

INDUSTRIAL SURVEY

Steel

Demand Doldrums

The Japanese steel industry is now suffering from an unprecedented recession due to the yen's precipitous rise against the U.S. dollar. Its crude steel output has fallen short of year-before levels since the second quarter (July-September) of fiscal 1985. At this pace, total raw steel output in fiscal 1986 is likely to fall below 100 million metric tons to reach about 96 million tons, down some 8 million tons from the previous year. That would be slightly below the 96.3 million tons produced in the previous recession year of fiscal 1982—the worst performance since the 1973 international oil crunch.

This sharp decline in production was brought on by sluggish demand, both domestic and overseas. Domestic demand in fiscal 1986 is likely to fall below previous-year levels. In the construction and civil engineering sector, steel demand will probably exceed that for fiscal 1985, reflecting increased consumption in public civil engineering projects. But in the crucial manufacturing sector, steel demand will likely slow, reflecting lethargic capital investment and reduced indirect steel exports. Steel demand in the automotive industry, which has been in good shape for many years, has also begun to decline.

Steel exports in fiscal 1986 are likely to fall somewhat from the previous year, dropping below the 30 million-ton level. There are some expectations for exports to Southeast Asia, where domestic demand is generally strong. But exports to China, Japan's No. 1 export market, and most other countries are likely to decline, due partly to the continued strength of the yen that has made exports much less remunerative and partly to intensified competition with newly industrializing countries (NICs). Exports to the Middle East, in particular, will suffer a heavy setback, due principally to reduced demand.

Reduced production has combined with other factors to badly batter Japa-

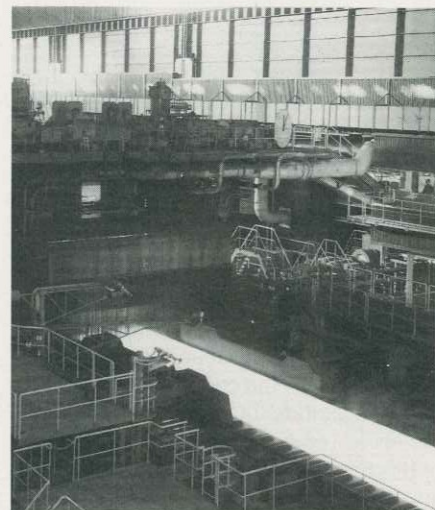
nese mills in fiscal 1986. These other factors include deterioration in the domestic steel market brought on by low-priced imports and reduced contract prices for steel products supplied to major clients. It is projected that Japan's five major steelmakers, led by Nippon Steel Corp., will sustain more than ¥300 billion (\$1.8 billion) in combined ordinary losses (losses before extraordinary items) for fiscal 1986. Under the circumstances, all five mills had no choice but to suspend interim dividends for the first half (April-September) for the first time in eight years. The five mills will be obliged to declare reduced dividends for the full year.

The Japanese steel industry will face even harsher business prospects in fiscal 1987. There will be further declines in both domestic and export demand and a continuing rise in imports, as well as a further decline in the market and in the long-term contract prices of steel products for such major users as automobile companies and electric appliance makers.

Demand in the construction and civil engineering sector as a whole in fiscal 1987 is projected to be nearly on a par with fiscal 1986. While the government's reflationary package will stimulate demand for public works projects, the increase will be offset by slowing demand related to private civil engineering projects.

In the manufacturing sector, industrial investments in plant and equipment are likely to remain in the doldrums and indirect steel exports (exports by steel-using industries) to decrease further. Overall, domestic demand as a whole will inevitably sag from the previous year.

On the export front, shipments to China will be strong to meet the needs of that country's seventh five-year plan. But exports to the United States cannot be expected to increase in quantity under the present "voluntary export restraint" arrangement. The outlook is also far from bright for exports to other Asian nations,



The Japanese steel industry has been hit hard by yen appreciation.

and especially Southeast Asia, as competition intensifies with the region's NICs.

Meanwhile, the continued robust yen has made it relatively easy for foreign steel products to enter the Japanese home market. South Korea—the No. 1 supplier—will have a much higher exportable surplus once its No. 2 Posco steelworks goes into operation in the spring of 1987. The new works' annual steelmaking capacity will be 2.7 million metric tons, helping ensure that Japan's steel imports remain on an expansionary track.

Judging from the above supply-demand picture, Japan's crude steel output in fiscal 1987 should run somewhat below previous-year levels. Although the decline in the market will soon run its course, the gap between the market and the mills' contract price for steel products supplied to major users will widen further. The mills will be under increasing pressure from automakers, electric appliance makers and other users to lower existing contract prices and will have little choice but to yield.

Steel mills will fare worse than ever, due in part to lower operating rates resulting from production cutbacks and in part to a decline in the domestic prices of steel products. The Japanese steel industry will face the need to establish a slimmer yet more efficient production-supply arrangement, covering both labor and production equipment, at the earliest possible date. ●

(Hideo Yagi, senior economist)

Iron and Steel Supply and Demand (crude steel terms)

(million tons)

	FY 1985	FY 1986 (estimate)	FY 1987 (forecast)
Domestic demand	73.4	68.0	66.8
Exports	33.8	31.5	31.0
Imports	3.5	3.5	3.8
Output	103.7	96.0	94.0

Note: Domestic demand represents apparent domestic consumption (output + imports - exports).