Domestic and Export Demand Expected to Fall

Recent trends

Machine tool orders, on the rebound since the latter half of fiscal 1994, continued to be strong in fiscal 1997, buoyed by steady domestic and external demand. The year-on-year increase measured 15.2%, with total orders reaching ¥1.1379 trillion to break through the ¥1 trillion level for the first time in six years.

The auto industry and general machine industry led domestic demand along a strong recovery trend with a year-on-year increase of 17.7%, the fourth double-digit growth rate in four years. Total domestic demand amounted to ¥630.7 billion.

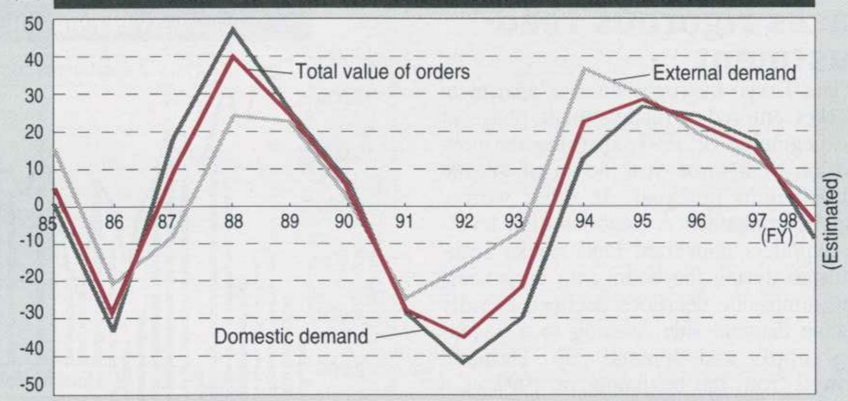
Meanwhile, export demand increased by 12.3% to ¥507.2 billion, setting a new record for the third year running. Exports to North America continued to grow rapidly, reflecting the healthy economic climate there. In Asia, while exports to Taiwan and Singapore remained comparatively strong, exports to South Korea and ASEAN nations such as Thailand dropped in the wake of currency crises. Exports to Germany, the main European buyer of Japanese machine tools, are recovering slowly, reflecting a slight improvement in Japan's economic climate as a result of its export initiative.

The eight major Japanese machine tool manufacturers recorded gross sales of ¥619 billion (a 9.9% year-on-year rise) and ordinary profits of ¥27.5 billion (a 50.3% year-on-year rise) to maintain the course of increasing sales and profits. Nevertheless, final figures are expected to fall far short of the ¥720.7 billion peak in gross sales set in fiscal 1990.

Future outlook

The value of domestic and external machine tool orders for fiscal 1998 is forecast to drop by 4.0% over the previous year to ¥1.92 trillion, marking the first decrease in five years. Order value will be driven downward by a prospective 8.6% drop in domestic demand to ¥576.5 billion, behind a shrinking domestic economy. In addition, growth in export demand is expected to slow dramatically to a mere 1.6% year-on-year increase (total value of ¥515.5 billion) as growth in exports to North American slow and total exports to Asia drop precipitously.

Year-On-Year Growth in Machine Tool Orders



Source: "Machine Tool Statistics Handbook," Japan Machine Tool Builders' Association

Turning to fiscal 1998 domestic demand, let's look first at the automobile industry, traditionally the main force behind domestic demand. Manufacturers of completed cars are expected to continue strategic investments from a mid- to long-term view and continue to play the role of supporting domestic demand. Auto parts makers, however, are expected to take a generally conservative stance on investments due to a lull in plant and equipment investments, a worsening domestic economic climate and a drop in exports to Asia. Thus, overall domestic demand from the auto industry will probably halt at around fiscal 1997 levels.

Orders from the general machinery industry will probably show a year-on-year decrease for the same reasons affecting the auto parts manufacturers. The electrical machinery and precision machinery sectors are expected to further draw down domestic demand due to the depressed semiconductor market.

Against a background of positive economic fundamentals in North America, demand for Japanese machine tools there will be upheld mainly by demand from the aircraft manufacturing industry and automobile-related industries (including overseas Japanese companies). Not much growth is anticipated, however, due to forecasts of slow growth in corporate profits based mainly on a slight cooling of the economy and dropping exports to Asia.

In Europe, export demand is expected to sustain a gentle upturn due to development of local production by overseas Japanese auto-related industries, as in the case of North America, and the recovery of corporate profits due to the export initiative fostered by the weak yen. Demand from Asia will be reduced by the worsening financial conditions of local "zaibatsu" (massive conglomerate) -style corporations, a foreign currency shortage and a freezing of plans to invest locally by Japanese, European and U. S. companies. These difficult conditions are expected to continue.

Domestic prices are expected to remain comparatively strong during the first half of fiscal 1998 due to the backlog of unfilled orders. However, prices will begin to fall in the second half of the year as orders drop off. Export prices, on the other hand, should remain firm due to the strength of demand in Europe and the U.S. and predictions of a continued cheap yen.

In addition to keeping product costs down and adhering strictly to delivery dates, an urgent task for machine tool makers in the wake of the first negative growth in orders in five years will be to develop new technology to meet the ever-diversifying needs of users. JJTI

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