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# October Industrial Production

## First gain in four months; production projection bullish

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### Summary

- Industrial production increased for the first time in four months in October (up 1.8% m/m), substantially outpacing the market consensus (down 2.0%). The ratio of actual production to the projection saw the first positive figure since August 2010. Contrary to expectations, the October result was favorable. Meanwhile, inventories increased for the first time in three months (up 0.3%) but the inventory ratio declined for the first time in two months (down 1.8%).
- The METI survey projects overall production to decline 0.1% m/m in November but to advance 7.5% in December. After pushing up industrial production in October, the electronic components/devices industry is projected to see a surge in production in both November and December. Info/communications equipment and transportation equipment are both projected to see a double-digit gain in December. Materials industries are also projected to see surges across the board for December. All in all, production projections for December are generally bullish.
- We expect industrial production to gradually break out of the doldrums, supported in part by the transportation equipment industry—the industry had placed downward pressure on overall production after an end to eco-car subsidies, but its production has begun to show signs of bottoming. Meanwhile, export volume, which moves in tandem with production, has continued on a persistent downtrend. Thus, we do not expect industrial production to see the sharp recovery projected in the METI survey. However, we do see production firming up in line with a recovery of overseas economies early in 2013.

Industrial Production (m/m %; SA basis)

Chart 1

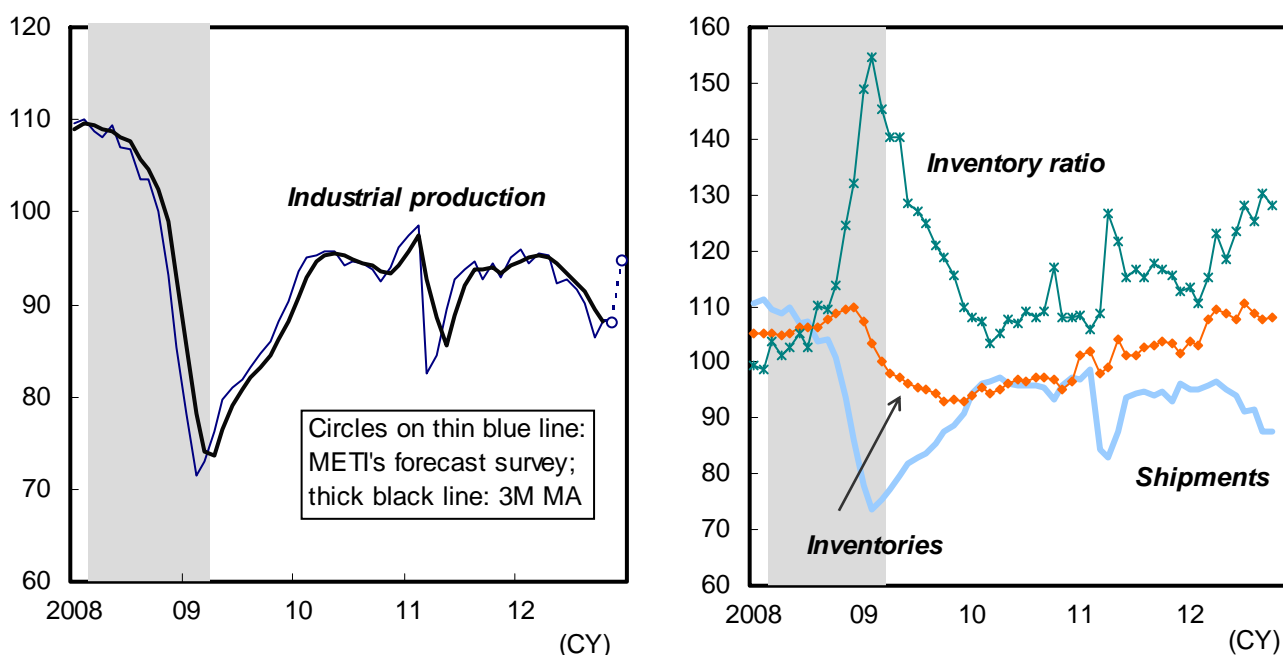
	2012							
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	1.3	-0.2	-3.4	0.4	-1.0	-1.6	-4.1	<b>1.8</b>
Market consensus (Bloomberg)								-2.0
DIR estimate								-1.8
Shipments	0.5	0.6	-1.3	-0.9	-3.1	0.2	-4.3	<b>0.0</b>
Inventories	4.3	2.0	-0.7	-1.2	2.9	-1.6	-0.9	<b>0.3</b>
Inventory ratio	4.4	6.9	-3.7	4.2	3.7	-2.3	4.2	<b>-1.8</b>

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

## First Increase in Four Months

Industrial production increased for the first time in four months in October (up 1.8% m/m), substantially outpacing the market consensus (down 2.0%). The ratio of actual production to the projection saw the first positive figure since August 2010. Contrary to expectations, the October result was favorable. Meanwhile, inventories increased for the first time in three months (up 0.3%) but the inventory ratio declined for the first time in two months (down 1.8%). The METI survey projects overall production to decline 0.1% m/m in November but to advance 7.5% in December, a strong outlook going forward.

**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.

## Surge in Electronic Components/Devices

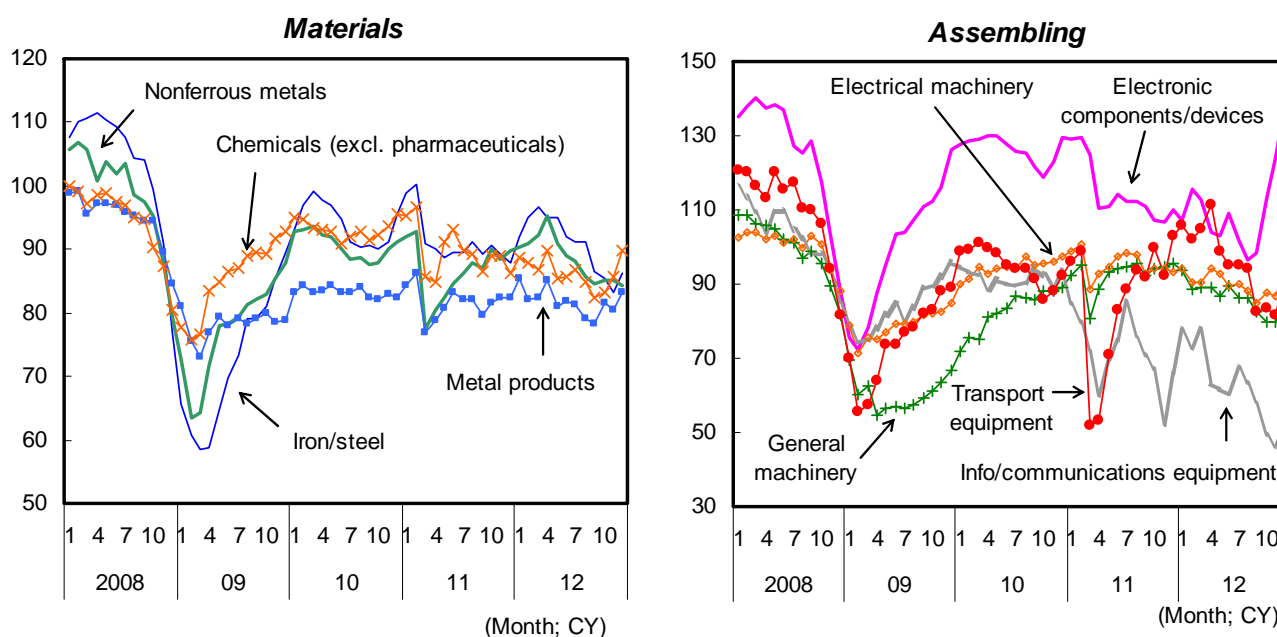
Production increased m/m in October for eight industries out of 16 for which data is available on a preliminary estimate basis. Industries pushing up overall production were electronic components/devices, metal products, and transportation equipment.

Production of electronic components/devices increased for the second consecutive month (up 14.7% m/m). Looking more closely, MOS memory ICs and active-matrix small and medium LCDs saw a surge in shipments and an increase in production. In contrast, active-matrix large LCDs saw a decline in shipments but an increase in production, indicating inventory adjustments nearing an end. Meanwhile, production of metal products increased for the first time in two months (up 4.1%), supported by metal products for bridges, which reflected reconstruction demand. At the same time, production in the transportation equipment industry turned up m/m for the first time in six months (up 1.1%) but declined 12.3% y/y. Although the production level was low, the figure suggests the persistent slide in production seen after the end to the eco-car subsidy program found a bottom.

The METI survey projects overall production to decline 0.1% m/m in November but to advance 7.5% in December. After pushing up industrial production in October, the electronic components/devices industry is projected to see a surge in production in both November and December. Info/communications equipment and transportation equipment are both projected to see a double-digit gain in December. Materials industries are also projected to see surges across the board for December. All in all, production projections for December are generally bullish.

Production by Industry (2005 = 100; SA basis)

Chart 3



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

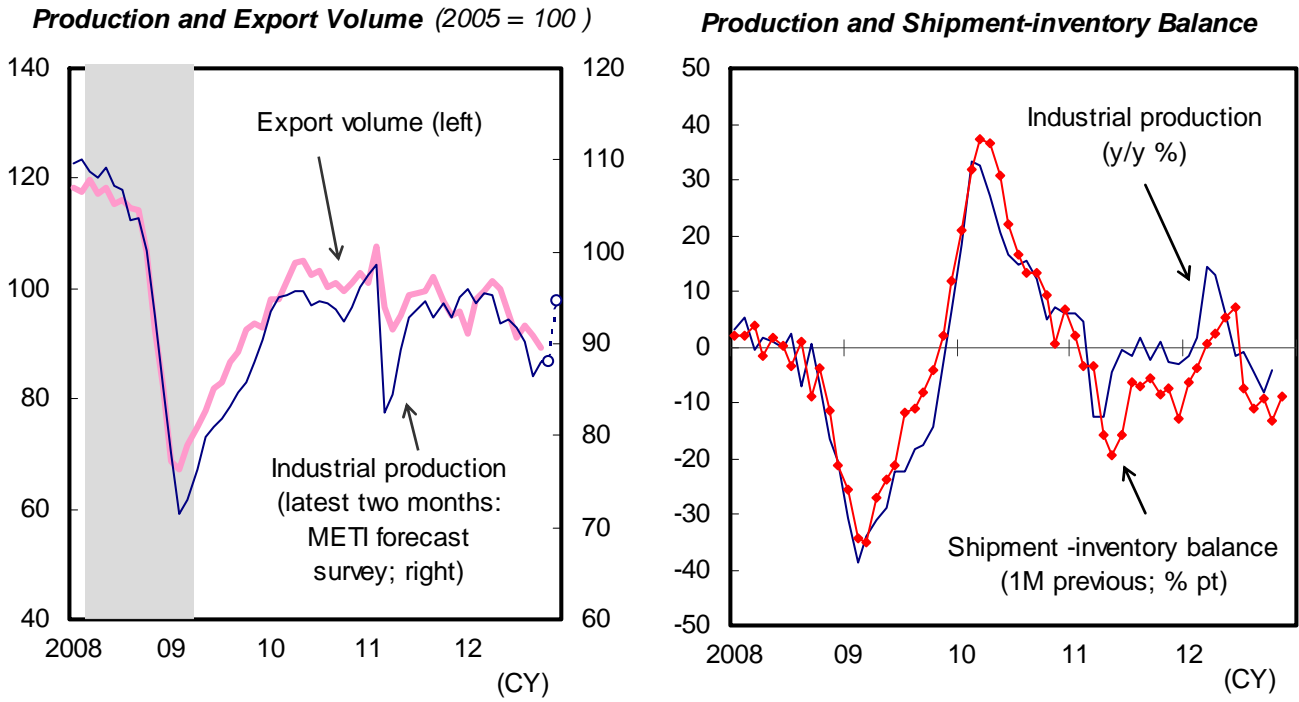
Notes: 1) SA by METI.

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

## Production Likely to Break Out of Doldrums on Bottom for Transportation Equipment

We expect industrial production to gradually break out of the doldrums, supported in part by the transportation equipment industry—the industry had placed downward pressure on overall production after an end to eco-car subsidies, but its production has begun to show signs of bottoming. Meanwhile, export volume, which moves in tandem with production, has continued on a persistent downtrend. Thus, we do not expect industrial production to see the sharp recovery projected in the METI survey. However, we do see production firming up in line with a recovery of overseas economies early in 2013.

Shipment-inventory Balance and Outlook for Industrial Production Chart 4



Source: Ministry of Economy, Trade, and Industry (METI); Cabinet Office; compiled by DIR.  
 Note: Shaded area denotes economic downturn.