

**Trends in Overseas Subsidiaries**  
**Quarterly Survey of Overseas Subsidiaries (July–September 2003)**

**Summary**

- Prospects for October 2003–March 2004 (DI)
  - The sales DI was positive for the 8<sup>th</sup> consecutive quarter. All regions except NIES3 were in positive double digits, with China in particular maintaining a high level. The sales DI deteriorated compared to the previous period for the first time in 4 quarters. Declines in transportation equipment led to a worsening of the DI in Asia and North America, whereas the DI in Europe improved due to favorable conditions in that sector.
  - The equipment investment DI remained in positive double digits for the 7<sup>th</sup> consecutive quarter. In particular, growth in China has been in positive double digits for 10 straight quarters. Compared to the previous period, the DI worsened for the first time in 3 quarters, with declines in all regions.
- Results of Japanese overseas subsidiaries for July–September quarter of 2003
  - Sales increased for the 6<sup>th</sup> straight quarter. As a result of the increase in transportation equipment, Asia registered a double-digit increase for the 5<sup>th</sup> consecutive quarter, and Europe for the 6<sup>th</sup> consecutive quarter. Sales fell in North America for the 2<sup>nd</sup> consecutive quarter due to declines in iron and steel. IT-related industries experienced favorable results in China, with double-digit growth for the 5<sup>th</sup> straight quarter.
  - Equipment investment increased for the 3<sup>rd</sup> consecutive quarter. Transportation equipment showed favorable growth in North America and Asia. China experienced sharp increases for the 4<sup>th</sup> straight quarter.

\* The survey was conducted in mid-November 2003.

Results of the current survey:

1. The sales DI<sup>\*4</sup> was 20.1 points, a positive figure for the 8<sup>th</sup> straight quarter. However, it dropped 7.9 percentage points compared with the previous quarter, the first fall in 4 periods.

(By industry) The sales DI for the current quarter was positive for 12 out of 13 industries. Precision instruments alone registered a negative figure.

The DI worsened in 10 out of 13 industries compared to the previous quarter. In particular, transportation equipment and electrical machinery in North America declined by 7.0 percentage points and 8.5 percentage points respectively.

(By region) The sales DI for the current quarter was in positive double digits in all regions except NIES3<sup>\*3</sup>. In particular, China<sup>\*1</sup> maintained a high level of 34.4 percentage points. Compared to the previous year, transportation equipment declined by 11.2 percentage points in Asia and 8.7 percentage points in North America, the first decrease in 4 quarters. Europe registered an increase of 11.6 points due to the improvement in transportation equipment.

2. Sales remained brisk, and increased by 5.7% from the same quarter of the previous year on a dollar basis, rising for the 6<sup>th</sup> consecutive quarter.

(By industry) The figures increased in 9 industries out of 13. In particular, transportation equipment showed favorable results in Asia and in Europe, registering a 9.8% increase, rising for the 6<sup>th</sup> consecutive quarter. Meanwhile, the figures for iron and steel sharply decreased by 37.9% due to the downturn in North America, dropping for the 4<sup>th</sup> straight quarter.

(By region) Favorable conditions have been continuing in transportation equipment. Asia registered a double-digit increase, rising for the 5<sup>th</sup> consecutive quarter, and Europe also showed an increase, for the 6<sup>th</sup> consecutive quarter. On the other hand, the figures for North America declined by 1.4%, dropping for the 2<sup>nd</sup> consecutive quarter, due to the decrease in iron and steel. China, which has experienced sharp increases of 10–40% for 5 straight quarters, increased by 32.4% compared to the previous quarter due to growth in IT-related industries.

3. Prospects of equipment investment (DI) was positive for the 7<sup>th</sup> straight quarter. However, it declined by 4.9 percentage points compared to the previous period, the first drop in 3 quarters. Actual equipment investment compared to the same period of the previous year

registered a 6.4% increase, rising for the 3<sup>rd</sup> consecutive quarter.

The equipment investment DI for the current quarter was in positive double digits for the 7<sup>th</sup> consecutive quarter, with all regions in positive territory. Transportation equipment in China registered a 19.5 percentage point increase, remaining in high double digits for the 10<sup>th</sup> straight quarter.

The ratio to the previous quarter worsened for the first time in 3 quarters. It declined in 9 out of 13 industries, worsening in all regions.

Actual figures increased for the 3<sup>rd</sup> consecutive quarter. There was an 18.8% increase in North America, rising for the 3<sup>rd</sup> consecutive quarter. Electrical machinery and transportation equipment in Asia registered increases for the 4<sup>th</sup> consecutive quarter. In particular, IT-related industries in China recorded a 41.7% increase, rising sharply for the 4<sup>th</sup> straight quarter. Due to the decline in transportation equipment, results for Europe decreased by 35.4%, falling for the 2<sup>nd</sup> consecutive quarter.

Note: The figures have been calculated in principle on a dollar basis since the previous survey (April–June 2003).

The ratio of actual figures for the current quarter compared to the same quarter of the previous year is calculated based on those firms surveyed continuously. [Since the range of firms subject to this survey was extended from the April–June 2003 quarter (from “equity position over 50%” to “equity position equal to or greater than 50%”) there is a discrepancy between the actual figures for the current quarter and the figures for previous quarters. Therefore, the figures are calculated based on those overseas subsidiaries which have been continuously subject to this survey.]

- \*1: China, including Hong Kong
- \*2: ASEAN4: Indonesia, Thailand, the Philippines, and Malaysia
- \*3: NIES3: Singapore, Taiwan, and The Republic of Korea
- \*4: DI = The ratio of companies expecting an increase – the ratio of companies expecting a decrease.

DI compared with the previous term = DI for this term – DI for the previous term.

DI for this term: DI gained from the survey of the July–September quarter of 2003 (prospects for October 2003–March 2004).

DI for the previous period: DI results from the survey of the April–June quarter of 2003 (prospects for July–December 2003).

## 1. Sales

- The DI of sales (prospects for October 2003–March 2004) was 20.1 percentage points, a positive figure for the 8<sup>th</sup> consecutive quarter. The DI deteriorated compared to the previous quarter for the first time in 4 quarters.
- The DI for the current quarter was positive in 12 industries out of 13, excluding precision instruments. It declined compared to the previous period in 10 industries out of 13. Transportation equipment prospects worsened due to a decline in North America; electrical machinery prospects deteriorated as well.
- Current-quarter DI was in positive double digits in all regions except NIES3, with China maintaining a high level. The DI deteriorated compared to the previous period in both Asia and North America for the first time in 4 quarters. An improvement was seen in Europe due to the upturn in transportation equipment.
- Actual sales increased 5.7% on a dollar basis compared to the same quarter of the preceding year, rising for the 6<sup>th</sup> consecutive quarter.
- Actual sales increased in 9 industries out of 13. Transportation equipment showed favorable results in both Asia and Europe, registering an increase for the 6<sup>th</sup> consecutive quarter. Iron and steel decreased for the 4<sup>th</sup> consecutive quarter, influenced by the downturn in North America.
- With favorable results in transportation equipment, actual sales increased by double digits for the 5<sup>th</sup> straight quarter in Asia, and increased for the 6<sup>th</sup> consecutive quarter in Europe. Sales decreased in North America for the 2<sup>nd</sup> consecutive quarter. IT-related industries in China registered a sharp increase for the 5<sup>th</sup> straight quarter.

(Reference) With regard to overseas economies, the recovery in North America is gathering momentum. In Asia, Taiwan, Singapore, and Korea are showing signs of recovery, led by the steady growth of China and Thailand. The European economy is also showing signs of recovery. (Excerpt from the November Monthly Economic Report.)

(1) The sales DI maintained its 20 percentage point level, standing at 20.1 and remaining positive for the 8<sup>th</sup> consecutive quarter. On the other hand, it dropped by 7.9 points compared to the previous quarter (28.0 – 20.1), the first fall in 4 quarters.

- By industry, the DI has remained positive in 12 out of 13 industries, excluding precision instruments. The DI declined compared to the previous quarter in 10 industries out of 13. Transportation equipment decreased by 7.0 points compared to the previous quarter due to the decrease in North America, and electrical machinery declined in all regions by 8.5

percentage points. At the same time, a slight increase of 2.2 percentage points was seen in industrial machinery due to improvements in the European region, for the 3<sup>rd</sup> straight quarter of increase.

- By region, the DI was in positive double digits in all regions except NIES3. At 34.4 percentage points, China has maintained an especially high level compared to other regions. The DI dropped 11.2 percentage points compared to the previous quarter in Asia due to the prospect of a decline in transportation equipment, and also fell 8.7 percentage points in North America, both representing the first declines in 4 quarters. On the other hand, since transportation equipment and industrial machinery improved in Europe, the DI improved when compared with the previous quarter, standing at 11.6 percentage points.

(2) Sales calculated on a dollar basis increased by 5.7% compared to the same quarter of the previous year, rising for the 6<sup>th</sup> consecutive quarter.

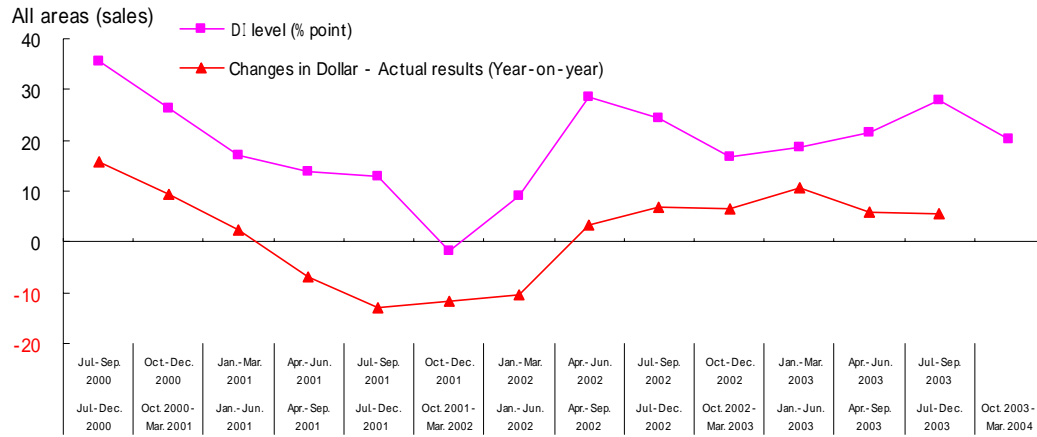
- By industry, sales increased in 9 industries out of 13. Due to favorable conditions in transportation equipment in Asia and Europe, sales compared to the same quarter of the previous year increased by 9.8%, rising for the 6<sup>th</sup> consecutive quarter. Due to the improvement in office machinery in China, industrial machinery also improved by 13.7%, rising for the 6<sup>th</sup> consecutive quarter. Chemicals increased by 12.5%, rising for the 3<sup>rd</sup> straight quarter. Electrical machinery was relatively flat, with a 0.7% increase over the same quarter of the previous year. On the other hand, iron and steel dropped by 37.9% over the same period due to the downturn in North America, falling for the 4<sup>th</sup> straight quarter.
- By region, transportation equipment registered a double-digit increase for the 5<sup>th</sup> consecutive quarter in Asia and the 6<sup>th</sup> consecutive quarter in Europe. In North America, on the other hand, though transportation equipment showed favorable results, the decline in iron and steel and electrical machinery resulted in a decrease of 1.4%, falling for the 2<sup>nd</sup> straight quarter. In Asia, due to the increase in IT-related industries in China, sales increased 32.4%, continuing the trend in 10–40% increases for the 5<sup>th</sup> consecutive quarter. Furthermore, sales also increased in NIES3 by 1.4%, rising for the first time in 3 quarters.

Sales DI by Region and Major Industry (October 2003 - March 2004), and Actual Results (July - September 2003)  
Unit (ratio over same quarter of last year:%, ratio over previous term:percentage points)

Industry	Total		transportation equipment		Electrical machinery		Industrial machinery		Chemicals		Iron and steel	
DI (previous term    current term)	28.0	20.1	26.4	19.4	28.8	20.3	25.8	28.0	26.8	23.2	37.5	10.4
Prospects (ratio over previous term)	-7.9		-7.0		-8.5		2.2		-3.6		-27.1	
Results (ratio over same quarter of last year)	5.7		9.8		0.7		13.7		12.5		-37.9	

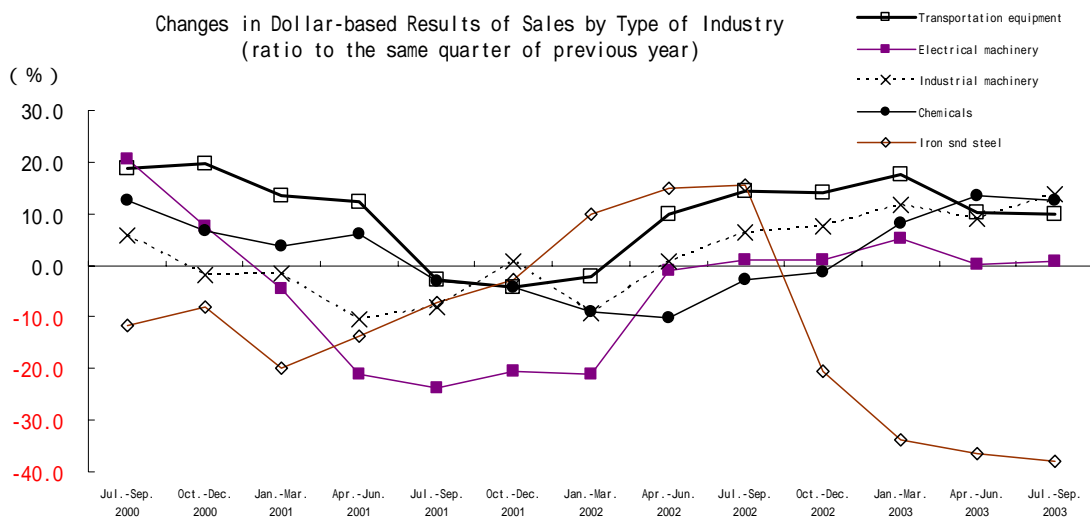
Region	North America		Asia		ASEAN4 (see Note 2)		NIES3 (see Note 3)		including Hong Kong		Europe	
DI (previous term    current term)	21.6	12.9	34.6	23.4	32.3	19.3	11.7	7.1	47.7	34.4	4.6	16.2
Prospects (ratio over previous term)	-8.7		-11.2		-13.0		-4.6		-13.3		11.6	
Results (ratio over same quarter of last year)	-1.4		15.5		12.2		1.4		32.4		4.9	

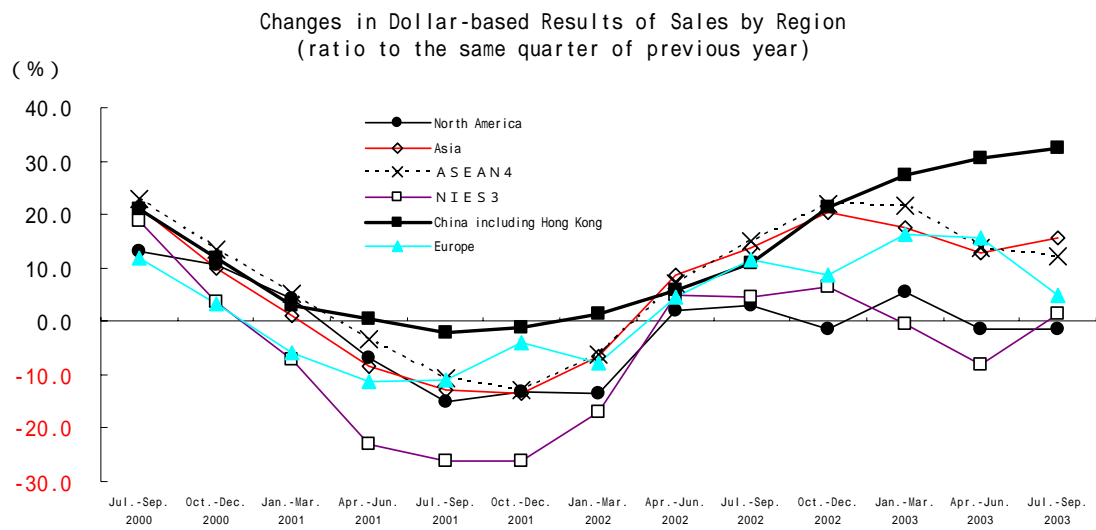
### Sales DI and Actual Results (Dollar Base)



The upper line is results and the lower line is DI

### Changes in Dollar-based Results of Sales by Type of Industry (ratio to the same quarter of previous year)







## 2. Equipment investment (the amount of acquired tangible fixed assets other than land)

- The DI of equipment investment (the prospects for October 2003–March 2004) was in positive double digits for the 7<sup>th</sup> consecutive quarter. On the other hand, the equipment investment DI declined compared to the previous quarter for the first time in 3 quarters.
- The DI for the current quarter was positive in 12 of 13 industries. However, the figures declined compared to the previous quarter in 9 of these 13 industries. The DI for electrical machinery and transportation equipment declined due to downturns in Europe and North America.
- The DI for the current quarter was positive in all regions. Thanks to favorable conditions in transportation equipment, China has been in positive double digits for 10 consecutive quarters. Figures have declined compared to the previous quarter in all regions including North America.
- Actual investment results calculated on a dollar basis increased 6.4% compared to the same quarter of the previous year, rising for the 3<sup>rd</sup> consecutive quarter.
- Due to the upturn in North America and Asia, transportation equipment increased for the 4<sup>th</sup> straight quarter. Electrical machinery increased for the first time in 3 quarters.
- The figures for North America increased for the 3<sup>rd</sup> consecutive quarter. The figures for Asia increased for the 4<sup>th</sup> consecutive quarter due to the favorable conditions in electrical machinery and transportation equipment. Owing to the increase in IT-related industries, China showed a sharp increase for the 4<sup>th</sup> consecutive quarter. The downturn in transportation equipment in Europe led to a decrease for the 2<sup>nd</sup> straight quarter.

(1) The DI of equipment investment was 12.5 percentage points, remaining in positive double digits for the 7<sup>th</sup> consecutive quarter, whereas the ratio compared to the previous year dropped 4.9 percentage points (previous DI 17.4      current DI 12.5), the first fall in 3 quarters.

- By industry, the DI for the current quarter was positive in 12 of 13 industries. The DI deteriorated compared to the previous quarter in 9 of these 13 industries. Electrical machinery declined by 4.2 percentage points due to the downturn in Europe. Transportation equipment and chemicals declined by 3.9 percentage points and 5.5 percentage points, respectively, due to the downturn in North America.
- By region, the DI for the current quarter was positive in all regions. The DI for Asia was 15.1

percentage points, registering a positive double-digit figure for the 7<sup>th</sup> consecutive quarter. The outlook for China was particularly bright, at 19.5 percentage points—the 10<sup>th</sup> consecutive quarter it has been in positive double digits since the semi-annual survey changed to a quarterly survey in the April–June 2001 quarter—thanks to strength in the transportation equipment.

Overall, the investment DI declined compared to the previous quarter in all regions, including North America.

(2) Actual equipment investment on a dollar basis was up 6.4% compared to the same quarter of the previous year, rising for the 3<sup>rd</sup> straight quarter.

- By industry, investment increased in 6 of 13 industries. Transportation equipment increased 6.2% compared to the same quarter of the previous year, rising for the 4<sup>th</sup> straight quarter due to the upturn in North America and Asia. Electrical machinery increased 16.1%, the first rise in 3 quarters.
- By region, North America registered an increase of 18.8%, rising for the 3<sup>rd</sup> consecutive quarter. Asia also increased by 23.9%, rising for the 4<sup>th</sup> consecutive quarter due to favorable conditions in electrical machinery and transportation equipment. In particular, investment by IT-related industries in China increased by 41.7%, for the 4<sup>th</sup> consecutive quarter of increase in the 20–60% range. At the same time, investment decreased 35.4% in Europe due to the downturn in transportation equipment, falling for the 2<sup>nd</sup> straight quarter.

Capital Investment DI by Region and Major Industry (October 2003 - March 2004), and Actual Results (July - September 2003)

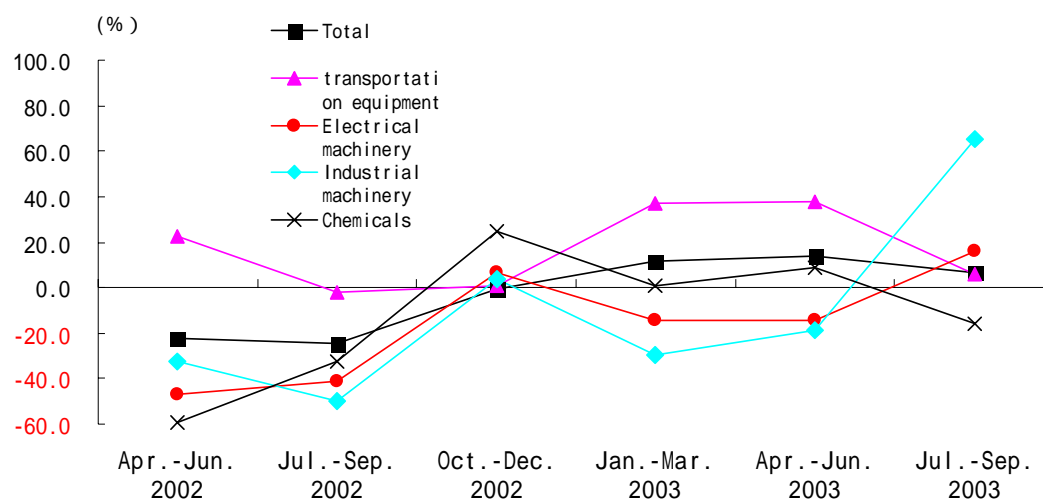
Unit (ratio over same quarter of last year:%, ratio over previous term:percentage points)

Industry	Total		transportation equipment		Electrical machinery		Industrial machinery		Chemicals		Iron and steel	
DI (previous term    current term)	17.4	12.5	20.8	16.9	15.0	10.8	12.4	12.6	17.7	12.2	26.7	8.9
Prospects (ratio over previous term)	-4.9		-3.9		-4.2		0.2		-5.5		-17.8	
Results (ratio over same quarter of last year)	6.4		6.2		16.1		65.6		-15.8		-24.5	

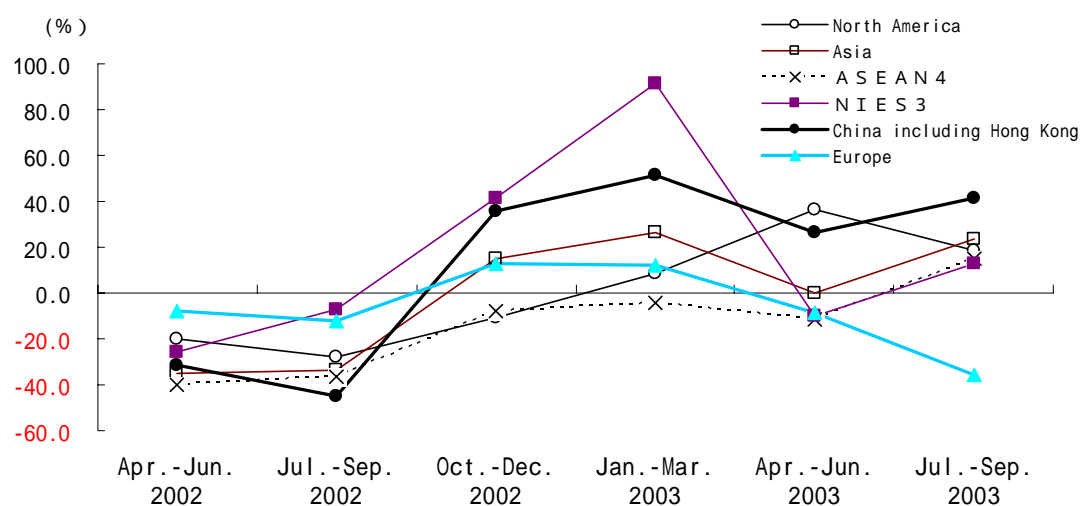
  

Region	North America		Asia		ASEAN4 (see Note 2)		NIES3 (see Note 3)		China including Hong Kong		Europe	
DI (previous term    current term)	18.8	9.0	18.1	15.1	17.2	13.8	11.9	9.3	22.9	19.5	9.4	7.0
Prospects (ratio over previous term)	-9.8		-3.0		-3.4		-2.6		-3.4		-2.4	
Results (ratio over same quarter of last year)	18.8		23.9		14.9		13.2		41.7		-35.4	

Changes in Dollar-based Results of Equipment Investments by Type of Industry  
(ratio to the same quarter of previous year)



Changes in Dollar-based Results of Equipment Investments by Region  
(ratio to the same quarter of previous year)



### 3. Employment

- In contrast to the improvement in the previous quarter, the current number-of-employees DI (the prospects for October 2003–March 2004) declined 2.2 percentage points compared to the previous quarter. The DI was 2.0 percentage points, remaining in positive territory for the 5<sup>th</sup> consecutive quarter.
- The DI declined compared to the previous quarter in 7 of 13 industries, including transportation equipment and industrial machinery.  
The current DI was positive in 7 industries out of 13.
- In spite of improvements in the previous quarter, the DI declined this quarter in North America and Europe. The figures improved for the 2<sup>nd</sup> consecutive quarter in Asia. the current DI was negative for all regions except Asia. China registered positive double digits for the 17<sup>th</sup> straight quarter.
- The actual number of employees (at the end of the September 2003 period) compared to the number in the same quarter of the previous year increased by 2.7%, rising for the 6<sup>th</sup> consecutive quarter.
- Transportation equipment increased for the 8<sup>th</sup> consecutive quarter and electrical machinery for the 5<sup>th</sup> quarter. Iron and steel declined for the 4<sup>th</sup> straight quarter.
- Employee numbers increased for the 7<sup>th</sup> consecutive quarter in Asia, in contrast to declines in both North America and Europe. Favorable conditions in electrical machinery, in particular, led to the 6<sup>th</sup> consecutive quarter of double-digit growth in China.

(1) The DI for the number of employees dropped 2.2 percentage points compared to the previous quarter (4.2 – 2.0), declining in contrast to the improvement seen in the previous quarter. On the other hand, the current DI was 2.0 percentage points, a positive figure for the 5<sup>th</sup> consecutive quarter.

- By industry, the DI declined in 7 of 13 industries, including transportation equipment and industrial machinery. The current DI was positive for 7 industries out of 13.
- By region, the number-of-employees DI shifted from the increase registered in the previous quarter to decreases in North America (-7.1 percentage points) and Europe (-4.2 percentage points), whereas it improved for the 2<sup>nd</sup> consecutive quarter in Asia (0.3 percentage points). In particular, NIES3 recorded an improvement of 7.9 percentage points, rising for the 2<sup>nd</sup> consecutive quarter.

The current DI was negative for all regions except Asia. China, in particular, stood at 15.5 percentage points, remaining in positive double digits for the 17<sup>th</sup> consecutive quarter.

(2) The number of employees (as of the end of this quarter) was 2.32 million, for an increase of 2.7% compared to the same quarter of the previous year, and the 6<sup>th</sup> consecutive quarter of growth.

- By industry, employee numbers in transportation equipment increased 7.8%, rising for the 8<sup>th</sup> consecutive quarter, and those in electrical machinery increased 2.6%, rising for the 5<sup>th</sup> straight quarter. On the other hand, employee numbers in iron and steel fell sharply by 32.1%, declining for the 4<sup>th</sup> straight quarter.

- By region, employee numbers in Asia increased 7.5%, rising for the 7<sup>th</sup> consecutive quarter. Due to the downturn in electrical machinery, the figure for North America declined by 5.9%, falling for the 10<sup>th</sup> consecutive quarter. The figure also declined in Europe by 5.1%, falling for the 11<sup>th</sup> consecutive quarter.

Due to favorable conditions in electrical machinery in China, the figure for Asia was 15.3%, the 6<sup>th</sup> straight quarter of double-digit increase.

DI for the Number of Employees by Region and Major Industry (October 2003-March 2004), and Actual Results (July-September 2003)  
Unit (ratio over same quarter of last year:%, ratio over previous term:percentage points)

Industry	Total		transportation equipment		Electrical machinery		Industrial machinery		Chemicals		Iron and steel	
DI (previous term    current term)	4.2	2.0	13.2	9.7	1.8	1.9	7.6	4.8	0.4	-0.7	14.8	18.3
Prospects (ratio over previous term)	<b>-2.2</b>		<b>-3.5</b>		0.1		<b>-2.8</b>		<b>-1.1</b>		3.5	
Results (ratio over same quarter of last year)	2.7		7.8		2.6		6.5		0.6		<b>-32.1</b>	

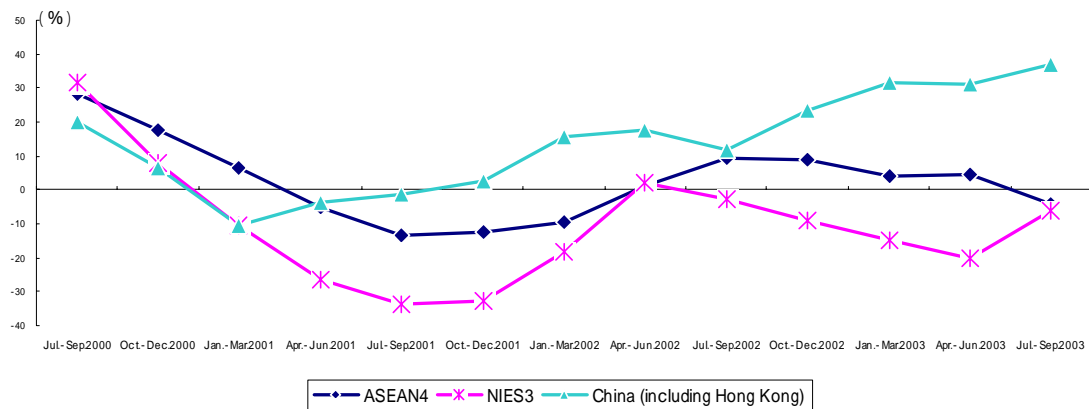
  

Region	North America		Asia		ASEAN4 (see Note 2)		NIES3 (see Note 3)		China including Hong Kong		Europe	
DI (previous term    current term)	-1.7	-8.8	7.5	7.8	3.2	0.9	-4.3	3.6	16.9	15.5	-5.2	-9.4
Prospects (ratio over previous term)	<b>-7.1</b>		0.3		<b>-2.3</b>		7.9		<b>-1.4</b>		<b>-4.2</b>	
Results (ratio over same quarter of last year)	<b>-5.9</b>		7.5		2.1		1.6		15.3		<b>-5.1</b>	

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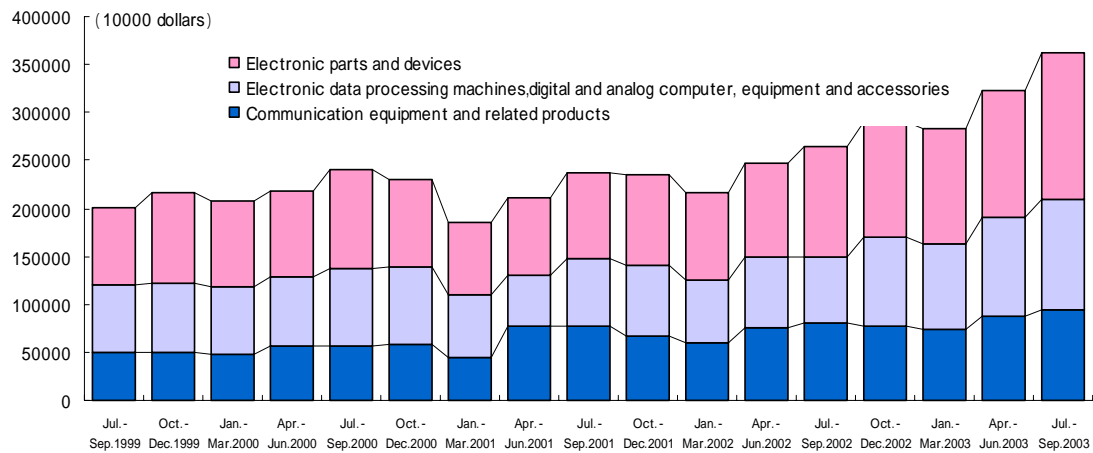
### IT-related Electrical Machinery in Asia

Steep growth in China; NIES3 shifting from negative to positive growth



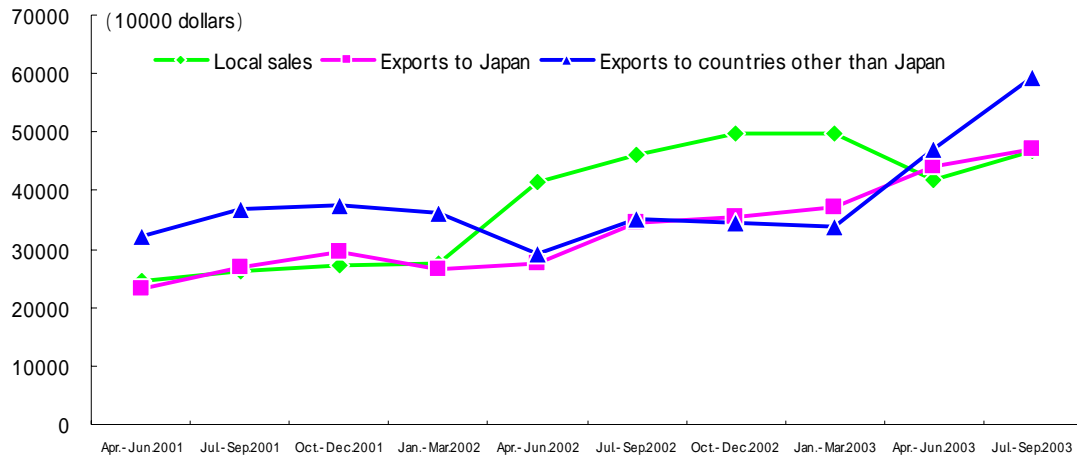
### IT Industry Sales in China

“Electronic parts and device manufacturers” of semiconductor elements and integrated circuits account for 40%



### Destinations of Electronic Parts and Devices Manufactured in China

Backed by the economic recovery in the United States and Asia, growth seen in goods destined for Japan and third countries



Note: IT-related electronic machinery includes communications equipment and associated equipment (telephones, televisions, radios, stereos, etc.), electronic computers and accessories, and electronic parts and device manufacturers (semiconductor elements, integrated circuits, etc.).