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August Industrial Production

Industrial production continues to decline, falls below market consensus

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Summary

- The August 2014 indices of industrial production declined for the first time in two months at -1.5% m/m, while at the same time falling considerably below market consensus (+0.2%). The previous month's production forecast survey announced a positive forecast for the months of August and September, expecting production to hit bottom soon, but August results turned out more negative than had been expected.
- As for production by industry in August, ten out of the total of fifteen industries experienced declines. As for contribution to overall production figures, the general purpose, production & business oriented machinery industry (-7.4% m/m), the transport equipment industry (-3.8%), and the electrical machinery industry (-3.2%) did much to push overall results down. The decline in transport equipment was pretty much in line with last month's production forecast survey. However, the decline in the general purpose, production & business oriented machinery industry was larger than expected, and the electrical machinery industry declined despite the forecast for growth in last month's survey.
- According to METI's production forecast survey, a rapid recovery is expected in industrial production in September (+6.0%) though a slight decline will be seen again in October (-0.2%). As for September production plans by industry, all industries except for iron & steel are expecting growth, with the processing industries expecting especially high growth. If we ignore information and communication equipment and general purpose, production & business oriented machinery, which have had considerably negative achievement rates up to now, plans for the transport equipment industry to increase production after a period of declines can be seen as a very positive factor. As for October, most industries are forecasting reactionary declines after the gains of September, while in contrast, general purpose, production & business oriented machinery and electrical machinery are expecting growth for the second consecutive month, providing support for overall performance.

Industrial Production (m/m %; SA basis)

Chart 1

	2013		2014							
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	0.3	0.5	3.9	-2.3	0.7	-2.8	0.7	-3.4	0.4	-1.5
Market consensus (Bloomberg)										0.2
DIR estimate										0.3
Shipments	0.1	0.2	5.1	-1.0	-0.2	-5.0	-1.0	-1.9	0.7	-1.9
Inventories	-1.4	-0.2	-0.4	-0.9	1.4	-0.5	3.0	2.0	0.9	1.0
Inventory ratio	-1.1	-0.2	-4.6	3.9	2.1	-1.6	4.0	3.4	-2.2	8.5

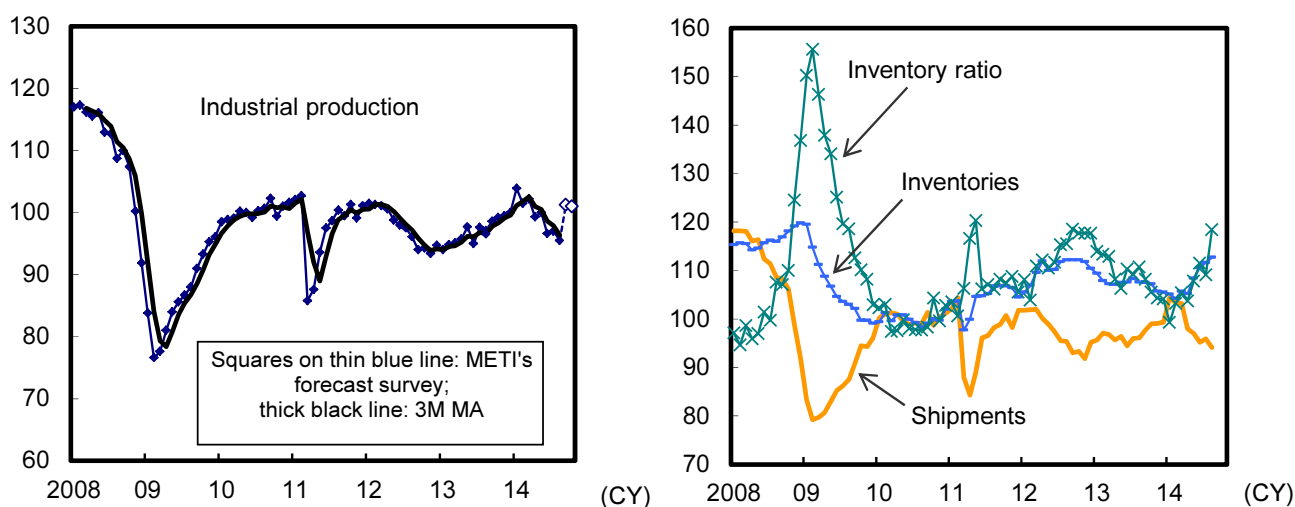
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

August 2014 industrial production falls below market consensus; production declines expected to continue

The August 2014 indices of industrial production declined for the first time in two months at -1.5% m/m, while at the same time falling considerably below market consensus (+0.2%). The previous month's production forecast survey announced a positive forecast for the months of August and September, expecting production to hit bottom soon, but August results turned out more negative than had been expected. Industrial production peaked in January of this year and has continued a downtrend since then. The shipment index also fell for the first time in two months at -1.9%, while the inventory index grew for the fourth consecutive month at +1.0% m/m. Consequently, the index of inventory rate grew for the first time in two months at +8.5% m/m.

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

Chart 2



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

Declines in general purpose, production & business oriented machinery and transport equipment bring downward pressure on overall production figures

As for production by industry in August, ten out of the total of fifteen industries experienced declines. As for contribution to overall production figures, the general purpose, production & business oriented machinery industry (-7.4% m/m), the transport equipment industry (-3.8%), and the electrical machinery industry (-3.2%) did much to push overall results down. The decline in transport equipment was pretty much in line with last month's production forecast survey. However, the decline in the general purpose, production & business oriented machinery industry was larger than expected, and the electrical machinery industry declined despite the forecast for growth in last month's survey. While the extent to which overall production figures were pushed down was not that much, it was still enough to cause a downturn in comparison to last month's forecast survey and market expectations, according to which production of information and communication equipment was supposed to have increased considerably.

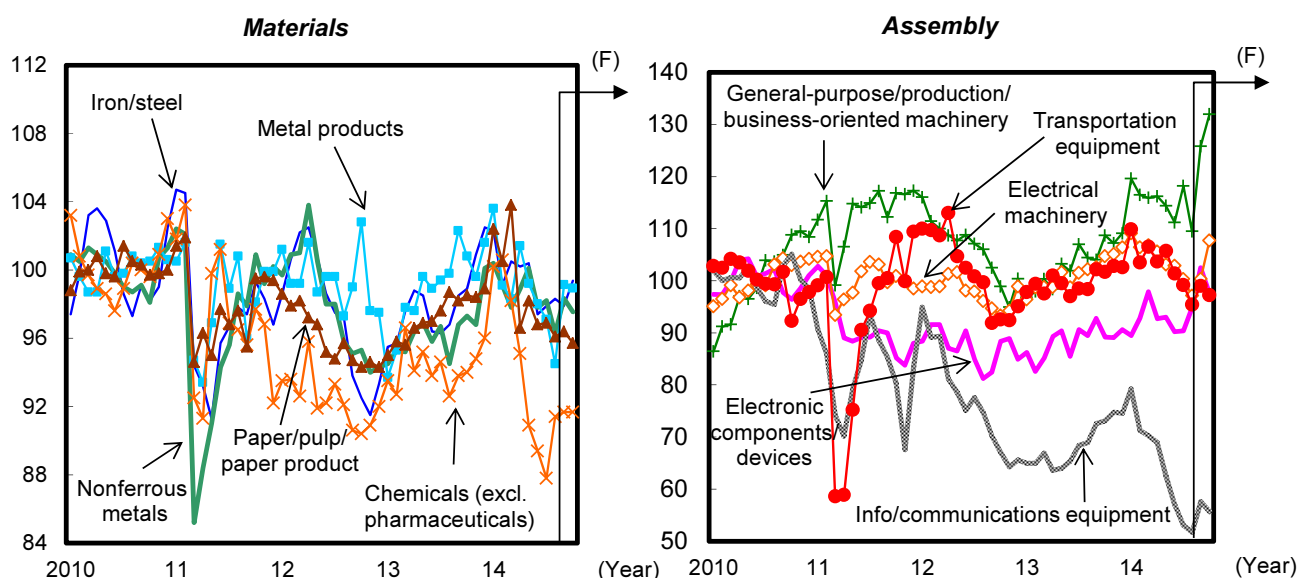
The production index actually improved in the areas of chemicals (+4.1%), electronic components/devices (+4.9%), and iron & steel (+0.4%). However, increases in production were already forecast for these industries on last month's survey, and the extent of growth was ultimately smaller than originally planned.

Production forecast survey sees rapid recovery

According to METI's production forecast survey, a rapid recovery is expected in industrial production in September (+6.0%) though a slight decline will be seen again in October (-0.2%). As for September production plans by industry, all industries except for iron & steel are expecting growth, with the processing industries expecting especially high growth. If we ignore information and communication equipment and general purpose, production & business oriented machinery, which have had considerably negative achievement rates up to now, plans for the transport equipment industry to increase production after a period of declines can be seen as a very positive factor. As for October, most industries are forecasting reactionary declines after the gains of September, while in contrast, general purpose, production & business oriented machinery and electrical machinery are expecting growth for the second consecutive month, providing support for overall performance.

Production by Industry (2010 = 100; SA basis)

Chart 3

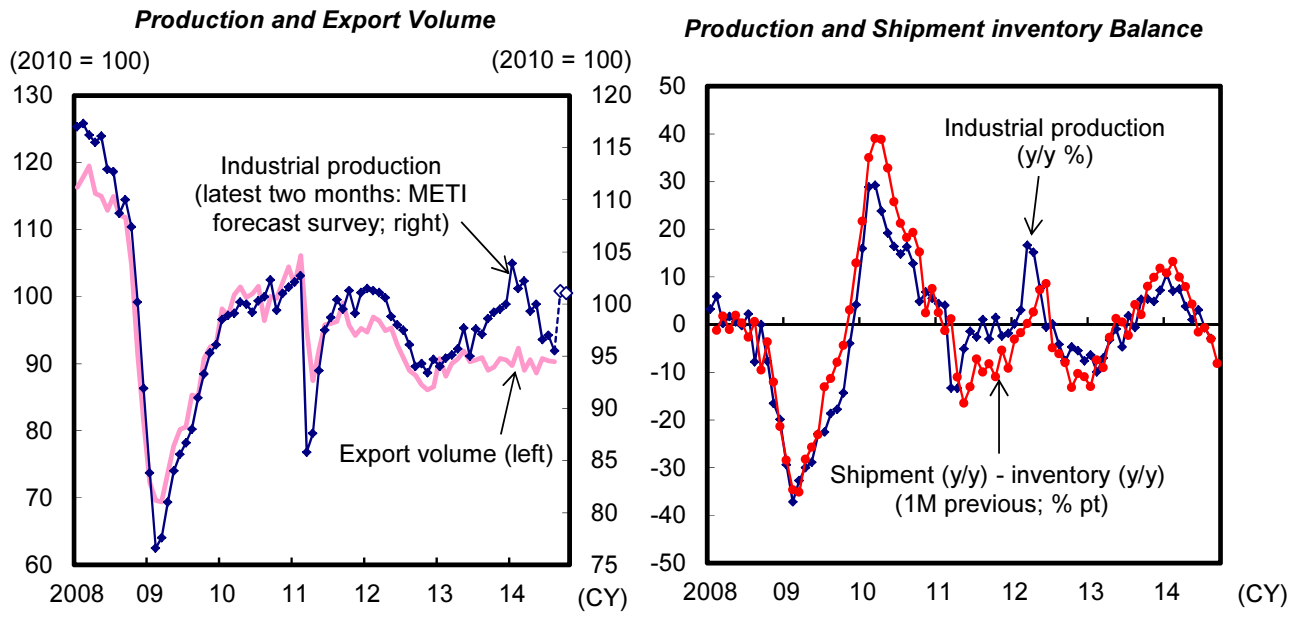


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

Future to see gradual comeback in production

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. The main risk factor requiring continued monitoring is the accumulation of inventory due to the decline in shipments. 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.