Sustained Growth

The output of finished cars, trucks and buses in fiscal 1989 is achieving sustained growth for the third straight year as an increase in domestic demand more than offsets a decrease in exports.

With regard to the domestic market, additional new demand for cars was created mainly by increased consumer disposable income as a result of continued business prosperity, as in the previous year. Thanks to tax reforms—the abolition of the commodity tax on cars and a cut in the automobile tax from April 1, 1989—car demand is expected to show a sharp 21% year-on-year increase.

High-grade compact cars, for which model lines improved, were the front-runners in the number of cars sold. Due to narrowed price differentials resulting from the abolition of the commodity tax, more consumers shifted to mini passenger cars from minivans. This was another factor in increased car sales.

Car imports are estimated to post a high 34% growth rate in fiscal 1989, reflecting good sales of European cars and stepped-up reverse imports of cars manufactured overseas by Japanese makers.

Sales of commercial vehicles, such as trucks, slipped back in the April–June quarter as firms rushed to buy them in the January–March period before the consumption tax was introduced. Thanks to the continuing favorable business climate, there was moderate additional business demand for commercial vehicles and, as a result, the fiscal 1989 demand for standard-size trucks, on a full-year basis, will suffer a 1% setback from the previous year, while demand for small trucks will rise 3%.

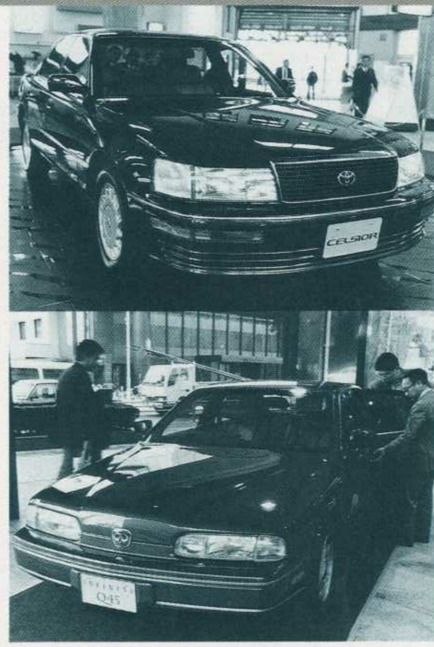
Exports of finished vehicles are estimated to post a 4% decrease in fiscal 1989, due mainly to a slowdown in exports to the United States. Car shipments to the U.S. will probably fall below the 2 million-unit level because of a falling U.S. market (down by 800,000 cars from the previous fiscal year) and increasing car production at Japanese-affiliated plants in the U.S. (up by 410,000 cars). By contrast, exports of auto parts for overseas assembly are estimated to increase by 30%, due to higher shipments to the U.S. and improving exports to Southeast Asia.

The 11 Japanese automakers will probably chalk up ¥1.1 trillion ($7.6 billion) in combined ordinary profits in fiscal 1989, up 3% from the previous year thanks to higher domestic profits and stepped-up cost-cutting efforts.

In fiscal 1990, output of finished motor vehicles is likely to suffer its first setback in four years as the increase in domestic demand will be more than offset by the decrease in exports.

The growth rate in domestic demand is expected to slow substantially, though demand will remain at a high level, due to the following factors: the restyling of existing mass-sale cars will run its course, and the effect of the tax reform will disappear despite a likely increase in consumers' disposable income. Demand for minicars is likely to increase markedly, however, as automakers plan to market new mini models that meet revised standards after February or March 1990, and consumers will be holding back until then.

Commercial vehicle demand is likely to register a mild decline, reflecting a leveling off in public works investments and a similar trend in demand from the construction industry, such as that for dump trucks and concrete mixers. However, the decline in the demand for small trucks will be smaller than that for standard-sized trucks, reflecting the needs of the distribution system.



Toyota's Celsior and Nissan's Infiniti symbolize the promotion of luxury cars by domestic automakers, contributing to the sustained growth of Japan's car industry.

Exports of finished vehicles will suffer a decline for the fifth consecutive year because of a slowdown in car exports to the U.S., Japan's foremost car export market, where sales will hit rock bottom—an estimated 9.6 million cars. Increasing car production in the U.S. by Japanese automakers, such as Honda, Mazda and Nissan, and the start of production by Subaru-Isuzu Automotive Inc., will be another major factor. Exports to Europe are expected to level off as replacement demand will run its course. Exports of auto parts for overseas assembly will show a double-digit increase, in view of increasing production in the U.S. and increasing shipments to Europe.

The 11 automakers' combined ordinary profits will likely be almost on a par with the fiscal 1989 level, as the decrease in output will be offset by a rise in the unit selling price. The automakers' dependence on domestic demand will be heavier. Their earning power will be affected largely by their having the best-selling models on the domestic market.

(Katsuyuki Murai, economist)

Motor Vehicle Supply and Demand (1,000 units)

	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Domestic demand	6,749 (8.6)	7,140 (5.8)	7,250 (1.5)
Exports	6,191 (−1.2)	5,920 (−4.4)	5,770 (−2.5)
Imports	142 (36.5)	190 (33.8)	250 (31.6)
Finished vehicle output	12,819 (3.8)	12,870 (0.4)	12,770 (−0.8)
Parts for overseas asssembly	2,440 (27.1)	3,210 (31.6)	3,800 (18.4)

Notes: 1. Domestic demand includes imports.
2. Parts for overseas assembly are not included in finished vehicle export figures.
3. Figures in parentheses denote growth rate over the previous year.