Stress on Quality

After fiscal 1985, the growth pace of the leasing industry slowed down somewhat as a result of a decrease in corporate plant and equipment investment consequent to the rapid appreciation of the yen. Even so, the total amount of leasing contracts in fiscal 1987 pierced the ¥5-trillion mark and the leasing industry became Japan's biggest equipment investment industry, even surpassing the electric power industry. In the current fiscal year, the value of leasing contracts is expected to top the ¥6-trillion ($48 billion) mark and register a big increase of 19% over the preceding year consequent to the vigorous plant investment carried out by enterprises whose business performance recovered after the second half of fiscal 1987.

Leasing demand for industrial machinery, machine tools and civil engineering and construction machinery has been enjoying a particularly big increase. Demand for civil engineering and construction machinery, in particular, has been growing smoothly thanks to the launching of large-scale projects to meet the expansion of domestic demand.

Demand for information-related machines, which account for more than 40% of the total leased items, is growing firmly in keeping with remarkable technological innovation. Demand for machinery and equipment for commercial use and for use by the service industry is also increasing steadily, boosted by the increase in equipment installed by the food-catering industry and convenience stores. As for transport machinery, demand for leasing cars has grown markedly (the average annual growth rate for the past five years is 20.5%), but its share in the total items leased is still a small 4% or so, and leased cars account for only about 1% of the total car ownership in Japan. Car users, particularly business corporations, are gradually becoming aware of the advantages of leasing cars, however. The share of leased cars in the total car ownership will rise in the future to close to 3%, which would be on a level with the figures in the U.S. and European countries.

In order to satisfy the diversifying needs of customers, leasing companies are not limiting themselves to straight finance and leasing services. They are putting land, buildings and machinery altogether in a package and using a combination of purchasing, selling, leasing and loans to offer a packaged lease. They are also furnishing real estate-related housing loans and mortgage-backed securities loans to a market different from that served by financial institutions. These financing businesses are growing, and this is a striking feature of the leasing industry today.

Excessive competition to lower leasing rates under the current easy-money situation is a factor adversely affecting the earnings of leasing companies. Both the recurring profit and profit ratio in fiscal 1988 are expected to be much greater than in fiscal 1987, however, due to an increase in the amount of leasing contracts concluded as a result of aggressive, stepped-up sales efforts.

Leasing Contracts

(¥ billion)

	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
Information-related machines	2,331.0 (10.9)	2,640.0 (13.3)	2,923.0 (10.7)
Business machines	499.9 (10.2)	565.0 (13.0)	620.0 (9.7)
Industrial machinery & machine tools	1,044.6 (0.4)	1,410.0 (35.0)	1,692.0 (20.0)
Civil engineering and construction machinery	83.8 (30.0)	116.0 (38.4)	132.0 (15.5)
Transport machines	333.9 (42.1)	434.0 (30.0)	521.0 (20.0)
Automobiles	186.6 (34.3)	252.0 (35.0)	315.0 (25.0)
Total (other contracts included)	5,296.7 (11.3)	6,303.1 (19.0)	7,122.5 (13.0)

Note: Figures in parentheses represent growth rate over the previous year.

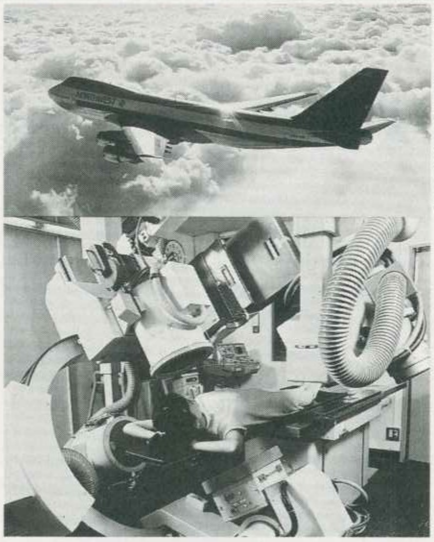

Photo: Japan Leasing Corp.

The leasing industry, Japan's biggest equipment investment industry, is expected to achieve a big increase in contract value in the current year.

Domestic demand is projected to continue to increase smoothly also in fiscal 1989, and leasing demand, primarily for industrial machinery, machine tools, civil engineering and construction machinery, and transport machines is projected to be greater in fiscal 1989 than in fiscal 1988. But the rate of growth on a contract basis is expected to fall, considering the possibility of corporate plant and equipment investment slowing down in 1989 as compared with fiscal 1988 and the fact that many corporations intend to purchase machinery and equipment instead of leasing them, because of the prevailing low interest rates and their favorable earnings. Because the diffusion rate of leased business machines is considerably higher than other items and replacement demand is relatively limited, the growth rate of leasing of business machines is expected to slow down.

Some leasing companies, mindful of the effects when interest rates rebound, will try to restrain the accumulation of assets. This is considered to be long-term fixed management of funds. All leasing companies are getting by with low-interest short-term funds in order to cope with the increased competition stemming from a lowering of rates. The reason for this is the fear that earnings might be squeezed when interest rates rise in the future. It is expected that in future there will be an increase in the number of leasing companies which adopt the management strategy of stressing quality rather than volume in order to free themselves from a state of "prosperity without profit."

(Ken Niimura, economist)