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June Industrial Production

Production halts on a monthly basis but firming up continues

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Summary

- In *Indices of Industrial Production* (preliminary; Ministry of Economy, Trade and Industry [METI]), June industrial production saw the first m/m slide in five months (down 3.3%) and undershot market expectations (down 1.5%). It also declined for the first time in five months on a three-month moving average basis, putting a brake on firming up. However, the production forecast survey projects advances going forward. Thus, we maintain our view that the firming up of production continues.
- Production declined m/m in June for 13 industries out of 15. The sluggish result was as projected in the production forecast survey released in June. Prominent declines were seen in assembling industries—transportation equipment, electronic components/devices, and general-purpose/production/business-oriented machinery—, pulling down overall production.
- We expect production to maintain the uptrend going forward. Whether production will steadily advance or not will depend on export volume. In this regard, a possible slowdown in emerging market economies raises concerns. However, reflecting economic growth in the US and the effects of a weak yen, the ongoing uptrend in export volume is likely to continue, driving production. Meanwhile, domestic demand will probably increase at a growing pace toward end-FY13, driving overall production. Behind this are increased public works projects following execution of the FY12 supplementary budget, as well as front-loaded demand prior to a consumption tax hike scheduled for April 2014.

Industrial Production (m/m %; SA basis)											Chart 1
	2012				2013						Jun
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May		
Industrial Production	-2.2	0.3	-1.0	1.4	-0.6	0.9	0.1	0.9	1.9	-3.3	
Market consensus (Bloomberg)										-1.5	
DIR estimate										-1.0	
Shipments	-2.5	0.3	-1.6	3.7	1.2	1.8	-0.8	-1.4	1.0	-3.4	
Inventories	0.0	0.0	-0.4	-1.3	-1.6	-1.2	-0.7	0.8	-0.4	0.0	
Inventory ratio	2.6	-0.7	0.0	0.0	-3.8	-2.6	2.3	-5.1	-2.1	5.8	

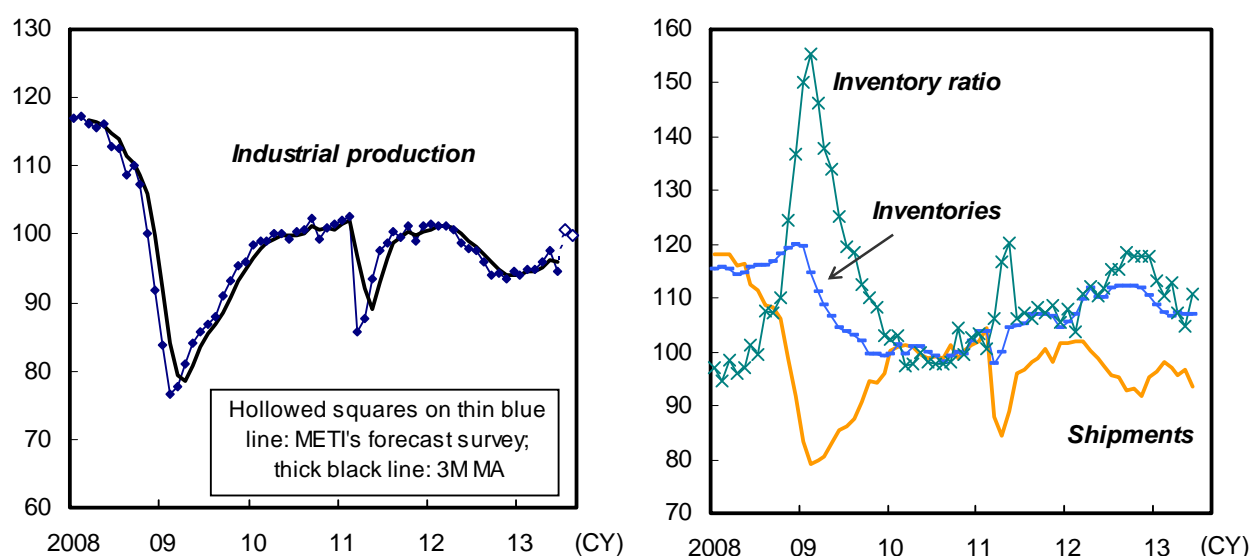
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

First slide in five months

In *Indices of Industrial Production* (preliminary; METI), June industrial production saw the first m/m slide in five months (down 3.3%) and undershot market expectations (down 1.5%). It also declined for the first time in five months on a three-month moving average basis, putting a brake on firming up. However, the production forecast survey projects advances going forward. Thus, we maintain our view that the firming up of production continues. Shipments saw the first slide in two months (down 3.4%), while inventories were flat, resulting in the first rise (worsening) in three months in the inventory-shipment ratio (up 5.8%).

Production, Shipments, and Inventories (2010 = 100; SA basis)

Chart 2



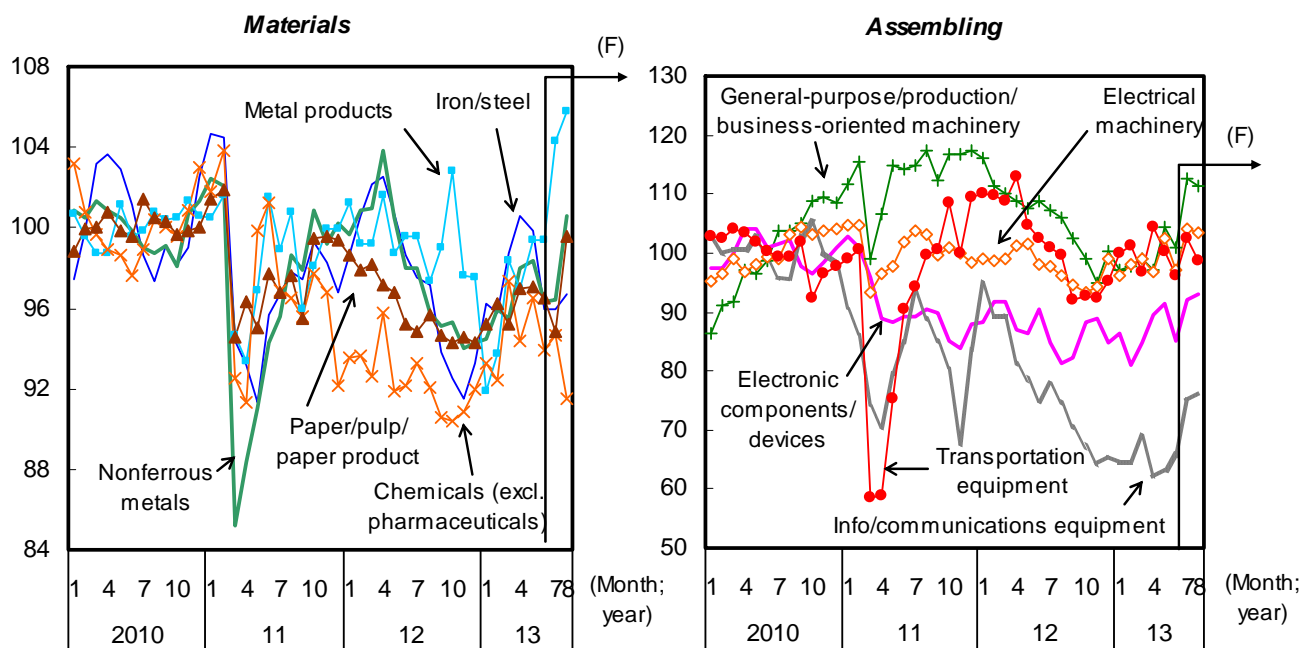
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.

Wide range slide as projected

Production declined m/m in June for 13 industries out of 15 for which data is available on a preliminary estimate basis. The sluggish result was as projected in the production forecast survey released in June. Prominent declines were seen in assembling industries—transportation equipment (down 4.1%), electronic components/devices (down 6.7%), and general-purpose/production/business-oriented machinery (down 3.2%)—, pulling down overall production. Meanwhile, declines were relatively limited in materials industries, excluding substantial declines in iron/steel (down 3.8%) and glass/ceramics/cement (down 3.3%).

The production forecast survey projects overall production to increase 6.5% m/m in July but to decline 0.9% in August, meaning industries expect production to grow with monthly fluctuations. As for July, assembling industries, which saw substantial declines in June, project substantial gains across the board, driving overall production. As for August, transportation equipment and general-purpose/production/business-oriented machinery project reactionary slides, placing downward pressure on overall production. However, the projected slides are limited and overall production will remain at a high level. Regardless of assembling or materials industry, a broad-based range of industries expect the underlying firming up to continue. However, this is not the case for chemicals, which maintains a cautious projection.

Production by Industry (2010 = 100; SA basis) Chart 3

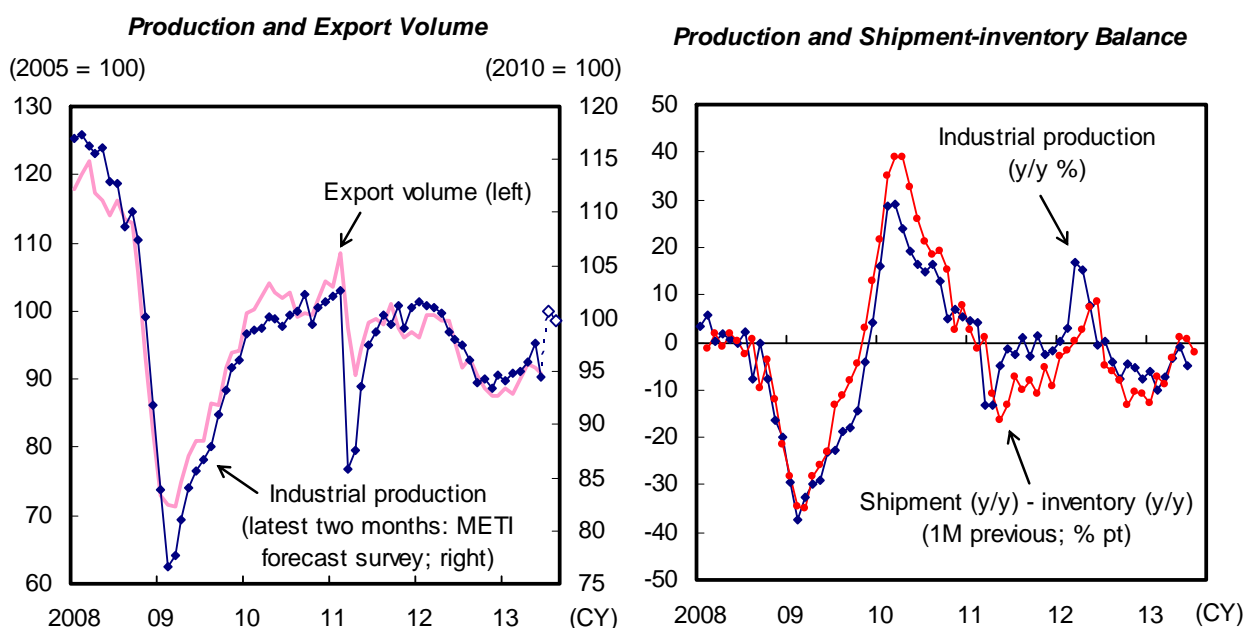


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
 F: METI's forecast survey.

Production to grow driven by higher exports

We expect production to maintain the uptrend going forward. Whether production will steadily advance or not will depend on export volume. In this regard, a possible slowdown in emerging market economies raises concerns. However, reflecting economic growth in the US and the effects of a weak yen, the ongoing uptrend in export volume is likely to continue, driving production. Meanwhile, domestic demand will probably increase at a growing pace toward end-FY13, driving overall production. Behind this are increased public works projects following execution of the FY12 supplementary budget, as well as front-loaded demand prior to a consumption tax hike scheduled for April 2014.

Production, Export Volume, and Shipment-inventory Balance Chart 4



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