

Demand Rises for Trucking Shipments of Small Packages

Maritime transport

Japan's three top overseas shipping companies reported substantial increases in interim earnings and profits for the first half of fiscal 1996. The weak yen was the greatest factor, but in view of the continuing severity of the business environment it would be difficult to describe current conditions as providing a stable foundation for profitability. In the liner sector tariffs on the main North American and European routes have continued to decline since the fall of 1995. With manufacturing industries continuing to shift production overseas, the decline in cargo originating in Japan also continued even after the yen's depreciation. Further, in the tramp sector, which enjoyed a prosperous fiscal 1995, slack tonnage supply and demand due to a large volume of newly completed vessels led to a market collapse. Exchange rate trends and improved profitability in the liner sector will be the future keys to profits. In the liner sector, 1996 marked the beginning of "global alliances" (international agreements among shipping companies). These were designed to cut costs through the sharing of terminal and container facilities and enable the offering of a wider variety of services through cooperative links. In future, a moderate increase in cargo shipments, primarily in Asia, is expected, but because the replacement of container ships with large vessels has continued since 1995 and large numbers of new vessels will continue to be completed over the medium term a recovery in tariffs cannot be expected for the time being in terms of tonnage supply and demand. In this environment efforts to strengthen cost competitiveness will be an important

issue for improved profitability in the liner sector.

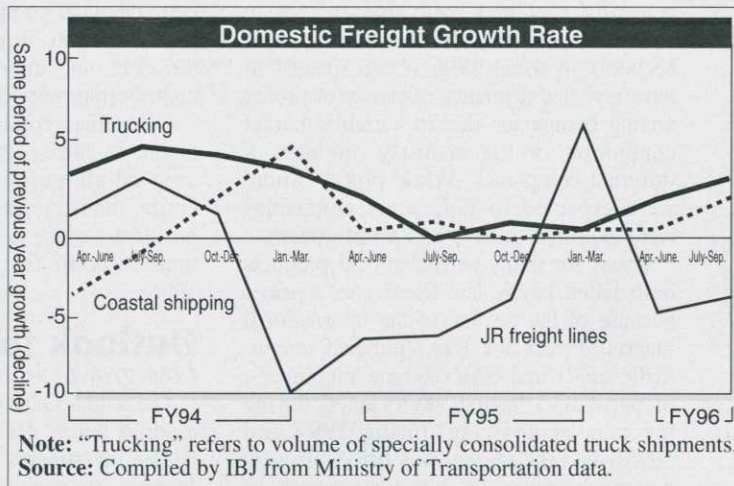
Trucking

Thanks to expanded transport demand due to growing demand for shipments of parcels and small consumer goods as an outgrowth of more new services and direct mail-order sales, the trucking industry saw 3.1% growth (for specially consolidated truck shipments) in the first half of fiscal 1996 and transport demand continued to expand strongly. While other transportation organs, including Japan Railways freight and coastal shipping services, have experienced flat growth in shipping volumes, the trucking industry has demonstrated the advantages of frequent small parcel deliveries and the results of flexible responses to shippers' requirements (see graph). However, the business environment is harsh, with increasing competition as more new companies have entered the market. The need to pare distribution costs has increased as customers have continued to apply pressure for tariff reductions, along with expressway toll hikes and rising gas oil costs. In their interim financial results for the first half of fiscal 1996, the 10 listed firms reported increased earnings, with a 3.2% increase in sales compared to the same term of the previous year, but operating losses of -1.4%, demonstrating the severity of the profit situation.

Competition is expected to become even more intense from here on as restrictions on new market entries are relaxed. Along with the promotion of joint shipping, more efficient vehicle dispatching and other cost-cutting strategies, the outsourcing requirements of the distribution and processing trades and other customers will have to be addressed and the provision of not merely shipping, but high value-added services will be an issue in improved profitability.

Railways

In fiscal 1996, the 15 major private rail companies' passenger volumes are expected to have declined compared to the year before for the fifth consecutive year. Although a gradual rebound in irregular travel in pace with the economy's recovery has been noted, the number of regular passengers has continued to decline. Static growth in the number of people living along rail lines due to slower population concentration in the urban centers that are the major rail companies' main market along with declining numbers of commuters due to fewer children and other structural factors, are the primary reasons cited for this. Moreover, some private rail companies are presumed to have felt the impact of passengers shifting to JR lines, which have strengthened their service capabilities with better schedules, among other strategies. Fiscal 1996 results are expected to show improved earnings and profits as a result of the fare increases implemented in September 1995. However, a harsh business climate is forecast over the long run due to declining passenger numbers and shrinking profits from development along rail lines. Up to now, rail companies have continued to invest in improved transport capabilities and a high level of capital expenditures, but will probably refrain from investments from here on as they attempt to improve the efficiency of their operations.



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