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July Industrial Production

Improvement seen for first time in two months, but overall trend is toward decline. Comeback seen in future

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Summary

- The July 2014 indices of industrial production rose for the first time in two months, up +0.2% m/m, while at the same time falling below market consensus (+1.0%). July growth was limited after the previous month's major decline. Production has been slowing down since its peak in January 2014. The inventory index was up +0.8% m/m, its third consecutive month of gains, while the shipment index rose by +0.7% m/m, its first advance in six months. Meanwhile, the index of inventory rate fell for the first time in three months at -2.3% m/m.
- As for production by industry in July, eight out of the total of fifteen industries saw growth. Contribution to growth in overall production was greatest from the general purpose, production & business oriented machinery industry at +6.3% m/m, petroleum products (+3.1%), and textiles (+1.3%). Industries which saw a decline in the index were transport equipment (-2.5%), information communication equipment (-6.9%), and chemicals (-1.9%), which pushed results down lower than they might have been. Poor performance in transport equipment and information communication equipment was a repetition of last month's production forecast survey. However, the extent of the decline experienced by the transport equipment industry was greater than expected, while the chemical industry suffered declines despite last month's outlook for growth. As a result, growth in industrial production overall was less than had been hoped for.
- According to METI's production forecast survey, a comeback is expected in industrial production, with August production schedules expected to grow +1.3% m/m and September up +3.5% m/m. As for August production plans by industry, declines are seen for general purpose, production & business oriented machinery and transport equipment, but all other industries are expected to see increases in production. As for the September outlook, declines in production are seen for the materials industry. However, positive developments in the processing industries are expected to bring up the overall numbers. Especially positive is the outlook for growth in the transport equipment industry, the first it has seen in four months during which time it experienced continued declines.

Industrial Production (m/m %, SA basis)

Chart 1

	2013			2014						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Industrial Production	0.6	0.3	0.5	3.9	-2.3	0.7	-2.8	0.7	-3.4	0.2
Market consensus (Bloomberg)										1.0
DIR estimate										0.6
Shipments	1.3	0.1	0.2	5.1	-1.0	-0.2	-5.0	-1.0	-1.9	0.7
Inventories	-0.3	-1.4	-0.2	-0.4	-0.9	1.4	-0.5	3.0	2.0	0.8
Inventory ratio	-2.5	-1.1	-0.2	-4.6	3.9	2.1	-1.6	4.0	3.4	-2.3

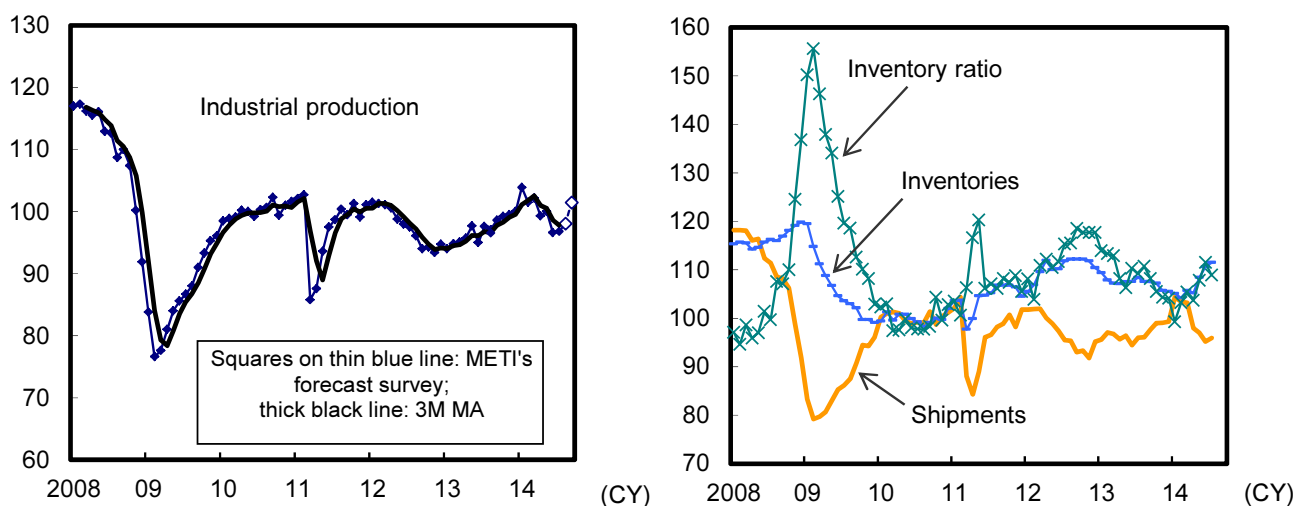
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

July 2014 industrial production falls below market consensus; production trends toward decline

The July 2014 indices of industrial production rose for the first time in two months, up +0.2% m/m, while at the same time falling below market consensus (+1.0%). July growth was limited after the previous month's major decline. Production has been slowing down since its peak in January 2014. The inventory index was up +0.8% m/m, its third consecutive month of gains, while the shipment index rose by +0.7% m/m, its first advance in six months. Meanwhile, the index of inventory rate fell for the first time in three months at -2.3% m/m.

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

Chart 2



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

Growth in general purpose, production & business oriented machinery pushes overall growth up

As for production by industry in July, eight out of the total of fifteen industries saw growth. Contribution to growth in overall production was greatest from the general purpose, production & business oriented machinery industry at +6.3% m/m, petroleum products (+3.1%), and textiles (+1.3%). Taking a look at general purpose, production & business oriented machinery industry performance by item, conveyor systems contributed much to increasing overall growth, exhibiting an especially dramatic leap of 235.2% m/m. Possibilities are that there were special factors involved such as a number of large projects. On the other hand, production of semiconductor manufacturing equipment, which had been in the doldrums for some time, shifted into a growth phase for the first time in six months. The notable halt in declines is an especially positive development.

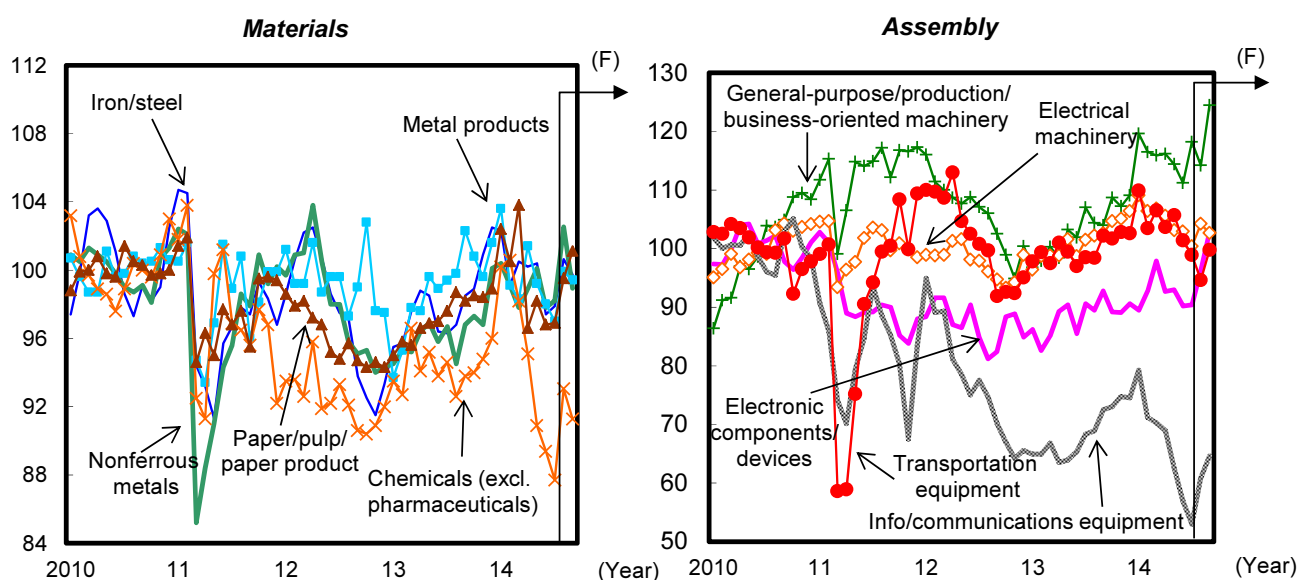
Industries which saw a decline in the index were transport equipment (-2.5%), information communication equipment (-6.9%), and chemicals (-1.9%), which pushed results down lower than they might have been. Poor performance in transport equipment and information communication equipment was a repetition of last month's production forecast survey. However, the extent of the decline experienced by the transport equipment industry was greater than expected, while the chemical industry suffered declines despite last month's outlook for growth. As a result, growth in industrial production overall was less than had been hoped for.

Production schedules to make comeback in August and September

According to METI's production forecast survey, a comeback is expected in industrial production, with August production schedules expected to grow +1.3% m/m and September up +3.5% m/m. As for August production plans by industry, declines are seen for general purpose, production & business oriented machinery and transport equipment, but all other industries are expected to see increases in production. The especially dramatic growth of +14.7% expected by the information communication equipment industry after a period of continued setbacks can probably be taken with a grain of salt considering the context, but the overall outlook is definitely positive with a wide range of industries projecting growth. As for the September outlook, declines in production are seen for the materials industries, especially iron & steel, non-ferrous metals, fabricated metals, and chemicals. However, positive developments in the processing industries are expected to bring up the overall numbers. Especially positive is the outlook for growth in the transport equipment industry, the first it has seen in four months during which time it experienced continued declines.

Production by Industry (2010 = 100; SA basis)

Chart 3



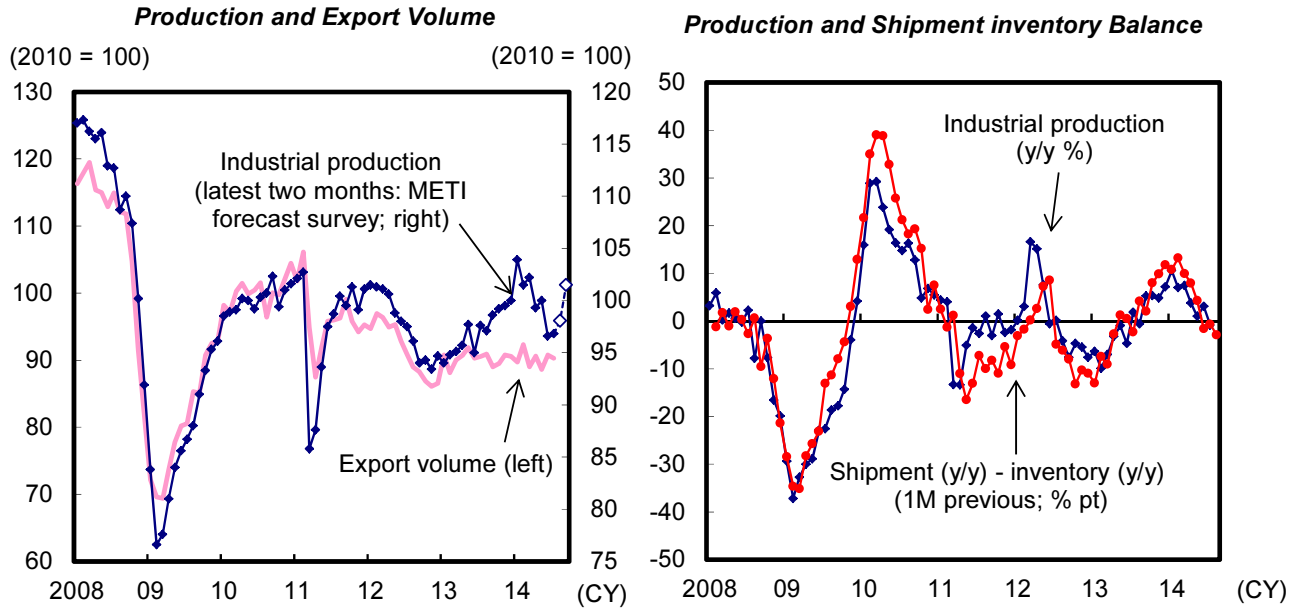
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.

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. For the time being non-durable consumer goods which tend to be purchased frequently are expected to be at the center of the comeback, but production of durables, which had a fairly lengthy bout of negative influence from the reactionary decline, are expected to gradually head toward recovery. Meanwhile, various capex surveys, such as the BOJ Tankan, have all issued positive stances toward the future of corporate capex, and an increase in capex related demand is expected to push up the numbers for production of capital goods. 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. At this point production remains somewhat weak due mainly to the downturn in domestic demand after the increase in consumption tax last April. However, there is a very good possibility that production will return to a growth trend with the help of a comeback in domestic and overseas demand.

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



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