

Favorable Trend

Industrial activity is expected to follow a favorable trend in fiscal 1990, as it has done so far in fiscal 1989, with domestic demand providing the main thrust of growth. Robust growth is likely in areas related to consumption and business investment. Construction activity is also expected to lead domestic demand, thanks to continued growth in the private nonresidential sector.

Exports are likely to slow for the rest of fiscal 1989 and in the early part of fiscal 1990 as a result of a drop in the U.S. growth rate, but the upward trend of imports is expected to continue, supported by the strong domestic demand.

The corporate balance sheet is likely to show a little slowdown in performance, owing to cost increases resulting from higher raw material prices, lower yen rates and other factors. Further rises both in sales and profits are anticipated in fiscal 1990, however, reflecting the quantitative effects of increased production and sales and sustained cost-cutting efforts.

In the assembly and fabrication industry, the growth rate of demand for motor vehicles is expected to fall substantially in fiscal 1990, for two reasons: first, a round of restyling will have been almost completed; and, second, the price-reducing effect of the tax reform (the abolition of commodity taxes) will have disappeared.

Production of electronic and electrical products is expected to increase further in fiscal 1990, supported by the growing trend toward sophistication and differentiation in individual consumption. Output of general machinery is also expected to maintain an expansionary trend, buoyed by active plant investment, against a backdrop of stepped-up factory and office automation.

Semiconductors, which have remained on an expansive course, are likely to see their growth falter because the so-called silicon cycle is expected to reach its trough in fiscal 1990.

Exports of motor vehicles (assembled units) are likely to continue their negative growth, reflecting the slowdown in the U.S. market and the increased production

of Japanese vehicles in the United States. A slowdown in the growth rate is also predicted for electronic and electrical products and general machinery.

In the materials industry, steel and cement production is expected to stay at high levels, reflecting the continued expansion of construction investment. In addition, production of paper and pulp, petrochemicals and synthetic fibers is forecast to maintain a firm trend, due to the expansion of demand both in the industrial and nonindustrial areas. But profits are expected to slow, though they will stay at relatively high levels. This is because the supply and demand balance is expected to take a turn for the worse as a result of expanded productive capacity and the influx of cheaper imports. Another factor is the increased cost of fuel and raw materials.

In the energy industry, earnings are expected to decrease markedly in fiscal 1989: regarding electric power, electricity charges were cut in April 1989 and fuel prices increased; and for petroleum products, the cost increase resulting from higher crude oil prices will not be shifted sufficiently to the consumer price. In fiscal 1990, however, earnings are expected to improve as the cost increase will likely be offset by the effect of higher sales.

In the nonmanufacturing industry, the rising trend of sales at department stores, superstores and in air transport is expected to continue into fiscal 1990, due to the expansion of consumer spending reflecting the growth of disposable income.

In construction and real estate, the upward trend of earnings is expected to remain unchanged in the year ahead. Housing starts are estimated to drop from 1.58 million units in fiscal 1989 to 1.47 million in fiscal 1990, but in value terms, they are expected to remain at a high level, due to the qualitative improvement in housing. Construction is also forecast to follow a favorable trend in the private nonresidential sector, such as factories, commercial buildings and resort development.

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Compiled by the Industrial Research Department of the Industrial Bank of Japan, Ltd.

Notes: 1. The fiscal year is from April to March.
2. Figures for dollars shown in parentheses are converted at the rate of ¥145/\$.

Corporate Earnings Trends in Major Industries

Industry	Up or down		Earnings level	
	↑↓	○△	○△	○△
	FY1989	FY1990	FY1989	FY1990
Electronics, electricals	↑↑	○↑	○	○
Motor vehicles	↑	○↑	○	○
General machinery	↑↑	○↑	○	○
Shipbuilding	↑↑↑	△↑↑	△	△
Food	↓	○↓	○	○
Steel	↑↑	○↑↑	○	○
Petrochemicals	↓	○↓↓	○	○
Synthetic fibers	↑	○↑↑	○	○
Spinning	↓	○↑↑	○	○
Paper/pulp	↑	○↑	○	○
Nonferrous smelting	↑↑↑	○↓	○	○
Cement	↑	○↑	○	○
Department stores	↑	○↑	○	○
Superstores	↑	○↑	○	○
Shipping	↑↑↑	△↑	△	△
Air transport	↑↑	○↑↑	○	○
Construction	↑↑↑	○↑↑	○	○
Real estate	↑	○↑↑	○	○
Electric power	↓↓↓	○↑↑	○	○
Petroleum	↓↓↓	○↑↑↑	○	○
Total	↑(4.7%)	○↑(6.6%)	○	○

Notes: 1. Three arrows denote increase or decrease of earnings rate by more than 30%; two arrows, by 10%–29%; and one arrow, by 3%–9%.
2. ○ denotes surplus; △ denotes surplus but earnings insufficient to pay dividend.
3. Survey of earnings trend covered major firms in each industry, totaling 160 companies.