

Investments, Endaka Bring Mixed Results

Railways

A third consecutive year of negative growth in major rail passenger volume is anticipated for fiscal 1994 with the impact of labor adjustments brought on by the prolonged recession seen as one of the main reasons.

While rail companies' passenger revenues have remained flat, investments in four track rail lines and other improvements in transport capabilities have ballooned and railway division revenues on the whole have declined. As a result, they will need to extract required profits from dividends from real estate operations and other affiliated firms' profits, inevitably leading to harsh financial results.

Moreover, growth in JR's long-distance transport sector has also been lackluster, due perhaps to a shift to the family car for leisure and the perception that domestic pleasure trips are more expensive than overseas travel. The JR companies have devised numerous strategies to spur domestic travel demand, offering drastic discounts for package tour fares and adding sectors in which multiple trip coupons for the Nozomi Shinkansen could be used.

Land transport

Bolstered by increased demand for beverages and air conditioning equipment due to the long, hot summer of 1994 and more than 1.5 million new housing starts, cargo volume, which had trended negatively, will probably remain at nearly fiscal 1993 levels. With the ongoing "price cutting revolution" companies urgently need to cut distribution costs, a situation that makes it difficult to pass rising costs along in the form of freight charges.

Rises in light oil transaction taxes, implementation of the Nitrogen Oxide Reduction Act, and the Revised Road Law's tougher weight restrictions have added costs and contributed to worsening balances at trucking companies. In addition, bearing scheduled highway toll

increases and other factors in mind there is little reason to expect that trucking companies' results will improve soon.

Efforts to come up with new cost-cutting strategies such as the industry leaders' integration of trunk line operations in November 1994 have been noted, but in the future trucking companies will need to actively promote efforts to devise expertise that will meet shippers' increasingly diversified requirements, accommodating companies' increasing partiality toward subcontracting as well as rationalized delivery services.

Air transport

After considerable increases in passenger volume on international routes, among other factors, expectations are that the three major airlines have weathered the worst period and that their overall fiscal 1994 earnings should trend upward. With prices for tour package products declining due to the stronger yen and the additional impact of the inauguration of the Kansai International Airport in September 1994 a high growth rate of nearly 15% is anticipated for passenger volume on Japan's international routes and load factors should improve to more than 70 percent.

Moreover, in spite of imbalances between individual routes, domestic passenger volume, which in fiscal 1993 registered negative growth for the first time in eight years, has shown distinct signs of a recovery in terms of quantity. However, tour prices have inevitably fallen due to the repercussions of lower domestic travel costs.

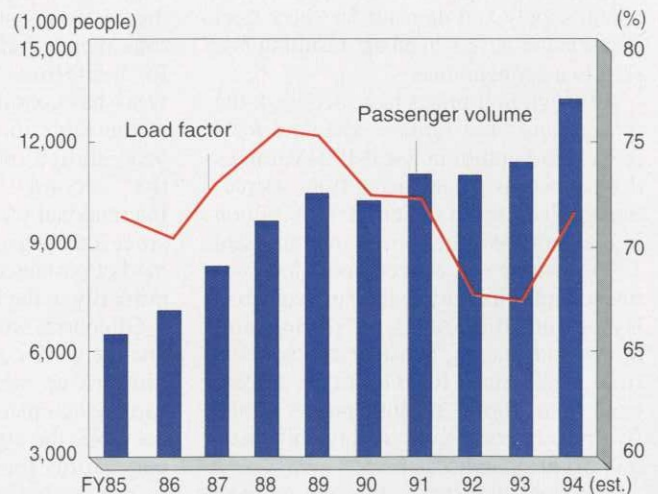
Although expectations are that domestic

passenger demand will continue to expand in fiscal 1995, prices will probably continue to decline due to falling tour package prices as well as heavier competition among airlines through fare discounting and competition with shinkansen lines. Further, a recovery in corporate demand for business and first class use on international routes, where high profits can be anticipated, will probably require more time and under these circumstances it is difficult to say that airlines have eliminated the elements of instability that confront them.

Airlines are currently continuing strenuous cost-cutting efforts, curtailing fixed costs while cutting personnel expenses, and controlling equipment investment. With the approach of the 21st century the industry must endeavor to secure its footing by continuing ceaseless efforts to institute efficient business practices and cultivate new markets without unduly effecting the immediate future market trends. ■

(Takaoka Yuji, economist)

International Passenger Volume and Load Factor Trends



Source: Air transport annual statistics

Note 1: Passenger volume derived from number of passengers on regular Japanese airline companies. Note 2: Passenger load factor = Reserve passenger km/Available seats km