

## **Toyota Faces 20% Drop In Japan Industry Sales As Aid Ends**

Toyota Motor Corp. (7203) and Honda Motor Co. (7267) can thank government aid for helping auto industry sales grow faster in Japan than any major market this year. As state subsidies are about to run out, so may the euphoria.

Japan vehicle sales, after surging about 53 percent in the first seven months, will drop as much as 20 percent next quarter as the payouts expire, analysts at BNP Paribas SA and IHS Automotive said. Toyota is counting on a cheaper version of the Prius hybrid to sustain demand, while Nissan Motor Co. (7201) has said it will offer support to dealers.

About 88 percent of the 300 billion yen (\$3.8 billion) budgeted for subsidies has been consumed as buyers snapped up cars, underpinning an economic recovery that economists now forecast will fade. The end of state aid of as much as 100,000 yen per vehicle will be compounded by the government's plan to double the national consumption tax, prompting additional calls from carmakers for stimulus measures.

"The government will have to come up with ways to offset the negative impact of the consumption tax increase," said Yoshiaki Kawano, an analyst at IHS Automotive in Tokyo. Should the subsidies end by next month, sales in the three months starting Oct. 1 will drop as much as 20 percent, he said.

History shows carmakers have reason to worry.

After a government rebate ended in September 2010, vehicle deliveries plunged 29 percent in the following quarter, according to the Japan Automobile Manufacturers Association. In the year ended March 1998, domestic deliveries dropped 14 percent after the nation's sales tax was increased 2 percentage points to 5 percent in 1997.

'Very Worried'

Count Nobuhiro Miyazaki, manager of a Toyota dealership in central Tokyo, among those concerned.

“Sales are going to plunge for sure,” Miyazaki said. “We’re very worried that demand may fall as badly as two years ago when the last subsidies were used up.”

About 37 billion yen remained in the country’s auto-subsidy fund as of Aug. 14, according to the website set up by the agency in charge of the payments. The program started giving rebates for energy-efficient vehicles from Dec. 20, and the portion set aside for heavier trucks and commercial vehicles ran out early July.

In addition to calling for extended government support for sales, Japan’s biggest carmakers plan to rely on new models and customer support programs to draw buyers.

#### Global Lead

Toyota has introduced the lower-priced Aqua hybrid compact — known as the Prius c in the U.S. — along with some other models to help drive sales, said Joichi Tachikawa, a spokesman for the Toyota City, Japan-based company.

Japan accounted for about 27 percent of Toyota’s first-half sales, based on data compiled by Bloomberg and JAMA. That means a 20 percent drop in demand in the home market would reduce deliveries by about 5.4 percent. Growth in other countries, including the U.S., will probably enable Toyota to stay No. 1 in global sales, ahead of General Motors Co. (GM) and Volkswagen AG. (VOW)

“It would take some kind of pretty major development to knock them off course at this point,” said Kevin Tynan, automotive analyst for Bloomberg Industries in New York. “In the U.S. Toyota is still turning product very quickly, and it gives them enough room to grow sales. They are largely protected from the downturn in Europe, which is going to hinder GM, Ford and VW going forward, and they are doing well in emerging markets. This gives them an advantage in the global race.”

Toyota raised its forecast for full-year sales this month, saying deliveries may rise 23 percent to a record 9.76 million. Along with growth in China and Brazil, Toyota is doing well in Thailand, Indonesia and Middle East, said Efraim Levy, an equity analyst with Standard &

Poor's Capital IQ in New York.

#### Overseas Growth

“Slowing in Japan will be more than offset by growth in those markets,” said Levy, who upgraded Toyota’s American depositary receipts to buy on Aug. 17.

For Honda and Nissan — which made 22 percent and 16 percent of their first-half sales in Japan — a 20 percent drop in domestic sales would lower deliveries by 4.4 percent and 3.2 percent, respectively.

Honda’s introduction of vehicles including the new N-box minicar will help support sales after subsidies end, and no incentives or discounts are planned, Akemi Ando, a spokeswoman for the carmaker, said by telephone.

#### Nissan’s Compact

Nissan will offer support on a model-by-model basis at the dealer level, including price cuts on car navigation systems, said Chris Keeffe, a spokesman for the company. He declined to elaborate on other aid the automaker will offer dealers.

Nissan has repeatedly called on the government to extend subsidies and is introducing the new Note compact and the Serena S-hybrid minivan to spur demand.

“This Japanese market needs stimulus to continue to grow and compete on the world stage,” Andy Palmer, executive vice president at Nissan, told reporters in Yokohama, Japan, at a July 17 event to introduce the new Note. “We sincerely hope those kind of incentives will be continuing.”

Toyota and Honda are trading at the highest price compared with earnings among 14 peers in the industry, at about 36 and 23 respectively, data

compiled by Bloomberg shows. Nissan's ratio is 9.7, still higher than Ford Motor Co.'s 7.8 and Detroit-based GM's 7.4.

Government payments have helped make Toyota's Prius and Tokyo-based Honda's Fit the nation's best-selling cars. Toyota sold 215,028 units of Prius from January to July, about twice that sold a year earlier. Fit deliveries rose 44 percent to 157,498.

## Broader Economy

Norio Miyagawa, an economist at Mizuho Securities Research in Tokyo, said the looming slump in car sales may extend to the broader economy.

"Car sales supported gains in durable goods in the second quarter, but overall consumption was dull," Miyagawa said. "Consumer spending may decline in the fourth quarter as the boosts from the government's incentives will peter out."

Japan's mounting government debt, the world's largest, is also prompting concern payouts like subsidies for car buyers won't be renewed.

A new round of vehicle subsidies isn't likely to be introduced soon, Yuuki Sakurai, chief executive officer of Fukoku Capital Management Inc. in Tokyo, said by phone. The payouts may be revived eventually to offset the negative effect of legislation approved by Japan's parliament to increase consumption taxes, he said.

Japan's auto association and other industrial groups have also called for the end of two other levies on vehicles to boost domestic demand as the strength of the yen makes exports less profitable. Japanese car buyers pay as many as nine taxes to own a car, including an acquisition tax and a so-called weight tax.

## Taxes on Cars

Prime Minister Yoshihiko Noda's plan to double the consumption tax to 10 percent in 2015, after an interim increase to 8 percent in 2014, was

approved in the nation's parliament earlier this month.

“While we are grateful to have subsidies as short-term solutions, we need fundamental reviews of the taxes on cars,” Akio Toyoda, Toyota president and JAMA chairman, said July 19. “We hope the government can work to reform the taxation in a timely manner.”

Nissan Chief Operating Officer Toshiyuki Shiga said earlier this month that he believes the government will have to scrap or reduce the vehicle purchase tax before the sales tax is actually raised so that domestic sales will not be eroded.

Meantime, dealers including Miyazaki said they are looking to boost revenue from other sources as car sales drop.

“We will try to make up for the decline of sales by increasing car maintenance services,” he said. “But from a longer point of view, with the consumption tax raise in sight, the business will only get tougher.”