

## **Trends in Overseas Subsidiaries Quarterly Survey of Overseas Subsidiaries (January – March 2005)**

### **Summary**

#### Prospects DI for July-September 2005

- The Sales Current Assessment DI improved significantly. The Prospects DI continued to reflect high business confidence. In particular, both the Current Assessment DI and the Prospects DI in the electrical machinery sector improved from their negative positions of the previous quarter, and were expected to continue to strengthen significantly. In transportation equipment, the Prospects DI worsened compared with the Current Assessment DI, although both remained at high levels.
- The Capital Investment Current Assessment DI improved dramatically. The Prospects DI was expected to deteriorate slightly. Asia exhibited a strong desire for investment, and capital investment remained at high levels in ASEAN4 and China.
- The Employment DI worsened slightly for all regions except NIEs3.

#### Actual Results for January-March 2005

- Sales posted double-digit growth for the sixth straight quarter. An increase in sales was observed in all regions due to brisk sales in the electrical machinery and transportation equipment sectors, etc. Sales in Asia showed no sign of slowing. The electrical machinery sector in China continued to grow strongly.
- Capital investment in ASEAN4 and China expanded considerably. In the Eastern European bloc, capital investment in the transportation equipment sector was notably robust.
- The number of employees continued to increase in Asia, while North America and Europe registered decreases.

### **Items of note in the current survey**

\*Note: The survey was conducted in the middle of May 2005.

- 1. The Sales Prospects DI<sup>\*1</sup> stood at 24.5 percentage points and reflected high business confidence. Actual sales remained strong, increasing 14.1% compared to the same quarter of the previous year, for the sixth consecutive quarter of double-digit growth.**

The Sales Current Assessment DI improved significantly and the Prospects DI also reflected high business confidence. The Current Assessment DI for NIEs3<sup>\*2</sup>, where inventory adjustments had been completed in the IT sector, exhibited a strong recovery. The Prospects DI worsened slightly compared with the Current Assessment DI. The Prospects DI for North America remained at a high level, although it deteriorated in the transportation equipment sector, etc. In Europe, business confidence declined because of deterioration in primary sectors such as transportation equipment and electrical machinery. The Prospects DI for Asia improved significantly in the electrical machinery and the industrial machinery sectors.

Actual sales continued to increase in all regions. In particular, sales in Asia posted their eleventh straight quarter of double-digit growth. Among them, sales in China continued to increase sharply due to expansion in the electrical machinery sector. Sales in North America and Europe continued to rise due to strong performance in the transportation equipment sector.

**2. The Capital Investment Prospects DI worsened somewhat, declining by 14.9 percentage points. Actual capital investment increased sharply, up 24.5% compared with the same quarter a year earlier, for the ninth consecutive quarter of growth.**

The Capital Investment Current Assessment DI improved considerably. In spite of slight declines, the Prospects DI remained positive in all regions, continuing at double-digit levels in all regions except Europe. The Prospects DI for the Asian region declined slightly due to a decrease in the transportation equipment sector, etc. The Prospects DI for Europe deteriorated in the transportation equipment and electrical machinery sectors, while that for North America continued to improve due to strong performance in the electrical machinery sector.

Actual capital investment expanded in all regions except NIEs3. Capital investment in Asia continued its upward trend. In particular, investment in ASEAN4<sup>\*3</sup> saw its fifth consecutive quarter of significant increase, due to favorable conditions in the transportation equipment sector. Capital investment in China<sup>\*4</sup> saw its third straight quarter of sharp increase, due to solid performance in the electrical machinery and transportation equipment sectors. Capital investment in Europe also increased greatly for the third consecutive quarter, due to favorable conditions in the transportation equipment sector. In particular, the Eastern European region saw heavy capital investment in the transportation equipment sector. Capital investment in North America registered the eighth consecutive quarter of growth in the electrical machinery sector.

**3. The Employment Prospects DI stood at 8.3 percentage points. The Prospects DI recovered slightly in NIEs3 and was positive in all regions. The number of employees increased 4.3% compared with the same quarter the previous year, for the twelfth consecutive quarter of growth.**

The Current Assessment DI improved. The Prospects DI showed a slight recovery in NIEs3, and was positive in all regions. Compared with the Current Assessment DI, the Prospects DI deteriorated in all regions except NIEs3. In North America and Europe, the Prospects DI worsened in primary sectors such as electrical machinery and transportation equipment. The Prospects DI for Asia showed a marginal decrease. In Asia, China and ASEAN4 remained at double-digit levels, but the Prospects DI declined slightly.

Actual employment numbers decreased in North America and Europe, while they increased in Asia, where the number of employees in China continued to grow due to strong performance in the electrical machinery sector, etc. The number of employees in ASEAN4 saw an increase as a result of favorable conditions in the transportation equipment sector.

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\*1: The DI survey period was revised to three months as of the April – June 2004 survey. (The previous single six-month survey period was divided into “current assessment” and “prospects” periods of three months each.)

- $DI = (\text{percentage of companies responding that they expect an increase}) - (\text{percentage of companies responding that they expect a decrease})$
- $\text{Quarterly Changes in Current Assessment DI} = (\text{Current Assessment DI for April – June 2005}) - (\text{Current Assessment DI for January – March 2005})$
- $\text{Quarterly Changes in Prospects DI} = (\text{Prospects DI for July - September 2005}) - (\text{Current Assessment DI for April – June 2005})$

\*2: NIEs3: Singapore, Taiwan, and the Republic of Korea

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

\*4: China includes Hong Kong.

## 1. Sales

The Sales Current Assessment DI (outlook for the April – June quarter of 2005) improved significantly. The Sales Prospects DI (for the July – September quarter of 2005) continued to reflect high business confidence. The Prospects DI registered a high level mainly in Asia. Compared to the Current Assessment DI, the Prospects DI exhibited a slight deterioration.

- The Current Assessment DI (outlook for the April – June quarter of 2005) improved significantly in NIEs3, where inventory adjustments of IT-related products were completed.
- The Prospects DI continued to reflect high business confidence. The Prospects DI for North America continued at a high level, although the DI in the transportation equipment sector worsened. The Prospects DI for Europe saw deterioration in primary sectors such as transportation equipment and electrical machinery. In Asia, the significant improvement for electrical machinery sector in Prospects DI for ASEAN4 and NIEs3 was remarkable.

Actual sales increased by 14.1% compared to the same quarter the previous year, for the sixth consecutive quarter of double-digit growth.

Actual sales continued to increase in all regions. Sales in Asia registered the eleventh straight quarter of double-digit growth. In particular, China experienced continued brisk sales in such sectors as electrical machinery and transportation equipment. Actual sales in ASEAN4 continued their upward trend, as in the previous quarter. In North America, actual sales in transportation equipment, a primary sector, registered the third consecutive quarter of double-digit rise. Sales in Europe, on the other hand, resulted in a single-digit increase for the first time in six quarters due to the reduced rate of increase in the electrical machinery sector, although sales in the transportation equipment sector remained strong.

(Reference) Overseas economies: The world economy is steadily recovering. The American economy is expanding. As for Asia, the economy in China is continuing to grow strongly; that in Taiwan is expanding; in Korea the economy is recovering at a moderate rate; and Singapore's economy is expanding slowly. The European economy is showing signs of a moderate recovery. The economy in the UK is steadily improving. (Excerpt from the June issue of *The Monthly Economic Report*)

- (1) The Sales Current Assessment DI for the current quarter (April-June, 2005) stood at 25.9 percentage points, a significant improvement of 16.1 points compared to that for the previous quarter (January-March, 2005).

The Prospects DI for the next quarter (July-September, 2005) was 24.5 percentage points, remaining at a high level, although compared to the Current Assessment DI for the current quarter (April-June, 2005), the Prospects DI showed a slight decrease of 1.4 points (see Table 1, Chart 1 and Chart 2).

- The Current Assessment DI improved significantly. The Prospects DI also continued to reflect high business confidence. The Prospects DI for Asia registered a high level around the 30% mark for the first time in five quarters. In particular, NIEs3 displayed robust recovery, thanks to completion of inventory adjustments of IT-related products. In addition, the Current Assessment DI for China saw a rapid recovery in the electrical machinery sector, from 0.0 percentage points for the previous quarter to 37.9 points for the current quarter, while the Prospects DI for China for the current quarter stood at 42.0 points, demonstrating the high level of business confidence. Compared with the Current Assessment DI, the Prospects DI worsened by 1.4 percentage points, due to the Current Assessment DI for the current quarter remaining at a high level. There was deterioration in the Prospects DI for North America (6.0 points lower than the Current Assessment DI for the current quarter) and for Europe (14.3 points lower than the Current Assessment DI for the current quarter), due to a decline in the transportation equipment sector, etc. At the same time, the Prospects DI for North America remained high, while the Prospects DI for Asia showed a marginal increase (1.7 points higher

than the Current Assessment DI for the current quarter) because the DI improved greatly in the electrical machinery and industrial machinery sectors, in spite of deterioration in sectors such as chemicals. The electrical machinery sector was particularly remarkable in that the Prospects DI for ASEAN4 and NIEs3 improved significantly (13.0 points and 16.3 points higher, respectively, than the Current Assessment DI for the current quarter).

(2) Actual sales (on a US-dollar basis) increased by 14.1% compared to the same quarter the previous year, for the sixth straight quarter of double-digit growth (see Table 1, Chart 1 and Chart 3).

Actual sales continued to pick up in all regions. In particular, sales in Asia registered the eleventh straight quarter of double-digit growth. Actual sales in China retained their strong momentum with an increase of 27.9% from the same quarter the previous year, and the eleventh consecutive quarter of double-digit growth due to remarkable sales expansion in primary sectors, including electrical machinery and transportation equipment. Sales in ASEAN4 posted an increase of 21.6% from the same quarter of the previous year due to strong performance in the transportation equipment sector (especially in Thailand), although quarterly sales growth in the electrical machinery sector remained at single-digit levels (up 4.1% from the same quarter of the previous year), as in the previous quarter. Year-on-year quarterly sales growth in NIEs3 stood at 11.8%, due to a year-on-year increase of 45.2% in the transportation equipment sector—the third straight quarter of solid growth—although electrical machinery sales decreased (down 5.6% on the same quarter of the previous year) because of continued poor export performance in IT-related products. Actual sales in North America continued to increase (up 11.0% from the same quarter of the previous year), for the third consecutive quarter of double-digit growth, with the transportation equipment sector as the primary driver. Sales in Europe registered only a single-digit increase for the first time in six quarters (up 9.2% from the same quarter of the previous year) due to the reduced rate of expansion in the electrical machinery sector, although the transportation equipment sector continued to experience favorable sales.

**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 )

Region	Total			North America			Asia			ASEAN4 (see Note 3)			NIEs3 (see Note 2)			China (including Hong Kong)			Europe		
DI	9.8	25.9	24.5	17.8	20.8	14.8	7.9	29.7	31.4	11.9	25.6	29.1	-9.9	18.6	15.5	9.4	38.0	39.9	13.9	17.0	2.7
DI comparison to the previous year	(16.1)	-1.4		(3.0)	-6.0		(21.8)	1.7		(13.7)	3.5		(28.5)	-3.1		(28.6)	1.9		(3.1)	-14.3	
Results (comparison to same quarter of previous year)	14.1			11.0			21.1			21.6			11.8			27.9			9.2		

Industry	Transportation equipment			Electrical machinery			Industrial machinery			Chemicals			Iron & Steel		
DI	22.5	27.5	19.4	-3.2	18.8	27.2	13.7	24.0	24.1	15.8	33.9	27.0	30.2	41.2	21.6
DI comparison to the previous year	(5.0)	-8.1		(22.0)	8.4		(10.3)	0.1		(18.1)	-6.9		(11.0)	-19.6	
Results (comparison to same quarter of previous year)	20.9			6.4			12.1			24.9			30.0		

note : Figures are shown in the order “Jan.-Mar.2005(current assessment) Apr.-Jun.2005(current assessment) Jul.-Sep 2005(prospects).

For DI comparison to the previous year, figures in parentheses are comparison with current assessment DI, while figures not in parentheses are comparisons with prospects (see note on page 1).

Chart1 Sales DI and Actual Sales (Dollar basis)

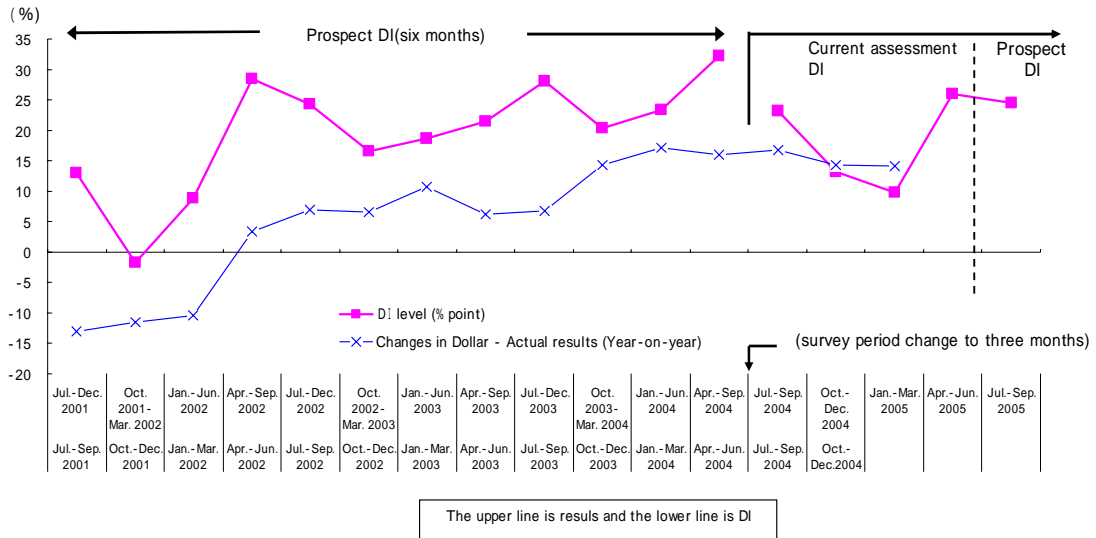


Chart2 Sales DI (by Region)

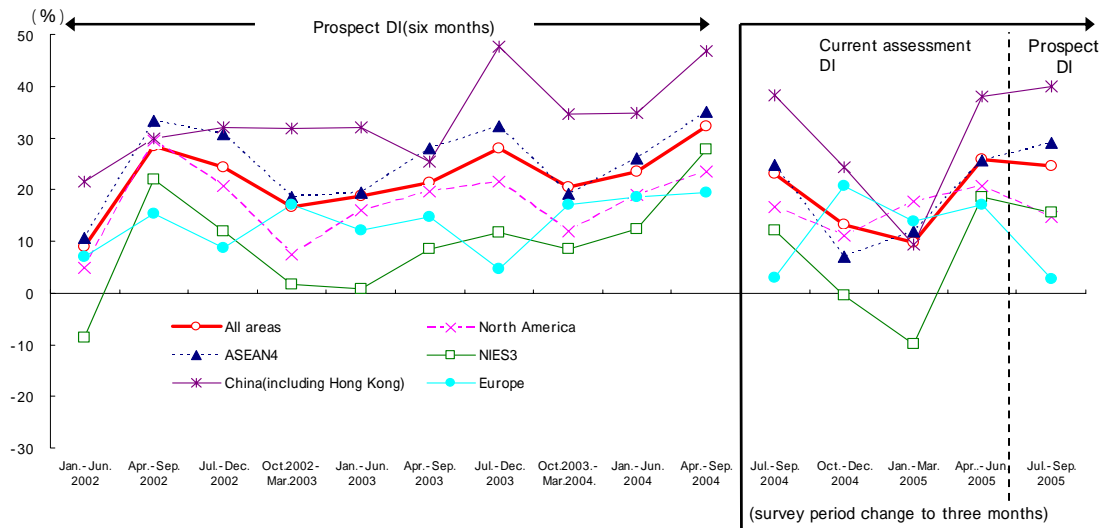
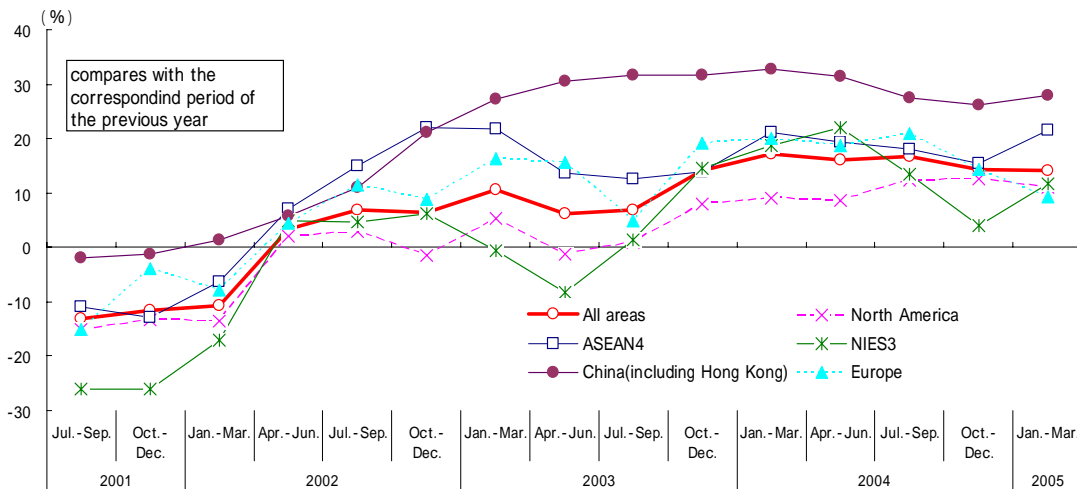


Chart3 Actual Sales (Dollar Basis) by Region



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

The Capital Investment Current Assessment DI for the quarter (outlook for April-June quarter of 2005) increased significantly. The Capital Investment Prospects DI remained positive in all regions, although the Prospects DI had been expected to show a slight deterioration.

- The Current Assessment DI (outlook for April-June quarter of 2005) improved significantly in all regions except North America. In NIEs3, in particular, the DI greatly improved due to robust results in transportation equipment and other sectors.
- The Prospects DI remained positive in all regions, but experienced slight deterioration. The Prospects DI for Asia worsened slightly due to declines in the transportation equipment sector, etc. The Prospects DI for Europe deteriorated in primary sectors such as electrical machinery and transportation equipment. The DI for North America continued to improve due to good results in the electrical machinery sector.

Actual capital investment increased 24.5% from the same quarter a year earlier, for the ninth straight quarter of growth.

Capital investment expanded in all regions except NIEs3. Capital investment in Asia continued to rise significantly.

Investment in Europe continued its robust expansion for the third consecutive quarter. In particular, vigorous investment in the Eastern European region was seen in the transportation equipment-related sector. Capital investment in North America rebounded from past declines, and increased due to capacity buildup in the electrical machinery sector. Noteworthy in Asia was capital investment in China, which expanded considerably. Meanwhile, investment in NIEs3 decreased for the second consecutive quarter due to declines in electrical machinery and transportation equipment sectors.

(1) The Capital Investment Current Assessment DI for the April-June quarter of 2005 stood at 15.9 percentage points, 7.7 points higher than that for the previous quarter (January-March, 2005), with improvement seen in all regions.

The Capital Investment Prospects DI (for the July – September quarter of 2005) stood at 14.9 percentage points, 1.0 point lower than the Current Assessment DI for the April-June quarter, showing a slight decline (see Table 2 and Chart 4).

- The Prospects DI was positive in all regions (remaining at double-digit levels in all areas except Europe). Compared to the Current Assessment DI for the current quarter, the Prospects DI worsened slightly.

The Prospects DI for Asia declined slightly (1.3 points lower than the Current Assessment DI for the current quarter) due to deterioration in the transportation equipment sector, etc., in spite of improvements in the industrial machinery sector. The Prospects DI for Europe trended downward, at 6.4 points below the Current Assessment DI for the current quarter, due to deterioration in the primary areas of electrical machinery and transportation equipment.

On the other hand, the Prospects DI for North America continued to improve (4.0 points higher than the Current Assessment DI for the current quarter) due to solid results in the electrical machinery sector.

In Asia, the Prospects DI for ASEAN4 (1.4 points lower than the Current Assessment DI for the current quarter) worsened dramatically in the transportation equipment and electrical machinery sectors. The Prospects DI for NIEs3 (8.5 points lower than the Current Assessment DI for the current quarter) was expected to significantly worsen in the transportation equipment sector. The Prospects DI for China remained almost flat (0.7 percentage points higher than the Current Assessment DI for the current quarter) backed by good results in the transportation equipment sector, although the DI worsened significantly in the areas of chemicals, and iron & steel. The DI for China remained at a high level.

(2) Actual capital investment (on a US-dollar basis) increased 24.5% compared with the same quarter a year earlier, for the ninth consecutive quarter of growth (see Table 2 and Chart 5).

- Actual capital investment expanded in all regions except NIEs3. Capital investment in Asia continued to increase significantly. In particular, investment in ASEAN4 registered its fifth consecutive quarter of growth (up 30.8% from the same quarter of the previous year) due to strong results in the dominant transportation equipment sector (especially in Thailand). Capital investment in China continued its broad expansion for the third straight quarter (up 81.2% from the same quarter of the previous year) due to robust growth in the transportation equipment and electrical machinery sectors. Capital investment in Europe dramatically increased, for its third consecutive quarter of growth (up 44.3% from the same quarter of the previous year), due to stable conditions in the transportation equipment sector. In particular, robust equipment investment in the transportation equipment-related sector was notable in the Eastern European region. Although investment in the transportation equipment sector decreased for the second consecutive quarter, capital investment in North America returned to positive territory (up 6.0% from the same quarter of the previous year) as a result of electrical machinery sector investment expanding considerably for the eighth straight quarter, due to buildups in semiconductor equipment, etc. Capital investment in NIEs3 fell sharply for the second straight quarter (down 19.9% from the same quarter of the previous year), due to a considerable shrinkage in the electrical machinery and transportation equipment sectors.

**Table 2** Equipment 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 )

Region	Total			North America			Asia			ASEAN4 (see Note 3)			NIEs3 (see Note 2)			China (including Hong Kong)			Europe		
DI	8.2	15.9	14.9	10.9	11.8	15.8	8.0	17.9	16.6	9.4	18.3	16.9	0.0	18.9	10.4	10.7	17.1	17.8	5.9	9.8	3.4
DI comparison to the previous year	(7.7)	-1.0		(0.9)	4.0		(9.9)	-1.3		(8.9)	-1.4		(18.9)	-8.5		(6.4)	0.7		(3.9)	-6.4	
Results (comparison to same quarter of previous year)	24.5			6.0			36.7			30.8			-19.9			81.2			44.3		

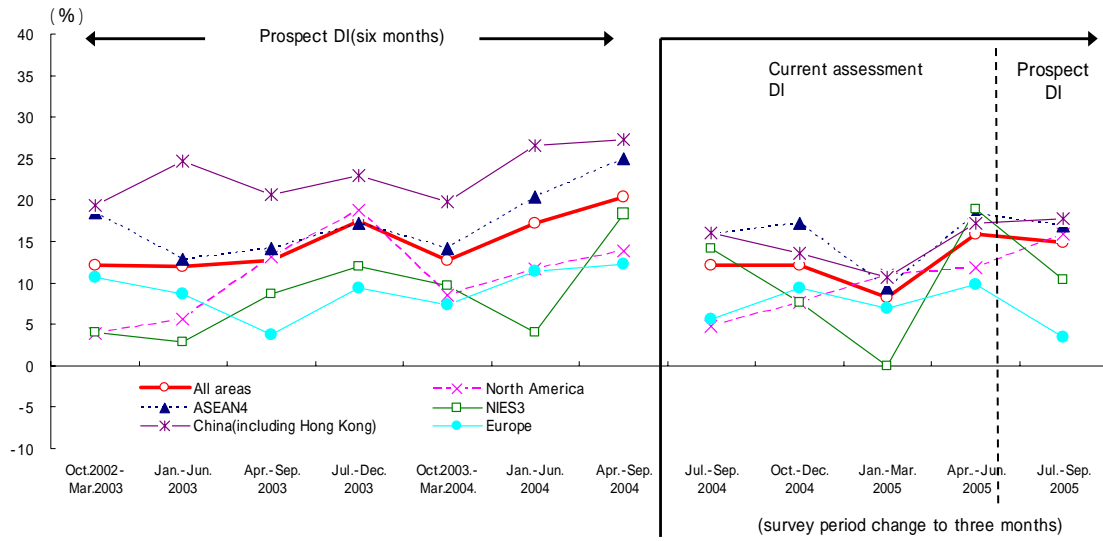
  

Industry	Transportation equipment			Electrical machinery			Industrial machinery			Chemicals			Iron & Steel		
DI	15.8	18.3	11.9	3.3	9.3	6.5	5.1	16.1	22.4	6.6	16.9	13.7	6.2	20.5	26.6
DI comparison to the previous year	(2.5)	-6.4		(6.0)	-2.8		(11.0)	6.3		(10.3)	-3.2		(14.3)	6.1	
Results (comparison to same quarter of previous year)	26.2			32.7			78.8			-18.4			67.9		

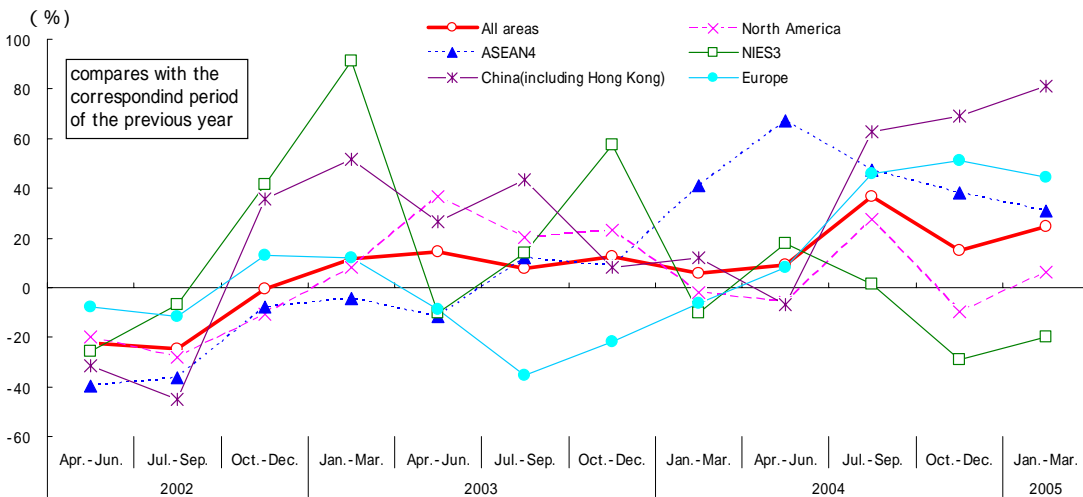
note : Figures are shown in the order "Jan.-Mar.2005(current assessment) Apr.-Jun.2005(current assessment) Jul.-Sep 2005(prospects).

For DI comparison to the previous year, figures in parentheses are comparison with current assessment DI, while figures not in parentheses are comparisons with prospects (see note on page 1).

### Chart4 Equipment Investment DI by Region



### Chart5 Actual Equipment Investment (Dollar basis)





### 3. Employment

The Employment Prospects DI (for the July-September quarter of 2005) stood at 8.3 percentage points.

The Prospects DI for NIEs3 recovered to a moderate degree. The DI was positive in all regions.

- The Employment Current Assessment DI (for the April-June quarter of 2005) was positive in all regions except NIEs3. The Current Assessment DI for North America was notable for being in double digits.
- Compared to the Current Assessment DI, the Prospects DI worsened marginally in all regions except NIEs3.

The Prospects DIs for North America and Europe worsened in primary sectors, including electrical machinery and transportation equipment.

The Prospects DI for Asia declined moderately. The DIs for China and ASEAN4 worsened slightly due to deterioration in sectors such as iron and steel, although the DI remained in positive double digits.

The number of employees (as of the end of March 2005) increased 4.3% from the same quarter of the previous year, marking the twelfth consecutive quarter of growth.

The number of employees decreased in North America and Europe. However, employment in Asia continued to increase, up 6.6% from the same quarter of the previous year.

Employment in China continued to increase in the electrical machinery, transportation equipment, and other sectors. In ASEAN4, employment registered its fourth consecutive quarter of double-digit growth in the transportation equipment sector.

- (1) The Employment Current Assessment DI for the April-June quarter of 2005 stood at 10.9 percentage points, 3.0 points higher than that for the previous (January-March) quarter.

The Employment Prospects DI for the July-September quarter of 2005 declined slightly, standing at 8.3 percentage points, which was 2.6 points lower than the Current Assessment DI for the April-June quarter (see Table3).

- The Prospects DI stood at 8.3 percentage points and was positive for all regions. Compared to the Current Assessment DI for the current quarter, the Prospects DI worsened slightly in all regions except NIEs3. The Prospects DI for North America was expected to deteriorate (down 6.0 points from the Current Assessment DI for the current April-June quarter) although the Current Assessment DI improved sharply. The Prospects DI for Europe decreased by 2.3 points from the Current Assessment DI in primary sectors, including electrical machinery and transportation equipment. In Asia, the Prospects DI declined slightly (down 1.4 points from the Current Assessment DI). The Prospects DI for China and ASEAN4 showed slight deterioration (down 0.9 points and down 2.3 points, respectively, from the Current Assessment DI) due to a decrease in the iron and steel sector, although the DI remained in positive double-digit territory.

Meanwhile, the Prospects DI for NIEs3 exhibited a moderate recovery (up 0.4 points from the Current Assessment DI) because of a reduced rate of decline in the electrical machinery sector.

- (2) The actual number of employees stood at 2.52 million as of the end of March 2005, up 4.3% from the same quarter a year previous, and marking the twelfth consecutive quarter of growth (see Table3).

- While employment declined in North America and Europe, employment in Asia expanded. In Asia, employment increased 9.9% from the same quarter of the previous year, for the twelfth consecutive quarter of growth, due particularly to continued strong performance in China's

electrical machinery sector. Employment in ASEAN4 continued to increase, registering the fourth consecutive quarter of double-digit growth in the transportation equipment sector. Meanwhile, employment in North America decreased 0.8% compared to the same quarter of the previous year, due to a drop in the electrical machinery sector. Employment in Europe experienced a slight decrease of 0.5% from the same quarter of the previous year, due to a large fall in the electrical machinery sector, although the number of employees increased for the fourth consecutive quarter in the transportation equipment sector. Employment in NIEs3 registered a marginal drop of 0.1% compared with the same quarter of the previous year, as a result of a decline in the electrical machinery sector.

**Table 3 Employment Numbers DI and Actual Result (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	7.9	10.9	8.3	2.7	10.2	4.2	10.9	12.1	10.7	10.2	13.2	10.9	-1.6	-0.4	0.0	16.1	15.2	14.3	2.7	5.4	3.1
DI comparison to the previous year		(3.0)	-2.6		(7.5)	-6.0		(1.2)	-1.4		(3.0)	-2.3		(1.2)	0.4		(-0.9)	-0.9		(2.7)	-2.3
Results (comparison to same quarter of previous year)	4.3			-0.8			6.6			4.1			-0.1			9.9			-0.5		

Industry	Transportation equipment			Electrical machinery			Industrial machinery			Chemicals			Iron & Steel		
DI	11.7	16.3	14.4	5.7	8.5	8.3	7.3	14.6	14.0	12.9	9.1	7.3	14.5	14.8	3.7
DI comparison to the previous year		(4.6)	-1.9		(2.8)	-0.2		(7.3)	-0.6		(-3.8)	-1.8		(0.3)	-11.1
Results (comparison to same quarter of previous year)	8.3			4.1			7.7			0.8			2.8		

note : Figures are shown in the order “Jan.-Mar.2005(current assessment) Apr.-Jun.2005(current assessment) Jul.-Sep 2005(prospect).

For DI comparison to the previous year, figures in parentheses are comparison with current assessment DI, while figures not in parentheses are comparisons with prospects (see note on page 1).