

# Lending More, Making Less

Japan's leasing industry has attained exceptionally high annual growth. The value of leasing contracts concluded in fiscal 1987 is expected to reach ¥5.2 trillion, pushing the industry's total capital investment ahead of that of the electric power industry. In addition to their customary leasing business, leasing companies are also vigorously engaged in installment sales and loans. Including these transactions, the industry's scale tops ¥10 trillion.

One of the points that characterize the recent trends in the industry is that it continues to enjoy brisk demand. Compared with the 20% plus annual growth during the first half of the 1980s, expansion has slackened slightly in recent years. Nonetheless, it is still extremely strong. One reason is that information-processing equipment, such as computers and communications equipment, play the role of a driving force. Another important reason is that leasing has become a widespread practice in the business world.

It is now a popular alternative to purchasing office automation (OA) equipment like business and personal computers, word processors and facsimile machines. Cash registers, display shelves in convenience stores and even kitchen utensils and equipment in fast-food restaurants are usually leased. Leasing of big-ticket items, up to and including aircraft, is also on the increase.

The merits of leasing, including its advantages in reducing taxable earnings by capitalizing on the difference between



Rental shops like this one are expanding their inventories to include even daily necessities.

the maker's stipulated life and the real economic life of machines and equipment, are now better understood and have been widely accepted.

Another feature of the industry is declining profitability. Despite the brisk demand, intense competition among leasing companies has sent profitability sagging. Lured by its reputation as a high growth industry, many new companies are entering the leasing business, a move aided by the easy money situation. Unlike ordinary financial transactions, leasing is an "on-the-spot" transaction just for the occasion rather than an overall and continuing transaction. The principal competitive tool in such business is lower leasing rates, which often result in a sharp decline in profit margins.

A third feature is that in order to cope with deteriorating profitability and the varied financing needs of their clients, larger leasing firms are rapidly pushing diversification and internationalization. They have stepped up installment sales of construction machinery and housing and

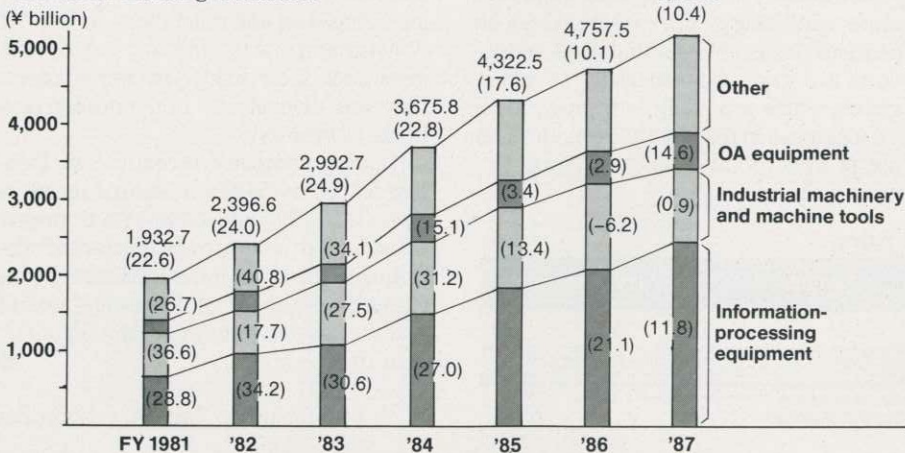
other real estate-related loans. They have also established affiliates or contributed capital to companies that undertake peripheral business. Besides the entry of companies leasing aircraft, automobile (finance) leasing companies and measuring instrument rental companies into this field, establishment of and capital participation in real estate mortgage companies and consumer financing companies is increasing. They are also aggressively advancing overseas, establishing footholds in the main industrial countries.

In fiscal 1988 the industry is likely to enjoy continued brisk demand for leased information-processing equipment. The recovery in capital investment in all industrial sectors will spur demand for industrial machinery and machine tools. With an increase also likely in financial services other than leasing, the industry is set for double-digit growth in total contract values, even if profitability cannot be expected to improve.

As opposed to leasing companies, rental businesses offering consumer durables and household implements to individual consumers are growing rapidly. As society matures, the number of people putting a priority on functionality and diversity, borrowing only what they need when they need it, is on the rise. This has expanded the inventories of rental shops to include even daily necessities. Some comprehensive rental companies have even begun establishing chain stores. Because the business is so new, the size of its market is not yet known. Yet the rental business is expected to grow markedly as a new mode of services industry satisfying the changing needs of the times.

(Miki Naito, economist)

## Growth in Leasing Contracts



Note: Figures in parentheses represent percentage growth over the previous year. (estimate)