

## Trends in Overseas Subsidiaries Quarterly Survey of Overseas Subsidiaries (April – June 2004)

### Summary

Prospects (DI) for October – December 2004:

- The sales prospects DI was positive in all regions. However, compared to the previous quarter, it worsened in all regions except Europe for the first time in three quarters, due to anxiety about a slowdown of the world economy. In ASEAN4, NIES3, and China, the DI declined due to effects in the electrical machinery and transportation equipment areas.
- Overall, equipment investment DI was positive in all regions, although it declined in ASEAN4 and China. The employment prospects DI worsened significantly in China.

Results for Japanese overseas subsidiaries for the April – June quarter of 2004:

- Sales were strong in Asia, increasing for the ninth consecutive quarter. Sales increased in all regions due to favorable conditions in electrical machinery and transportation equipment. Sales in China continued to dramatically increase due to the influence of electrical machinery, etc., with particularly strong demand for digital household electrical appliances.
- Equipment investment greatly increased in ASEAN4, while in China it fell for the first time in seven quarters due to the impact of measures restricting investment. Employment remained solid in China, and increased in Europe for the first time in 14 quarters.

Note: The survey was conducted in mid-August 2004.

Results of the current survey;

1. Due to anxiety about a slowdown of the world economy, the sales prospects DI\*<sup>1</sup> fell by 12.1 points compared to the previous quarter, down for the first time in three quarters. The DI itself remained positive, at 20.1 points. Sales on a dollar basis increased by 15.5% compared to the same quarter of the previous year, for the ninth consecutive quarter of growth.

Due to anxiety about a slowdown of the world economy caused by the high price of crude oil, signs of slowdown in the U.S. economy and tight monetary policy by China,\*<sup>2</sup> compared to the previous quarter the sales prospects DI decreased in all regions except Europe, especially in Asia. It decreased significantly in ASEAN4\*<sup>3</sup> due to decreases in electrical machinery and transportation equipment, and it decreased also in NIES3\*<sup>4</sup> and China. The sales prospects DI stood at 20.1 points, remaining positive in all regions.

Actual sales continued to increase in all regions, and in particular increased for the ninth consecutive quarter in Asia. China exhibited continued sharp growth due to increases in electrical machinery, etc., with strong demand for digital household electrical appliances. ASEAN4 registered an increase due to the influence of transportation equipment, etc., and NIES3 also registered an increase. Europe showed further evidence of solid recovery, growing by double digits for the third consecutive quarter.

2. Equipment investment prospects DI fell by 9.0 points compared to the previous quarter, down for the first time in three quarters. The DI remained positive, however, at 11.3 points. Actual equipment investment compared to the same period of the previous year registered a 7.6% increase, up for the sixth consecutive quarter.

Compared to the previous quarter, the investment DI decreased in all regions, with a dramatic double-digit worsening of figures in Asia, where transportation equipment, etc., in ASEAN4, and electrical machinery, etc., in China, contributed to the decline.

The overall investment DI level was 11.3 points, and remained positive in all regions.

Actual equipment investment figures increased for the sixth consecutive quarter. Asia registered a large increase for the fourth consecutive quarter, and ASEAN4, in particular, increased sharply by 58.0% due to favorable conditions in transportation equipment and electrical machinery. In contrast, China decreased for the first time in seven quarters due to the influence of its tight monetary policy, etc.

3. The employment prospects DI decreased by 4.2 points compared to the previous quarter, down for the first time in three quarters. The DI itself remained positive. Actual employment figures increased by 4.9% compared to the same quarter of the previous year, up for the ninth consecutive quarter.

Compared to the previous quarter, the employment DI decreased in all regions except NIES3, particularly in Asia. China registered a decrease in DI of 6.9 points due to declines in electrical machinery, etc.

The employment DI was positive in all regions except Europe and NIES3.

Actual employment numbers increased for the ninth consecutive quarter. Asia continued to increase. China, in particular, increased by 14.2% due to favorable conditions in electrical machinery, etc., for its ninth consecutive quarter of strong growth. Europe increased for the first time in 14 quarters. In contrast, North America continued to decrease.

Notes\*1 :The DI survey period was revised to three months as of this quarter. (The previous single six-month survey period was divided into “current assessment” and “prospects” periods, each of which covers three months.)

•  $DI = (\% \text{ of companies expecting an increase}) - (\% \text{ of companies expecting a decrease})$

•  $\text{Current vs. previous-term DI comparison} = (\text{prospects DI}) - (\text{DI for the previous quarter})$

DI for the previous quarter: outlook for April – September 2004

Current assessment DI: outlook for July – September 2004

Prospects DI: outlook for October – December 2004

\*2: China: including Hong Kong

\*3: ASEAN4: Indonesia, Thailand, the Philippines, and Malaysia

\*4: NIES3: Singapore, Taiwan, and the Republic of Korea

## 1. Sales

The sales prospects DI decreased by 12.1 points, down for the first time in three quarters. The prospects DI level was 20.1 points, remaining positive.

Due to anxiety about a slowdown of the world economy caused by the high price of crude oil, signs of slowdown in the U.S. economy, and tight monetary policy in China, compared to the previous quarter the prospects DI decreased in all regions except Europe, with Asia declining particularly sharply. The DI decreased significantly in ASEAN4 due to decreases in electrical machinery and transportation equipment; it also decreased in NIES3 and China.

The sales prospects DI remained positive in all regions.

Actual sales on a dollar basis increased by 15.5% compared to the same quarter of the previous year, up for the ninth consecutive quarter.

Actual sales continued to increase in all regions. Asia registered an increase for the ninth consecutive quarter. China continued its sharp growth due to increases in electrical machinery, etc., with strong demand for digital household electrical appliances. ASEAN4 and NIES3 also increased. Europe showed steady improvement, up by double digits for the third consecutive quarter.

Note: With regard to overseas economies, the economy in North America is expanding. In Asia, China, Thailand, Malaysia, Taiwan, and Singapore are showing signs of economic expansion, and the Republic of Korea is showing signs of recovery. The European economy is also showing signs of a moderate recovery. (Excerpt from the September Monthly Economic Report)

(1) Compared to the previous quarter, the sales prospects DI was down 12.1 points, falling for the first time in three quarters (previous-quarter DI of 32.2 prospects DI of 20.1). The DI was 22.9 points in the current assessment (July to September 2004), and 20.1 points for future prospects (October to December 2004), remaining positive in the 20-point range (see Table 1 and Chart 1).

· Compared to the previous quarter, the prospects DI decreased in all regions except Europe, due to anxiety about a slowdown of the world economy caused by the high price of crude oil, signs of slowdown in the U.S. economy, and China's tight monetary policy and measures restricting investment. Asia registered a decrease of 15.9 points, and ASEAN4, in particular, dropped significantly—by 21.5 points—due to decreases in 12 out of 13 industries, such as electrical machinery, etc. Both NIES3 (down 18.3 points) and China (down 11.7 points) decreased, and North America also fell by 8.2 points due to a decrease in transportation equipment. By contrast, Europe increased by 1.2 points, thanks to improvements in electrical machinery.

The prospects DI remained positive in all regions (see Chart 2).

(2) Sales calculated on a dollar basis increased by 15.5% compared to the same quarter of the previous year, up for the ninth consecutive quarter (see Table 1, Chart 1).

· Actual sales continued to increase in all regions, and were up for the ninth consecutive quarter in Asia, in particular. China, especially, continued to grow, increasing by 31.6%. Sales in China increased in all industries, with favorable demand for digital household electrical appliances driving advances in electrical machinery; sales continued to grow in the 30% range for the fifth consecutive quarter. ASEAN4 increased by 15.3% due to favorable increases in transportation equipment (which was particularly strong in Thailand) and electronic machinery, etc. NIES3, on the other hand, increased by 22.6% due to an increase in electrical machinery, etc. North America continued to increase due to favorable conditions in transportation equipment and a return to growth in electrical machinery. Europe showed a steady recovery due to increases in transportation equipment and electrical machinery, maintaining a double-digit increase for the third consecutive quarter (see Chart 3).

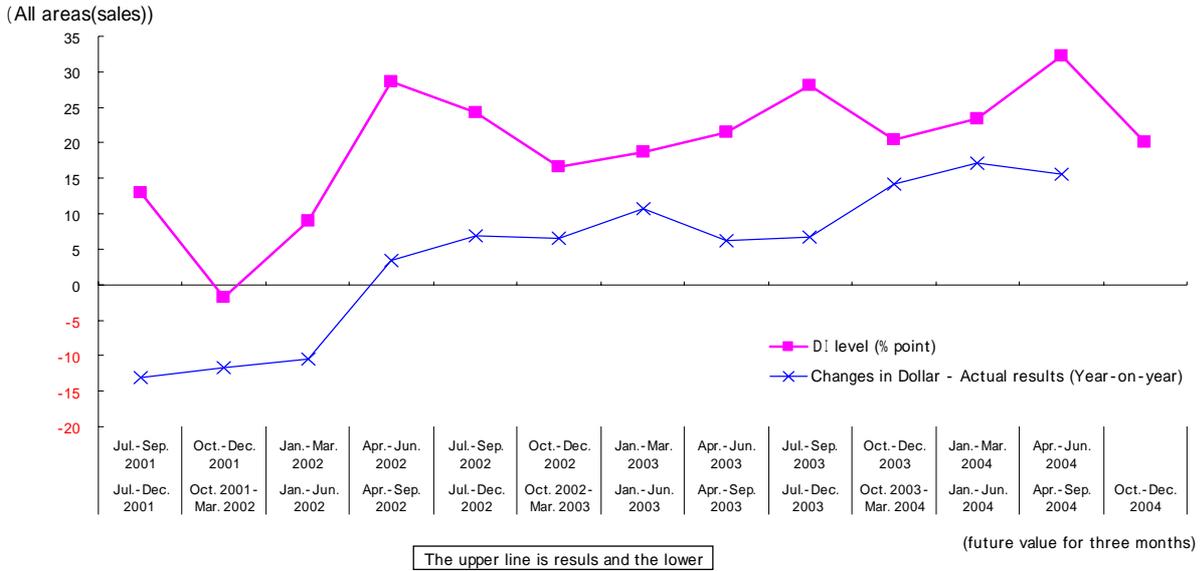
**Table 1** Sales Prospect DI ( October - December 2004 ) and Actual Results ( April - June 2004) by Region and Main Industries

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

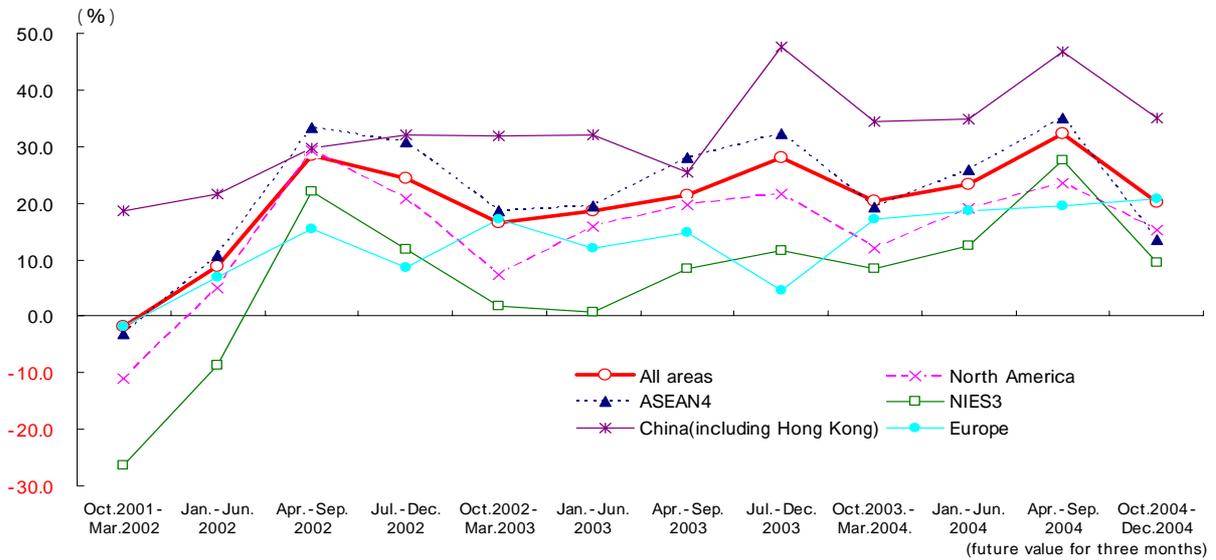
Region	Total	North America	Asia	ASEAN4 (see Note 3)	NIES3 (see Note 2)	China (including Hong Kong)	Europe
DI (previous term this term) (recognition of the current condition)	32.2(22.9) 20.1	23.5(16.3) 15.3	37.6(28.0) 21.7	35.1(24.6) 13.6	27.7(11.2) 9.4	46.7(38.5) 35.0	19.5( 2.6) 20.7
Prospects (comparison to the previous year)	-12.1	-8.2	-15.9	-21.5	-18.3	-11.7	1.2
Results (comparison to same quarter of previos year)	15.5	8.7	22.6	15.3	22.6	31.6	18.8

Industry	Transportation equipment	Electrical machinery	Industrial machinery	Chemicals
DI (previous term this term) (recognition of the current condition)	32.3(16.6) 19.4	32.2(22.1) 18.3	34.0(26.7) 30.4	36.9(20.0) 23.8
Prospects (comparison to the previous year)	-12.9	-13.9	-3.6	-13.1
Results (comparison to same quarter of previos year)	13.6	14.6	29.4	21.5

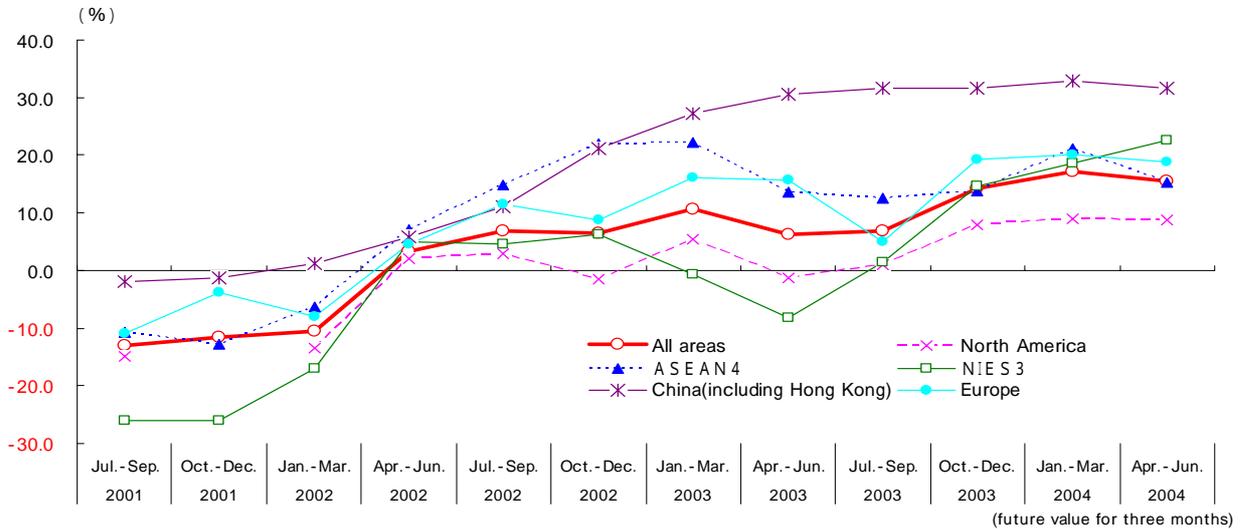
**Chart 1 Changes in Sales Prospects DI and Actual Sales (dollar basis)**



**Chart 2 Changes in Sales Prospects by Region (DI value)**



**Chart 3 Changes in Actual Sales (dollar basis) by Region (comparison to the same quarter of the previous year)**



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

Equipment investment DI was down 9.0 points compared to the previous quarter, declining for the first time in three quarters. The investment prospects DI was 11.3 points, remaining positive.

Figures for current vs. previous-term DI decreased in all regions, especially in Asia. Transportation equipment, etc. in ASEAN4, and electrical machinery, etc. in China, contributed to this decline.

The prospects DI remained positive in all regions.

Actual equipment investment calculated on a dollar basis increased by 7.6% compared to the same quarter of the previous year, up for the sixth consecutive quarter.

Asia showed significant growth for the fourth consecutive quarter. In particular, ASEAN4 increased sharply by 58.0% due to favorable conditions in transportation equipment and electrical machinery. China decreased for the first time in seven quarters due to the influence of its tight monetary policy, etc.

(1) Compared to the previous quarter, equipment investment prospects DI was down 9.0 points, falling for the first time in three quarters (DI for the previous quarter of 20.3 prospects DI of 11.3). The DI level was 12.5 points in “current assessment” terms (July to September 2004), and 11.3 points for “prospects” (October to December 2004), remaining positive (see Table 2).

• Compared to the previous quarter, the prospects DI decreased in all regions. In particular, Asia declined by 13.1 points. ASEAN4 worsened by 15.7 points, and China decreased by 12.1 points, both due to decreases in transportation equipment and electrical machinery, etc. North America fell due to a drop in transportation equipment, and Europe also decreased due to declines in electrical machinery and transportation equipment.

The prospects DI level remained positive in all regions (see Chart 4).

(2) Actual equipment investment on a dollar basis increased by 7.6% compared to the same quarter of the previous year, up for the sixth consecutive quarter (see Chart 2).

• Asia increased significantly for the fourth consecutive quarter. In particular, ASEAN4 increased sharply, by 58.0%, due to an approximately two-fold increase in transportation equipment (which was particularly strong in Thailand) and a continued increase in electrical machinery. Europe increased by 8.2%, up for the first time in five quarters, due to a return to growth in transportation equipment, and a significant increase in general machinery.

By contrast, North America decreased by 5.9%, down for the second consecutive quarter, due to declines in transportation equipment. In Asia, China decreased by 7.4%, down for the first time in seven quarters, due to a sharp fall in electrical machinery caused by effects of its tight monetary policy and measures restricting investment (see Chart 5).

**Table 2** Equipment Investment Prospects DI (October to December 2004) and Actual Result (April to June 2004) by Region and Main Industries

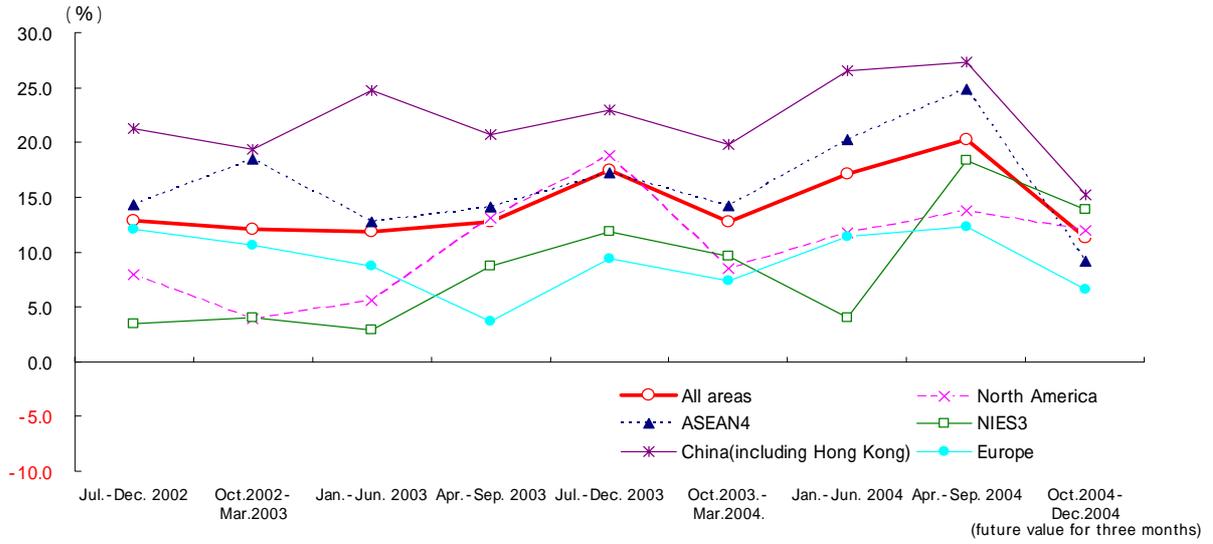
Unit ( comparison to same quarter of previous year:%, comparison to the previous year:percentage points )

Region	Total	North America	Asia	ASEAN4 (see Note 3)	NIES3 (see Note 2)	China (including Hong Kong)	Europe
DI (previous term this term) (recognition of the current condition)	20.3(12.5) 11.3	13.8(6.7) 12.0	24.9(14.9) 11.8	24.9(15.7) 9.2	18.3(13.8) 13.9	27.3(16.0) 15.2	12.3(5.5) 6.6
Prospects (comparison to the previous year)	-9.0	-1.8	-13.1	-15.7	-4.4	-12.1	-5.7
Results (comparison to same quarter of previous year)	7.6	-5.9	24.5	58.0	17.3	-7.4	8.2

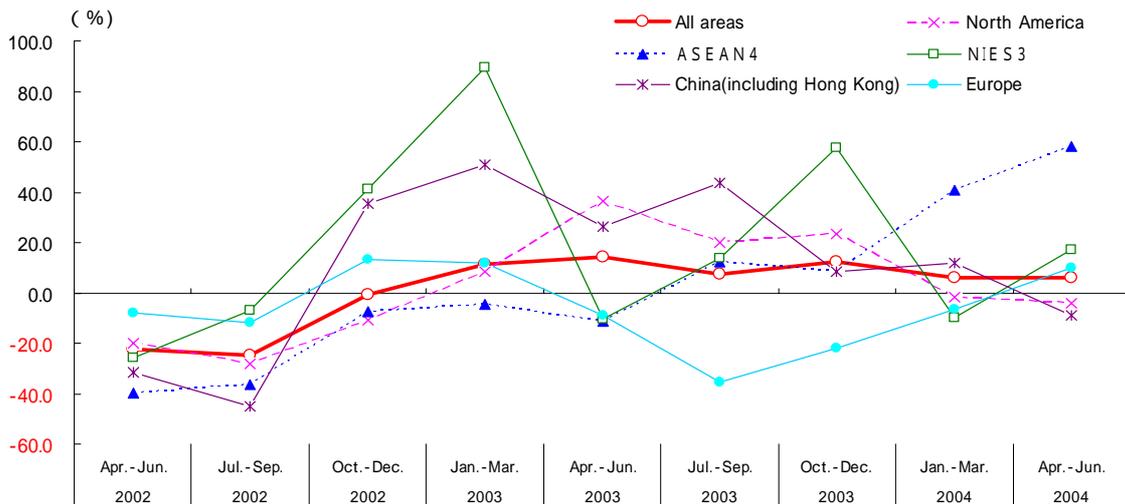
  

Industry	Transportation equipment	Electrical machinery	Industrial machinery	Chemicals
DI (previous term this term) (recognition of the current condition)	15.2(12.3) 8.0	23.3(13.8) 10.7	17.0(14.5) 16.2	18.4(13.4) 12.8
Prospects (comparison to the previous year)	-7.2	-12.6	-0.8	-5.6
Results (comparison to same quarter of previous year)	-1.7	27.9	72.4	-4.7

**Chart 4 Equipment Investment Prospects by Region (DI value)**



**Chart 5 Changes in Actual Equipment investment (dollar basis), by Region (comparison to the same quarter of the previous year)**



### 3. Employment

The employment prospects DI compared to the previous quarter fell 4.2 points, down for the first time in three quarters.

The prospects DI was 4.2 points, remaining positive.

Compared to the previous quarter, the prospects DI decreased in all regions except NIES3. In particular, it decreased in Asia, with China falling steeply by 6.9 points due to a sharp decrease in electrical machinery, etc. Decreases were also observed in ASEAN4, North America, and Europe due to declines in transportation equipment, etc.

Overall, the prospects DI was positive in all regions except Europe and NIES3.

The actual number of employees (at the end of the June 2004 period) increased by 4.9%, up for the ninth consecutive quarter.

Asia continued to increase. In particular, China grew by 14.2%, rising significantly for the ninth consecutive quarter due to favorable conditions in electrical machinery, etc. Europe also increased, up for the first time in 14 quarters. By contrast, North America continued to decrease.

(1) Compared to the previous quarter, the employment prospects DI fell by 4.2 points, down for the first time in three quarters (DI for previous quarter of 8.4 prospects DI of 4.2). The employment DI stood at 8.0 points in current assessment terms (July to September 2004) and 4.2 points for prospects (October to December 2004), remaining positive (see Table 3).

• Compared to the previous quarter, the prospects DI decreased in all regions except NIES3 (which remained broadly flat). In particular, Asia decreased by 4.2 points, and China in particular decreased by 6.9 points, due to decreases in electrical machinery and general machinery, etc. ASEAN4 fell by 3.7 points due to decreases in transportation equipment, etc. There were also declines in North America (down by 3.1 points) and Europe (down by 3.2 points) due to decreases in transportation equipment.

The prospects DI level was positive in all regions except Europe and NIES3 (0.0 points).

(2) Compared to the same quarter of the previous year, the number of employees (as of the end of this quarter) was 2.41 million, for an increase of 4.9%, and up for the ninth consecutive quarter (see Table 3).

• Asia continued its increase, this time by 7.0%. China stood out with growth of 14.2%, maintaining increases in the 10% range for the ninth consecutive quarter due to expansion in 10 out of 13 industries, including electrical machinery. Due to a sharp increase in transportation equipment, Europe increased by 3.8%, up for the first time in 14 quarters. By contrast, North America continued to decline due to decreases in electrical machinery, etc.

**Table 3** Number of Employment Prospects DI (October to December 2004) and Actual Result (April to June 2004), by Region and Main Industries

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

Region	Total	North America	Asia	ASEAN4 (see Note 3)	NIES3 (see Note 2)	China (including Hong Kong)	Europe
DI (previous term this term) (recognition of the current condition)	8.4(8.0) 4.2	3.6(2.5) 0.5	11.8(11.4) 7.1	6.6(8.7) 2.9	-0.4(4.8) 0.0	22.0(17.1) 15.1	-1.2(-1.6) -4.4
Prospects (comparison to the previous year)	-4.2	-3.1	-4.7	-3.7	0.4	-6.9	-3.2
Results (comparison to same quarter of previos year)	4.9	-1.3	7.0	1.7	2.2	14.2	3.8

Industry	Transportation equipment	Electrical machinery	Industrial machinery	Chemicals
DI (previous term this term) (recognition of the current condition)	17.0(9.7) 5.4	9.5(9.8) 4.5	11.7(14.0) 13.6	6.8(8.2) 3.9
Prospects (comparison to the previous year)	-11.6	-5.0	1.9	-2.9
Results (comparison to same quarter of previos year)	8.4	7.4	4.4	-3.8