



# AUTO QUARTERLY

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NEWSLETTER OF THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION OF CANADA

## Kenji Tomikawa appointed Chairman of JAMA Canada



Mr. Kenji Tomikawa

On April 1, Mr. Kenji Tomikawa, President and CEO of Toyota Canada Inc., became the 8th Chairman of JAMA Canada succeeding Mr. Shigeru Takagi, formerly President of Honda Canada Inc., who has taken up new responsibilities at Honda's European office in Great Britain.

After graduating from Nagoya University with a degree in Economics, Mr. Tomikawa joined Toyota Motor Corporation (TMC) in 1970, starting in the Overseas Parts Department just as

Toyota began a period of explosive international growth. There he gained firsthand understanding of the complex logistical relationships between manufacturing, inventory control, distribution and marketing, and important insight into the new information systems technologies.

In 1988, following telecommunications deregulation in Japan, Mr. Tomikawa was assigned to International Digital Communications Inc. (IDC), a new telephone company in which TMC was a core partner. There, he developed the international business relationships crucial to IDC's success.

Mr. Tomikawa's next assignment, in 1992, was as Deputy General Manager of Toyota's Africa Division, building the infrastructure that would support growing sales in the South African market. In 1995, he was named Executive Vice President of Toyota Motor Philippines Corporation, where he supervised both sales and manufacturing, and Toyota's business in the Philippines more than doubled in just a year and a half.

Mr. Tomikawa first came to Canada in 1996, as Executive Coordinating Officer and assistant to then-President Yoshio Nakatani. Here, he learned the retail side of the automotive industry, developing the deep respect for both customer and dealer that motivates him today. He then spent a year as General Manager of TMC's Americas Division where he amalgamated activities in the 46 countries in North and South America where Toyota does business. This not only created a more efficient, customer-oriented structure, but enabled the growing Latin American markets to share the experience and resources of influential Toyota sales and manufacturing operations in Canada and the U.S.A.

Mr. Tomikawa returned to Canada in January 2002, as President and Chief Executive Officer of Toyota Canada Inc.

## Review of 1st quarter results: Production mixed as sales soften

For the first three months of 2004, new vehicle sales have been softer than most were expecting. Overall, the market in Canada is down 6.4% at the end of March, led by passenger cars which have dropped over 10%. Light trucks were off 1.7% for the quarter after gaining 5.4% in the month of March.

The sales tally for Japanese automakers as a group slid 2.2% in the 1Q to 99,514 units from 101,719 in 2003. Individually, Toyota, Mazda, Nissan, Suzuki and Subaru are in positive territory, while Honda and Mitsubishi have recorded fairly weak sales in the first three months, although the Acura Division of Honda is up nearly 12%. Japanese market share stands at 31.0%, unchanged from CY2003, but up from 29.7% in the 1Q of 2003.

Among the Big Three, sales at GM are up over 2% in 2004, while Ford is off more than 18% and DC is down 6%. European automakers recorded mixed results: Audi, BMW, Volvo, Porsche & Saab are up, but Volkswagen sales have plunged 40%, and Jaguar, Rover and Mercedes-Benz are all in negative territory. Hyundai and Kia are also struggling, down 20.5% and 28.1% respectively.

At the same time, combined production among Japanese affiliated plants (Honda, Toyota and CAMI) rose 11.2% in the first quarter of 2004 to 191,000 units, while output at US owned Big Three plants dropped 3.2% to about 490,000 units during the same period.

Among individual automakers, Toyota Motor Manufacturing Canada (TMMC) was solely responsible for the increase among Japanese plants as output soared 43.1% as a result of Lexus RX 330 production which began in September 2003. Honda and CAMI were marginally lower by 2.8% and 1.6% respectively in the first quarter.

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## Light Vehicle Sales in Canada, by Company

Company	Jan-Mar 2004			Jan-Mar 2003			% Change		
	CARS	TRUCKS	TOTAL	CARS	TRUCKS	TOTAL	CARS	TRUCKS	TOTAL
<b>HONDA</b>	19,453	7,738	27,191	23,321	9,252	32,573	-16.6	-16.4	-16.5
<b>N.A. Built</b>	17,709	4,420	22,129	21,584	5,318	26,902	-18.0	-16.9	-17.7
<b>Japan Built</b>	1,744	3,318	5,062	1,737	3,934	5,671	0.4	-15.7	-10.7
<b>TOYOTA</b>	23,456	9,695	33,151	24,026	8,404	32,430	-2.4	15.4	2.2
<b>N.A. Built</b>	15,396	5,604	21,000	12,610	3,315	15,925	22.1	69.0	31.9
<b>Japan Built</b>	8,060	4,091	12,151	11,416	5,089	16,505	-29.4	-19.6	-26.4
<b>MAZDA</b>	13,642	2,461	16,103	9,488	3,464	12,952	43.8	-29.0	24.3
<b>N.A. Built</b>	893	1,598	2,491	1,170	1,745	2,915	-23.7	-8.4	-14.5
<b>Japan Built</b>	12,749	863	13,612	8,318	1,719	10,037	53.3	-49.8	35.6
<b>NISSAN</b>	10,295	4,839	15,134	10,217	4,613	14,830	0.8	4.9	2.0
<b>N.A. Built</b>	8,868	1,954	10,822	7,267	1,098	8,365	22.0	78.0	29.4
<b>Japan Built</b>	1,427	2,885	4,312	2,950	3,515	6,465	-51.6	-17.9	-33.3
<b>SUZUKI</b>	1,521	745	2,266	1,344	680	2,024	13.2	9.6	12.0
<b>N.A. Built</b>	0	257	0	0	133	133	0.0	93.2	-100.0
<b>Japan Built</b>	1,521	488	2,009	1,344	547	1,891	13.2	-10.8	6.2
<b>SUBARU</b>	2,336	926	3,262	2,259	913	3,172	3.4	1.4	2.8
<b>N.A. Built</b>	1,198	41	1,239	1,296	61	1,357	-7.6	0.0	-8.7
<b>Japan Built</b>	1,138	885	2,023	963	852	1,815	18.2	3.9	11.5
<b>MINI</b>	1,489	918	2,407	3,231	507	3,738	0.0	0.0	0.0
<b>N.A. Built</b>	409	278	687	1,240	0	1,240	0.0	0.0	0.0
<b>Japan Built</b>	1,080	640	1,720	1,991	507	2,498	0.0	0.0	0.0
<b>TOTAL</b>	72,192	27,322	99,514	73,886	27,833	101,719	-2.3	-1.8	-2.2
<b>N.A. Built</b>	44,473	14,152	58,625	45,167	11,670	56,837	-1.5	21.3	2.7
<b>Japan Built</b>	27,719	13,170	40,889	28,719	16,163	44,882	-3.5	-18.5	-8.9

\* car sales include Mexican built

Source: AIAMC, DesRosiers Automotive Consultants Inc.

### Motor Vehicle Production in Canada

	Jan-Mar 2004	Jan-Mar 2003	% Change
<b>HONDA (HCM)</b>	102,811	105,775	-2.8
<b>TOYOTA (TMMC)</b>	74,481	52,047	43.1
<b>CAMI</b>	13,713	13,942	-1.6
<b>TOTAL</b>	<b>191,005</b>	<b>171,764</b>	<b>11.2</b>

Source: JAMA Canada

### Motor Vehicle Exports from Canada

	Jan-Mar 2004	Jan-Mar 2003	% Change
<b>HONDA (HCM)</b>	84,020	83,414	0.7
<b>TOYOTA (TMMC)</b>	58,426	29,444	98.4
<b>CAMI</b>	13,032	12,573	3.7
<b>TOTAL</b>	<b>155,478</b>	<b>125,431</b>	<b>24.0</b>

Source: JAMA Canada

### Vehicle Imports (Shipments) to Canada

	Jan-Mar 2004	Jan-Mar 2003	% Change
<b>JAPAN</b>	45,360	57,040	-20.5
<b>U.S./MEXICO</b>	40,138	33,965	18.2
<b>TOTAL</b>	<b>85,498</b>	<b>91,005</b>	<b>-6.1</b>

Source: JAMA, JAMA Canada

• Continued from page 1... Review of 1st Quarter Results

As for the Big Three, the overall results were down due to the closure in 2003 of the DaimlerChrysler van plant in Windsor. Production at both Ford and GM were up over last year.

The main reason why production in Canada remains relatively buoyant is due to the fact that demand in the US has been stronger than Canada. The vast majority of Canadian-built vehicles are destined for export markets, particularly the US. The Big Three exported over 94% of total unit production in the first quarter, while Japanese plants shipped about 81% of total output. Light vehicle sales in the US market are up 3.9% through the first quarter as a result of a 9.8% jump in light trucks, a number of which are built in Canada.

With weaker demand in Canada in the first quarter, vehicle shipments from Japan fell 20.5% to 45,360 units. At the same time, JAMA Canada members are relying more on sourcing from plants within North America as current expansions reach full capacity. As a result, imports from plants in the US and Mexico increased 18.2% in the first three months of 2004 to over 40,100 units.

## New President at Honda Canada: Hiroshi Kobayashi



Mr. Hiroshi Kobayashi

JAMA Canada extends a warm welcome to the new President of Honda Canada, Mr. Hiroshi Kobayashi, who took up his new responsibilities at the beginning of April. At the same time, we bid a fond farewell to his predecessor, Mr. Shigeru Takagi, who has moved to Honda's headquarters in Europe. Mr. Takagi was Chairman of JAMA Canada for the past two years, and we deeply appreciate his contribution and support.

Mr. Kobayashi joined Honda in 1978, and over the years has held various senior positions in Japan as well as in North America, Asia and Europe. His most recent assignment was Executive Vice President at Honda Motor Europe.



Hino celebrated their 30th anniversary in Canada in April by launching a new line of medium duty trucks for the 2005 model year.

## Hino Motors Sales Canada celebrates 30th anniversary

JAMA Canada congratulates Hino Motor Sales Canada, Ltd. which recently celebrated its 30th anniversary as part of the Canadian trucking industry. Based in Mississauga, Ontario, Hino's workhorse light and medium duty vehicles are tailor-made for Canada and sales have continued to show steady growth.

Hino Motors Sales Canada Ltd., is the exclusive Canadian distributor of Hino Trucks, and is also a part of the Toyota group of companies. Hino offers a complete line of medium duty trucks, supplying operators with class 4, 5, 6, and 7 mid-range (15,000 to 33,000 lbs. GVW) diesel trucks. While most Hino trucks currently on the road across Canada are 'cab-over engine' design, Hino will be introducing a new line of traditional designed trucks for the 2005 model year with enhanced performance and handling features along with advanced environmental technology.

## Commercial Truck Sales in Canada

### Medium and Heavy Duty (Class 4-8)

	2003	2002	% Change
<b>MEDIUM DUTY (Japanese)</b>	1,116	1,018	9.6
<b>Hino (Class 4-7)</b>	990	923	7.3
Percentage share (medium duty)	8.3%	8.0%	
<b>Mitsubishi Fuso (Class 4-7)</b>	126	95	32.6
Percentage share (medium duty)	1.1%	0.8%	
<b>MEDIUM DUTY (All companies)</b>	11,883	11,598	2.5
<b>HEAVY DUTY (Class 8 - All companies)</b>	22,481	20,341	10.5
<b>GRAND TOTAL - MEDIUM/HEAVY DUTY</b>	<b>34,364</b>	<b>31,939</b>	<b>7.6</b>

Source: Ward's, JAMA Canada

Hino, founded in 1910, is the largest manufacturer of medium and heavy-duty diesel trucks in Japan. Hino Trucks is an industry leader in the design of leading edge emission control technology and in the manufacture of environmentally friendly vehicles, which satisfy increasingly strict international emissions regulations.

All Hino trucks brought into Canada are currently manufactured at the plant at Hino City in Japan. Despite the distance between the two countries, delivery time is under 90 days as Hino maintains an inventory in Canada. The company has an established national network of dealers to meet customers' sales, service and parts needs. Since 1997, Hino diesel truck sales have increased dramatically in Canada, and reached a new sales record of 990 units in 2003.

Information on Hino's current product line is on the company web sites: [www.hino.co.jp](http://www.hino.co.jp) and [www.hinocanada.com](http://www.hinocanada.com).

## CAMI starts production of the 2005 Equinox



CAMI started production of the 2005 Equinox in February 2004.

On February 20, CAMI Automotive, the joint venture vehicle manufacturing plant between Suzuki and General Motors in Ingersoll Ontario, began production of the new 2005 Equinox. This is the first vehicle to be made at CAMI that has been largely engineered and developed in Canada for the North American market; however, the engine for the Equinox is currently being imported from China.

While the Equinox is being made exclusively for Chevrolet, a new 3-litre sport utility model for Suzuki will likely begin production next year, according to recent press reports. Meanwhile, CAMI has stopped production of the Suzuki Vitara and Chevrolet Tracker with the launch of the Equinox, whose annual output will likely be in the neighbourhood of 100,000 units.

When CAMI opened in 1988, available capacity was 200,000 units per year on two lines – 120,000 unit capacity for a subcompact passenger car (Suzuki Swift /Chevrolet Metro), and 80,000 unit capacity line for compact SUV production. In 1999, passenger car production was stopped due to soft demand in North America.

## Ontario unveils \$500 million auto investment strategy

In April, the Ontario Government announced a new \$500 million program designed to attract new auto assembly investment and to train highly skilled workers for the auto industry. Speaking at the 2004 Annual Conference of the Automotive Parts Manufacturers Association (APMA) in Hamilton, the Premier of Ontario, Dalton McGuinty said, "We're supporting Ontario's strong and productive automotive industry by investing in innovation and skills. Our goal is to have the best-educated, most highly skilled, productive workforce in North America – that's how we'll maintain Ontario's primacy in this most important industry."

The Ontario Automotive Investment Strategy is earmarked to support private sector investment with the following:

- Skills training to keep pace with new technologies and processes
- Innovation and research
- Improved infrastructure to support new manufacturing techniques, and
- Energy efficiencies and environmental technologies.

The government is providing support to auto assemblers and Tier 1 parts suppliers that demonstrate the need for public investments. Over the next five years, funding support will be available for auto manufacturing projects that are worth more than C\$300 million and create or retain more than 300 jobs.

The response from the auto industry was positive. Michael Grimaldi, President of General Motors of Canada and co-chair of the Canadian Automotive Partnership Council (CAPC) said, "This strategy responds with strong leadership to one of the top priorities studied and identified by CAPC. We commend the provincial government for taking the lead in helping the auto industry map out a prosperous future in Ontario."

Since the Auto Pact was repealed in 2001, the Canadian and Ontario governments have been heavily lobbied by the Canadian Auto Workers, as well as the Big Three automakers in Canada to create a new auto policy that would offer, among other things, financial incentives to automakers to invest or reinvest in Canadian plants. CAPC has been concerned about the size of the incentive packages that were luring new assembly investment to the southern US. Ontario's new auto investment strategy was clearly intended to respond to recommendations and requests from the CAPC.

While the Federal Government has not announced any new investment policy for the auto sector, the Federal Minister of Industry, the Honourable Lucienne Robillard, indicated at the 2004 APMA Conference that their 'strategic framework' for the auto industry would be ready by the end of this year, as the Minister is waiting for the final report of the CAPC Strategic Vision Working Group expected in June.

## Canada's automotive trade in 2003

As a result of softer demand domestically as well as in the key export market in the US, Canada's overall trade performance in 2003 for both imports and exports of vehicles and parts declined compared to the year before.

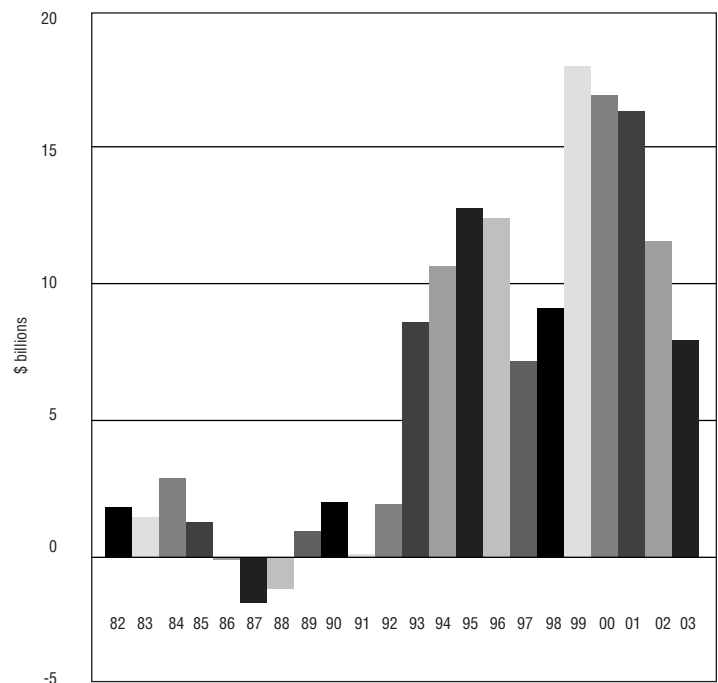
I. All countries: Overall, Canada's auto trade surplus in 2003 dropped 30.4% to \$7.9 billion from \$11.5 billion in the previous year. The value of vehicle and parts exports declined 9.2% as a result of lower production, while imports of parts and vehicles fell 6.3% compared to 2002. The trade surplus in finished vehicles stands at \$22.0 billion, down 25.3%, while the deficit in auto parts dropped 22.1% from \$18.1 billion to \$14.1 billion.

II. US: In trade with the US, the value of automotive exports lost 10.0% to \$81.3 billion, while imports decreased 7.2% to \$59.2 billion in 2003. Canada's trade surplus in assembled vehicles slipped 20.3% to \$32.6 billion, which was offset by smaller deficit in auto parts of \$10.4 billion, resulting in an overall trade surplus of \$22.2 billion, down 16.8% from 2002 at \$26.7 billion.

III. Japan: With respect to trade with Japan, the overall trade deficit shrunk 11.3% to \$5.67 billion as the value of imports of parts and finished vehicles dropped 11.4%. At the same time, automotive exports fell 15.3% to \$143 million in 2003. The decline in vehicle shipments from Japan to Canada was a result of new capacity coming on stream in North America.

IV. Other: Auto trade with all other countries combined increased with respect to both exports and imports, up 22.9% and 1.9% respectively. Exports grew as a result of a 63.0% rise in the value of finished vehicle shipments, while imports of vehicles rose 3.6% and imported parts were down slightly. The overall auto trade deficit with all other countries was reduced by 3.4% to \$8.6 billion in 2003.

### Canada's Automotive Trade Balance - 1982-2003



## 2004 JD Power Initial Quality Study results

The results of the 2004 Initial Quality Survey from J.D. Power & Associates show that Japanese-brand vehicles continue to lead all other global brands with an average of 111 problems per 100 vehicles, an improvement of 32% over the previous year. By comparison, US domestic brands had a rating of 123 problems for every 100 vehicles during the first 90 days of ownership; European brands were at 122, while the Korean brands were at 117.

Now in its 18th year, the 2004 Initial Quality Study is based on responses from more than 51,000 purchasers and lessees of new 2004 model-year cars and trucks in the US, who were surveyed after 90 days of ownership. IQS measures a broad range of quality problems, heavily weighted toward defects and malfunctions, quality of workmanship, drivability, human factors in engineering (i.e. ease of use) and safety-related problems. Among these categories, the area that accounts for the greatest product improvement since 1998 are defects and malfunctions, down from 61 to 40. Further, those that are related to safety show a 44 percent improvement – from 25 down to only 14.

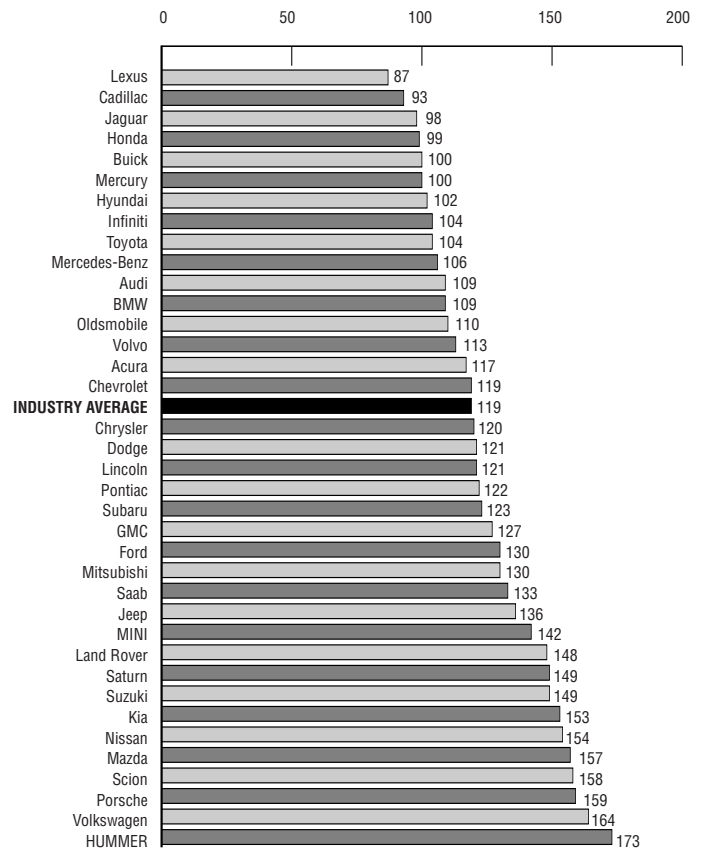
Among nameplates in the IQS, Lexus came first for the fourth year in a row with 87 problems per 100 vehicles, while Honda (99), Infiniti (104) and Toyota (104) nameplates ranked among the top ten.

For the 2004 plant awards, the Toyota Tahara plant in Japan won the Platinum Award (Best in World) for vehicles produced for the US market (Lexus GS300, GS430 and LS430 models) with a score of 53. The Honda Sayama plant in Japan (Acura RL, TSX and Accord models) won the Silver Award with a score of 75, and Toyota's plant in Higashi-Fuji took the Bronze Award for Asia (Lexus SC and Toyota Celica) with a score of 78.

In North America, Toyota Motor Manufacturing Canada (TMMC) South Plant (which makes the Lexus RX 330) was ranked fourth in a tie with three other NA plants with a score of 93.

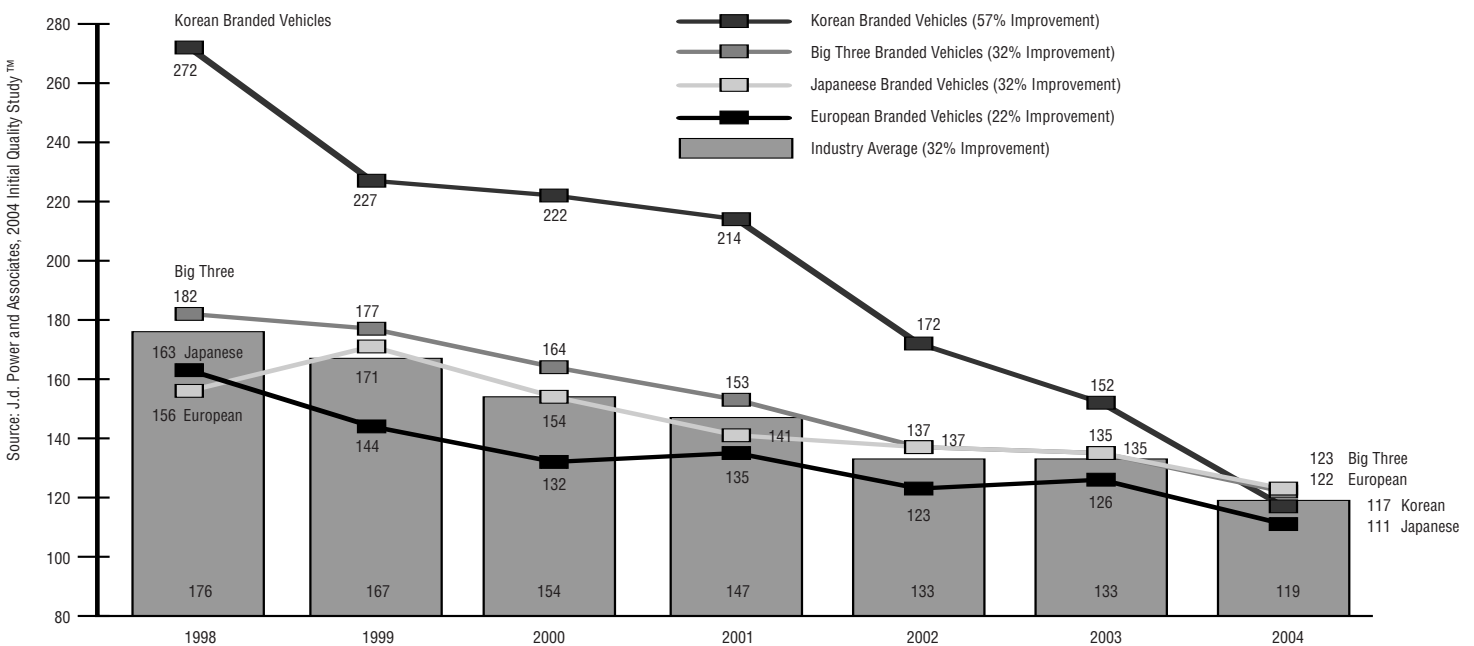
## 2004 Nameplate IQS Ranking

Problems per 100 vehicles



Source: J.D. Power and Associates, 2004 Initial Quality Study™

## Initial Quality of Domestic and Import Branded Vehicles, 1998-2004





## Will Industry Forecasts Finally Be Wrong?

No sooner had the Japanese automobile industry forecast a mere 0.9 percent growth for the vehicle market this year, then the January 2004 results jumped 6 percent over the previous year. This is an excellent start for the year, particularly considering that vehicle sales in Japan have been stuck at the same level of about 5.8 to 5.9 million units since 1998, down some 2 million units from the record sales year of 1990. Last year vehicle sales increased only 0.6 percent to 5.83 million units in line with the 0.7 percent industry forecast made at the end of 2002.

The question now is whether the positive start for the market will gain momentum during the coming months and end 2004 substantially above forecast. Last year, for example, sales increased 4.3 percent during the first three months but then fell during the remainder of the year despite a boom in the heavy-duty truck market. There are, however, some positive signs over the past several months that suggest a change from previous patterns and support an optimistic outlook for the year:

- Japan's economy grew at a real annual rate of 7 percent in the fourth quarter of last year. Personal consumption is still lagging, but business confidence and non-residential fixed investment have been increasing. The Bank of Japan's business confidence index in the last quarter of 2003 was the highest it has been since early 1997. Machinery orders rose 18.4 percent in December compared to December of 2002 and housing starts increased 9.4 percent. The unemployment rate fell in December to 4.9 percent from 5.1 percent in November. Earlier in the year the unemployment rate had been at a record 5.5 percent.

- While overall vehicle sales have remained flat, there have been some significant changes within Japan's market. Japan Auto Trends has reported the boom in the mini car market over the past 5 years. Now it appears that large passenger cars are finally beginning to recover from a 6-year slump. Large car sales, having fallen 25 percent from their 1996 peak to a 2002 low, increased 14.1 percent in 2003 and are forecast to increase about the same amount again this year.

- Finally, there is a new dynamic in Japan's automobile industry not yet recorded in the numbers. This includes internationalization of the industry, a host of new products, the introduction of gas/electric hybrid cars, and the development of fuel cell vehicles for the future. More recently manufacturers are focusing on new safety features to protect both occupants and pedestrians.

### The Future

Last year Japan's consumers continued to hold back on personal spending, which is one of the reasons for the basically flat forecast for 2004. Other indicators present a somewhat brighter future, noteworthy among them being the robust level of corporate investment, an increase in employment and a healthy jump in January auto sales. The year is still young and the results from one month alone are not sufficient for the industry to adjust its conservative prediction.

Nevertheless, little in economics, much less in a dynamic auto market, remains the same for long. It is time for change and 2004 may well be the year that auto sales in Japan exceed the industry outlook. This would be a welcome change.

## GM to stop selling Isuzu vehicles in Canada

Sales of Isuzu brand vehicles have been falling precipitously in the past year or two, so it is not surprising that General Motors of Canada will stop selling Isuzu trucks and sport-utility vehicles (SUV). General Motors owns a 49% equity share of Isuzu Motors, Ltd., and GM Canada has distributed Isuzu vehicles through former Passport dealerships, and more recently through Saturn-Saab-Isuzu (SSI) dealerships in Canada.

GM Canada has decided, along with their SSI retail dealerships, to focus on future products from Saturn and Saab only. Isuzu sales in Canada were 1,489 units in 2001, 732 units in 2002 and only 20 units in 2003.

Up to now, Isuzu made the SUV, Saturn sold the small-family vehicles and Saab sold Swedish cars. But in a GM product move to take greater advantage of its various models, Saturn and Saab are now scheduled to receive variations on the mid-size SUV from GM.

Saab is also going to do a crossover version of the 9.3 and Saturn already has the Vue SUV, thus eliminating the need for Isuzu. According to an official at GM Canada, there was "limited demand" for the Japanese-built Isuzu products thanks to transfer prices and the exchange rate.

While there are no rules about how long a company has to maintain a service network for what the industry calls an orphan brand, provision has been made for parts, service information, service equipment and trained personnel to accommodate the almost 3000 current Isuzu owners in Canada. In addition, GM has sent current Isuzu owners a coupon for \$2,000 off any Saturn or Saab in the next three years, or \$1,250 off a GM product in the same period.

Motor Vehicle Industry in Japan		
Passenger Cars, Trucks, Buses		TOTAL
PRODUCTION <sup>1</sup>	Jan-Mar 2004	2,770,162
	Jan-Mar 2003	2,699,423
	% change	2.6
EXPORTS <sup>2</sup>	Jan-Mar 2004	1,190,085
	Jan-Mar 2003	1,172,034
	% change	1.5
SALES/ REGISTRATIONS <sup>3</sup>	Jan-Mar 2004	1,788,009
	Jan-Mar 2003	1,729,118
	% change	3.4
IMPORT VEHICLE SALES <sup>4*</sup>	Jan-Mar 2004	73,379
	Jan-Mar 2003	72,739
	% change	0.9

\* (including models built by Japanese automakers overseas) source: 1-2-JAMA; 3-JADA, JMVA; 4-JAIA