee Compensation	-\$55,272,455	-\$629,893	-\$55,902,348
Proprietary Income	-\$1,711,460	\$0	-\$1,711,460
Household Expenditures	-\$48,929,378	-\$13,331,126	-\$62,260,504
Enterprise (Corporations)	-\$24,640,210	-\$3,210,959	-\$27,851,169
Indirect Business Activities	-\$9,714,867	-\$48,950,523	-\$58,665,390
Total	-\$140,268,370	-\$66,122,501	-\$206,390,871

Source: IMPLAN

Note: The figures produced in Tables One through Five were obtained using IMPLAN, an impact analysis software program. Some of these figures are likely to be, at least slightly, overstated due to assumptions that are inherent in the design of IMPLAN and uncontrollable by the user. In the case of the Hazelwood Ford Plant, the impact analysis assumes that all 2,500 displaced workers have lost their incomes. IMPLAN does not account for sources of supplemental income, such as unemployment pay, severance pay, retirement benefits, etc. Therefore, losses in labor income and the resulting changes in household spending are likely to be overstated for individuals receiving such benefits.

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