

# Profits up, but no Sign of Recovery in Exports to Asia Region

Japan's domestic iron and steel demand in FY1996 picked up slightly due to the following factors: (1) the business stimulation programs by Japanese government economic policy, (2) last-minute consumer demand before the consumption tax increase in April of this year, and (3) increased exports of manufactured products by steel-using industries due to correction to the strong yen in the foreign currency markets.

Following inventory adjustments in the first six months of fiscal 1996, crude steel production began to rise in the second half, with annual output total forecast at about 100.3 million tons, an increase over the previous fiscal year the previous year. Due to the depreciation of the yen which kept the performance of the manufacturing industry at the same level as last fiscal year, domestic demand for crude steel in FY1996 will nevertheless drop from the previous year's level. A sluggish housing industry, and decreases in public works investment, portend less use of crude steel for construction, bringing a fall in demand from last year. Considering these factors, crude steel production will certainly drop this fiscal year. But the drop will be minimal, remaining at about 100 million tons thanks to positive factors such as the depreciated yen, an

increase in the volume of exports which has trended low in recent years, but began to pick up with continuing inventory adjustments in South East Asia, as well as a purchasing mood following these adjustments.

The trend in Japan's domestic steel products was mixed in FY1996. The wide flange beam market has picked up since June of last year as a result of production curtailment in the spring. Bar and light structurals prices dampened because of production increase by minimills. The steel plates and sheets product market recovered slightly in the last half of fiscal 1996 because the industry succeeded in stock adjustment thanks to production curtailment between July and September last year by integrated steel mills, and lower imports of steel plates and sheets due to a decline in correction to the strong yen. In FY1997, it is difficult to expect a consistent steel market because Japan's domestic steel demand will decline. Therefore, the steel market will continue to depend on the production policies of Japanese steel mills as it did in FY1996.

Earnings by Japan's top five integrated steel mills in FY1996 are estimated to be about ¥21 billion because they have achieved substantial reduction in fixed costs through restructuring. This enabled them to offset negative factors such as drops in prices in both the domestic and foreign markets and increases in variable expense costs.

In FY1997, profits of the integrated steel mills are expected to increase substantially due to the end of falling prices in the domestic market, and to an increase in export profits through yen depreciation. Earnings by Japan's minor mills for ordinary steel have been severely hit because



Decreased domestic demand in steel industry inevitable. (Nippon Steel Corp. Kimitsu Ironworks)

of higher scrap metal prices in addition to weak sales prices and a decrease in shipment volume.

As for their future, with the looming prospect of scrap metal prices peaking out while long-term low sales prices are expected, it is vitally important to stabilize their steel products market taking the following measures: (1) Their steel production must meet market demand and (2) they must continue curtailing fixed costs.

For Japan's steel industry to be prosperous, it is important to maintain a certain level of domestic steel product export volume and to take advantage of economies of scale. Japan's integrated steel mills have been strengthening cost competitiveness through management restructuring since 1994. By the 21st century, they will have improved cost competitiveness with South Korea's Pohang Iron and Steel (POSCO) through their aggressive restructuring efforts.

Exports by Japan's steel industry always depend on Japanese trading firms as they do not have their own export sales expansion tools. Therefore, it is time for Japan's integrated steel mills to beef up and expand export sales arms by themselves to maintain steel export volume in order to strengthen their presence and meet the strong demand in Asian market.

(Kagami Akiyuki, economist)

## Crude Steel Supply and Demand

(Unit: 1 million t)

	FY1995	FY1996 (Estimate)	FY1997 (Forecast)
<b>Domestic demand</b>	0.3% 83.0	2.8% 85.3	-0.9% 84.5
<b>Exports</b>	-4.3% 24.1	-9.9% 21.8	2.8% 22.4
<b>Imports</b>	8.2% 7.1	5.0% 6.7	2.6% 6.9
<b>Production</b>	-1.3% 100.0	0.3% 100.3	-0.4% 100.0

**Note 1:** Domestic demand shows net domestic consumption (production + imports - exports)

**Note 2:** Top left numbers indicate year-on-year change (%)

**Note 3:** Figures not exact

**Source:** Tekko Tokei Yorán (Steel Statistics Survey) Forecast of FY1996 and 1997 based on IBJ Projection