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Industry Slumps, but Prius Inspires Waiting List

By HIROKO TABUCHI

TOYOTA CITY, Japan — Throughout [Toyota's](#) global operations, managers are scrambling to cut costs in the wake of record losses.

But at Toyota's Tsutsumi plant, managers have the opposite problem: meeting demand for the third generation of the Prius, which has become an instant hit in Japan and is rolling into American showrooms now.

The Prius plant has brought back overtime — a rarity these days, given Japan's weak economy — and recruited workers from Toyota factories across the country.

The success of the new Prius, which like its predecessors is a gas-electric hybrid, is crucial if Toyota is to bounce back from a loss in 2008, its first since 1950, and an even deeper loss in the first quarter of 2009.

To be sure, no one at Toyota expects the profit earned on the Prius alone to revive the company's fortunes, but the buzz of the car's initial success is at least diverting attention from the auto giant's stumbles.

In Japan, Toyota received 80,000 orders for the car before it went on sale, a fifth of the company's sales goal of 400,000 worldwide for the year, about half of that in the United States.

The company sold 110,000 Priuses in Japan in May — and there is a waiting list of several months — helped by government incentives that encouraged sales of [fuel-efficient](#) cars. (Toyota has sold more than 1.27 million Priuses worldwide since its debut in 1997.)

The demand is rippling down the supply chain. One Japanese supplier, a [Panasonic](#) EV Energy factory that makes the batteries that power the Prius hatchback, is also working around the clock.

It had shut down its factories for 17 days because of slow sales in the first four months of 2009. But since the Prius went on sale in May, the battery maker has stepped up production and declared a moratorium on vacations.

The popularity of the Prius is a bright spot in a global auto industry still reeling from the bankruptcies of [General Motors](#) and [Chrysler](#). The rest of Japan's auto sector has slumped along with the global economy, prompting factory shutdowns and layoffs.

Despite the Prius's strong start, Toyota, the world's largest automaker by sales, predicts more red ink this year. The company said in early May that it expected global sales to decline 14 percent in the year to March

2010, weighed down by sluggish sales in North America, its biggest market. But strong Prius sales could help Toyota surpass its initial, dismal global sales goal of 6.5 million units this year. As recently as 2007, Toyota's global sales topped 9 million vehicles.

"I feel very relieved and excited that they are selling well," said Akihiko Otsuka, chief engineer of the Prius, at a recent tour of Toyota's design laboratories and factories.

"I expect sales to push up the entire car market," he said. "I am not pessimistic about the future."

New government cash incentives for environmentally friendly cars, as well as more choices as automakers go head to head on fuel-efficient cars, are spurring demand, analysts say. [Honda Motor](#) started selling its Insight hybrid in March in Japan and the United States, while Mitsubishi Motors said last week that it would market the iMiev, a compact [electric car](#), starting in July.

Toyota executives hope the strong start by the Prius will be repeated in the United States, where some dealers have been accumulating waiting lists for more than a year. Plans for a new hybrid car factory in Blue Springs, Miss., originally scheduled to open in 2010, have been suspended since December as sales flagged. Though Toyota executives remain tight-lipped, analysts say that the automaker, with its Japanese production lines already so busy, could soon make a decision about the plant's future.

"Sales are strong in Japan, but we will have to see how sales do overseas to decide whether we need to expand capacity," the Toyota executive vice president, Takeshi Uchiyamada, told reporters. He said investing in hybrid-car manufacturing was more risky than other types of factory investment because of higher overhead costs.

"It's a good thing Toyota has been able to produce a car that sells well in this difficult climate," said Tatsuo Yoshida, a Tokyo-based analyst at UBS Securities.

Prius sales in the United States, which soared last summer as gasoline prices topped \$4 a gallon, fell sharply along with gas prices during fall and winter. But it is still the company's third-best-selling car, behind Camry and Corolla. Toyota devotes three manufacturing lines in Japan to the Prius — two at Tsutsumi, and another at a subsidiary assembler. At full capacity, the two plants are able to make about 50,000 Prius cars a month, Toyota executives say, about 1.5 times the pace needed to meet its global sales target of 400,000 units.

The surge has revived companies up and down the supply chain. With its plant running 24 hours a day, Panasonic EV Energy, a joint venture between Toyota and the electronics maker Panasonic, is planning another factory that will allow it to double its battery production by next year, to a million packs a year.

"If a lot of hybrids are sold, it's possible we'll start producing overseas," the company chief executive, Yoshio Hayashi, said. "Batteries are very heavy, so it's good to make them close to the cars."

The company, which sends about 92 percent of its batteries to Toyota, also serves General Motors and plans to supply Chrysler soon. The company produces mostly nickel-metal hydride batteries, though research on more advanced [lithium-ion](#) batteries is under way.

At Aisin, the supplier that makes water pumps and Prius parts, a spokesman, Daisuke Kondo, stressed that

the company was “a long way off from a full recovery.” Aisin expects to book 40 billion yen, or \$407 million, in sales from hybrid-related parts in the year through March 2010, a 30 percent increase from the previous year.

With huge investments in its hybrid technology, Toyota says it is determined to keep gas-electric hybrid systems at the center of its green car lineup — even as electric cars, plug-in hybrids or hydrogen-powered cars are developed.

An electric car being developed by Toyota is to be introduced in 2015. For now, vehicles powered only by batteries are neither powerful nor cheap enough to be a viable alternative to a gas engine cars for most drivers, while hydrogen cars and plug-ins face cost and infrastructure challenges, another executive vice president at Toyota, Masatami Takimoto, said. Eventually, all three types — hybrids, electric cars and plug-in hybrids — will co-exist, he said, in part because energy policies in different countries will determine which cars thrive and where.

Until then, the hybrid is the leading energy-saving technology, said the chief Prius engineer, Mr. Otsuka. And in hybrids, he said, Toyota is “10 years ahead.”

Micheline Maynard contributed reporting from Detroit.

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