

Turning Point

Japan's output of finished cars, trucks and buses in fiscal 1991 will post a decline of about 4% from the previous year. The decrease is due partly to a slowdown in exports, resulting from sluggish trends in overseas markets and the good headway in overseas production made by Japanese automakers, as well as to a downtrend in domestic demand.

Domestic demand will show a 2.3% decline from the preceding year—the first setback in 11 years, since fiscal 1980. Car demand will suffer negative growth, due to sluggishness in the stock and real estate markets, and the increasing difficulty in securing parking places. Minivehicle demand will record a heavier rate of decline, especially in the Tokyo and Osaka areas, under a newly revised law which made it mandatory for minivehicle owners—not only owners of larger vehicles—to prove to police that they have off-road space for their cars.

Commercial vehicle demand will show a mild downtrend in the latter half of fiscal 1991, due to a shortage of drivers and a deterioration in corporate sales and profits since fiscal 1990. The demand for such vehicles had previously shown more solid growth than that for cars as a result of a development in the distribution system.

Exports of finished cars, trucks and buses are projected to suffer a 3.4% setback, due chiefly to a slowdown in shipments to the U.S., which account for about 40% of total exports. Car exports to the U.S., in particular, will fall far short of the existing ceiling, totaling about 1.7 million vehicles. In contrast, exports of auto parts for supply to overseas assembly plants will grow, despite a slowdown in the pace of growth in shipments mainly to the U.S. and Southeast Asia.

Due to declining production as well as

increases in manpower costs, R&D and depreciation, the combined pretax profits of the 11 Japanese finished auto manufacturers in fiscal 1991 will probably fall by 17% to about ¥780 billion (\$6 billion) on an unconsolidated basis. Fiscal 1991 marks a major turning point for the Japanese automotive industry, which had enjoyed strong expansion since fiscal 1987, thanks to robust domestic demand.

In fiscal 1992, the output of finished vehicles is likely to be nearly on a par with the previous year's level. While the pace of decline in exports will slow, there is very little scope for recovery in domestic demand.

Domestic demand is very likely to remain at about the same level as in fiscal 1991. While there will be a slight increase in the number of cars to be replaced—a "plus" factor—there is likely to be little change in other factors adversely affecting demand, namely the continued sluggishness in the stock and real estate markets and the stricter parking regulations. For all types of commercial vehicles except four-wheel drive vehicles for recreational use (which come under the category of commercial vehicles in Japan), domestic demand is considered certain to decline from the previous year, due to reduced replacement demand caused by the business slowdown.

The margin of decline in finished vehicle shipments to the U.S. will probably be narrower in tune with the expected expansion of the U.S. market. However, given the outlook for a relatively weak recovery capacity in the U.S. and an uptrend in Japanese automakers' output there, the automakers will inevitably be more cautious about increasing exports of finished vehicles to the U.S. Vehicle exports to the EC will also follow a bearish



Photo: Kyodo News Service

This year's negative growth in domestic demand for cars appears likely to continue in fiscal 1992.

trend, reflecting its decision to monitor Japanese auto shipments.

In contrast, exports of auto parts for overseas assembly will continue to grow, due to increased shipments to the U.S. and the recovery of shipments to Southeast Asia.

The 11 automakers will continue to chalk up increases in sales value, as the rise in unit selling prices will more than offset a bearish trend in unit production. But because of an uptrend in various costs, their combined pretax profits will continue to decline.

Against this background Japanese parts makers are in severer financial shape, as domestic demand will tend to be sluggish, and their output will decline as a result of increasing overseas production. They will feel the impact of the unfavorable environment, particularly because the break-even point in the industry has begun to rise following the continued high level of capital investments.

In the face of tightening environmental restrictions, makers will have to spend much more on development of lighter parts and on the recycling of parts. Depending on individual makers' technological development capabilities, parts makers' earning capacity will show a more conspicuous bipolarization trend. ■

(Katsuyuki Murai, economist)

Motor Vehicle Supply and Demand

(1,000 vehicles)

	FY 1990	FY 1991 (estimate)	FY 1992 (forecast)
Domestic demand	7,803 (4.7)	7,626 (-2.3)	7,635 (0.1)
Exports	5,821 (0.1)	5,623 (-3.4)	5,575 (-0.9)
Imports	216 (6.9)	207 (-4.2)	210 (1.4)
Finished vehicle output	13,591 (4.9)	13,042 (-4.0)	13,000 (-0.3)
Parts for overseas assembly	3,532 (10.9)	3,776 (6.9)	3,980 (5.4)

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.