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October Industrial Production

Both performance and outlook positive; production making a comeback

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Summary

- The October 2014 indices of industrial production achieved growth for the second time in two months at 0.2% m/m, while at the same time exceeding market consensus (-0.6%), which had been expecting a downturn for this month – all in all positive results. METI's production forecast survey has taken a positive view of November and December, and it appears that industrial production, which had been in decline since the beginning of 2014, is finally making a comeback.
- As for production index performance by industry in October, six out of the total of fifteen industries experienced growth. Contribution to overall performance was most notable in the areas of general-purpose, production and business oriented machinery (+4.4% m/m), electronic parts and devices (+1.6%), and electrical machinery (+3.2%).
- According to METI's production forecast survey, industrial production is expected to continue its comeback, with November production plans seen up +2.3% m/m and December seen up +0.4%. Performance is expected to vary by industry, but overall, production is expected to continue its upward trend regardless of which industry.

Industrial Production (m/m %; SA basis)

Chart 1

	2014									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	3.9	-2.3	0.7	-2.8	0.7	-3.4	0.4	-1.9	2.9	0.2
Market consensus (Bloomberg)										-0.6
DIR estimate										-1.5
Shipments	5.1	-1.0	-0.2	-5.0	-1.0	-1.9	0.7	-2.1	4.4	0.4
Inventories	-0.4	-0.9	1.4	-0.5	3.0	2.0	0.9	0.9	-0.7	-0.4
Inventory ratio	-4.6	3.9	2.1	-1.6	4.0	3.4	-2.2	8.6	-6.0	0.9

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

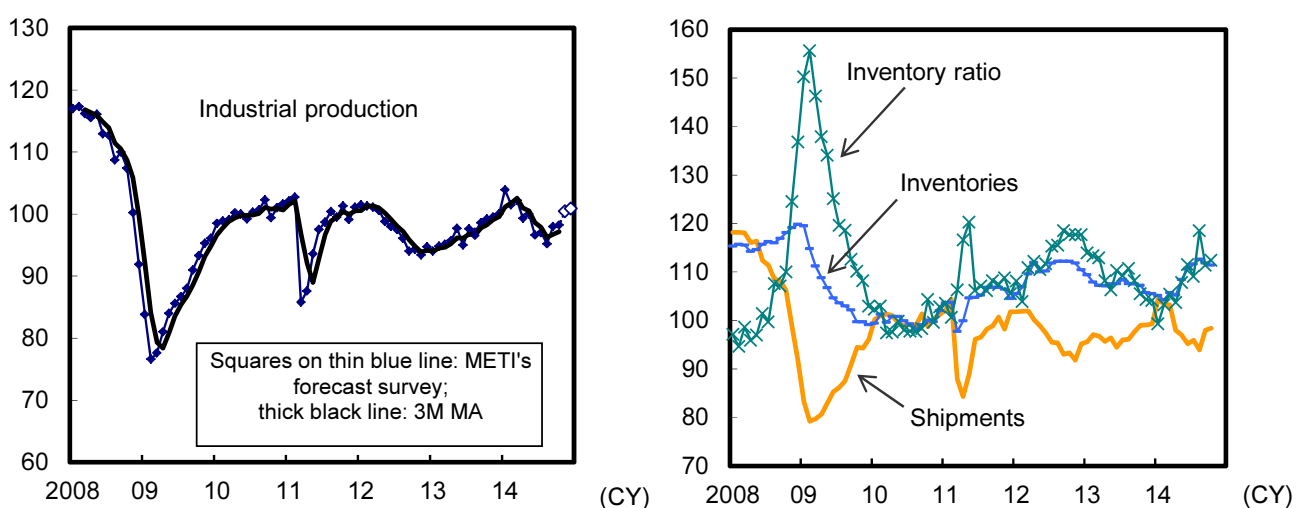
October 2014 production index wins second consecutive month of growth

The October 2014 indices of industrial production achieved growth for the second time in two months at 0.2% m/m, while at the same time exceeding market consensus (-0.6%), which had been expecting a downturn for this month – all in all positive results. METI's production forecast survey has taken a positive view of November and December, and it appears that industrial production, which had been in decline since the beginning of 2014, is finally making a comeback.

The shipment index grew for the second month in a row at +0.4% due mainly to growth in capital goods. Meanwhile, the inventory ratio was up for the first time in two months at +0.9% m/m, while the inventory index was down for the second month in a row at -0.4% m/m. Though it's not much, there is progress in inventory adjustment. An especially positive point this month was a major decline in transport equipment inventory (-7.4% m/m). Transport equipment was the major factor behind increased industrial inventory since earlier in 2014.

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

Chart 2



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

Electronic parts and devices industry was major factor in October production index exceeding market consensus

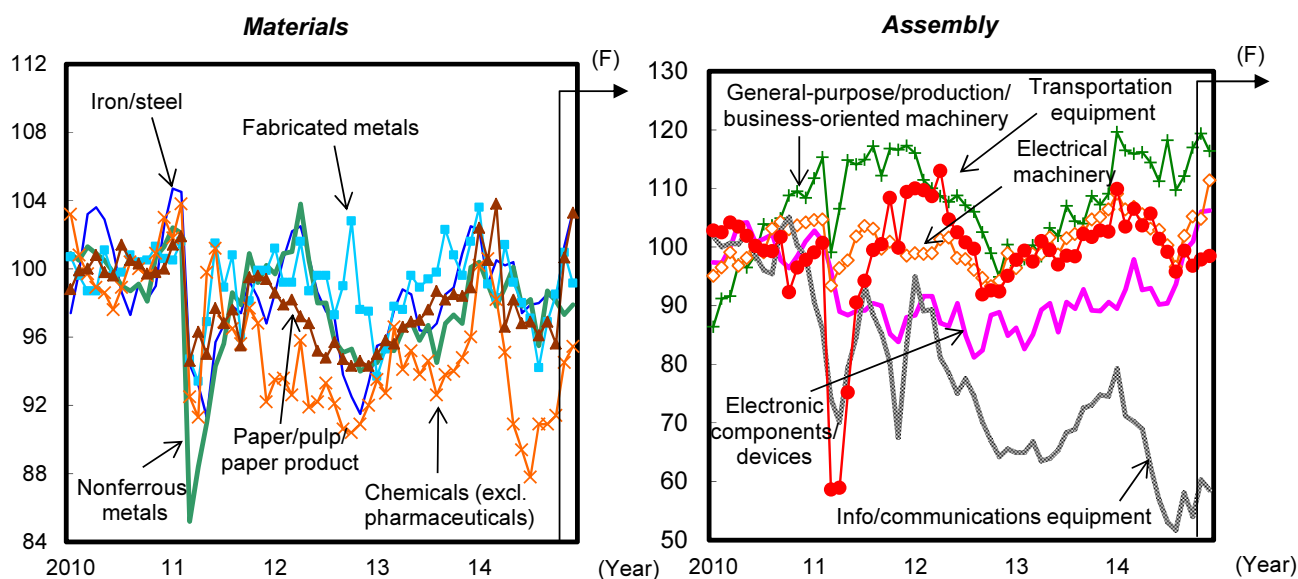
As for production index performance by industry in October, six out of the total of fifteen industries experienced growth. Contribution to overall performance was most notable in the areas of general-purpose, production and business oriented machinery (+4.4% m/m), electronic parts and devices (+1.6%), and electrical machinery (+3.2%). These industries were expected to see increases in production according to METI's production forecast survey, and the extent of growth was actually a bit less than originally foreseen, but still, it was close enough to expectations. The main factor in the index exceeding market consensus was electronic parts and devices, which achieved considerable growth in production in September, and then won further growth again in October despite expectations that it would decline.

Industries which suffered declines in October included transport equipment (-2.6% m/m), information and communication electronics equipment (-6.9%), and ceramics, stone and clay products (-2.2%), which were the industries contribution most to the down side. However, declines were expected in the transport equipment and information and communication electronics equipment industries, so there were no surprises here. Moreover, both of these industries achieved considerable production growth in

September, so all in all, the growth trend can be considered to be continuing – no need for pessimism here.

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 forecast survey sees growth in November and December

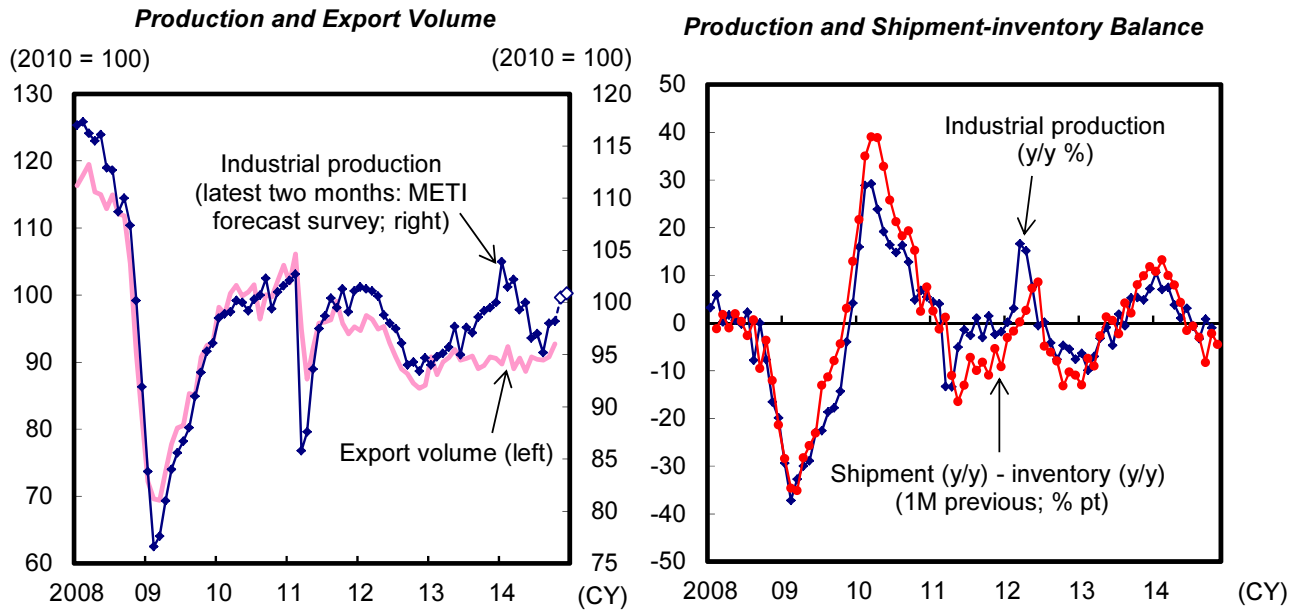
According to METI's production forecast survey, industrial production is expected to continue its comeback, with November production plans seen up +2.3% m/m and December seen up +0.4%. Performance is expected to vary by industry, but overall, production is expected to continue its upward trend regardless of which industry.

In November, information and communication electronics equipment is expected to make considerable gains, while electronic parts and devices are seen continuing its recent growth trend. Positive performance for these industries is expected to help push up overall results. As for December, electrical machinery is expected to move back into a growth trend, while iron and steel, transport equipment, and chemicals are seen continuing growth, contributing further to the positive gains for industrial production overall.

Future to see comeback in production

As for the future, production is expected to move into a moderate growth trend. 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. Production of durables, which had been at a low for some time, is expected to experience a comeback as demand gradually recovers. 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 results centering on production of capital goods. Exports continue to mark time due to the economic slowdown in the EU and Asian emerging nations. However, overseas economies are expected to move toward recovery led by a robust US economy, which is expected to gradually lead to a growth trend. Inventory adjustment requires continued monitoring as this is a factor which could bring downward pressure on production, but there is still a high possibility that production will move into a growth trend as both domestic and overseas demand head toward recovery.

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



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