Shifting Structure

Major steel mills are stepping up their investment in equipment and research and development efforts despite increasing costs.

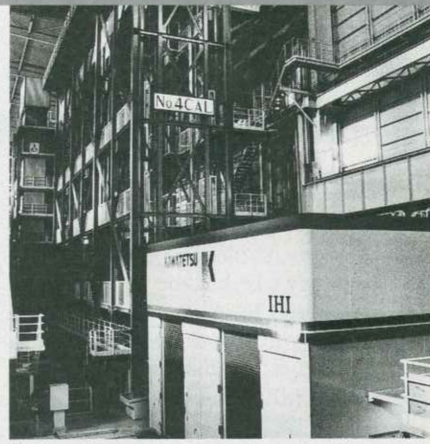

Photo: Kawasaki Steel Corp.

Bolstered by strong domestic demand and improved productivity, Japan's steel industry is expected to achieve a record high output of 110 million tons during fiscal 1990.

The Japanese steel industry, bolstered by vigorous domestic demand, has enjoyed a prosperous fiscal 1990, sustaining an upward trend that began in 1988. Crude steel output for the year is estimated to reach 110 million metric tons—the highest output ever, largely due to recent improvements in production yields. The fiscal year witnessed a clearer sign of domestic demand carrying more weight than exports in the steel industry.

While the steel industry has traditionally relied on strong export demand, domestic demand played a critical role in the industry's success in fiscal 1990. The construction and automotive industries led Japanese domestic demand for steel, while exports plummeted due mainly to a plunge in shipments to China and the Soviet Union.

Imports of steel have also remained at a high level, boosted by strong domestic demand, while exports showed a sharp decline, underscoring a shift in the steel industry's trade structure. This trend will become even more pronounced as auto sheet (galvanized steel sheet) plants, built jointly by Japanese and U.S. steel firms, come on line in the coming months.

The five major integrated steel companies chalked up record profits on record sales in fiscal 1988 and 1989, thanks to continued high-level production. In fiscal 1990, however, the five firms will likely show reduced profits on increased sales. Iron ore, coking coal, salaries, transportation costs and interest rates have all risen somewhat, pushing total costs higher. An increase in the sales volume of steel products and the favorable effects of rationalization have been unable to offset these rising costs.

Japanese steel interests, faced with the strong-yen recession of 1986, stepped up their rationalization and business diversification efforts. Even today, after a robust recovery in demand for steel, the mills are continuing their rationalization and diversification strategies.

In fiscal 1991, domestic demand for steel products is projected to remain firm. Though it is feared that the recent appreciation of the yen may cause the export-import balance to deteriorate, production will probably remain at a high level.

Despite increasing costs, which threaten to eat into profits, the major mills are reinforcing their commitment to the steel business by stepping up their investments in equipment and research and development. Gearing up for the long term, the mills are also taking steps to build a strong, diversified base, especially in industries such as electronics, information and urban development.

The Japanese nonferrous metal industry has also enjoyed prosperity in fiscal 1990, as it did the previous year.

Thanks to vigorous demand for electric wire and cable from the construction, electronic and electric machinery industries, domestic demand for copper is estimated to reach a record of over 1.6 million tons in the year. Demand for zinc is also steadily increasing, largely reflecting strong orders for galvanized sheet from the automotive and construction sectors.

Not only the smelting-refining sector but the electronic materials, machinery and aluminum can sectors are doing very good business. The seven major smelters are expected to again post unconsolidated pretax profits of more than ¥100 billion in fiscal 1990, just as they did in the previous fiscal year.

Domestic demand for zinc, in particular, is expected to show steady growth in the years ahead. A zinc smelter construction project involving Australian interests is now under way, and Japanese smelters, for the first time in recent years, are also taking steps to expand capacity. The latter move bears close scrutiny.

In fiscal 1991, the demand for nonferrous metals is likely to remain solid. Amid the likelihood of a continued appreciation of the yen against the U.S. dollars, it is feared that profits of the seven major firms will decline in the coming year. However, their secondary business divisions, which have grown into good profit-earners, will likely offset any such decline and prevent any serious deterioration of their overall profit position.

At one time, Japanese nonferrous metal smelting interests were highly vulnerable to sharp appreciations of the yen. Today, because of their sustained commitment to rationalization, labor-saving programs and diversification, the industry is much better prepared to weather these periods without any significant impact on profits.

(Takashi Okabe/Kosuke Nakamura, economists)

Crude Steel Supply and Demand

(million metric tons)

	FY 1989	FY 1990 (estimate)	FY 1991 (forecast)
Domestic demand	95.2	98.0	96.7
Exports	21.0	19.1	18.3
Imports	8.0	7.0	8.1
Output	108.1	110.1	106.9

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