

## Trends in Overseas Subsidiaries (Summary)

Quarterly Survey of Overseas Subsidiaries (Survey from January to March 2007)

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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 July - September Quarter of 2007**

○ Sales Prospects DI improved, with maintenance of high business confidence.

The Sales Current Assessment DI has improved and the Sales Prospects DI has also improved due to amelioration in all industries except the industrial machinery sector and in all regions except North America. All major industries saw positive Sales Prospects DI in the double digits while high business confidence was maintained.

○ Capital Investment Prospects DI deteriorated, but remained at a high level.

The Capital Investment Current Assessment DI has improved, but the Capital Investment Prospects DI has worsened due to deterioration in all industries except the chemicals sector and the electrical machinery sector and in all regions except North America. However, the Capital Investment Prospects DI remained at a positive double-digit level in all major industries.

○ Employment Prospects DI improved.

The Employment Current Assessment DI has improved and the Employment Prospects DI has also improved. China maintained a positive double-digit level.

### **Actual Results for the January - March quarter of 2007**

○ Sales increased by 8.6% compared to the same quarter of the previous year and the growth rate showed moderate recovery for the fourth consecutive year.

- By industry, the transportation equipment sector showed a double-digit increase in its growth rate. Sales increased steadily in the industrial machinery and chemicals sectors but the increase remained at a single-digit level in the electrical machinery sector and the iron and steel sector.
- By region, Europe and Asia saw double-digit increases with a higher growth rate. North America saw a single-digit increase for the seventh consecutive quarter. Europe saw a double-digit increase for the second consecutive quarter, due to significant increases in the industrial machinery sector and the transportation equipment sector. China continued to see a double-digit increase and the transport equipment sector continued to grow significantly. ASEAN4 saw a double-digit increase for the first time in five quarters. The transport equipment sector registered double-digit increase for the third consecutive quarter and the electrical machinery sector saw an upturn. North America saw poor growth for the third consecutive quarter due to continued unfavorable conditions in the transportation equipment sector, although the chemicals sector showed a steady increase. NIEs3 saw a slight decrease, down for the fifth consecutive quarter, due to sluggish sales in the transportation equipment sector in Taiwan.

○ Capital Investments increased by 4.1% compared to the same quarter of the previous year, only registering a single-digit increase.

- By industry, the industrial machinery sector and chemicals sectors continued to register significant increases. The transportation equipment sector showed a decrease for the first time in seven quarters, and the growth rate diminished sharply in the electrical machinery and iron and steel sectors.
- By region, double-digit growth was observed in Europe for the third consecutive quarter. North America turned around to register double-digit growth. The growth rate declined sharply in Asia. China saw a downturn and growth deteriorated significantly in ASEAN4 and NIEs3.

○ The number of employees continued to increase, up by 3.4% compared to the same quarter of the previous year.

By industry, the number of employees continued to increase mainly in the transportation equipment sector, and by region it increased in Asia, mainly in China..

Note: This survey was conducted as of the middle of May, 2007.

## 1. Sales

**The Sales Prospects DI\*1 improved, standing at 24.1 percentage points. Actual sales increased by 8.6% compared to the same quarter of the previous year, with their growth rate showing moderate recovery for the fourth consecutive quarter.**

○ The Sales Current Assessment DI (April – June, 2007) improved by 8.1 points compared to that for the January-March quarter of 2007, standing at 19.5 percentage points. It improved in all regions in Asia (ASEAN4\*2, NIEs3\*3 and China\*4), showing significant improvement. The Sales Current Assessment DI for North America worsened due to deterioration in the transportation equipment and chemicals sectors, and that for Europe was at a single-digit level due to deterioration in all major industries. The Sales Current Assessment DI was at a double-digit level in all major industries and all regions except Europe.

The Prospects DI (July – September, 2007) improved by 4.6 points, standing at 24.1 percentage points. Sales are expected to improve in major industries except the industrial machinery sector. The Prospects DI for Asia improved in all regions due to improvement mainly in the transportation equipment sector. That for North America worsened due to deterioration in the industrial machinery and transportation equipment sectors. Europe is expected to see improvement due to amelioration in the electrical machinery and industrial machinery sectors, although sales in the transportation equipment sector is expected to deteriorate significantly at a negative level. The overall Prospects DI remained at a double-digit positive level in all major industries and in all regions except Europe, while a high level of business confidence was maintained.

○ Actual sales (January – March, 2007) increased by 8.6% compared to the same quarter of the previous year, with their growth rate showing moderate recovery for the fourth consecutive quarter.

By industry, the transportation equipment sector amplified its increase with growth mainly in Europe and China, registering a double-digit increase for the first time in five quarters. The industrial machinery sector showed a double-digit increase for the fifth consecutive quarter, and the chemicals sector amplified its increase. The electrical machinery and iron and steel sectors continued to show a single-digit increase.

By region, Europe and Asia expanded their growth, registering double-digit increases, while North America saw only a single-digit increase for the seventh consecutive quarter. In Europe, a double-digit increase was observed for the second consecutive quarter, up by 15.9% from the same quarter of the previous year. The industrial machinery (mainly construction machinery) and transportation equipment sectors showed significant increases, and the chemicals sector accelerated its growth at a double-digit level. In Asia, an increase of 11.6% from the same quarter of the previous year was observed. While growth in ASEAN4 and China increased, a decrease continued to be observed in NIEs3. China continued to see a double-digit increase at 15.8% compared to the same quarter of the previous year. The transportation equipment sector continued to see significant growth and the chemicals and the iron and steel sectors also showed double-digit increases, but the electrical machinery sector only showed a single-digit increase for the fifth consecutive quarter. ASEAN4 saw a double-digit increase for the first time in five quarters, up by 10.2% (id.). The transportation equipment sector registered a double-digit increase for the third consecutive quarter, and the electrical machinery sector saw an upturn. NIEs3 saw a slight decrease of 0.1% (id.), down for the fifth consecutive quarter. Automobile sales in Taiwan continued to be sluggish and the transportation equipment sector registered a double-digit decrease for the fourth consecutive quarter. North America saw an increase of 0.8% (id.), with growth further diminishing, after seeing weak growth in the range of 1% for two consecutive quarters. Increases in the transportation equipment sector continued to be small, and the industrial machinery sector saw a slight downturn. The chemicals sector showed a steady increase.

### Notes:

\*1: Prospects compared to the previous quarter with regard to the quarter, including the survey period (Current Assessment) and the following quarter (Prospects)

• DI = (Percentage of companies responding that they expected an increase) – (Percentage of companies responding that they expected a decrease)

• Quarterly Changes in Current Assessment DI = Current Assessment DI for April to June 2007 – Current Assessment DI for January to March 2007

• Quarterly Changes in Prospects DI = Prospects DI for July to September 2007 – Current Assessment DI for April to June 2007

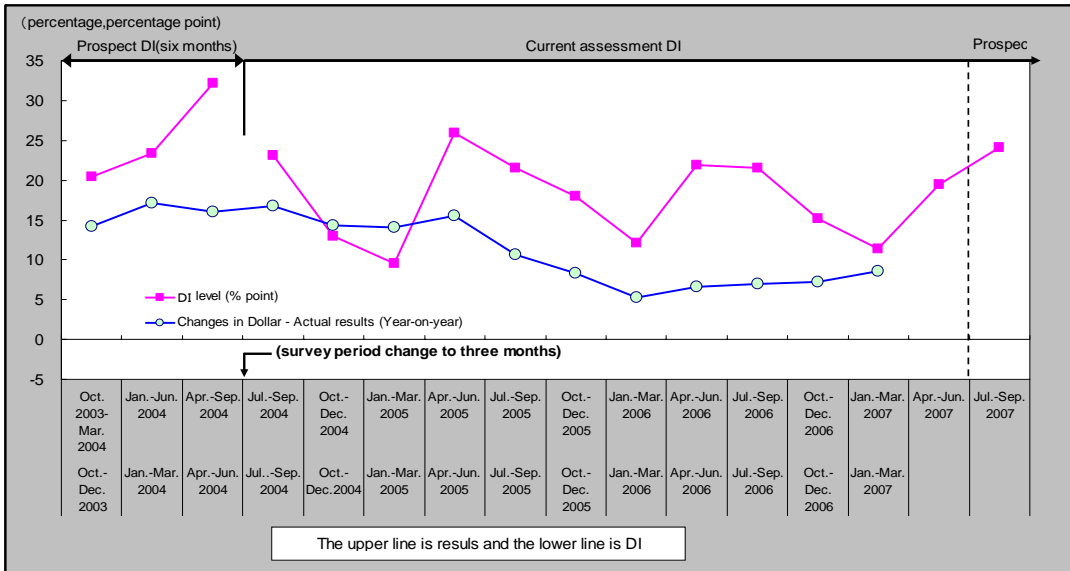
\*2 – \*4: ASEAN4: Indonesia, Thailand, the Philippines and Malaysia; NIEs3: Singapore, Taiwan and the Republic of Korea; China: including Hong Kong

**Table 1 Sales DI and Actual Results (according to region and main industries)**

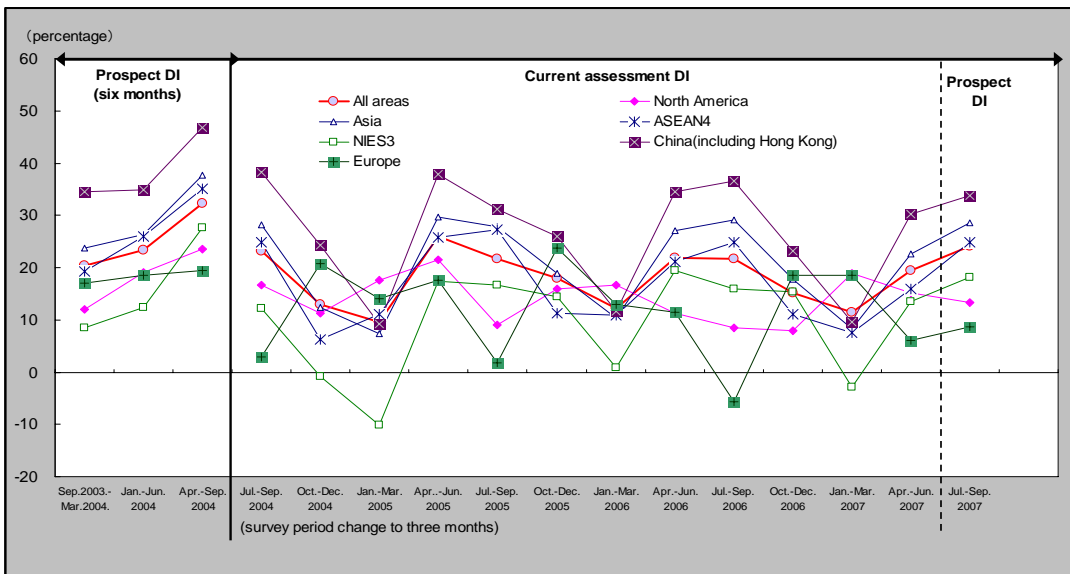
Unit ( comparison to same quarter of previos year:%, comparison to the previous year:percentage points ) (ge points)

	DI					Actual			DI					Actual			
	Survey of previos term		Survey of present term		comparison to the previous quarter		comparison to corresponding period of previous year		Survey of previos term		Survey of present term		comparison to the previous quarter		comparison to corresponding period of previous year		
	① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment (②-①)	Prospect (③-②)	Previs term	Present term		① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment (②-①)	Prospect (③-②)	Previs term	Present term		
<b>Total</b>	11.4	→ 19.5	→ 24.1	( 8.1 )	4.6	7.2	8.6	Transportation equipment	29.2	→ 20.5	→ 22.3	( -8.7 )	1.8	9.8	11.2		
North America	18.9	→ 15.2	→ 13.3	( -3.7 )	-1.9	1.6	0.8	Electrical machinery	-3.2	→ 10.6	→ 18.5	( 13.8 )	7.9	2.5	3.6		
Asia	8.2	→ 22.6	→ 28.5	( 14.4 )	5.9	9.1	11.6	Industrial machinery	14.6	→ 22.5	→ 20.7	( 7.9 )	-1.8	13.8	12.3		
ASEAN4	7.5	→ 16.0	→ 24.8	( 8.5 )	8.8	7.8	10.2	Chemicals	17.2	→ 26.8	→ 27.9	( 9.6 )	1.1	6.9	9.6		
NIEs3	-2.8	→ 13.4	→ 18.1	( 16.2 )	4.7	-0.1	-0.1	Iron and Steel	12.9	→ 23.3	→ 25.5	( 10.4 )	2.2	3.4	1.8		
China(including Hong Kong)	9.5	→ 30.3	→ 33.7	( 20.8 )	3.4	13.1	15.8										
Europe	18.6	→ 6.1	→ 8.6	( -12.5 )	2.5	10.4	15.9										

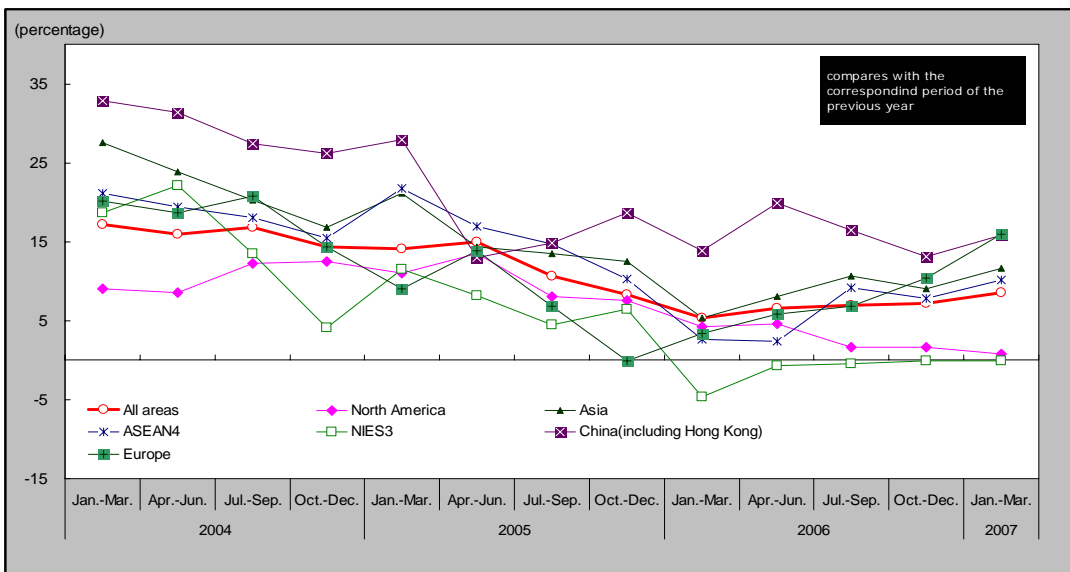
**Chart 1 Capital Investment DI by Region**



**Chart 2 Capital Investment DI by Region**



**Chart 3 Capital Investment DI by Region**



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

**The Capital Investment Prospects DI deteriorated, standing at 14.3 percentage points. Actual capital investment increased by 4.1% from the same quarter of the previous year with a diminishing growth rate.**

- The Capital Investment Current Assessment DI (April – June, 2007) improved by 5.6 percentage points compared to that for the January-March quarter of 2007, standing at 15.5 percentage points. There were increases in all major industries except the industrial machinery sector and in all regions, and the Capital Investment Current Assessment DI maintained a positive double-digit level in all industries and all regions except NIEs3.

The Prospects DI (July – September, 2007) deteriorated slightly, standing at 14.3 percentage points. Deterioration is expected in all major industries except the chemicals and electrical machinery sectors and in all regions except North America. However, the Prospects DI maintained a positive double-digit level in all major industries and in all regions except NIEs3.

- Actual capital investment (January – March, 2007) registered only a single-digit increase of 4.1%, with a declining growth rate.

By industry, the industrial machinery and chemicals sectors continued to show significant increases and the electrical machinery sector maintained a double-digit increase, but the growth rate declined significantly. The Growth in the iron and steel sector slowed down considerably. The transportation equipment sector decreased for the first time in seven quarters due to a sharp decline in ASEAN4.

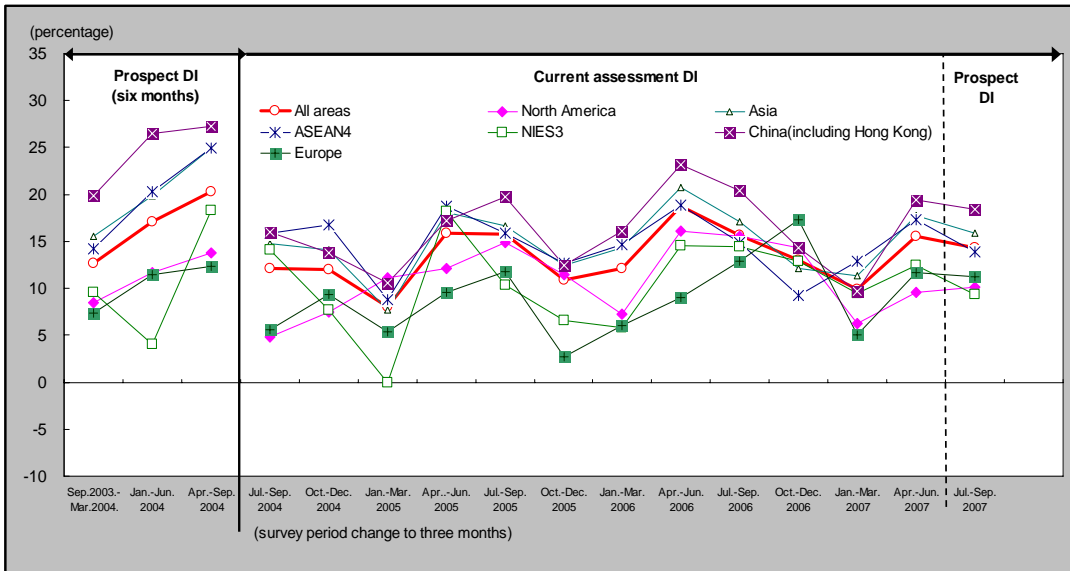
By region, Europe continued to see a double-digit increase for the third consecutive quarter, and North America took a positive turn, registering a double-digit increase. However, growth slowed down significantly in Asia. China saw a downturn and growth in ASEAN4 and NIEs3 declined sharply. Europe saw an increase of 19.8% compared to the same quarter of the previous year, registering a significant increase for the third consecutive quarter due to a significant increase in the transportation equipment sector for the second consecutive quarter. However, a significant decrease continued to be observed in the chemicals sector. North America turned around to register a double-digit increase, up by 14.0% (id.). This was due to the transport equipment sector, which, while witnessing a significant decrease in the previous quarter, turned around to register a double-digit increase, while the electrical machinery and industrial machinery sectors also saw an upturn. In Asia, actual capital investment increased by 2.6% (id.), diminishing its growth rate sharply due to a decrease in the transportation equipment sector following a significant increase for three consecutive quarters. ASEAN4 registered a small increase of 2.3% (id.), with its growth diminishing significantly, the first sub-par increase in four years. The transportation equipment sector took a sharp negative turn due to such reasons as a decrease in Thailand, and the electrical machinery sector continued to see a significant increase, albeit with slowing growth. Significant increases were observed in the chemicals and industrial machinery sectors. NIEs3 increased by 7.0% (id.) but saw a significant decline in its growth. The electrical machinery sector registered a double-digit increase, but its growth showed a sharp slowdown. The transportation equipment and industrial machinery sectors continued to see significant decreases. The chemicals sector marked a significant increase for the third consecutive quarter. China saw a decline for the first time in three quarters, down by 4.2% (id.). Electrical machinery sector turned around to register a double-digit decrease, while the transportation equipment sector continued to increase significantly but with slowed-down growth.

**Table 2** Capital Investment DI and Actual Result (according to region and main industries)

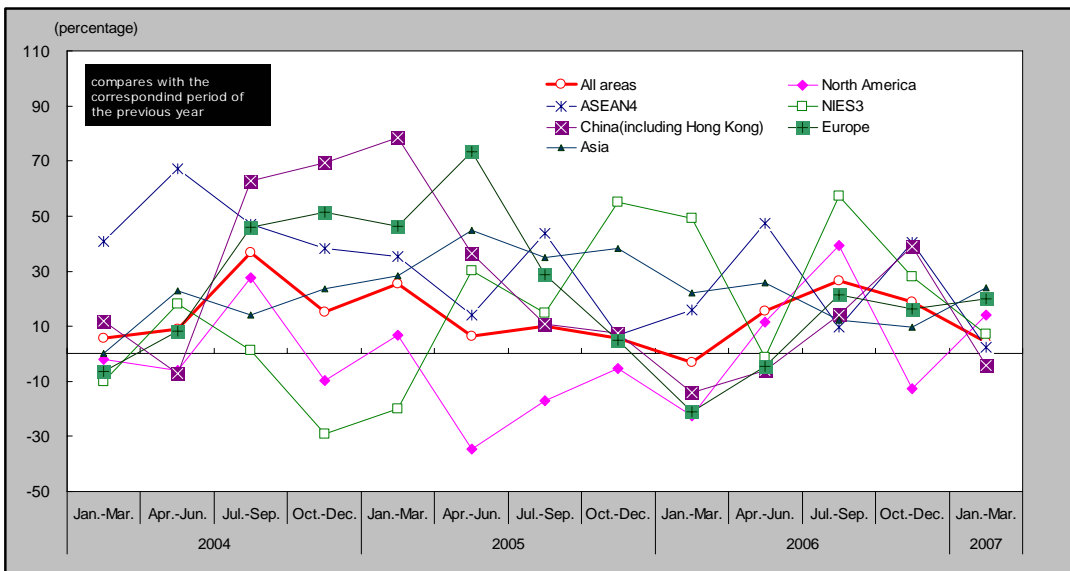
Unit ( comparison to same quarter of previos year:%, comparison to the previous year:percentage points ) (ge points )

	DI					Actual			DI					Actual			
	Survey of previos term		Survey of present term		comparison to the previous quaeter		(comparison to corresponding period of previous year)		Survey of previos term		Survey of present term		comparison to the previous quaeter		(comparison to corresponding period of previous year)		
	① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment ((2)-(1))	Prospect ((3)-(2))	Previous term	Present term		① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment ((2)-(1))	Prospect ((3)-(2))	Previous term	Present term		
<b>Total</b>	9.9	→ 15.5	→ 14.3	( 5.6 )	-1.2	18.9	4.1	Transportation equipment	12.8	→ 16.3	→ 12.9	( 3.5 )	-3.4	9.4	-2.0		
North America	6.2	→ 9.6	→ 10.1	( 3.4 )	0.5	-12.7	14.0	Electrical machinery	5.7	→ 10.0	→ 10.1	( 4.3 )	0.1	58.1	10.2		
Asia	11.3	→ 17.8	→ 15.9	( 6.5 )	-1.9	49.7	2.6	Industrial machinery	16.7	→ 16.6	→ 11.4	( -0.1 )	-5.2	32.7	33.5		
ASEAN4	12.9	→ 17.3	→ 13.9	( 4.4 )	-3.4	40.5	2.3	Chemicals	8.8	→ 13.7	→ 15.4	( 4.9 )	1.7	13.1	26.2		
NIEs3	9.5	→ 12.4	→ 9.3	( 2.9 )	-3.1	28.1	7.0	Iron and Steel	20.0	→ 26.0	→ 19.6	( 6.0 )	-6.4	27.2	5.5		
China(Including Hong Kong)	9.7	→ 19.4	→ 18.4	( 9.7 )	-1.0	38.8	-4.2										
Europe	5.0	→ 11.7	→ 11.2	( 6.7 )	-0.5	16.4	19.8										

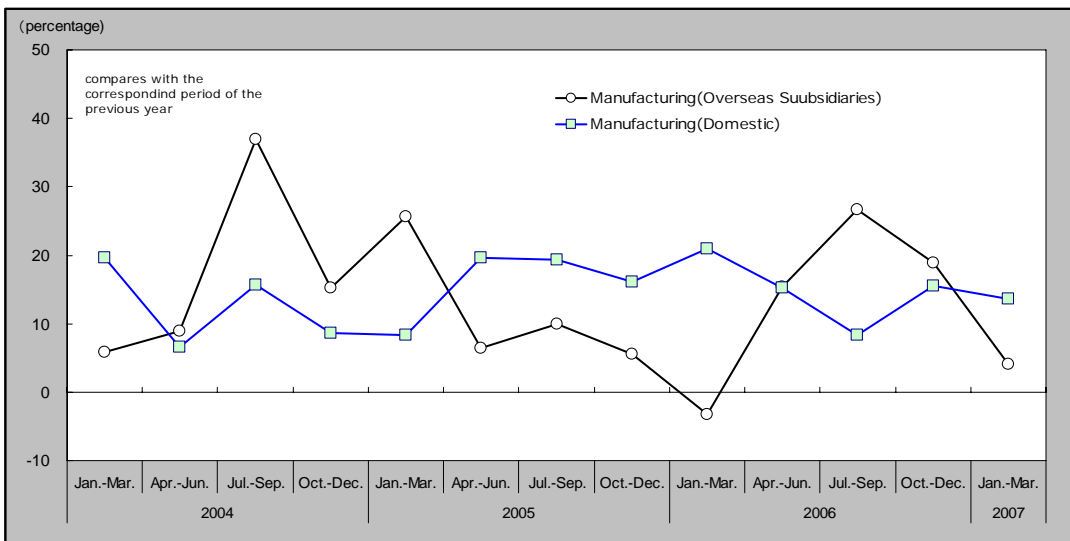
**Chart4 Capital Investment DI by Region**



**Chart5 Capital Investment DI by Region**



**(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 improved to 9.8 percentage points. The number of employees continued to grow, up by 3.4% on a year-on-year basis.**

○ The Employment Current Assessment DI (April – June, 2007) improved by 3.7 points compared to that for the January-March quarter of 2007, standing at 9.6 percentage points. It improved in all major industries except the industrial machinery sector and in all regions except NIEs3 and Europe. NIEs3 deteriorated to a negative level due to deterioration in the transportation equipment sector, etc.

The Prospects DI (July – September, 2007) improved slightly, standing at 9.8 percentage points. Improvements are expected in major industries except the chemicals sector and in all regions except China and Europe. China maintained a positive double-digit level, while Europe took a turn to a negative level.

○ The actual number of employees (January – March, 2007) continued to rise, up by 3.4% from the same quarter of the previous year.

By industry, the transportation equipment sector continued to increase, augmenting its growth to the double-digit level, while the electrical machinery sector saw a downturn.

By region, it continued to increase in Asia, mainly in China. In Asia, employment continued to increase, up by 4.0% (id.), but growth has been showing a moderate slowdown. China saw only a single-digit increase for the third consecutive quarter, up by 5.0% (id.). The transportation equipment sector continued to increase significantly, but a slowdown in the increase in the electrical machinery sector was observed. ASEAN4 saw a continued moderate increase of 1.8% (id.) with a decrease in the electrical machinery sector for the second consecutive quarter. NIEs3 showed a decrease for the second consecutive quarter, down by 3.1% (id.). The transportation equipment sector continued to decrease and the electrical machinery sector saw a downturn. North America saw a slight increase of 1.0% (id.) due to increases in the iron and steel and transportation equipment sectors. Europe continued to see a slight increase, remaining at 0.0% (id.). The transportation equipment sector continued to increase but other major industries showed decreases.

Table 3 Number of Employee DI and Actual Result (according to region and main industries)

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

	DI					Actual			DI					Actual					
	Survey of previos term		Survey of present term			comparison to the previous quaeter			comparison to corresponding period of previous year)		Survey of previos term		Survey of present term			comparison to the previous quaeter		comparison to corresponding period of previous year)	
	① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment (②-①)	Prospect (③-②)	Previos term	Present term		① Current Assessment (Jan.-Mar. 2007)	② Current Assessment (Apr.-Jun. 2007)	③ Prospect (Jul.-Sep. 2007)	Current Assessment (②-①)	Prospect (③-②)	Previos term	Present term				
<b>Total</b>	5.9	→ 9.6	→ 9.8	( 3.7 )	0.2	3.1	3.4	Transportation equipment	8.4	→ 14.4	→ 15.1	( 6.0 )	0.7	7.9	13.3				
North America	4.4	→ 8.2	→ 10.2	( 3.8 )	2.0	-3.3	1.0	Electrical machinery	4.0	→ 7.9	→ 8.0	( 3.9 )	0.1	1.6	-1.5				
Asia	7.4	→ 11.3	→ 12.2	( 3.9 )	0.9	4.4	4.0	Industrial machinery	12.2	→ 4.0	→ 8.2	( -8.2 )	4.2	5.8	2.9				
ASEAN4	3.2	→ 8.3	→ 11.0	( 5.1 )	2.7	0.3	1.8	Chemicals	6.0	→ 10.4	→ 4.9	( 4.4 )	-5.5	1.2	0.7				
NIEs3	0.4	→ -1.3	→ 0.9	( -1.7 )	2.2	-0.3	-3.1	Iron and Steel	10.6	→ 13.8	→ 16.7	( 3.2 )	2.9	14.0	15.6				
China(Including Hong Kong)	13.4	→ 16.7	→ 15.4	( 3.3 )	-1.3	7.2	5.0												
Europe	1.9	→ 0.8	→ -3.2	( -1.1 )	-4.0	0.1	0.0												

#### <Reference> Overseas economies

The global economy is recovering. Growth in the North American economy is slowing down due to a decrease in housing construction. The Chinese economy is continuing to expand. Fixed assets investment has further amplified its increase. The economies of Singapore and Malaysia are also expanding. The economies of the Republic of Korea and Taiwan are expanding at a moderate rate. The economy of Thailand is rather inactive due to sluggish domestic demand. The Eurozone and UK economies are recovering. (Excerpt from the JUNE 2007 issue of The Monthly Economic Report)