

Is Alabama now the auto capital of the South?

By William Thornton - January 12, 2018



Akio Toyoda, left to right, president of Toyota Motor Corporation and Masamichi Kogai, president and CEO of Mazda Motor Corporation shake hands with Alabama Governor Kay Ivey

Almost 21 years after workers produced the state's first automobile in Tuscaloosa, Alabama stands poised to ascend to a new position - nationally and globally – in auto production.

Toyota and Mazda on Wednesday announced they will build a \$1.6 billion vehicle production plant in Huntsville, to open in 2021. The plant is expected to employ 4,000 people and produce 300,000 vehicles a year, once up and running.

The spinoff effect of job creation is expected to be even greater. Alabama already employs more than 57,000 people in the auto industry, counting its three vehicle plants, Toyota's Huntsville engine plant, and a web of suppliers. It was that existing web that helped the state secure its newest corporate citizens.

But the addition of a highly sought-after manufacturing plant, featuring the world's largest auto company, is also part of several stories: The South's continuing ascendancy into international auto manufacturing, current global economic politics and the future of the auto industry.

Alabama is currently tied for fourth among the states in terms of the size of its auto manufacturing industry. It should rise once Toyota-Mazda is up and running.

Present at the creation

Steve Sewell, executive vice president for the Economic Development Partnership of Alabama, has witnessed from the beginning as Alabama's auto industry grew.



A Japanese flag joins the Circle of Flags at the Alabama Capitol Wednesday, Jan. 10, 2018, before a press conference in Montgomery, Ala., announcing a Toyota-Mazda automotive manufacturing plant coming to Limestone County.

"It's astounding," he said. "Even for those of us who have watched the growth, even today, we're still astounded that we're at this point, to have five leading global automakers with major assembly plants operating in our state."

Sewell said the EDPA's first contact with the Toyota-Mazda project came about mid-way through last year. Contacted through a site consultant, they had no idea who was inquiring at first, which is normal for development projects. All they knew was that it could be an auto manufacturer.

Then, over time, it became clear who at least one of the players was – Toyota, a company with 15 years of manufacturing experience in Alabama. Sewell said one of the main hurdles in getting any company to decide on a site is convincing it of their advantages in choosing your area. So, in effect, Alabama had an advantage. Not only did Toyota have its own experience here, but it and Mazda could judge from the experiences of the state's other auto players.

"What's happened in Alabama in a generation, that requires a lot more than just attracting companies," Sewell said. "The state has really matured into a true automotive state. It has invested in the kind of infrastructure, workforce development, training, filling the supply chains and listening to the companies' needs."



Huntsville Mayor Tommy Battle speaks Wednesday, Jan. 10, 2018, during a press conference in Montgomery, Ala.

The Toyota-Mazda announcement caps a big year for Alabama's auto industry. Earlier this week, Mercedes-Benz produced its 3 millionth vehicle in Tuscaloosa since the plant's opening. Honda and Hyundai wrapped up a year where each produced more than 320,000 vehicles. Honda began production of its redesigned Odyssey minivan – the fourth redesign the plant has undertaken in as many years. And its Ridgeline truck took home Truck of the Year honors at Detroit's North American International Auto Show. Honda, the Toyota engine plant and Mercedes-Benz all announced expansions, including MBUSI's plan to assemble electric vehicles in Tuscaloosa and start an electric battery plant.

Bharat Balasubramanian is the Executive Director of the University of Alabama's Center for Advanced Vehicle Technologies. Previously he worked for 20 years with Mercedes-Benz. He said the Deep South's transformation, and especially Alabama's, is unprecedented in the history of automotive manufacturing.

For example, auto companies have over the last decade worked at a competitive disadvantage in the United States, as opposed to manufacturing automobiles in Mexico, where wages are lower and free trade agreements with the EU make production costs about 10 percent cheaper, he said.

In spite of that, international companies have over that time doubled production, increased investments, and brought more factories to the American South. Many factors can account this rise – availability of land, lack of union influence, relatively lower manufacturing costs and pro-business state governments.

"It's astonishing what is happening here," Balasubramanian said.

A shift in gravity

John Boyd, a New Jersey-based consultant, is among several observers who say Toyota-Mazda's entrance into Alabama shifts the center of gravity in southern manufacturing squarely on Alabama.

"This is an endorsement of Alabama – its state economic development officials, the Huntsville labor market, the state's AIDT program, which is the most highly regarded job training program in the country," Boyd said. "The fact that Alabama has really invested in its vocational training programs, and their coordination with in-state universities. That's been the difference. And it's showing with employers like Hyundai, Airbus, Toyota."

But the decision to build in Alabama, Boyd said, is also a result of "reshoring" – the decision of companies to bring jobs back to the U.S. that were once shipped to other countries. He sees it as a direct result of the Trump Administration's "America First" policies.

"A decade ago, this would have been made in Mexico," he said. "Reshoring is happening. You've had a tax cut from 35 to 21 percent. There's an expectation of tweaking of NAFTA. It's becoming

more expensive to produce goods off shore. All of that is creating new momentum for reshoring, and Alabama is front and center in the narrative. This is the crown jewel in Donald Trump's reshoring initiative."

'It's pretty cool'

Toyota has announced it will build the Corolla in Huntsville, while Mazda will manufacture an as-yet-unannounced crossover. The two companies will also reportedly have a research-and-development component in their joint venture, but it's unclear how much of that may be at the new factory.

Mazda has had joint ventures in the U.S. market previously, most recently with Ford. But the company hasn't made vehicles here since 2012.

At least one analyst said Mazda's move is probably intended to capitalize on its strong niche in the U.S. market, centered around design, performance and high fuel efficiency.



Cookies served Wednesday, Jan. 10, 2018, during a press conference in Montgomery, Ala., announcing a Toyota-Mazda automotive manufacturing plant coming to Limestone County.

But a Huntsville plant will also benefit Toyota in giving the company more production flexibility, as several of its plants around the country are reportedly running beyond full capacity.

The effect on jobs will be seen almost immediately. Alabama Commerce Secretary Greg Canfield said auto supplier companies may begin announcing plans this year, as suppliers will have to be in place and running by the time production starts at Toyota-Mazda in three years.

Suppliers are usually classified as tier one or tier two facilities – tier one being companies that supply vehicle components directly to the manufacturer. Tier two supply the suppliers, though some companies can supply multiple manufacturers.

It's difficult to say how many supplier jobs the Toyota-Mazda project will create, since some suppliers will opt to fill needs for several plants. Balasubramanian said suppliers will, in the interest of long-term stability, probably not tie themselves to one factory, since needs can change over vehicle cycles. But they will opt for locations close to the plant. The big winner for those jobs, he said, might be Birmingham, which is situated in the middle of the four factories.

In a larger sense, the new factory also positions Alabama for the future of the automotive industry. As auto companies look to electric vehicles, autonomous vehicles and higher emissions standards, the shape of automobiles and the way they are built will change. Mercedes-Benz's recent move toward EVs, and the coming of Toyota-Mazda, means a worldwide stage for the state at a time of great change.

"These are marquee global companies, and their important operations are in Alabama," Sewell said. "There's real priority in terms of what they're doing here. These are modern plants with the latest technology. This positions Alabama very well."

Canfield, at the end of a long Wednesday of announcements, was asked for a final comment on what it meant to him personally.

He smiled and spoke for many. "It's pretty cool," he laughed.