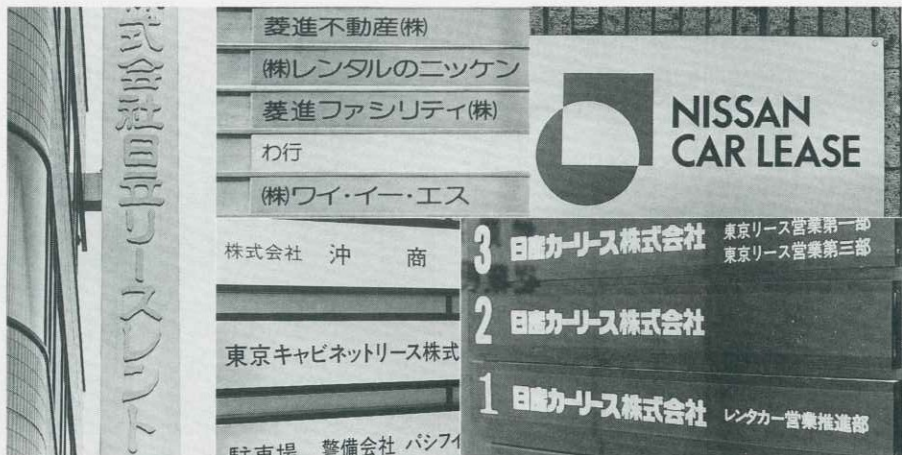


Staying Sluggish

Compared with fiscal 1990's capital-spending-driven expansion, leasing contracts were generally sluggish in 1991. Leasing value is forecast to grow a mere 7% to about ¥9 trillion. The biggest factor contributing to this drop-off in growth is cutbacks in corporate capital spending in the face of the slowdown in the economic growth.

Contract volumes were sluggish for both information-related equipment, the largest sector in the leasing industry, and machine tools, which are deeply entwined with capital spending in the manufacturing sector. Leases of construction equipment also slumped beginning in the middle of the fiscal year as housing starts declined. The only exception is leasing such as that in the aviation industry, where many cash-starved firms were switching from holding their own planes to leases.

During the low interest rates and easy credit that lasted through fiscal 1989, domestic major leasing companies were able to earn large amounts just by borrowing from banks and relending to real estate companies. Then the Ministry of Finance decided to clamp down on bank lending to leasing companies and other non-bank financial firms, which has made it harder for them to earn money from their lending operations. Rising interest rates and the virtual impossibility of raising new funds has also placed many real estate companies on shaky ground or



With demand for leases remaining sluggish, a replay of the "lease rate wars" may be seen in 1992.

in bankruptcy court, leading to bad debts and further downward pressure on leasing companies' profits.

Firms responded to this combination of events by announcing plans in fiscal 1991 to beef up their mainline leasing businesses. But with corporations cutting back on their capital spending, it is unlikely that any of them will be able to achieve much growth. Since leasing companies depend on banks for most of their financing, higher interest rates translate directly into higher costs.

The Industrial Structure Council, an advisory organ to the Ministry of International Trade and Industry, recommended in April 1991 that leasing companies be allowed to float bonds and commercial

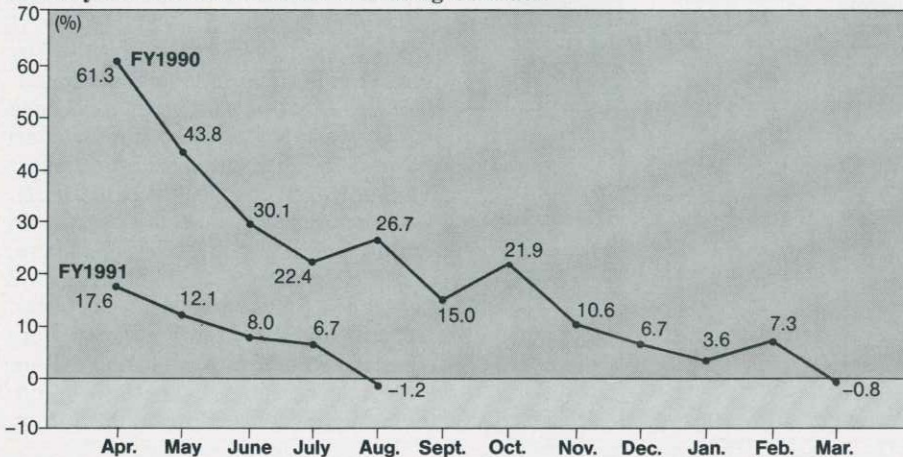
paper—neither of which is now open to them—in order to give the industry other fund-raising alternatives. Leasing companies are lobbying hard for early implementation of the proposals, but it will probably take some time.

Leasing companies have also tried to expand their fund-raising options by taking their shares public and listing them on exchanges. Of the eight that have already been listed, one went public in fiscal 1988, and two in 1989. Many of the leading leasing companies, however, are not yet publicly traded and the listing of their shares will be a major objective for managements over the next few years.

There are clear indications of a further economic slowdown during fiscal 1992. Since leasing volumes are most affected by capital spending trends, only slight growth in contract value is likely during 1992.

But the economic slowdown will also mean lower interest rates, which will in turn bring down leasing firms' costs. While this will be a positive factor, the demand for leases is itself sluggish, and with firms putting more emphasis on their leasing operations, we are likely to see a replay of the "lease rate wars" that occurred the last time interest rates were in decline. The challenge to leasing companies, therefore, is to find ways to assure themselves of a reasonable profit while expanding their business volume.

Monthly Growth Rate in Value of Leasing Contracts



Source: Japan Leasing Association

(Takuya Mizukami, senior economist)