GM Strike Cost Magna (TSX:MG) $1 Billion and Boosts Internet of Things

Description

Magna International (TSX:MG)(NYSE:MGA) reduced its annual sales and net income projections on Friday. As a result, the stock opened lower on the TSX by around $3.32; it's down nearly 4.5% from yesterday's closing price.

The company lost around $1.3 billion in sales from the **GM** strike, raising questions about whether the transition to robotics and the Internet of Things is moving too slowly. Higher investment in automation would have ebbed some of the production loss.

Canadian investors should be aware of how Magna's losses impact their Tax-Free Savings Accounts and Registered Retirement Savings Plans. If you have investments in industrial and automotive stocks, the strike may have harmed your retirement portfolio.

What happened?

The United Auto Workers went on strike for six weeks in 2019 — the most prolonged auto workers' strike in 50 years. Almost 48,000 workers in the automotive industry stopped working, amounting to an income loss of $1 billion for employees, $2 billion for GM, and $1.3 billion for Magna. The North American impact of the United Auto Workers strike has been substantial.

The rise of artificial intelligence and machine learning may change all this. Robotics, automation, and the Internet of Things are supposed to displace 20 million manufacturing jobs by 2030. This transition will gradually erode the bargaining power of the United Auto Workers.

Even China — a country with a substantial surplus of cheap labour — is working on automating factories. The benefits don't just arise through smaller payroll burdens. Fewer employees means lower safety and ethical compliance costs.

Automation will reduce costs related to union strikes

In the case of more developed countries like the United States and Canada, unions impose costs on businesses via strikes to improve employee bargaining power in contract negotiations. As this recent strike proves, this strategy can cost billions of dollars in losses for all parties involved.

Corporations like Magna can avoid these losses by investing in robotics. Robotic technology stands to improve margins by cutting out substantial payroll costs and production disturbances from union strikes. Ian Simmons, Magna's vice president of Business Development, discussed the future of robotics in an interview with *Just Auto:* "There are certain conditions and tasks which are physically difficult, challenging or repetitive. The addition of robotics will improve overall efficiency. So, we see a lot of the robotic applications as being supplemental, not replacement."

Although Simmons seems optimistic about the effect robotics will have on the job market in manufacturing, less work will ultimately amount to fewer jobs, unless new job duties replace those tasks. The way the job market is headed, the skills needed once robots begin augmenting our work involve data analysis and non-unionized employment.

Foolish takeaway

Automation, robotics, and the Internet of Things, in general, are set to change the landscape of manufacturing completely. Along with it, the job market will also become unrecognizable. Relationships between employees and employers will shift. Remote-working arrangements will rise; office jobs may even become a thing of the past.

The future of unions is unclear, but Industry 4.0 will undoubtedly change the bargaining power of unions to the detriment of employees. Canadian workers and investors should be prepared for these changes — and watch how they affect their income and savings accounts.

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