Japanese Businesses Post Record Profits for 3rd Year Running

– Some Firms Hike Dividends to Fend Off TOBs –

JAPANESE companies reported record combined consolidated profits for the 3rd year in a row in the 2005 business year. The results are based on earnings reports for the year to March 2006 by corporations listed on the first section of the Tokyo Stock Exchange. The strong showing stemmed from robust exports of automobiles and other goods on the back of the yen's depreciation against the US dollar as well as solid performances of trading companies and basic material manufacturers such as steelmakers benefiting from the price spikes of crude oil and other resources plus key industrial materials such as steel.

Toyota Motor Corp. – a symbol of "vibrant Japan Inc." – saw its group sales gain 13% from the previous year to over ¥21 trillion, making it the first Japanese corporation to mark sales of more than ¥20 trillion. Net profit grew 17% to ¥1.37 trillion, exceeding the ¥1 trillion level for the 3rd straight year. Japan's largest automaker is aiming to sell 8.85 million vehicles this year. Toyota is widely expected to achieve the sales goal to become the world's biggest automaker, eclipsing General Motors Corp. of the United States. Electrical machinery makers also marked excellent profits in the 2005 business year, bolstered by sharply increased sales of flat-screen TVs and other digital appliances as well as by the effects of streamlining efforts. They booked higher revenues and earnings across the board, with combined net profits well in excess of those in the 1999-2000 "IT bubble" era.

Japanese businesses have changed markedly in the last decade, particularly in their dividend payout policy. Toyota boosted its dividend from ¥65 per share in the previous year to ¥90. Including a dividend raise carried out in the year before, its dividend has doubled in two years. Among steelmakers, JFE Holdings Inc. more than doubled its dividend from the previous year's ¥45 a share to ¥100. Dividend increases were also implemented by a number of pharmaceutical manufacturers. The rush of dividend raises represents businesses' efforts to attach greater importance to their stockholders by returning a greater share of their profits to them. The once traditional practice of cross-shareholdings between companies and banks has now collapsed. Moreover, businesses face the growing risk of hostile M&As. Therefore, fostering "stable" long-term stakeholders is an urgent task for corporate executives. Dividend increases by steel and pharmaceutical manufacturers reflect the rapidly progressing global industrial reorganization.

Higher dividend payouts stemming from solid business results spur a flow of funds into the stock market, resulting in higher equity prices. This in turn helps push up the nation's economic activity as a whole. Strong business results indicate that the current cycle of economic expansion will most likely turn out to be the longest in postwar history as of November this year.

Burgeoning signs of change, however, can be observed in the climate surrounding Japanese corporations. Notable factors include persistently high crude oil prices, the stronger yen and higher long-term interest rates, the latter two factors induced in part by the termination of an ultra-loose credit policy by the Bank of Japan. Japanese businesses now face the challenge of responding adequately to these changes after having succeeded in shrinking excessive plants and equipment as well as swollen debts.

Photo: Kyodo News

Yosano Kaoru, Minister of State for Economic and Fiscal Policy, saying the current growth phase is so solid

COMING UP

"The relationship between Japan and India" will be the theme of the next issue of Japan Spotlight. Japan and India have a close relationship from a historical angle. The dramatic growth of the Indian economy in recent years has been astonishing. Our writers will analyze the country's dynamism and this relationship from a range of viewpoints and will also look at the possibilities for further development.

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