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In 1992 a year-on-year decline of 11.7% was recorded for leasing contract trends and, in fiscal 1993, results continued to lag behind the previous year. The annual value of leasing contracts is forecast to hold at ¥7 trillion in fiscal 1993, a 10% decline compared to the previous year. A continuing decline in industry investment in plant and equipment is seen as the primary factor in the drop in leasing contract values.

Information processing equipment makes up the greatest percentage of leased items and declines have continued amid computer downsizing trends and corporate reviews of information processing investments. Contracts for industrial machinery and machine tools, an indispensable part of the manufacturing industry's facilities investments, have also continued to decline broadly as manufacturers have been faced with excess facilities due to declining sales.

The value of lease contracts for other types of leased properties, such as telecommunications and office equipment, have also continued to fall below the previous year's amounts. Leasing market trends offer a miniature portrait of current Japanese industry, in which most sectors have continued at negative growth.

In the latter half of the 1980s, leading Japanese leasing companies actively promoted financing operations directed at industrial corporations in order to diversify their operations. By borrowing from banks they secured large profit margins by loaning funds to the real estate industry and other sectors. But with the subsequent drop in property prices and the recession, the real estate industry and other corporate borrowers turned in worsening results, leading to forecasts that some of the loans would not be recovered, resulting in bad debts.

Most of the major leasing organizations are linked to leading banks or trading companies and starting in fiscal 1992 bank-affiliated leasing companies began to clear away bad debts with

assistance from their parent banks. Because they had stumbled in the financing operations upon which they had built their business expansion in the late 1980s, in 1991 leasing companies all reverted to strengthening the operations which were originally their main business. With the related decline in facility and equipment investment and the start of the recession, the leasing market shrank in scale, leading to reduced growth expectations in leasing operations and a continuing severe business environment.

For leasing companies, the majority of whose fund procurements are furnished by bank loans, rising interest rates are tied directly to rising costs. In order to diversify leasing companies' fund procurements, in April 1991 the Ministry of International Trade and Industry's Industrial Structure Council proposed that corporate bonds and commercial paper issued by leasing companies be liberalized and that lease bonds be allowed to float. In June 1993 a law was enacted to permit floating lease bonds and, although conditions were attached, leasing companies were permitted to issue commercial paper.

Conditions are such that a rapid recovery is not expected in the domestic economy in fiscal 1994 and it is predicted the actual domestic GNP growth rate will be just a bit over 0% or so. According to surveys of various industries' plans for facilities investments, most companies continue to formulate plans for cuts. Regarding leasing contract values, which are influenced by economic trends, in-

cluding private corporate investment in plant and equipment, there is a great possibility that results in fiscal 1994 will continue to decline, matching the results for fiscal years 1992 and 1993, ending in a market contraction to fiscal 1988's level of ¥6 trillion.

Regarding leasing contracts, which average five years in length at fixed interest rates, lower interest rates reduce the cost of procuring funds while interest yields from the operation of leasing assets remain steady, so lower rates result in temporary profit increases. However, from the standpoint of interest rate increases, before operational interest yields increase, the cost of fund procurement rises and profits decline. Interest rates continued to decline during the recession, but there were indications of rising rates in late fiscal 1993, leading to predictions that the leasing industry would become even tougher in the future.

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FY 1993 Monthly Leasing Contract Growth Trends (Year-on-Year)

