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November Industrial Production

Results fall below market consensus, but production plans are firming up

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Summary

- The November 2014 indices of industrial production suffered a decline for the first time in three months at -0.6% m/m, while at the same time falling below market consensus (+0.8%). However, the extent of the decline is small and we continue to believe that all in all, production is still on its way to a comeback.
- As for production index performance by industry in November, eight out of the total of fifteen industries experienced declines. Contribution to overall decline was most notable in the areas of general-purpose, production and business oriented machinery (-3.5% m/m), electrical machinery (-2.3%), and fabricated metals (-3.7%). Considering the major gains which both general-purpose, production and business oriented machinery and electrical machinery made during the previous month, declines were fairly minor. Moreover, future production plans beyond the month of December call for growth. Hence these results need not be viewed overly pessimistically.
- According to METI's production forecast survey, industrial production is expected to pull off a v-shaped recovery, with December production plans seen up +3.2% m/m and January 2015 seen up +5.7%. At the same time, looking at the forecast revision rate and realization rate, both of which continue to record negative numbers, this forecast for industrial production can be taken with a grain of salt. But despite this, we believe that growth in production looks promising in the months beyond December.

Industrial Production (m/m %; SA basis)

Chart 1

	2014									
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Industrial Production	-2.3	0.7	-2.8	0.7	-3.4	0.4	-1.9	2.9	0.4	-0.6
Market consensus (Bloomberg)										0.8
DIR estimate										0.8
Shipments	-1.0	-0.2	-5.0	-1.0	-1.9	0.7	-2.1	4.4	0.6	-1.4
Inventories	-0.9	1.4	-0.5	3.0	2.0	0.9	0.9	-0.7	-0.4	1.0
Inventory ratio	3.9	2.1	-1.6	4.0	3.4	-2.2	8.6	-6.0	0.8	4.0

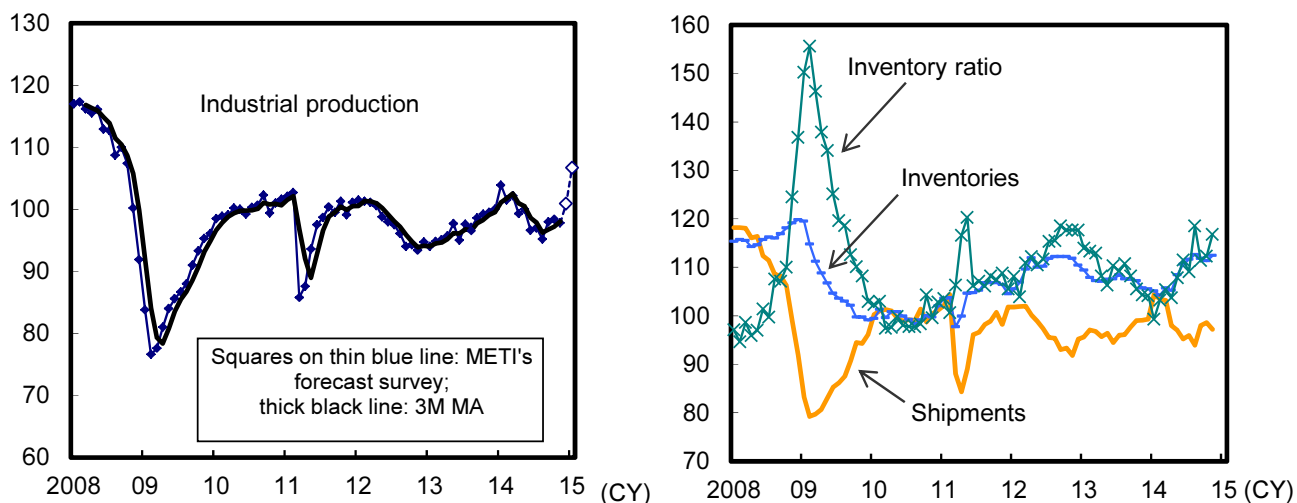
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

November 2014 production index declines for first time in three months

The November 2014 indices of industrial production suffered a decline for the first time in three months at -0.6% m/m, while at the same time falling below market consensus ($+0.8\%$). However, the extent of the decline is small and we continue to believe that all in all, production is still on its way to a comeback. The shipment index also declined for the first time in three months at -1.4% due mainly to declines in durable consumer goods and capital goods. The inventory index grew by $+1.0\%$, its first increase in three months. As a result, the inventory ratio grew by $+4.0\%$, its second consecutive month of increases.

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

Chart 2

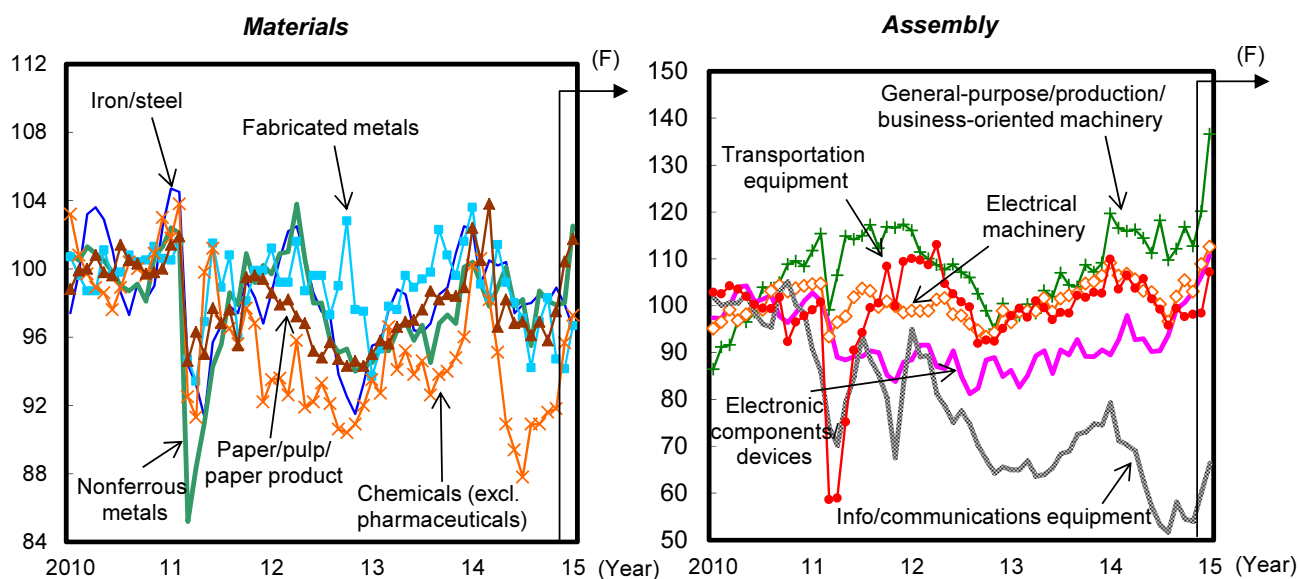


Source: Ministry of Economy, Trade, and Industry (METI), compiled by DIR.

Declines in general-purpose, production and business oriented machinery and electrical machinery pull down overall results for production

As for production index performance by industry in November, eight out of the total of fifteen industries experienced declines. Contribution to overall decline was most notable in the areas of general-purpose, production and business oriented machinery (-3.5% m/m), electrical machinery (-2.3%), and fabricated metals (-3.7%). Considering the major gains which both general-purpose, production and business oriented machinery and electrical machinery made during the previous month, declines were fairly minor. Moreover, future production plans beyond the month of December call for growth. Hence these results need not be viewed overly pessimistically.

Industries which saw growth in production in November included electronic parts and devices ($+2.3\%$ m/m), transport equipment ($+0.5\%$ m/m), and ceramics, stone and clay products ($+1.4\%$), which contributed significantly to the up side of November results. The electronic parts and devices industry recorded its fifth consecutive month of growth and is continuing its robust performance.



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

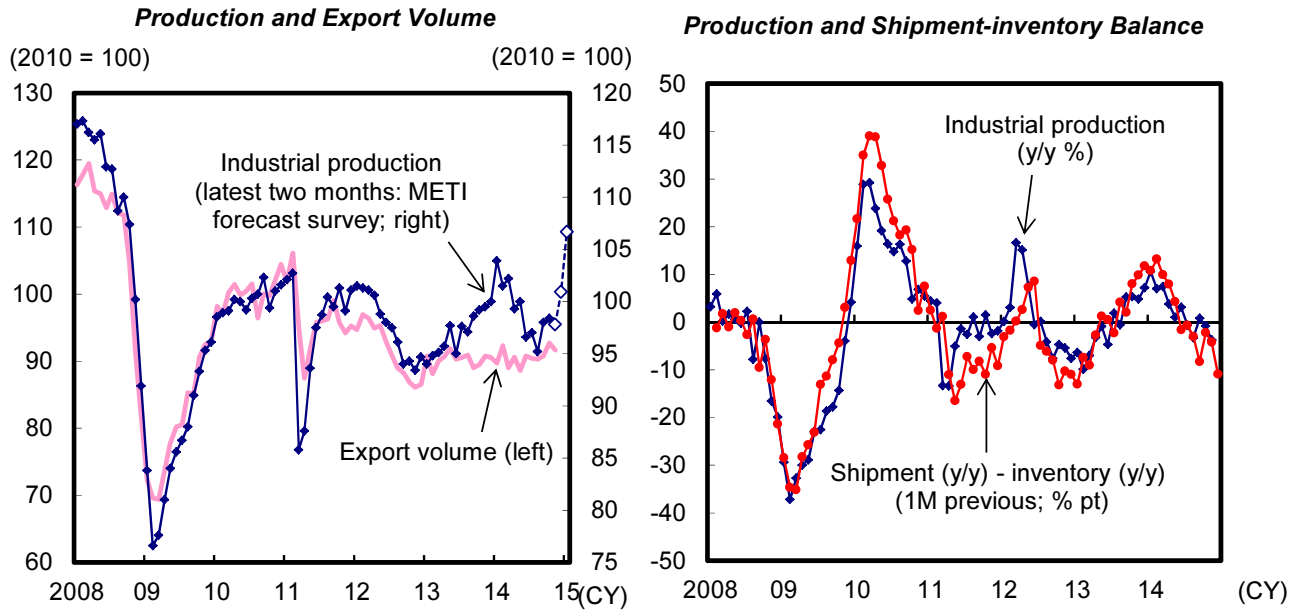
METI's production forecast survey sees v-shaped recovery backed by aggressive production plans

According to METI's production forecast survey, industrial production is expected to pull off a v-shaped recovery, with December production plans seen up +3.2% m/m and January 2015 seen up +5.7%. December expects to see major growth in Information and communication electronics equipment. In addition, general-purpose, production and business oriented machinery, electrical machinery, and chemicals are also expected to achieve growth on the high side. In January, Information and communication electronics equipment is expected to achieve double digit growth for the second month in a row, while in addition, general-purpose, production and business oriented machinery and transportation equipment are expected to increase their pace of growth. At the same time, looking at the forecast revision rate and realization rate, both of which continue to record negative numbers, this forecast for industrial production can be taken with a grain of salt. But despite this, we believe that growth in production looks promising in the months beyond December.

Production expected to continue growth trend in future

As for the future, production is expected to continue its growth trend. 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 with inventory and inventory ratio continuing at a high level, 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.