

Troubled by Slumping Demand and Scandals

Machine tools

In conjunction with sharp manufacturing industry cutbacks in plant and equipment investment due to the lengthening recession, it is forecast that the total value of orders for machine tools in fiscal 1993 will be ¥515 billion and a negative growth of 20% from the previous year period is predicted. As far as domestic demand is concerned orders have fallen off in every industrial sector, including from the main users, the general machinery and automotive industries.

By type of equipment, although major machining centers and NC lathes showed indications of a recovery at the beginning of spring they once again declined broadly in conjunction with the subsequent sentiment that the market situation was worsening. In overseas markets, machine tool demand has recovered steadily in the U.S. and Japanese machine tool manufacturers have continued to operate local U.S. plants at full capacity, but exports from Japan to the U.S. have slowed due to the strong yen.

There are no expectations that manufacturing industry investments in plant and equipment will recover in fiscal 1994 either and it is forecast that machine tool orders will inevitably fall

below ¥500 billion.

The reverberations from expanded plant investments companies in the manufacturing sector made during the "bubble" period and sentiments that there is still a great deal of excess capacity have been the primary factor in slumping machine tool demand. Expectations hang upon the U.S. and China as far as exports are concerned and the course of the strong yen will be key. With regard to overseas production, some manufacturers are planning to boost capacity in the U.S. market, where demand is steady, but overseas production levels are still quite low. In any case, there is no doubt that fiscal 1994 will be a tough year for the machine tool industry.

Construction equipment

In response to the economic stimulus package implemented in early spring 1993, demand for one of the industry's leading products, hydraulic shovels, returned to the plus column compared to the same month period of the previous year. But with the strong yen, scandals in the construction industry, and unseasonable weather it stalled again from June. Demand for other types of

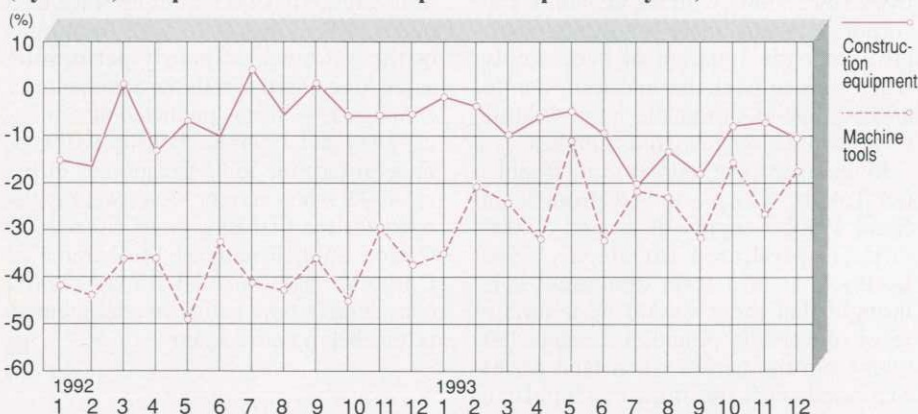
equipment has also lagged and there are still no signs of a recovery for mini-excavators, which exhibited remarkable growth during the bubble period. Demand for cranes has also slackened due to the continuing chill in building construction demand. Exports to Asia, primarily the ASEAN nations, have trended favorably, but the strong yen and the recession in Europe have resulted in a slowdown for exports there. Falling imports, primarily of large machinery, have reflected sluggish domestic demand and a decline in large projects.

Domestic demand in fiscal 1994 should continue to be propped up by continued high levels of public works investments. There are no expectations that private investment in construction will rebound and it is also forecast that demand in the leasing and rental industries will be sluggish. Expectations are that exports to Asia will continue to be satisfactory and, depending on the way the yen market moves, it is also predicted that exports to the U.S., which is entering a business recovery phase, should be in the plus column. On the other hand, there is no outlook for a recovery in Europe, where the recession is continuing, so it is forecast that overall exports should equal the level of the previous year or drop slightly.

In the midst of these conditions, the market for ultra-compact swing excavators and small excavators has trended favorably. This was due to the entry of new models that compensated for the weak point of the ultra-compact swing excavator (a lack of power) on the market. Since it is also predicted that there will be firm growth in sewerage and other urban construction projects from the standpoint of development of social assets steady, continued growth in demand for ultra-compact swing excavators can be expected.

(Kodama Yuichi, economist)

Machine Tool and Construction Equipment Order Trends
(by value, compared to same month period the previous year)



Source: "Orders Received for Machinery" (Economic Planning Agency)