



ARGUS ECONOMIC COMMENTARY

October 2, 2023

AI & EV: The Other Edge of the Sword

Argus has been tracking secular technology developments, including artificial intelligence (AI) and electric vehicles (EV), since they emerged. Our focus has been on ways to invest in these and other emerging trends. As with other “breakthrough” technologies such as cloud and 5G, the pace of development in AI and EV has been bumpy and uneven, but also seemingly inevitable.

We have for the most part focused on the ways that AI and EV have positively impacted the economy, the workplace, and the investing environment. But disruptive technologies are, well, disruptive; and creative destruction earned its name by breaking up the status quo.

In short, disruptive technologies are a double-edged sword. And American workers are now encountering, and figuring out how to deflect, the other edge. U.S. autoworkers and Hollywood actors and writers are striking not solely over money, as they usually do. Instead, they are responding to existential fears that new technologies will massively alter their workspaces, and perhaps make their jobs obsolete.

Hollywood and AI

For the first time in more than 60 years, both writers and actors went on strike in Hollywood this past spring and summer. The Writers Guild of America (WGA) strike has impacted over 11,000 writers since May. Over 160,000 actors represented by the Screen Actors Guild and the American Federation of Television and Radio Artists (SAG-AFTRA) went on strike in mid-summer.

The demands by participants in the two Hollywood strikes have been different, but driven by a common theme: making a living as a writer or actor in the American entertainment industry is increasingly difficult. That reflects both the rising cost of living and, most notably, changing mechanisms of compensation.

As streaming has joined, and, in many ways, displaced broadcast and cable media, the amount of content has soared. This explosion in content should seemingly benefit writers and actors. Yet they have argued that they are largely excluded from streaming revenues.

In mid-March, the WGA published a report stating that writer incomes had declined 23% on an inflation-adjusted basis over the past decade; and that half of TV writers were paid at industry-minimum levels, compared to one-third of writers 10 years earlier. The union stated that producers had used the cover of the streaming transition to shrink the writers’ room (i.e., fewer writers per show working for a shorter amount of time). WGA also highlighted the elevated salaries being earned by studio heads.

In mid-April, WGA members authorized a strike, with 98% voting in favor. On May 1, 2023, the existing WGA contract with the Alliance of Motion Picture and Television Producers (AMPTP) ended; late night shows went dark or switched to reruns. Both the WGA and the AMPTP issued position papers early in the strike, and a key issue for both sides was AI. According to the AMPTP, writers wanted to use AI in their work without changing the determination of credits (compensation); a further complication is that AI-generated materials cannot be copyrighted. Other issues separating the two sides include size of the writers’ room; the writers’ share of domestic and foreign residuals; and access to healthcare, parental leave, and pension benefits.

SAG-AFTRA expressed support for the WGA strike. By June, with their own contract expiring, 98% of SAG-AFTRA members also voted to walk out. Although negotiations were extended several times, by mid-July, the SAG-AFTRA negotiating committee voted to recommend that members strike; and on July 14, the SAG-AFTRA strike began. (For some

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independent productions not affiliated with the AMPTP, union members were allowed to continue filming.)

As with the WGA strike, key issues included residuals, particularly streaming residuals; and the regulation of the use of AI. Residuals have always been a thorny issue in Hollywood, even for films with measurable box office receipts and broadcast TV shows with measurable advertising revenue. Individually streamed shows are part of a subscribed service, and assigning financial value to and determining compensation for any single show is complex. Actors have long claimed that they are undercompensated for streaming shows, particularly when popular series drive growth in subscriptions.

Actors are used to co-existing with computer-generated imagery (CGI), but CGI mainly impacts the scenery. By contrast, AI-generated images could over time displace actors, and SAG-AFTRA wants assurances that actors will not be replaced by artificially generated images.

As we went to press, WGA negotiators and the AMPTP had reportedly reached a deal; however, the two sides were still working on a final version of the contract, which will be subject to a vote by WGA members. We believe that the SAG-AFTRA strike could prove thornier to resolve given the number of striking actors, the more meagre streaming residuals available to actors, and the risk of actor displacement by AI-generated images.

Detroit and EV

In September 2023, the UAW initially launched strikes at three plants: one each for Ford, GM, and Stellantis (parent company to Dodge, Jeep, and Chrysler). The UAW plan is to widen the strike gradually to more plants; 38 sites in 20 states were impacted as of 9/22/23. Ford, which is currently negotiating hard with the union, may get a pass on further strikes.

The UAW is asking for a wage increase of 40%; that is not a random number, but instead matches the increase in compensation for top automaker executives since the last UAW contract. Other demands include a 32-hour work week for 40 hours of pay, regular cost-of-living adjustments, the termination of a two-tier wage and benefit scale for established and new workers, and the restoration of defined-benefit pensions for new hires (instead of 401(k) plans).

Currently, investors and consumers are paying more attention to the political ramifications of the strike than to the impact of EV disruption on the future of Detroit. With the strike coinciding with the beginning of the presidential election cycle, President Biden journeyed to Detroit to walk the UAW picket line. Donald Trump is also set to visit a strike site a day after President Biden's visit.

EV is arguably peripheral rather than central to the current UAW strike. The automakers, however, claim that union demands, if met, would hamper the Big Three just as they are trying to execute the expensive transition to EVs. While the Hollywood strikes are existential, the Detroit

strikes are in many ways competitive: the locus of automotive technology development has shifted away from Detroit, and the Big Three fear irrelevance in the coming decades.

According to EVvolumes.com, an industry sales database, six million pure EVs and hybrid EVs (called PHEV or EVx) were delivered in the first half of 2023. About 75% were fully EV, while about 25% were hybrid, meaning that they have a gasoline engine to supplement the primary electric drive train. For the full year, EVvolumes forecasts 33% growth to 14 million EVs and EVx shipped worldwide, with a roughly 70/30 split.

The U.S. remains among the leaders in electric and hybrid electric vehicles. Pure EV maker Tesla is #2 worldwide in EV and EVx sales, lagging China's BYD, which also makes both EVs and EVx. But Tesla under Elon Musk is as far from the legacy Detroit model as you can get. Tesla workers are not unionized, and the selling model is completely unlike the dealership model used by the Big Three.

In the first half of 2023, according to EVvolumes.com, Stellantis is fourth in global EV and EVx production after third-place VW. We believe that the bulk of Stellantis EV production is in European brands such as Fiat and Opel. U.S.-based Stellantis brands such as Jeep, Chrysler, and Dodge generally lack "flagship" EV vehicles, or have very modest EV sales.

GM, in partnership with China's Wuling, is in fifth place. However, Wuling EVs dominate the mix. GM will discontinue its own EV offering, the Bolt, at the end of 2023. GM appears to have misread the market, as its low-end Bolt was never embraced by an American public willing to pay premium prices for the Tesla Series S.

Ford is well down the list at number 17 in global EV and EVx production in the first half of 2023. But Ford at least has well-known brands on which to build its EV platform; these include F-150 pickups and Ford Mustang sedans and coupes.

In summary, the Detroit Big Three have far to go if they wish to retain their global market share across the expected multidecade transition to electric vehicles. Both the UAW and the automakers are expected to dig in their heels on this strike given the disconnect in compensation demands and the risks to established models cited by the automakers. One positive in the outlook is that the UAW and the automakers, despite the rancor and bitterness of past strikes, are always able to hammer out a deal in the end.

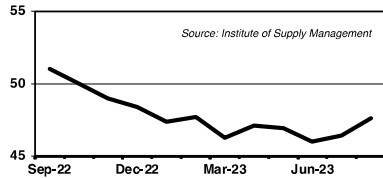
Conclusion

From a business perspective, the strikes in Hollywood and Detroit represent real challenges. The bad news is that these issues are more intractable than the traditional "pay-us-more" nature of past strikes. The good news is that the strikes may be a crucible in which society begins to reckon with the human cost of significant secular change.

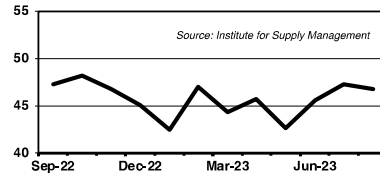
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

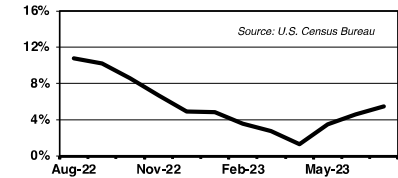
Release: **ISM Manufacturing**
 Date: 10/2/2023
 Month: September
 Previous Report: 47.6
 Argus Estimate: 48.0
 Street Estimate: 47.6



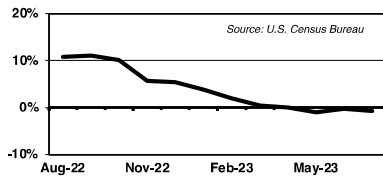
Release: **ISM New Orders**
 Date: 10/2/2023
 Month: September
 Previous Report: 46.8
 Argus Estimate: 46.5
 Street Estimate: NA



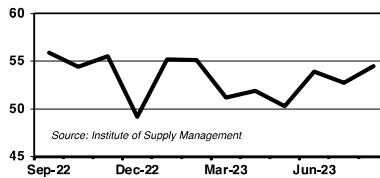
Release: **Construction Spending**
 Date: 10/2/2023
 Month: August
 Previous Report: 5.5%
 Argus Estimate: 5.0%
 Street Estimate: NA



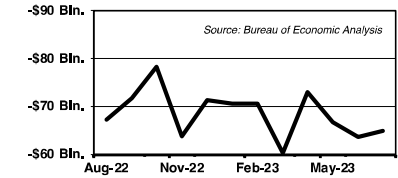
Release: **Factory Orders**
 Date: 10/4/2023
 Month: August
 Previous Report: -0.7%
 Argus Estimate: -1.0%
 Street Estimate: NA



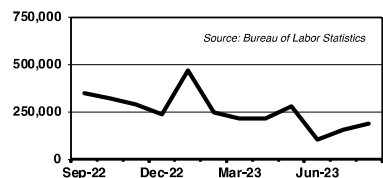
Release: **ISM Services Index**
 Date: 10/4/2023
 Month: September
 Previous Report: 54.5
 Argus Estimate: 55.0
 Street Estimate: 53.9



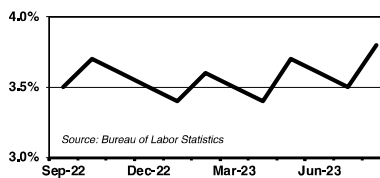
Release: **Trade Balance**
 Date: 10/5/2023
 Month: August
 Previous Report: -\$65.0 Bln.
 Argus Estimate: -\$67.0 Bln.
 Street Estimate: -\$65.0 Bln.



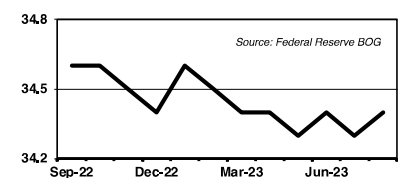
Release: **Nonfarm Payrolls**
 Date: 10/6/2023
 Month: September
 Previous Report: 187000
 Argus Estimate: 150000
 Street Estimate: 148000



Release: **Unemployment Rate**
 Date: 10/6/2023
 Month: September
 Previous Report: 3.8%
 Argus Estimate: 3.8%
 Street Estimate: 3.7%

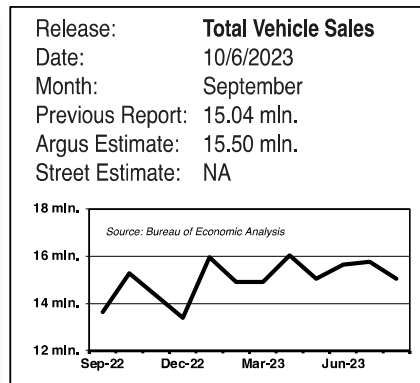
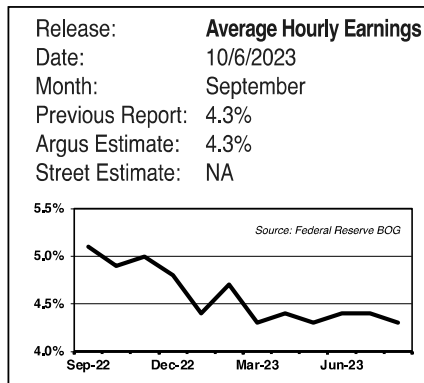


Release: **Average Weekly Hours**
 Date: 10/6/2023
 Month: September
 Previous Report: 34.4
 Argus Estimate: 34.4
 Street Estimate: 34.4



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR (CONT.)



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Sep	New Home Sales	August	714000	705000	700000	NA
	Consumer Confidence	September	106.1	105.0	106.0	NA
27-Sep	Durable Goods Orders	August	3.1%	2.3%	NA	NA
28-Sep	GDP Annualized QoQ	2Q	2.0%	2.1%	2.2%	NA
	GDP Price Index	2Q	4.1%	2.0%	2.0%	NA
29-Sep	PCE Deflator	August	3.3%	3.4%	NA	NA
	PCE Core Deflator	August	4.2%	4.0%	3.9%	NA
	Personal Income	August	4.6%	4.4%	NA	NA
	Personal Spending	August	6.4%	6.1%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
11-Oct	PPI Final Demand	September	1.6%	NA	NA	NA
	PPI ex-Food & Energy	September	2.2%	NA	NA	NA
	Wholesale Inventories	August	0.5%	NA	NA	NA
12-Oct	Consumer Price Index	September	3.7%	NA	NA	NA
	CPI ex-Food & Energy	September	4.3%	NA	NA	NA
13-Oct	Import Price Index	September	-3.0%	NA	NA	NA
	U. of Michigan Sentiment	October	67.7	NA	NA	NA

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