

# Staying in Shape

The Japanese steel industry is in very good shape. Production is near full capacity. Steel businesses forecast unprecedentedly high profits for the current year.

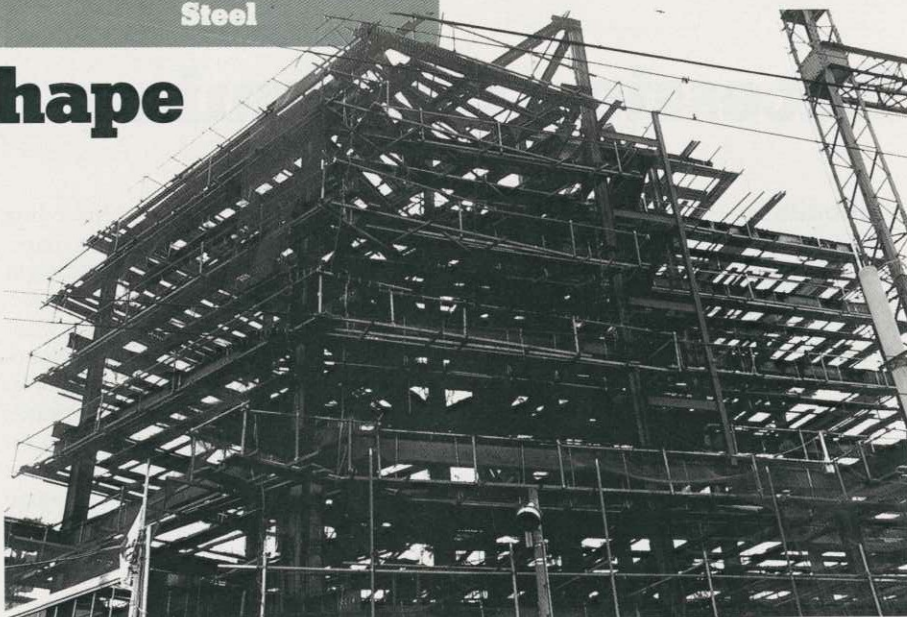
Crude steel production has consistently shown a year-on-year gain since July 1987. Given this, crude steel output in the whole of fiscal 1988 will likely reach 105 million metric tons, up about 4 million tons from the previous fiscal year. This is due mainly to the fact that an increase in domestic demand has offset a decrease in exports and an increase in imports by a wide margin.

Domestic demand in the current fiscal year is forecast to be a record high in terms of finished steel products, as demand from both the construction and civil engineering and manufacturing industries is deemed certain to top fiscal 1987 levels.

Steel companies generally turned into the black in the latter half of fiscal 1987. Their financial position has improved further since the start of fiscal 1988, due mainly to three factors: (1) an increase in output, (2) a rise in export prices, and (3) sweeping rationalization measures.

The higher export prices are attributable mainly to a tighter supply on the export market, resulting from vigorous worldwide steel demand, and the Japanese mills' export policy being more profit-oriented now as compared with a more volume-oriented policy adopted in the past.

The major Japanese mills are carrying out drastic rationalization measures. Due to stronger-than-expected steel demand, however, there has been some delay in the suspension of blast furnaces and



An increase in domestic demand for steel should offset a decrease in imports by a wide margin in the year ahead.

some other production facilities. Such measures are being carried out on the basis of long-range prospects for steel demand. Measures to be taken in line with the long-term prospects are the integration of production facilities, a reduction in the work force, curbs on investments in plant and equipment, a cut in inventories and also a reduction in interest-bearing debts. All these measures are aimed at cutting down fixed costs.

The nation's "big-five" steelmakers forecast a record ¥500 billion (\$4 billion) in combined ordinary profits (profits before taxes and extraordinary items) for fiscal 1988—much higher than those recorded in the previous boom for seamless pipes around 1980. The major mills are expected to declare a 10% annual dividend for the present year, the highest in three years.

With regard to prospects for fiscal 1989, domestic demand can be expected to be maintained at the fiscal 1988 level.

Consumer spending and industrial investments in plant and equipment are also expected to be strong in fiscal 1989. Non-housing construction is believed to be likely to remain active. High-level production is expected of industrial machinery, electric machinery and four-wheel motor vehicles.

Steel exports in fiscal 1989 are considered likely to decline from the previous year because, amid the continued strong-yen trend, the leading mills will maintain their profit-oriented export policy. The inflation-adjustment policy likely to be adopted by the United States after the 1988 presidential election will also have an adverse effect on world steel demand. Further, such NIEs as South Korea and Taiwan, as well as Brazil, are expanding their steelmaking capacity. Steel imports are believed likely to increase in fiscal 1989 too.

In fiscal 1988, there is expected to be a buildup of some 3 million tons in inventories of steel products, while there will likely be no such buildup in fiscal 1989. Moreover, there will probably be a further decline in exports and a further increase in imports. The result will be a decline in crude steel production to 101 million tons in fiscal 1989.

The major steelmakers will, however, likely post a further improvement in their profits to record highs in fiscal 1989, due mainly to the favorable effects of their rationalization efforts.

(Hideo Yagi, senior economist)

## Crude Steel Supply and Demand

	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
Domestic demand	80.6	86.7	83.9
Exports	27.4	26.1	24.8
Imports	6.1	7.3	7.7
Output	101.9	105.5	101.0

## Big Five's Performance

	FY 1987	FY 1988 (estimate)	FY 1989 (forecast)
Sales	6,018.9	6,320	6,100
Substantial ordinary profits	96.7	507	628

Note: Domestic demand represents nominal domestic consumption (output plus imports minus exports).