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DSTI/SU/SC(2006)38

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

30-May-2006

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**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

**DSTI/SU/SC(2006)38
Unclassified**

INDIA

CURRENT DEVELOPMENT IN THE JAPANESE STEEL INDUSTRY

Joint India/OECD/IISI Workshop, New Delhi (India), 16-17 May 2006

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JT03209780

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**Current Developments in the Japanese
Steel Industry**

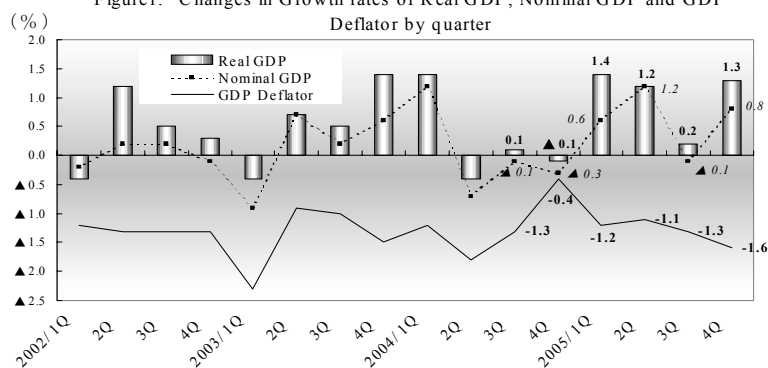
May, 2006

The Japan Iron and Steel Federation

I-1. Recent Situation of Japan's Macro economy

- Japan's real gross domestic product (GDP) grew by 1.3% on the basis of seasonal adjustment in the fourth quarter (Oct-Dec) of 2005 from the previous quarter, for the fourth consecutive quarter of growth (see **Figure 1**). By final demand category, residential investment turned to increase by 2.1% in the fourth quarter of 2005 from the previous quarter. Private capital investment continue to rise steadily, and private consumption, which accounts for approximate 50% of GDP overall, was also up 0.9% compared from the previous quarter (see **Table 1**).
- Meanwhile, nominal GDP growth continue to be less than that of real GDP, with Q4 rate remaining at 0.8%. The GDP deflator remained to drop by 1.6% from a year earlier, amid deflation is still continuing at a mild pace (see **Figure 1**).

Figure1. Changes in Growth rates of Real GDP, Nominal GDP and GDP Deflator by quarter



Source: Cabinet Office
 Note: Real and nominal GDP figures are traced on the basis of seasonally adjusted quarter to quarter changes, while the GDP deflator indicates the change from a year earlier. Figures for Q4 2005 are traced on the basis of second preliminary estimates, released in March 2006.

Table1. Quarterly real GDP growth rates by final demand category

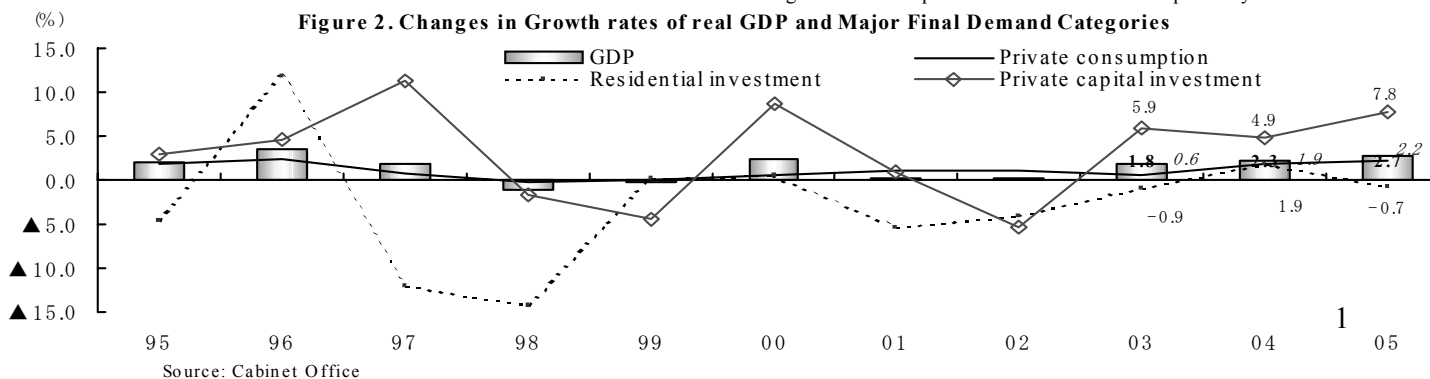
Final demand category	2004				2005			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Real GDP	1.4	▲0.4	0.1	▲0.2	1.3	1.4	0.2	1.3
Private Consumption	0.7	▲0.0	0.3	▲0.6	1.3	0.8	0.4	0.9
Residential investment	0.7	1.3	0.1	0.4	▲1.3	▲1.9	1.6	2.1
Private capital investment	▲2.5	2.5	0.5	0.8	3.3	2.3	1.5	0.4
Public investment	9.0	▲16.7	▲3.8	0.1	▲0.5	1.0	0.3	▲2.7
Exports	5.1	3.0	0.3	1.2	▲0.3	3.5	3.1	3.5
Imports	3.7	1.9	1.9	2.3	0.0	2.2	3.2	▲0.9

Source: Cabinet Office

Note: The growth rates in the table are shown changes from the previous quarter in real terms.

Figures for the fourth quarter of 2005 are basis of the second preliminary estimates.

Figure 2. Changes in Growth rates of real GDP and Major Final Demand Categories



Source: Cabinet Office

I-2. Current developments in the Japanese steel using sectors (Part-1)

Major demand sectors		Recent activity level
Const- -ruction	Building constru- -ction	<p>[Dwelling] Total new dwelling starts from January through November in 2005 steadily grew by 4.4% to 1.138 million units from the same period of the previous year. Although occupant-owned housing was 327,000 that was a decline of ▲4.8% from the same period of the previous year, rental housing was 461,000 that was an increase of +9.0% from the same period against the backdrop of strong real-estate investment. In addition, new dwelling for sale sharply increased by 7.7% to 341,000 units from a year earlier, with a strong support of higher supplying in large cities mainly with apartment buildings for sale in condominium units. Accordingly, current trend of newly starting in dwelling has been strong except for occupant-owned housing.</p>
		<p>[Non-residential] Non-residential housing starts continued to be strong, with the total floor area of non-residential building construction starts from January to November 2005 at 66.79 million m2, being increased by 4.5% from the same period of the previous year. By use, housing starts in mining and manufacturing industries sharply grew by 20.1% from the same period of the previous year against the backdrop of brisk private capital investment by the manufacturing industries, and commercial and services industries also increased by 1.8% and 0.5% from a year earlier. Thus, non-residential housing starts have been rising steadily as a result of strong investment in plants and equipment by the private sector.</p>
	Civil engineer- -ing	<p>Smaller budgets this fiscal year compared to last fiscal year have resulted in an overall decline in public investment, with orders for public works projects also showing a slight decline compared to last fiscal year. On the other hand, civil engineering projects in private-sector show a rise in both orders and construction starts that reflects brisk corporate investment.</p>

Source: Ministry of Land, Infrastructure and Transport

I-2. Current developments in the Japanese steel using sectors (Part-2)

Major demand sectors		Recent activity level
Manu- facturing	Automobiles	<p>[Domestic sales] Domestic sales: Domestic sales during the 2005 calendar year (excluding imported vehicles) stood at 5.58 million units, which represented a slight 0.1% increase over the previous year.</p> <p>The number of passenger vehicles sold totaled 4.48 million units, which represented a 0.3% decline over the previous year. Although there was firm demand for small cars—as indicated by a 2.8 percent increase in compact cars and a 1.2% increase in light vehicles over the previous year due to new vehicle investment—the number of standard-size vehicles fell by 2.2% over the previous year due to fluctuation in the high level of the previous year and other factors. Thus, the total for passenger vehicles showed a slight decrease.</p> <p>[Exports of completed automobiles] Total exports of completed automobiles in 2005 were 5.05 million units with an increase of +1.9% from the previous year. By vehicle type in the October-November period of 2005, trucks fell by ▲9.7% from the same period, however passenger cars increased steadily by 3.1% from the same period, boosting overall growth.</p> <p>[Vehicle production] Production of four-wheel vehicles in 2005 was 10.08 million units with an increase of +2.8%, reflecting a rise in domestic and overseas demand. By vehicle type, trucks fell by ▲1.4% from the same period of the previous year, however passenger cars increased by 3.4% from a year earlier, underpinning overall growth in production.</p>
	Shipbuilding	Total quantity of orders for new ships in 2005 in terms of gross tonnes was 12.59 million tons with a sharp decline of ▲34.0% from the previous year in response to the higher level in the previous year and due to current prudent and tightly selective stances by shipping orderers, however the level of orders continued to be strong at more than 1 million tons/month. The quantity of shipbuilding constructing starts from January to November also fell by ▲13.9% to 11.46 million gross tons.
	Electrical machinery	With regard to current production activities of electrical machinery, according to Index of Industrial Production (IIP, CY2000 = 100), total electrical machinery in 2005 was a slight rise of 0.8% from the previous year. By product category type, strong performance by liquid-crystal televisions, video cameras, and other products lead to an increase in the household electronic devices sector (+5.2% increase over the previous year), and recovery in the electronic parts sector (+5.4%) in line with inventory adjustment became more distinct. However, household electrical machinery (▲4.3% compared with the previous year), communications machinery (▲4.9%), and semiconductor parts (▲3.7%) continuously showed declining trends.
	Industrial machinery	Regarding industrial machinery production activities, according to IIP (CY2000 = 100), total industrial machinery production in 2005 continued to be strong, rising by 3.4% over the previous year underpinned by robust growth of machine tools (+20.6% increase from the same period), civil engineering and building construction machinery (+14.0%), and transport machinery (+10.8%), etc.

Sources: Ministry of Economy, Trade and Industry, Cabinet Office, Japan Automobile Manufacturers Association

II. Crude Steel Production and Production of Ordinary and Special Steel Products in Japan

- Japan's crude steel production in 2005 slightly dropped by 0.2% from the previous year, to 112.47 million tonnes, posting the fourth highest level on record (followed by 119.32 million tonnes in CY1973, and 117.13 million tonnes in CY1974 and 112.72 tonnes in CY2004) (see Figure 3). On a quarterly basis, crude steel production in the third quarter of 2005 marked a decline of 1.1% to 27.8 million tonnes from a year earlier, and it also dropped by 2.9% to 27.9 million tonnes in the fourth quarter against the backdrop of production cut for exports and inventory adjustment for domestic market (see Figure 4).
- Production of ordinary steel in the fourth quarter of 2005 fell continuously by 7.1% from the year-earlier level, to 19.09 million tonnes, while output of special steel maintained the same level as previous year, to 5.06 million tonnes (see Figures 5 and 6).

Figure 3. Japan's crude steel production

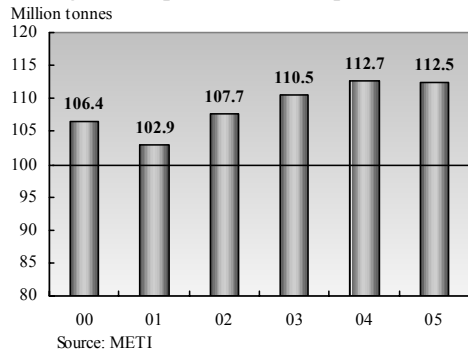


Figure 4. Changes in Crude steel production by quarter

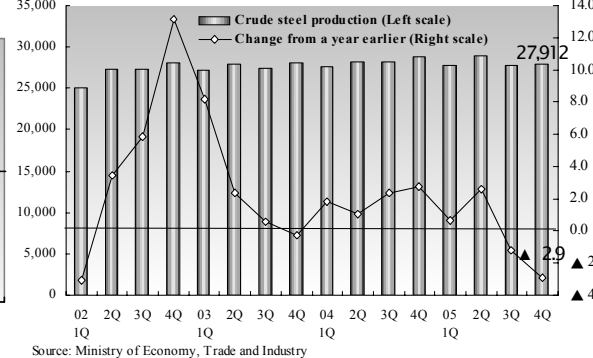


Table 2. Crude Steel Production and Production of Ordinary Steel Products and Special Steel Products in Japan

Year/Quarter	Unit: 1,000 tonnes, %		
	Crude steel production	Ordinary steel production	Special steel production
2004	112,718	81,847	19,843
2005	112,473	79,265	20,359
2004/ 2Q	28,225	20,422	4,884
3Q	28,157	20,718	4,884
4Q	28,752	20,537	5,055
2005/ 1Q	27,762	20,243	5,176
2Q	28,965	20,358	5,170
3Q	27,834	19,577	4,957
4Q	27,912	19,086	5,055
2004	2.0	2.1	5.9
2005	▲0.2	▲3.2	2.6
2004/ 2Q	1.1	0.9	4.7
3Q	2.4	3.1	4.7
4Q	2.7	3.6	7.0
2005/ 1Q	0.6	0.4	3.1
2Q	2.6	▲0.3	5.8
3Q	▲1.1	▲5.5	1.5
4Q	▲2.9	▲7.1	0.0

Source: Ministry of Economy, Trade and Industry
Note: Figures for special steel products are those for hot-rolled steel products.

Figure 5. Changes in Ordinary Steel Production by quarter

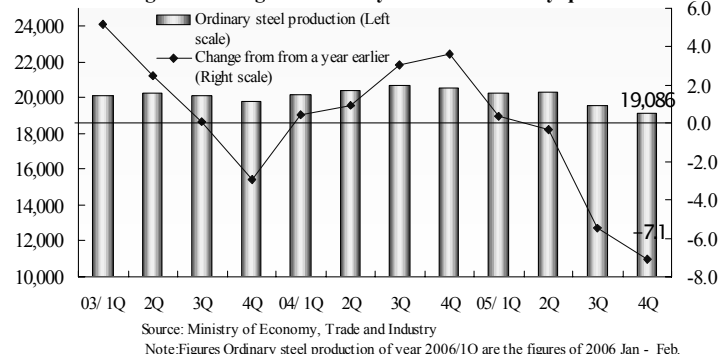
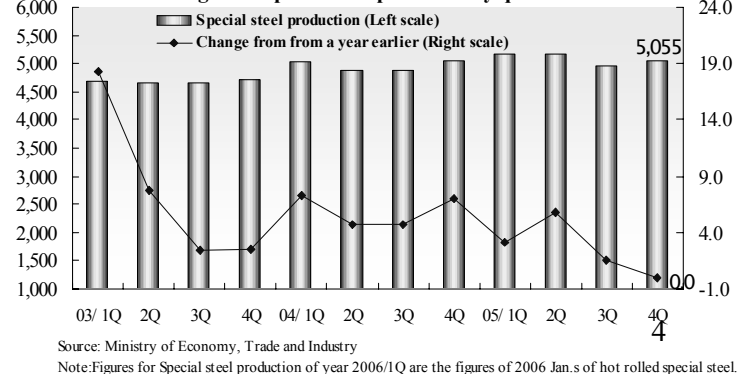


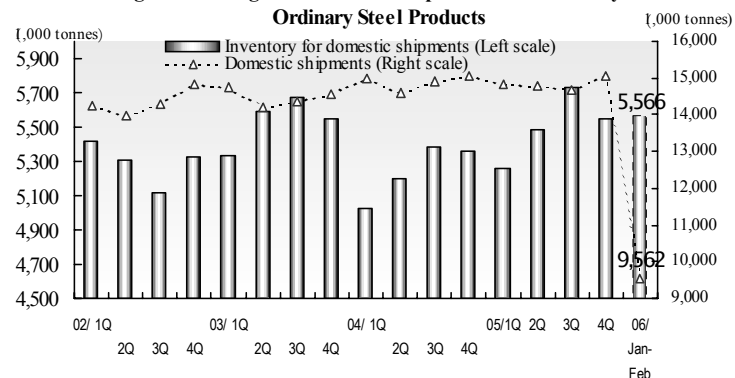
Figure 6. Special steel production by quarter



III. Shipments and Inventory of Ordinary Steel Products for Domestic and External Uses

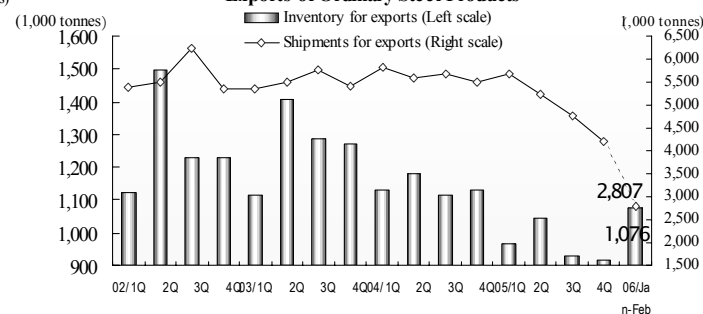
- Shipments of ordinary steel products in Q4 2005 dropped by 6.2% from a year earlier, to 19.3 million tonnes, marked the fourth straight quarter of decline. Domestic shipments slightly up by 0.1%, to 15.08 million tonnes, while exports continued to decrease by 23.6%, to 4.20 million tonnes. Ordinary steel products shipments in 2005 dropped by 3.5% to 79.28 million tonnes from the previous year due mainly to a sharp decline for export shipments (see Table 3).
- Inventory of ordinary steel products in the Jan-Feb period of 2006 slightly rose by 0.3% from a year earlier, to 6.64 million tonnes, with the inventory ratio up sharply by 6.9 percentage points, to 107.6% from the previous quarter. Of the total inventory of ordinary steel products in the Jan-Feb period, domestic inventory continuously grew by 2.7% to 5.57 million tonnes from a year earlier, while inventory for exports dropped by 10.3% to 1.08 million tonnes (see Figure 7 and Figure 8).

Figure 7. Changes in Domestic Shipments and Inventory of Ordinary Steel Products



Source: Ministry of Economy, Trade and Industry, The Japan Iron and Steel Federation

Figure 8. Changes in Shipments for Exports and Inventory for Exports of Ordinary Steel Products



Source: Ministry of Economy, Trade and Industry, The Japan Iron and Steel Federation

Table 3. Shipments and Inventory of Ordinary Steel Products

Unit: 1,000 tonnes, %

	Total	Shipments of ordinary steel products						Inventory of ordinary steel products						Overall inventory ratio				
		Y-to-Y change	Shipments for domestic		Shipments for overseas users		Producers	Wholesalers	Total	Domestic inventory		Inventory for exports		Total	Domestic inventory ratio			
			Y-to-Y change	Y-to-Y change	Y-to-Y change	Y-to-Y change				Y-to-Y change	Y-to-Y change	Y-to-Y change	Y-to-Y change					
CY 2004	82,184	2.9	59,584	3.0	22,600	2.6	4,881	▲6.4	1,608	▲0.3	6,488	▲4.9	5,357	▲3.5	1,132	▲11.1	96.7	111.1
CY 2005	79,283	▲3.5	59,393	▲0.3	19,890	▲12.0	4,952	1.5	1,518	▲5.5	6,470	▲0.3	5,552	3.7	918	▲18.9	103.8	117.2
2004/2Q	20,202	2.6	14,601	2.8	5,601	2.0	4,917	▲9.9	1,462	▲4.9	6,379	▲8.8	5,198	▲7.0	1,182	▲16.0	94.7	106.8
3Q	20,597	2.3	14,930	3.9	5,666	▲1.5	4,998	▲6.8	1,503	▲6.2	6,501	▲6.6	5,386	▲5.1	1,115	▲13.5	94.7	108.2
4Q	20,549	3.0	15,054	3.5	5,496	1.6	4,881	▲6.4	1,608	▲0.3	6,488	▲4.9	5,357	▲3.5	1,132	▲11.1	94.7	106.8
2005/1Q	20,504	▲1.6	14,834	▲1.1	5,670	▲2.9	4,623	▲1.3	1,604	8.7	6,228	1.1	5,261	4.6	967	▲14.5	91.1	106.4
2Q	20,058	▲0.7	14,810	1.4	5,248	▲6.3	4,868	▲1.0	1,660	13.5	6,528	2.3	5,482	5.5	1,046	▲11.5	97.6	111.1
3Q	19,446	▲5.6	14,674	▲1.7	4,772	▲15.8	5,082	1.7	1,577	4.9	6,659	2.4	5,732	6.4	927	▲16.8	102.7	117.2
4Q	19,275	▲6.2	15,075	0.1	4,200	▲23.6	4,952	1.5	1,518	▲5.5	6,470	▲0.3	5,552	3.7	918	▲18.9	100.7	110.4
2006/Jan-Feb	12,369	▲5.0	9,562	0.9	2,807	▲20.8	5,117	3.4	1,522	▲9.0	6,642	0.3	5,566	2.7	1,076	▲10.3	107.6	117.9

Source: Ministry of Economy, Trade and Industry, The Japan Iron and Steel Federation

IV. Orders Booked for Ordinary Steel Products by Using Sector

- Orders booked for ordinary steel products by two keys sectors of construction and manufacturing as indicators of domestic steel demand reached 55.22 million tonnes in 2004, rising by 3.3% from the previous year. In 2005, it totaled 54.74 million tonnes with a slight decline of 0.9% from the previous year due to continuous sluggish demand for construction sector. (see Table 4).
- On a quarterly basis, domestic orders booked in the third quarter of 2005 dropped by 2.6% from the same period of the previous year, to 13.55 million tonnes. In the fourth quarter, it remained a moderate decrease with 0.4% to 13.94 million tonnes compared to the same period of 2004 against the backdrop of slowing down in growth rates of the manufacturing sector and continuous downturn in demand for construction sector. (see Figure 9 and Table 4).

Figure 9. Quarterly Changes in Domestic Orders Booked for Ordinary Steel Products in Japan

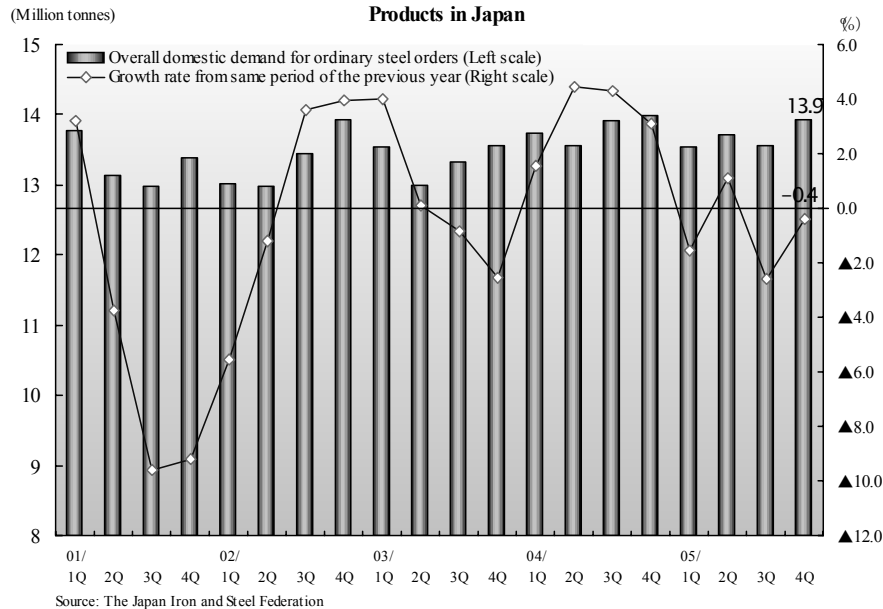


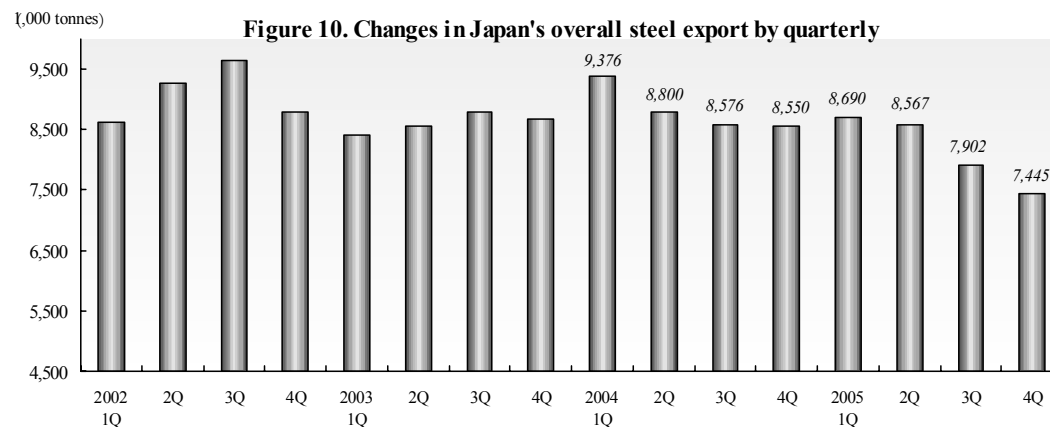
Table 4. Orders Booked for Ordinary Steel Products
Unit: 1,000 tonnes, %

	Ordinary steel orders for domestic demand		
	Total	Construction Sector	Manufacturing Sector
CY 2004	55,215	13,384	24,433
CY 2005	54,741	13,125	25,102
2004/ 2Q	13,570	3,284	6,022
3Q	13,912	3,303	6,210
4Q	13,990	3,512	6,183
2005/ 1Q	13,534	3,154	6,286
2Q	13,721	3,277	6,207
3Q	13,552	3,297	6,323
4Q	13,935	3,397	6,286
CY 2004	3.3	0.6	6.0
CY 2005	▲ 0.9	▲ 1.9	2.7
2004/ 2Q	4.5	0.3	7.5
3Q	4.3	▲ 0.3	6.9
4Q	3.1	3.3	5.3
2005/ 1Q	▲ 1.5	▲ 4.0	4.5
2Q	1.1	▲ 0.2	3.1
3Q	▲ 2.6	▲ 0.2	1.8
4Q	▲ 0.4	▲ 3.3	1.7

Source: The Japan Iron and Steel Federation

V. Japan's Steel Exports

- Examining Japan's overall steel exports on a quarterly basis, it began dropping since the second half of 2004, falling 12.9% in the fourth quarter of 2005, to 7.45 million tonnes, the sixth consecutive period of decline due mainly to the significant drop in Japan's major destination, China and ASEAN economies (see Figure 10, Table 5). In 2005, it totaled 32.60 million tonnes, sharply dropped by 7.6% from the previous year.



Source: Ministry of Finance, "Customs Statistics"

Table 5. Japan's steel exports unit: 1,000 tonnes, %

	Overall steel exports	Major destination						Ordinary steel exports				Special steel exports total
		US	EU 15	China	Asian economies	Chinese Taipei	Korea	Total	HR sheets & strips	CR sheets & strips	Galvanized sheets	
CY 2004	35,302	1,428	453	6,894	22,801	3,235	8,952	25,941	7,073	3,627	5,211	5,375
CY 2005	32,604	1,451	425	5,783	21,221	3,605	7,738	23,038	5,839	3,271	4,569	4,589
2004/ 2Q	8,800	297	124	1,809	5,752	758	2,423	6,421	1,675	910	1,283	1,382
3Q	8,576	395	159	1,596	5,549	750	2,120	6,391	1,868	896	1,318	1,343
4Q	8,550	374	88	1,523	5,634	759	2,134	6,218	1,609	869	1,272	1,366
2005/ 1Q	8,690	341	104	1,614	5,622	832	2,077	6,416	1,698	958	1,233	1,325
2Q	8,567	369	122	1,578	5,675	881	2,059	5,979	1,549	868	1,165	1,282
3Q	7,902	344	113	1,371	5,153	894	1,845	5,621	1,456	795	1,086	1,008
4Q	7,445	397	86	1,219	4,771	898	1,757	5,022	1,137	650	1,085	974
CY 2004	2.6	32.7	36.2	7.1	0.6	▲ 1.4	▲ 0.3	3.3	▲ 6.0	9.3	7.1	1.5
CY 2005	▲ 7.6	1.6	▲ 6.2	▲ 16.1	▲ 6.9	11.4	▲ 13.6	▲ 11.2	▲ 17.4	▲ 9.8	▲ 12.3	▲ 14.6
2004/ 2Q	3.0	25.8	45.1	19.5	▲ 1.5	▲ 6.3	1.3	4.2	▲ 13.3	15.6	7.7	0.3
3Q	▲ 2.5	49.4	93.9	▲ 3.4	▲ 3.4	▲ 11.8	▲ 5.3	▲ 1.4	2.4	3.9	4.6	3.5
4Q	▲ 1.3	27.5	43.3	▲ 15.0	1.7	1.5	▲ 2.6	▲ 2.2	▲ 11.3	▲ 4.1	1.7	5.5
2005/ 1Q	▲ 7.3	▲ 5.7	26.9	▲ 17.9	▲ 4.1	▲ 14.1	▲ 8.7	▲ 7.1	▲ 11.6	0.6	▲ 7.9	3.2
2Q	▲ 2.7	24.3	▲ 1.7	▲ 12.8	▲ 1.3	29.4	▲ 15.0	▲ 6.9	▲ 7.5	▲ 4.5	▲ 9.2	▲ 7.2
3Q	▲ 7.9	▲ 13.1	▲ 28.7	▲ 14.1	▲ 7.1	19.3	▲ 13.0	▲ 12.0	▲ 22.1	▲ 11.2	▲ 17.6	▲ 24.9
4Q	▲ 12.9	5.9	▲ 30.7	▲ 19.9	▲ 15.3	7.5	▲ 20.9	▲ 27.8	▲ 38.3	▲ 32.0	▲ 21.0	▲ 28.7

Source: Customs Statistics

VI. Japan's Steel Imports

- In 2005, Japan's imports of ordinary steel products totaled 4.23 million tonnes, surged by 22.5% from the previous year, in reflection of rapidly increasing imports of such products as wire rods, hot-rolled sheets & coils, and cold-rolled sheets & coils.
- In the Jan-Feb period of 2006, it turned to the decrease of 8.9% from the same period of 2005. By origin, steel imports from China and Chinese Taipei marked a decline of 43.8% and 3.0% respectively (see Table-6).

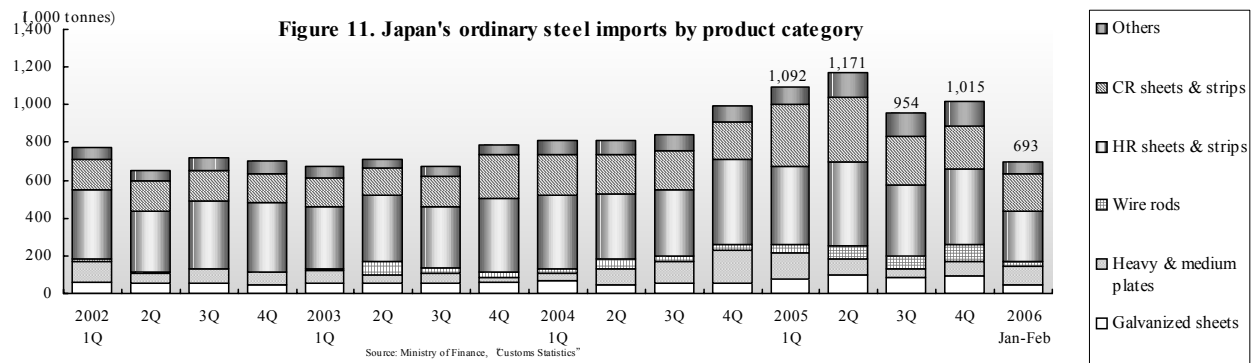


Table 6. Japan's Steel Imports

	Ordinary steel imports										Special steel imports		
	Total	Wire rods	Heavy & medium plates	Hot rolled sheets & strips	Cold rolled sheets & strips	Galvanized sheets	Others	Major origin			Total	Stainless steel	Others
								Korea	Chinese Taipei	China			
CY 2004	3,456	135	422	1,537	819	216	327	1,891	801	545	299	238	62
CY 2005	4,233	274	345	1,636	1,157	354	466	2,367	892	825	294	209	85
2004/ 2Q	811	47	84	350	201	49	80	444	192	110	80	64	16
3Q	840	34	117	348	204	50	86	465	191	143	79	65	14
4Q	991	34	178	448	197	51	83	467	218	252	76	62	14
2005/ 1Q	1,092	44	139	415	324	78	92	577	246	242	90	68	22
2Q	1,171	67	83	449	344	99	130	627	252	255	84	60	24
3Q	954	69	48	375	262	83	116	565	200	149	64	44	20
4Q	1,015	95	75	398	227	93	128	597	194	178	57	37	20
2006/ 1-2	693	25	98	264	200	48	58	375	148	90	38	27	11
CY 2003	0.1	357.4	▲ 34.6	▲ 1.1	10.0	1.4	▲ 16.7	▲ 2.2	▲ 15.6	650.4	17.8	20.2	11.0
CY 2004	21.4	5.8	110.5	10.1	17.4	0.1	57.1	12.9	▲ 3.4	250.4	140.0	153.0	100.3
CY 2005	22.5	103.4	▲ 18.1	6.5	41.2	64.2	42.6	25.2	11.4	51.2	▲ 1.7	▲ 11.8	37.4
2004/ 2Q	13.4	▲ 30.0	81.8	▲ 0.2	34.2	▲ 5.6	63.2	14.5	▲ 6.4	29.2	177.0	206.0	102.3
3Q	25.1	18.2	108.6	8.9	25.9	▲ 7.3	71.1	21.7	▲ 5.8	590.6	141.1	148.5	111.6
4Q	25.7	32.2	524.7	13.5	▲ 13.5	▲ 11.6	53.2	▲ 7.5	10.9	506.4	120.6	138.9	64.5
2005/ 1Q	34.3	117.6	226.1	6.3	49.2	19.4	19.0	12.0	23.1	502.4	39.4	45.3	23.5
2Q	44.5	42.1	▲ 1.6	28.1	71.3	103.5	62.9	41.4	30.8	132.2	5.2	▲ 4.8	44.2
3Q	13.5	103.7	▲ 58.6	7.6	28.4	64.7	34.5	21.7	5.1	3.7	▲ 19.6	▲ 32.6	42.0
4Q	2.5	180.3	▲ 57.7	▲ 11.2	14.9	83.9	53.5	27.7	▲ 10.9	▲ 29.2	▲ 25.1	▲ 40.3	42.5
2006/ 1-2	▲ 8.9	79.9	▲ 58.9	▲ 0.2	▲ 24.7	29.6	20.5	2.5	▲ 3.0	▲ 43.8	▲ 37.3	▲ 38.4	▲ 34.5

unit: 1,000 tonnes, %

Source: Customs Statistics