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March Industrial Production

Underlying uptrend continues

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Summary

- In the Preliminary Report (Indices of Industrial Production, Ministry of Economy, Trade and Industry [METI]), industrial production posted the fourth consecutive m/m gain in March (up 0.2% m/m), although slightly undershooting the market consensus (up 0.4%). Production increased for the fourth consecutive month on a three-month moving average basis, indicating that the underlying recovery continues. Shipments saw their second gain in a row (up 0.3%), while inventories declined (down 0.2%), leading to the sixth consecutive month of decline (improvement) in the inventory-shipment ratio (down 1.2%).
- Looking at March production by industry, chemicals increased (up 5.3% m/m) more than projected in the previous METI report released in March, driving overall production. Other industries pushing up production included electronic components/devices and info/communications equipment. In the case of the former, production turned to increase (up 4.7%) from stagnation, reflecting higher production of smartphone components. In the case of the latter, contrary to a projection of a major slide in the previous METI report, production increased (up 7.9%). In contrast, the slide in the transportation equipment industry was a major factor pulling down overall production, but which was anticipated in the previous METI report.
- The current METI survey projects overall production to increase 0.8% m/m in April and to decline 0.3% in May, meaning industries expect the underlying moderate uptrend to continue, although seesawing on a monthly basis. Whether production sees a stable recovery will depend on export volume trend. Following current signs of bottoming out, 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. Driven by advances in exports, production should continue to increase moderately.

Industrial Production (m/m %; SA basis)

Chart 1

	2012					2013		
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Industrial Production	-1.6	-4.1	1.6	-1.4	2.4	0.3	0.6	0.2
Market consensus (Bloomberg)								0.4
DIR estimate								0.3
Shipments	0.2	-4.3	-0.1	-0.8	4.0	-0.3	1.4	0.3
Inventories	-1.6	-0.9	-0.1	-1.2	-1.2	-0.4	-2.0	-0.2
Inventory ratio	-2.3	4.2	-2.1	-0.3	-0.6	-3.2	-1.1	-1.2

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

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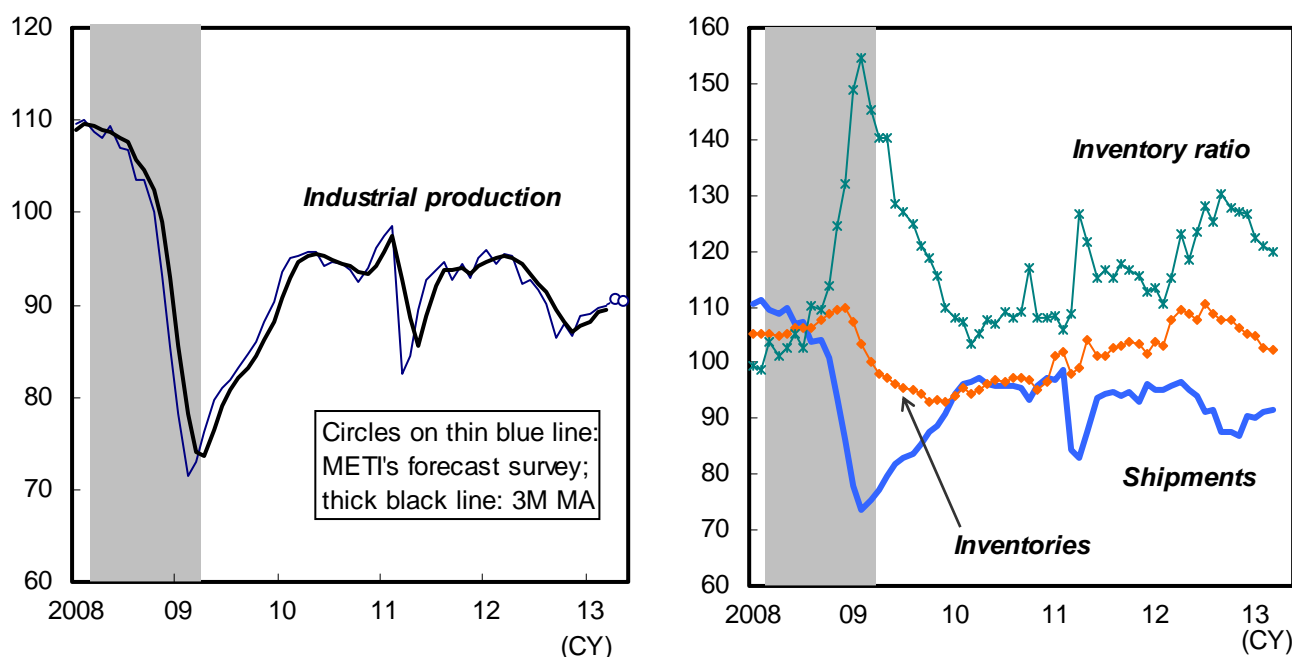
Economic Research

Fourth consecutive monthly gain in production

In the Preliminary Report (Indices of Industrial Production, Ministry of Economy, Trade and Industry [METI]), industrial production posted the fourth consecutive m/m gain in March (up 0.2% m/m), although slightly undershooting the market consensus (up 0.4%). Production increased for the fourth consecutive month on a three-month moving average basis, indicating that the underlying recovery continues. Shipments saw their second gain in a row (up 0.3%), while inventories declined (down 0.2%), leading to the sixth consecutive month of decline (improvement) in the inventory-shipment ratio (down 1.2%).

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

Chart 2



Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
Note: Shaded areas denote economic downturns.

Chemicals, electronic components/devices, and info/communications equipment, driving overall production

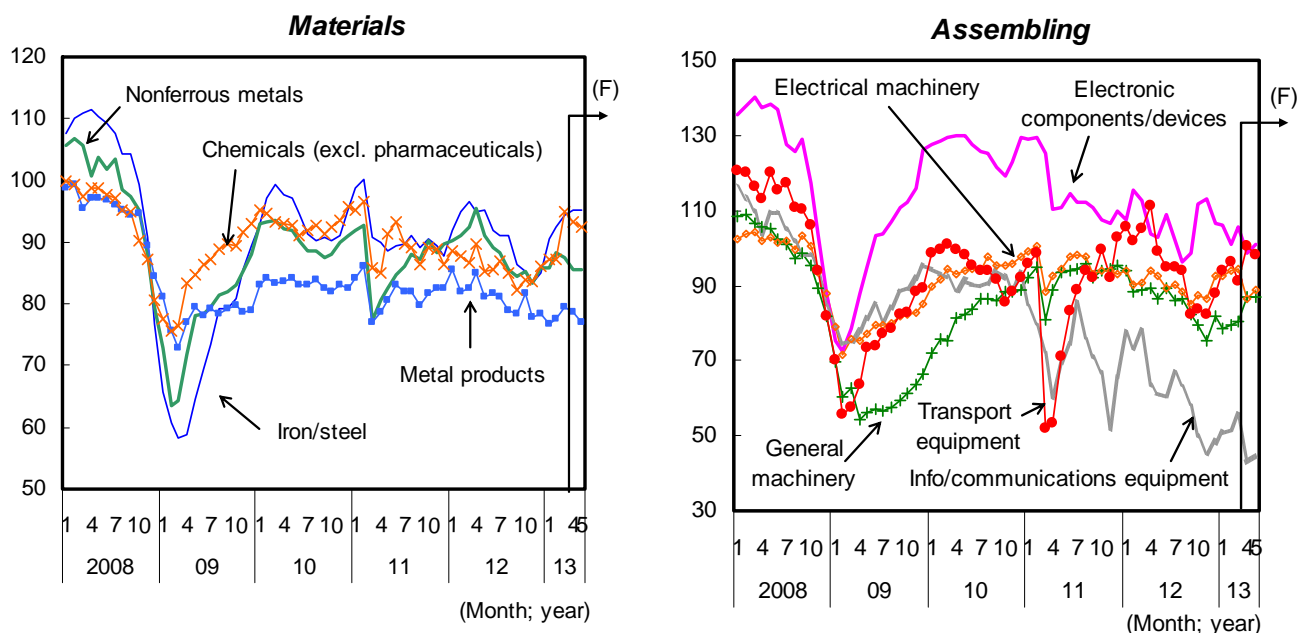
Looking at March production by industry, chemicals posted a gain (up 5.3% m/m), surpassing the projection in the previous METI report released in March and driving overall production. Other industries pushing up production included electronic components/devices and info/communications equipment. In the case of the former, production turned to increase (up 4.7%) from stagnation, reflecting higher production of smartphone components, such as active matrix LCDs and MOS memory ICs. In the case of the latter, contrary to a projection of a major slide in the previous METI report, production increased (up 7.9%), thanks to higher production of external memory units and LCD-TVs. In contrast, the slide in the transportation equipment industry was a major factor pulling down overall production, but which was anticipated in the previous METI report.

The current METI survey projects overall production to increase 0.8% m/m in April and to decline 0.3% in May, meaning industries expect the underlying moderate uptrend to continue, although seesawing on a monthly basis. Industries projecting slides for both months are nonferrous metals, metal products, and chemicals, exhibiting a cautious attitude on the part of materials industries in general. With regard to assembling industries, general machinery and transportation equipment project

sharp gains in April, driving overall production. Meanwhile, electrical machinery, info/communications equipment, and electronic component/device industries project plunges in April and then a bottoming out in May.

Production by Industry (2005 = 100; SA basis)

Chart 3



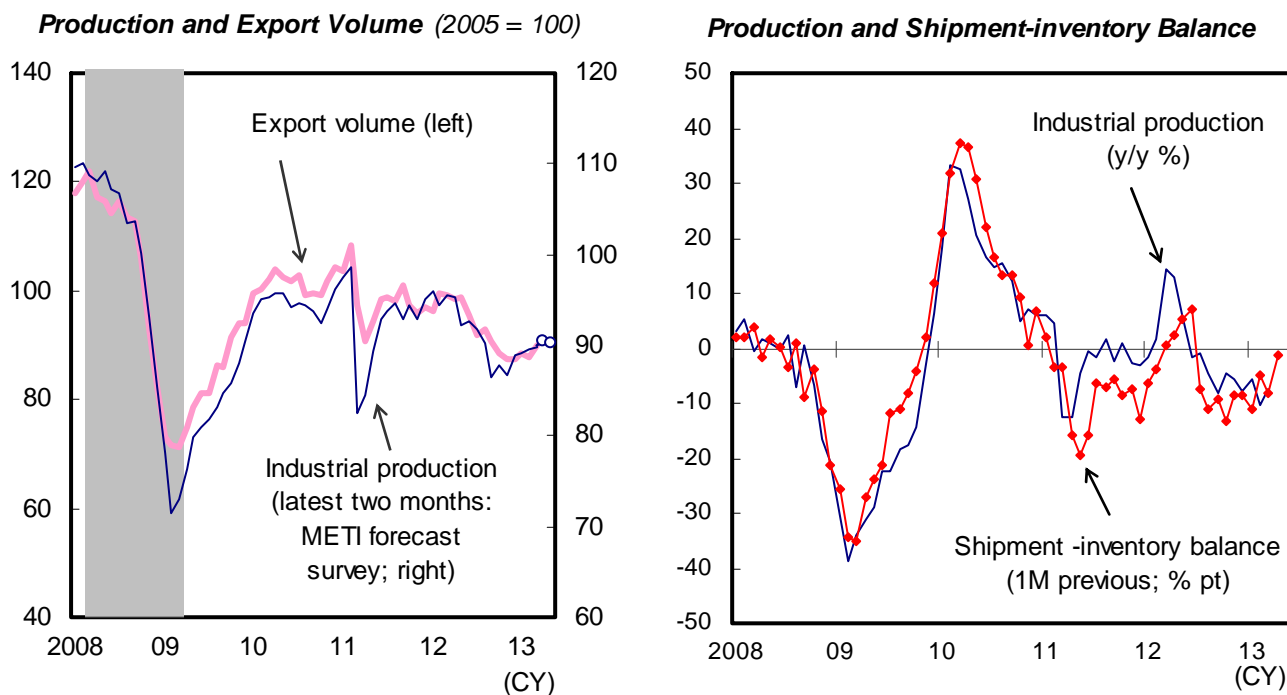
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
Note: Latest two months based on METI's forecast survey.

Production to grow driven by higher exports

While production has begun to show signs of recovery, whether it sees a stable recovery will depend on export volume trend. Following current signs of bottoming out, 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. Another positive factor is an improvement in the inventory-shipment ratio, meaning downward pressure arising from inventory adjustments has gradually weakened. Accordingly, driven by advances in exports, production should continue to increase moderately.

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.