Domestic Market Remains Stagnant


Photo: Nissan Motor Co. Ltd.

Forecasting export decline : Factors such as Asian crisis influenced exports in FY1998

Fiscal 1997 in retrospect

Domestic automobile sales in fiscal 1997 showed a 14% decline from the preceding fiscal year to 6.28 million units, mainly because of diminished consumer confidence. Domestic sales had been on a recovery track from the bottom in fiscal 1993 after the bubble economy's collapse, but dropped again in fiscal 1997. Sales in fiscal 1997 were even below the level of fiscal 1993, the post-bubble bottom. The number of vehicles additionally purchased during the second half of fiscal 1996 in anticipation of the consumption tax increase is estimated at some 250,000 units. Even if adjustment is made for the hurried purchases, domestic demand in fiscal 1997 was down 10%-plus from the preceding fiscal year. Car sales were directly hit as a result of the thrifty mood that prevailed among consumers in reaction to the economic slump.

Sales of imported cars in fiscal 1997 showed a decrease of 27%. The much larger percentage decrease in the number of imported cars than that in total car sales was due to two factors. Firstly, some Japanese automakers shifted back to Japan the production of certain vehicles they were producing overseas and importing into the country. Secondly, foreign automakers' price competitiveness in the Japanese market declined in relative terms as a result of the yen's depreciation, and their sales in Japan dropped sharply.

Exports of completed vehicles in fiscal 1997 totaled 4.67 million units, showing a gain of 21% over the preceding fiscal year. The gain for the second straight year was mainly due to three factors: (1) The yen-dollar rate swung in the direction of a weak yen, and Japanese automakers' price competitiveness in foreign markets improved. (2) There was no massive shift of production overseas. (3) The United States and Western European markets were strong. By destination, exports of completed vehicles to Europe showed an increase of more than 20% over the preceding year, but exports to Asia declined because exports to ASEAN countries, specifically Thailand, were caught in a slump in the second half of fiscal 1997.

Despite the stagnation of domestic demand, domestic production of completed cars showed a small gain for the second straight year and totaled 10.78 million units, thanks to the increase in exports and inventory buildup.

Although the increase in production was fractional, profits of companies producing completed vehicles must have been at a high level in fiscal 1997 in general, because net income from exports increased as a result of the yen's weakness. On the other hand, truck builders' profits must have declined because the price war escalated at a time when the domestic market was stagnant and exports to ASEAN countries in economic trouble represent a major portion of total truck exports. Though the profits of the industry as a whole increased, the difference in performance between companies widened, and polarization occurred.

Prospects for fiscal 1998

Domestic automobile sales in fiscal 1998 will increase 2% over the preceding year to 6.4 million units. But these figures tell only a part of the story. There was a decline in demand in fiscal 1997 in reaction to the accelerated demand in fiscal 1996 in anticipation of the consumption tax increase. If this factor is excluded, domestic sales in fiscal 1998 are likely to show a 2% decline, a drop for the second straight year. An even greater decline may occur if economic stagnation becomes even more serious, though the prospect partly depends on the effect of the comprehensive economic stimulus package.

There is strong replacement demand for renewal of vehicles purchased during the bubble period. Latent renewal demand of considerable size is waiting for an opportunity to emerge. For example, passenger cars aged 10 years and four months to 11 years and three months, which represented 24.1% of total passenger cars in use as of March 1992, accounted for 34.9% as of March 1997, showing a gain of about 10 percentage points in five years. Because the business climate for the motor vehicle market is harsh, there is little probability that this latent demand will become real demand.

The present stagnation of motor vehicle sales must be mainly due to such economic factors as the decline in consumer confidence and such structural factors as the public perception of car ownership. As regards economic factors, consumer confidence has been dampened by (1) the slowdown in

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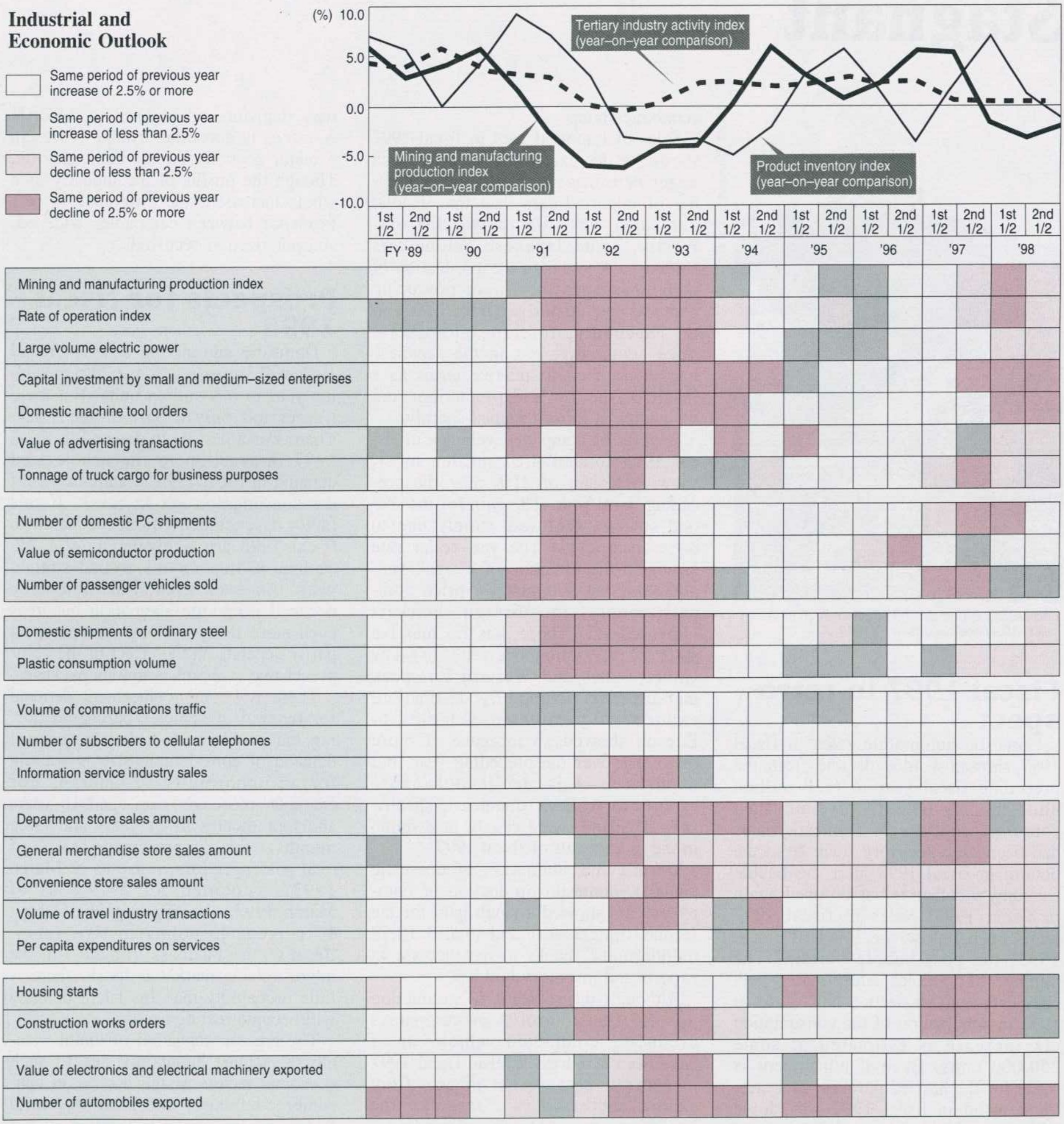

Note 1: FY1997 estimate
Note 2: Year-on-year communications volumes
Note 3: Department store and general merchandise store sales based on existing outlets. Convenience store sales are the average annual sales per store
Note 4: Per capita expenditures on services are expenditures on service per member of household revealed in the Family Income and Expenditure Survey.

take-home income growth, (2) the increased opacity of the medium- and long-term prospects for the growth of household income and (3) the reverse assets effect arising from the decline in asset values since the bubble's collapse. As regards structural factors, as the sense of values among people has diversified, the number of people who consider automobiles to be "assets" and renew their cars at short intervals has decreased, and the number of people who regard automobiles as "footwear" has increased. This change in perception has caused a structural change, resulting in the same vehicles coming to be used for many more years than in the past, and the core of car demandshifting from brand-new vehicles to used cars.

The above factors behind the current stagnation in car sales will not change much in fiscal 1998, and renewals of vehicles purchased during the bubble period will begin to quicken, if at all, after fiscal 1999.

The specifications for minicars will be amended in October 1998 to expand the length by 10 centimeters and the breadth by 8 centimeters. After the past amendment to the specifications, the market values of minicars rose, and demand for them increased. However, the coming amendment will not directly contribute to the improvement of minicars' attractiveness, because its purpose is to ensure driver safety at the time of a collision. Therefore, it would be premature to predict minicar demand in fiscal 1998, since neither the prices nor the value of new minicar models are known yet. Accelerated demand for old models may arise this coming autumn as the effect of marketing new models will begin to be seen conspicuously after October. At any rate, demand for minicars will show a peak and a trough around October.

Exports of completed vehicles will be affected by the yen-dollar rate but will be kept at a level close to 4.42 million units. Thus, the decrease will be small.

The prospects for overseas markets in 1998 are mixed. U.S. and Western European markets will retain some strength, but the ASEAN market will possibly decline to less than half the 1997 level because (1) the ASEAN countries' financial systems for backing up sales are in paralysis, and (2) the rise in the cost of procurement due to the depreciation of local currencies has made major markups unavoidable.

Regarding the exports of completed vehicles in fiscal 1998, there are several factors that may cause a decrease, such as (1) a sharp decline in exports to ASEAN countries, (2) the existence of models where exports from Japan to third countries will be switched to exports from ASEAN and (3) the existence of models where exports from Japan to Europe will begin to be switched to production in Europe in the second half of fiscal 1998. If the yen-dollar rate remains stable and Japanese vehicles retain their price competitiveness in foreign markets, however, the decrease in exports of completed vehicles from Japan will be small. Reasons supporting this forecast are that: (1) exports to ASEAN have been small in number from the beginning and already began decreasing in the second half of fiscal 1997, and thus the decrease in fiscal 1998 will be limited, (2) the destinations of exports from ASEAN bases and the range of models are limited and, accordingly, the number of vehicles exported from ASEAN will decline, (3) some new types of cars, including sports utility vehicles, will begin to be exported, and (4) automakers will endeavor to maintain export numbers at present levels while growth in domestic demand remains small.

All told, domestic production of completed vehicles will show a fractional decline to about 10.5 million units as a decrease in exports in terms of number will offset a small gain in stagnant domestic sales.

The third session of the Conference of the Parties (COP 3) to the United Nations Framework Convention on Climate Change (UNFCCC), held in Kyoto in December 1997, ended by adopting the Kyoto Protocol, which demands that developed countries reduce greenhouse gas emissions by an average of 5.2% during 2008-2012, and that Japan reduce its discharge of the same gases by 6% during the same period, using 1990 emissions as the standard. Intensification of environmental regulations governing motor vehicle exhaust fumes throughout the world will be unavoidable hereafter, and automakers will have to endeavor to further improve the fuel efficiency of internal combustion engines and develop drive systems that use non-oil energy. There are several methods to cope with the environmental requirements, including the production of hybrid vehicles already on sale. Since each has merits and demerits, automakers are engaged in research and development taking multiple approaches simultaneously. Among the manufacturers of completed cars, however, a wide difference in the progress in research and development is arising. There is a strong probability from a medium- or long-term viewpoint that existing technologies and improvement of them will not be able to meet environmental requirements when they are later intensified. In that event, the ability to meet environmental requirements will decide the fate of each automaker.

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Recent Supply and Demand for Automobiles

(Unit: 1,000 vehicles)

	FY 1995 (result)	FY 1996 (result)	FY 1997 (estimate)	FY 1998 (forecast)
Domestic demand	6,896	7,288	6,275	6,400
Exports	3,624	3,848	4,672	4,420
Domestic production	10,086	10,612	10,776	10,470