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Income, Economics, Autos

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A friend in the auto industry serves as a vice president for one of the larger Texas chains. It's his second career; the first was in the oil industry building offshore oil platforms. But oil runs in his blood. The family, originally from Taft, Calif., was deep into crude. His grandfather was one of the men who walked the state finding oil fields by pointing out where crude was seeping out of the ground.

His father followed his grandfather into the industry, but by then it was a bit more modernized. Before he retired and then entered the auto industry, his last oil gig was the newest survey of the Caspian Sea region for an oil major; and the equipment he found there was so old he had to call and get his father to explain what was what. His dad knew because he'd installed that equipment back in the 1930s. When the Deepwater Oil Horizon disaster happened, this friend was my background informant for my column at BusinessWeek, where he said BP was misleading everyone by claiming that the blowout might be stopped possibly within weeks. He explained how an undersea blowout is contained, sent me to the websites that showed the equipment needed, and then suggested the date on which that disaster in the Gulf would finally be controlled. He missed it by one day.

He and I became fast friends because we're both from California and both lived overseas in impoverished countries for years. And some time ago we were discussing the shift in the American economy, the one in which the percentage of our total employment that manufacturing jobs accounted for was quickly being replaced by service industry jobs. As he put it that day, manufacturing goes through economic cycles and recessions, but overall in the long term it's a stable proposition. But service industry jobs can disappear overnight; and just because the economy comes back, those jobs don't always do the same.

We have seen this economic theory in action, both a decade ago and now during the pandemic: Auto manufacturers rushed to get new car production back on line as quickly as possible, while service jobs, such as wait staff in restaurants and bartenders, have no idea whether their jobs will be coming back at all. Then again, it's automation more than anything else that's displacing blue-collar factory workers in America; it may not be long before automating things such as cooking fast food takes jobs away from those in the service industry. In spite of that outlook, there's no end to fast food outlets in America. As for manufacturing output in America? That has climbed 63.4 percent since 1997 but also dropped from 16.9 percent of our entire GDP to just 11.1 percent in the same period. MIT suggests that further automation will potentially wipe out 57 percent of the remaining manufacturing jobs in America over the coming years, if not decades.

This brought up a second series of discussions with local dealers who are having a hard time reconciling the business media's discussion of what is happening to the American family's personal economic situation with the continued strength in the car market; for example, as in what has transpired this summer? Despite tens of millions of lost jobs in America, the used car market exploded from May 1 to the middle of August. That's a fair discussion, since overall economic stats don't always align with what dealers are noticing on their showroom floors. But on a model-by-model basis, one sees in car sales mirroring exactly what is happening in America.

We continue to focus on the plight of blue-collar middle-class and the upper stratum of those living in poverty; but more middle-class jobs have been lost upward than down in our lifetime. While the high cost of medical coverage is holding back wages for those solidly in the middle. Here's how. The cost of our health care system is today nearly 18 percent of our total gross domestic product, up from around 5 percent in 1960. From an employer's standpoint, their contribution to health care is part of a worker's compensation. But that doesn't show up in the actual income surveys released annually. Still, the ever-increasing cost of health care is holding back the real wages one takes home — just not the cost to one's employer.

Again, not everyone is getting beaten up by the new economy. Certainly not the new upper middle class, which is now around one third of the working population, up from just 6 percent of all workers in 1967. Not only that, but the incomes earned by this group are far above this segment's incomes in previous decades. In 1975 I sold the gentleman who ran Southwestern Bell's Yellow Pages in this region a new Olds 98 sedan. He didn't want to spend the additional $2,000 to purchase a Cadillac DeVille. To this day I remember his income as $18,500, when that year the average American family earned around $11,000. Or around 71 percent higher, and that job was decidedly an upper-middle-class executive position. Today's mean income is $89,930 — $63,688 if one is looking at the median, where half earn more and half earn less. And it's just a guess, but a high-ranking executive with AT&T probably earns more than $153,780, or 71 percent higher than the average household income.

Robert Samuelson covered much of this last month in his Washington Post column about the rise of the upper middle-class, including how things were much better for the Baby Boomers in our time than they are for the Millennials today. Looking at the period of 1967 to 1981, Boomers saw their median incomes jump by 27 percent, while Millennials from 2002 to 2016 witnessed only an 8 percent gain. When it comes to going backwards in one's career, 12 percent of today's kids have suffered at least one 25 percent drop in income in the same period, but only 4 percent of Boomers endured losing that much income. For the record, African American families have gone from comprising 1 percent of the upper middle class in 1967 to 14 percent today. Again, the most stunning statistic: More people have moved out of the middle class into the upper middle class, than have fallen down into a lower economic status.

You can see that all around you in the car market. Once there were Cadillac, Lincoln, Mercedes, and BMW for luxury car lines. And the volumes were not all that strong, either. In the early Eighties, when Mercedes really came alive in America, the company sold fewer than 90,000 vehicles each year. Today we have Cadillac, Lincoln, Lexus, Infiniti, Audi, Acura, Land Rover, Jaguar, and Tesla selling fairly large volumes. And there's room to go: Hyundai still has great plans for its Genesis line of luxury vehicles. Even on the pickup side of things, 35 years ago we saw ads for single cab half-ton trucks with air conditioning for under $10,000, and the public rushed to buy those trucks when prices fell that low. Today, though — well, when was the last time you saw a new single cab truck on the road? No, Ford dealers sell far more King Ranch models than single cabs, while the Ram Laramie was picked as luxury car of the year in America in 2019. That model mix for sales is defined by the expansion of size and wealth of the upper middle class in America.

By the same token, used car sales also form a substantially higher percentage against new car sales today, at least at franchise dealerships. One can assume, or simply look at incomes on credit apps and find the opposite financial pressure on this group to make a less extravagant automotive purchase. But there's more; look at how many of the more inexpensive new vehicles are simply disappearing. Ford, which often saw its incredible Fusion sedan sell for well under $20,000, has dumped its car line. GM dumped the Chevy Sonic, Toyota its Yaris; and Honda will end the HRV hatchback. The word is that Americans don't want to buy inexpensive new small vehicles anymore. That may be true, but in the past these were known as starter cars; today those same buyers seem to be found shopping used cars lots instead.

Like so many truths in America, the reality of the shift in our economic society has been staring us in the face for the past three decades. The rise of luxury franchises and high-end SUVs and pickups has mirrored our upper middle class's growth, not to mention its overall rise in income. Similarly, over the past 20 years we have seen the late model used car market nearly double in size for franchised dealers; this seems to cater to those less financially fortunate. And a chart of all this data shows that it became turbo-charged starting around 1997. This demographic wealth shift might even explain our more conservative movement across America in the last 40 years. As Robert Samuelson put it in his column, "The upper middle class wants its entitlements. The poor and near poor want theirs, too. Falling behind is the lower middle class, once called the working class. Success has spawned discontent."

Yes. Yes, it has.

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