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Japan's Vehicle Market Improves Slightly During Fiscal 2002

Car Sales Increase; Truck Sales Decline

COMMENTARY

FLAT MARKET HIDES NEW DYNAMICS



William C. Duncan, Ph.D.
General Director, JAMA USA

The Japanese vehicle market has been flat for some time. At least that's what our numbers tell us. For the last 5 years, sales have been constant at about 5.9 million units. This compares with 6.7 million in 1997 and a record 7.7 million in 1990. For the fiscal year ending March 31, 2003, sales were up only 0.8 percent from the year earlier (see article, page 1). However, these anemic numbers are hiding new dynamics developing in Japan's auto market.

First, overall vehicle sales in Japan are flat due to a decline in commercial trucks, which for the fiscal year ending in March fell 13 percent. By contrast, passenger cars grew at 5.6 percent. March car sales jumped 10 percent as buyers rushed to beat the expiration of a tax incentive (see article, page 1). This overselling in March brought a pull back in April, but even so, cars have clearly been on the upswing. Furthermore, even growing car sales have yet to fully reflect the new competitive dynamics of the market. Consider the following:

- Foreign equity ownership and management participation are bringing new models to the market as well as bringing cost savings to manufacturers through the use

COMMENTARY—Continued, Page 2

Japan's vehicle market barely managed a gain of 0.8 percent in the fiscal year that ended in March.

The continued softening of Japan's truck market, which dropped 13 percent during the fiscal year, contributed to the anemic performance, an analysis of sales data shows. While truck sales declined, passenger car sales actually rose 6 percent primarily because of the introduction of new models, including the Toyota ist*, the Nissan March and the Cube, and the Mazda Demio.

Sales in the month of March alone also played a major role in lifting sales for fiscal 2002. That month, domestic sales of passenger cars in Japan rose 10.2 percent, compared with a 4.8 percent decline in truck sales.

Industry analysts attributed the surge in passenger car sales during the month of March to consumers who rushed to showrooms to take advantage of the Japanese government's emissions-based tax break, which expired at the end of March 2003. This tax break came in the form of a credit against the 5 percent "acquisition tax," a kind of luxury sales tax on the base price of the vehicle at the time of purchase (see www.jama.org, *Japan Auto Trends*, March 2003, Volume 7#1, page 1).

Japanese lawmakers first implemented the incentive program to encourage the purchase of low-emission, fuel-efficient

*Toyota spells the ist with a lowercase i.



The fast-selling Nissan March contributed to Japan's slightly improved vehicle market.

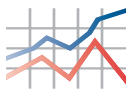
models. However, they decided to scrap the program on all but the ultra-low emission vehicles (ULEVs), such as the Toyota Prius and the Nissan Bluebird Sylphie, because the incentives had created a significant budget shortfall. As originally conceived, the program included many of the most popular models on the market today.

Lower-than-normal sales then followed. In April 2003, passenger car sales dropped 7 percent from the previous year. On balance, however, total March and April 2003 sales exceeded March and April 2002 sales by 4.2 percent.

2003 Outlook Uncertain

Given the fluctuation in passenger car sales and the continued decline in truck sales, analysts are having a difficult time predicting the rest of the year. One securities analyst told

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of common platforms, consolidation of parts supply and technology sharing. For example, GM's Opel division recently introduced the "Zafira," a SUV model built by Fuji Heavy Industries. Nissan shares vehicle platforms with Renault and markets Renault models through Nissan dealerships in Japan.

• Consumers are expecting more frequent model introductions and new gadgets to go with them. A recent survey (see article, page 2), for example, shows that sports car models must be reintroduced at least every 2 years in order to maintain steady sales. There has also been a boom in new mini-car models, many of which now come with luxury options not seen before in this class of economy car. Daihatsu, for example, is introducing a new laser-guided cruise control that automatically lowers and raises the speed of the car depending on the size of the gap between the car and the car ahead. All this is capturing consumer attention.

• Over the past few years *Japan Auto Trends* has featured developments in fuel efficient and environmentally friendly cars in Japan (see www.jama.org, *Japan Auto Trends*, Subject Index). Now we are beginning to see these developments translated into sales. For example, in the last fiscal year, total sales of vehicles powered

by natural gas, electricity, methanol and hybrid technology were about 20,000 units. Meanwhile, the number of vehicles defined as low polluting by the Government of Japan (largely gasoline powered small cars), has grown from 21 percent to more than 60 percent of the market over the last 2 years.

Future

Given the flat performance of the vehicle market, it is not surprising that some analysts hesitate to forecast market growth. However, these analysts may not be considering the new dynamics driving the market. New models, exciting new features, and clean cars powered by advanced technologies all at reasonable prices are igniting consumer enthusiasm. These forces will likely be translated into higher sales in this and following years.

Your thoughts and views about this commentary are welcome. Please send them to me at wd@jama.org or by fax to 202-872-1212.

Sports Car Market Improves

New Models and Moderate Prices Revitalize Sales

The sports car market has become a stronger segment in Japan's auto market due largely to the introduction of new models and the reintroduction of moderately priced versions of formerly popular models.

According to the *Fourin Monthly Report*, which covers Japan's domestic car market, manufacturers sold 99,567 sports cars in 2002, an increase of 21.2 percent from the previous year. Sales of new models, such as Daihatsu's Copen, and reintroduced classics, such as Nissan's Fairlady Z, increased by 6,000 units in 2002.

However, sales of sports cars that had not undergone a model change in more than 2 years fell dramati-

cally, the report said. Historically, sports car sales are sensitive to outdated model designs. As a result, manufacturers must provide a constant stream of new models to retain the lead in this market, analysts say.

This appears to be driving the corporate marketing plans of at least two Japanese automakers. Mazda, for example, began in May selling its moderately priced Mazda RX-8, a four-door, four-seater sports car powered by the company's all-new rotary engine. Starting at about 2.4 million yen (\$20,000) in Japan, the RX-8 is expected to

generate about 1,000 sales per month in Japan. Eventually,

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Snapshots of Japan's Popular Sports

▶ *Daihatsu introduced the Copen mini in 2002, and within one month had received 5,000 orders.*



▲ *Referred to as the "spirit of Nissan," the company's reintroduced Fairlady Z is priced substantially lower than competitors in the same class.*





JAMA NEWS

the RX-8 will be sold in about 30 countries.

Nissan reintroduced a revamped Fairlady Z last year and priced it substantially lower than its competition. Analysts believe the new styling, performance and competitive pricing of about 3 million yen (\$25,000) are all contributing to the model's success. Looking to the future, Nissan has indicated that it would put its Skyline GT sports car back on the market.

Demand for sports cars appears particularly strong among male drivers in their 30s. According to a survey published in the April edition of the *Fourin Monthly Report*, 5.5 percent of male drivers in their 30s own sports cars compared with 3.6 percent of male drivers in their 20s and 2.0 percent in their 40s. Overall, about 4 percent of male drivers drove sports cars compared with only 0.7 percent of women. ♦

JAMA World Motor Vehicle Statistics Book Now Available

JAMA's *2003 World Motor Vehicle Statistics* is now available. The book covers worldwide vehicle and motorcycle statistics for production, new registrations, vehicles in use, exports and imports. A copy may be obtained by contacting JAMA USA at 202-296-8537 or by email at statistics@jama.org. ♦

JAMA Welcomes 15th Member

Mitsubishi Fuso Truck & Bus became the 15th member of JAMA on April 1. The company is a spin-off of Mitsubishi Motors, which created the new entity as a wholly owned subsidiary in January (see Executive Highlights, page 6). ♦

JAMA Sponsors Lecture on Globalization by Nobel Prize Winner Joseph Stiglitz

Nobel Prize-winning economics professor Joseph Stiglitz was the featured speaker March 13 at the 4th Annual JAMA Lecture on globalization at George Washington University's Elliott School of International Affairs in Washington, D.C. Although economic development can benefit from globalization, many view it negatively and for good reason, said the Columbia University professor. "There is a lot of discontent with globalization and the underlying reason for that discontent is that it has not delivered on what it has promised," Stiglitz told the standing-room-only crowd. He attributed this to "enormous inequity in the rules of the game and in the way the international institutions are managed." Stiglitz helped to create a new branch of economics—"The Economics of Information"—and won a Nobel Prize in 2001 for his work in this area. His lecture was titled after his latest book, *Globalization and Its Discontent*. ♦

3

Car Models



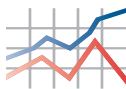
▲ *Mazda's RX-8 is a completely remodeled product from the version first introduced 12 years ago. Powered by an all-new rotary engine, the four-seater is moderately priced at about \$20,000.*

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Japanese Automakers Invest in Diesels

Advanced Technology Expected to Increase Demand For Diesels

Japanese automakers believe that the diesel market will grow worldwide as demands increase from consumers and governments for environmentally cleaner and more fuel efficient forms of transportation.

Consequently, Japanese automakers are strengthening their diesel programs. At the Geneva Motor Show this past March, for example, Toyota, Nissan, Honda, and Mazda unveiled new diesel engines and announced plans to make more diesel-powered models available to European consumers. The European diesel market has risen rapidly over the past 10 years, reaching 40 percent of all passenger car sales.

Auto industry officials attribute the increase largely to the improved driving performance of the latest generation of diesel engines. Furthermore, diesel-powered vehicles tend to be more fuel efficient than their gasoline-powered counterparts. The newer technology has enhanced these advantages and made diesels the engine of choice for luxury cars in Europe. For example, more than 80 percent of luxury passenger car sales in France, Belgium and Austria are diesel powered.

In Japan, however, automakers sell only a small number of diesel-powered



As in the U.S., commercial trucks and buses dominate Japan's diesel market. In recent years, manufacturers have invested significant resources into developing environmentally "friendly" models, including this diesel-electric bus produced by Hino Motors.

passenger cars (see chart). This may well change in the future. Meanwhile, clean diesels are expected to play an important role in the Japanese truck market over the next several years for two reasons. First, improved fuel efficiency in the truck and bus fleet will significantly help to lower greenhouse gas emissions in the fight against global warming. The Japanese government is seeking to meet its obligations under the Kyoto Protocol by reducing carbon dioxide and other greenhouse gas emissions an average 6 percent below the 1990 level for the period 2008-2012. Carbon dioxide emissions are directly related to fuel consumption.

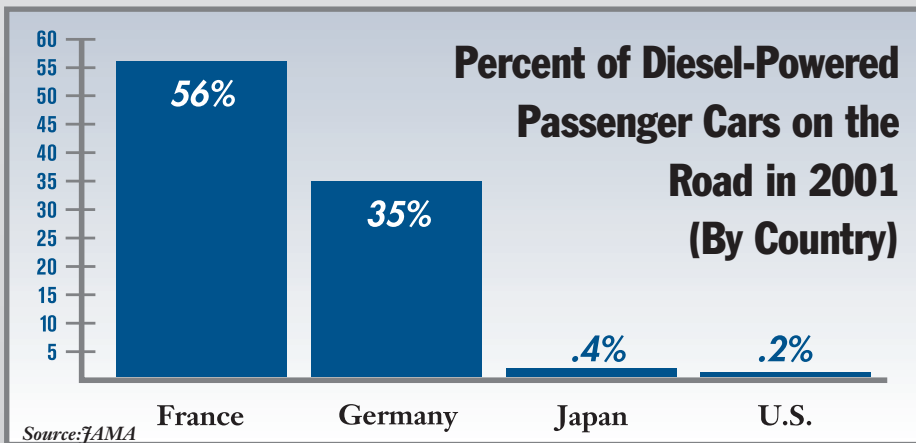
New diesel technology will also go a

long way to improving diesel truck emissions, which have been a particular target of the Tokyo city government and new national regulations. It is estimated that in the course of a year in Japan, buses carry some 5 billion passengers and trucks make about 2.6 billion individual deliveries. To reduce emissions from these vehicles, the Japanese government has imposed strict new emission standards to be implemented in 2005.

Japanese manufacturers are intensifying their research and development into diesel technology for application in Japan and markets around the world. They also are looking for ways to overcome public resistance to diesels through public relations programs designed to promote the advantages of the new clean technology.

At a special meeting held during the Paris Motor Show last year (see www.jama.org, *Japan Auto Trends*, January 2003, volume 6#4, page 1), the chief operating officers of the world's auto manufacturing companies said they would communicate the benefits of clean diesels to both government officials and consumers in the U.S., Japan, Europe and elsewhere. ♦

4





What's in a Name?

Japanese Draw on Rich Sources for Vehicle Names

Car naming is serious business in Japan, where automakers introduce about 20 new models a year.

For those who have the job of creating names for the annual introduction of new models, the task is made more difficult by the fact that manufacturers already trademarked 100,000 names

and some companies, like Nissan, own the trademarks to more than 10,000.

So what's a car-namer to do?

Though German manufacturers prefer numbers and letters, the Japanese seem to draw from a variety of sources, including their own interpretation of western culture, place names and languages. The underlying rule is that the name must appeal to customers, while also capturing the essence of the car, explains a Japanese auto marketing official.

From Toyota, the market has seen the Altezza, Nadia, Gaia and Raum, inspired by languages spoken in Italy, Russia, Greece and Germany, respectively. Latin, too, is a rich source. Consider the Acura,



▲ *Mazda turned to the English language for inspiration when it named this model the Bongo Friendee.*

Lexus and Altima.

Invented names based on a foreign language are as popular as real words. Examples include the Toyota Vitz derived from the German word "witz," which means brilliance, and the Mazda Bongo Friendee, which comes from the English word "friendly."

Borrowing from other cultures hasn't always been popular. The first president of Fuji Heavy Industries, Kenji Kita, had a few strongly held opinions on the subject. "If you're going to build a car, build a full-fledged car. Japanese cars should have Japanese names," he once said. And in keeping with his philosophy, Kita named one of

his company's first cars the Subaru, the Japanese name for the Pleiades, a star cluster in the Taurus constellation. He also adopted the six-star cluster as the Subaru logo. ◆



▲ *Daihatsu named this vehicle the Naked.*

Future Design System to Ease the Design of Recyclable Vehicles

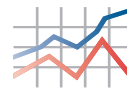
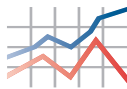
Nissan is now developing a system to help the company design easy-to-recycle vehicles, according to a Nissan media briefing earlier this year entitled "Nissan's Efforts on Recycling in Japan, the U.S. and Europe."

With its future computer system, Nissan engineers will be able to determine how changing a part, its material, or the way they attach the part would affect the way the vehicle is subsequently recycled. Nissan hopes to raise the recycling ratio of new vehicles to 95 percent in 2005 from the current 90 percent on a weight basis.

Currently, the Nissan March is 95 percent recyclable—one of the highest rates in the industry—due to its use of polypropylene and other easy-to-reuse materials. The company believes that its new system will help it more easily achieve that 95 percent goal for the rest of its product line-up.

The ease of recycling has become an important consideration for domestic and foreign automakers that sell vehicles in Japan. Under Japan's Automobile Recycling Law, which goes into effect in 2004, the vehicle owner at the time of disposal must deliver the vehicle to an authorized facility, where the vehicle's manufacturer will make sure it is properly recycled. The person who originally buys the vehicle pays a special recycling fee at the time of purchase. A non-profit organization manages the special fund.

Although dealers and scrappers already recycle about 5 million vehicles a year for their metals and other materials, Japanese lawmakers passed the law because of growing public concern over illegal dumping and the inappropriate treatment of waste. The new law is aimed at reversing that trend. ◆



EXECUTIVE HIGHLIGHTS

Wilfried Porth, President and CEO, Mitsubishi Fuso Truck & Bus Growth through Collaboration

One of the main topics on Wilfried Porth's agenda as President and Chief Executive Officer of the newly formed Mitsubishi Fuso Truck & Bus is facilitating the company's close cooperation with its principal stockholder, DaimlerChrysler.

By looking for joint programs and economies, Mitsubishi Fuso stands a better chance of maintaining its lead in the Japanese truck and bus market, while taking advantage of its potential in international commercial vehicle markets, Porth explained. In today's increasingly more competitive truck market, realignments and alliances are the name of the game.

Porth, formerly of DaimlerChrysler, took Mitsubishi Fuso's top job after Mitsubishi Motors spun off its truck division in January and established the independent truck manufacturing operation as a wholly owned subsidiary.

In March, DaimlerChrysler, which holds a 37 percent share of Mitsubishi Motors, acquired a 43 percent stake in the new Mitsubishi Fuso. By investing directly in Mitsubishi Fuso, the company made an important move in Asia. The investment is aimed at helping the company enhance its position as the world market leader over the longer term.

Porth indicated that he is ready for the



challenges of promoting profitability and global growth for Mitsubishi Fuso and DaimlerChrysler. Given his engineering background and sales planning experience, Porth seems well equipped for his new task.

He acted as head of Mercedes-Benz's Office of the CEO. He managed Mercedes-Benz's bus operations in Campinas, Brazil, where he restructured and integrated the operation and eliminated major operational losses. He set up a full-size production plant for Mercedes-Benz and Mitsubishi passenger cars in South Africa. He also headed executive management development at the DaimlerChrysler headquarters in Stuttgart, Germany.

Success, he said, would come from nurturing the alliance with DaimlerChrysler, which will allow the company to improve cost performance, quality control and overall product marketability. By cooperating, he said, the new company can expand global purchasing capabilities, jointly invest in new advanced technologies, collaborate on the development and sharing of vehicle chassis and components, and share common powertrains.

Porth is following through on his plans. Within just a few weeks of becoming company president, Porth announced that DaimlerChrysler's overseas dealership network could sell Mitsubishi Fuso products in the future. The strengthened focus on global markets may turn out to be Mitsubishi Fuso's vital advantage. ♦



Mitsubishi Fuso Truck & Bus tests its products at the Kitsuregawa Proving Ground shown in this aerial photo.

Japan's Vehicle Market Improves

Continued From Page 1

Reuters that the rise in fiscal 2002 didn't warrant much excitement. "Once the economy recovers, vehicle sales could come back to 6.5 to 6.6 million (1997 levels), but who knows when that will be."

Some analysts expect a 1 to 2 percent fall in sales, while other forecasters predict that sales will rise another 3 percent to around 6.1 million units. The key appears to be

continued growth in the passenger car market as well as recovery of the truck market, which is particularly sensitive to the overall economic and business investment climate.

In the continuing flat overall vehicle market, though, a few winners have emerged. Sports car sales are up (see related story, page 2). In addition, fuel

efficient and relatively inexpensive liter cars—those equipped with 1,000 cc engines—are selling well. They include the Nissan March, the Honda Fit and the Toyota Vitz. Sales of regular-sized cars—the market in which most imports occupy—fell 4.1 percent. That followed a 3.7 percent drop in 2001. ♦

WHAT'S HAPPENING IN THE MARKET

- Total import car sales rose 2.5% in an overall car market that rose 7.4%.
 - BMW sales increased 18% boosted by robust sales of the Mini Cooper.
 - The PSA Group of Peugeot and Citroen also rose a substantial 16.6%.
 - Imports of General Motors-related brands fell 46.4%.

NEW IMPORTED PASSENGER CAR SALES IN JAPAN: JANUARY THROUGH MARCH 2003 vs. 2002

	Percent Change 2003/2002	Total Cars 2003	Total Cars 2002
GENERAL MOTORS			
Chevrolet	-35.0%	775	1,193
Cadillac	-39.5%	150	248
Saturn	150.0%	5	2
Opel	-53.6%	1,305	2,812
Saab	-37.9%	221	356
Other	38.9%	25	18
SUBTOTAL	-46.4%	2,481	4,629
FORD			
Ford	-30.4%	1,251	1,798
Volvo	0.3%	3,835	3,822
Land Rover	6.8%	566	530
Jaguar	-9.0%	1,235	1,357
Aston Martin	175.0%	11	4
SUBTOTAL	-8.2%	6,898	7,511
DAIMLERCHRYSLER			
Chrysler	-4.4%	1,686	1,763
Mercedes-Benz	7.8%	12,128	11,246
Smart	-46.1%	1,082	2,009
SUBTOTAL	-0.8%	14,896	15,018
VW			
VW	-3.3%	16,788	17,365
Audi	4.0%	3,151	3,030
Other	-12.1%	29	33
SUBTOTAL	-2.3%	19,968	20,428
BMW			
BMW	-0.6%	8,505	8,557
Mini Cooper	169.8%	2,849	1,056
SUBTOTAL	18.1%	11,354	9,613
PORSCHE			
	-7.5%	528	571
RENAULT			
	15.1%	586	509
PSA			
Peugot	13.0%	3,823	3,383
Citroen	59.9%	443	277
SUBTOTAL	16.6%	4,266	3,660
FIAT			
Fiat	-40.3%	382	640
Alfa Romeo	-10.8%	1,686	1,891
Ferrari	0.9%	116	115
Other	-36.4%	14	22
SUBTOTAL	-17.6%	2,198	2,668
SUBARU			
	-37.5%	925	1,480
TOYOTA			
	643.8%	2,023	272
HONDA			
	103.1%	5,497	2,706
ISUZU			
	-99.9%	1	947
HYUNDAI/KIA			
	90.9%	607	318
OTHERS			
	-32.3%	273	403
GRAND TOTAL IMPORT SALES			
	2.5%	72,501	70,733
(Imports from Japanese Companies)	56.3%	8,446	5,405
(Total Less Imports from Japanese Companies)	-1.9%	64,055	65,328
GRAND TOTAL CAR MARKET SALES			
	7.4%	1,352,668	1,259,862

- After rising steadily for the previous 8 quarters, the small/mini-car share of the Japanese car market fell by 0.2 of a percentage point to 85.0% for the first quarter 2003 compared with the first quarter 2002.
- Meanwhile, more importers are entering the small car market. The small/mini-car ratio of the import car market rose by 7.3 percentage points to 25.7%, the highest level in four years.
- Nevertheless, 74.3% of imports are large cars in a market dominated 85.0% by small/mini cars.

—by MAJOR MARKET SEGMENT: JANUARY THROUGH MARCH 2003

		Small Car Ratio (B/A)	Total Cars (A)	Small/Mini Cars (B)	Large Cars (C)
GENERAL MOTORS					
	Chevrolet	0.1%	775	1	774
	Cadillac	0.0%	150	0	150
	Saturn	20.0%	5	1	4
	Opel	46.9%	1,305	612	693
	Saab	0.0%	221	0	221
	Other	0.0%	25	0	25
	SUBTOTAL	24.7%	2,481	614	1,867
FORD					
	Ford	0.1%	1,251	1	1,250
	Volvo	0.0%	3,835	0	3,835
	Land Rover	0.0%	566	0	566
	Jaguar	0.0%	1,235	0	1,235
	Aston Martin	0.0%	11	0	11
	SUBTOTAL	0.0%	6,898	1	6,897
DAIMLERCHRYSLER					
	Chrysler	0.0%	1,686	0	1,686
	Mercedes-Benz	0.0%	12,128	0	12,128
	Smart	100.0%	1,082	1,082	0
	SUBTOTAL	7.3%	14,896	1,082	13,814
VW					
	VW	34.2%	16,788	5,739	11,049
	Audi	0.0%	3,151	0	3,151
	Other	0.0%	29	0	29
	SUBTOTAL	28.7%	19,968	5,739	14,229
BMW					
	BMW	0.1%	8,505	7	8,498
	Mini Cooper	100.0%	2,849	2,849	0
	SUBTOTAL	25.2%	11,354	2,856	8,498
PORSCHE					
		0.4%	528	2	526
RENAULT					
		70.1%	586	411	175
PSA					
	Peugot	61.0%	3,823	2,332	1,491
	Citroen	59.8%	443	265	178
	SUBTOTAL	60.9%	4,266	2,597	1,669
FIAT					
	Fiat	95.8%	382	366	16
	Alfa Romeo	0.7%	1,686	11	1,675
	Ferrari	0.0%	116	0	116
	Other	42.9%	14	6	8
	SUBTOTAL	17.4%	2,198	383	1,815
SUBARU					
		0.0%	925	0	925
TOYOTA					
		0.1%	2,023	2	2,021
HONDA					
		84.4%	5,497	4,641	856
ISUZU					
		0.0%	1	0	1
HYUNDAI/KIA					
		38.7%	607	235	372
OTHERS					
		36.3%	273	99	174
GRAND TOTAL IMPORTS 2003 (3 months)					
		25.7%	72,501	18,662	53,839
GRAND TOTAL IMPORTS 2002 (3 months)					
		18.4%	70,733	13,037	57,696
GRAND TOTAL CAR MARKET 2003 (3 months)					
		85.0%	1,352,668	1,149,762	202,906
GRAND TOTAL CAR MARKET 2002 (3 months)					
		85.2%	1,259,862	1,072,950	186,912

Note: Small/mini cars—engine size 2,000 cc. and below; large cars—greater than 2,000 cc. Totals include mini-car sales.