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# September Industrial Production

## Wide range of declines, centering on transportation equipment

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### Summary

- September industrial production declined 4.1% m/m, posting the third consecutive monthly slide and a wider decline than the market consensus (down 3.1%). On a three-month moving average basis, production declined for the sixth consecutive month, evidencing continuation of the underlying downtrend. Although inventories declined for the second consecutive month (down 0.9%), industrial shipments saw a substantial slide of 4.4%, leading to the first rise (worsening) in the inventory ratio in two months (up 4.2%)
- Production declined in September for 15 industries out of 16, displaying overall weakness. Mainly responsible for pulling down overall production were declines in production of the transportation equipment, general machinery, and iron/steel industries. In particular, production of the transportation equipment industry declined 12.6% m/m, the fifth consecutive monthly slide. Eco-car subsidies had driven automobile sales, but after the 21 September application deadline domestic automobile sales plunged, leading to a substantial fall in production of the transportation equipment industry.
- We expect industrial production to remain weak for the time being because (1) production of the transportation equipment industry is likely to remain at a low level following an end to eco-car subsidies, and (2) shipments for export will probably continue to stagnate amid the slowdown in overseas economies. Production would firm up if exports gain momentum accompanying a recovery in overseas economies, but the EU economy, which has dragged down Japan's exports, is unlikely to see any real recovery before 2013. Thus, no full-fledged turnaround in production is anticipated before then. Meanwhile, lower exports to China due to worsening Japan-China relations could place downward pressure on production, which warrants watching for the time being.

Industrial Production (m/m %; SA basis)

Chart 1

	2012							Sep
	Feb	Mar	Apr	May	Jun	Jul	Aug	
Industrial Production	-1.6	1.3	-0.2	-3.4	0.4	-1.0	-1.6	<b>-4.1</b>
Market consensus (Bloomberg)								-3.1
DIR estimate								-3.5
Shipments	0.3	0.5	0.6	-1.3	-0.9	-3.1	0.2	<b>-4.4</b>
Inventories	-0.5	4.3	2.0	-0.7	-1.2	2.9	-1.6	<b>-0.9</b>
Inventory ratio	-2.7	4.4	6.9	-3.7	4.2	3.7	-2.3	<b>4.2</b>

Source: Ministry of Economy, Trade, and Industry (METI); Bloomberg; compiled by DIR. Note: SA by METI.

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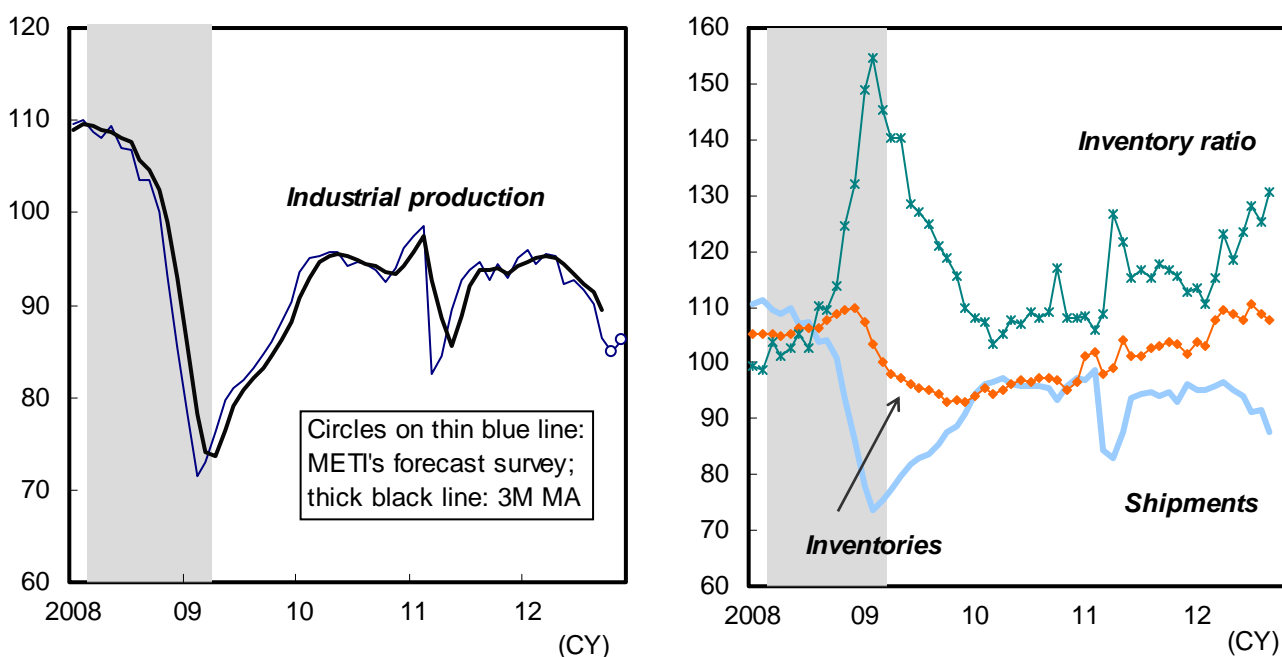
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## Production on Downtrend

September industrial production declined 4.1% m/m, posting the third consecutive monthly slide and a wider decline than the market consensus (down 3.1%). On a three-month moving average basis, production declined for the sixth consecutive month, evidencing continuation of the underlying downtrend. Although inventories declined for the second consecutive month (down 0.9%), industrial shipments saw a substantial slide of 4.4%, leading to the first rise (worsening) in the inventory ratio in two months (up 4.2%).

Production, Shipments, and Inventories (2005 = 100; SA basis)

Chart 2



Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.

Notes: 1) Shaded areas denote economic downturns.

2) SA by METI.

## Downward Pressure from Transportation Equipment, General Machinery, and Iron/steel

Production declined in September for 15 industries out of 16 for which data is available on a preliminary estimate basis, displaying overall weakness.

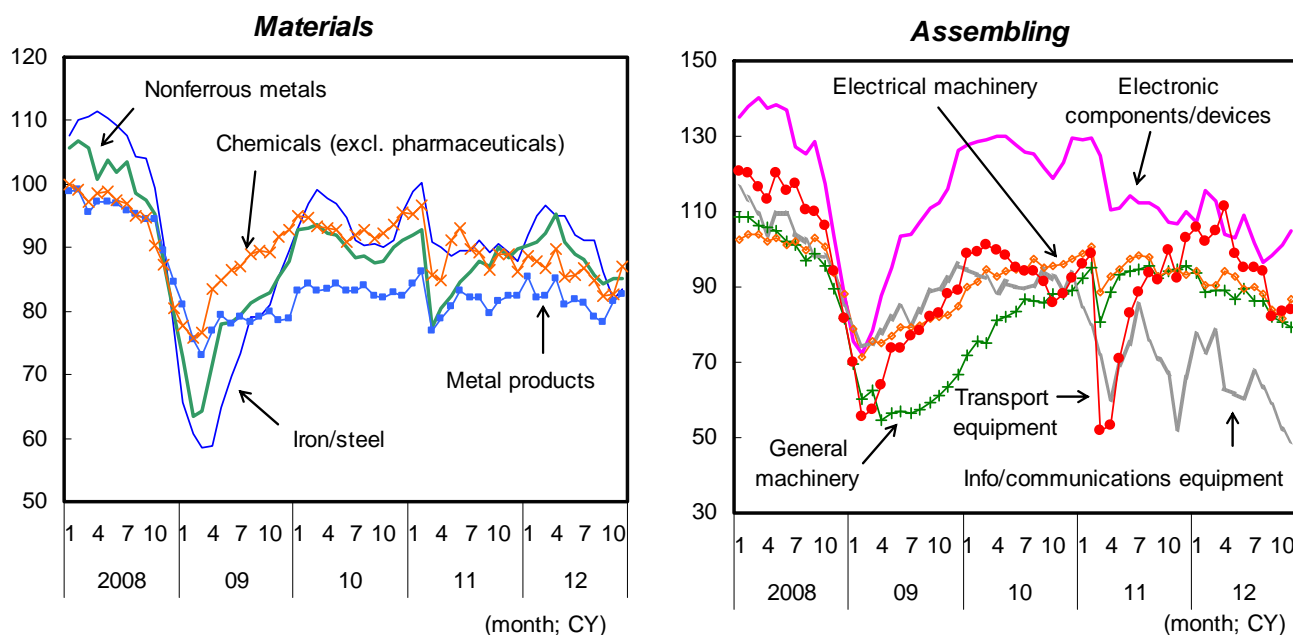
Mainly responsible for pulling down overall production were declines in production of the transportation equipment, general machinery, and iron/steel industries. In particular, production of the transportation equipment industry declined 12.6% m/m, the fifth consecutive monthly slide. Eco-car subsidies had driven automobile sales, but after the 21 September application deadline domestic automobile sales plunged, leading to a substantial fall in production of the transportation equipment industry. Production of the general machinery and iron/steel industries saw slides for the first time in two months, respectively declining 5.0% and 5.3%. Behind this were lower domestic shipments due to lower automobile production, as well as underlying stagnation of exports to Asian trading partners, the major export destination for these industries.

The METI survey projects overall production to decline 1.5% m/m in October, the fourth monthly falloff in a row, but to advance 1.6% in November. By industry, production of info/communications

equipment is projected to plunge in October, pulling down overall production, and it is projected to continue to decline in November, although overall production is projected to turn around. Meanwhile, transportation equipment production pulled down overall production in September but is projected to advance in October and November, putting a brake on m/m declines, albeit at a low level.

Production by Industry (2005 = 100; SA basis)

Chart 3



Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.

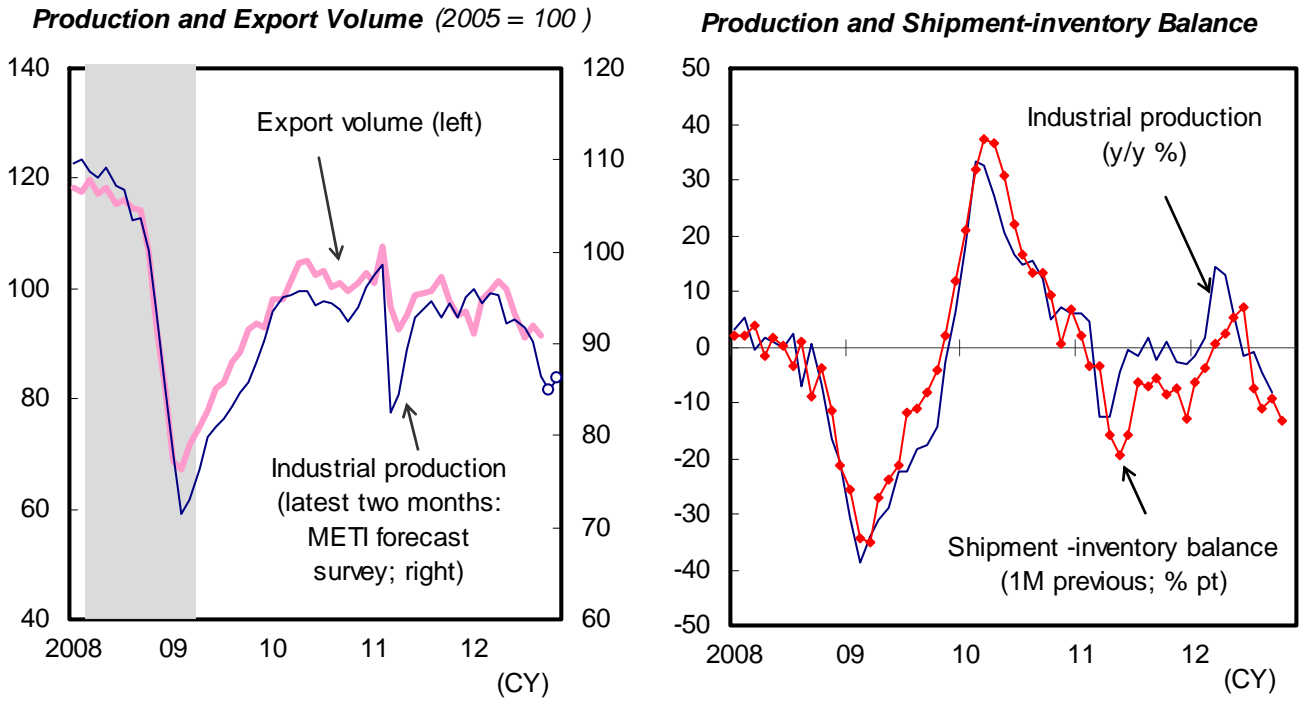
Notes: 1) SA by METI.

2) Latest two months based on METI's forecast survey.

## No Full-fledged Recovery Likely Before 2013

We expect industrial production to remain weak for the time being because (1) production of the transportation equipment industry is likely to remain at a low level following an end to eco-car subsidies, and (2) shipments for export will probably continue to stagnate amid the slowdown in overseas economies. Production would firm up if exports gain momentum accompanying a recovery in overseas economies, but the EU economy, which has dragged down Japan's exports, is unlikely to see any real recovery before 2013. Thus, no full-fledged turnaround in production is anticipated before then. Meanwhile, lower exports to China due to worsening Japan-China relations could place downward pressure on production, which warrants watching for the time being.

Shipment-inventory Balance and Outlook for Industrial Production Chart 4



Source: Ministry of Economy, Trade, and Industry; Cabinet Office; compiled by DIR.