

More From Less

Leasing contracts concluded in fiscal 1990 are projected to reach ¥7,778.4 billion (\$59.8 billion)—up 10.1% over fiscal 1989—a strong number achieved in large part because capital investment made solid gains this year. By item, leasing contracts for fixed investment equipment—such as industrial machinery, transport machinery, machine tools, civil engineering and construction machinery—showed smooth year-to-year growth.

Leasing companies did surprisingly well in fiscal 1990, despite at least two potentially harmful changes in their business climate during the year: interest rates rose and bank loans to finance companies were restricted. Still, the yen value of leasing contracts achieved a double-digit percentage increase over fiscal 1989. At least two mitigating factors allowed such growth despite a tightening of borrowed funds. First, leasing contracts rebounded after a sharp fall following the introduction of the new 3% consumption tax. And second, many businesses hastily concluded leasing contracts in the first half of fiscal 1990, anticipating even further interest rate hikes.

Major leasing firms are witnessing a slowdown in the rate of increase in their operating assets balance. The slack business performance is attributed to the fact that leasing companies, themselves fearing further interest rate rises, began in the second half of the fiscal year to postpone further buildups of their leasing assets.

In the past, the credit they extended to customers had sustained their continued accumulation of leasing assets. Now restrictions have been placed on bank loans related to real estate transactions, and leasing companies have had to limit the credit they extend. The leasing industry as a whole is thus predicted to suffer a fall in profits in fiscal 1990 because of their limited ability to pass on their own increased interest rate costs to the customer in the form of higher leasing charges.

Until recently, leasing companies had been blessed by financial relaxation, which allowed them to compete in a rigorous environment by lowering prices and expanding business. In fiscal 1990, they have been forced by these changes to revise their competitive strategy away from simple business growth and expansion toward increased emphasis on services and value-added products.

Leasing company earnings are highly vulnerable to changes in the financial environment, because restrictions placed on them mean they must rely on external sources for most of their funds. In the coming months and years, there are expected to be increasingly vociferous protests at this restriction and arguments for allowing the direct financing of leasing companies, such as through the issuance of commercial paper.

The overall value of leasing contracts concluded in fiscal 1991 is expected to stay about level, though the growth rate



Photo: Toyo Lease Co., Ltd.

Leasing contracts for fixed investment equipment such as construction machinery showed smooth growth in 1990.

will not reach the double-digit level due to a somewhat slower pace of investment in plant and equipment.

In fiscal 1991, leasing of information-related equipment and machines, and transport machinery (especially automobiles) is expected to continue to perform well. Leasing contracts for information-related machines and equipment, in particular, are expected to increase smoothly, because 1991 will see the debut of new models of general-purpose computers. Leasing of machine tools, too, is expected to do well in fiscal 1991, largely due to continuing corporate needs to invest in rationalization and labor-saving facilities and equipment.

Interest rates—despite a minority view to the contrary—will likely stay at their present high level in fiscal 1991, keeping the pressure on leasing companies to find innovative ways to stay competitive. Because of the restrictions on fund procurement, leasing companies will continue to find it difficult to increase either their operating assets or their loans.

Although rising interest rates will gradually be passed on to leasing charges, leasing companies are expected to post an earnings decline in fiscal 1991. The basic reason, once again, is the hike in interest rates, leaving the industry vulnerable to the relatively low income produced by those contracts concluded when rates were low. The leasing industry in fiscal 1991 must pay special attention to finding ways to allocate limited funds in ways that produce maximum earnings. That is, they must do more with less. ■

(Ken Niimura, economist)

Leasing Contracts in Value

	¥ billion; %		
	FY 1989	FY 1990 (estimate)	Growth rate over previous year
Information-related machines & equipment	2,843.6 (40.2)	3,305.8 (42.5)	16.3
Business machines	727.4 (10.3)	723.4 (9.3)	-0.5
Industrial machinery	1,132.3 (16.0)	1,175.4 (15.1)	3.8
Machine tools	399.4 (5.7)	427.8 (5.5)	7.1
Civil engineering, construction machinery	121.1 (1.7)	140.0 (1.8)	15.6
Transport including automobiles	379.2 (5.4)	412.3 (5.3)	8.7
Automobiles only	279.7 (4.0)	334.5 (4.3)	19.6
Medical equipment	181.5 (2.6)	186.6 (2.4)	2.8
For commercial use, service industry use	865.7 (12.3)	987.8 (12.7)	14.1
Total with others included	7,064.9 (100)	7,778.4 (100)	10.1

Note: Figures in parentheses denote component ratio.