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March Industrial Production

Production declines temporarily

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Summary

- March 2014 indices of industrial production recorded the first rise in 2 months, up +0.3% m/m, but fell below market consensus at +0.5% m/m. Growth in production was fairly limited in March, a reminder of February's major snowstorms, and though the growth trend is continuing, this does indicate a temporary slowdown. Meanwhile, the inventory index was up for the first time in 8 months at +1.8% m/m, while the shipment index fell for the second consecutive month at -1.2%. The index of inventory rate therefore rose for the second month in a row at +2.6% m/m.
- As for production by industry in March, seven out of the total of fifteen industries recorded m/m growth, while eight industries suffered month-to-month declines, hence the mixed results. Industries which recorded growth included transport machinery, electronic components /devices, and ceramics, stone and clay products, whose performance helped to push overall results upwards.
- METI's production forecast survey sees April production plans down by 1.4% m/m, while May is expected to achieve m/m growth of 0.1%. Production has been experiencing a growth trend, but is seen running into a temporary slowdown in April. The growth trend is expected to return in May, though the margin of increase will be on the small side. It appears that production will avoid the extremes of the downtrend, a recoil or reactionary decline occurring after the increase in consumption tax.

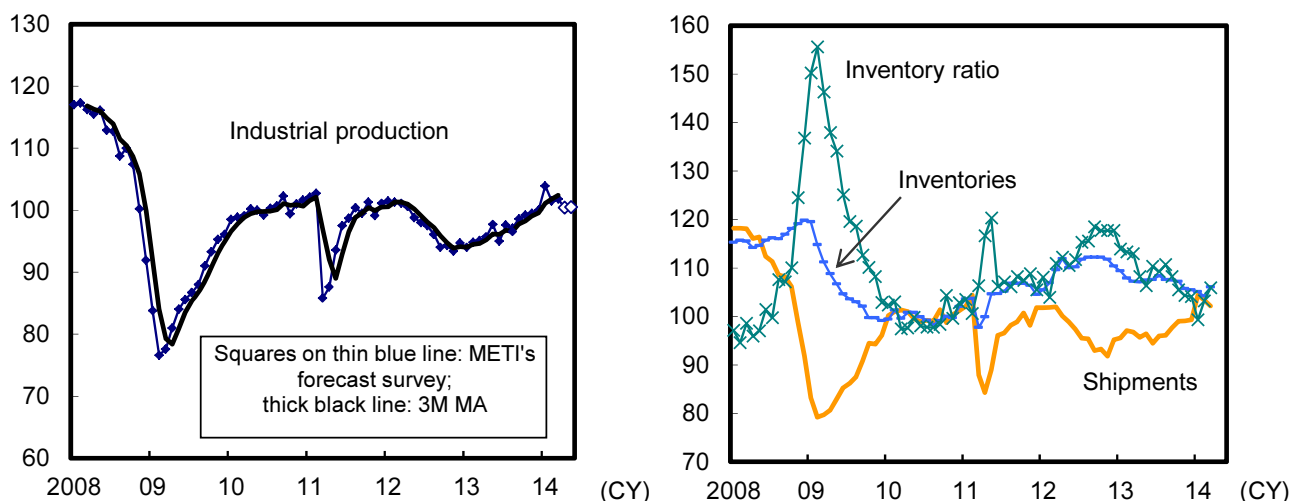
Industrial Production (m/m %; SA basis)										Chart 1
	2013							2014		
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Industrial Production	-2.8	2.7	-0.5	1.5	0.6	0.3	0.5	3.9	-2.3	0.3
Market consensus (Bloomberg)										0.5
DIR estimate										0.8
Shipments	-2.0	1.6	0.1	1.7	1.3	0.1	0.2	5.1	-1.0	-1.2
Inventories	0.1	0.7	-0.7	-0.1	-0.3	-1.4	-0.2	-0.4	-0.9	1.8
Inventory ratio	3.8	-1.0	1.4	-2.3	-2.5	-1.1	-0.2	-4.6	3.9	2.6

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

March 2014 indices of industrial production fall below market consensus

March 2014 indices of industrial production recorded the first rise in 2 months, up +0.3% m/m, but fell below market consensus at +0.5% m/m. Growth in production was fairly limited in March, a reminder of February's major snowstorms, and though the growth trend is continuing, this does indicate a temporary slowdown. Meanwhile, the inventory index was up for the first time in 8 months at +1.8% m/m, while the shipment index fell for the second consecutive month at -1.2%. The index of inventory rate therefore rose for the second month in a row at +2.6% m/m.

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



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

Production by industry experiences ups and downs

As for production by industry in March, seven out of the total of fifteen industries recorded m/m growth, while eight industries suffered month-to-month declines, hence the mixed results. Industries which recorded growth included transport machinery, electronic components/devices, and ceramics, stone and clay products, whose performance helped to push overall results upwards.

As for transport machinery, production was up for the first time in 2 months at +3.1% m/m. A decline was forecast for March in the previous month's production forecast survey, but the industry appears to have entered an upward swing. The industry's March shipment index was down for the first time in 3 months at -4.2%, though this is seen as merely a temporary glitch in response to the last minute demand in March prior to the increase in consumption tax. The increase in production in the midst of declines in shipments is seen as an effort to replenish inventories after their decline as a result of the last minute demand. As a result, the inventory index for the industry experienced major growth at +20.2% m/m.

Electronic components/devices also exceeded the previous month's outlook at +5.5% m/m, recording growth for the second consecutive month. In terms of performance by product category, growth in the areas of solar cell batteries, active liquid crystal elements (large size), and MOS type semiconductor integrated circuits (CCD) helped to push up overall results.

Industries recording declines were general-purpose/production/business-oriented machinery (-1.6%), chemicals (-2.3%), and metallic products (-2.6%). Factors pushing down results carried the most

weight for these industries. However, performance was along the lines forecast in the previous month's production forecast survey, so it comes as no surprise. The real negative factor was the information communication electronics equipment industry, which suffered a -0.6% m/m decline and a major drop in shipments at -9.5% m/m despite the previous month's production forecast survey having forecast major growth.

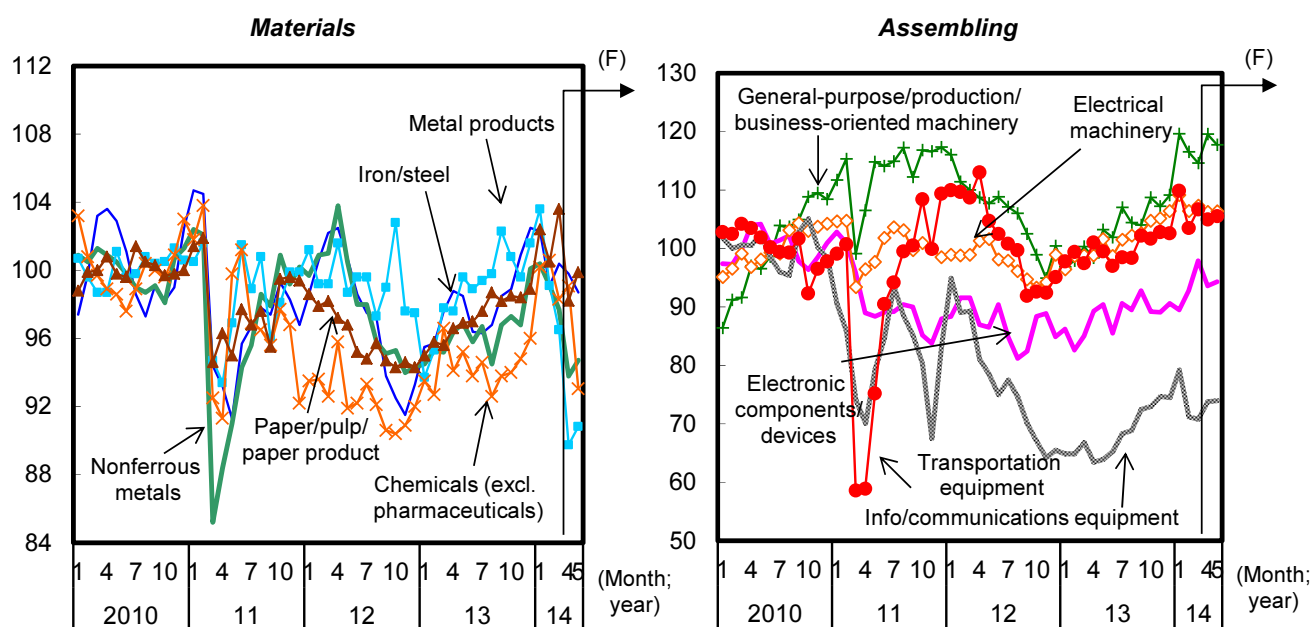
April production to see momentary slowdown, but will recover in May

METI's production forecast survey sees April production plans down by 1.4% m/m, while May is expected to achieve m/m growth of 0.1%. Production has been experiencing a growth trend, but is seen running into a temporary slowdown in April. The growth trend is expected to return in May, though the margin of increase will be on the small side. It appears that production will avoid the extremes of the downtrend, a recoil or reactionary decline occurring after the increase in consumption tax.

April production plans by industry show a noticeable downturn for the materials industries, with metallic products down -7.0% m/m, pulp, paper, and paper products down -5.2%, and non-ferrous metals down -4.0%. As for the processing industries, electronic components and devices are seen suffering a major decline of -4.4%, but general-purpose/production/business-oriented machinery is expected to see a production increase of +4.3%, along with the information communication electronics equipment industry at +4.2% m/m. All in all, production is expected to maintain its underlying strength. In May, a major decline is seen for chemicals, down 6.1%, while most other industries are seen marking time. Industrial production is expected to take a rest from the post consumption tax hike adjustment.

Production by Industry (2010 = 100; SA basis)

Chart 3

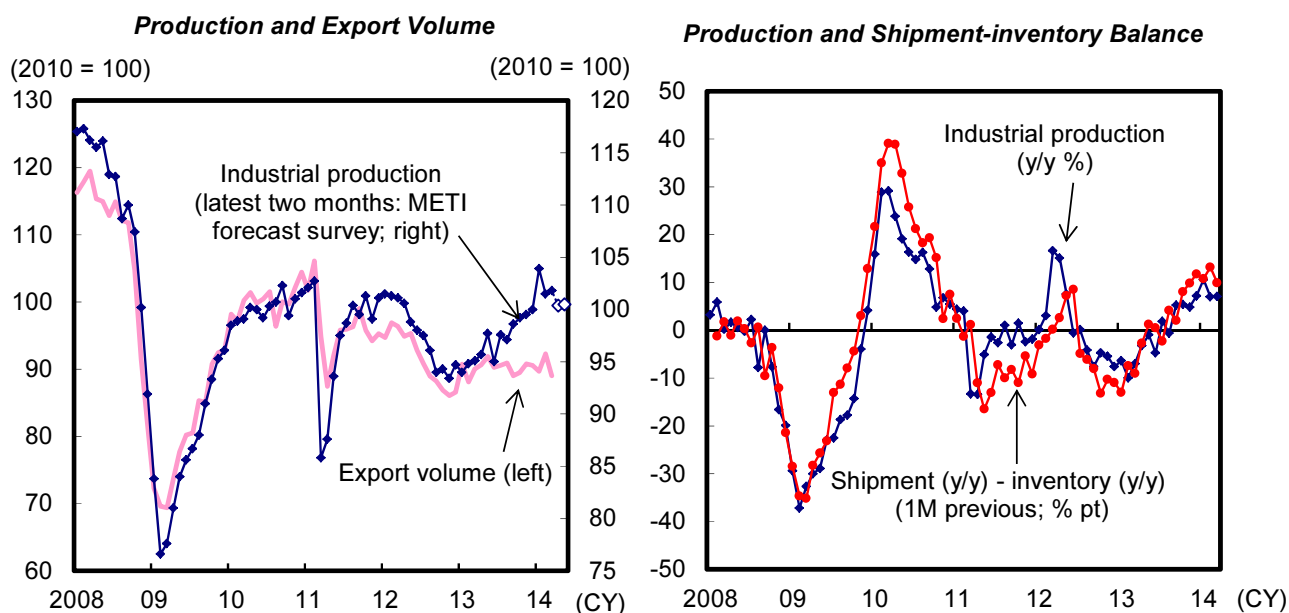


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

Production to return to growth trend

Industrial production is expected to continue its growth trend despite the temporary decline resulting in the reactionary downturn in personal consumption following the increase in the consumption tax. The reactionary decline in personal consumption is expected to hit bottom in April, after which it should ease up. Downward pressure from the reactionary decline should then gradually retreat. Meanwhile, some industries have indicated that shipments of export oriented goods may have been held back a bit as a means of handling last minute demand in the domestic market. Production of export oriented goods is therefore expected to grow in the near future. The effect of the weak yen and overseas economic expansion led by the US will likely strengthen the growth trend in exports. Meanwhile, increase in exports is expected to provide support for a continuation of the upswing in capex. Public investment is expected to continue at a high level, bringing expectations that growth in production of capital goods will drive further gains in industrial production in the near future.

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



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