

Money

## Toyota's Problems Could Be Suppliers' Problems

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AOL News

(Feb. 15) – They don't make Toyotas. But they make the parts that make Toyotas run. And in cities like Elkhart, Ind., and Orangeburg, S.C., factory workers and other employees could be severely affected by the Japanese automaker's massive recalls of about 8 million passenger vehicles.

"I think any of us who are suppliers for Toyota, it has opened our eyes even further," said Stephen Hudson, human resources manager for Koyo Corp. USA, a ball-bearings manufacturer in Orangeburg.

"It's all of our problems now," he said.

*All* as in all of the more than 2,000 auto suppliers in the United States.

By now, almost everyone knows the litany of Toyota's woes:

- In November, Toyota issues a recall for at least 4 million vehicles based on a potential floor mat interference with the gas pedal that could cause sudden acceleration, a recall later expanded by an additional million vehicles.
- On Jan. 21, the company recalls 2.3 million cars with the potential for accelerators to stick in a depressed position or return slowly to an idle position.
- Earlier this week, an additional 400,000 hybrid vehicles, including its crown-jewel hybrid model, Prius, are called back because of braking software glitches.

The carmaker, which was ranked No. 1 in the United States in sales, reportedly faces at least \$2 billion in losses stemming from the recalls, as well as associated lawsuits. And that doesn't include the potential loss in future profit from a drop in consumer demand, which has plummeted by 28 percent in the U.S., according to the Autometrics Pulse automotive demand indicator.

A Kelly Blue Book analysis released last week painted a grim picture: "Now nearly half (49 percent) of the car shoppers who have defected from Toyota say they are not sure if they will consider the brand again, even once Toyota's problems are resolved," the report said.

The culminating effect of Toyota's recall hits the industry as it continues to reel from a massive downturn in recent years. In the past year alone, auto and parts manufacturing have bled 22,300 jobs, according to the Bureau of Labor Statistics.

Elkhart, Ind.-based CTS Corp., producer of accelerators at the center of the "sticky pedal" recall, is already feeling the pressure.

CTS said it built the pedals according to Toyota design specifications. The company issued a statement saying it believes the slow return pedal phenomenon is rare and may occur in extreme environmental conditions, and "should absolutely not be linked with any sudden unintended acceleration incidents."

Just how the recall will play out for CTS, as well as other Toyota parts suppliers, remains to be seen.

Koyo supplies bearings for Toyota car production lines, as well as for other companies. In early 2009, the industry's financial crisis forced the Koyo plant in Orangeburg to reduce its staff by about 80 positions – almost 20 percent – through voluntary reductions.

Fast-forward a year later, and the company is starting to see a return in demand. "Business is coming back and it's coming back very nicely," HR manager Hudson said.

He credits low interest rates, the Cash for Clunkers program and increased consumer confidence for an uptick in demand for cars, which has benefited Koyo.

Now, the company is hiring for production lines, some of which are running seven days a week, for other car lines such as Ford, Chrysler and Honda. But hiring for the Toyota lines is at a standstill. The potential for layoffs is uncertain.

"We will not add any more head count to those lines until we see where this is going," Hudson said.

If Toyota, the Koyo plant's largest customer, took a substantial financial hit or additional recalls occur, it "would be of a grave concern," he said. "We make bearings for all the big car companies. What we hope is going to happen is that even though Toyota's going to take a hit, somebody else is going to profit from this."

But it's still too early to determine the full impact of Toyota's recalls on the industry, said Thomas Kurfess, director of automotive engineering at Clemson University's International Center for Automotive Research in Greenville, S.C. "I think short term, you're going to have to see some cutbacks," from the cessation of vehicle sales, he said. "Long term, it just depends upon how things go."

Only one thing seems certain: It is everybody's problem.

"Every part on a vehicle is critically important," said Dave Andrea, senior vice president of industry analysis and economics for the Original Equipment Suppliers Association in Troy, Mich.

"So when you take out any production out of the planned production schedules, that does impact the entire supply chain."