Domestic Market

Domestic orders rise for the fourth consecutive year, with those for special steel products compensating for weaker ordinary steel product orders

Domestic demand

Domestic orders for steel products received in 2005 inched up 0.7% from the previous year, to 67.91 million tons. Of this total, orders for ordinary steel products amounted to 54.74 million tons, down 0.9%.

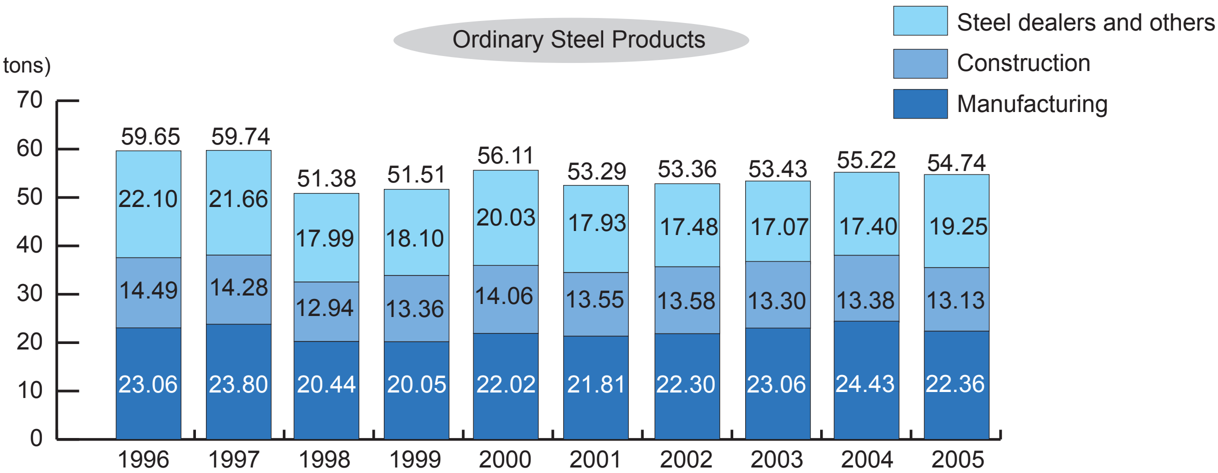
By application, in the construction sector, although public investment was sluggish, orders for ordinary steel products for use in civil engineering projects dropped only slightly, by 0.5%, thanks to projects funded by the supplementary budget. The number of new housing starts increased, and in reflection of strong capital investment, nonresidential construction starts also increased. Despite these positive factors, orders for steel products for use in building construction overall fell 1.0%. In addition, orders declined from building materials makers and so on. As a result, orders from the construction sector as a whole decreased 1.9%, to 13.13 million tons.

In the manufacturing sector, steel orders from the shipbuilding industry, where keel laying was maintained at a high level, soared 13.4%, to 4.86 million tons. Also, orders from the motor vehicle industry rose 3.5%, to 11.14 million tons. One factor behind this gain was replacement demand for standard trucks in connection with emission regulations. Another factor was higher unit production of four-wheel vehicles due to brisk exports. Meanwhile, orders received from industrial machinery makers increased 7.8%, to 2.07 million tons, due to recovering exports of mining machinery for the development of resources around the world and to improving domestic orders related to capital investment. As a result, orders for ordinary steel products from the manufacturing sector as a whole remained firm, rising 2.7%, to 25.10 million tons.

In 2005, domestic orders received for special steel products amounted to 13.17 million tons, a 7.6% increase, marking a record high for the third straight year. This gain was brought about by strong orders from motor vehicle manufacturers and industrial machinery makers, which together account for more than half of the total demand.

· Domestic Orders for Steel Products

(Million tons)



(Million tons)

Source: The Japan Iron and Steel Federation

· Domestic Orders for Steel Products by Market Classification

(Thousand tons)

Classification	Ordinary steel products				Special steel products				Total			
	2004 volume	2005 Volume	2005 Share (%)	2005 Change (2005/2004)(%)	2004 volume	2005 Volume	2005 Share (%)	2005 Change (2005/2004)(%)	2004 volume	2005 Volume	2005 Share (%)	2005 Change (2005/2004)(%)
Civil engineering	3,130	3,120	5.7	-0.5	270	290	2.2	6.8	3,410	3,410	5.0	0.1
Building and construction	7,120	7,050	12.9	-1.0	140	120	0.9	-16.0	7,270	7,170	10.6	-1.3
Total of construction	13,380	13,130	24.0	-1.9	720	690	5.2	-4.5	14,110	13,820	20.3	-2.1
Industrial machinery and equipment	1,920	2,070	3.8	7.8	1,390	1,460	11.1	4.9	3,310	3,530	5.2	6.6
Electrical machinery and equipment	2,030	2,010	3.7	-0.9	180	160	1.2	-7.3	2,210	2,170	3.2	-1.5
Home and office appliances	610	600	1.1	-0.4	190	180	1.3	-8.8	800	780	1.1	-2.4
Shipbuilding and marine equipment	4,290	4,860	8.9	13.4	140	140	1.1	-1.2	4,430	5,000	7.4	13.0
Motor vehicles	10,760	11,140	20.3	3.5	3,640	4,150	31.5	14.2	14,400	15,290	22.5	6.2
Beverage cans and other containers	1,600	1,440	2.6	-10.0	30	40	0.3	14.0	1,630	1,480	2.2	-9.5
Conversion and processing	2,800	2,560	4.7	-8.7	4,340	4,790	36.3	10.2	7,140	7,340	10.8	2.8
Others	420	420	0.8	-0.8	140	120	0.9	-7.8	560	540	0.8	-2.5
Total of manufacturing	24,430	25,100	45.9	2.7	10,050	11,040	83.8	9.8	34,480	36,140	53.2	4.8
Steel dealers	17,400	16,510	30.2	-5.1	1,470	1,440	11.0	-1.8	18.870	17,960	26.4	-4.8
Total	55,220	54,740	100.0	-0.9	12,240	13,170	100.0	7.6	67,460	67,910	100.0	0.7

Source: The Japan Iron and Steel Federation
Note: The figures below the thousands are omitted.

Steel supply and demand

In 2005, shipments of ordinary steel products to domestic users dropped slightly, in part because of the previous year's surge led by manufacturers. This was the first decline in three years. Domestic demand was still at a high level, though. With exports to China and other destinations diminishing, export shipments of ordinary steel products fell below the previous year's level again.

Domestic shipments were down 0.3%, to 59.39 million tons, while export shipments dipped 12.0%, to 19.89 million tons. The combined shipments of ordinary steel products came to 79.28 million tons, down 3.5% from the previous year. With supply and demand tightening, furthermore, domestic inventories at the steelmaker and dealer levels tended to decline at the beginning of the year. However, they rapidly increased in and after summer, but trended downward once again toward the yearend. Domestic inventories at the end of December 2005 came to 5.55 million tons, compared with 5.36 million tons a year earlier. The domestic inventory-shipment ratio rose 6.2 percentage points, to 117.3%.

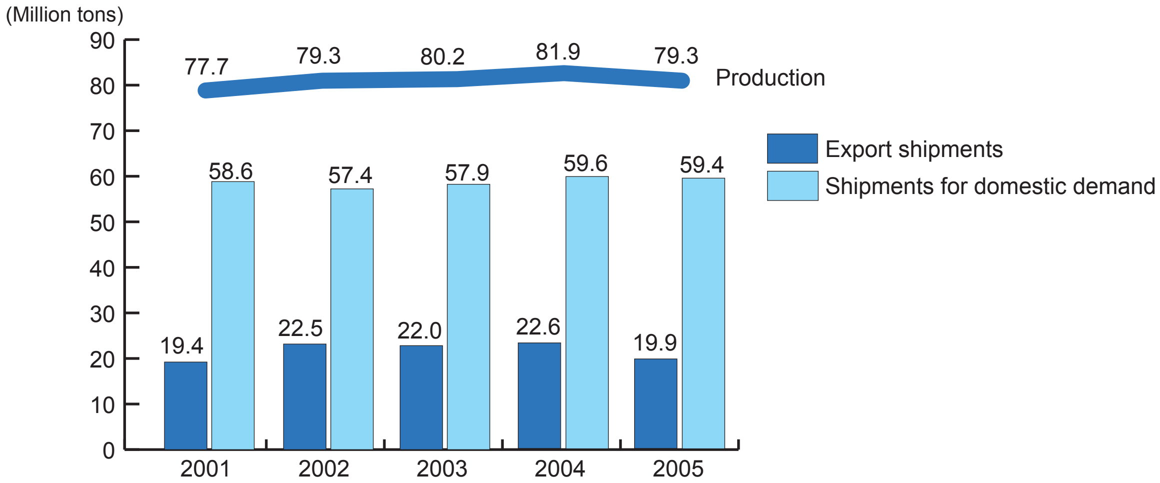
As for supply and demand conditions for special steel products in 2005, domestic demand from motor vehicle makers, a major demand industry, jumped 14.2% over the previous year. This double-digit growth was due primarily to increasing finished car and KD set exports. Demand for special steel products also rose from industrial machinery makers in reflection of vigorous capital investment, brisk demand for mining machinery, and other strong trends at home and abroad. Consequently, domestic shipments of special steel products in 2005 increased 4.6%, to 13.82 million tons. On the other hand, export shipments dipped 7.6%, to 5.37 million tons, due in part to decreasing shipments to other Asian markets.

With the supply and demand situation tightening, inventories dropped from 1.34 million tons at the end of the previous year to 1.21 million tons on March 31, 2005. However, they gradually accumulated thereafter and reached 1.46 million tons at the end of 2005, a 0.12 million ton increase from a year earlier.

As a result, production of finished special steel products increased 2.0%, to 19.57 million tons, for the sixth consecutive year of growth, breaking the all-time record for the third year running.

・Supply and Demand of Ordinary Steel Products and Special Steel Products on Annual/Quarterly Basis

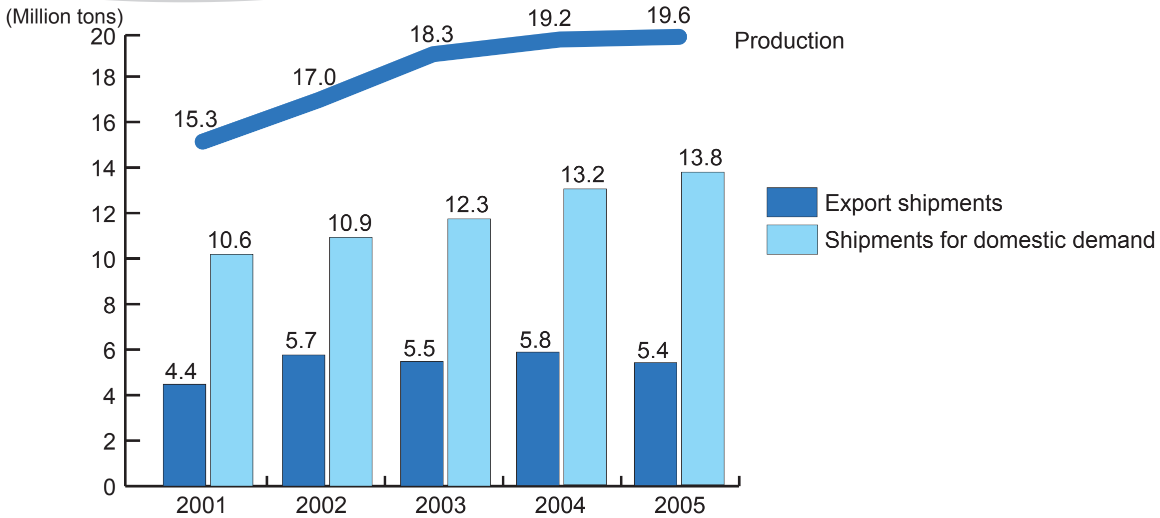
Ordinary Steel Products



Ordinary steel products	2005 (million tons)					Change from a year earlier (%)				
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Total	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Total
Production	20.24	20.36	19.58	19.09	79.27	0.4	-0.3	-5.5	-7.1	-3.2
Total shipments	20.50	20.06	19.45	19.28	79.28	-1.6	-0.7	-5.6	-6.2	-3.5
Shipments for domestic demand	14.83	14.81	14.67	15.08	59.39	-1.1	1.4	-1.7	0.1	-0.3
Export shipments	5.67	5.25	4.77	4.20	19.89	-2.9	-6.3	-15.8	-23.6	-12.0
Inventories at makers and steel dealers	6.23	6.53	6.66	6.47	6.47	-4.0	4.8	2.0	-2.9	-0.3
Inventories for domestic supply	5.26	5.48	5.73	5.55	5.55	-1.8	4.2	4.6	-3.1	3.6

Source: "Monthly of Iron and Steel, Non-ferrous Metal, and Fabricated Metals Statistics," Ministry of Economy, Trade and Industry
Note: Figures for inventories at makers and steel dealers are percentage changes from the previous quarter at the end of each quarter.

Special Steel Products



Special steel products	2005 (million tons)					Change from a year earlier (%)				
	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Total	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Total
Production	5.00	4.96	4.76	4.84	19.57	3.7	4.8	0.8	-1.0	2.0
Total shipments	5.07	4.79	4.64	4.69	19.19	2.8	3.3	0.2	-2.7	0.9
Shipments for domestic demand	3.49	3.42	3.39	3.51	13.82	3.8	6.3	4.6	3.8	4.6
Shipments for exports	1.58	1.37	1.25	1.18	5.37	0.6	-3.7	-10.2	-18.1	-7.6
Inventories	1.21	1.32	1.36	1.46	1.46	-9.9	9.4	3.2	7.6	9.5

Source: The Japan Iron and Steel Federation
Note: Figures for inventories are percentage changes from the previous quarter at the end of each quarter.

・ Domestic Orders for Ordinary Steel Products by Type of Product

(Thousand tons)

Product	2004	2005	Change (2005/2004) (%)
Rails and accessories	230	210	-6.6
Sheet pilings	580	640	10.9
Shapes	6,820	6,320	-7.4
Bars and flat bars	10,010	9,810	-2.0
Wire rods	2,600	2,410	-7.3
Heavy and medium plates	12,860	13,290	3.4
Hot-rolled sheets and coils	2,960	2,870	-3.0
Cold-rolled sheets and coils	4,100	4,080	-0.5
Electrical sheets	560	590	5.5
Tinplate	580	500	-13.4
Galvanized sheets	7,710	7,910	2.6
Other surface-treated and coated sheets	2,240	2,190	-2.2
Tubular products	3,970	3,920	-1.4
Total	55,220	54,740	-0.9

Source: The Japan Iron and Steel Federation
Notes: 1. "Shapes" includes rim ring bars and sash bars. "Wire rods" includes bar-in-coil.
2. The figures below the thousands are omitted.

・ Domestic Orders for Special Steel Products by Type of Product

(Thousand tons)

Product	2004	2005	Change (2005/2004) (%)
Tool steels	220	220	0.8
Structural carbon steels	3,810	4,280	12.3
Structural alloy steels	2,400	2,690	12.4
Spring steels	370	390	3.9
Bearing steels	650	770	18.0
Stainless steels	1,730	1,550	-10.3
Free-cutting steels	830	870	5.6
Piano wire rods	520	510	-1.0
High tensile strength steels	1,450	1,610	10.8
Others	260	270	4.1
Total	12,240	13,170	7.6

Source: The Japan Iron and Steel Federation
Note: The figures below the thousands are omitted.