

27 February 2015 (No. of pages: 4)

Japanese report: 27 Feb 2015

January Industrial Production

Industrial production shows firm undertone; plans for future somewhat guarded

Economic Intelligence Team
Masahiko Hashimoto

Summary

- The January 2015 indices of industrial production grew for the second consecutive month by +4.0% m/m, while exceeding market consensus (+2.7%). Results were positive with a broad range of industries reporting growth in production. The three-month moving average also grew for the fifth consecutive month by +1.4%, exceeding the previous month in the extent of growth. This shows that industrial production is now well on its way to a growth trend after hitting bottom in August 2014, with the extent of growth significantly more than last month.
- According to METI's production forecast survey, industrial production is expected to grow by +0.2% m/m in February 2015, but then decline in March by -3.2%. Production plans reflected great confidence over the past few months, but current results suggest a slowdown as we move into March, with future production plans expected to contrast greatly with the recent strength. This month's results left an aftertaste of a certain amount of unease regarding the future.
- According to the current production forecast survey, there are fears of a slowdown up ahead. However, we here at DIR predict that production will continue in a growth trend in the future. Export volume, whose growth has been no more than moderate in recent months, recorded major growth in January, and promises to see an increase in the pace of growth in the future. The growth in exports, which has occurred due to the expansion of overseas economies, is expected to pull industrial production up along with it. Growth in production stemming from export growth is then expected to act along with improved corporate earnings in mustering demand associated with domestic capital expenditure, and the ripple effect promises to stimulate demand for capital goods.

Industrial Production (m/m %; SA basis)										Chart 1
	2014									2015
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Industrial Production	-2.8	0.7	-3.4	0.4	-1.9	2.9	0.4	-0.5	0.8	4.0
Market consensus (Bloomberg)										2.7
DIR estimate										3.2
Shipments	-5.0	-1.0	-1.9	0.7	-2.1	4.4	0.6	-1.4	1.0	5.8
Inventories	-0.5	3.0	2.0	0.9	0.9	-0.7	-0.4	1.1	-0.7	-0.6
Inventory ratio	-1.6	4.0	3.4	-2.2	8.6	-6.0	0.8	4.2	-4.3	-3.5

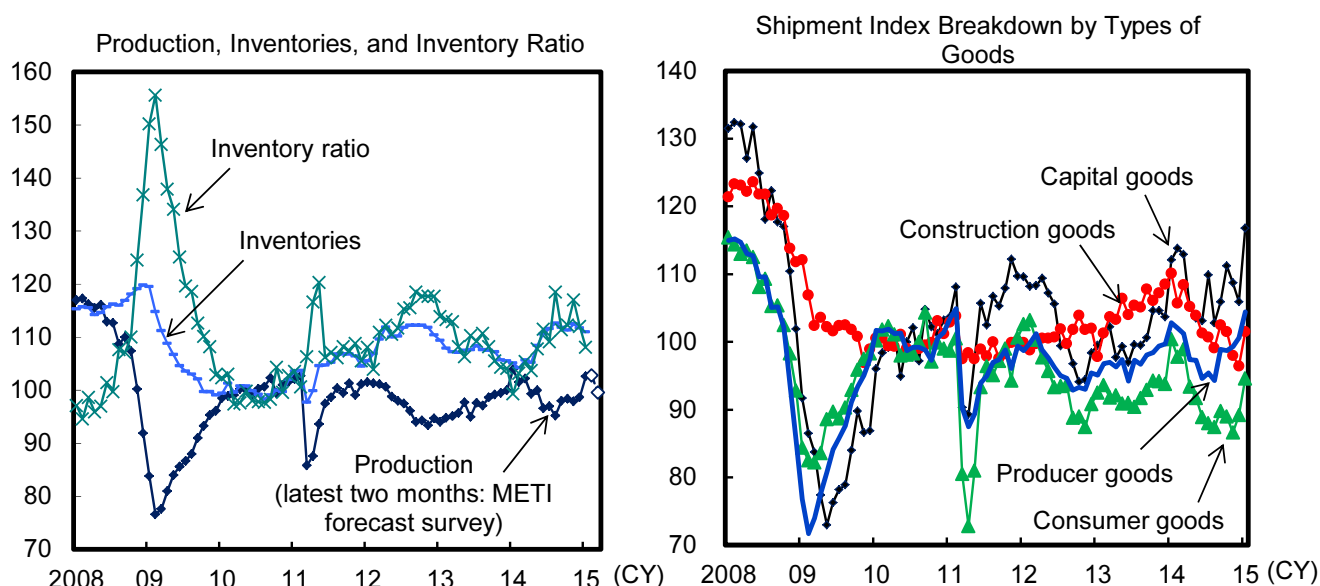
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

January 2015 production index grows for the second consecutive month, exceeds market consensus

The January 2015 indices of industrial production grew for the second consecutive month by +4.0% m/m, while exceeding market consensus (+2.7%). Results were positive with a broad range of industries reporting growth in production. The three-month moving average also grew for the fifth consecutive month by +1.4%, exceeding the previous month in the extent of growth. This shows that industrial production is now well on its way to a growth trend after hitting bottom in August 2014, with the extent of growth significantly more than last month.

The shipment index grew for the second consecutive month at +5.8% m/m due to major growth in capital goods (+10.3% m/m) and durables (+10.1%). Meanwhile, the inventory index fell for the second consecutive month by -0.6% m/m, and as a result, the inventory ratio also fell considerably for the second month in a row by -3.5% m/m, indicating that inventory adjustment is progressing.

Production, Inventories, Inventory Ratio, and Shipment Index Breakdown (2010 = 100; SA basis) Chart 2



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

Production gets push from general-purpose, production and business oriented machinery and transport equipment

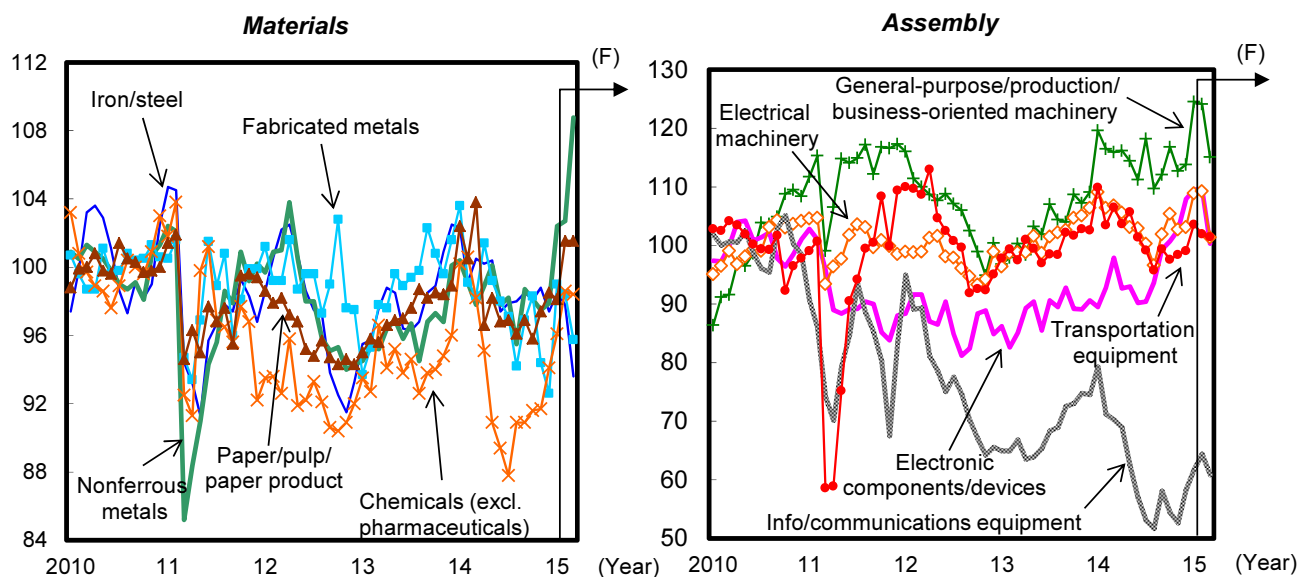
As for production index performance by industry in January, thirteen out of the total of fifteen industries recorded growth. Contribution to overall performance was especially large from general-purpose, production and business oriented machinery (+9.4% m/m), transport equipment (+4.5%), and electrical machinery (+5.6%), helping to push overall performance up.

General-purpose, production and business oriented machinery got a big push from semiconductor production equipment, which has continued to move toward a comeback since the middle of 2014, gaining +16.3% m/m on the current month's production index. Although it fell considerably below the outlook according to the production forecast survey (+19.7% m/m), it should be noted that actual performance often falls below the forecast in this industry, so there should be no surprise here. Meanwhile, performance for the transport equipment industry pretty much conformed to previously reported plans, gaining a comeback in both domestic and export related sales. Electrical machinery was given a major push from production of industrial turbo-generators, an area which can often fluctuate considerably, at +77.5% m/m.

Finally, there were declines in production in the areas of pulp, paper, and paper products (-0.4% m/m) and petroleum and coal products (-0.4%), but declines were minimal and do not change the general impression that production in these industries is in a growth phase.

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.

METI's production forecast survey somewhat guarded about the future

According to METI's production forecast survey, industrial production is expected to grow by +0.2% m/m in February 2015, but then decline in March by -3.2%. Production plans reflected great confidence over the past few months, but current results suggest a slowdown as we move into March, with future production plans expected to contrast greatly with the recent strength. This month's results left an aftertaste of a certain amount of unease regarding the future. As for February, increases in production are seen for industries such as information and communication electronics equipment (+4.3% m/m), chemicals (+2.6%), and pulp, paper, and paper products (+3.5%), while a decline is seen for transport equipment (-1.6% m/m). Mixed performance is expected to bring limited growth on the whole. As for March, most industries will see a decline in production, especially notable in the area of manufacturing and assembly, including general-purpose, production and business oriented machinery (-7.3% m/m), electronic parts and devices (-8.5%), electrical machinery (-7.2%), and information and communication electronics equipment (-5.5%).

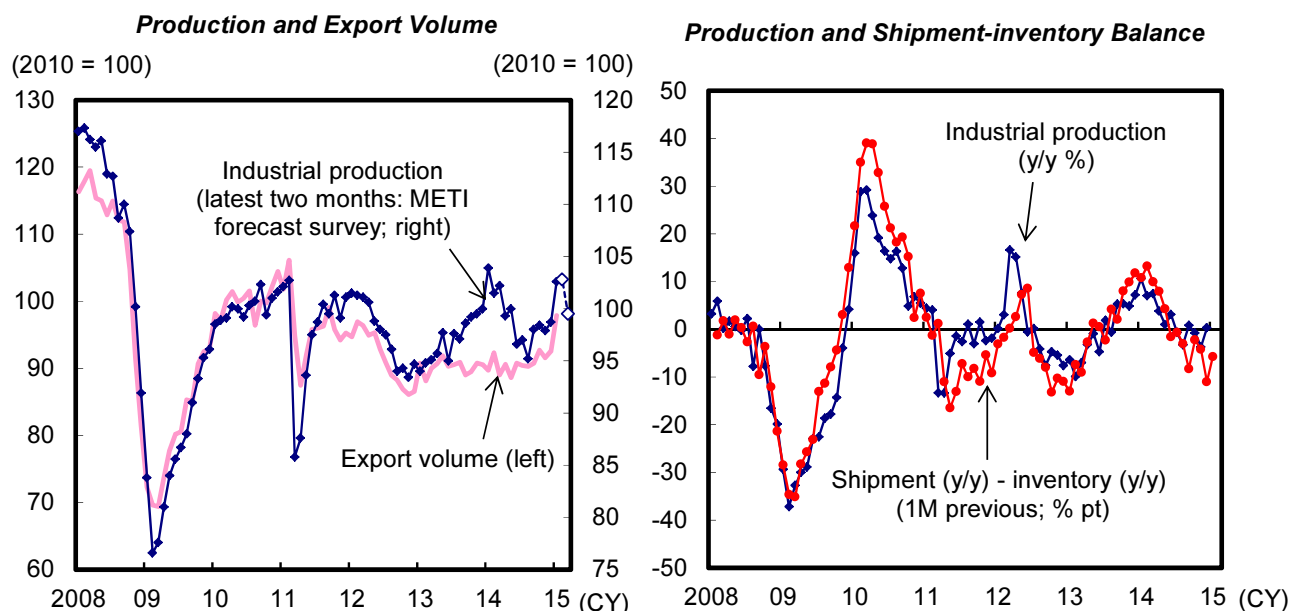
Production expected to continue growth trend in future

According to the current production forecast survey, there are fears of a slowdown up ahead. However, we here at DIR predict that production will continue in a growth trend in the future. Export volume, whose growth has been no more than moderate in recent months, recorded major growth in January, and promises to see an increase in the pace of growth in the future. The US continues its firm undertone as its economy expands, and the EU economy, which was suffering a continued slowdown recently, is now seeing the light at the end of the tunnel. The growth in exports, which has occurred due to the expansion of overseas economies, is expected to pull industrial production up along with it. Growth in production stemming from export growth is then expected to act along with improved corporate earnings in mustering demand associated with domestic capital expenditure, and the ripple effect promises to stimulate demand for capital goods. Meanwhile, various capex surveys, such as the BOJ Tankan, have all issued positive stances toward the future of corporate capex, and leading indices

such as machinery orders are exhibiting a firm undertone. In addition, the environment for household income is improving and the recent collapse in the price of crude oil promises to provide forward impetus for an increase in real wages. Therefore demand for consumer goods is expected to continue making a comeback. Finally, with both domestic and overseas demand moving toward a comeback, production is expected to continue its current growth trend.

Production, Export Volume, and Shipment-inventory Balance

Chart 4



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