



How the Misaligned Yen Hurts U.S. Automakers

By Stephen Collins

John Tamny ("Toyota and the Yen") gives the Japanese Government a pass on its weak yen policy by claiming that a hugely undervalued yen helps neither Toyota nor other Japanese auto companies. Mr. Tamny's hypothesis is easily refuted by reading Toyota's own financial statements, or the financial reports of Nissan and Honda that all credit the weak yen for boosting profit margins. In fact, Honda, Nissan and Toyota combined openly reported \$7 billion in unanticipated windfall yen profits in a recent 18 month period ending late last year.

Mr. Tamny does not need to take the word of U.S. automakers or Members of Congress that a weak yen helps Toyota. Toyota's own executives say so. For example, in September 2006, Mitsuo Kinoshita, a Toyota Executive Vice President, stated at a press conference that Toyota revised its operating profit statement for the first half of the year from 370 billion yen to 540 billion yen. Of that increase, Mr. Kinoshita said that 150 billion yen or 90 percent was due to the weaker yen.

For U.S. automakers, yen misalignment is far from a mere illusion, as Tamny writes, or a financial technicality. The impact of an artificially low yen is a major competitive factor and distortion in the whole automotive industry. The misaligned yen gives the average imported Japanese car a major windfall cost advantage over U.S. automakers and other competitors in the U.S. market. This 'yen effect' also crosses over to Japanese vehicles made in the U.S. thanks to the high level of

imported and subsidized auto parts used in their U.S. plants.

Few Japanese automotive companies are making any profits in Japan, where demand for new cars has been declining for some time. Toyota, Honda, Nissan and other Japanese automakers earn almost three quarters of their worldwide profits from the U.S. market, with a major portion coming from vehicles they export to the U.S.

So how does an artificially weakened yen affect the automobile business? Here are a few examples. More than half (52%) of all automobiles manufactured in Japan were designated for export in 2006, exceeding 50% for the first time in 19 years. In fact, Japanese companies are adding production capacity to Japan-based facilities, reactivating assembly lines, adding workers and postponing planned factory closures to export ever greater numbers of vehicles. And these vehicles are not simply hybrids filling a market niche, as Toyota executives regularly claim. In fact, sale of Toyota's hybrid, the Prius, actually fell in the U.S. last year.

The surge in exports from Japan is a direct result of a misaligned Yen and the Japanese Government's ongoing efforts to keep the yen weak versus the dollar. While Tamny writes, "all central banks thankfully manipulate the value of the money they issue," a recent study by the U.S. Federal Reserve Bank reveals Japan is the only developed country that actively manages its currency. More telling, it

only manages its currency in one direction - to weaken the yen. The Japanese Government never intervenes, either financially or through official government statements to strengthen the yen.

Tamny claims that, for consumers, changes in currency value "do not change the real value of the goods in which they're priced." A depreciation of the yen, of course, does not change the price of Japanese goods denominated in yen, but it does lower the price of those goods in dollars. That is precisely the reason why Japan intervenes in currency markets - to give its export industries a leg up in global market. When it comes to Japan, the U.S. is the prized market, and autos are the prized product. For consumers who happen to be employed in the manufacturing sector, subsidized imported Japanese autos flooding the U.S. market, supercharged by Japan's artificially weak yen, is definitely not good news. It destroys jobs and businesses in the U.S.

Tamny also claims that Toyota doesn't benefit from a weak yen because "any sales gained by a weaker yen would by definition be erased by the yen's own weakness" that would drive up the cost of labor, parts and shipping. This statement makes little sense. Toyota reports its profits in yen, pays its Japanese employees in yen, and pays its suppliers in yen. When the yen depreciates, the dollars or euros that Toyota earns on its exports translate into more yen.

U.S. automakers are not the only ones crying foul about the artificially weak yen. A growing chorus around the world is calling on Japan to

change its policy. The weak yen has been heavily criticized by European finance ministers this year, who have seen their auto and electronics sectors similarly harmed by the artificially competitive advantage conveyed by yen subsidized exports from Japan; by the editorial boards of publications such as the Financial Times and the Economist; and by independent economists such as Fred Bergsten of the Peterson International Institute for Economics.

U.S. automakers are fully confident that their vehicles can compete successfully in any market in the world and welcome competition from Japanese companies and other international competitors. Competition in a free and fair environment is good for consumers, good for innovation, and good for creating ever safer and more fuel-efficient cars. However, Japanese automakers are not competing fairly because their government effectively subsidizes its auto industry through the artificially low yen. U.S. automakers are adapting their business models to meet the challenges of the global economy, but addressing the misaligned yen is simply beyond their control. It will be up to the Administration and Congress to act on this important issue. Thousands of American jobs depend on it.

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