

Contraction Phase

The Japanese steel industry, which had enjoyed domestic demand-led growth since fiscal 1986, has peaked out and entered a contraction phase in fiscal 1991, in line with the slowdown in general business activity. Domestic demand has slowed. Demand from two major users, the construction and automotive industries, has suffered an appreciable decline.

Exports in fiscal 1991 are estimated to increase slightly from the previous year, due chiefly to a slowdown in shipments to the United States and China. Imports are expected to increase considerably, with South Korea as the foremost supply source. Thus, no improvement can be expected in the export/import balance. Amid such falling demand, stocks had built up by the first half of fiscal 1991, and will have to be whittled down in the second half through production cutbacks.

Overall crude steel production in fiscal 1991 is now likely to fall somewhat short of 110 million metric tons. In fiscal 1992, production cutbacks will have to continue, since the decrease in domestic demand will more than offset an expected increase in exports to the U.S., brought on by the U.S. business recovery.

In fiscal 1991, the integrated steel companies have succeeded in raising their supply prices of steel sheets to major users such as automakers and home electrical appliance manufacturers. In contrast, prices of steel products for supply to smaller users through wholesalers have tended downward, reflecting slowing demand. The mills' export business is also likely to fare worse, due to a sagging export market, chiefly in Southeast Asia.

Despite higher steel sheet prices, the five major integrated steel companies will suffer a double-digit profit setback in fiscal 1991, due to production cutbacks

Photo: Nihon Keizai Shimbun



Japan's steel industry has entered a contraction phase, with an appreciable decline in demand from two major domestic industries.

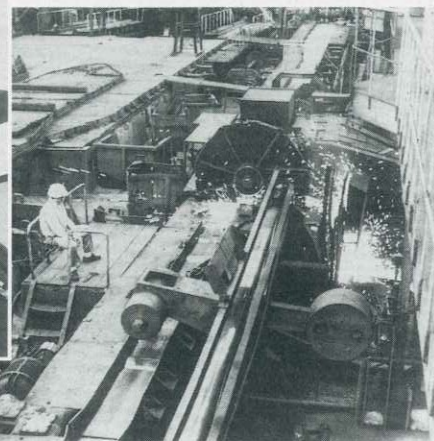


Photo: Mainichi Shimbun

Japan's major steel mills have sought to streamline operations and switch the emphasis to higher value-added products since the mid-1980s.

and increased costs for raw materials, personnel and distribution.

In fiscal 1992 this profit decline will continue, due to continued production curtailment, increased costs and an increased interest burden resulting from the redemption of a large number of warrant bonds.

The major mills, which suffered a serious business recession in the mid-1980s, have made every effort to streamline operations and switch their emphasis to higher value-added products, as well as to achieve business diversification. It remains to be seen whether such efforts will bear fruit if the financial position of their main business—steel—deteriorates as expected in the years ahead.

Japan's general demand for nonferrous metals, on the other hand, has been at

a high level in fiscal 1991. Demand for copper, used mainly at wire and brass mills, and demand for zinc, used chiefly in galvanizing and other plating businesses, showed a good gain. Aluminum demand has also increased steadily.

In recent years, aluminum has been used mainly as the material for cans for soft drinks and alcoholic beverages. In the future, for environmental reasons, aluminum is expected to see rapidly increasing demand as a major material for lighter automobiles. As aluminum threatens to replace steel as a major material for making automobiles, steelmakers are teaming up with makers of aluminum sheets and other aluminum products.

In fiscal 1992 and beyond, demand for the major nonferrous metals is expected to be generally firm. Since the capacity utilization rates of smelters and other plants have risen appreciably, some companies are even studying the possibility of expanding their capacity. In this context, joint zinc and aluminum rolling plant capacity expansion projects between Japanese interests and major overseas enterprises are likely to draw attention. ■

(Kosuke Nakamura/Hiroshi Toyoda, economists)

Crude Steel Supply and Demand

(million metric tons)

	FY 1990	FY 1991 (estimate)	FY 1992 (forecast)
Domestic demand	100.5	95.4	91.9
Exports	19.2	19.5	20.6
Imports	7.9	8.9	8.3
Output	111.7	107.0	104.2

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