

Decline in Demand

Machine Tools

Demand for machine tools in fiscal 1991 will decline from the previous year after four years of continued growth since fiscal 1987. Domestic demand has slowed, reflecting reduced demand mainly from the two major user industries—general machinery, which accounts for some 30% of total orders, and the automobile industry, which represents about 20% of total orders. These two industries began cutting down capital spending in the face of an uncertain business outlook.

Among machine tools, demand for those used in factory automation and CIM (computer-integrated manufacturing) systems for energy-saving and rationalization purposes will show some growth due to shortages of manpower for hard and dirty jobs. On the other hand, orders for such quantity-production items as numerically controlled lathes and machining centers have suffered a conspicuous setback. However, the decline in fiscal 1991 demand will not be as heavy as recorded in 1986 and 1987 because of persistent demand for labor-saving systems.

A relatively high level of orders and a closer and faster exchange of information between sales and plant personnel will also serve to prevent a fall in the prices of machine tools as a result of oversupply.

Exports in fiscal 1991 will also decline from 1990, due chiefly to a delay in the U.S. business recovery. Exports to the EC, which had been in good shape until fiscal 1990, will also suffer a setback amid a recessionary state of business there.

Overseas subsidiaries of Japanese machine tool makers, mostly those engaged in production in the United States, are not in good financial shape, due to stagnant demand, which has made it impossible for them to enjoy the benefits of quantity production.

In fiscal 1992, the machine tool industry will show negative growth for the second consecutive year, due to a continued slowdown in the automotive industry, sustained sluggish trends in other main user industries and a general slowdown in business activity. Exports will also face a severe situation, due partly to a continued uncertain outlook for the U.S. market, and partly to slowing trends in both the EC and Southeast Asian markets.

Construction Machinery

Construction machinery demand in fiscal 1991 will suffer a setback after a four-year period of sustained growth from fiscal 1987. Reduced demand from construction companies, which have obtained less orders, and a continued fall in demand from leasing and rental firms as a result of rising interest rates since fiscal 1990, will be the main contributing factors.

The formerly brisk demand for hydraulic shovels, which account for about half of the demand for construction machinery, had been a major factor pushing up total demand. However, such shovels now appear to be in oversupply. In contrast, small hydraulic shovels are still seeing solid demand, although the pace of



An increase in projects for high-rise buildings has spurred demand for large cranes.

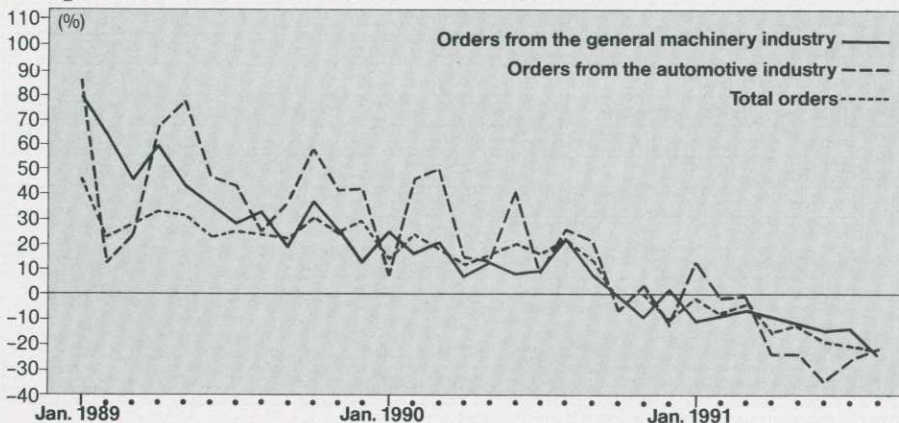
demand is slackening. This is due to the widening uses to which such shovels are put, mainly on urban construction sites, as a result of the tendency for young people to shun dirty, hard, and dangerous work. Demand for cranes has also grown, in line with an increase in construction projects for high-rise buildings.

Exports of construction machinery have declined considerably, due to a heavy decrease in demand from the U.S. and the EC, hit by business recessions. The construction machinery market in Southeast Asia, which built up considerable momentum until fiscal 1990, has also begun to slow down. The major Japanese construction machinery companies had made good headway in overseas production. Recently, however, their U.S. subsidiaries, in particular, have been obliged to cut down output to meet reduced demand, and their operations are below the break-even level.

Construction machinery is forecast to show negative growth in fiscal 1992 for the second straight year. The government will step up its investments in public works projects, but construction demand is predicted to remain in the doldrums for some time to come. Machinery demand from construction companies will also remain sluggish.

Reflecting falls in interest rates, demand from leasing and rental businesses will recover somewhat, but at a slower pace, due to lethargic construction demand. Demand for small hydraulic shovels, which had been very high for some years, and a major factor supporting demand for construction machinery as a whole, is expected to peak in fiscal 1992. ■

Change of Machine Tool Orders from the Year Before



(Tsuyoshi Hoshino, economist)