

Strange Weather Boosts Oil Demand

Although there were signs of improvement at the approach of the end of the fiscal year, progress toward economic recovery in FY 1995 was held up by the rapidly strengthening yen in the first half of the year. Domestic energy consumption increased, however, particularly in the private and transport sectors.

Energy consumption in the industrial sector during fiscal 1995 is expected to have risen slowly, but higher than in fiscal 1994 due to an increase in production of petrochemicals and paper pulp in response to vigorous demand from the Asian region. In the private sector, demand for energy was up probably topping that of fiscal 1994—the scorching summer, almost as hot as the previous year, boosted demand for air conditioning, and the first cold winter in several years created a strong demand for heating. In the transportation sector, demand was expected to fall back after the heat wave of 1994, but continued hot weather kept demand for fuel on an upswing. Consumption surged and is expected to exceed that of FY 1994. As a result, total demand for energy in FY 1995 is expected to grow by a healthy 2.3% over the previous year.

Signs of recovery notwithstanding, production of petrochemicals and other materials in fiscal 1996 is expected to decline, leaving little prospect for higher energy demand in the industrial sector.

Demand in the private sector will also drop off compared to levels during the previous year's exceptionally hot summer and cold winter. Similarly, the expected return to normal temperatures after two hot summers will keep demand in the transportation sector stable or slightly up. Total growth in demand for energy is expected to be slower than that in fiscal 1995.

The effect of two years of hot summers and harsh winters should boost domestic demand for oil in fiscal 1995. Demand will then rise only slightly or level off in fiscal 1996. The crude oil market for fiscal 1996 is expected to stay at the fiscal 1995 level of \$17/bbl to \$20/bbl.

At the end of March, the Provisional Measures Law on the Importation of Specific Petroleum Refined Products (regulating imports of gasoline, lamp oil and light oil) was abolished, and regulations should begin to ease a bit in the petroleum industry. Retail gasoline prices have already fallen in anticipation of this deregulation, and the oil industry will undoubtedly see lower profits in FY 1995. In fiscal 1996, the industry will have to cut costs even more drastically, and to come out on the top in the fierce competition of the deregulated market companies will have to build a strong, lower-cost distribution and sales network and otherwise radically revamp their business strategies.

Strong demand for electric power in the private sector will continue in fiscal 1995. Since August was hotter and the winter was harsher than the previous year, fiscal 1995 demand will probably exceed that of fiscal 1994, which itself was elevated due to a hot summer. But despite this increase in electrical power usage, companies will see profits decline in fiscal 1995 due to reforms of electricity rates and an increase in fixed costs.

Though industrial demand will shrink in fiscal 1996, total demand for electric power will continue to rise, if slowly, boosted by higher demand in the residential sector. Companies can expect lower income and profits due to the impact of the January 1996 electricity rate cuts.

Fiscal 1995 saw the first reform in the Electrical Utilities Industry Law in 31 years, as well as a restructuring of the electricity rate system. In fiscal 1995, the electric power industry, for the first time, has been concerned with not only with providing a stable supply but also making itself more efficient. As wholesale suppliers enter the market following the deregulation of the electric power industry, and as restructured electricity rate systems force management to make itself more efficient, the electric power industry is headed for a radically transformed business environment.

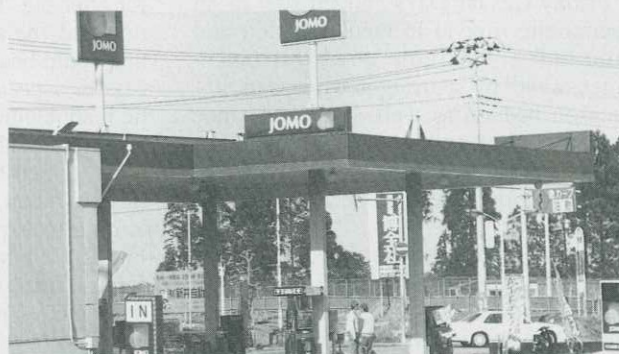
(Iokawa Ko, senior economist and Yamagishi Takanobu, economist)

Domestic Trends in Final Energy Consumption

(Unit: Million kl of crude oil conversion)

FY	1990	1991	1992	1993	1994
Final energy consumption	3.8 336	2.6 349	0.5 358	0.7 363	3.7 376
Industrial use	3.2 183	0.7 185	-2.0 181	0.6 182	3.8 188
Private sector use	4.6 85	4.9 89	4.0 93	1.1 94	3.3 97
Transport sector use	4.5 80	4.5 84	2.3 86	0.9 87	4.7 91

Note: Upper figures indicate percentage change from previous year.



Eased regulations make headway in the petro industry.