

Getting Back into Gear

The industrial machinery industry faced a harsh business environment both at home and abroad in early 1987. The yen continued to rise against the dollar, causing a slowdown in plant and equipment investment in major clients such as electronics, electric machinery, automobiles and other export industries. In the second half of the year, however, the supply-demand balance began to improve, finally bringing an end to the two-year slump and setting production on a slow upward course.

One factor contributing to the pickup in demand was the implementation of government pump-priming measures. With activity in the real estate and construction industries reaching boom proportions, domestic demand for construction machinery and cooling equipment such as large air conditioners expanded rapidly.

There was also a surge in demand for new plant and equipment in industries enjoying the benefits of the strong yen, such as the pulp and paper industry. Prospects for plant exports to Asian NICs improved, with inquiries pouring in from those nations for chemical and textile machinery and prime movers such as thermal power generators. Although the situation varied from industry to industry, the overall environment for industrial machinery began to improve.

However, demand for machine tools

remained at a low ebb both at home and abroad. Sales to the United States, the world's largest market, were curbed under a "voluntary restraint" arrangement, while capital investment slowed in the industrial machinery, electric machinery and automobile industries.

Demand for agricultural machines also remained sluggish. The strong yen continued to depress exports, while domestic sales slowed as farmers' investment confidence declined. A combination of factors also dampened domestic demand, including a cut in the producer's price for rice, further reductions in rice-planting acreage and intensified trade friction over agricultural products. In contrast, domestic demand for construction machinery grew rapidly as public works investment accelerated, although exports remained in the doldrums.

External demand for office machines dropped markedly during the year, partly because of increased local production in Europe in response to dumping charges against copier manufacturers, and partly because the rising yen led producers of calculators and other low-priced items to shift production to Asian NICs. Overall, exports are believed to have fallen by more than 10%. Internal demand fell temporarily as the rapid growth of Japanese-language word processors peaked. In the second half of the year, however, demand returned to the positive side of the ledger as new products like the electronic pocketbook were put on the market.

The industrial machinery industry overall is expected to follow a moderate uptrend again in 1988. In the construction machinery industry, strong domestic demand should continue. Exports, meanwhile, are expected to turn upward as supplies of OEM goods from Japan expand through agreements among Japanese, U.S. and European manufacturers.

Exports of machine tools will likely remain at a low ebb in the face of continuing trade frictions and delays in the recovery of demand. In contrast, domestic demand is expected to turn around, reflecting a pickup in manufacturers' plant and equipment investment.

Domestic demand for agricultural machines is likely to remain lower than the



Greater public works investment meant a rapid increase in domestic demand for construction machinery.

year-before level. Farmers, concerned about increased agricultural imports, are expected to hold down purchases. On the other hand, foreign sales should grow through expansion in such areas as home lawnmowers and small garden tractors.

Exports of office and precision machines will decrease. Copier production in Europe will continue to expand, as will local parts procurements. At the same time, calculators, compact cameras, digital watches and other low-priced items are likely to be turned over increasingly to Japanese subsidiaries in Asian NICs; these products will most likely be exported to the worldwide market, including Japan. Domestic sales are also expected to stagnate with the spreading sentiment in the market that demand for precision items such as watches and cameras has peaked. In contrast, office machines should stage a strong recovery, in part because of strengthening personal demand.

Plant exports to the Middle East will remain in the doldrums, but orders from Asian NICs will firm.

Corporate balance sheets in the industrial machinery industry are believed to have improved in 1987, with sales showing a moderate increase. Cost-cutting efforts by individual businesses began to pay off during the year, just as the domestic economy entered a gradual recovery. Moderate sales growth should continue in the year ahead for the same reasons.

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Industrial Machinery Supply and Demand

