

Trends in Overseas Subsidiaries (Summary)

Quarterly Survey of Overseas Subsidiaries (from July to September 2006)

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Enterprise Statistics Office
Research and Statistics Department
Ministry of Economy, Trade and Industry

<Important Points in the Survey>

● Prospects DI for the January-March Quarter of 2007

- The Sales Current Assessment DI worsened for all regions except Europe, but the Sales Prospects DI improved thanks to gains in the transportation equipment and chemicals sectors, remaining in the double-digits and indicating that business confidence remains high.
- The Capital Investment Current Assessment DI worsened for all regions except Europe. The Prospects DI worsened for all regions and sectors, except the industrial machinery sector, but it remains positive for all sectors and regions.
- The Current Employment Assessment DI deteriorated, but the Prospects DI improved slightly remains in the double-digits for China.

● Actual Results for the July-September Quarter of 2006

- Sales growth remained in the single-digit range for a fourth straight quarter, but the rate of growth has recovered for two straight quarters. The strong growth in transportation equipment sector was tempered by the sharp rise in oil prices and other factors, but there was increased growth in the chemicals and electrical machinery sectors. The growth rate increased for ASEAN4 and Europe. The growth rate decreased slightly in China due to the slowing growth in the transportation equipment sector, but still remained in the double digits. The growth rate in North America was low due to the falloff in the transportation equipment sector and the growth rate for NIEs3 continued to fall.
- There was a big increase in capital investment for a second straight quarter. Investment in the transportation equipment sector enjoyed big gains for a second straight quarter and investment in electrical machinery shifted to a double-digit increase. Investment growth for the chemicals sector also gained momentum. There was a significant expansion in the growth rate for North America, while NIEs3, China and Europe all shifted back to positive growth.
- The number of employees continued to increase with noticeable increases in Asia, mainly in China. There continued to be a slight decline in employment in North America, while the job numbers in Europe gained for a second straight quarter.

Note: The survey was conducted as of the middle of November 2006

<Reference> Overseas Economies

The global economy continues to recover. The pace of the economic expansion in America is slowing, while the economy in China continues to expand. Growth in fixed asset investment remains at a high level, even though there has recently been a little slowing in the rate of growth. The economies in Taiwan and Singapore are expanding thanks mainly to external demand, while the Malaysian economy is growing due mainly to domestic demand. In Thailand economic growth is slowing and in Korea the economy is expanding gradually. The economies for the euro-zone and the UK are recovering. (Excerpt from the December 2006 issue of The Monthly Economic Report).

1. Sales

The Sales Prospects DI¹ stood at 16.0 percentage points and a slight improvement is forecast. The growth ratio of actual sales recovered slightly with a sales increase of 7.0% compared to the same quarter of the previous year.

- The Sales Current Assessment DI (for the October-December quarter of 2006) came to 15.1 percentage points, worsening from the preceding quarter (July-September quarter). Even though the Sales Current Assessment DI remained in positive territory for all sectors and regions, there were drops for all regions except Europe.

The Sales Prospects DI (for the January-March quarter) improved slightly. The electrical machinery and iron and steel sectors are expected to worsen, dropping to single-digit levels, but the transportation equipment and chemicals sectors are forecast to improve to high growth levels. Improvements are expected for ASEAN4² and particularly for North America. Overall business sentiment remains at a high level, with growth rates in the double-digits for all regions except NIEs3.

- Actual sales (for the July-September quarter of 2006) rose 7.0%. The rate of growth remained in the single digits for a fourth straight quarter, but this still marked a recovery for the second straight quarter.

The transportation equipment sector continued to see growth, but the rate of growth has fallen. For all other sectors, however, the rate of growth increased.

The rate of growth fell for North America, but rose for Asia and Europe. The Asian region enjoyed double-digit growth for the first time in three quarters thanks to a stronger growth rate for ASEAN4 and other factors. ASEAN4 has seen three straight quarters of single-digit growth but the rate of growth is increasing. This is because Thailand saw big growth for transportation equipment thanks to huge increases in sales from car makers, while in Malaysia the electrical machinery sector turned positive due in part to an increase in the sales of audiovisual equipment. Sales growth in China remains in the double-digit range, but has been slowing. In the electrical machinery sector there has been only single-digit growth for three straight quarters due in part to falling prices, mainly for digital home appliances, and the transportation equipment sector continues to see huge growth, albeit at a slowing rate. NIEs3 saw falling growth for a third straight quarter due in part to Taiwan's struggling transportation equipment sector. However, the rate at which growth is falling has slowed thanks to strong growth for electrical machinery. In North America there has only been a low rate of sales growth. The electrical machinery sector has enjoyed a higher rate of growth thanks to strong sales of audiovisual equipment, but there has been a decrease in transportation equipment sales. The drop in the transportation equipment sector can be blamed on poor sales of large-class vehicles, the driving force behind vehicle production in North America, due to the sharp jump in oil prices. The rate of sales growth in Europe increased slightly as the drop in transportation equipment sales and the smaller rate of growth for electrical machinery were offset by gains in the chemicals and industrial machinery sectors.

Notes:

1. The Prospects DI is a survey that compares the previous quarter with the quarter for which the survey is being conducted (current assessment) and the following quarter (prospects quarter).

- DI = (Proportion of companies responding that they expected an increase) – (Proportion of companies responding that they expected a decrease)

- Quarterly Changes in Current Assessment DI = [Current Assessment DI for October-December quarter] – [Current Assessment DI for July-September quarter]

- Quarterly Changes in Prospects DI = [Prospects DI for January-March 2007 quarter] – [Current Assessment DI for October-December quarter]

2-4. ASEAN4: Indonesia, Thailand, the Philippines and Malaysia NIEs3: Singapore, Taiwan and the Republic of Korea
China: China including Hong Kong

Table 1 Sales DI and Actual Results (by Region and Main Industries)

Unit (comparison to same quarter of previous year:%, comparison to the previous year:percentage points)

	DI					Actual (comparison to corresponding period of previous year)		DI					Actual (comparison to corresponding period of previous year)				
	Survey of previous term		Survey of present term					comparison to the previous quarter		Survey of previous term		Survey of present term			comparison to the previous quarter		
	① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)	Prospect (③-②)			① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)	Prospect (③-②)					
Total	21.6	→ 15.1	→ 16.0	(-6.5)	0.9	7.0	Transportation equipment	15.7	→ 19.9	→ 26.3	(4.2)	6.4	4.9				
North America	8.4	→ 7.7	→ 19.4	(-0.7)	11.7	1.8	Electrical machinery	19.1	→ 7.3	→ 4.0	(-11.8)	-3.3	6.7				
Asia	29.2	→ 17.7	→ 16.2	(-11.5)	-1.5	10.4	Industrial machinery	20.1	→ 25.2	→ 20.7	(5.1)	-4.5	14.7				
ASEAN4	24.8	→ 11.9	→ 15.9	(-12.9)	4.0	8.9	Chemicals	24.6	→ 16.7	→ 25.6	(-7.9)	8.9	8.8				
NIEs3	15.9	→ 14.8	→ 7.3	(-1.1)	-7.5	-0.5	Iron and Steel	14.1	→ 8.4	→ 5.4	(-5.7)	-3.0	7.1				
China(including Hong Kong)	36.5	→ 22.9	→ 18.2	(-13.6)	-4.7	16.4											
Europe	-5.7	→ 18.0	→ 11.5	(23.7)	-6.5	6.8											

Chart 1 Sales DI and actual sales (U.S. dollar bases)

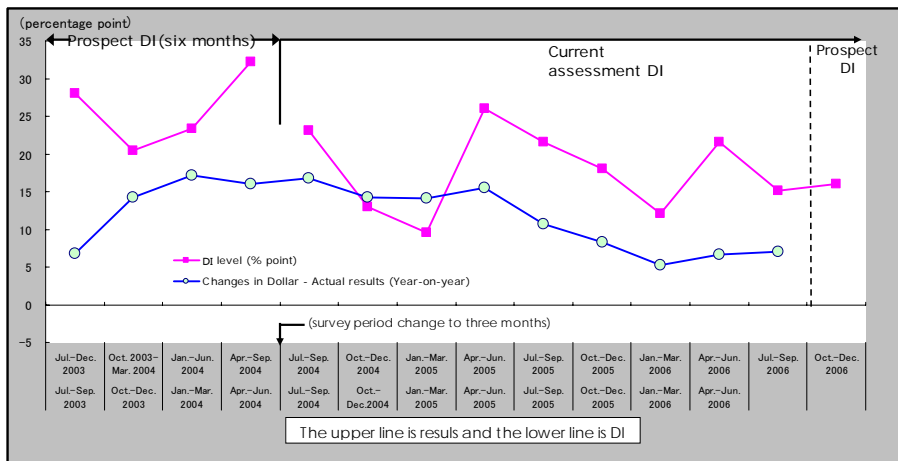


Chart 2 Sales DI for according to area

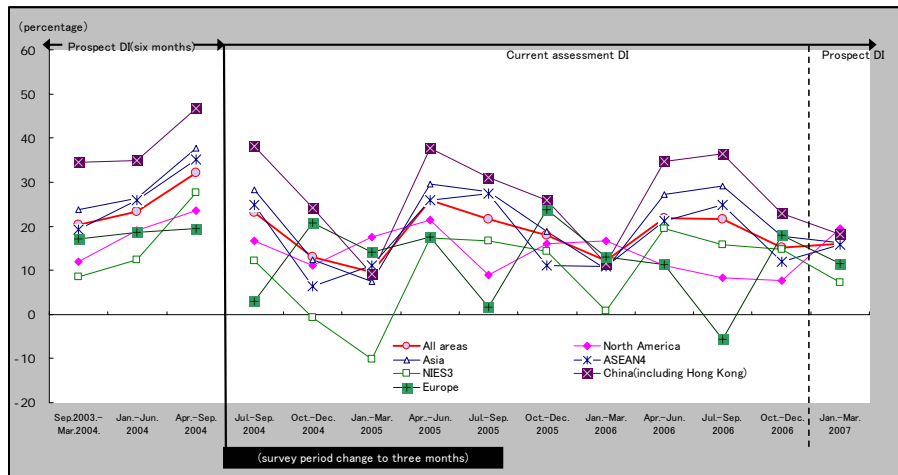
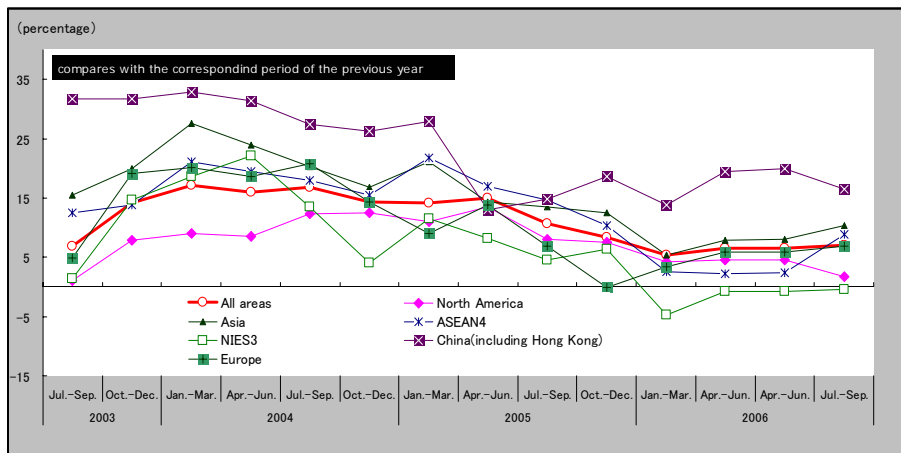


Chart 3 Actual result of sales (U.S. dollar bases) for according to area



2. Capital Investment (acquisition costs of fixed assets, except land)

The Capital Investment Prospects DI stood at 9.2 percentage points and is expected to decline. Actual capital investment surged 27.1% from the same quarter last year.

- The Current Capital Investment Assessment DI (for the October-December quarter of 2006) worsened by 13.0 points from the previous quarter. There was a worsening for all sectors except iron and steel and for all regions except Europe, but remained positive and in the double-digits for all regions except for ASEAN4.

The Capital Investment Prospects DI (for the January-March quarter of 2007) worsened for all regions and sectors, except for industrial machinery. The biggest drops were in the electrical machinery sector and in Europe. The Capital Investment Prospects DI is in the single digits for all regions except North America and China and is in the single digits overall.

- Actual capital investment (for the July-September quarter of 2006) increased sharply for the second straight quarter. In particular, the transportation machinery sector rose sharply for a second straight quarter. The electrical machinery sector rose for the first time in six quarters and the chemicals sector enjoyed a big jump in its growth rate.

There were high growth rates in North America and Asia, while Europe shifted to a big increase. In the Asian regions ASEAN4 saw a third straight quarter of double-digit growth, but the rate of growth has fallen. However, NIEs3 and China shifted to an increase and their rate of growth is increasing. NIEs3 continued to see a drop for the transportation equipment sector, but still managed a shift to a big increase as improved investment in IT-related equipment produced big gains for the chemicals and electrical machinery sectors. In China growth in the transportation equipment sector continued to double while the rate of decline for the electrical machinery sector shrank, and there were big gains for the chemicals sector. As a result, China shifted to double-digit growth for the first time in three quarters. ASEAN4 saw a double-digit increase for the third straight quarter, but the rate of increase has fallen. This is because big gains for electrical machinery have been offset by a big drop in the growth rate for transportation equipment due to a drop off in Thailand. North America enjoyed a big increase thanks to strong gains in the transportation equipment sector. In Europe there were big gains for chemicals, as well as well as electrical machinery due to gains in audiovisual equipment (mainly liquid crystal display models). The industrial machinery and transportation equipment sectors shifted to big gains, providing Europe with its first big increase in four quarters.

Table 2 Capital Investment DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previos year:%, comparison to the previous year:percentage points)

	DI						Actual (comparison to corresponding period of previous year)
	Survey of present term			comparison to the previous quaeeter		(comparison to corresponding period of previous year)	
	① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)	Prospect (③-②)		
Total	15.7 → 13.0 → 9.2	(-2.7)	-3.8	27.1			
North America	15.5 → 14.4 → 11.8	(-1.1)	-2.6	39.4			
Asia	17.1 → 12.1 → 9.8	(-5.0)	-2.3	28.9			
ASEAN4	14.9 → 9.1 → 6.9	(-5.8)	-2.2	11.5			
NIEs3	14.4 → 13.1 → 7.2	(-1.3)	-5.9	57.1			
China(including Hong Kong)	20.4 → 14.2 → 13.1	(-6.2)	-1.1	14.1			
Europe	12.9 → 17.3 → 4.2	(4.4)	-13.1	21.4			

	DI						Actual (comparison to corresponding period of previous year)
	Survey of present term			comparison to the previous quaeeter		(comparison to corresponding period of previous year)	
	① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)	Prospect (③-②)		
Transportation equipment	16.4 → 12.4 → 11.8	(-4.0)	-0.6	36.0			
Electrical machinery	15.5 → 11.5 → 2.0	(-4.0)	-9.5	19.8			
Industrial machinery	15.8 → 10.0 → 12.1	(-5.8)	2.1	5.6			
Chemicals	16.9 → 8.9 → 8.7	(-8.0)	-0.2	93.4			
Iron and Steel	16.4 → 19.2 → 14.6	(2.8)	-4.6	-30.5			

Chart 4 Capital investment DI according to area(percentage points)

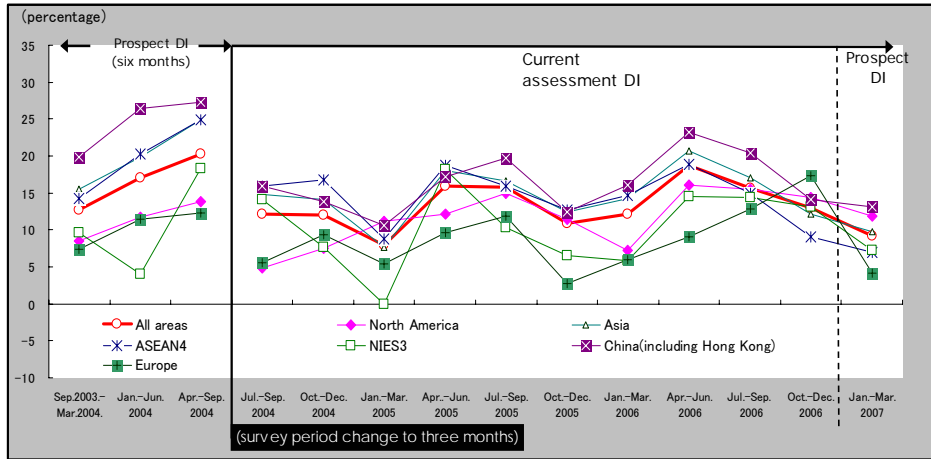
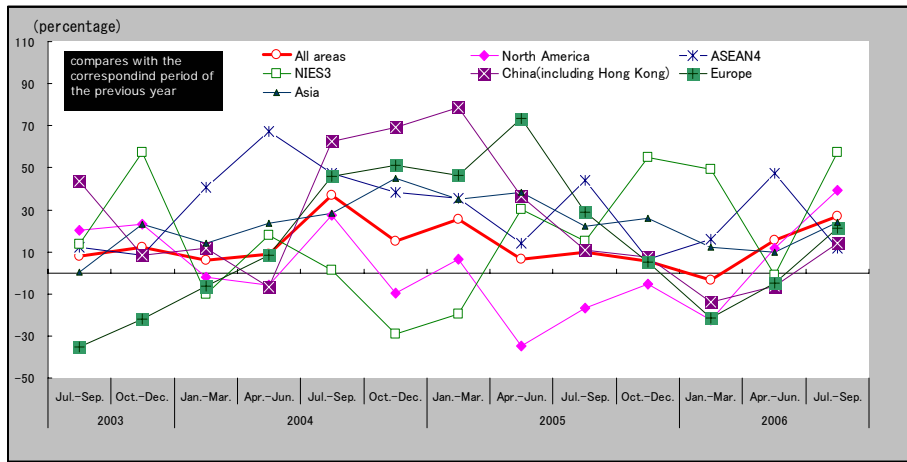
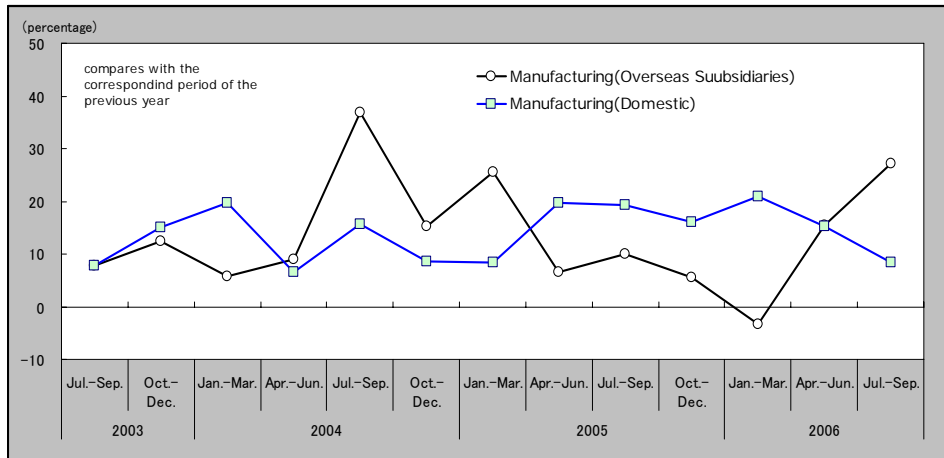


Chart 5 Actual result of capital investment (U.S. dollar bases) according to area



(Reference) Transition of Capital Investment of Japan and Overseas Subsidiaries



Note: Capital investment of Japan is increase in fixed assets (including construction in progress) of the Financial Statements Statistics of Corporations by Industry (yen base).

3. Employment (number of employees)

The Employment Prospects DI came to 5.7 percentage points, a slight improvement of 0.1 points compared to the previous quarter to remain in plus territory. The number of employees continued to increase, gaining 4.3% from the same quarter of the previous year.

○ The Current Employment Assessment DI (for the October-December quarter of 2006) came to 5.6 percentage points, which marked a decline from the previous quarter. There were drops for all sectors other than iron and steel and for all regions except Europe.

The Prospects DI (for the January-March quarter of 2007) improved slightly. As with the previous quarter, the Prospects DI remained positive and at the single-digit level for all sectors other than transportation equipment, and for all regions except Europe. The Prospects DI for China worsened, but remained in the double digits.

○ The actual number of employees (for the July-September quarter of 2006) continued to increase. There were increases for all the main sectors and for every region, except North America. There continued to be increases in Asia, but the rate of growth has slowed a bit. Employment growth continues in China, but has become more sluggish with falling growth rates for the transportation equipment, electrical machinery and industrial machinery sectors. Employment has continued to decrease in North America, while Europe has seen two straight quarters of growth.

Table 3 Employment Numbers DI and Actual Result (by Region and Main Industries)

Unit (comparison to same quarter of previous year:%, comparison to the previous year:percentage points)

	DI					Actual (comparison to corresponding period of previous year)
	Survey of previous term		Survey of present term		comparison to the previous quarter	
	① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)		
Total	10.3	→ 5.6	→ 5.7	(-4.7)	0.1	4.3
North America	8.5	→ 5.6	→ 7.0	(-2.9)	1.4	-1.9
Asia	13.4	→ 6.8	→ 6.5	(-6.6)	-0.3	5.4
ASEAN4	9.9	→ 3.3	→ 3.5	(-6.6)	0.2	2.8
NIEs3	6.2	→ 0.8	→ 0.8	(-5.4)	0.0	2.9
China(including Hong Kong)	19.3	→ 12.4	→ 10.4	(-6.9)	-2.0	6.9
Europe	-3.9	→ 1.1	→ 0.0	(5.0)	-1.1	1.8

	DI					Actual (comparison to corresponding period of previous year)
	Survey of previous term		Survey of present term		comparison to the previous quarter	
	① Current Assessment (Jul.-Sep. 2006)	② Current Assessment (Oct.-Dec. 2006)	③ Prospect (Jan.-Mar. 2007)	Current Assessment (②-①)		
Transportation equipment	12.4	→ 10.1	→ 10.1	(-2.3)	0.0	7.4
Electrical machinery	8.2	→ 3.2	→ 3.2	(-5.0)	0.0	4.3
Industrial machinery	13.4	→ 8.9	→ 7.1	(-4.5)	-1.8	4.6
Chemicals	11.6	→ 3.1	→ 6.3	(-8.5)	3.2	3.4
Iron and Steel	0.0	→ 3.4	→ 7.7	(3.4)	4.3	3.4