

Falling Profits

The steady expansion of the Japanese economy in 1989 caused demand for petrochemicals to remain firm. Producers increased shipments, especially in the first half of the year, because distributors and users rushed to buy in March, before the new consumption tax came into effect on April 1. Shipments of all five major plastics in March jumped more than 15% over a year earlier. In the April-June quarter, shipments of polystyrene and polypropylene, among others, rose by more than 10% over the same month a year earlier. Shipments increased at lower rates after the summer of 1989, but demand basically remained strong.

In response, suppliers raised their capacities. For example, the annual capacity for ethylene rose to 5.49 million tons in August, an increase of 430,000 tons over the same month a year earlier. The larger ethylene capacity was achieved by starting up suspended facilities as well as constructing additional cracking furnaces. Producers also substantially raised capacity for resins, including low-density polyethylene. As a result, the petrochemicals supply and demand balance began to ease steadily in the last half of 1989.

The demand also shows an uptrend in booming East Asia—mainly the region's newly industrializing economies and ASEAN countries. This region's markets were marked by shortages due to limited

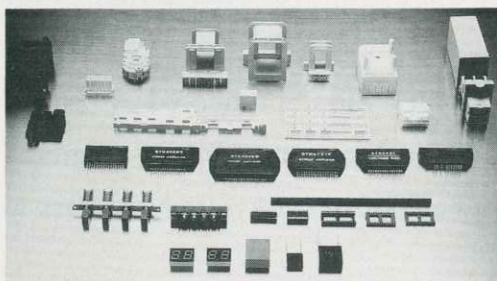


Photo: Teijin Ltd.

Application of petrochemical products was expanded to such growing industrial fields as information management, electronics and automobile manufacture in 1989.

production capacity and brisk demand from a booming worldwide economy. Prices for petrochemicals remained high especially in the first half of 1989, but prices in the region fell considerably in the second half for two major reasons: first, China stopped purchasing due to its foreign currency problem; and second, surplus products generated by temporary overproduction in the United States and Europe reached East Asian markets.

Given this situation, Japanese producers should raise sales for fiscal 1989 due to the tight market and increased shipments. But they have also had to contend with rising costs for raw materials (naphtha) and labor, and increasing fixed costs, including equipment depreciation. Thus, producers are likely to report high sales and income, but at almost the same level as in fiscal 1988.

In 1990, demand for petrochemicals in

Japan is expected to maintain steady expansion. Tightness, however, will likely disappear because domestic capacity will be expanded sufficiently to meet demand. In addition, two ethylene-based petrochemical complexes in South Korea started up in August-October. These plants are expected to begin full operations in early 1990. Another plant, in Thailand, was scheduled to start operations at the end of 1989. These new complexes should ease the shortages considerably and that will probably influence Japan, where market prices are likely to fall gradually.

Under these circumstances, profits of the petrochemical industry are expected to come down in fiscal 1990, although they will remain at a high level, as lower market prices will offset increasing sales.

Capital spending is likely to maintain a high level in 1990, continuing a trend that started in 1988. Corporate sales and profits have been good enough to allow active investment. Various investment projects will be planned, including plant and equipment to raise production capacity, infrastructures, and research and development, to name a few. Capital spending should confirm companies' aggressive management policies.

In the long and medium terms, the Japanese petrochemical industry will face intensifying competition due to integration of domestic and international markets, and efforts by East Asian countries to catch up with Japan. The industry will continue efforts to develop high value-added products and promote internationalization so that producers can strengthen their market positions.

(Jun Oyamada, economist)

Trends in Japanese Petrochemical Industry

	FY 1986	FY 1987	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Domestic demand (1,000 t)	4,415 (2.3)	4,714 (6.8)	5,139 (9.0)	5,440 (5.9)	5,670 (4.2)
Exports (1,000 t)	654 (41.4)	621 (-5.0)	576 (-7.2)	650 (12.8)	630 (-3.1)
Imports (1,000 t)	672 (22.7)	615 (-8.5)	578 (-6.0)	530 (-8.3)	600 (13.2)
Production (1,000 t)	4,376 (3.7)	4,705 (7.5)	5,161 (9.7)	5,600 (8.5)	5,750 (2.7)
Sales (¥ billion)	2,692.7	2,804.1	3,107.7	3,340	3,450
Ordinary profits (¥ billion)	80.7	159.1	253.1	250	205
Profit margin (%)	3.0	5.7	8.1	7.5	5.9

Notes: 1. Petrochemical tonnage in ethylene equivalent

2. Figures in parentheses denote growth rate over the previous year.

3. Sales and ordinary profits are the combined figures of seven major producers—Mitsubishi Petrochemical, Mitsui Petrochemical Industries, Mitsubishi Kasei, Mitsui Toatsu Chemicals, Showa Denko, Ube Industries and Sumitomo Chemical.