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Analyst Blog

Japan Quake Ravaging Auto?

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The twin disaster and the nuclear crisis in Japan have thrown the global automotive industry out of gear. The auto parts supply chains have paralyzed, triggering production shutdowns, work shift reductions and cancellation of orders. However, analysts and experts fear that the worst is yet to come!

Japan accounts for about 13% of the worldwide automobile production with U.S. being its largest market. Production of as many as 40 auto parts manufacturer in the country has been jeopardized due to plant outages and power shortages following the earthquake.

Another crisis that the auto parts supplied from Japan poses is their uniqueness. Most of the auto parts sourced from Japan are unbelievably complex and specifically tailored. As a result, finding substitutes for such customized components becomes very difficult. Moreover, it is extremely painful to shift the production of these parts to unaffected areas, where Japan has excess auto parts supplying capacities. Let us see how the world's largest markets are affected.

Japan

Toyota Motor Corp. (TM - Analyst Report) has suspended vehicle production at its 11 plants in Japan since March 14. As a result, it has lost production of about 140,000 vehicles till date. However, it has started producing auto parts at 7 domestic plants from March 17.

The automaker now plans to resume production of its highly sought after Prius hybrid and two other Lexus hybrids, HS 250h and CT 200h, from March 28. The company decided to suspend production at 9 other plants until Saturday.

Honda Motor Co. (HMC - Analyst Report) has ceased production at six plants in Japan soon after the earthquake. It has extended production suspension to March 27 from March 23 at all the plants except two. The automaker has extended closures at those two car-assembling plants in Saitama and Suzuka until April 3. On the other hand, it will start producing motorcycles from March 28.

Honda has been considered the most affected automaker from the twin disaster. It has 110 suppliers, who are located in the earthquake zone itself. Among them, 10 suppliers are still in the dark about restarting their operations. Due to these reasons, Honda decided to suspend orders for May from U.S. recently for vehicles manufactured in Japan.

Nissan Motor Co. (NSANY - Analyst Report) has suspended production at 6 plants until March 20. The automaker has resumed production of its popular Leaf electric cars, which are manufactured entirely in Japan at its Oppama plant. Before the earthquake, the company has managed to ship 600 Leafs to the U.S. on March 10. Nissan has also started operations at its Zama battery plant.

Nissan revealed that production at the plants will largely depend on the frequency of power shortages. It has conceived the idea of shipping six-cylinder engines from its Decherd, Tennessee plant in the U.S. to its home country in order to compensate for the lost production at its Iwaki engine plant.

North America

Among the Japanese automakers, Nissan, Honda, Mazda and Mitsubishi asserted that they have no plans to disturb their production levels. However, Toyota has suspended overtime shifts and production on Saturday at its 13 plants in the region. Meanwhile, Subaru froze overtime shifts at its Lafayette plant in Indiana.

Among the U.S. automakers, **General Motors Co. (GM)** is the only one to be affected by the calamity so far. It halted production at an engine plant in Buffalo, New York, and has temporarily laid off 59 of its 623 workers.

The Buffalo facility supplies engines for compact pickups, Chevrolet Colorado and GMC Canyon, assembled in Shreveport, Louisiana. The Shreveport facility was shut down last week and GM transferred the electronic parts from the same to its Kansas City plant, where it assembles the highly profitable lineups, Chevrolet Malibu and Buick LaCrosse sedans.

Europe

Dark clouds come heralding over Europe. Authorities are worried about production returning to normal levels as it may take months and cost the industry billions of euros. According to Lars Holmqvist, head of the region's Clepa auto suppliers association, European automakers are yet to feel the storm until the next few weeks as local supplies of vital auto parts such as semiconductors and infotainment systems dries up.

Situation has become unnerving to such an extent that German automakers have begun enquiring about government support that laborers can access if they halt assembly lines in the absence of vital components that are sourced from Japan. Nuremberg-based Federal Labor Agency has already started seeing shorter workweeks as the backlash of the earthquake.

Volkswagen, Europe's largest automaker, has already reduced work shifts at its main plant in Wolfsburg. On the other hand, production of Peugeot and Citroen models by the second largest automaker, PSA Peugeot Citroen, is expected to fall by as much as 60% due to a shortage of diesel engine parts from **Hitachi Ltd.** ([HIT - Snapshot Report](#)). Both the automakers are likely to halt production in coming weeks due to shortage of parts.

These apart, Bayerische Motoren Werke AG ("BMW") and Daimler AG have been struggling with tight availability of parts as they operate plants at high capacity levels to meet orders on time.

Among the U.S. automakers, GM has idled two compact car plants and its Opel division called off shifts at plants in Germany and Spain due to the lack of an electronic component. On the other hand, **Ford Motor Co.'s** ([F - Analyst Report](#)) unit in Cologne, Germany has been contemplating on applying for shortened hours at its plant.

Among the auto parts manufacturers, both Robert Bosch GmbH and Continental AG and Volvo cars (owned by China's Zhejiang Geely Holding Group Co.) are likely to face supply shortfalls in the coming weeks. Volvo sources about 10% of components from as many as 30 suppliers in Japan.

The Premonitions

Lexington, Massachusetts-based research firm, IHS Automotive estimated that the industry will be ticking a loss of 335,000 vehicles by the end of the week due to the earthquake. The firm also predicted that the catastrophe could result in reduction of global automobile production by 30% or 100,000 vehicles per day from 280,000 to 300,000 vehicles per day if the affected parts making plants in Japan do not become operational within 6 weeks.

The numbers are expected to reach a disturbing level if automakers fail to find alternative sources of auto parts supply. The firm has forecasted that the industry would lose 1.2 million–1.8 million vehicles by the third week of April and 3 million units within 8 weeks, with about half of them emanating from assembly plants outside Japan. In a worst-case scenario, the loss would climb up to 5 million vehicles.

Michael Robinet, Vice President of HIS, revealed that automakers can compensate the production loss for one week with 6 weeks of overtime. However, Japanese automakers may not be able to retrieve the lost output in 2011. No doubt, the industry is about to face the biggest challenge after the global economic crisis in late 2008 that had almost left it to crumble.