

Corporate Profits Seen Bottoming Out

One out of every four major Japanese businesses operated at a loss while many others chalked up lower profits on reduced sales in the year to March 31, 1999. The lackluster performance was reported by most of the 1,550 companies listed on the Tokyo Stock Exchange as they scrapped surplus equipment, cut jobs and took other cost-saving measures to streamline operations amid Japan's protracted economic slump. But many businesses expect their restructuring efforts to pay off in the current year ending March 31, 2000, allowing them to reap better profits despite continued sales shrinkage. An increasing number of analysts predict that Japanese corporate profits will bottom out this year.

According to a survey by a private think tank, 823 major nonfinancial companies listed on the exchange's First (major) Section saw their sales in the latest business year shrink 8.9% for the third straight annual drop and their pretax profits plunge 28.4% for the second consecutive annual decline. It was the worst performance since the year immediately after the first oil crisis that hit Japan in 1973. Of the companies surveyed, 149 failed to pay dividends while 192 others reduced their annual payout. One in every three companies in the steel and textile industries paid no dividends. Only seven firms resumed dividend payments. The number of those which boosted payout was 73 — less than half the previous year's level. Reporting better business results were a handful of companies, including those associated with mobile phones, personal computers, housing, game machines and convenience stores.

Among those on the negative side were chemical, machinery, electric appliance and motor vehicle manufacturers, all of them adversely affected by sluggish exports to the rest of Asia and sagging capital spending at home.

But the think tank forecasts that



Only Bank of Tokyo-Mitsubishi reported a profit for the latest accounting year

Photo: The Bank of Tokyo-Mitsubishi, Ltd.

pretax earnings will bounce back 10.6% and net profits triple despite a 3.4% sales decline in the current year as the restructuring efforts are expected to show their full effects. Bullish sentiment is strong among companies which have aggressively tried to slash costs by withdrawing from unprofitable operations, reducing interest payments through the disposal of unused land and surplus facilities, and trimming the number of board members and rank-and-file employees.

In the financial sector, 17 major banks wrote off a total of ¥10.8 trillion in unrecoverable loans for the latest accounting year. All the banks — nine commercial banks, seven trust banks and one long-term credit bank (Industrial Bank of Japan) — reported losses in regular operations. And all but one — Bank of Tokyo-Mitsubishi — ended in the red after taking account of special earnings

such as those from portfolio and property sales. Behind the poor results were added reserves for future loan losses as well as increased write-offs of bad loans. But disposal of nonperforming loans by the 17 banks is expected to shrink dramatically to some ¥1.5 trillion in the present year. Senior bank officials share the view that the disposal of bad loans was almost completed in the latest year and that concern over Japan's financial system has peaked out.

10-Year Action Plan Proposed for Reactivation of the Japanese Economy

The Economic Council, an advisory panel to the prime minister, presented on July 5 a guideline mapping out long-term policies to address fundamental and social issues facing

the country.

The guideline, endorsed by the cabinet on July 8, attributed the current economic and social stagnation not only to business cyclical factors but also to the breakdown of the postwar system which places excessive emphasis on equality.

It called for equality of opportunity rather than equality of results and called for increased competition even though it could widen income gaps.

It also envisaged a society in which individuals should be able to use their capabilities and creativity to the full.

While the plan emphasized the need for maximum free economic activities and for adequate awards linked with risk for those who succeed, it held up the idea of guaranteeing opportunity and protecting the human rights of the weak and unsuccessful and providing adequate social security including pension and medical care.

The guideline projected an annual economic growth rate of 2% in real terms through 2010, lower than the 3% envisaged in the current plan worked out in 1995.

It also set the following targets for 2010:

- per-capita annual income will stand at ¥3.5 million, compared with ¥3.1 million in 1997.

- the number of holidays will increase to 140 days from 120 days in 1996 due to shorter working hours.

- yearly commuting time (both ways) will be shortened to 135 hours from 175 hours in 1996.

- there will be 45 million Internet users, compared with an estimated 17 million in 1998.

- 70% of women in their early 30s will have jobs, compared with 55.9% in 1997.

- the business opening ratio will be 14%, the same level as in the U.S., compared with 4% in 1999. (the business opening ratio represents A as a percentage of B divided by C, that is $A/B/C$. A — the number of business establishments which opened between the year of the previous survey and that of the latest survey. B — the number of all

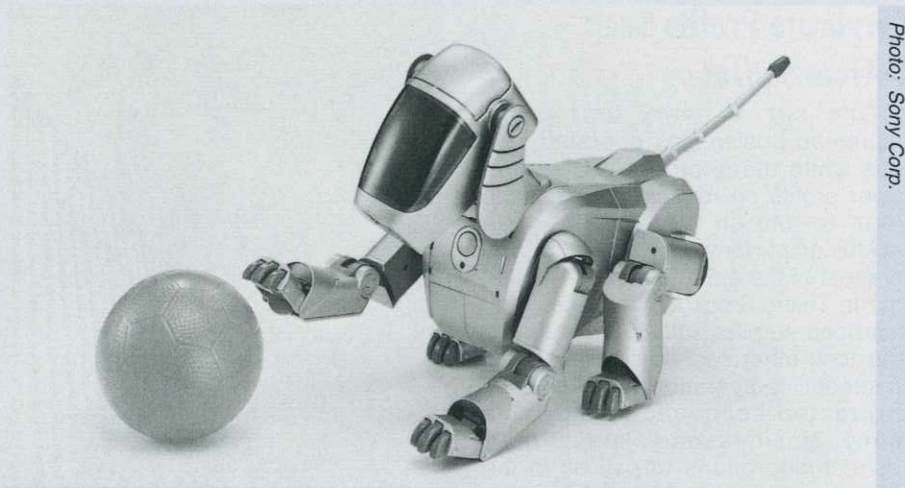


Photo: Sony Corp.

The pet dog robot AIBO can react to objects

existing business establishments as of the previous survey. C — the number of years between the two surveys.)

— the ratio between direct overseas investment and direct domestic investment will be 2:1, compared with 5:1 in 1998.

Electronic Pets Make Their Debut

The pet dog robot AIBO, developed by Sony Corp., went on sale via the Internet in Japan and the U.S. on June 1. In Japan, Sony started taking orders at 9 a.m. and within 20 minutes all 3,000 units allotted for domestic distribution were sold out. In the U.S., 2,000 units were sold out on the first day.

The Japanese version of the Furby doll, with a language learning function, was released by Tomy Co. on May 29 and is also selling well.

AIBO, priced at ¥250,000, expresses joy when a sensor on top of its head is touched. The electronic pet also goes near, or keeps away from, objects by detecting color and contours with a built-in charge-coupled device camera. It differs from conventional robots in that it has emotional and instinctive functions and thus can act automatically on its own judgment or with external stimulation.

In Japan, robots have so far been used for industrial purposes, mainly for automation at auto plants or offices. Now, robots are being introduced for entertainment, like Sony's AIBO, or nursing care at home.

Hitachi, Ltd. has developed a walking aid robot, which starts moving when its frame is grasped by human hands. It has arms which support a person who stands from a bed or chair. It also has a function of automatically applying the brakes on a downhill. Its built-in sensor enables it to avoid an obstacle and automatically stop. Hitachi plans to market the device to hospitals and care facilities at a price of ¥2 million.

Matsushita Electric Industrial Co. has unveiled a robot which converses with another robot and can be linked to nursing care facilities via ordinary communications lines and used as a network terminal.

Other electronic companies are also fabricating various types of robot, such as one which carries meals from the hospital kitchen to the bedsides of patients.

Japanese robot makers are confident that the country's robot market has an enormous potential, possibly worth ¥1 trillion.