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April Industrial Production

Production slows momentarily, but is expected to retain strong undertone

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Summary

- April 2014 indices of industrial production declined for the first time in 2 months, down -2.5% m/m, and fell below market consensus as well by -2.0% m/m. The decline in production, coming after the increase in consumption tax, was as expected, and so was not a big surprise. The shipment index was down for the third consecutive month at -5.0% m/m, while the inventory index fell for the first time in two months at -0.5%. The index of inventory rate therefore fell for the first time in 3 months at -1.8% m/m.
- As for production by industry in April, twelve out of the total of fifteen industries recorded m/m declines, with the slowdown touching a broad range of industries. Industries which recorded declines included transport machinery (down 3.5% m/m), electronic components/devices (-5.2%), and chemicals (excluding pharmaceuticals) down 3.3% m/m. Setbacks suffered by these industries contributed to the overall decline.
- METI's production forecast survey sees further ups and downs for the near future, with May production plans up by 1.7% m/m, while June is expected to be down by 2.0%. April experienced a slowdown in production which was an effect of the reaction decline occurring immediately after the increase in the consumption tax. Production is expected to remain mostly flat in the near future, but it appears that it has avoided the extremes of the reactionary decline which followed the consumption tax hike.

Industrial Production (m/m %; SA basis)										Chart 1
	2013						2014			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	2.7	-0.5	1.5	0.6	0.3	0.5	3.9	-2.3	0.7	-2.5
Market consensus (Bloomberg)										-2.0
DIR estimate										-1.7
Shipments	1.6	0.1	1.7	1.3	0.1	0.2	5.1	-1.0	-0.2	-5.0
Inventories	0.7	-0.7	-0.1	-0.3	-1.4	-0.2	-0.4	-0.9	1.4	-0.5
Inventory ratio	-1.0	1.4	-2.3	-2.5	-1.1	-0.2	-4.6	3.9	2.1	-1.8

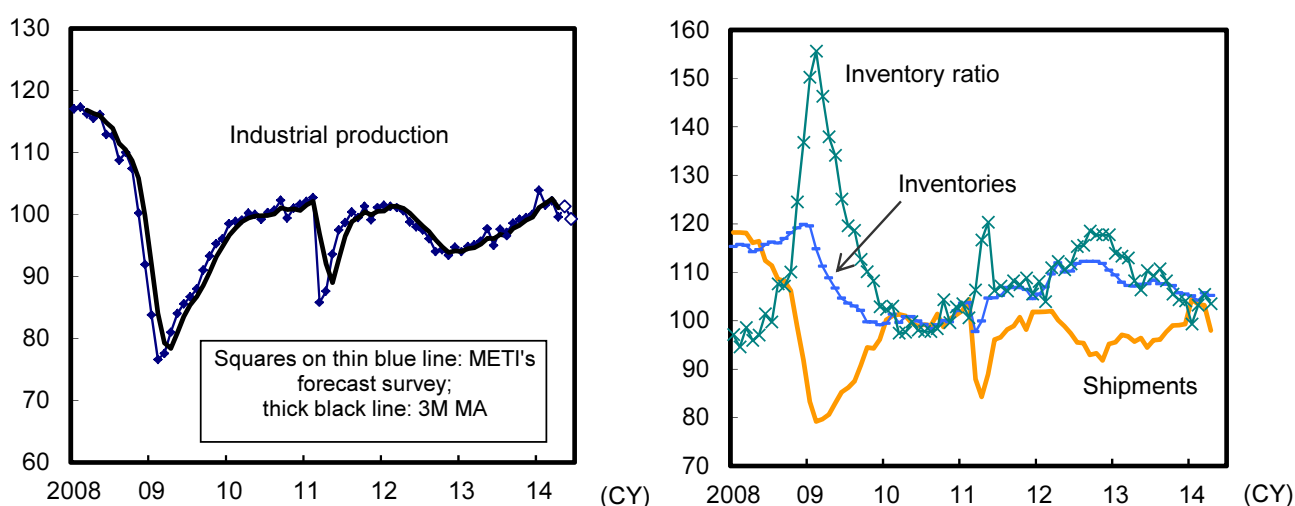
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

April 2014 indices of industrial production falls below market consensus

April 2014 indices of industrial production declined for the first time in 2 months, down -2.5% m/m, and fell below market consensus as well by -2.0% m/m. The decline in production, coming after the increase in consumption tax, was as expected, and so was not a big surprise. The shipment index was down for the third consecutive month at -5.0% m/m, while the inventory index fell for the first time in two months.

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

Chart 2



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

Production cuts seen in broad range of industries

As for production by industry in April, twelve out of the total of fifteen industries recorded m/m declines, with the slowdown touching a broad range of industries. Industries which recorded declines included transport machinery (down 3.5% m/m), electronic components/devices (-5.2%), and chemicals (excluding pharmaceuticals) down 3.3% m/m. Setbacks suffered by these industries contributed to the overall decline. Most industries foresaw the reactionary decline following the increase in consumption tax and had already planned for a slowdown in April during the previous month as reported in METI's production forecast survey, hence it was already foreseen that most industries would be slowing production. There was only one negative element in the results, that of chemicals, which had expected to increase production in April according to the previous month's production forecast survey, but then ended up experiencing a decline instead.

Industries reporting increases in production were metallic products (+3.8% m/m), general-purpose/production/business-oriented machinery (+0.5%), and non-ferrous metals (+1.3%). The general-purpose/production/business-oriented machinery industry was down slightly from the previous month's forecast, but retained a steady undertone.

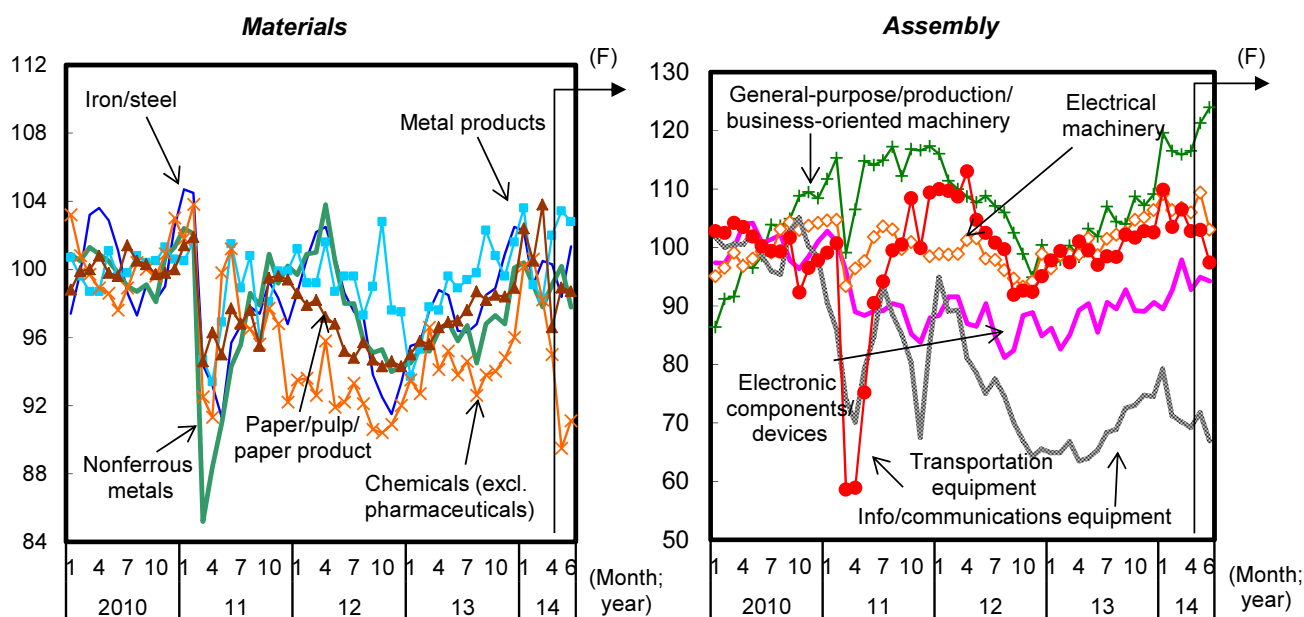
Extremes of slowdown due to reactionary decline after tax hike avoided

METI's production forecast survey sees more ups and downs for the near future with May production plans up by +1.7% m/m, while June is expected to fall back again with -2.0%. Production experienced a temporary slowdown in April, due to the recoil or reactionary decline occurring after the increase in consumption tax, and is expected to continue levelling out in the near future. Industrial production has avoided the extremes of the reaction decline following the consumption tax increase

May production plans by industry show increases for general-purpose/production/business-oriented machinery (+4.1%), electrical machinery (+3.2%), and electronic components/devices (+2.3%). Advances for these industries are expected to push up overall performance. May is expected to see production increases in a broad range of industries with overall positive results. On the other hand, June is expected to see declines in a broad range of industries. The downturn is expected to be especially noticeable in processing industries such as electrical machinery (-5.8% m/m), the information communication electronics equipment industry (-6.7%), and transport machinery (-5.4%).

Production by Industry (2010 = 100; SA basis)

Chart 3



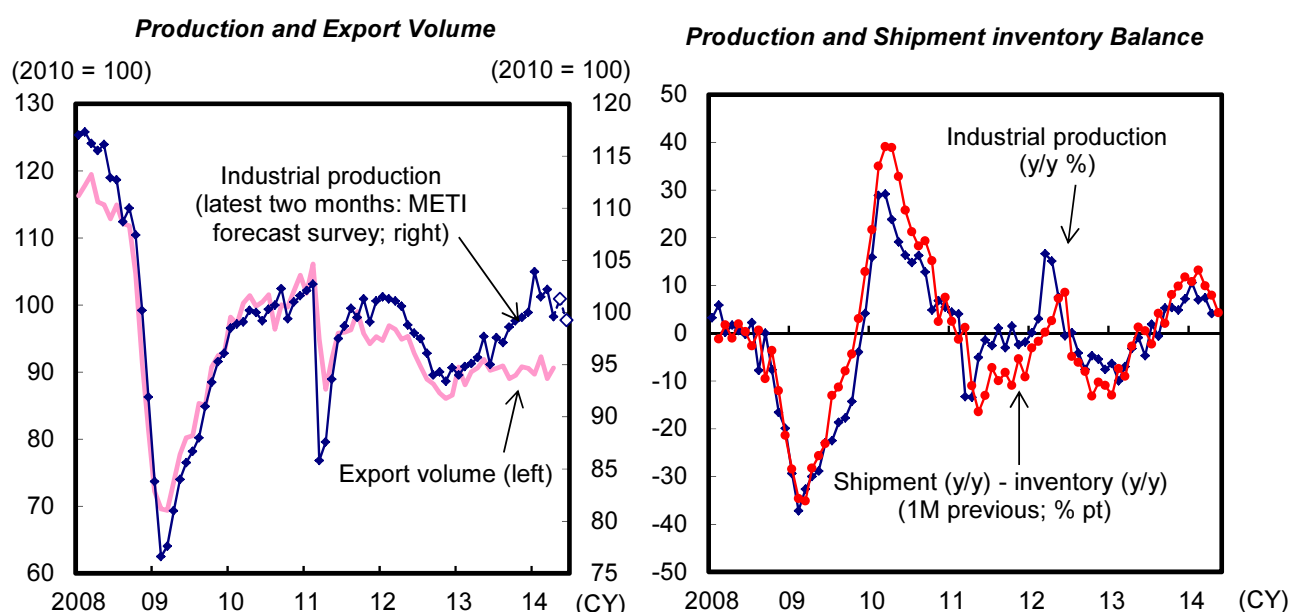
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

Production expected to continue strong undertone

Industrial production is expected to maintain a strong undertone despite the temporary decline due to the 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, production of export oriented goods is 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. Furthermore, the recent growth trend in capex is expected to continue due to positive performance for exports. Meanwhile increases in production are also taking place in domestic oriented capital goods. These recent developments are expected to be the drivers behind future industrial production.

Production, Export Volume, and Shipment-inventory Balance

Chart 4



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