

# Turning toward Home

Japan's output of finished cars, trucks and buses in fiscal 1988 will exceed the previous year's level as an increase in domestic demand will more than offset a decrease in exports.

The foremost feature of domestic demand expansion in the current fiscal year is that motor vehicles in all classes have sold well. This is particularly true of high-class subcompacts thanks to restyling, a timely marketing of new models and stepped-up sales efforts by automakers.

Large and medium-sized cars also sold very well, reflecting a consumer relish for high-grade cars. Sales of popular cars made a good showing, mirroring strong demand from wage earners' families. Also selling well were minicars for use by people in outlying areas and as second cars by city dwellers. These minis and imported cars, including cars manufactured at U.S. plants of Japanese automakers, will top the fiscal 1987 level by a wide margin.

Domestic sales of cars, which posted a high 14.1% increase in the first half of fiscal 1988 over the same period of the previous year, can be expected to show a gain of more than 10% on a full-year basis.

Sales of commercial vehicles are high, both standard size and small vehicles. Sales of standard-size trucks, in particular, showed a continued year-on-year increase from October 1986 to the end of the first half of fiscal 1988. This record exceeds the sustained year-to-year gain that occurred over a period of 21 months from January 1978.

The current boom was touched off by a massive government reflationary package. Since the start of 1988, new commercial vehicles have been actively bought to

replace those purchased in the previous boom period. In the first half of the current fiscal year, sales of commercial vehicles as a whole posted a high 9.6% growth from the same period of the previous year. In the latter half, however, this replacement demand is believed to have edged down, and the rate of growth will slow somewhat. But the average rate of growth in the whole of fiscal 1988 will probably reach about 5%.

On the other hand, exports of finished cars, trucks and buses are estimated to record a decrease of close to 4%, due mainly to a poor showing in commercial vehicle shipments to the United States. In contrast, exports of motor vehicle KD (knockdown) kits for overseas assembly will likely post a growth of close to 30% in tune with increasing vehicle production in the U.S. by Japanese automakers.

The profits of Japanese automakers as a whole in fiscal 1988 will probably show some increase from the previous year, thanks to higher domestic profits and stepped-up cost-cutting efforts. Automakers have generally recorded a substantial improvement in the rate of domestic profit margins, reflecting a growing trend toward high-grade cars. The automakers' sales and profit structures are becoming markedly oriented toward home demand.

In fiscal 1989, the output of finished cars, trucks and buses will show some decrease from the previous year. Domestic demand will show a smaller rate of growth, though it will remain high. The growth in domestic demand will probably be offset by the decrease in exports.

The growth in domestic demand in fiscal 1988 was car-led. In fiscal 1989, too,



Motor vehicles of all classes sold well in 1988, with consumers showing a relish for high-grade cars.

car sales will remain at a high level. Marked growth on a level with that recorded in fiscal 1988 can hardly be expected, though. Some new car models may be marketed with an eye toward the annual motor show in the fall. Not much impact can be expected from the restyling of existing models, however.

On the other hand, car imports will likely maintain double-digit growth over the previous year. Demand for commercial vehicles is expected to record a negative growth. This is particularly so with standard-size trucks, as replacement demand has apparently run its course and demand linked with construction will slow.

Exports of finished cars, trucks and buses are expected to decrease further as Toyota Motor and Mitsubishi Motors are stepping up their production in the U.S. Exports will suffer a setback for the fourth consecutive year.

Japanese automakers' output in the U.S. is estimated to reach 1.1 million vehicles in fiscal 1989, compared with 630,000 in fiscal 1987. Considering U.S. market conditions, the automakers will have no choice but to reduce their shipments of finished cars to that country. Japanese car exports to the U.S. are projected to be somewhat short of the 2 million-vehicle level in fiscal 1989. By contrast, their exports of car KD kits to the U.S. will show a growth of over 20%, mirroring increasing production at their U.S. plants.

## Motor Vehicle Supply and Demand

(1,000 units)

	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
Domestic demand	6,213 (8.0)	6,700 (7.8)	6,770 (1.0)
Exports	6,268 (-4.9)	6,040 (-3.6)	5,840 (-3.3)
Imports	104 (38.7)	140 (34.6)	170 (21.4)
Finished vehicle output	12,349 (0.7)	12,600 (2.0)	12,440 (-1.3)
KD kits	1,920 (33.1)	2,440 (28.4)	3,010 (23.4)

Notes: 1. Domestic demand includes imports.

2. KD kits are not included in finished vehicle export figures.

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

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