

# Solid Growth

Japan's production of finished cars, trucks and buses in fiscal 1990 will show solid growth for the fourth consecutive year, due to the fact that strong domestic demand is more than offsetting a decrease in exports. Domestic demand, led by demand for minivehicles, will show a 6% increase in fiscal 1990 over the previous year. Anticipating a change in the minivehicle standard from 550cc to 660cc in early 1990, consumers tended to put off purchases before this period. Consequently, demand for minivehicles in fiscal 1990 is projected to show a robust increase of around 15% over the previous year.

Cars and trucks with an engine output of 660cc and above continue to enjoy strong demand, benefiting from the increasing disposable incomes of consumers. But the growth rate in this category is likely to slow to about 4%. The slowdown will occur largely because of two factors. In fiscal 1989, the abolition of the commodity tax boosted passenger car demand. In fiscal 1990, the "boosting" effect had worn off, and a relatively small number of new car models are being marketed in the latter half of fiscal 1990. The demand for standard-size trucks, in contrast, will likely show a 9% increase, and small trucks a 6% increase, both due to increasing cargo traffic and the growth of door-to-door delivery services.

Exports of finished cars, trucks and buses are projected to decline 2.9% from the previous year, due chiefly to sluggish shipments to the United States. Passenger car exports to the U.S. are estimated

at about 1.8 million vehicles for fiscal 1990, well below the ceiling of 2.3 million cars set by the voluntary restraint arrangement. The slow market in the U.S. and a marked increase in U.S. plant production by Japanese automakers are both contributing to falling exports from Japan. Exports of parts for assembly overseas, however, are estimated to increase by about 10%, due to increasing production at Japanese plants in the U.S.

In fiscal 1991, the output of finished vehicles is likely to decline somewhat. That would be the first such setback in five years, resulting from the failure of a slight increase in domestic demand to offset a continued decrease in exports. Domestic demand will likely remain at a high level, but its annual rate of growth, which has been on a downward trend since the previous year, will probably slow even further, to around 1.9%.

As for passenger cars, continued growth in consumers' disposable income will likely serve as a strong prop for demand. Yet the rate of growth in demand is likely to slow even further, due to a combination of rising interest rates on loans, a sluggish stock market, an ever-more-chronic parking shortage and ever-rising parking costs. Starting in the fall, the restyling of quantity-production cars will be increased to boost the market somewhat.

In commercial vehicles, too, growth in demand for standard-size and small trucks, which has been sustained since fiscal 1987, will likely slow appreciably in fiscal 1991 due to a shortage of drivers and a slowdown in corporate earnings.



Photo: Fuji Heavy Industries Ltd.

Demand for minivehicles is estimated to jump 15% in fiscal 1990, boosted by a change in the minivehicle standard from 550cc to 660cc.

Car imports will probably maintain their present double-digit growth. The reason is that although a rise in car prices will result in a slowdown in the growth pace of demand for European cars, this trend will be more than offset by increasing reverse imports—autos manufactured at Japanese plants overseas.

Finished car exports are expected to decline because of sluggish shipments to the U.S. The American auto market is thought likely to hit rock bottom in 1991, as the general business slowdown continues and gasoline prices rise. To prevent an increase in inventories of cars produced in U.S. factories, Japanese automakers will have no choice but to reduce their finished car shipments to the U.S. from Japan. Exports to the EC will also likely level off, due primarily to a slack market in Britain.

Exports of auto parts to the U.S. and Southeast Asia, by contrast, will likely grow, pushing total exports higher by about 9%. Southeast Asia is one area where Japanese automakers are expanding their production capacity.

In fiscal 1991, the 11 Japanese automakers are likely to show some profit setback. A decrease in the output of finished motor vehicles will probably be offset by an increase in consumer demand for higher-grade cars. Total costs—for personnel, depreciation and materials—are all likely to rise substantially.

Many auto part manufacturers will probably also show lower profits on higher sales in fiscal 1991. Parts factories are continuing to operate at very high capacity, thanks to increased orders from domestic and overseas automakers. Yet they, like auto manufacturers, are faced with considerable rises in costs of personnel, development, depreciation and interest rates. After all, technological development capabilities hold the key to the future of parts makers.

(Katsuyuki Murai, economist)

## Motor Vehicle Supply and Demand

(1,000 vehicles)

	FY 1989	FY 1990 (estimate)	FY 1991 (forecast)
Domestic demand	7,451 (10.4)	7,900 (6.0)	8,050 (1.9)
Exports	5,817 (-6.0)	5,650 (-2.9)	5,500 (-2.7)
Imports	202 (42.3)	240 (18.8)	265 (10.4)
Finished vehicle output	12,954 (1.1)	13,310 (2.7)	13,285 (-0.1)
Parts for overseas assembly	3,185 (30.5)	3,495 (9.7)	3,800 (8.7)

Notes: 1. Domestic demand includes imports.

2. Parts for overseas assembly are not included in finished vehicle export figures; parts in 1,000 sets.

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