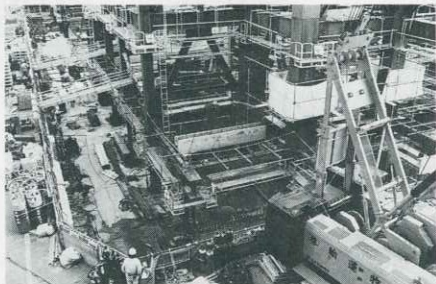


No Recovery in Sight for 1994

The steel industry faces an extremely severe situation. As the domestic business slump deepens, domestic demand for steel from both the construction and manufacturing industries continues to decline with no sign of recovery. Exports of surface treated steel plates, 30% of which goes to the U.S., have been held up for the most part by allegations of dumping, but exports to China have significantly increased from the first half of fiscal 1993. However, overseas trade has been unable to compensate for the slack domestic demand and it is predicted that crude steel production for fiscal 1993 will fall to 96.7 million tons, the same as in fiscal 1986, the last strong yen recession. A rapid recovery is not predicted for fiscal 1994 either and forecasts are that, with a dip in exports to China, crude steel production will drop further, to 9.2 million tons.

With the continued lack of demand, the market for finished products has

There has been a startling drop in demand for H-shaped steel and it does not appear that the building construction industry will rebound quickly. (Large amounts of H-shaped steel were used in the construction of Tokyo city hall.)



Crude Steel Supply and Demand

(Unit: 1 million t)

	FY1992	FY1993 (Estimated)	FY1994 (Forecast)
Domestic demand	84.5	78.9	78.2
Exports	21.1	24.6	21.3
Imports	6.7	6.8	7.2
Production	98.9	96.7	92.3

Note: Domestic demand shows net domestic consumption (production + imports - exports)

also sharply declined. Demand for H-shaped steel has abruptly slid downward due to slumping private investment and building construction. This, coupled with late corresponding production cuts, has resulted in a striking deterioration in the market. Because of the widening gap between domestic and international prices due to the strong yen and profit deterioration, steel users in the automotive, home appliance and shipbuilding sectors have been demanding price cuts, even for directly contracted products. It appears that a broad turnaround in the supply and demand situation will not occur and the market will continue under depressed conditions in 1994.

Although the five leading steel companies benefited from cost reduction for raw materials and energy, as well as the strong yen, with deteriorating supply and demand sales dropped and unit costs fell resulting in an forecasted operating loss of more than ¥200 billion for fiscal 1993. Despite lower costs for raw materials and progress in rationalization, an expanded loss of more ¥100 billion is still expected in fiscal 1994 due to a continuing decline in domestic and international demand exacerbated by stagnant product markets.

The adverse business conditions now confronting the major steel corporations are worse than those in fiscal 1986. With the persistent strengthening of the yen and the maturation and "hollowing out" of the market, there is little hope for a broad demand recovery, even over the mid-term. Faced with this situation, the leading mills have been groping for drastic structural improvements in steel operations in order to recover internation-

al competitiveness. Japan's materials industry is burdened with the same kind of difficulties and there are hopes that restructuring and the development of new operations in the steel industry will also benefit the materials industry.

The nonferrous metals industry also faces severe conditions. Because the automotive, construction and electrical equipment and electronics industries, the main nonferrous metals users, are slumping it is thought that a real demand recovery will be difficult in fiscal 1994. Global demand for nonferrous metals is also stagnating and the market is in decline. This is mainly due to an inability to solve the excess supply situation as well as an influx of large volumes of aluminum and other ingots from Russia and other former East bloc countries. A market recovery is not expected until the latter half of fiscal 1994 or even later.

Business results in the nonferrous metal smelters (the base metal refining industry) in fiscal 1993 saw the consecutive fourth year of reduced profits and income due to lagging demand and shrinking markets along with sharp reductions in refining fees linked to the rapid appreciation of the yen. A recovery will still require time and it is predicted that fiscal 1994 business results will continue to be harsh. Additionally, as a result of the conclusion of the GATT Uruguay Round there are fears that the gradual reductions of duties on nonferrous ingots scheduled to commence in 1996 will exert more pressure on earnings over the mid- to long-term. Confronted with these conditions nonferrous metal producers have begun large scale restructuring as domestic mines have closed, smelting operations have been shut down and mines are being opened overseas. Future trends will have to be closely monitored.

(Toyoda Hiroshi, senior economist and Nakamura Isao, senior economist)