Survival of the Fittest

Following the economic downturn, leasing contracts have been depressed, falling by 11.7% year-on-year in fiscal 1992, and by 7.6% year-on-year in fiscal 1993. However, after 27 months of decline contracts began to rise in July 1994, and have been steadily rising thereafter, suggesting that the industry has bottomed out.

One characteristic of the recent recovery is the noticeable differences among types of machines, pointing to a survivor and non-survivor polarization of the market. Information-related equipment, accounting for 40% of total lease contracts, has remained weak, reflecting a general downsizing trend and weakness in securities companies and financial institutions which previously were a major user of large computers.

Leasing of industrial machinery and machine tools has also been weak, due to a rush among manufacturers toward overseas production in response to a stronger yen and resulting over capacity in domestic facilities.

In contrast, office equipment—such as word processors, copying machines, and fax machines—and transportation machinery, mainly automobiles, have shown strength helped by strong replacement demands.

Also, the market for commercial and service-use machines has been steadily growing due to a favorable tone of investments for new stores, leading the post-July 1994 recovery in lease contracts.

In earnings, the leasing business has been strong, supported by a stock of high-yield contracts made around 1990 when interest rates were high, and improved capital costs under current lower interest rates. However, the overall earnings for leasing companies have remain depressed due to lower lending income and disposals of bad assets.

Outlook for fiscal 1995

The Japanese economy is finally experiencing an upswing following a prolonged recession. However, due to overcapacity among manufacturers and hollowing-out of domestic industries resulting from a stronger yen, plant and equipment investments have yet to recover. This weakness should be particularly damaging for the leasing business which has grown as a means of installing machinery and equipment.

Moreover, a new accounting standard for lease contracts introduced in April 1994 virtually erased the off-balance merits of leasing. The possibility for new structural changes in the leasing market resulting from the new regulation cannot be ignored.

Facing these changes, a primary task for leasing companies is to strengthen their marketing base. Possible measures include shifting to higher-value-added products—such as "operating lease" which require risk-taking for salvage values—and strengthening credit information to expand their customer base over small- and-medium-sized companies. This actually is the basics of the leasing business.

Another urgent task for the industry is to establish a stronger earnings structure, as well as stronger marketing power, considering expected tougher conditions for earnings in the future. To accomplish this, it appears necessary for leasing companies to enforce restructuring, including slashing sales management costs to establish a more efficient managerial system as has occurred in other industries, and to strengthen further their ALM (assets and liabilities management).

ALM seems especially important as, given the current situation following the enactment of the Business Assets Securitization Law where means of raising funds have become diversified, it would be directly related to company earnings under the condition where price competition in leasing fees are intensifying.

With the beginning of full-scale competition for a smaller market, leasing businesses need to strengthen both their marketing base and earnings structure, and those who fail to do so are likely to be forced out of the market.

(Mori Hiroo, senior economist)

Growth Rates for Leasing Contracts by Machine Type (Monthly Base Value)

(Unit: Year-on-year comparison; %)

	Jan.	Feb.	Mar.	Apr.	May	June	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Total contracts	-10.3	-10.4	-6.1	-8.8	-8.5	-11.6	0.9	7.3	4.9	1.6	12.2	11.2
Information-related equipment	-15.2	-19.2	-4.1	-11.9	-7.5	-8.9	-3.6	7.1	1.9	-6.8	11.7	15.1
Office equipment	1.3	1.3	2.2	15.7	13.9	11.0	9.5	23.2	7.3	6.7	35.3	33.4
Industrial machinery	-15.8	-6.6	-13.0	-22.5	-18.6	-28.3	-18.5	-14.8	17.6	-13.2	2.9	-4.7
Machine tools	-20.5	-12.2	-35.4	-42.7	-41.6	-32.6	-19.6	-29.4	-28.3	-33.5	-19.6	-9.2
Transportation machinery	-8.4	-12.4	-4.0	-4.2	-32.9	-23.1	84.8	21.8	8.9	64.4	10.8	-13.2
Commercial machinery	2.8	10.5	-1.6	6.8	9.0	0.3	-6.7	14.2	8.4	12.9	16.7	14.0

Source: Japan Leasing Association