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January Industrial Production

Production recovered, but slightly undershot expectations

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Summary

- Industrial production increased for the second consecutive month in January (up 1.0% m/m), but fell short of the market consensus (up 1.5%). Production increased for the second consecutive month on a three-month moving average basis. The current METI survey projects overall production to increase going forward. Thus, the underlying production trend has begun to show improvement.
- Production increased m/m in January for nine industries out of 16 for which data is available on a preliminary estimate basis. Among those posting advances, transportation equipment, iron/steel, and info/communications industries made notable positive contributions to overall production growth, in line with the industries' upbeat projections in the previous METI report released in January.
- The current METI survey projects overall production to increase 5.3% m/m in February and to advance 0.3% in March for the fourth monthly gain in a row. With regard to February, all industries expect increases from January. Specifically, info/communications, electronic component/device, and transportation equipment industries anticipate strong advances. However, these industries project production cuts in March, leading to slower growth vs. February for overall production. If February and March results match the METI forecast survey, production will likely increase in Jan-Mar 2013 for the first time in four quarters (up 5.9% q/q).
- Production has begun to show signs of recovery, while export volume (an indicator that has a close correlation with production) has stagnated. Thus, whether or not production sees a stable recovery will depend on export trends. In this context, export volume is likely to increase going forward, as the environment for exports has begun to turn around amid a recovery in overseas economies and an improvement in price competitiveness triggered by a shift to a weaker yen. Accordingly, the ongoing production uptrend will likely continue going forward.

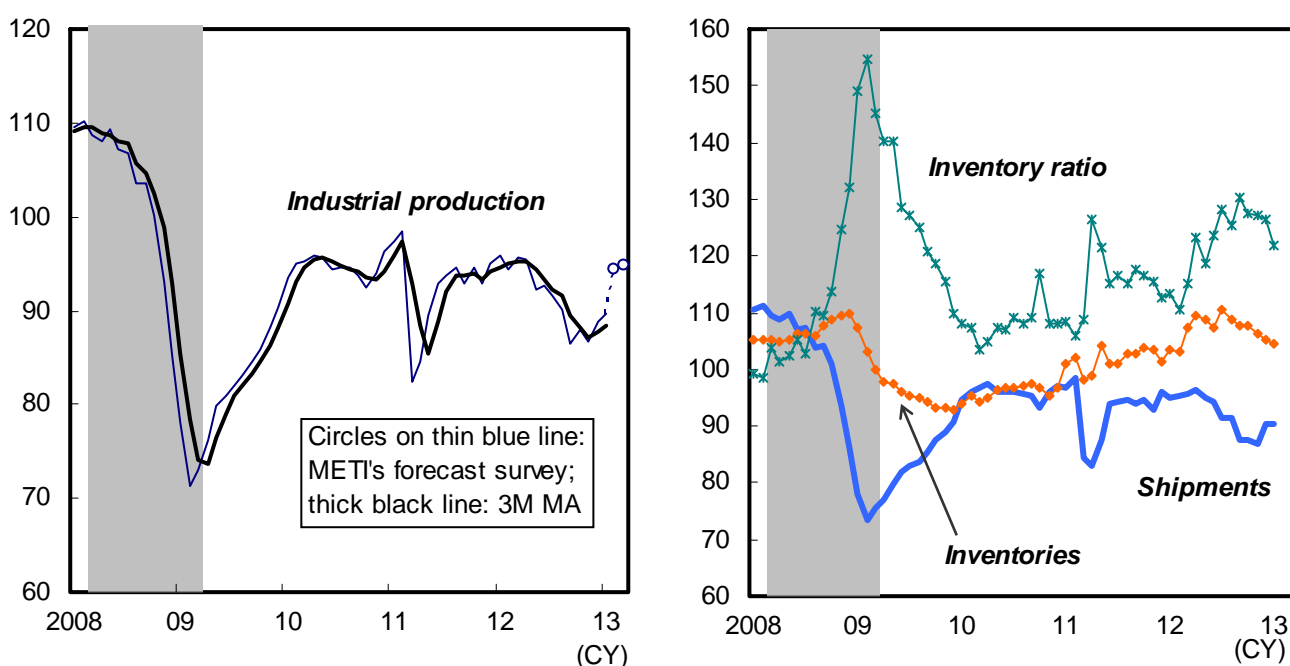
Industrial Production (m/m %; SA basis)								Chart 1
	2012							2013
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Industrial Production	0.4	-1.0	-1.6	-4.1	1.6	-1.4	2.4	1.0
Market consensus (Bloomberg)								1.5
DIR estimate								1.0
Shipments	-0.9	-3.1	0.2	-4.3	-0.1	-0.8	4.0	0.1
Inventories	-1.2	2.9	-1.6	-0.9	-0.1	-1.2	-1.2	-0.5
Inventory ratio	4.2	3.7	-2.3	4.2	-2.1	-0.3	-0.6	-3.7

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

Second m/m gain in a row

In the Preliminary Report (Ministry of Economy, Trade and Industry [METI]), industrial production increased for the second consecutive month in January (up 1.0% m/m), but fell short of the market consensus (up 1.5%). Production also increased for the second consecutive month on a three-month moving average basis. The current METI survey projects overall production to increase going forward. Thus, the underlying trend of production has begun to show improvement. Shipments increased (up 0.1%) while inventories declined (down 0.5%), leading to the fourth consecutive month of declines (improvements) in the inventory-shipment ratio (down 3.7%).

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.

Jan as expected, Jan-Mar to see first q/q gain in four quarters

Production increased m/m in January for nine industries out of 16 for which data is available on a preliminary estimate basis. Among those posting advances, transportation equipment, iron/steel, and info/communications industries made notable positive contributions to overall production growth, in line with the industries' upbeat projections in the previous METI report released in January.

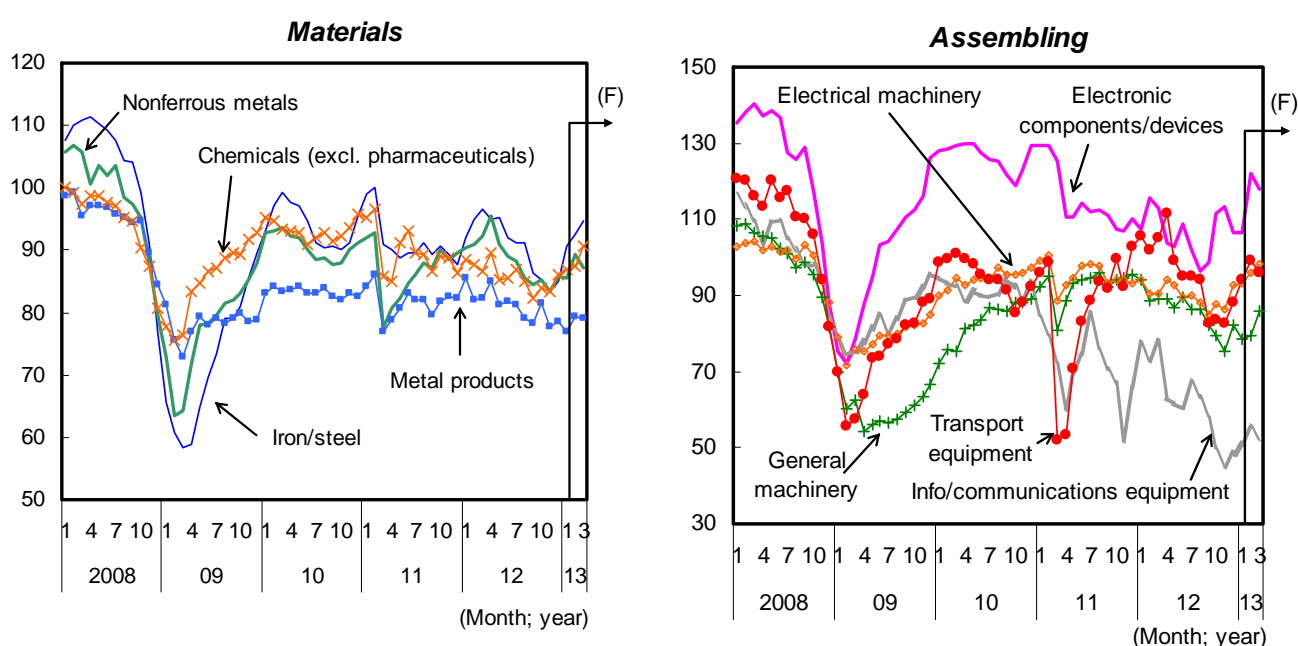
Production by the transportation equipment industry increased for the second consecutive month (up 6.8% m/m). Behind this was a swift recovery in domestic new car sales from the slump seen after the eco-car subsidy program ended, as well as a pickup in automobile exports, centering on those to the US. Production in the iron/steel industry also increased for the second consecutive month (up 6.6% m/m). Accounting for this were increases in production of producer goods, accompanying a pickup in domestic production, and increases in construction materials, reflecting reconstruction-related public works spending and steady housing investment. Although production in the info/communications industry increased 4.8% m/m on the back of gains in general purpose computers and car navigation systems, it remained at a low level and was down 33.9% on year-on-year basis.

Among those posting slides, while the decline in the general machinery industry (down 4.1% m/m) was as projected, pullbacks in the metal product (down 2.2%) and electronic component/device (down 0.1%) industries ran contrary to projections in the previous METI report.

The current METI survey projects overall production to increase 5.3% m/m in February and to advance 0.3% in March for the fourth monthly gain in a row. With regard to February, all industries expect increases from January. Specifically, info/communications, electronic component/device, and transportation equipment industries anticipate strong advances. However, these industries project production cuts in March, resulting in a slower growth projection vs. February for overall production. If February and March results match the METI forecast survey, production will likely increase in Jan-Mar 2013 for the first time in four quarters (up 5.9% q/q).

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.

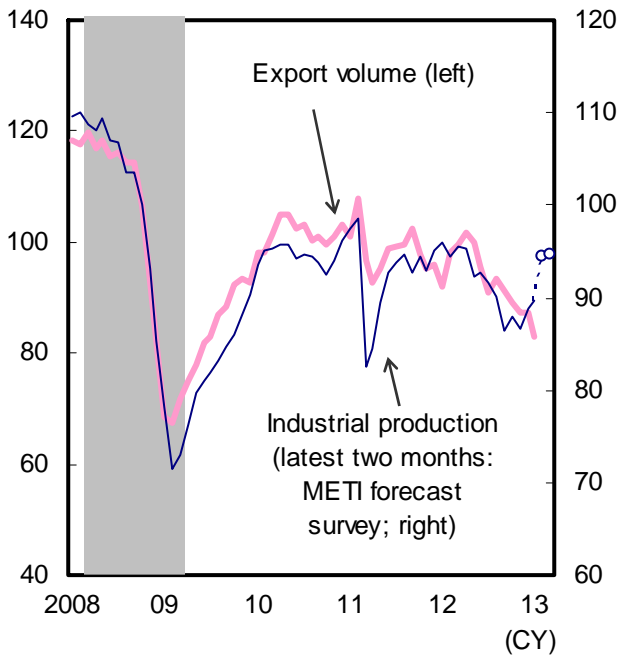
2) Latest two months based on METI's forecast survey.

Stable recovery in production hinges on exports

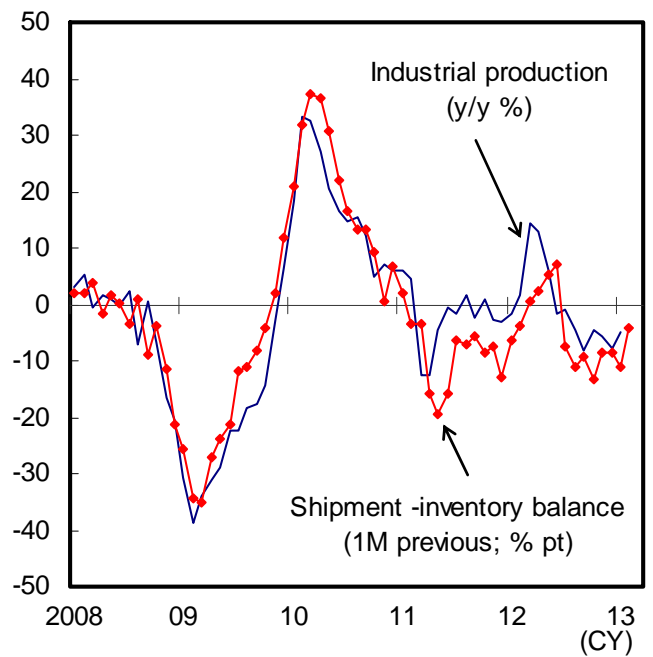
Production has begun to show signs of recovery, while export volume (an indicator that has a close correlation with production) has stagnated. Thus, whether or not production sees a stable recovery will depend on export trends. In this context, export volume is likely to increase going forward, as the environment for exports has begun to turn around amid a recovery in overseas economies and an improvement in price competitiveness triggered by a shift to a weaker yen. Accordingly, the ongoing production uptrend will likely continue going forward.

Shipment-inventory Balance and Outlook for Industrial Production Chart 4

Production and Export Volume (2005 = 100)



Production and Shipment-inventory Balance



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