

New Demand

The production of electric machinery in fiscal 1989 is forecast to rise 3% from the previous year, and that in fiscal 1990 to increase 2%, sparked by strong domestic demand.

The increase in domestic demand for home electrical appliances in fiscal 1988 was brought on mainly by increased housing construction and increased consumer spending that resulted from the rise in the market value of properties and higher disposable income. Increased consumer spending stimulated new demand for VCRs and compact disk (CD) players, and created new consumer demand for higher value-added and personal-use appliances, resulting in increased replacement demand and additional purchases.

This new consumer demand will continue in fiscal 1989 and 1990. Higher value-added appliances such as large color TVs, high-definition VCRs, CD radio cassette recorders and large, fully automatic washers will lead replacement demand.

Purchases of electrical appliances for personal use chiefly by those in their mid-teens, who have great demand potential, are likely to continue to expand at the current pace until about 1990. But such expansion may later cease in tune with a gradual decrease in the number of

these young people from the mid-1990s.

Housing construction starts are expected to edge down from 1.73 million in fiscal 1987 and 1.66 million in fiscal 1988 to 1.58 million in fiscal 1989, and further to 1.47 million in fiscal 1990. As a result, replacement demand for home appliances for new houses will also decrease, pulling domestic demand down with it by about 1% in fiscal 1990.

Altogether, fiscal 1989 domestic demand for consumer electrical appliances will slip somewhat from the fiscal 1988 level, but will remain firm for the rest of the year and in 1990. Fiscal 1989 domestic demand is estimated to dip by 1% from the previous year, due to a decline in unit selling prices resulting from the abolition of the commodity tax and the imposition of a lower 3% consumption tax from April 1989. In fiscal 1990, domestic demand is predicted to post a 3% gain over the previous year. Demand for some products such as VCRs may slow due to an already high diffusion rate (the diffusion rate of VCRs was 63.7%, according to a March 1989 survey).

Exports will be affected by the reported economic confusion in China. This will be particularly so with exports of color TVs and refrigerators, since China



A production line of automatic washing machines. Strong domestic demand is predicted to further boost production of electric machinery in fiscal 1990.

has been one of the major foreign markets for such appliances. VCR exports, mainly to the United States, were in fine shape in the first half of fiscal 1989, but are likely to drop in the latter half of the year and beyond, as a result of inventory adjustment running its course.

Imports of home appliances such as color TVs, refrigerators and microwave ovens are estimated to show a steep 40%-level increase in fiscal 1989 from the previous year, and in fiscal 1990 to enjoy 20%-level growth.

The industrial electric machinery sector will continue to fare well in fiscal 1989 and 1990, due chiefly to vigorous industrial capital investments.

Domestic demand for industrial electric machinery posted double-digit growth in fiscal 1988 as the decline in procurement by the electric power industry was far more than offset by the increase in orders concerned with private sector, public sector and building construction investment. In fiscal 1989, such demand will continue to display high growth, thanks to still vigorous industrial capital spending and to the recovery of orders from the electric power industry.

Fiscal 1990 is likely to witness modest growth in this field, as demand from the power industry is expected to remain high despite some likely slowdown in the growth of industrial capital investments. Demand for electronics-related appliances, such as inverters and programmable controllers, will record high growth.

Exports in fiscal 1989 will achieve a double-digit increase, the first in recent years, thanks to increased orders mainly from North America and Southeast Asia. In fiscal 1990, too, exports, mainly to Southeast Asia, will continue to make a good showing.

(Yasuhiro Nishi, economist)

Supply and Demand of Electric and Electronic Machinery

(¥ billion)

	FY 1989 (estimate)	FY 1990 (forecast)
Consumer electronic products		
Output	3,985	4,000
Exports	2,300	2,290
Imports	150	190
Domestic demand	1,835	1,900
Consumer electrical appliances		
Output	2,495	2,590
Exports	360	370
Imports	80	100
Domestic demand	2,215	2,320
Industrial electric machinery		
Output	3,595	3,750
Exports	1,100	1,140
Imports	210	230
Domestic demand	2,705	2,840