

The Business Need for Labor Rate Price Adjustments in Automotive Collision Repair

February 2022

Executive Summary

Collision Repairers require significant price adjustments in Labor and Paint Materials, due to significant factors outside of their control, including high inflation, labor shortages, increased materials costs, disruptions in supply chains, and overall increasing business operations complexity.

Labor

- Collision repair industry is experiencing a shortage of qualified workers, driving up wages to hire and retain qualified technicians and other employees.
- Additional investments are now required to hire, train, develop, and retain skilled technicians and staff.

Materials

- Suppliers have increased their prices multiple times in calendar year 2021, with additional planned increases throughout 2022, as they themselves face increasing costs from raw materials & packaging, shipping & transportation, and labor & manufacturing.

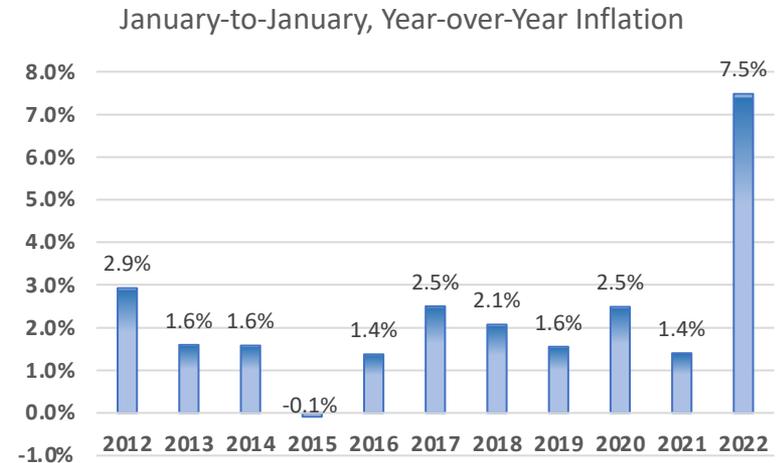
Business Operations

- Supply chain disruptions are causing parts price inflation and shortages, as well as significant impact to body shop time and effort required to find alternative sources for parts, manage delays and minimize impact to the customer.

*While productivity gains and parts supplier competition may enable repairers to absorb a small fraction of these cost increases, a **significant price adjustment is needed now** to ensure repairers can continue to attract and retain new talent, perform high-quality repairs, make continued investments necessary to keep up with advancing automotive technology, and to provide consumers safe repairs and excellent service.*

National price inflation highest in 40 years

- Consumer Price Index (CPI), the key measure of inflation, up 7.5% year-over-year in Jan 2022
- Producer Price Index (PPI), the measure of inflation from producers' perspective, up 9.7% year-over-year in Jan 2022
- Inflation is no longer considered “transitory” (as originally stated by the Federal Reserve) but is now expected to continue throughout 2022.
(Jerome Powell, Chairman of Federal Reserve)
- While overall inflation exceeds 7%, several categories facing employees and collision repairers are even higher:
 - Gasoline up 40%
 - Natural gas 24%
 - Electricity up 11%



(US Dept of Labor, Bureau of Labor Statistics)

Significant nationwide labor shortages including Collision Repair

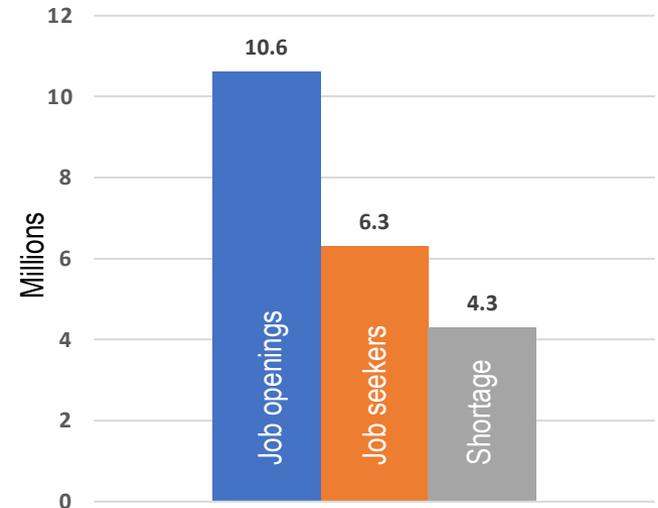
National labor shortage

- With 10.6 million job openings in US but only 6.3 million people seeking work, labor shortage is 4.3 million jobs

(US Bureau of Labor Statistics, Employment Situation Report, Job Opening and Labor Turnover Report)

- Overall automotive technician demand is outpacing supply nearly 5 to 1

(TechForce Foundation, 2021 Report, Technician Supply & Demand)



Collision repair labor shortage

- 4 out of 5 shops would hire a technician now
(Who Pays for What? Survey, Collision Advice & CRASH Network)
- Nearly 100,000 collision technicians are needed over the next 5 years, including replacement of technicians who are aging out or transferring to other jobs

(TechForce Foundation, 2021 Technician Supply & Demand Report)

Projections (a)	2021	2022	2023	2024	2025
New Positions	1,575	2,487	1,537	1,217	1,058
+Replacement Positions (b)	23,519	16,009	16,157	16,274	16,375
Total New Entrant Demand	25,094	18,496	17,694	17,491	17,433

(TechForce Foundation, Transportation Technician Supply & Demand, 2021 Report)

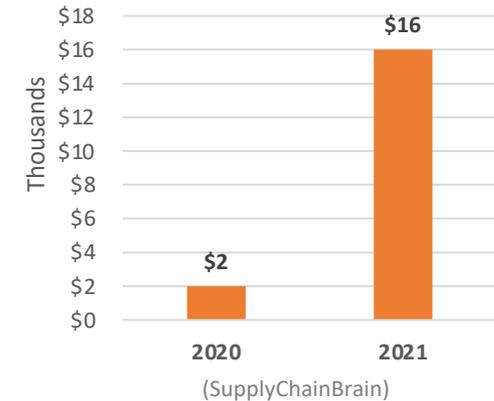
Taken together, inflation and labor shortages are driving wages higher, as more companies compete for fewer employees, requiring higher pay to attract and retain them.

Major disruptions to global supply chain drive cost increases

Disruptions in Shipping & Transportation

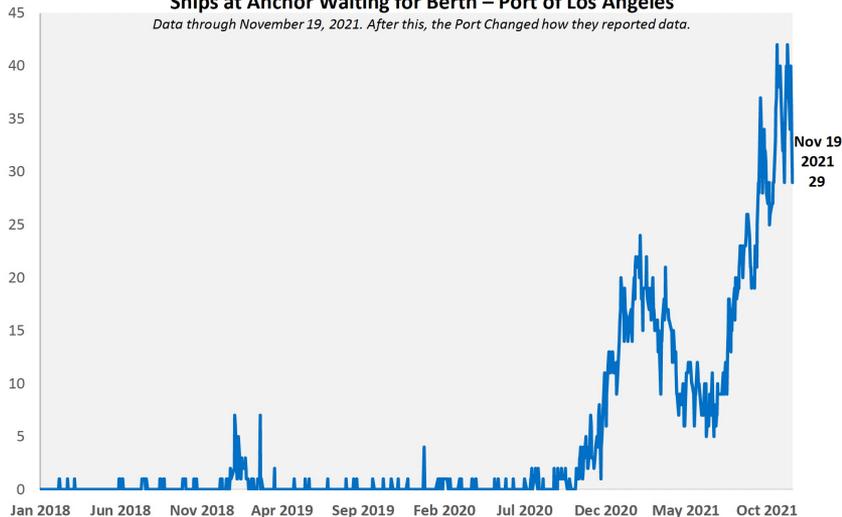
- 800% increase in container shipping costs, China to US, from \$2K to \$16K
- 40+ ships at anchor waiting for berth at the Port of Los Angeles, plus additional ships waiting farther out at sea and not counted by the Port.
- In US, trucking transport rates increased 60% to \$3/mile, while load demand is exceeding trucking supply 6.5 to 1.

Container Shipping Cost



Ships at Anchor Waiting for Berth – Port of Los Angeles

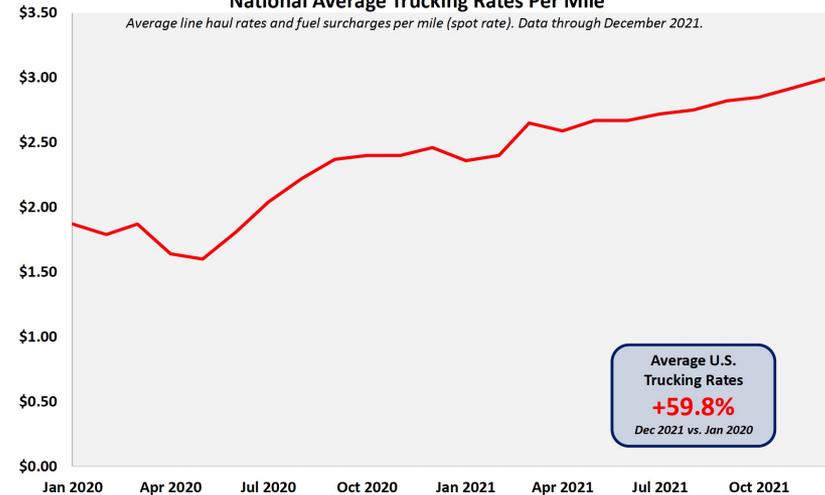
Data through November 19, 2021. After this, the Port Changed how they reported data.



(SEMA Market Research, Avrio Institute, Port of Los Angeles)

National Average Trucking Rates Per Mile

Average line haul rates and fuel surcharges per mile (spot rate). Data through December 2021.



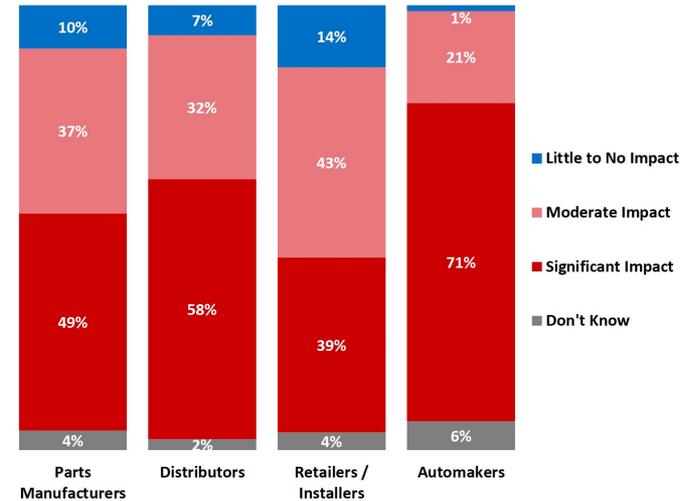
(SEMA Market Research, Avrio Institute, Port of Los Angeles)

Major disruptions to global supply chain (cont'd)

Automotive industry including Collision Repair

- 82% to 92% of auto industry companies reporting moderate or severe impacts to their business due to supply chain disruptions
- Major types of disruptions include production, shipping, and difficulty finding product
- For Collision Repairers, parts shortages and increased shipping times drive increased prices, longer repair times, and more administrative time & effort to source parts, manage customer expectations, and impact customer service

In the last 6 months, have supply chain challenges impacted your company's operations?



(SEMA Market Research, Future Trends Report, Jan 2022)

Types of Supply Chain Disruptions

		Parts Manufacturers	Distributors	Retailers / Installers	Automakers
Shipping Disruptions	Foreign Suppliers	61%	68%	45%	73%
	Domestic Suppliers	52%	55%	61%	64%
Production Disruptions	Own Factories	55%	57%	40%	74%
	Foreign Suppliers	52%	66%	40%	73%
	Domestic Suppliers	52%	60%	60%	66%
Difficulty Finding	Domestic Suppliers	37%	37%	38%	51%
	Foreign Suppliers	31%	38%	20%	43%
	Issues Shipping to Consumers	42%	46%	27%	40%

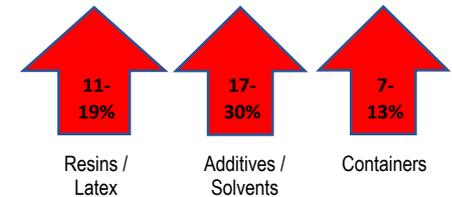
(SEMA Market Research, Future Trends Report, Jan 2022)

Collision Repair paint material costs increasing, as paint companies' supply chain costs also increase

- Paint suppliers raised prices for collision repairers multiple times in 2021, with more price increases expected in 2022
- Paint manufacturers themselves are experiencing cost increases in all key categories of their supply chain: Raw Materials, Packaging, Transportation, Labor, and Manufacturing

Paint Mftr	2021 Price Increases
Paint Co. 1	8.5%
Paint Co. 2	12.4%
Paint Co. 3	10.4%
Paint Co. 4	9.3%
Paint Co. 5	24.1%

Repairer Driven News; Competitive sources



Repairer Driven News; Sherwin Williams

“Axalta announced additional global price increases [to] close the price-cost gap that widened during the second quarter...a second round of such actions taken this year...We will implement a third round of price increases as the situation merits.”



Robert Bryant, CEO
2Q21 Earnings Call

“Clearly, this inflation cycle is much higher than anyone anticipated, and we’re continuing on a business-by-business basis, working to secure further selling price increases. This includes executing additional pricing actions during the third quarter.”



Michael McGarry, CEO
2Q21 Earnings Call

“In view of the ongoing raw material inflation, we continue to take firm and necessary actions on pricing initiatives and maintaining our cost discipline, while remaining focused on serving our customers.”



Thierry Vanlancker, CEO
2Q21 Earnings Call

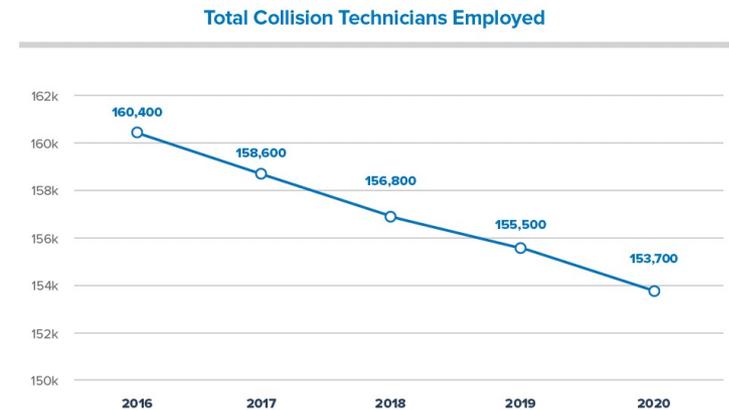
An opportunity (and the necessity) for positive change

For the worthy cause of the care and safety of their mutual customers, and for the long-term attractiveness and viability of the automotive collision repair industry, Insurers and Collision Repairers have an immediate opportunity to partner to make positive change in how collision repairers are compensated.

Largely due to the level of current paid labor rates, body shops are unable to compensate technicians competitively against other jobs that those potential technicians consider, thus making the collision repair industry less attractive than other places this talent can go.

Given the current downward trend in number of collision technicians, compounded by the demand for technicians outpacing the supply of them over the next several years, significant even radical change is required to improve technician and employee compensation, thus reversing the downward technician-count curve and dramatically raising the level of attractiveness of the collision repair industry.

This road necessarily leads to labor rates and significant labor rate adjustments.



(TechForce Foundation, Transportation Technician Supply & Demand, 2021 Report)

*Failure to reconcile labor and materials payments to the current and expected future reality creates **significant risk for the ongoing viability** of collision repair businesses and the industry's ability to attract new technicians seeking a worthwhile career.*

Conclusion

Given the sizeable cost increases facing collision repairers, as outlined in this report, Labor Rate and Paint Material rate adjustments are required at this time to keep repairers even and provide additional resources to attract & retain necessary talent to maintain business operations, perform quality repairs, and provide excellent customer service.

In light of the new economic reality in which collision centers operate, NABR predicts an upward movement in rates in the near-term:

- Labor Rates in the 15% to 35% range
- Paint Material Rates in the 13% to 29% range

Further, because NABR expects inflation, labor shortages, and supply chain disruptions to continue well into 2022 and beyond, NABR foresees that multiple rate adjustments will be needed to keep pace with increasing costs over time.



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