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# August Industrial Production

Despite slowdown in momentum, upbeat projections going forward

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## Summary

- In *Indices of Industrial Production* (preliminary; Ministry of Economy, Trade, and Industry [METI]), August industrial production saw the first m/m slide in two months (down 0.7%) and undershot market expectations (down 0.3%). It also posted the first decline in two months on a three-month moving average basis, indicating the underlying trend is slowing. Shipments saw the second gain in a row (up 0.4%), while inventories posted the first slide in three months (down 0.1%).
- Production was mixed by industry, up m/m in seven industries, down in seven, and flat in one. Among those that saw declines and pulled down overall production were general-purpose/production/business-oriented machinery, chemicals, and transportation equipment.
- The production forecast survey projects overall production to increase 5.2% m/m in September and 2.5% in October. Production is projected to gain momentum going forward. However, the production forecast survey should be discounted to some extent, as the realization ratio (actual to projection ratio) has been persistently negative.
- We expect production to maintain the uptrend going forward. Whether production will steadily advance or not will depend on export volume. In this regard, growth in export volume has decelerated due to a slowdown in emerging market economies. 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 accelerate toward end-FY13, lifting overall production. Behind this are increased public works projects following execution of the FY12 supplementary budget, as well as surging demand prior to the consumption tax hike scheduled for April 2014.

Industrial Production (m/m %; SA basis)

Chart 1

	2012		2013							
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	-1.0	1.4	-0.6	0.9	0.1	0.9	1.9	-3.1	3.4	<b>-0.7</b>
Market consensus (Bloomberg)										-0.3
DIR estimate										0.0
Shipments	-1.6	3.7	1.2	1.8	-0.8	-1.4	1.0	-3.2	2.0	<b>0.4</b>
Inventories	-0.4	-1.3	-1.6	-1.2	-0.7	0.8	-0.4	0.0	1.6	<b>-0.1</b>
Inventory ratio	0.0	0.0	-3.8	-2.6	2.3	-5.1	-2.1	5.9	-0.5	<b>1.6</b>

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

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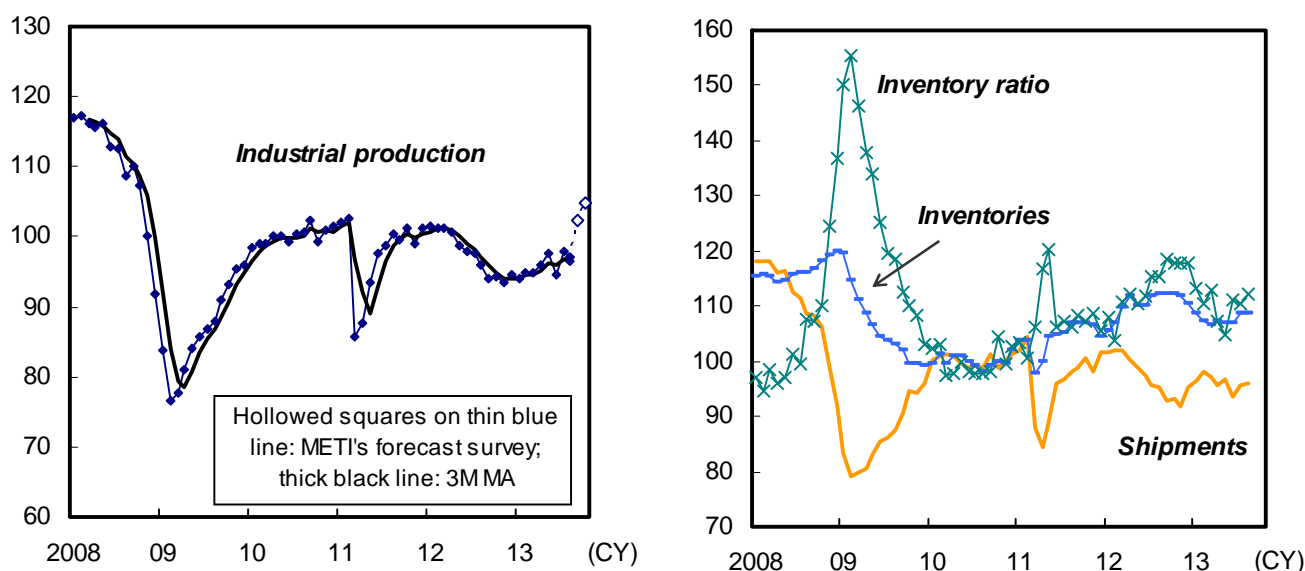
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## First decline in two months

In *Indices of Industrial Production* (preliminary; METI), August industrial production saw the first m/m slide in two months (down 0.7%) and undershot market expectations (down 0.3%). It also posted the first decline in two months on a three-month moving average basis, indicating the underlying trend is slowing. Shipments saw the second gain in a row (up 0.4%), while inventories posted the first slide in three months (down 0.1%).

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

Chart 2



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

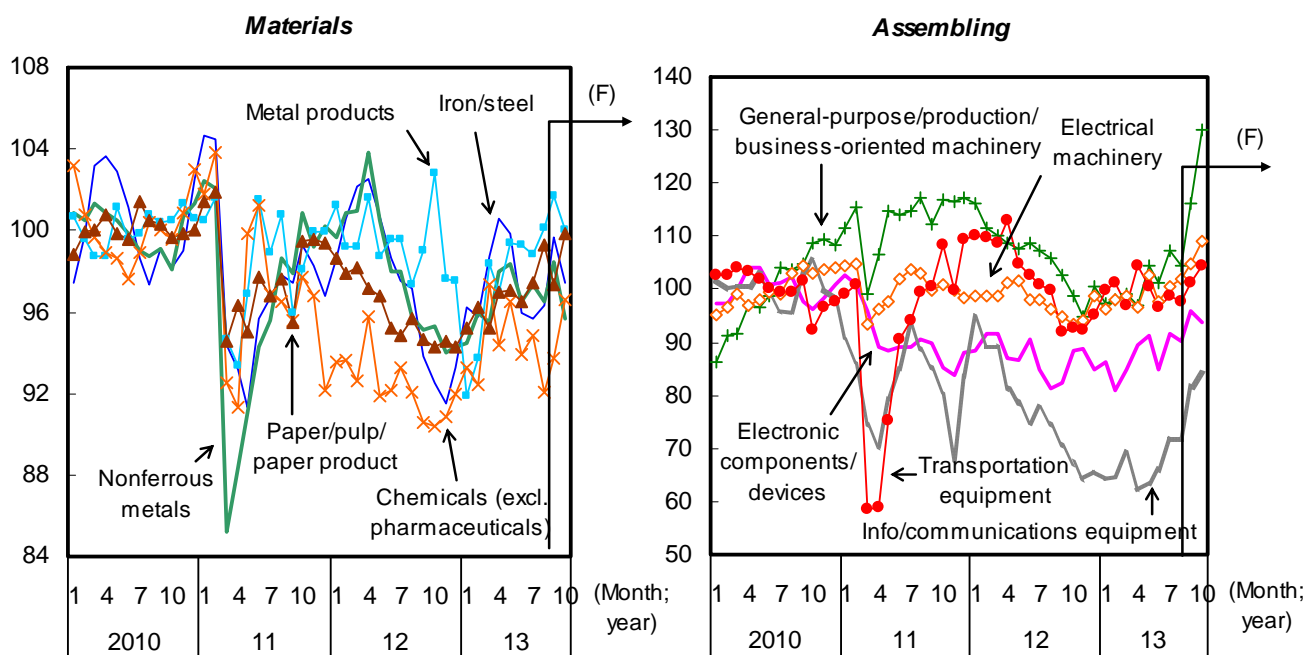
## Advance likely for September and October, centering on assembling industries

Production was mixed by industry, up m/m in seven industries, down in seven, and flat in one. Among those that saw declines and pulled down overall production were general-purpose/production/business-oriented machinery (down 2.4%), chemicals (down 2.8%), and transportation equipment (down 0.9%). However, this was on par with market expectations as these industries had projected production cuts for August in the previous month's production forecast survey (subcomponent of *Indices of Industrial Production*). Industries responsible for overall production undershooting market expectations were electronic components/devices, which saw a slide in production contrary to the projection, and info/communications equipment, which remained flat despite the projection for a substantial advance.

The production forecast survey projects overall production to increase 5.2% m/m in September and 2.5% in October. As for September, all industries except for paper/pulp expect increases. Specifically, general-purpose/production/business-oriented machinery anticipates a substantial gain and is likely to drive overall production. As for October, iron/steel and non-ferrous industries project slowdowns. Meanwhile, a wide-range of assembling industries project ongoing increases to continue. Such industries include general-purpose/production/business-oriented machinery, electrical machinery, info/communications equipment, and transportation equipment. Overall, production is projected to gain momentum going forward. However, the production forecast survey should be discounted to some extent, as the realization ratio (actual to projection ratio) has been persistently negative.

Production by Industry (2010 = 100; SA basis)

Chart 3



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

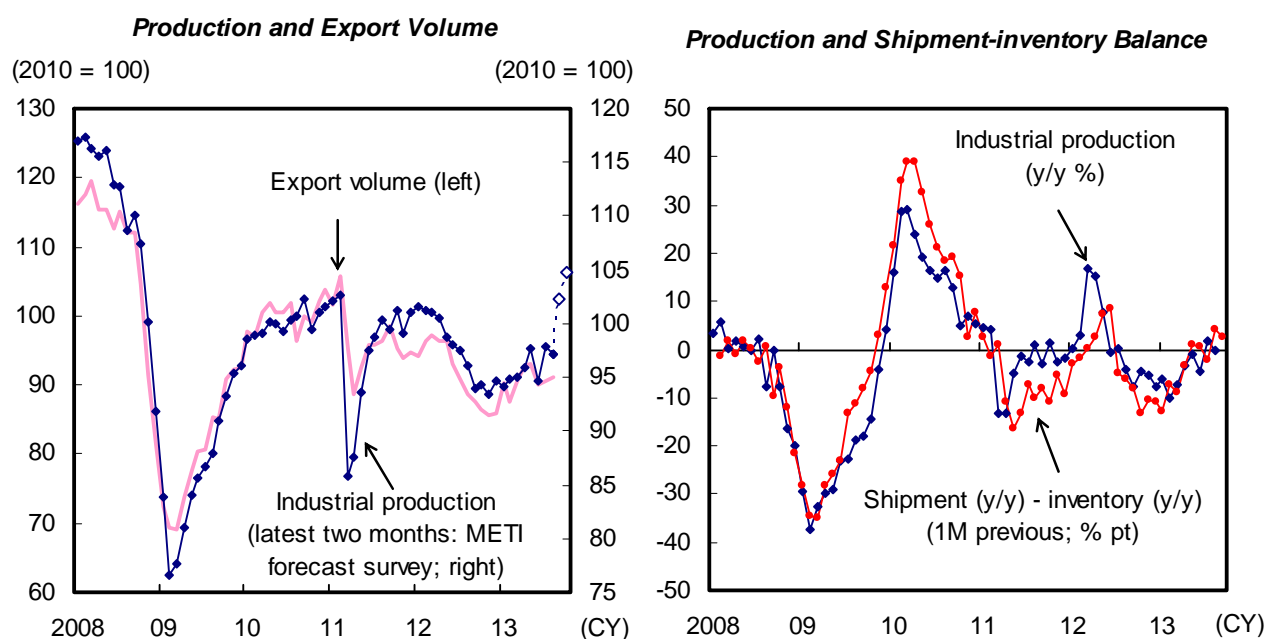
F: METI's forecast survey.

## 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 growing pace in export volume has decelerated due to a slowdown in emerging market economies. 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 accelerate toward end-FY13, lifting overall production. Behind this are increased public works projects following execution of the FY12 supplementary budget, as well as surging demand prior to the 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.