

Gloomy Sentiment Prevails

Domestic manufacturing remains flat

With a value of some ¥3,136.57 million, fiscal 1998 domestic production is expected to remain little changed compared to the previous year. Through the first half of fiscal 1998, lagging domestic demand will continue to act as a drag, and a decrease of around 1% in overall domestic production will be unavoidable. Although a gradual recovery is anticipated in the latter half of the year, the growth margin is expected to hold at about 1%.

Although fiscal 1998 export growth will be sluggish compared to fiscal 1997, affected by a decelerating economy in the United States and the turmoil in Asian economies, growth of around 4% can probably be achieved over the entire year on the precondition that the exchange rate stays at the ¥130 to the dollar level. In contrast, double-digit negative growth in domestic demand for home appliances is expected through the first half of fiscal 1998, with continuing broad declines for personal computers and telecommunications equipment as well, resulting in a decrease of 5.4% compared to the same period the previous year. Domestic demand in the second half of the year is also expected to increase by only around 0.2% compared to the same period the year before, as PCs and other items rebound on a volume basis, but with the continuing deflationary spiral, this will not spur domestic production.

Home appliance market awaits smash-hit products

Domestic production of audiovisual equipment in fiscal 1998 is forecast to decline in value by around 3.9% compared to the previous year. This is largely because, coupled with lagging overall domestic consumption, TV, VCR, and video camera ownership has reached sat-

uration point, resulting in increasingly flat sales volumes in existing product sectors, while heavier price competition will lead to an 8% year-on-year drop in domestic demand by value. Rapid increases in demand for MDs and certain other products will not be sufficient, however, to stimulate overall demand. Over the medium to long term, the audiovisual equipment market can anticipate rapid expansion with the advent of digital televisions and other "multimedia" appliances, but apparently it will be some time before new mega-hit products appear on the market.

Home electrical appliance production will also continue to lag, with a year-on-year decline in value of 7.5%. A recovery in air conditioning equipment production, which comprises 50% of all

manufacturing, is essential to any recovery in durable appliance production, but a continuing downturn in domestic demand for air conditioning equipment is expected. With the shift from per household to per room use, a broader demand base for air conditioning units would yield expectations of growth over the medium to long term, but due to comparatively higher prices than other home appliances and the current chill in consumer sentiment, it is highly likely that purchases of two or more units per household will be postponed.

Additional price declines anticipated in PC market

In fiscal 1998, domestic computer equipment production is expected to decline by around 1% compared to the year before. Although export growth has slowed substantially, exports of PC peripherals have served to sustain positive growth. However, the domestic demand environment for personal computers also remains bleak. In a turnabout from the strong growth of fiscal 1995 and 1996, domestic personal computer shipment volume is expected to fall 8.5% in fiscal 1997 compared to the previous year, to around 6.58 million units. However, the release of *Windows 98* is expected to spark demand to a certain extent and, coupled with a gradual rally in domestic consumption in fiscal 1998, continuing negative growth in



Wishing for a hot summer in 1998: Recovery of air conditioning equipment sales is essential to total recovery of the home appliance sector

the first half is expected to revert to the plus column in the second half, for an overall year-on-year 2.4% increase to 6.74 million units, which although slight, will still represent attainment of positive growth (graph). On the other hand, predictions are that the trend toward declining average prices will continue. Average domestic PC prices have remained expensive at ¥230,000 to ¥250,000 for the past several years, but are finally trending downward. More than a drop in suggested retail prices, this is largely due to the effects of products that have come to be sold in various price ranges, as symbolized by the "\$1,000 PC."

Telecommunications equipment demand remains flat

In fiscal 1998, domestic telecommunications equipment production will continue to fall by around 10% in value in the first half. Production will finally rebound to about the same level as the previous year in the second half, with overall year-on-year production declin-

ing by about 5.3%, but there is an undeniable impression that production will continue to remain flat. NTT's investment in digitization has continued from the latter half of fiscal 1997 and this will have a substantial lingering impact on domestic demand in the wire-based telephone equipment sector in fiscal 1998, primarily in the first half. On the other hand, because it is thought that demand related to base station investments will only pick up from the end of fiscal 1998 in conjunction with outlays for code division multiple access (CDMA) systems, the mobile telecommunications sector will remain flat for the immediate future. Moreover, the continued slowing pace of increase in new subscribers, diminished replacement demand incentives as the limits to handset miniaturization are reached, and a continuing decline in handset prices all lead to expectations of nega-



PC prices are trending downward due to various price ranges

tive year-on-year demand growth in the handset sector.

Harsh earnings climate continues in semiconductor sector

A year-on-year 5.6% rise in domestic semiconductor production by value in fiscal 1998 indicates a recovery of strength, but semiconductor manufacturers are expected to face a continuing tough profit environment. The 16Mbit DRAM market greatly affects semiconductor manufacturers' profits and the effects of Japanese and South Korean manufacturers' retooling at the beginning of fiscal 1998 have become increasingly clear, but while a price level of around four dollars is expected to restore stability, a rebound is not forecast. Most DRAM manufacturers' production costs already exceed retail prices and even presupposing cost-cutting, expectations are that they will find it difficult to extricate themselves from the red in the future. Moreover, manufacturers' price levels, which are below cost, have similarly become the pricing standard for the 64M DRAM, which will be the mainstay product during fiscal 1998, and, with the continued market downturn deriving from the anticipated expanded price war between leading Japanese, South Korean and U.S. manufacturers, DRAM manufacturers will face continuing pressure on profits.

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