

Trends in Overseas Subsidiaries (Summary)

Quarterly Survey of Overseas Subsidiaries (Survey from July to September 2007)

December 26, 2007
Enterprise Statistics Office
Research and Statistics Department
Ministry of Economy, Trade and Industry

- Actual results for July to September 2007, Current assessment DI for October to December, Prospect DI for January to March 2008 -

<Important points in the survey>

Sale

○The Prospects DI (January - March 2008) declined in positive margin, but stayed above ten percentage points.

The Current Assessment DI (October -December 2007) declined in positive margin. The Prospects DI slightly declined in positive margin as a result of the drop in positive margin in Asia and Europe, but all the regions stayed at positive figures.

○The actual results (July - September 2007) increased by 10.4% from the same quarter of the previous year, representing double-digit growth for the second consecutive quarter.

By industry, transportation equipment and chemicals maintained double-digit growth, and electrical machinery accelerated growth. Growth of industrial machinery slowed down to less than 10%, and iron & steel turned to negative growth.

By region, Europe maintained rapid growth in industrial machinery, transportation equipment, and chemicals, resulting in double-digit growth for the fourth consecutive quarter. Asia reported double-digit growth for the third consecutive quarter mainly due to rapid growth in transportation equipment. Growth in North America resulted was under 10% for the ninth consecutive quarter.

Capital investment

○The Prospects DI (January - March 2008) declined in positive margin, but all the regions maintained positive DI.

The Current Assessment DI (October - December 2007) declined in positive margin. The Prospects DI declined in positive margin as a result of a drop in positive margins in Asia and Europe, but all the regions maintained positive DI.

○The actual results (July - September 2007) decreased by 5.2% from the same quarter of the previous year, decline for the second consecutive quarter.

By industry, chemicals reported a sharp decline for the second consecutive quarter. Transportation equipment declined more than 10% for the second consecutive quarter due to a sharp drop in Europe and Asia. Iron & steel and electrical machinery turned to a rapid increase, and industrial machinery grew more than 10% for the fourth consecutive quarter.

By region, Europe declined more than 10% for the second consecutive quarter mainly due to a sharp drop in chemicals. In Asia, NIEs3, ASEAN4, and China all reported declines mainly in transportation equipment, resulting in negative growth for the second consecutive quarter. Investment in North America slowed down, but increased for the third consecutive quarter.

Number of employees

○The Prospects DI (January - March 2008) slightly increased in positive margin.

The Current Assessment DI (October - December 2007) slightly declined in positive margin. The Prospects DI slightly increased in positive margin. All the regions except Europe maintained a positive DI, and China maintained double-digit positive margin.

○The actual results (July - September 2007) continued to grow, increasing by 3.6% from the same quarter of the previous year.

The actual results continued to grow mainly in transportation equipment in terms of industry, and in China in terms of region.

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

1. Sales

The Prospects DI*1 stood at 14.0 percentage points, slightly declining in positive margin, but staying above double figures. Actual sales grew 10.4% from the same quarter of the previous year, representing double-digit growth for the second consecutive quarter.

○The Current Assessment DI (October - December 2007) stood at 16.3 percentage points, lower by 5.3 percentage points than the Current Assessment DI for the previous quarter (July - September 2007). In Asia ASEAN4*2, NIEs3*3, and China*4 all decreased in positive margin. Europe turned to a positive margin mainly because transportation equipment turned to a positive margin and electrical machinery increased in positive margin. North America decreased in positive margin as, despite increase of transportation equipment in positive margin, the other major industries decreased in positive margin.

The Prospects DI (January - March 2008) stood at 14.0 percentage points, lower by 2.3 points than the Current Assessment DI for the current quarter. North America increased in positive margin as industrial machinery and chemicals grew rapidly in positive margin. Asia declined in positive margin as industrial machinery and electrical machinery decreased in positive margin. China and NIEs3 fell sharply in positive margin. Europe declined in positive margin as industrial machinery and transportation equipment fell in positive margin and electrical machinery turned to a negative margin, though chemicals turned to a positive margin. All the regions maintained positive margins.

○The actual results (July - September 2007) grew by 10.4% from the same quarter of the previous year, double-digit growth for the second consecutive quarter.

By industry, transportation equipment achieved double-digit growth for the fourth consecutive quarter. The industry maintained rapid growth in Asia and Europe and there was only a slight increase in North America. Chemicals grew faster, posting a double-digit increase for the third consecutive quarter. Growth of industrial machinery slowed down to less than 10% for the first time in seven quarters. Electrical machinery grew faster than before, though by less than 10%, and iron & steel turned to a decline.

By region, Europe and Asia continued to grow by more than 10%, though the growth was slightly slower, and that in North America remained slow. Europe achieved double-digit growth (up 18.2% from the same quarter of the previous year), for the fourth consecutive quarter. In the region, industrial machinery and chemical continued to grow fast, though slower than before, and electrical machinery turned to an increase. Asia grew (up 13.9% from the same quarter of the previous year) registering double-digit growth for the third consecutive quarter as all the industries and all the sub-regions reported increases. China maintained a double-digit increase (up 18.9% from the same quarter of the previous year). In the country, transportation equipment and chemicals continued to grow fast, and electrical machinery also grew by more than 10% for the first time in seven quarters. ASEAN4 made double-digit growth (up 10.8% from the same quarter of the previous year) for the third consecutive quarter. Industrial machinery and transportation equipment grew by more than 10% for the fifth consecutive quarter, and iron & steel also maintained double-digit growth. NIEs3 increased for the third consecutive quarter (up 4.6% from the same quarter of the previous year), growing faster than before, though only slightly. Transportation equipment increased for the first time in seven quarters thanks to recovery in Taiwan. North America increased (up 2.2% from the same quarter of the previous year) by less than 10% for the ninth consecutive quarter, though the growth rate inched up for the first time in five quarters. The growth of transportation equipment remained low, and that of electrical machinery leveled off. Industrial machinery declined for the third consecutive quarter mainly due to slump in construction machinery.

Notes

*1: Forecasted changes for the quarter which includes the time of survey (Current Assessment DI) and those for the next quarter (Prospects DI) from the preceding quarters. $DI = [\text{Proportion of companies that responded they would expect an increase}] - [\text{Proportion of companies that responded they would expect a decrease}]$

*2 -4: ASEAN4: Indonesia, Thailand, the Philippines, and Malaysia; NIEs3: Singapore, Taiwan, and South 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)

	DI						Actual		DI						Actual					
	Survey of previous term			Survey of present term			comparison to the previous quaeter		comparison to corresponding period of previous year		Survey of previous term			Survey of present term			comparison to the previous quaeter		comparison to corresponding period of previous year	
	① Current Assessment (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment ((2)-①)	Prospect ((3)-②)	Previous term	Present term	① Current Assessment (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment ((2)-①)	Prospect ((3)-②)	Previous term	Present term	Previous term	Present term				
Total	21.6	→ 16.3	→ 14.0	(-5.3)	-2.3	10.7	10.4													
North America	10.9	→ 9.9	→ 16.0	(-1.0)	6.1	0.1	2.2													
Asia	26.5	→ 18.5	→ 14.0	(-8.0)	-4.5	15.2	13.9													
ASEAN4	21.5	→ 9.3	→ 12.9	(-12.2)	3.6	14.4	10.8													
NIEs3	19.3	→ 16.6	→ 6.6	(-2.7)	-10.0	2.5	4.6													
China (including Hong Kong)	31.5	→ 23.8	→ 13.5	(-7.7)	-10.3	19.5	18.9													
Europe	-1.8	→ 15.4	→ 13.8	(17.2)	-1.6	19.1	18.2													
Transportation equipment	14.3	→ 20.8	→ 24.5	(6.5)	3.7	14.0	13.1													
Electrical machinery	18.1	→ 12.8	→ 4.3	(-5.3)	-8.5	0.6	4.7													
Industrial machinery	26.1	→ 23.4	→ 13.2	(-2.7)	-10.2	10.6	5.6													
Chemicals	32.1	→ 17.2	→ 24.6	(-14.9)	7.4	12.3	10.3													
Iron and Steel	28.4	→ 11.0	→ 20.0	(-17.4)	9.0	4.9	-1.5													

Chart 1 Sales DI and actual results by Region

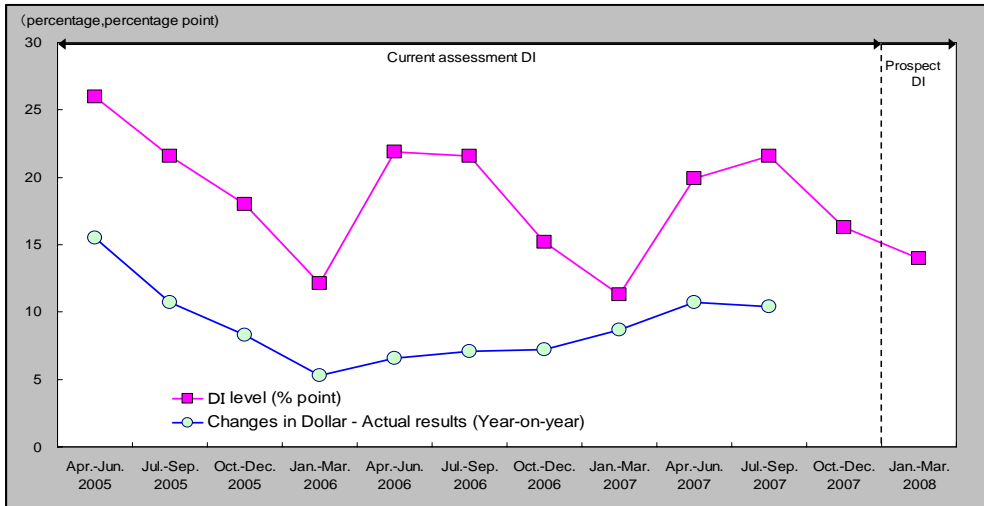


Chart 2 Sale DI by Region

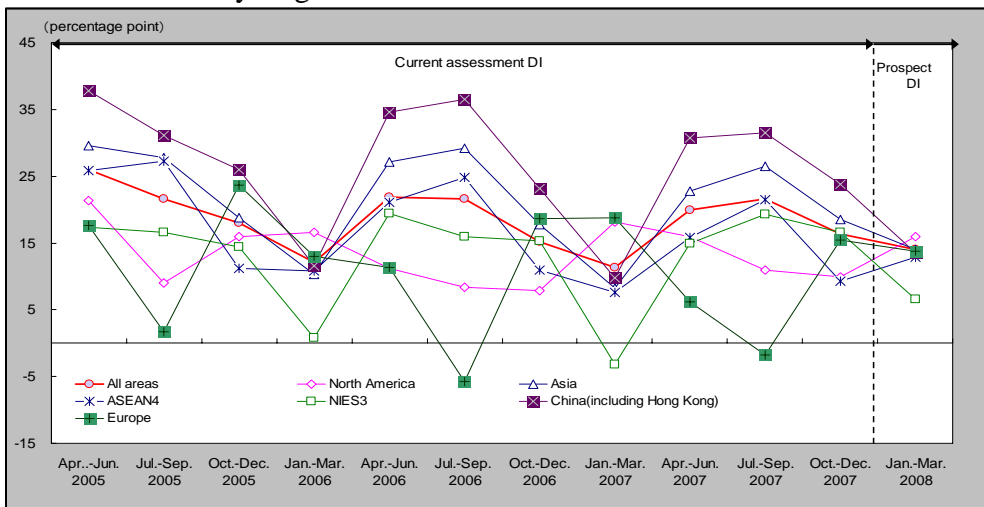
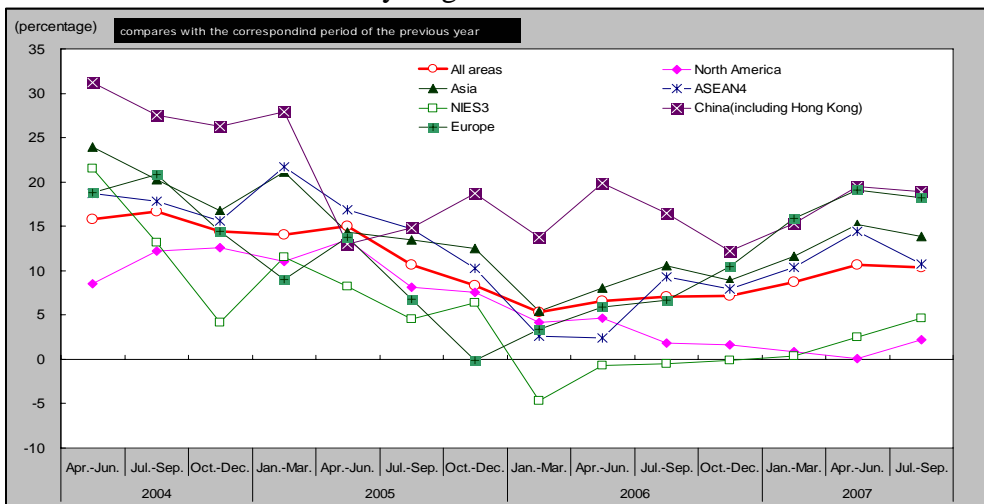


Chart 3 Sales actual results by Region



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

The Prospects DI stood at 11.8%, declining in positive margin, and all the regions maintained positive DI. The actual results fell by 5.2% from the same quarter of the previous year, decreasing for the second consecutive quarter.

○The Current Assessment DI (October - December 2007) stood at 15.1 percentage points, maintaining a double-digit positive figure. It declined by 3.0 percentage points in positive margin from the Current Assessment DI for the previous quarter (July - September 2007). Transportation equipment increased in positive margin, but the other major industries declined in positive margin. In Asia, ASEAN4, NIEs3, and China all declined in positive margin. Europe declined in positive margin as electrical machinery turned to a negative figure and industrial machinery fell in positive margin. North America dropped in positive margin as electrical machinery turned to a negative figure. The Current Assessment DI stood at positive figures in all the regions.

○The Prospects DI (January - March 2008) stood at 11.8 percentage points, lower by 3.3 points than the Current Assessment DI for the current quarter, but maintained a double-digit positive margin. Asia declined in positive margin mainly because electrical machinery fell in positive margin. North America increased slightly in positive margin as electrical machinery turned to a positive figure and chemicals increased sharply in positive margin, though transportation equipment declined in positive margin. Europe declined in positive margin, less than ten percentage points, as transportation equipment declined in positive margin and electrical equipment fell further in negative margin. All the regions maintained positive DI.

○The actual results (July - September 2007) decreased by 5.2% from the same quarter of the previous year for the second consecutive quarter, though at a slower pace.

By industry, chemicals fell sharply for the second consecutive quarter as Europe, Asia, and North America all reported large declines. Transport equipment fell by more than 10% for the second consecutive quarter as Europe and Asia declined sharply though North America continued to grow by less than 10%. Iron & steel and electrical machinery turned to rapid growth, and industrial machinery continued to grow by more than 10% for the fourth consecutive quarter.

By region, Europe and Asia declined for the second consecutive quarter, though at a slower pace. North America increased for the third consecutive quarter, though at a slower pace. Europe decreased by more than 10% (down 12.8% from the same period in the previous year) for the second consecutive quarter. In the region, chemicals fell sharply for the fourth consecutive quarter, and transportation equipment decreased fast for the first time in five quarters. In Asia (down 6.9% from the same quarter in the previous year), electrical machinery and iron & steel turned to a sharp increase, but transportation equipment and chemicals fell fast for the second consecutive quarter. NIEs3 decreased rapidly (down 28.1% from the same quarter in the previous year) for the second consecutive quarter. In the region transportation equipment fell fast for the fifth consecutive quarter, and chemicals and industrial machinery also declined rapidly. Electrical machinery decreased for the first time in eight quarters. ASEAN4 decreased (down 1.5% from the same quarter in the previous year) for the second consecutive quarter, though at a significantly slower pace. In the region, electrical machinery turned to a rapid increase, but transportation equipment, iron & steel, and chemicals continued to decline, though at a slower pace. China decreased (down 1.0% from the same period in the previous year) for the second consecutive quarter, though at a slower pace. In the country, transport equipment declined sharply for the second consecutive quarter, but electrical machinery and industrial machinery turned to an increase. North America grew (up 1.6% from the same quarter in the previous year) for the third consecutive quarter, though the growth slowed down. In the region, transportation equipment and electrical machinery increased for the third consecutive quarter.

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)

	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 (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment (②-①)	Prospect (③-②)	Previous term	Present term		① Current Assessment (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment (②-①)	Prospect (③-②)	Previous term	Present term				
Total	18.1	→ 15.1	→ 11.8	(-3.0)	-3.3	-11.5	-5.2	Transportation equipment	21.5	→ 22.4	→ 15.0	(0.9)	-7.4	-10.1	-10.9				
North America	12.8	→ 10.3	→ 10.8	(-2.5)	0.5	6.3	1.6	Electrical machinery	17.6	→ 12.2	→ 2.0	(-5.4)	-10.2	-15.5	16.6				
Asia	19.5	→ 17.0	→ 13.4	(-2.5)	-3.6	-16.0	-6.9	Industrial machinery	10.4	→ 6.9	→ 8.9	(-3.5)	2.0	13.4	19.6				
ASEAN4	16.3	→ 14.6	→ 11.2	(-1.7)	-3.4	-24.4	-1.5	Chemicals	15.0	→ 9.7	→ 20.0	(-5.3)	10.3	-44.6	-34.2				
NIEs3	21.7	→ 13.5	→ 3.6	(-8.2)	-9.9	-16.1	-28.1	Iron and Steel	22.8	→ 21.4	→ 19.7	(-1.4)	-1.7	-21.7	19.9				
China (including Hong Kong)	19.5	→ 17.4	→ 14.9	(-2.1)	-2.5	-16.7	-1.0												
Europe	17.0	→ 12.5	→ 3.9	(-4.5)	-8.6	-14.2	-12.8												

Chart4 Capital Investment DI and actual results by Region

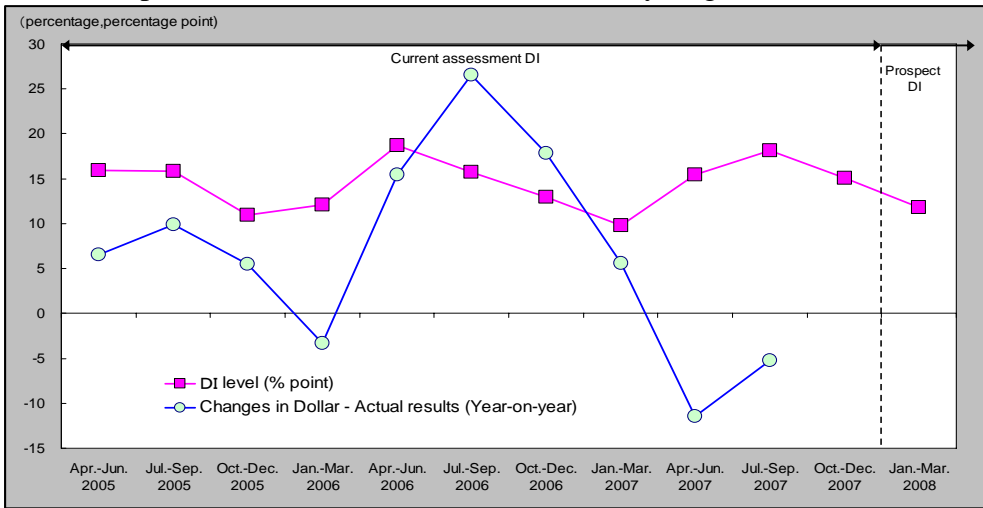


Chart5 Capital investment DI by Region

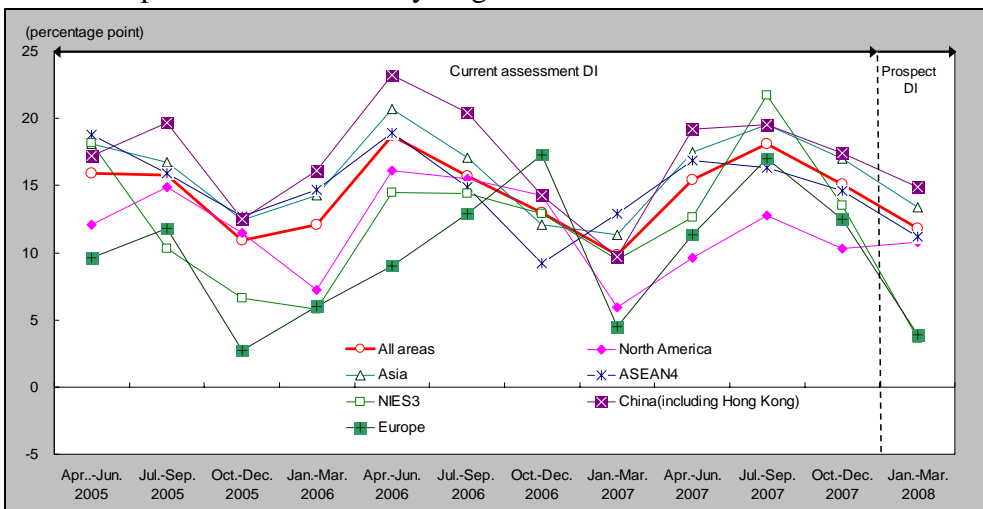
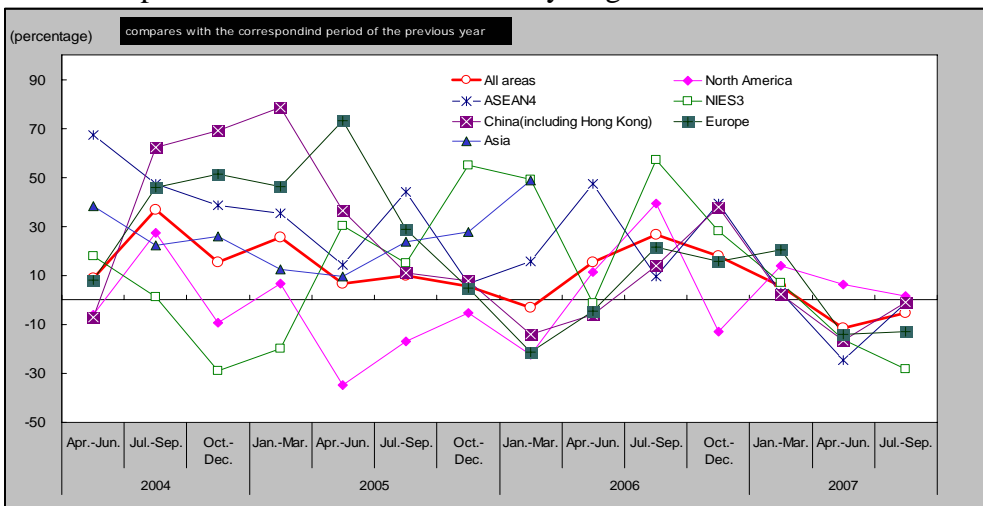


Chart6 Capital investment actual results by Region



3. Employment (Number of employees)

The Prospects DI stood at 8.9 percentage points, slightly increasing in positive margin. The actual results continued to grow, increasing by 3.6% from the same quarter of the previous year.

○The Current Assessment DI (October - December 2007) stood at 8.3 percentage points, declining in positive margin by 1.5 percentage points from the Current Assessment DI for the previous quarter (July - September 2007). Iron & steel, industrial machinery, and transportation equipment declined in positive margin. Europe stayed at a slightly negative DI.

The Prospects DI (January - March 2008) stood at 8.9 percentage points, higher by 0.6 points than the Current Assessment DI for the current quarter. Iron & steel and transportation equipment increased in positive margin. All the regions except Europe maintained positive DI, and China maintained a double-digit positive margin.

○The actual results (July - September 2007) grew by 3.6% from the same quarter of the previous year, maintaining growth.

By industry, transportation equipment grew by more than 10% for the third consecutive quarter thanks to increases in all the regions except NIEs3. Electrical machinery declined for the third consecutive quarter, and the industry almost leveled off in China, where it had continued to grow.

By region, Asia, especially China, continued to increase. Europe reported a sharp increase, and North America also grew. Europe (up 9.8% from the same quarter of the previous year) continued to grow, helped by significant increases in ceramics and stone & clay. Transportation equipment continued to grow steadily in the region. North America (up 3.4% from the same quarter of the previous year) increased for the third consecutive quarter. Transportation equipment and chemicals continued to increase, and electrical machinery and industrial machinery turned to increase. Asia (up 3.0% from the same quarter of the previous year) continued to grow, though the growth slowed down. China (up 4.7% from the same quarter of the previous year) grew more slowly than before, by less than 10% for the fifth consecutive quarter. In the country, transportation equipment continued to grow fast, while electrical machinery leveled off. ASEAN4 ($\pm 0\%$ from the same quarter of the previous year) almost leveled off for the second consecutive quarter. Transportation equipment continued to grow, but electrical machinery declined for the fourth consecutive quarter. NIEs3 (down 4.7% from the same quarter of the previous year) declined for the fourth consecutive quarter. Transportation equipment fell for the sixth consecutive quarter, and electrical machinery decreased for the third consecutive quarter.

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

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

	DI					Actual			DI					Actual	
	Survey of present term			comparison to the previous quarter		comparison to corresponding period of previous year			Survey of present term			comparison to the previous quarter		comparison to corresponding period of previous year	
	① Current Assessment (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment ((2)-(1))	Prospect ((3)-(2))	Previous term	Present term		① Current Assessment (Jul.-Sep. 2007)	② Current Assessment (Oct.-Dec. 2007)	③ Prospect (Jan.-Mar. 2008)	Current Assessment ((2)-(1))	Prospect ((3)-(2))	Previous term	Present term
Total	9.8	→ 8.3	→ 8.9	(-1.5)	0.6	3.5	3.6	Transportation equipment	14.0	→ 12.0	→ 13.5	(-2.0)	1.5	10.0	10.9
North America	8.0	→ 2.8	→ 3.5	(-5.2)	0.7	0.5	3.4	Electrical machinery	6.0	→ 9.5	→ 5.6	(3.5)	-3.9	-2.4	-2.2
Asia	12.3	→ 10.9	→ 11.7	(-1.4)	0.8	3.5	3.0	Industrial machinery	13.5	→ 10.6	→ 8.9	(-2.9)	-1.7	3.9	3.7
ASEAN4	8.3	→ 5.8	→ 8.1	(-2.5)	2.3	0.1	0.0	Chemicals	8.2	→ 8.2	→ 8.0	(0.0)	-0.2	1.8	-1.9
NIEs3	1.3	→ 3.0	→ 3.2	(1.7)	0.2	-1.5	-4.7	Iron and Steel	18.9	→ 15.3	→ 25.4	(-3.6)	10.1	2.1	-7.2
China(including Hong Kong)	17.8	→ 15.8	→ 15.7	(-2.0)	-0.1	5.5	4.7								
Europe	-1.0	→ -1.8	→ -0.3	(-0.8)	1.5	9.1	9.8								

<Reference> Overseas economies

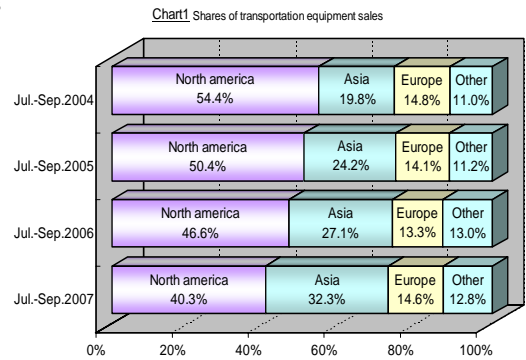
The world economy is recovering. In the United States, the economy continues to improve, but only slowly due mainly to a decrease in housing construction. The outlook seems uncertain mainly due to fluctuations in the financial market. In Asia, growth is strong especially in China and other countries. In China, the economy continues to grow. Investment in fixed asset continues to grow fast. In Taiwan, Singapore and Malaysia, the economies are growing. In South Korea, the economies are growing slowly. In Thailand, the economy is showing signs of recovery. In the Euro area and the United Kingdom, economies are improving. (From the Monthly Economic Report (December 2007), Cabinet Office)

【Topics】

Trends of transportation equipment - The North America market is shrinking, but sales of Japanese manufacturers remain steady.-

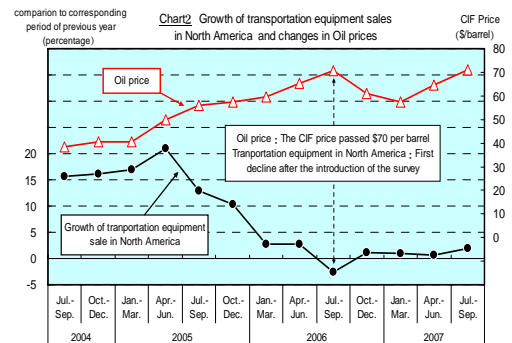
■ According to the survey for the current quarter (July - September 2007), actual sales of transportation equipment steadily increased by 13.1% from the same quarter in the previous year, double-digit growth for the fourth consecutive quarter. The survey of sales by region shows that transportation equipment sold in Asia increased by 28.7% from the same quarter in the previous year (up 16.9% in ASEAN4, up 18.0% in NIEs3, up 48.5% in China, and up 33.5% in the other areas in Asia), and that sales in Europe grew fast by 18.3%, while growth in North America turned out to be low, up only 2.0%.

The analysis of shares of transportation equipment sales among regions shows that while North America accounted for more than half of the total sales, 54.4% in the quarter of July - September 2004, its share declined year by year thereafter and shrunk to 40.3% in the current quarter. On the other hand, Asia's share grew rapidly from 19.8% in the quarter of July - September 2004 to 32.3% in the current quarter. Shares of Europe and the other regions remained almost unchanged. The results demonstrate that the growth of transportation equipment sales in the current quarter, up 13.1%, was contributed by large increases in the regions other than North America. (Chart1)



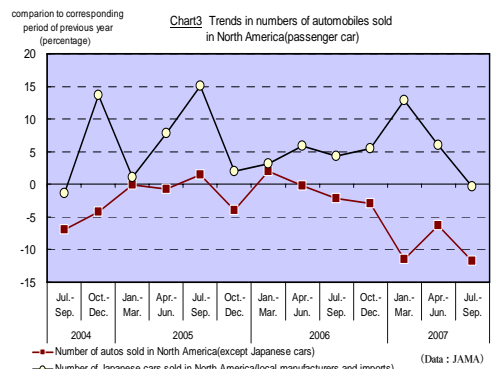
■ To examine the trend in detail, we examine below how sales of transportation equipment in North America had been.

Since the quarter of April - June 2005, when crude oil prices started to rise remarkably, growth of transportation equipment sales have been gradually slowing down. After the sales declined in the quarter of July - September 2006, posting negative growth for the first time since the introduction of this survey, the growth rate stayed around one or two percent for a year. The fact shows the weak sales of transportation equipment in North America were largely attributed to rising crude oil prices. (Chart2)



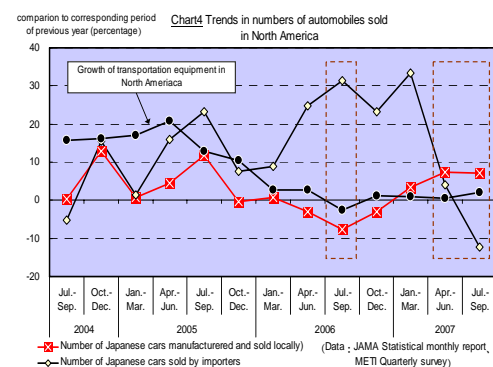
Next, we examine below the number of automobiles sold in North America.

According to statistics by JAMA*, the growth of automobiles sales in North America, except those produced by Japanese manufacturers, have been slowing down since the quarter of April - June 2006 while in contrast the number of Japanese cars sold in the region has been increasing, which suggests their competitiveness. (Chart3)



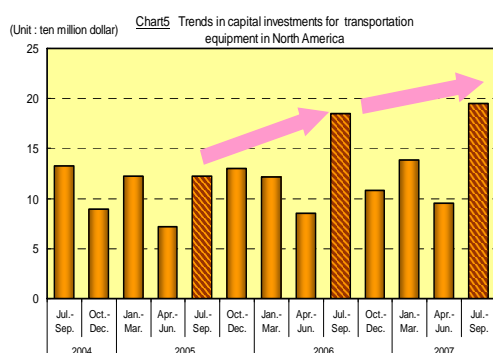
Of transportation equipment manufactured in North America, 94 percent was sold in domestic markets. As gas prices are rising, purchases of large-size vehicles have been avoided even in the North American market, and demand has shifted to more fuel-efficient models, mainly middle and small-size vehicles.

Breakdowns of sales of Japanese cars show the growth of the number of Japanese cars manufactured and sold in North America moved almost in accordance with that of sales of transportation equipment in North America on this survey. In the quarter of July - September 2006, when sales of transportation equipment in North America declined for the first time, the number of Japanese cars manufactured and sold there also fell while that of cars imported from Japan and sold in North America increased sharply.



These facts demonstrate that Japanese automobile companies based in North America have experienced difficulty in supplying a sufficient quantity of cars manufactured there to meet the needs in the market, which had shifted with rising gas prices, and that they managed to get through the shortage by importing from Japan. After that, however, the growth of the number of imported cars sold in the region slowed down significantly, and that of automobiles manufactured and sold there increased. (Chart4)

This probably this happened because Japanese manufacturers expanded local production facilities for middle and small-size automobiles, especially fuel-efficient models, in the region, to increase production there. Capital investments for transportation equipment increased approximately 1.5 time those of the quarter of July - September 2006, when sales turned to a decline, but the large-scale capital expenditure was surpassed by investments in the current quarter. (Chart5)



As for future outlooks at the time of the current quarter, the positive margin widened between current and prospect DIs of transportation equipment sales; the Current Assessment DI (October - December 2007) was 14.8 percentage points while the Prospect DI (January - March 2008) was 17.1 percentage points. But a comparison of the figures with those in the survey conducted for the same quarter in the previous year (July - September 2006), Current DI (October - December 2006) of 21.1 points and Prospect DI (January - March 2007) of 30.0 points, demonstrates that respondents had more conservative outlook at the time of the current quarter with soaring crude oil prices, though oil had been as expensive the previous year.

While the automobile market in North America was shrinking, sales of cars manufactured by Japanese companies in the region, especially those of fuel-efficient models remained steady. Now the focus is placed on how the trend will be effected by the continuing rise of crude oil prices and credit concerns caused by the subprime problem.

* JAMA: Japan Automobile Manufacturers Association, Inc.