

The Effects of One Cold Summer

Compared with industry on the whole, energy consumption had experienced a relatively firm growth. But at the beginning of fiscal 1992, the growth rate nose dived with the heavy impact of the economic slowdown. Due to falling production levels in the automotive, electric power, and electronics industries, energy consumption in the industrial sectors registered 2% less growth than in the previous fiscal year. As far as the private sector was concerned, the commercial sector felt the effects of the recession, and although growth lagged at 3% (versus 7.5% in fiscal 1991) the domestic sector's energy consumption exhibited a high 4.8% growth rate (versus fiscal 1991's 2.7%) in response to the previous year's chilly summer and a firm overall rate of 4.0% was maintained.

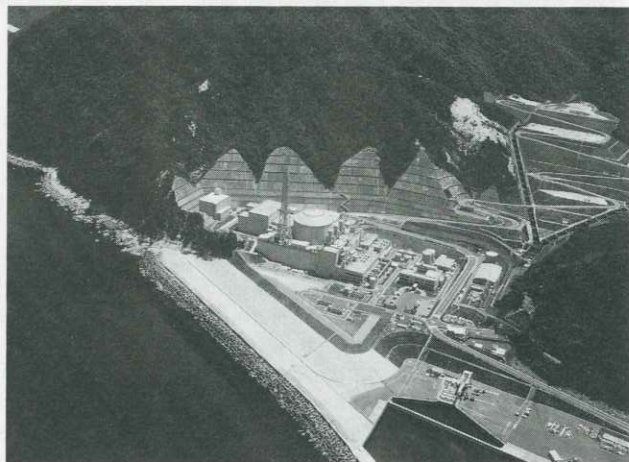
However, the transport sector, the main engine for energy consumption until now, lagged at a low 2.3% growth in response to the business slowdown and final energy consumption held at a stagnant 0.5% overall growth. Considering that production in the mining and manufacturing sectors continues to lag, there is no optimistic outlook that corporations will resume investments in plant and equipment. And as there was once again a cold summer, predictions are that energy demand will

have stagnated in fiscal 1993 as well.

Even if crude oil price levels remain low, at WTI \$15 to \$18 per barrel throughout fiscal 1994, petroleum demand in fiscal 1993 should decline 1.1% compared to the previous year, leveling off at zero growth in fiscal 1994. Due to the cold summer, electric power should hold at 0.1% in fiscal 1993 and a low 1.1% growth rate in fiscal 1994.

The petroleum industry has always been excessively competitive in nature, tending toward price wars and difficulties in coordinating smooth price shifts. However, the 1990 Gulf War and the Fair Trade Commission's warning to gas service stations against dumping in 1992 provided opportunities, and with market corrections focusing on gasoline it has recently appeared as though smooth price shifts have been accomplished. The petroleum industry has continued to invest in plant and equipment at high levels in order to cope with continuing moves to lighter fractions and environmental countermeasures, so depreciation expenditures has trended upward. But if these types of market policies continue, higher balances can be expected.

With 1993's cool summer, electric power use failed to hit record consumption levels for the first time in 11 years. However, mid-term supply and demand is still seen to be tight, and the electric power industry is promot-



Compensating for Japan's lack of resources through technological strength was a consideration behind the Morju fast breeder reactor.

ing high-level plant investments. As a result, depreciation expenditures, repair outlays, and other fixed costs have been on an upswing, leading to demand and fuel cost fluctuations that have a great impact on revenues and expenditures.

Due to sluggish business conditions and strikingly stagnant demand as a result of the cold summer last year it is forecast that electric power companies' revenues from power bills will largely fall off. But with the benefits of reduced fuel costs due to the strong yen and provisional price reductions from November 1993 refunds made to users, it is forecast that reductions in income and profits will be unavoidable. Although the private sector's demand is expected to grow steadily in response to the previous year's chilly summer, a continued stagnation in industrial sector demand due to the recession is forecast in fiscal 1994.

It appears that an overall recovery for electric power demand will be held over until the latter half of this year or later. With regard to income and expenditures, in addition to forecasts that fixed costs will continue to climb, continuing declines in income and profits are expected due to continued provisional fee reductions until September.

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Domestic Trends in Final Energy Consumption

(Unit: Million kl of crude oil conversion)

FY	1988	1989	1990	1991	1992
Final energy consumption	5.6 325	3.5 336	3.8 349	2.6 358	0.5 360
Industrial use	5.9 173	2.8 178	3.2 183	0.7 185	-2.0 181
Private sector use	5.4 80	2.2 82	4.6 85	4.9 89	4.0 93
Transport sector use	5.1 72	6.8 77	4.5 80	4.5 84	2.3 86

Note: Figures for FY 1992 are preliminary