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# December Industrial Production

## Gains seen in wide range of industries; plans for major production increases in response to last minute demand

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**Summary**

- The December 2013 indices of industrial production boasted its first m/m gains in two months at +1.1%. Though slightly below market consensus (+1.3%), the growth trend in industrial production was confirmed by these figures. The shipment index was also up by 0.6%, showing m/m growth for the first time in two months, while the inventory index recorded a m/m decline of 0.4%, the fifth consecutive month of declines.

- As for December production by industry, thirteen out of the total of fifteen industries recorded m/m gains, with production increases seen in a broad range of industries. Of these, general-purpose/production/business-oriented machinery, metal products, and the electronic parts and devices industry contributed the most. These industries were projected to have gains in production on last month's production forecast survey, so performance was as expected.

- METI's production forecast survey projects especially strong growth in the upcoming months, with production plans for January 2014 up 6.1% m/m and February up 0.3%. In the general-purpose/production/business-oriented machinery industries, both the revision ratio and realization ratio continued to report negative numbers, meaning that strong projections by industry need to be discounted to some extent. However, plans for major production increases in the transport machinery and info/communications equipment industries indicate that businesses have locked their sights on last minute demand due to upcoming tax increases. These highly confident production plans are therefore considered to have good feasibility.

**Industrial Production** (m/m %; SA basis) **Chart 1**

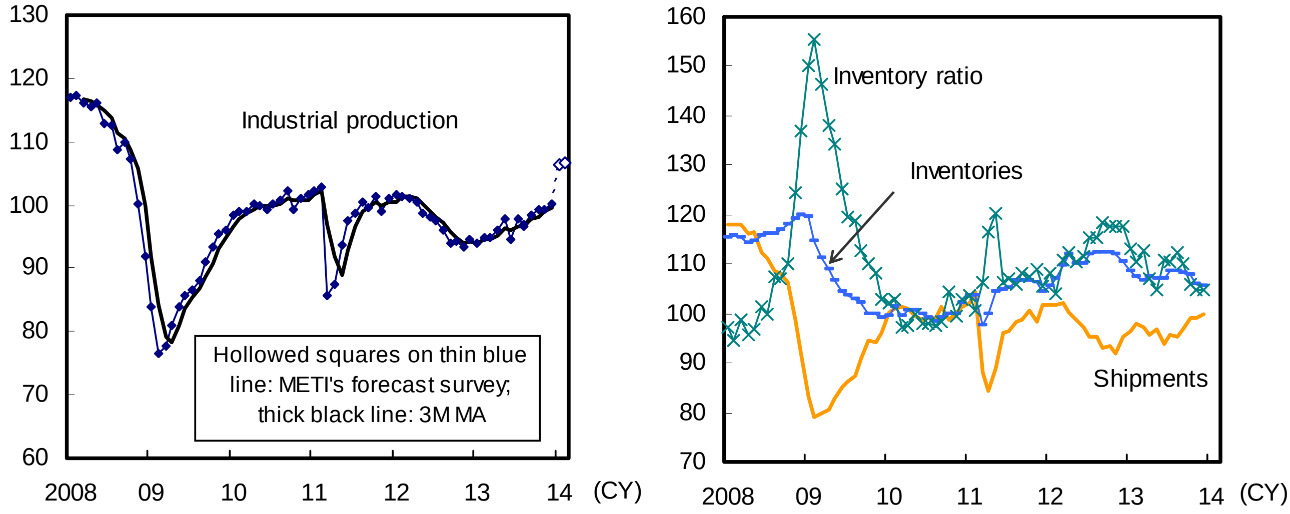
| | 2013 Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|
| Industrial Production | 0.1 | 0.9 | 1.9 | -3.1 | 3.4 | -0.9 | 1.3 | 1.0 | -0.1 | **1.1** |
| Market consensus (Bloomberg) | | | | | | | | | | 1.3 |
| DIR estimate | | | | | | | | | | 0.7 |
| Shipments | -0.8 | -1.4 | 1.0 | -3.2 | 2.0 | -0.1 | 1.5 | 2.3 | 0.0 | **0.6** |
| Inventories | -0.7 | 0.8 | -0.4 | 0.0 | 1.6 | -0.2 | -0.2 | -0.3 | -1.8 | **-0.4** |
| Inventory ratio | 2.3 | -5.1 | -2.1 | 5.9 | -0.5 | 1.8 | -2.1 | -3.7 | -1.2 | **0.1** |

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

## December indices of industrial production achieve growth for first time in two months

The December 2013 indices of industrial production boasted its first m/m gains in two months at +1.1%. Though slightly below market consensus (+1.3%), the growth trend in industrial production was confirmed by these figures. The shipment index was also up by 0.6%, showing m/m growth for the first time in two months, while the inventory index recorded a m/m decline of 0.4%, the fifth consecutive month of declines.

**Production, Shipments, and Inventories** (2010 = 100; SA basis) **Chart 2**




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

## Production grows across broad range of industries

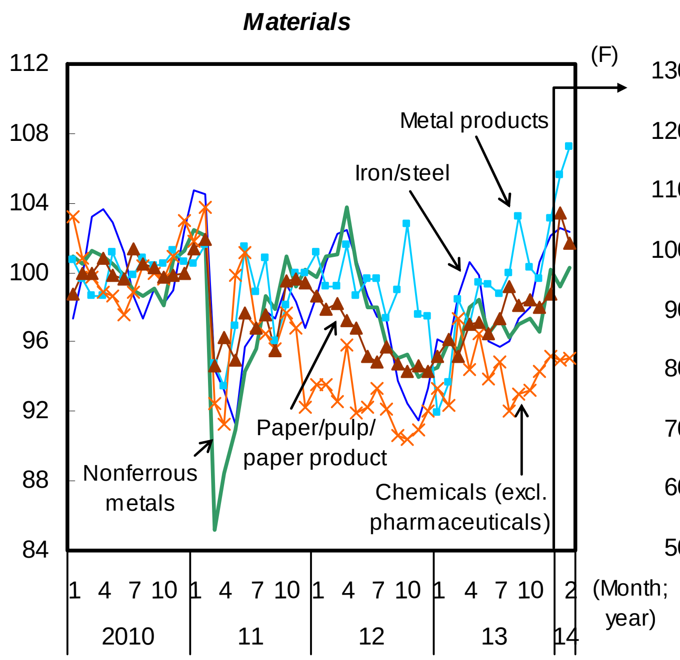
As for December production by industry, thirteen out of the total of fifteen industries recorded m/m gains, with production increases seen in a broad range of industries. Of these, general-purpose/production/business-oriented machinery, metal products, and the electronic parts and devices industry contributed the most. These industries were projected to have gains in production on last month’s production forecast survey, so performance was as expected.

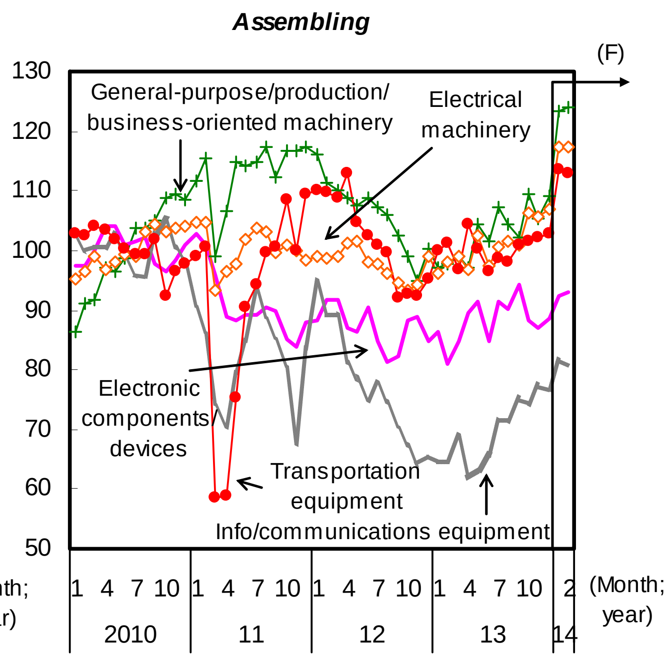
The general-purpose/production/business-oriented machinery industry posted m/m growth for the first time in two months at +3.7%. Growth in the area of export oriented capital goods for production equipment helped push production up in this area. Included are numerically-controlled robots for the U.S. market and mechanical press machinery headed for Indonesia and Thailand. Meanwhile, the metal products industry achieved m/m gains for the first time in three months at +3.5%. Factors contributing to growth included increased production of bridge trusses due to active public spending, and growth in production of steel beams due to firm construction demand. Finally, the electronic parts and devices industry grew for the first time in three months at +1.7% m/m due mainly to growth in active matrix liquid crystal devices (middle-sized and small) for smart phones and tablet computers.

## Production forecast survey projects strong growth

METI's production forecast survey projects especially strong growth in the upcoming months, with production plans for January 2014 up 6.1% m/m and February up 0.3%. Production growth is anticipated for all industries in January 2014 with the exception of nonferrous metals and chemicals. To sum it up, production plans are extremely confident. Amongst the manufacturing and assembly industries, general-purpose/production/business-oriented machinery sees especially high growth (up 13.1% m/m), along with transport machinery (+10.5%), electrical machinery (+9.8%), and info/communications equipment (+6.6%). On the other hand, February 2014 sees a decline for the iron/steel, electrical machinery, and info/communications equipment industries, but these declines are small in comparison to the gains which each of these industries saw in January. All in all, production is expected to continue its growth trend. In the general-purpose/production/business-oriented machinery industries, both the revision ratio and realization ratio continued to report negative numbers, meaning that strong projections by industry need to be discounted to some extent. However, plans for major production increases in the transport machinery and info/communications equipment industries indicate that businesses have locked their sights on last minute demand due to upcoming tax increases. These highly confident production plans are therefore considered to have good feasibility.

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



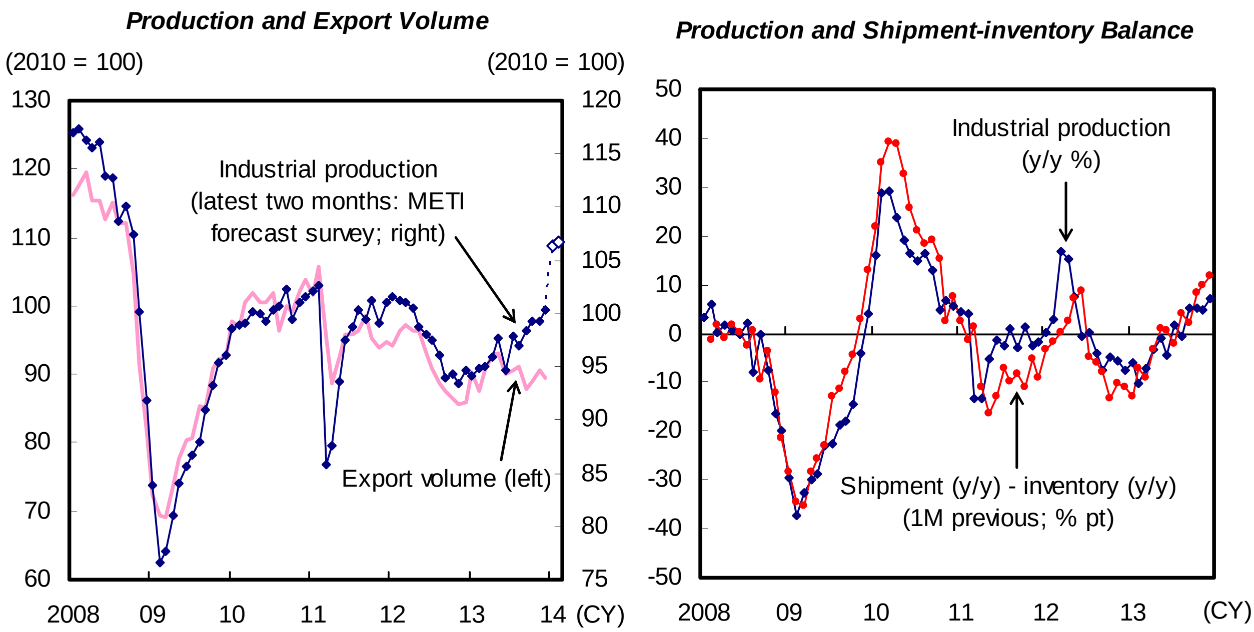




Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

## Growth in domestic demand to drive production up before end of fiscal year

Production is expected to maintain its growth trend in the coming months. A demand surge for durables prior to the April consumption tax hike is anticipated to gain momentum towards the end of the fiscal year, and possibilities are high that personal consumption will accelerate. Meanwhile, public spending is seen maintaining its high pace, and capex is making a comeback with improvements in corporate earnings. Therefore growth in domestic demand is expected to drive production up before the end of the fiscal year. Exports, which have improved only gradually until now, are also expected to show more of a growth trend in response to a weaker yen and overseas economic expansion, especially in the U.S. There is a good possibility that once the consumption tax hike goes into effect, domestic demand will hit a slowdown. Production is also expected to slow down temporarily, but in the long run, the growth trend is expected to continue, supported by export increases.

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




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