

Liking Leasing

The value of leasing contracts has been increasing smoothly, reflecting economic expansion and vigorous plant and equipment investment. In value terms, leasing contracts concluded in fiscal 1988 passed the ¥6 trillion mark for the first time to reach ¥6,717 billion (\$46.3 billion), an increase of 26.8% over the preceding year. Also for the first time in fiscal 1988, leasing accounted for more than 8% of total private-sector investment in plant and equipment, reaching 8.02%. This percentage is expected to continue rising in the future. Leasing has now become one of the important corporate means of getting equipment in Japan today.

The leasing industry is projected to enjoy brisk business also in fiscal 1989 in view of a continuing strong corporate desire to invest in plant and equipment, although its performance may be affected by the front-loading of leasing contracts concluded hastily just before the start of the new fiscal year on April 1, in order to beat the introduction of the 3% consumption tax.

Leasing demand for machine tools and civil engineering and construction machinery, both related to plant and equipment investment, is increasing sharply. Demand for machinery and equipment for commercial use and for use by the service industry is also brisk, reflecting an increase in investment in



Benefiting from the continued economic boom, along with active investment, the leasing industry enjoyed strong growth in 1989.

cash registers and related equipment due to the introduction of the consumption tax. Demand for information-related equipment, which accounts for the largest share of the total leasing demand, is also growing smoothly.

Leasing demand for cars still remains strong. Personal car users are becoming aware of the advantages of leasing their vehicles. Although business corporations are the principal users of leased cars today, the number of individuals who lease them is expected to increase gradually.

The international leasing business, involving aircraft and other large items, is growing rapidly. Leasing companies are following each other in establishing overseas subsidiaries, mostly in the United States. They have 118 overseas bases in 18 countries, including 34 in the U.S., 18 in Hong Kong and 11 in Singapore, according to a survey conducted by the Japan Leasing Association in September 1988. The international leasing business will

continue to grow, though it will face the risks involved in any offshore operation, as well as other problems. Overseas subsidiaries are expected to step up their leasing activities.

As leasing companies depend on loans to raise much of the funds they need to purchase leasing assets, the low interest rates of recent years have helped them to enjoy good performance. It is feared, however, that their borrowings will squeeze their earnings when interest rates start rising. They are required to strengthen their financial muscle by raising their net worth ratio and increasing direct financing.

In fiscal 1990, corporate eagerness to invest in plant and equipment is expected to remain strong, and the value of leasing contracts is expected to increase robustly. Strong demand is expected for such principal leasing items as machine tools, information-related equipment, and machinery and equipment for commercial use and for use by the service industry.

Improvement of the financial constitution of leasing companies is progressing. Leasing companies will eventually reach their limit if they continue to depend principally on loans for business development. Many of the major unlisted leasing companies are preparing for the listing of their stocks to improve their financial standing.

In addition to the development and planning of new products and new leasing techniques, leasing firms will have to improve their administrative setups, reinforce screening systems and train human resources. Moreover, the industry as a whole will have to study how to beef up its overall capability to deal properly with taxation, auditing and legal affairs.

(Ken Niimura, economist)

Value of Leasing Contracts

(¥ billion)

	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Information-related machines	2,900.8 (24.4)	3,234.0 (11.5)	3,583.2 (10.8)
Business machines	583.4 (16.7)	618.4 (6.0)	673.4 (8.9)
Industrial machinery	1,085.9 (37.9)	1,252.0 (15.3)	1,352.1 (8.0)
Machine tools	378.8 (47.2)	424.2 (12.0)	459.8 (8.7)
Civil engineering and construction machinery	116.2 (38.8)	128.4 (10.5)	139.3 (8.5)
Transport machinery	326.9 (-2.1)	365.4 (11.8)	402.3 (10.1)
Medical equipment	221.3 (27.6)	250.7 (13.3)	274.0 (9.3)
Machines for commercial and services use	725.7 (27.6)	833.1 (14.8)	926.4 (11.2)
Others	378.0 (44.6)	416.8 (10.3)	389.5 (-6.5)
Total	6,717.0 (26.8)	7,523.0 (12.0)	8,200.0 (9.0)

Note: Figures in parentheses denote growth rate over the previous year.
Source: Japan Leasing Association