

Taking a Tumble



Brisk domestic demand for consumer electronic appliances is helping to make up for a decline in exports.

While domestic demand for electrical machinery has been generally brisk in 1987, exports declined considerably for the second straight year as the yen continued to gain in strength and trade frictions intensified. As a result, the production value will be down for the second consecutive year.

Exports of consumer electronic appliances were most sluggish. Exports of such appliances in 1986 plummeted by 26% from the previous year, and exports in 1987 are also believed to have suffered a heavy setback of another 30%.

Exports of video cassette recorders (VCRs), which account for about half of total exports of consumer electronic machinery, plunged by an estimated 35% in yen terms in 1987. The slowdown in the growth of demand as a result of the rise in the U.S. market diffusion rate to the 40% level was a major contributing factor. Intensified competition between Japanese VCRs and South Korean products, offered at much lower prices, was another factor that drove Japanese VCR exports steeply lower.

VCR stocks on the U.S. market, equivalent to about 10 weeks sales, remained high. Exports of VCRs to the U.S. are expected to remain in an adjustment phase for some time to come.

Color televisions are included in a list of items subject to extra tariffs as a U.S. reprisal against Japan in connection with a dispute between the two countries over semiconductor trade. Like audio equipment makers, all the major color television manufacturers are pushing ahead with projects to shift their production

bases to their main export markets. As a result, color television exports were down by an estimated 25% in yen terms from the previous year.

Domestic demand for consumer electronic appliances was very brisk throughout 1987. Rises in the stock markets stimulated consumer spending. Housing (construction) starts showed a steady growth. Further, manufacturers directed their energies toward the buildup of domestic sales to cover slowing exports. Such factors are believed to have combined in a way which pushed domestic shipments much higher.

For instance, domestic shipments of VCRs showed an estimated 30% rise in volume terms from the previous year, particularly the more sophisticated models. Domestic shipments of color televisions also increased by more than 10% in volume, with 24-inch screens and even larger sizes most in demand.

The export ratio of consumer electronic appliances declined from 74% in 1985 to an estimated 50% in 1987. In this sector, which used to be export-oriented, the weight of domestic demand has gradually been increasing.

In the field of consumer electrical appliances, production in 1987 maintained nearly the same level as in the previous year. The export ratio used to be a relatively low 20% or so. But exports in 1987, particularly those of microwave ovens, suffered a heavy setback. By contrast, domestic demand was relatively firm.

In the case of microwave ovens, the No. 1 export item in the field, Japanese manufacturers are preparing to start produc-

tion or stepping up production chiefly in European countries and the United States due to trade frictions having surfaced. In Europe, a dumping complaint has been filed against Japanese microwave oven makers.

Domestic demand for air conditioners in 1987 hit an estimated 3.7 million units, the highest ever. Domestic demand for refrigerators also increased to an estimated 3.9 million units, particularly 300-liter capacity or larger types. This reflected a continued increase in housing (construction) starts.

The decline of industrial electric machinery exports hit rock bottom during 1987. Domestic demand was relatively good, due partly to increased orders for switchboards and transformers from electric power companies and partly to larger orders for "intelligent" building equipment and machinery. As a result, 1987 production is estimated to have slightly exceeded the 1986 level.

In the consumer electronic appliances sector, the range of decline in the exports of VCRs and other appliances is expected to edge lower in 1988. Domestic demand will probably remain firm, led by audio-visual equipment. Production will also bottom out. With the approach of the Seoul Olympics, demand for large televisions and VCRs will increase further. DATs (digital audio tape recorders), which made their debut early in 1987, will come into wider use this year.

In the consumer electrical appliances sector, too, exports will probably show a smaller rate of decline. Microwave ovens, large refrigerators and fully automatic washing machines are likely to continue selling well among Japanese consumers. The result will be some gain in production in 1988.

The 1988 production of industrial electric machinery will probably be maintained at the previous year's level. As a result of the loss of price competitiveness due to the strong yen, exports will remain in the doldrums in 1988. By contrast, domestic demand will probably remain firm, thanks mainly to higher demand from the public sector under the government's reflationary package.

(Koichi Hasegawa, economist)

Output and Exports of Electronic and Electric Machinery (¥ billion)

	FY 1987 (estimate)			FY 1988 (forecast)		
	1st half	2nd half	Total	1st half	2nd half	Total
Consumer electronic products						
Output	1,828.7 (-14.8)	1,908.7 (-3.7)	3,736.5 (-9.5)	1,799.9 (-1.5)	1,864.0 (-2.3)	3,663.9 (-1.9)
Exports	931.6 (-32.7)	913.1 (-11.1)	1,844.7 (-23.5)	873.6 (-6.2)	854.7 (-6.4)	1,728.3 (-6.3)
Consumer electrical appliances						
Output	1,118.3 (-3.4)	1,076.0 (-0.6)	2,194.3 (-2.0)	1,106.0 (-1.1)	1,092.9 (1.6)	2,198.9 (0.2)
Exports	151.3 (-24.2)	137.6 (-15.8)	288.9 (-20.4)	134.9 (-10.8)	133.0 (-3.3)	267.9 (-7.3)
Industrial electric machinery						
Output	1,345.6 (-2.4)	1,103.4 (0.1)	2,449.0 (-1.3)	1,329.6 (-1.2)	1,117.7 (1.3)	2,447.3 (-0.1)
Exports	461.3 (-6.2)	459.0 (-6.4)	920.3 (-6.3)	443.2 (-3.9)	439.0 (-4.4)	882.2 (-4.1)

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