

Industry Counting on Overseas Business

Internal domestic demand for nonferrous metals in fiscal 1995 was sluggish overall, notwithstanding differences among varieties of metal. In the first half, demand for copper and aluminum picked up due to increased demand for such hot-weather items as air conditioners and beverage cans, but in the second half metal again went into a slump. In the international markets, copper prices were kept high due to tremendous demand spurred by economic growth in China and Southeast Asian countries, and reduced aluminum production in aluminum-producing countries has helped improve market conditions for aluminum. Markets for lead and zinc, however, have not yet begun to recover; differences among markets for various metals are evident.

Earnings by nonferrous metal smelting works should nevertheless pull through the worst of the fiscal year and see substantial improvement. Despite a

decline in domestic demand, the market for copper is still strong. Copper production, principally for export, is at full tilt, which offsets declines in smelting fees due to the strong yen and lower earnings across the rest of the industry due to the slump in other metals. The health of such non-smelting sectors as the manufacture of materials for electronic parts, and the financial improvement due to the decline of fixed costs and interest rates, will also contribute to the expected recovery of the six leading companies to the tune of ¥25 billion in ordinary profits for the year.

For fiscal 1996, moderate growth is expected for the economy, which should mean higher domestic demand for nonferrous metals. It is hoped that recovery in the wire manufacturing sector will boost demand for copper, and stronger demand for construction and automobiles will raise that for aluminum and zinc. Market conditions for copper and aluminum should continue to be stable, while those for lead and zinc will see moderate improvement. The relaxation of the tension between supply and demand for ore is expected to boost smelting fees, and if the exchange rate stabilizes in the ¥100-¥109 to the dollar range, earnings for all nonferrous metal smelting works should improve.

In the mid-term, however, the full-scale overhauls many smelting works plan to imple-

ment beginning in 1997 will create an oversupply of metal. The currently favorable international market conditions for copper will deteriorate, and smelting fees may shrink. Copper, like lead and zinc before it, will feel the impact of lowered tariffs. In light of the unpredictable exchange rate, the expected improvement in earnings for 1996 provides a good opportunity to prepare for this future downturn. In terms of the domestic smelting business, a number of smelting works are planning to shut down operations for zinc as well as for lead. In the future, the industry as a whole will have to take the cost reducing measure of intensifying operations at the most competitive smelting works. Diversifying sectors will have to put more into those sources of profit that are stable enough to withstand buffeting by changes in international market conditions and the exchange rate. The hope is for expansion not only in the field of nonferrous metals, which supplies the electronic parts for our emerging multimedia society, but also in the growth industry of the non-nonferrous metals field, the industrial waste disposal technology that stimulated that of smelting works.

Development abroad is another topic of importance. In addition to upstream sectors, such as taking part in development of mines and construction of smelting works, it is hoped that there will be more business in processing sectors, which involves the supply of material parts abroad by setting up processing industry overseas. China and Southeast Asia will most likely continue their economic expansion, and both are promising areas for increased internal demand. Although we cannot wish for any significant expansion of domestic internal demand, it is increasingly important that Japan's nonferrous metals industry should look for business opportunities in these regions.

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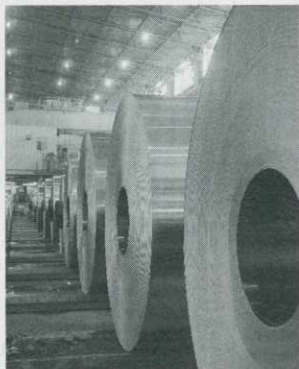


Photo: Sumitomo Light Metal

Aluminum industry anticipates increased demand from auto makers.

Sales and ordinary profits of top six nonferrous metal smelting works

