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Written by Raymond Mobrez, P.h.D, Director

Toyota is sinking into its first operating loss in seven decades. The Japanese auto giant had never reported an operating loss since 1938, its first year in business. Toyota, which overtook GM as the world's biggest automaker last year, has been enjoying strong sales in the last years mainly thanks to its pioneering petrol/electricity hybrid, the Prius, and new models of popular car ranges like the Camry Sedan and Corolla. Now, it is expecting to lose approximately \$1.5 billion to \$1.7 billion this fiscal year, being this the latest sign of the global auto industry's sharp slowdown. Toyota reports earnings on a fiscal calendar beginning in April. The financial downturn has taken a major toll on automakers. Global vehicle production fell percent in the fourth quarter, according to the firm IHS Global Insight. Although, of course, it has to be taking into account that the starting point in which Toyota is coping with this crisis is not comparable with the starting point of GM, Ford or Chrysler; since Toyota record profit of 2.27 trillion yen last year. Toyota -long the world's most profitable automaker -not an exception in the automaker industry and is being seriously affected by the global meltdown. Toyota will sell about 1.4 million fewer vehicles globally in this fiscal year than last year, falling in virtually every region. According to Toyota, sales will drop by 250,000 units, only in North America -the world's largest car market- forcing to lower assembly lines



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manufacturing projects The other reason why Toyota's sales are plummeting is because of a strong local currency. Japanese exports have suffered because of [currency exchange](#) rates in the last months, cooling the demand both in United States and Europe. According to the Japanese government, the rising value of the yen caused that Japan's trade deficit reach to \$2.5 billion in November. Japanese exports plunged a record 27% only in November and suffered their biggest year-on-year drop since the current system of statistics went into effect in 1980. Although Toyota often proclaims that it wants to build where it sells, nearly a 40% of vehicles that Toyota sold in the U.S. last year were imported. Toyota expects losses of about \$2.2 billion due to [currency exchange](#) rates alone. Toyota is taking several steps to confront this crisis. It will postpone all projects to expand capacity, move 16 of its 75 global assembly lines to a single shift, and cancel directors' bonus payments for this year, among a wide range of steps aimed at improving near-term profitability. But, the sales decline has been so dramatic that production has to be reduced to catch up and Toyota may be forced to take unusual steps. The most significant change that Toyota may be facing is the modification of their so-called "just-in-time" (JIT) manufacturing system to avoid possible supplier bankruptcies disrupting production. Toyota may have to accumulate inventories if it wants to mitigate the effects of a collapse among its suppliers. Despite the likely operating loss, Toyota expects to post a \$557 million net profit for the fiscal year. Toyota is still profitable because of the surplus from their investments, fringe benefits, and all the other financial activity outside of their core business.

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