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A L E R T

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JAPANESE BIG THREE SUFFERING AS MUCH AS DETROIT THREE WHY “BLAME JAPAN” ON AUTOS HAS NO TRACTION

Key points:

- **Japanese automakers not being blamed for problems of Detroit Three**
- **One big reason is that sales are falling just as badly at the Japanese Big Three as among the Detroit Three**
- **In fact, GM and Ford gained market share in December 2008 vs. December 2007 while Toyota lost share; the real big loser was Chrysler**
- **So, the Japanese cannot be accused of “stealing” share**
- **Unlike a couple years ago, sales of cars are falling almost as much as sales of the gas-guzzling light trucks on which Detroit depends so heavily**
- **But Detroit has a problem making profits on anything but light trucks and big cars; hence, even if sales fall equally among Detroit and the Japanese transplants, the hit to Detroit’s finances is far worse**

Overview

Unlike in the big recession of 1980-82, when Detroit’s problems were blamed on the Japanese automakers, leading to the long period of “voluntary export restraints,” these days it is hard to find anyone blaming Toyota for GM’s financial plight.

There are lots of reasons for this, including the growth of transplants and domestic content of parts. But surely one of the reasons is that the Japanese Big Three are being hit just as hard by the sales downturn as the Detroit Three (with Chrysler the big outlier). Unlike in the early 1980s, this recession is not producing any gain in market share for the Japanese Big Three. It is hard to accuse them of “stealing” sales from their Detroit competitors.

All Are Being Hit Equally, Except For a Bigger Hit on Chrysler

To a remarkable degree, all of the big six automakers other than Chrysler are being hit just about equally. With overall vehicle sales in December down 35% from December 2007, the sales drops of all five firms other than Chrysler ranged from 31% (Nissan) to 37% (Toyota). Chrysler was the big outlier with a 53% drop (see *Figure 1*).

While Chrysler suffered a big 3.8% drop in market share compared to a year earlier, the other two members of the Detroit Three actually gained share, 0.9% for Ford and 1.6% for GM. Remarkably, Toyota lost a tiny bit (0.3%) of its market share (for the change, see *Figure 2* and, for current market share, see *Figure 3*).

Light Trucks Hit Somewhat More Than Cars, But Not Dramatically So

Unlike a couple years ago, when high gasoline prices were inordinately hitting the gas-guzzling light trucks (minivans, SUVs and pickups) on which Detroit depends so heavily, at present customers are shying away from any vehicle purchases, be they cars or light trucks. Car sales in December were down 33% from a year earlier, not much better than the 38% drop in truck sales (see *Figure 4*). As a result, cars increased their share of the light vehicle market by only 2% over the year to 47.3% (see *Figure 5*).

Detroit Ultra-Dependent on Light Trucks

While trucks have a bit more than half of the overall light vehicle market in the US, there is a big difference in the dependency ratio between Detroit and the Japanese brands. When it comes to sales, Detroit's dependence ranges from 60% at GM to 68% at Ford all the way to 77% at Chrysler. By contrast, trucks account for less than half (38% to 44%) for the Japanese Big Three (see *Figure 6*).

Initially, we figured that it was Chrysler's exceptional dependence on light trucks which caused them such big problems. However, their year-to-years sales of cars fell even more than trucks (57% for cars vs. 52% for light trucks).

The secret to the financial consequences lies not in sales, but in profits per vehicle. The Detroit Three have a problem making profits on their car sales, and so depend hugely on sales of the gas-guzzlers. Hence, even when the Detroit Three and the Japanese Three shows an even hit to sales, the hit to profits is worse for the Detroit Three.

Transplants: Building Where You Sell

One final factor is worth mentioning. Because of the transplants, the majority of the vehicles

that the Japanese Big Three sell in the US are assembled in the US and Canada, including 83% for Honda (see *Figure 7*). To a surprising degree, that North American assembly even applies to the light trucks that used to be imported. Honda assembles in North America 87% of the trucks it sells in the US. The comparable ratio is 56% for Toyota, but only 36% for Nissan. This transplants activity wins them political support from politicians in states where they have assembly plants.

However, assembly alone does not give the full picture of the political impact, since the Japanese Three often buy from many of the same suppliers used by the Detroit Three. That, in fact, is one reason that the Japanese automakers are concerned about a collapse of the Detroit Three. At the same time, many of the parts makers, who employ more people than the assemblers, do not want any of their customers, including the Japanese, to fail. That, too, reduces the political impetus for scapegoating the Japanese Big Three.

These days, according to an October 2007 report from the Chicago Fed, the US-Canada content of the Detroit Three is not that much higher than for foreign brands. The North American content is 80% for the Detroit Three and about 65% for all foreign brands, not just Japanese (see *Figure 8*). The report added that, in 2006, about 25% of parts used in the U.S. were imported, and approximately another 25% were produced by U.S.-based operations of foreign parts makers.

In fact, some models produced by the Detroit Three carmakers have lower domestic content than vehicles produced in the U.S. by Honda and Toyota. In 2006, the Ford Mustang had 65% domestic content and the Chevrolet Suburban 67%—both less than the Honda Accord at 70% and the Toyota Camry at 80%. That makes it difficult for auto lobbyists to insist on “domestic content” provisions in the auto rescue bill. At most they can try to restrict loans to the Detroit Three (a fact protested by VW, which notes that the German government is making loans to Opel). Of course, that is not a problem for union lobbyists.

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Figure 1: Japanese Brands Hit As Badly as Ford, GM

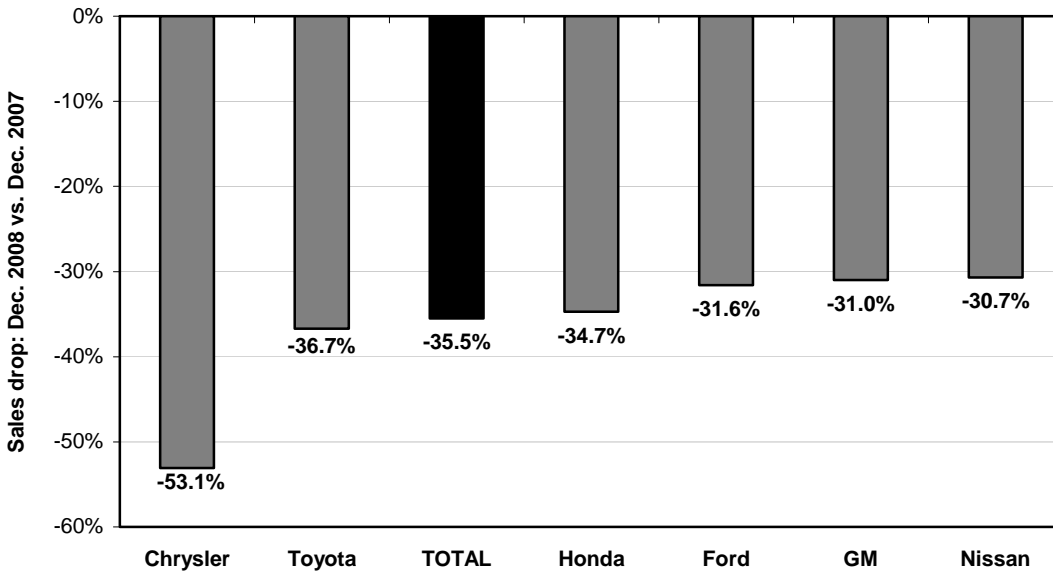


Figure 2: Chrysler Big Loser, Ford & GM Gain Share, Toyota Loses Share

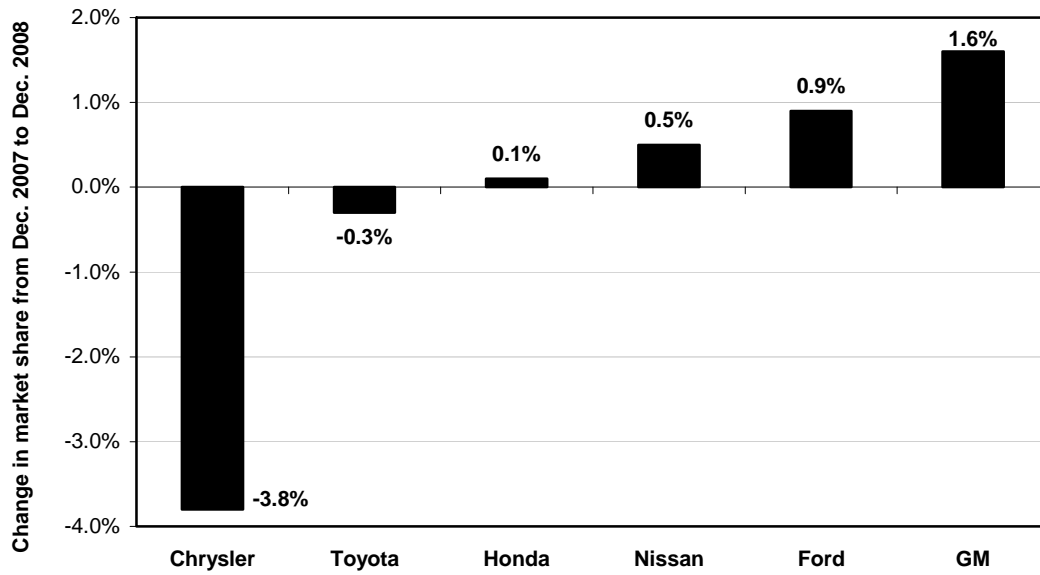
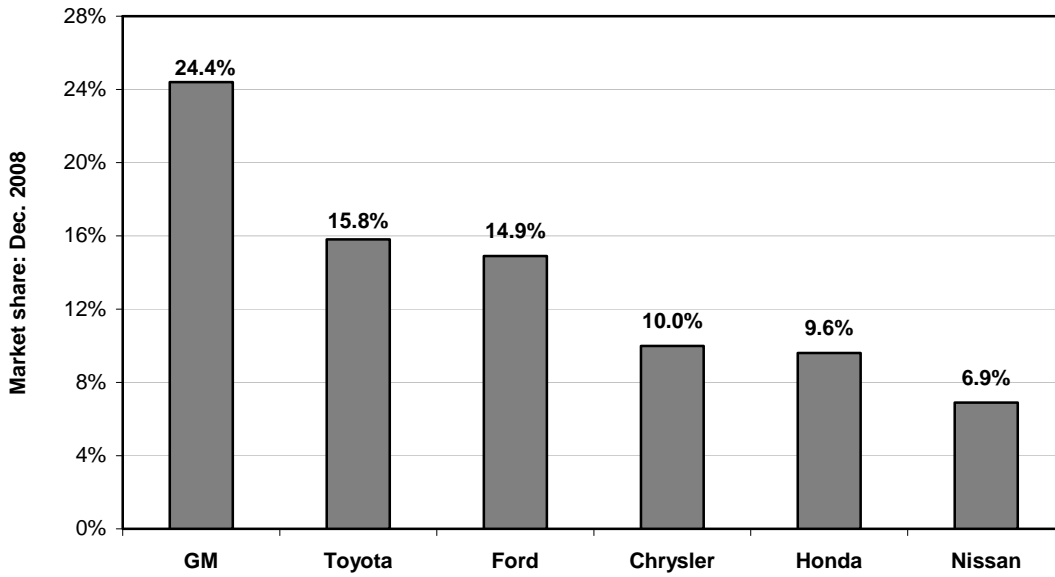


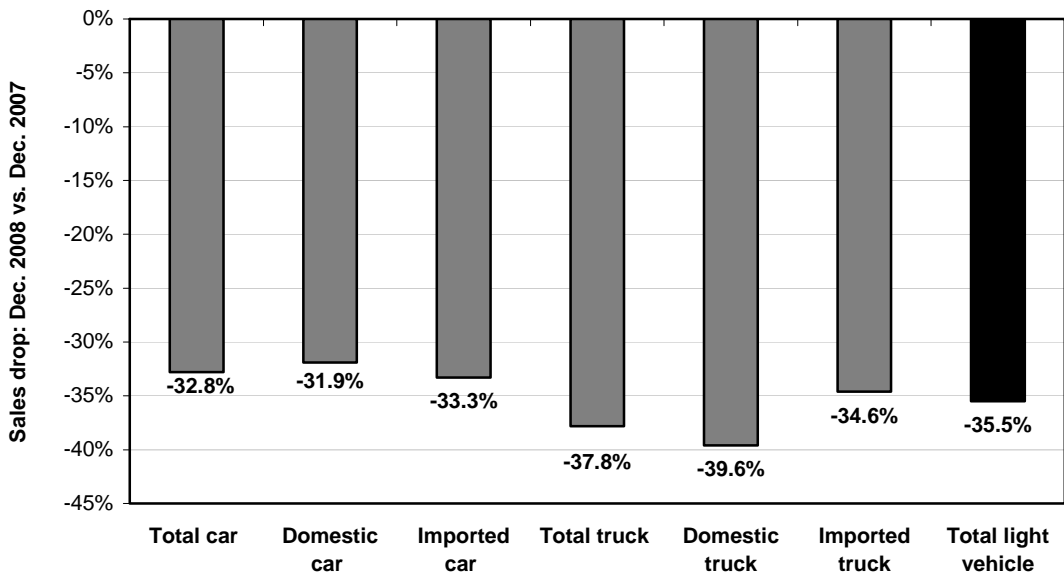
Figure 3: Market Share More Evenly Divided



Note: Together, these six firms control 81% of the US light vehicle market

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Figure 4: Light Truck Sales Hit Somewhat More Than Cars, But Not Dramatically So



Note: Trucks refers only to light trucks like minivans, SUVs and pick-ups

Figure 5: Car Share Gains Less Than 2% vs. Trucks

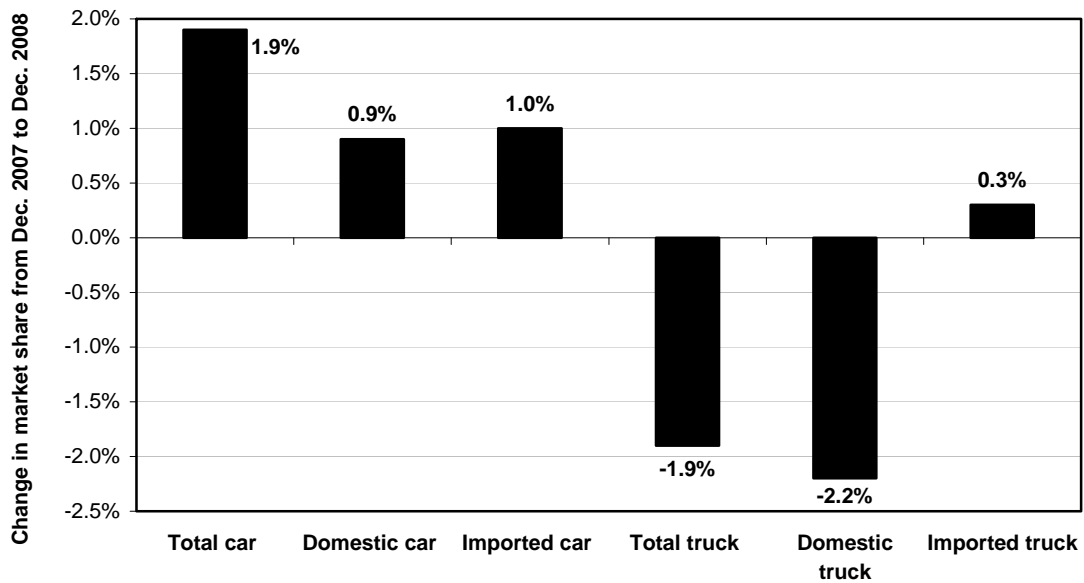


Figure 6: Detroit, Especially Chrysler, Ultra-Dependent on Light Trucks

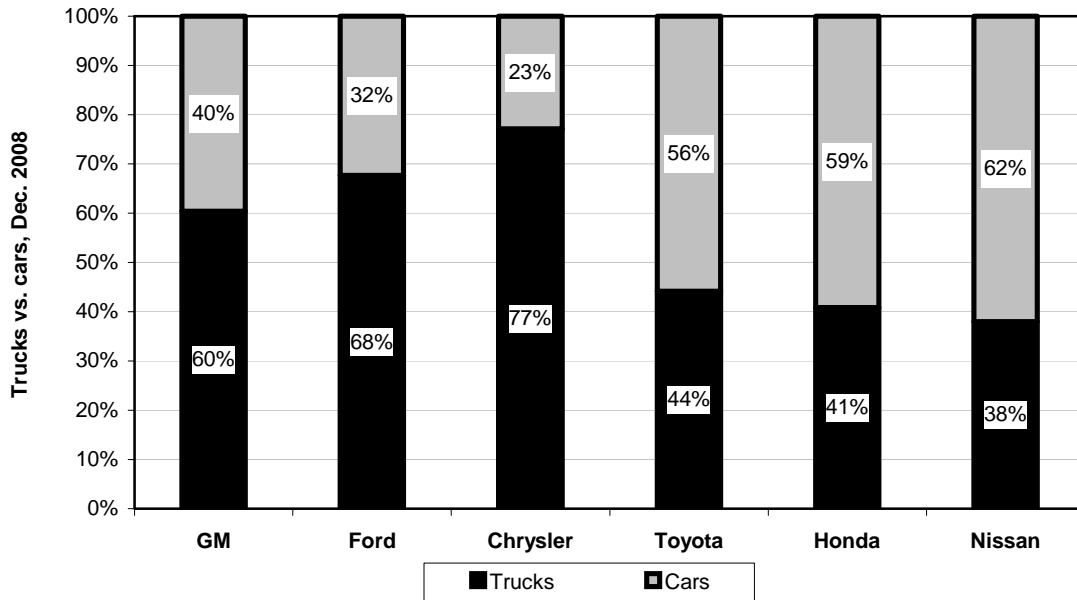
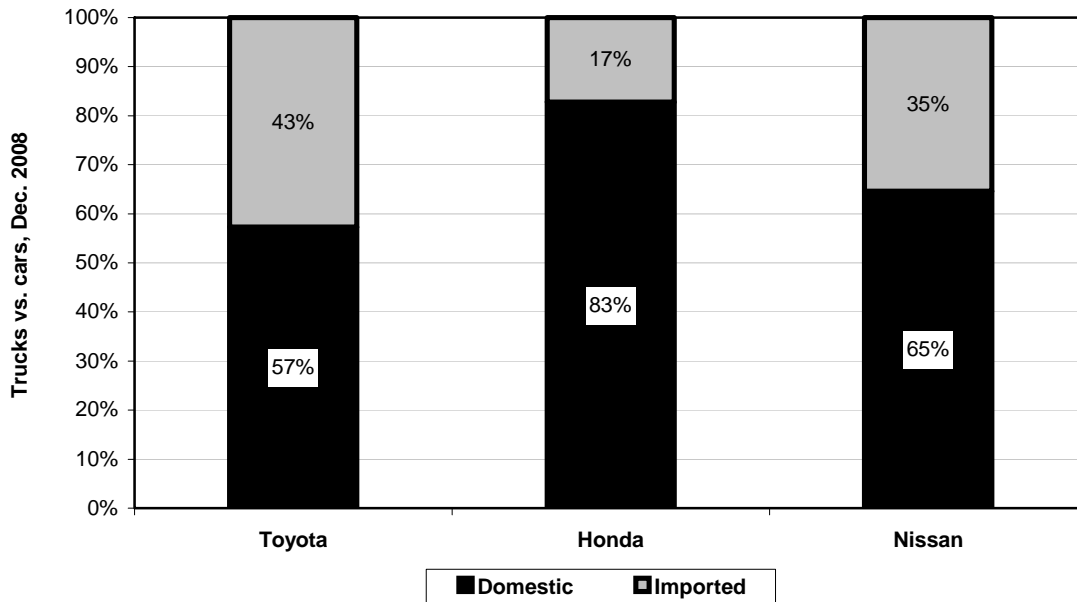


Figure 7: Most Japanese Cars and Trucks Assembled in North America



Note: Domestic vs. imported refers only to final assembly, not the domestic content; parts for domestic cars can be imported, as much are for the Detroit Three's domestically-assembled vehicles; domestic means the US and Canada, not just the US.

Figure 8: Detroit Three North American Content Not Much Higher than Foreign Brands

