

Pressure on Producers

Japan's economic growth slowed in 1991, as exemplified by substantially lower housing construction starts as well as a dull rate of increase in private capital investment. This change in the general economic situation began to affect the nation's petrochemical industry, which supplies products to a broad spectrum of industrial sectors.

On the demand side, shipments of plastics—the petrochemical industry's largest sector—began to show substantially lower growth rates from April 1991. This was caused by production curtailments by automotive and other major industries that use plastic resins heavily. Plastics producers also saw relatively flat demand after the "temporary surge" generated by the Persian Gulf crisis.

Among the major specific plastics, polyvinyl chloride (PVC) suffered negative growth, chiefly because of slow housing starts. After enjoying strong sales in recent years, both polypropylene and polystyrene became stagnant as a result of sluggish performance in the automobile and household electrical appliance industries. In the area of raw materials for synthetic fibers, acrylonitrile was stagnant, reflecting slow acrylics sales, while the demand for both ethylene glycol and purified terephthalic acid—the raw materials for polyester—declined.

On the supply side, producers are now experiencing some overcapacity for both ethylene and its resin derivatives as a result of capacity expansion in 1990 and



Photo: Mitsu Sekka

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early 1991. The year 1991 saw rapid increases in plastics inventories in producers' warehouses, causing petrochemicals supply-demand to soften.

Given this situation, lower selling prices and rising expenses have led producers' performance into a downtrend since fiscal 1990. Income fell substantially in the first half of fiscal 1991, when lower prices for naphtha feedstock forced down selling prices, while labor and distribution costs rose along with the depreciation-cost burden. Corporate performance in the second half is likely to be marked by

still lower income, mirroring lower product selling prices due to the soft tone of the market.

Petrochemical companies' management will face a severe environment in 1992. This is because the general economy is unlikely to help demand in the petrochemical sector to recover quickly, while ethylene capacity is rising further both in Japan and South Korea. Mitsubishi Petrochemical is scheduled to start up a new ethylene plant in the summer of 1992, and ethylene plants will also be completed by South Korea's Hyundai and Samsung industrial groups, among others.

Many years of a strong Japanese economy benefited the petrochemical industry, especially the producers of ethylene and other basic commodities, who reaped unprecedented profits. However, as the overall economy seems headed for a downtrend, the petrochemicals makers are expected to face a harsh business environment for some time. This makes it necessary for producers to come up with measures to strengthen and stabilize their business from a long-term viewpoint, taking note of the changing environment.

Japan's Petrochemicals Supply and Demand

(1,000t; %)

	FY 1988	FY 1989	FY 1990	FY 1991 (estimate)	FY 1992 (forecast)
Domestic demand	5,139 (9.2)	5,471 (6.5)	5,826 (6.5)	5,835 (0.2)	6,100 (4.5)
Exports	576 (-7.3)	713 (23.8)	727 (2.0)	830 (14.2)	760 (-8.4)
Total demand	5,715 (7.3)	6,184 (8.2)	6,553 (6.0)	6,665 (1.7)	6,860 (2.9)
Imports	578 (-6.1)	591 (2.2)	649 (9.8)	765 (17.9)	840 (9.8)
Ethylene output	5,161 (9.7)	5,652 (9.5)	5,965 (5.5)	5,990 (0.4)	6,050 (1.0)
Annual production capacity	5,261	5,707	6,100	6,400	6,620
Operating rate	98.1	99.0	97.8	93.6	91.4

Notes: 1. Petrochemical tonnage in ethylene equivalent
2. Figures in parentheses denote growth rate over the previous year.

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