An Across the Board Decline

Air transport

The three major domestic airlines are expecting a fourth straight year of decline in earnings for fiscal 1993. Reduction in costs are being sought through restructuring measures based on shifting the cost base from yen to foreign currency and by trimming personnel expenses mainly through restrained new employment, and entrusting services to subsidiaries.

Fiscal 1993 saw for the first time in eight years a negative growth in passenger load, while service capacity increased about 10% due to an increase in domestic flights and the introduction of large-sized airplanes commissioned during the past boom years. As a result, the load factor dropped to only 60%.

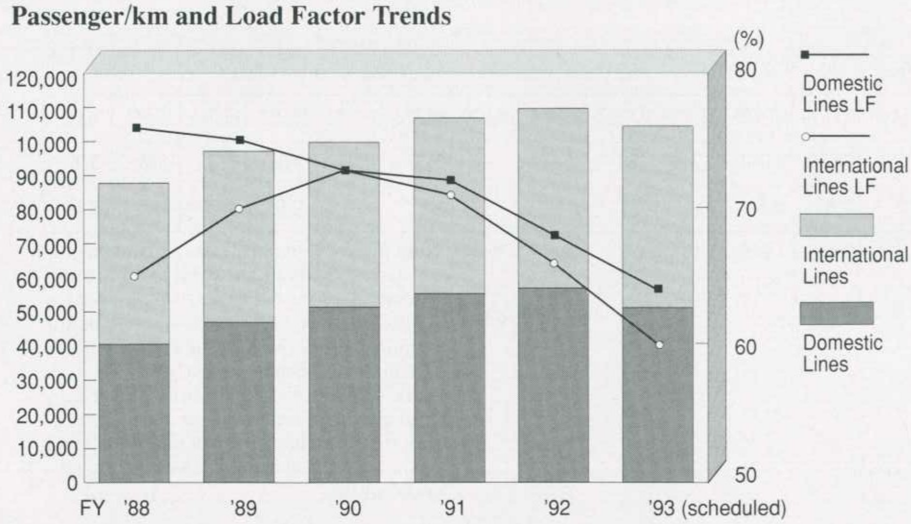
On the other hand, international flights started to pick up in July 1993. However, real-term unit revenues continued to decrease by 10% year-on-year, leading international operations to also report weaker revenues.

Increased expenses related to projects at the three major airports—an off-shore expansion of Haneda airport, the second phase of construction work for Narita airport and the newly built Kansai International Airport—were the main factors behind weaken revenues. For example, the New Passenger Terminal at Narita airport opened in December 1992, followed by the opening of the West Passenger Terminal at Haneda in September 1993. However, as the number of flights remained unchanged, no additional revenue is expected to compensate for the increase in expenses.

Fiscal 1994 promises stronger demand as the negative impact of last year's unusually cool summer abates and the number of consecutive holidays increases.

The number of passengers on international flights has begun to recover, and the new Kansai International Airport is scheduled to open in September. The elimination of airport limitations in the Kansai area, where a high demand is expected, should bring the air transportation industry to a new stage.

Passenger/km and Load Factor Trends



Railways

Railroad passenger ridership is expected to decline 1% from the previous year, the second consecutive year of decline. Also, the Teito Rapid Transit Authority (the Eidan Line, a major subway company in Tokyo) is expected to record its first negative growth in real terms. On the other hand, capital investments, which have been revised downward in other industries, are expected to rise 3.9% year-on-year in fiscal 1993 and another 0.9% in fiscal 1994, exceeding by more than twice depreciation expenses (based on a survey covering 16 major non-government railroads conducted in March 1994), reflecting a capacity expansion of non-government rails and the extension of subway lines.

As transportation volume is expected to remain weak in fiscal 1994, heavy capital investments are putting a severe strain on the railroad companies' earnings. Thus, price hikes are likely as a measure to improve earnings.

JR East Japan (formally part of the National Railroad, privatized in 1987) was finally listed on the stock exchange in October 1993, and the JNR Settlement Corporation received about ¥1 trillion from stock selling. However, the ex-National Railroad held long-term liabilities of ¥26.6 trillion as of the beginning of fiscal 1993, carrying annual interest expenses of ¥1.5 trillion. Given the difficulties in land asset sales, reflecting a weak real estate market, huge debts should continue to be a serious problem for the JR group.

Trucking

Truck cargo volume has declined, reflecting a prolonged weakness in manufacturing industries. Market fare rates have also declined and there are no encouraging signs.

For fiscal 1994, a recovery is not expected, considering the negative effects of a tax increase on diesel oil transactions, effective since December 1993, and an increase in highway fees scheduled in fiscal 1994. It is necessary, therefore, for truck companies to further increase their cost competitiveness as well as their ability to propose more efficient transportation plans in response to the needs of client companies.

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