

# Path to Recovery

## Machine tools

Led by foreign demand, orders for industrial machine tools are on the road to recovery. Exports to the U.S. and Asia began to brighten, and since January 1994 orders from overseas rose above year-earlier levels. Also, in September, domestic demand rose over year-earlier levels for the first time in three-and-a-half years, and continued to form the basis of a turnaround. Machine tool orders for 1994 gained 16.4% over last year to ¥60 billion, however, this figure must be seen in the same light as the peak year for orders (¥139.65 billion, in 1990) of which it only amounts to 43%. Nevertheless, forecasts for fiscal 1995 see both foreign and domestic order levels rising above the fiscal 1994 level. Previously postponed machinery replacements will form the backbone of increased domestic demand, and while exports to the U.S. are anticipated to slow down, brisk shipments to Europe and Asia are expected to gain further momentum, bringing total machine tool orders to ¥70 billion levels.

Machine tools are most widely used on factory shop floors, and though productivity has returned, it is probably correct to assume that the kind of investment in new machinery that used to fol-

low each model change in the past can now no longer be expected. This is due to a glut of machinery already on the shop floor, and manufacturers' development structures focusing on common part-sharing and use of existing machinery. Furthermore, the foremost subject facing manufacturers as a whole must be that of getting the price of their merchandise to the price levels of before. Since the inrush of the Heisei recession, there has been no indication in the domestic market that this can yet happen. Against a background in foreign countries of strong non-price competition and volatile marketplaces, manufacturers counter the effects of the yen's appreciation by raising prices, however, export business is often being conducted at all too minimal margins of profit.

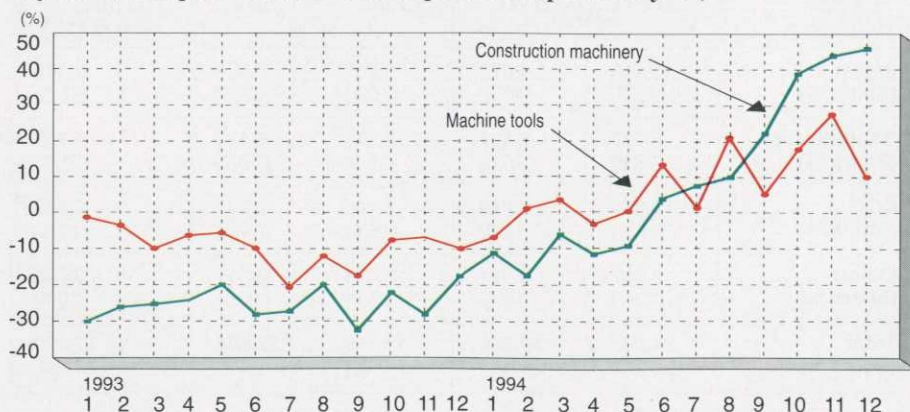
## Construction machinery

Construction machinery made a comeback in fiscal 1994, thanks to an upsurge in demand from the public works sector. A positive shift was forecast for the second half of the year, and indeed a rise of 5% is expected for the year. While the effects of industry-wide economic countermeasures had begun to be felt from the end of fiscal 1993, the bribery scandals involving general constructors, coupled

with intemperate weather, killed the momentum. The weather proved remarkably better in fiscal 1994, with projects sidelined by the scandal coming on steam. In fact, the circumstances surrounding the market in 1994 were markedly transformed. Added to this was a rise in orders for construction equipment from leasing and rental companies, and emerging demand for replacement machinery of equipment purchased at the beginning of the bubble era. Sales of the hydraulic excavator—the industry's principal product—had notably revived, while the mini-excavator had taken a turn for the better.

Contrary to the favorable circumstances in the public-works sector, the situation for private sector demand was still as stagnant as before. The situation is likely to be the same in fiscal 1995, and reflecting the overall atmosphere of tight purse strings, the growth in the public-works sector until now may be hidden, unlike before. In comparison to 1994, a demand for replacements of bubble-era machinery may be looked forward to, a horizontal move in sales, as opposed to a vertical one, is more likely to be apparent. Exports to the U.S., for both fiscal 1994 and 1995, are likely to trend favorably. In line with increased economic growth in Asia, where used machinery was once the mainstay, a shift towards purchases of new equipment is being made, however, intense competition from cheap, low-performance machinery made in South Korea has forced Japanese makers to counteract with low-priced equipment that has all but the barest of functions. Economical trends in Asia are going to be the subject of much attention from now, and the continent is likely to be a market equivalent to the markets of Japan, America, and Europe in the future. It is very probable Japanese makers will have to take the initiative and open up manufacturing bases here.

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



Source: Japan Machine Tool Builder's Association, Economic Planning Agency

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