Basic Recovery in Orders Favorable, but Will FY97 Growth Slow?

Recent trends

Machine tool orders began to pick up again from the latter half of FY1994, subsequently recovering steadily, and from the beginning of FY1996 both external and internal demand has remained favorable. In terms of total external and internal demand, machine tool orders in the first half of FY1996 came to ¥470.8 billion, a high growth rate that exceeded the same period a year ago by 23.6%, and orders for the entire year are forecast to total ¥940.4 billion, for year-on-year growth of 16.0%.

Domestic demand in fiscal 1993 fell to 37% of the peak period, but later showed signs of recovery and as previously restrained replacement investments picked up there was a 27.7% increase over the year before in the first half of fiscal 1996, with double digit year on year growth continuing. Major car and general machinery manufacturers which have benefited from the weak yen are currently driving demand. From FY1995 through FY1996 car manufacturers moved aggressively to renovate aging facilities, along with heavy investment in new recreational vehicle models and developing new engines and alterations in leading model designs. These moves prompted renewed replacement investments by die makers and some parts manufacturers.

External demand was favorable in the important North American market and was also sustained by rapid growth in exports to Asia. Orders totaling ¥104 billion in the July to September 1996 period exceeded the same period of the previous year by 11.8%, and following on the April to June 1996 period, the highest balance yet recorded, represented three successive quarters of orders in excess of ¥100 billion. Exports to North America remained strong, primarily due to investments in the aerospace and automotive industries and their peripheral suppliers. In Asia, Japanese corporations maintain a strong interest in establishing overseas plants, resulting in continued high levels of capital expenditures.

Future outlook

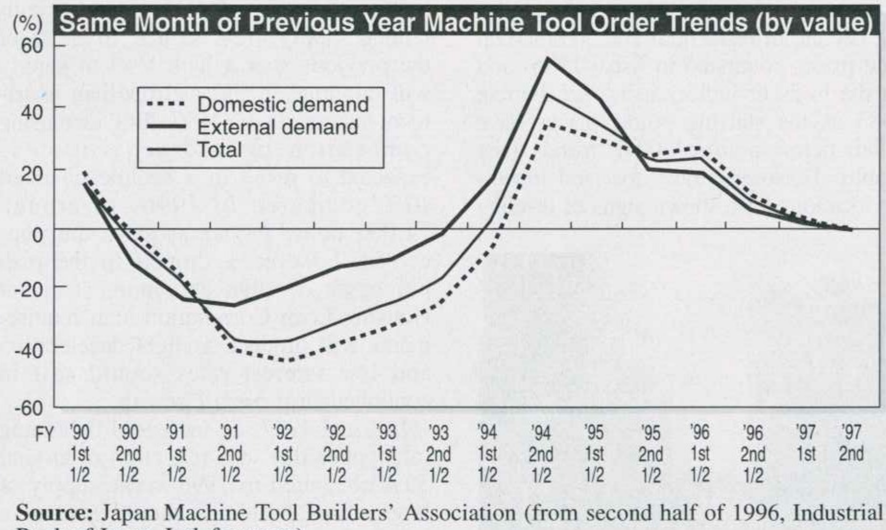
Although total external and internal demand for machine tool orders of ¥959.6 billion will exceed the previous fiscal year by 2% and top this fiscal year's results, FY1997 orders are expected to slow to single digit growth.

Domestic demand from electrical machinery manufacturers is expected to recover as the adjustment in semiconductor supply and demand progresses, but with continuing listlessness in smaller corporations' investment in plant and facilities and a gradual downturn in the favorable demand from car manufacturers, 2.6% growth compared to the previous fiscal year is forecast. Bolstered by rebounding profitability due to the weak yen, the automotive industry is expected to continue developing new engines and investments related to RVs in FY1997, but having already reached high levels of investment in plant and facilities in FY1996 there is little likelihood of additional substantial expenditures in FY1997. It should also be noted that growth in orders for lathes, an indicator of future machine tool order trends, has recently fallen below those of other machine tools, suggesting that orders will slow. Based on past experience, an initial downturn in lathe orders will have a ripple effect on orders for other tool varieties will peak out across the board.

Although external demand is expected to remain at high levels in absolute terms, growth is forecast to slow considerably, exceeding the previous year by 1.4%. As for Asian markets, a downturn in exports, reflecting the deceleration of the U.S. and European economies, will be a factor in slower-paced demand from Asia. But continuing high levels of investment from overseas are expected to sustain machine tool demand. Although growth will slow somewhat a relatively strong expansion is forecast. In the main U.S. market, however, capital expenditures are expected to continue their downward trend for the time being, due to declining plant operation rates and increasing pressure to adjust inventories. Sluggish economic growth is expected to be accompanied by a substantially slower growth rate in FY1997.

(Tango Masaya, economist)

Same Month of Previous Year Machine Tool Order Trends (by value)



Source: Japan Machine Tool Builders' Association (from second half of 1996, Industrial Bank of Japan, Ltd. forecasts)