

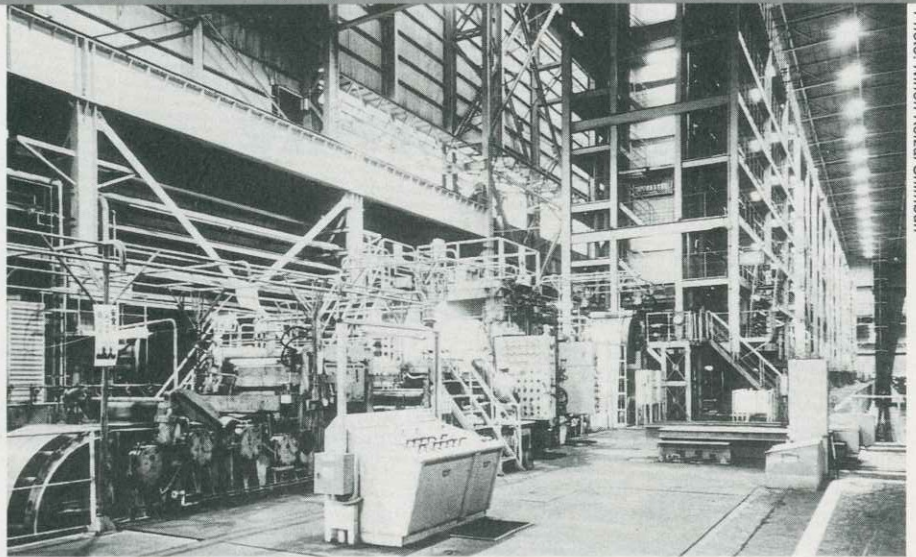
Full Blast

Crude steel production in Japan has been almost at full blast in fiscal 1989, exceeding the 105,770,000 tons registered in fiscal 1988, then the highest level in five years. The major factor for the increase in production of the steel industry is growing domestic demand resulting from favorable business. Demand for construction, particularly for nonresidential construction related to private investment in equipment and plants, specifically factory facilities and warehouses in the mining and manufacturing industries and office buildings for the commercial and service industries, has sharply increased and swelled demand for steel.

With favorable personal consumption, there is greater demand for steel from the manufacturing industry, including automobile and home electrical appliance manufacturers. Demand for steel in industrial machinery, shipbuilding and all other major demand sectors in fiscal 1989 has grown over fiscal 1988. Domestic demand thus remains quite firm.

Exports of steel products may further diminish in fiscal 1989 due mainly to two factors: 1) major Japanese steel mills sticking to a profit-oriented export policy; and 2) a big drop in exports to China resulting from the Tiananmen Square incident of June 1989 and the effects of the consequent economic structural adjustment in China.

Imports of steel products in recent years have shown an upward trend. But imports in fiscal 1989 are likely to level off



Crude steel production in 1989 was the highest in five years.

Photo: Nihon Keizai Shimbun

from fiscal 1988 because those from South Korea, a major import source for Japan, have declined. This is because South Korea has no export surplus due to firm domestic demand and also because of a rise in export price resulting from soaring labor costs and the appreciation of the won.

Crude steel production of Japanese mills in fiscal 1989 is thus expected to expand to around 108 million tons, taking into account the increase in domestic demand which offset the slowdown in exports and a buildup of inventories.

Under such a supply and demand situation, the corporate balance of payments of the five major steelmakers is very favorable. Production costs have risen due to price rises of iron ore, coking coal and other raw materials, but producers are likely to enjoy about a 20% increase in profits as a result of increased production, a gain in net yen receipts due to a markup

of export prices and the depreciation of the yen, and the effects of rationalization. The combined ordinary profits of the five major mills are expected to post a record high in fiscal 1989.

In fiscal 1990, steel demand is expected to maintain a high level centered on demand from the construction sector, although the growth rate will somewhat slacken, as the Japanese economy will continue to grow, based on domestic demand, and activities of industries using steel will remain vigorous. There will be no further increase in inventories, however, and apparent crude steel consumption is expected to slightly decrease.

Exports of steel in fiscal 1990 will likely remain almost unchanged from fiscal 1989, as export prices have stopped rising, while imports will increase from South Korea, Brazil and other steel exporting countries reinforcing their steelmaking capacities. The balance may thus tip against Japan.

Consequently, Japan's crude steel production in fiscal 1990 will fall slightly by the margin of the increase in imports and the decrease in the buildup of inventories. Even so, production during the fiscal year is expected to remain on a high level—around 106 million tons.

Despite a reduction of revenues resulted from the decrease in output and softening of domestic and overseas steel product prices, the five major steelmakers are likely to continue to post profits in fiscal 1990, greatly helped by the effects of rationalization centered on cuts in work force and financing costs.

(Naoki Komatsu, economist)

Crude Steel Supply and Demand

(million tons)

	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Domestic demand	86.8	92.6	91.2
Exports	25.7	22.2	22.2
Imports	6.8	6.8	7.4
Output	105.7	108.0	106.0

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

Big Five's Performance

(¥ billion)

	FY 1988	FY 1989 (estimate)	FY 1990 (forecast)
Sales	6,931	7,250	7,250
Ordinary profits	491	591	650