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June Industrial Production

Results fall below consensus producing negative outcome

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Summary

- The June 2014 indices of industrial production fell for the first time in two months, down by -3.3% m/m, while at the same time falling well below market consensus, which recorded -1.2% - all in all negative results. Production has been slowing down since its peak in January 2014, and the trend appears now to be strengthening. The shipment index also fell for the fifth consecutive month at -1.9% m/m, while the inventory index rose for the second time in two months by +1.9% m/m, hence accompanied by an increase in the index of inventory rate for the second time in two months at +3.5%.
- As for production by industry in June, all industries except for “other industries” recorded declines. As of last month, METI’s production forecast survey had predicted growth in June for most industries, but most experienced declines instead, making these especially negative results. Looking at contribution to overall results, transport equipment, general purpose, production & business oriented machinery, and information communication equipment helped push overall results downwards.
- According to METI’s production forecast survey, July production schedules are expected to a comeback at +2.5% m/m, while August is seen continuing gains at +1.1% m/m. As for July production plans by industry, most of the assembly industries are expecting declines, but general purpose, production & business oriented machinery and chemicals see high growth in production, which are expected to help push up overall results. Most industries are expecting a comeback in August.

Industrial Production (m/m %; SA basis)											Chart 1
	2013				2014						
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Industrial Production	1.5	0.6	0.3	0.5	3.9	-2.3	0.7	-2.8	0.7	-3.3	
Market consensus (Bloomberg)										-1.2	
DIR estimate										-0.7	
Shipments	1.7	1.3	0.1	0.2	5.1	-1.0	-0.2	-5.0	-1.0	-1.9	
Inventories	-0.1	-0.3	-1.4	-0.2	-0.4	-0.9	1.4	-0.5	3.0	1.9	
Inventory ratio	-2.3	-2.5	-1.1	-0.2	-4.6	3.9	2.1	-1.6	4.0	3.5	

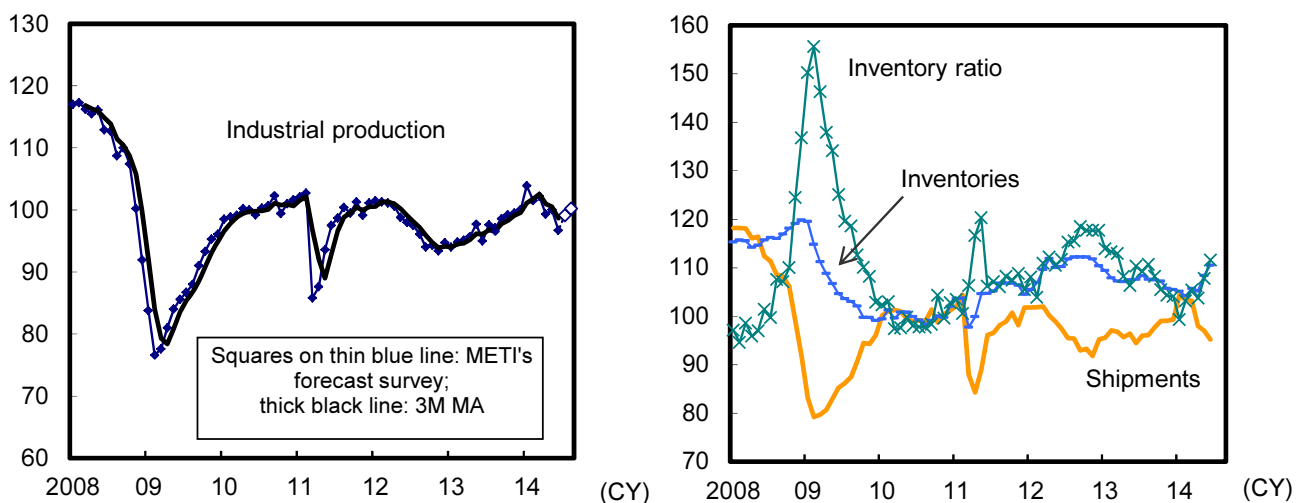
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

June 2014 industrial production falls significantly below market consensus

The June 2014 indices of industrial production fell for the first time in two months, down by -3.3% m/m, while at the same time falling well below market consensus, which recorded -1.2% - all in all negative results. Production has been slowing down since its peak in January 2014, and the trend appears now to be strengthening. The shipment index also fell for the fifth consecutive month at -1.9% m/m, while the inventory index rose for the second time in two months by +1.9% m/m, hence accompanied by an increase in the index of inventory rate for the second time in two months at +3.5%.

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

Chart 2



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

All industries except “other industries” record declines

As for production by industry in June, all industries except for “other industries” recorded declines. As of last month, METI’s production forecast survey had predicted growth in June for most industries, but most experienced declines instead, making these especially negative results. Looking at contribution to overall results, transport equipment, general purpose, production & business oriented machinery, and information communication equipment helped push overall results downwards.

The transport equipment industry declined for the first time in two months by -3.4% m/m. The transport equipment industry predicted a decline of -4.1% m/m in June on METI’s production forecast survey, so these results were according to plan. Sales volume of automobiles fell drastically in April after the increase in consumption tax and have been marking time ever since. With exports sluggish, the shipment index fell for the fourth consecutive month at -3.2% m/m and the downward trend for shipments is continuing. This factor has caused major downward pressure on production.

General purpose, production & business oriented machinery suffered a decline for the second month in a row at -3.0%. Not only did reaction vessels take a steep dive after last month’s major growth, but production of semiconductor manufacturing equipment also fell for the fifth consecutive month. This was a major factor in the decline in production for general purpose, production & business oriented machinery.

Information communication equipment fell for the fifth consecutive month at -9.0% m/m. As in the case of May, which also experienced a major downturn, desktop computers were the main factor in the decline. This was due to the reactionary decline after the consumption tax hike and the effects of the halting of support for the Windows XP operating system. All industries show a weakening tone in

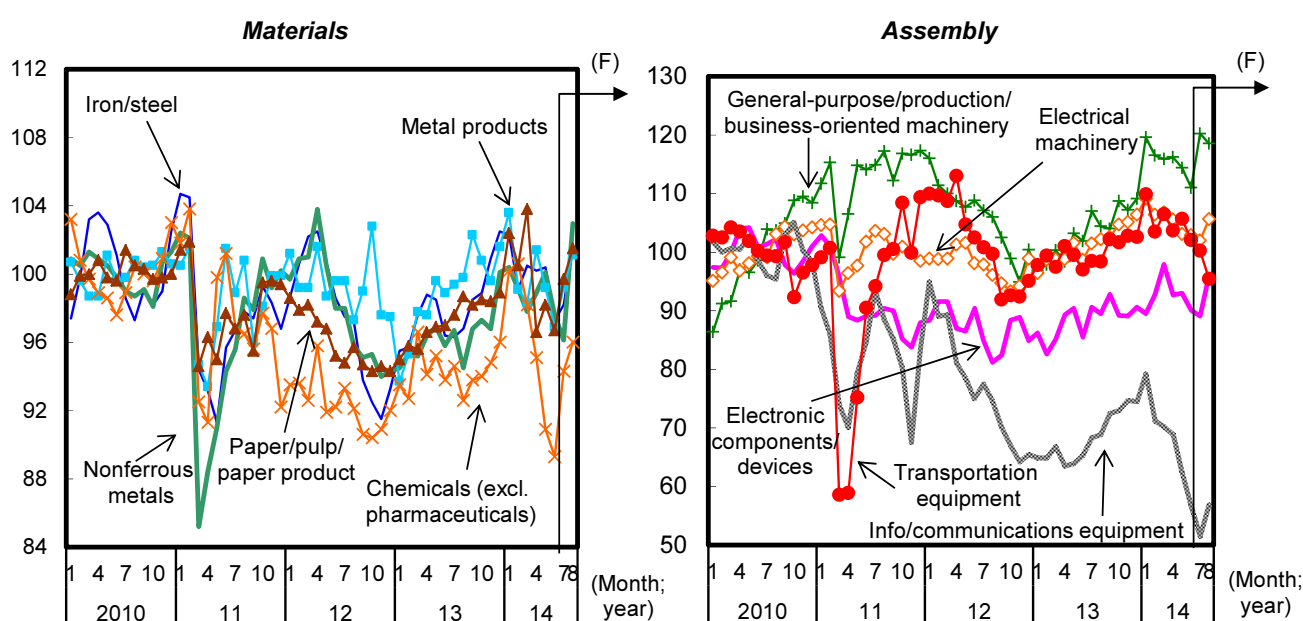
production for the immediate future, but production in the information communication equipment industry is exhibiting especially weak performance.

Production schedules to make comeback in July and August

According to METI's production forecast survey, July production schedules are expected to a comeback at +2.5% m/m, while August is seen continuing gains at +1.1% m/m. As for July production plans by industry, most of the assembly industries are expecting declines, but general purpose, production & business oriented machinery and chemicals see high growth in production, which are expected to help push up overall results. Most industries are expecting a comeback. However, further m/m declines are expected in July and August for the transport equipment industry and production declines are expected to continue, hence making this a major factor of concern. Transport equipment has an especially high share of production, so its influence is strongly felt. We suggest watching this area closely in the future.

Production by Industry (2010 = 100; SA basis)

Chart 3

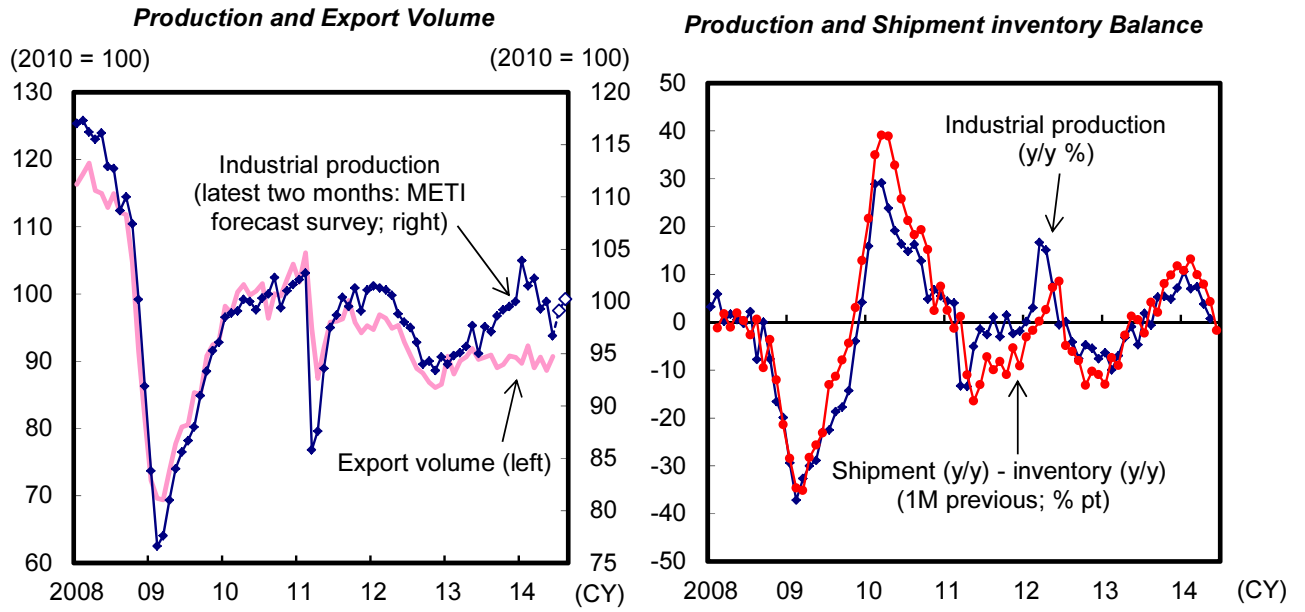


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

Production to gradually manage comeback in the future

As for the future, production is expected to gradually manage a comeback. The decline in personal consumption due to reactionary decline is expected to move closer to resolution, and factors bringing downward pressure on production are expected to recede. Meanwhile, the effect of the weakening yen, as well as economic expansion in overseas economies led by the US, are also expected to bring support for a future growth trend which should provide further support for production growth. Capex is also expected to continue its growth trend, and is seen bringing more upward momentum to industrial production.

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



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