

Showing Their Mettle

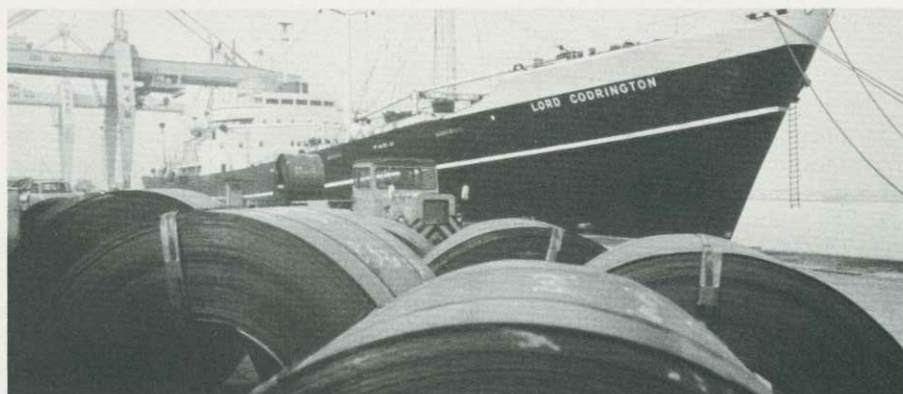


Photo: Nippon Steel Corp.

A decline in exports has led steelmakers to switch their export strategy from emphasizing volume to raising prices.

Prospects are finally brightening for the Japanese steel industry, which has fared badly in a recession brought on by the strong yen. A recovery in demand and the improving financial position of steel companies are the main factors behind the new optimism. In fiscal 1987, ending in March, vigorous domestic demand will more than offset falling exports. The decline in exports has led major steelmakers to switch their emphasis from boosting export volume to raising export prices. As a result, the volume of exports to China, Japan's largest foreign client for steel, have plunged during the year. Exports to other areas have also been sluggish.

In sharp contrast, domestic demand has been brisk, and particularly so with demand from the construction and civil engineering industries. Fired by the government's massive economic-stimulus package and the housing construction boom it fostered, relatively large amounts of steel products have been used in public works and housing construction projects, bolstering total demand.

Steel production has been gradually increased to meet this solid demand at home. In July 1987, crude steel production exceeded year-earlier levels for the first time in 25 months. The upward pace of production has gradually quickened, with raw steel output for fiscal 1987 expected to reach 99-100 million metric tons, up some 3 million tons from the previous year.

In tune with the recovery in demand, the financial position of steel mills has improved markedly. The increase in the production volume has been a key factor in

returning performance to the black. Also important has been a rise in the market, both in Japan and overseas. Domestic prices of steel products turned upward in mid-1987, led by items for the construction and civil engineering industries. Export prices have also gradually recovered thanks to an improvement in the supply-demand balance.

A third factor helping performance was the large-scale rationalization measures carried out by the major steelmakers. Since early fiscal 1987, leading enterprises have slimmed down their ironmaking divisions, suspended operations at unremunerative seamless pipe and plate mills, and concentrated production at high-productivity mills. They have also drastically reduced their work forces.

Japan's "big five" steelmakers as a whole suffered ¥400 billion in unconsolidated ordinary losses (losses before extraordinary items) in fiscal 1986. During the second half of fiscal 1987, however, they have been in the black. The five as a whole are expected to show a slight unconsolidated ordinary profit for the year ending in March.

In fiscal 1988, starting in April, domestic demand is forecast to increase slightly over the current year. But any gains will likely be more than offset by a drop in exports and higher imports. Fiscal 1988 crude steel output should be somewhat lower than in the current year. There is little hope for substantial new demand from manufacturing industries as the continued strength of the yen slows exports and encourages more overseas production. On the other hand, demand in the construction and civil engineering sectors will be relatively high. This will be particularly true in connection with public-sector projects, with the public-works budget for fiscal 1988 likely to be as large as that for fiscal 1987. Domestic demand as a whole should finish slightly above fiscal 1987 levels.

On the export front, major mills will probably adhere to their present profit-oriented posture. Such newly industrialized countries (NICs) as South Korea, Taiwan and Brazil will be able to increase exports as they expand production capacity. The volume of Japanese steel products exports is unlikely to rise.

Moreover, the NICs are expected to step up their own export offensive in the Japanese market. The result will be a further increase in Japanese steel imports over and above fiscal 1987 levels.

Overall, Japan's crude steel output will inevitably decline. Yet major steelmaking companies should nonetheless emerge clearly in the black. This will be due to the massive rationalization measures now under way, and will enable them to earn profits enough to resume payments of 10% dividends.

(Hideo Yagi, senior economist)

Steel Supply and Demand (crude steel base)

(million tons)

	FY 1986	FY 1987 (estimate)	FY 1988 (forecast)
Domestic demand	68.7	74.9	74.2
Exports	31.3	29.1	27.8
Imports	3.6	4.5	5.0
Output	96.4	99.5	97.0

Big Five's Performance

(¥ billion)

	FY 1986	FY 1987 (estimate)	FY 1988 (forecast)
Sales	6,089.5	6,317	6,166
Ordinary profits	-403	50	250

Note: Domestic demand represents nominal domestic consumption (output plus imports minus exports).