

In the Slow Lane

The Japanese automotive industry has enjoyed relatively high domestic demand so far in fiscal 1987, but is suffering from a serious export slowdown. Finished car, truck and bus production in the whole of the year will fall short of previous-year levels for the second consecutive year. The industry as a whole will chalk up some profits as a result of rationalization efforts, but earnings overall will probably be more than 30% off the industry's peak years.

Domestic demand in fiscal 1987 is expected to be up close to 4% over the previous year. It is commercial vehicles, trucks especially, that have pulled up demand for motor vehicles as a whole. Thanks to the government's economic stimulus package, demand for standard-size trucks, long in the doldrums, began increasing in 1986. Demand for the full fiscal year ending in March is estimated to show close to 20% growth. Small trucks are also in brisk demand from construction, transportation and distribution companies, and are expected to register a close to double-digit growth in sales.

Car demand has also been firm inside Japan. The year 1987 was a motor-show year, and automakers have all been restyling their best-selling models. Soaring land and stock prices, meanwhile, boosted personal assets, further encouraging consumers to buy cars. On the other

hand, exports of finished cars, including commercial vehicles, are likely to show a close to 5% decline in fiscal 1987 from the previous year. Exports of commercial vehicles alone to the United States are expected to decline by more than 20% as the strong yen reduces price competitiveness.

Purchasers of commercial vehicles tend to be more sensitive to price fluctuations than car buyers. Price hikes by Japanese automakers in dollar terms, necessitated by the yen's further appreciation during the year, have clearly had an adverse impact on commercial vehicle sales. Exports of motor vehicle KD (knockdown) kits for overseas assembly are estimated to register a growth of more than 20% for the full year, reflecting climbing local production in the U.S. and Southeast Asia.

In fiscal 1988, motor vehicle production will likely decline for the third straight year. While domestic demand will remain firm, the deceleration in exports is expected to continue. Industry revenues and profits are forecast to be about the same as in fiscal 1987.

Domestic demand is predicted to increase 2.3% from fiscal 1987 levels, a somewhat lower growth rate. Truck demand is forecast to increase 8.6% for standard sizes and 4% for smaller sizes, although the growth rate is likely to slow somewhat in the second half.



Scene from the 1987 Tokyo Motor Show. Healthy sales at home contrast with a serious export slowdown.

Domestic car demand is predicted to rise nearly 2% as the stimulatory effect on the market of model changes in late 1987 carries over into the first half of 1988.

Finished car, truck and bus exports are likely to decline for the third consecutive year in fiscal 1988, due mainly to a continued slowdown in shipments to the United States. Shipments of commercial vehicles to the American market show no signs of recovery, while exports of cars are also expected to fall by nearly 10%, since reduced U.S. demand for cars and the declining price competitiveness of Japanese vehicles led to a ballooning of stocks of Japanese autos in the U.S. during fiscal 1987. In the case of some makers, stocks of unsold cars are well above appropriate levels. It will be necessary to trim inventories in fiscal 1988, at a time when local production by Japanese automakers is expanding. The only option left is to slash exports of finished vehicles from Japan.

Exports to Europe will remain comparatively firm. Prospects for shipments to Southeast Asia, the Middle East and Australia, in the doldrums for years, are also expected to brighten.

Shipments of KD sets for overseas assembly are forecast to grow by more than 20% over fiscal 1987 levels. Exports to the U.S. are expected to show a particularly large gain, mirroring increasing local production. Rationalization efforts should yield even greater rewards in fiscal 1988, yet profits are predicted to be on a par with previous-year levels. This reflects the prospective decline in car exports to the U.S., which usually enjoy high profit margins.

(Shigeki Yana, senior economist)

Motor Vehicle Supply and Demand

	FY 1986	FY 1987 (estimate)	FY 1988 (forecast)
Domestic demand (1,000 units)	5,753 (3.2)	5,970 (3.8)	6,110 (2.3)
Exports (1,000 units)	6,591 (-3.8)	6,300 (-4.4)	6,120 (-2.9)
Imports (1,000 units)	75 (44.2)	100 (33.3)	120 (20.0)
Finished car production (1,000 units)	12,269 (-1.2)	12,170 (-0.8)	12,110 (-0.5)
KD sets (1,000 sets)	1,422 (32.4)	1,770 (24.5)	2,130 (20.3)
Sales (¥ billion)	18,501.4	18,750	19,000
Ordinary profits (¥ billion)	649.6	670	670
Ordinary profit/sales ratio (%)	3.5	3.6	3.5

Notes: 1. Domestic demand includes imports.

2. KD sets not included in export, finished car production figures.

3. Figures in parentheses represent percentage growth over the previous year.