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February Industrial Production

Unexpected slide in Feb vs. turnaround of underlining trend

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Summary

- In the Preliminary Report (Ministry of Economy, Trade and Industry [METI]), industrial production was unexpectedly weak in February, posting the first slide in three months (down 0.1% m/m) and undershooting the market consensus (up 2.5%). However, production increased for the third consecutive month on a three-month moving average basis, while the current METI survey projects overall production to increase moderately going forward, meaning that the underlying uptrend continues.
- Looking at February production by industry, the electronic component/device industry saw a slide (down 5.0% m/m), despite an upbeat projection in the previous METI report released in February, dragging down overall production. Meanwhile, production increased m/m for ten industries out of 16 for which data is available on a preliminary estimate basis, meaning a broad range of industries saw improvements. In comparison with projections in the previous METI report, gains in material industries were almost on par with such projections, while advances were limited for assembly industries (transportation equipment, info/communications equipment, and electrical machinery). Thus, the overall figure undershot market expectations.
- The current METI survey projects overall production to increase 1.0% m/m in March and to advance 0.6% in April, meaning industries expect the underlying uptrend to continue. Industries projecting advances for both months are iron/steel, general machinery, and electronic components/devices. Those projecting slides for both months are nonferrous metals and info/communications equipment—specifically, the latter projects a substantial reduction (down 19.1%) for April. Projections by other industries are seesawing. Thus, industry projections are shifting to a mixed tone from the upbeat note seen for a few months.

Industrial Production (m/m %; SA basis)

Chart 1

	2012						2013	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Industrial Production	-1.0	-1.6	-4.1	1.6	-1.4	2.4	0.3	-0.1
Market consensus (Bloomberg)								2.5
DIR estimate								2.0
Shipments	-3.1	0.2	-4.3	-0.1	-0.8	4.0	-0.3	0.8
Inventories	2.9	-1.6	-0.9	-0.1	-1.2	-1.2	-0.4	-2.0
Inventory ratio	3.7	-2.3	4.2	-2.1	-0.3	-0.6	-3.2	-1.0

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

Note: SA by METI.

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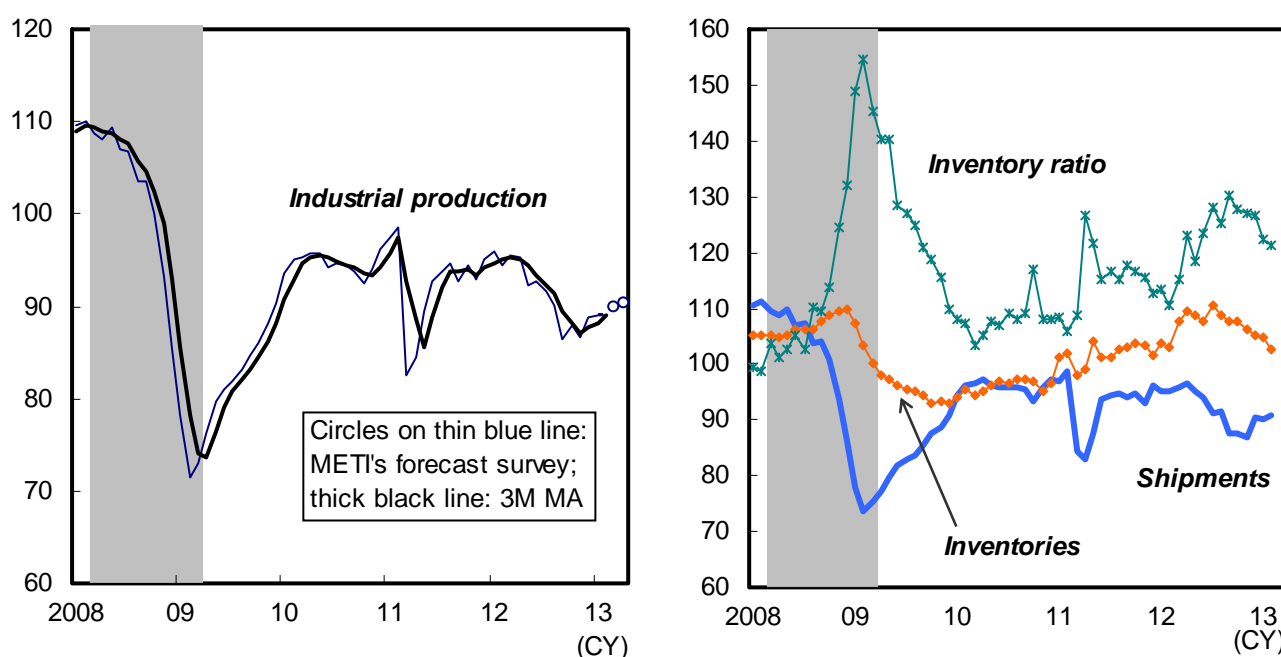
Economic Research

Unexpected first slide in three months

In the Preliminary Report (Ministry of Economy, Trade and Industry [METI]), industrial production posted the first slide in three months in February (down 0.1% m/m), an unexpectedly weak figure, undershooting the market consensus (up 2.5%). However, production increased for the third consecutive month on a three-month moving average basis, while the current METI survey projects overall production to increase moderately going forward, meaning that the underlying uptrend continues. Shipments saw the first gain in two months (up 0.8%), while inventories declined (down 2.0%), leading to the fifth consecutive month of declines (improvements) in the inventory-shipment ratio (down 1.0%).

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.

Assembly industries undershooting

Looking at February production by industry, the electronic component/device industry saw a slide (down 5.0% m/m), despite an upbeat projection in the previous METI report released in February, dragging down overall production. Behind this was a slump in production of smartphone components, leading to lower production of MOS memory ICs and active matrix LCDs.

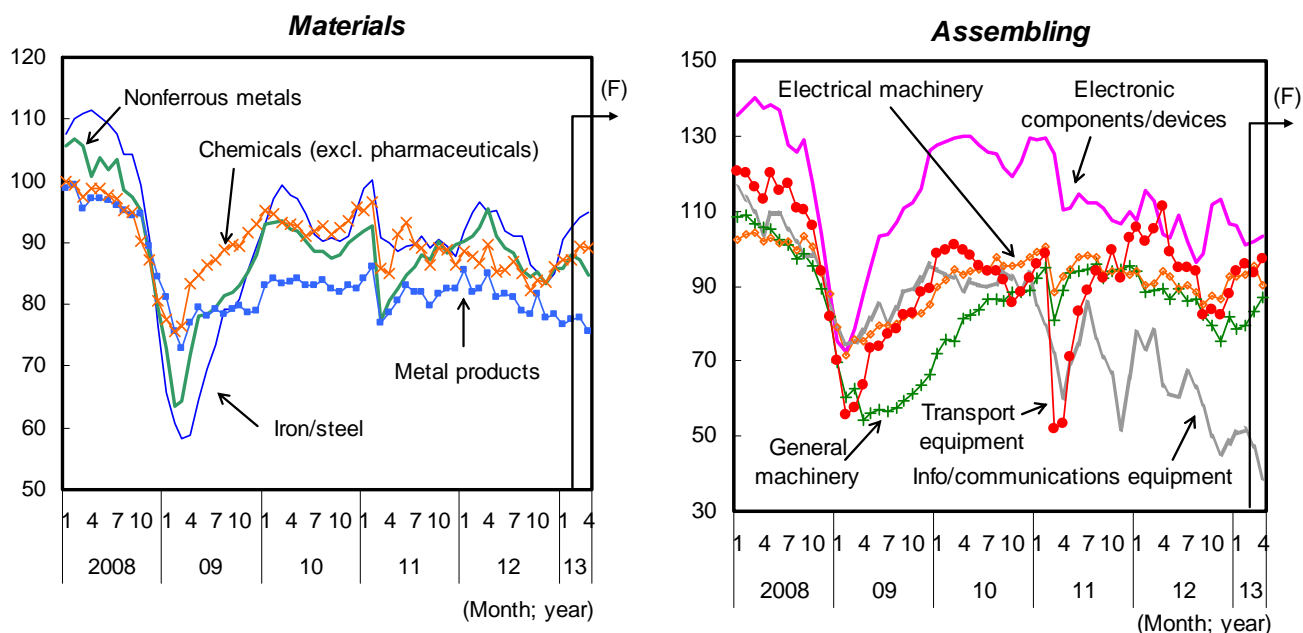
Meanwhile, production increased m/m for ten industries out of 16 for which data is available on a preliminary estimate basis, meaning a broad range of industries saw improvements. In comparison with projections in the previous METI report, gains in material industries were almost on par with such projections, while advances were limited for assembly industries, such as transportation equipment (up 1.8% m/m), info/communications equipment (up 2.0%), and electrical machinery (up 0.6%). Thus, the overall figure undershot market expectations.

The current METI survey projects overall production to increase 1.0% m/m in March and to advance 0.6% in April, meaning industries expect the underlying uptrend to continue. Industries projecting advances for both months are iron/steel, general machinery, and electronic components/devices. Those

projecting slides for both months are nonferrous metals and info/communications equipment—specifically, the latter projects a substantial reduction (down 19.1%) for April. Projections by other industries are seesawing. Thus, industry projections are shifting to a mixed tone from the upbeat note seen for a few months. Nevertheless, if the March result matches the forecast survey, production will likely increase in Jan-Mar 2013 for the first time in four quarters (up 1.7% 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.

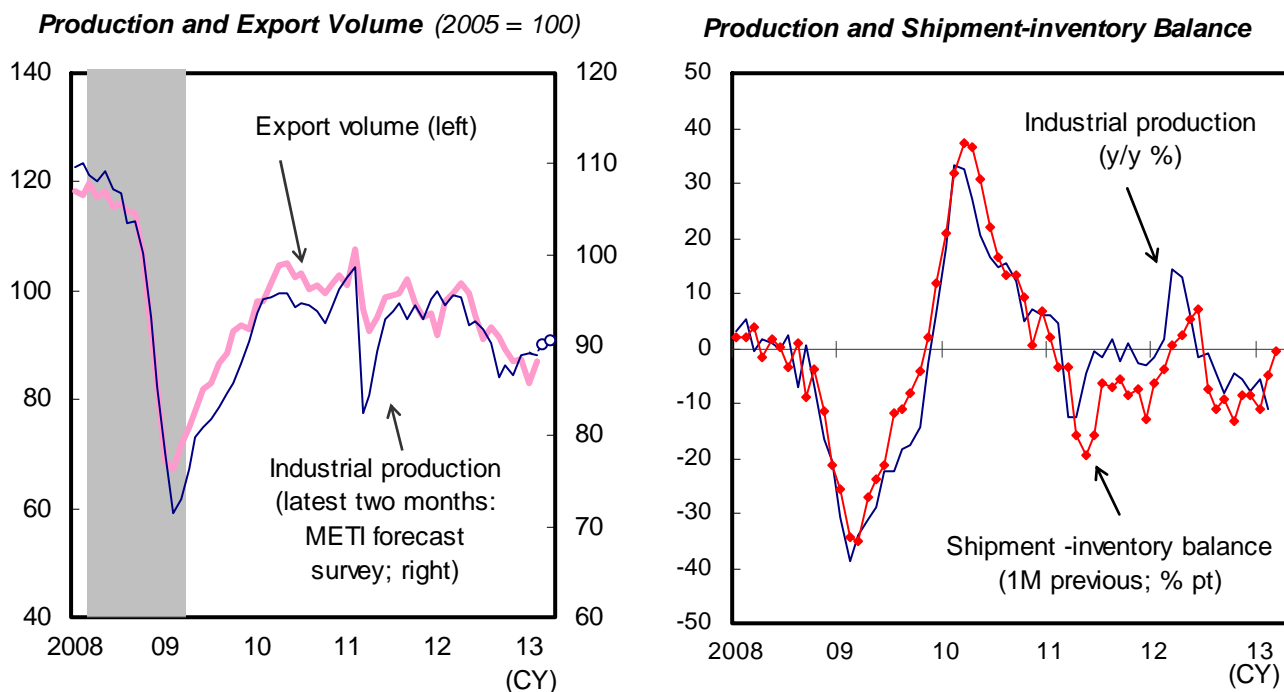
2) Latest two months based on METI's forecast survey.

Recovery in production hinges on exports

Production has begun to show signs of recovery, while export volume (indicator having 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 weaker yen. Accordingly, the ongoing production uptrend should continue going forward.

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.