

# A Leaner and Meaner Return

Japan's economy is at last beginning to show signs of a recovery resulting in an upturn in domestic demand for steel, primarily for automobiles, home appliances, and other products in the consumer durables sector. The business climate for exports has also started to improve with an increasing number of inquiries, mainly from China and Southeast Asia. Moreover, calculating that the market had bottomed out and demand would be higher in the fall of 1994, construction companies and distributors commenced futures dealing in the second half of the year and forecasts are that with boosts in reserve steel bar inventories due to speculative demand, fiscal 1994 crude steel production will rebound to 100 million tons for the first time in three years.

However, although domestic demand will recover the outlook is that crude steel production will remain at around 99 million tons in fiscal 1995 due to anticipated adjustments to accumulated inventories. Domestic market conditions had experienced a long downturn, but there are now renewed expectations that resurgent domestic demand will halt the slide. Bolstered by improved demand for sheet metal, supply and demand for sheet steel in particular have firmed up, resulting in a shift to a stronger tone.

Although unit prices have declined, the five leading blast furnace operators foresee a broad upturn in fiscal 1994 earnings due to cost savings garnered from restructuring. However, a deficit of ¥100 billion in real terms will be carried over in fiscal 1994, resulting in expectations that continued unprofitability will be unavoidable. By putting the brakes on sliding unit prices and reaping considerable benefits from variable and fixed cost cuts derived from restructuring, the total profits for the five majors could conceivably shift back into the black in fiscal 1995.

The steel industry is thought to have weathered the worst patch in the business climate. Moreover, January's Hanshin earthquake should have no small impact on the steel industry. From the standpoint

of production, although facilities at Kobe Steel and Kawasaki Steel were damaged, increased demand related to construction in conjunction with recovery work is forecast. Soliciting other companies' cooperation, both firms have begun to revamp their supply capabilities, but there is still uncertainty regarding their ability to maintain stable supplies of some goods.

Further, with distribution channels not fully functional, electric furnace steel makers have also encountered difficulties in procuring scrap material. Under these circumstances there is an overwhelming perception, due to reconstruction demand and rising scrap material prices, that bar steel market prices will rise in the future and it is to be hoped that the manufacturers and distributors in the steel industry, which supplies construction materials that are indispensable to reconstruction efforts, will unite in an effort to provide stable supplies while avoiding market volatility and other types of disruption.

Changes are also beginning to appear in the environment surrounding the nonferrous metals industry. Domestic demand for nonferrous metals, which in recent years has continued to decline compared to the same month period the previous year, shifted into the plus column from the second half of fiscal 1994. International markets have also improved since the beginning of 1994, with the market sustained by flourishing demand, primarily in the U.S. and East Asia.

Of course, with declining smelting fees and the yen's continued strengthening the nonferrous metals refining industry's earnings climate is still severe. As in fiscal 1993, the eight industry leaders' ordinary profits for fiscal 1994 are expected to remain below the ¥20 billion level. Predictions are that a complete earnings recovery will have to wait until fiscal 1996 or later, when smelting fees are expected to rebound.

## Crude Steel Supply and Demand

(Unit: 1 million t)

	FY1993	FY1994 (Estimate)	FY1995 (Forecast)
<b>Domestic demand</b>	77.3	81.6	81.2
<b>Exports</b>	26.1	25.6	24.8
<b>Imports</b>	6.3	6.0	6.0
<b>Production</b>	97.1	101.2	100.0

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

The last one or two years could be described as a transitional period for the nonferrous metals industry and at such a time business development based upon medium- to long-range strategies is expected. Fiscal 1995 will undoubtedly be a year during which the industry will be called upon to make even sharper distinctions between areas to be strategically expanded or cut back in its own business sector.

In domestic smelting, individual companies will naturally continue with efforts to improve efficiency, but a receptivity to cooperative relations that extend across the industry will probably also be needed. In areas of diversification they will be required to reach beyond the nonferrous metals industry and, after carefully selecting which technologies should be given priority, develop multi-tiered operations that encompass the environmental sector and other areas outside the nonferrous metals industry. Overseas development which makes full use of the yen's strength will also be an important future issue. With expectations that Japanese industry will aggressively develop knockdown assembly industries and other economic activities together with regions of Asia, the nonferrous metals industry will be expected to reach beyond Japan through business development with a broad perspective that encompasses Asia. ■

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