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April Industrial Production

Production enters temporary lull

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Summary

- The April 2015 indices of industrial production grew for the first time in three months at +1.0% m/m. Results were on the low side in comparison to the previous month's forecast survey (+2.1%), but were in harmony with market consensus (+1.0%).
- This month's results confirm that production is in a moderate growth phase, having hit bottom in August 2014. There is no change in our previous assessment that a moderate recovery should continue on into the future. However, the recovery is a gradual one, and as far as we can determine from the METI forecast survey, production may be entering a temporary lull. The forecast survey sees May production plans up by +0.5% m/m, with June down by -0.5% in a continuation of the advance-then-retreat pattern.
- As for the future of industrial production, the growth trend is expected to continue, supported by the underlying strength of exports. Domestic demand promises to improve in the future thanks to the positive employment environment and the collapse in energy prices, which are giving a lift to real income.

Industrial Production (m/m %; SA basis)

Chart 1

	2014						2015				
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Industrial Production	-0.1	-0.8	1.4	0.4	-0.6	0.2	4.1	-3.1	-0.8	1.0	
Market consensus (Bloomberg)										1.0	
DIR estimate										0.8	
Shipments	0.5	-2.1	3.2	0.1	-0.7	-0.2	5.5	-4.4	-0.6	0.4	
Inventories	0.5	0.9	-0.4	-0.1	1.1	-0.1	-0.4	1.1	0.4	0.0	
Inventory ratio	-1.6	7.0	-5.4	1.0	3.1	-2.9	-3.3	4.0	0.9	-1.4	

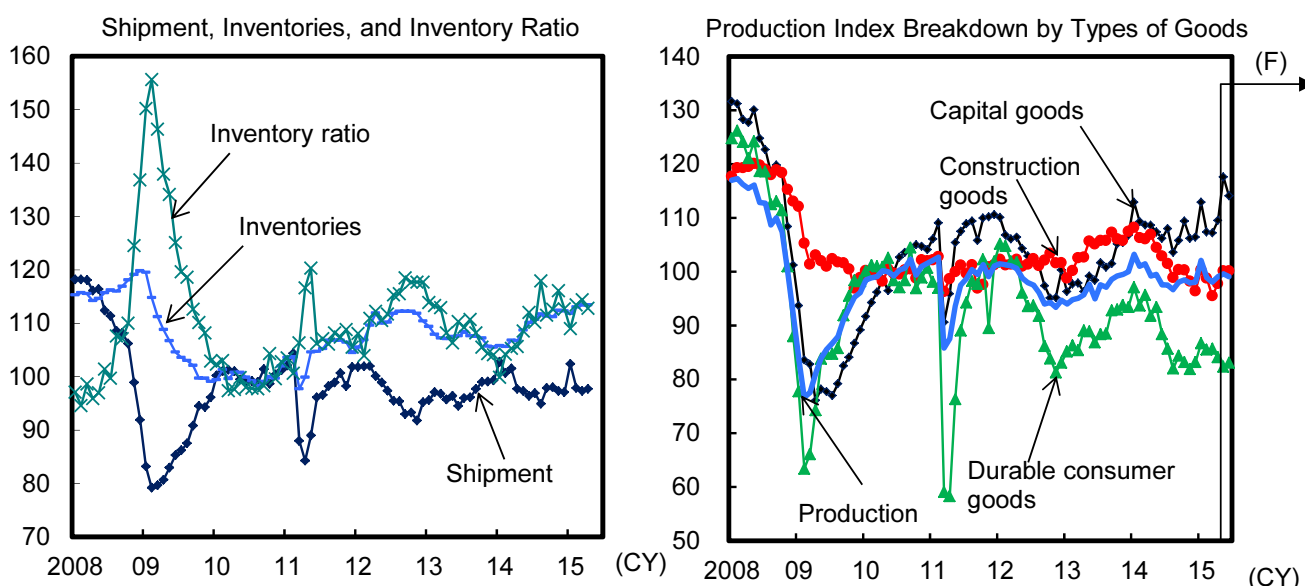
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

April 2015 production index grows for the first time in three months, but the future sees a pattern of advance-retreat

The April 2015 indices of industrial production grew for the first time in three months at +1.0% m/m. Results were on the low side in comparison to the previous month's forecast survey (+2.1%), but were in harmony with market consensus (+1.0%). The shipment index was also up for the first time in three months at +0.4% m/m. On the other hand, the inventory index was at 0.0% m/m, flat in comparison with the previous month. As a result, the inventory ratio declined for the first time in three months at -1.4% m/m.

This month's results confirm that production is in a moderate growth phase, having hit bottom in August 2014. There is no change in our previous assessment that a moderate recovery should continue on into the future. However, the recovery is a gradual one, and as far as we can determine from the METI forecast survey, production may be entering a temporary lull. The forecast survey sees May production plans up by +0.5% m/m, with June down by -0.5% in a continuation of the advance-then-retreat pattern.

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



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

Materials industries, which were weak last month, win a recovery in results in keeping with the forecast survey

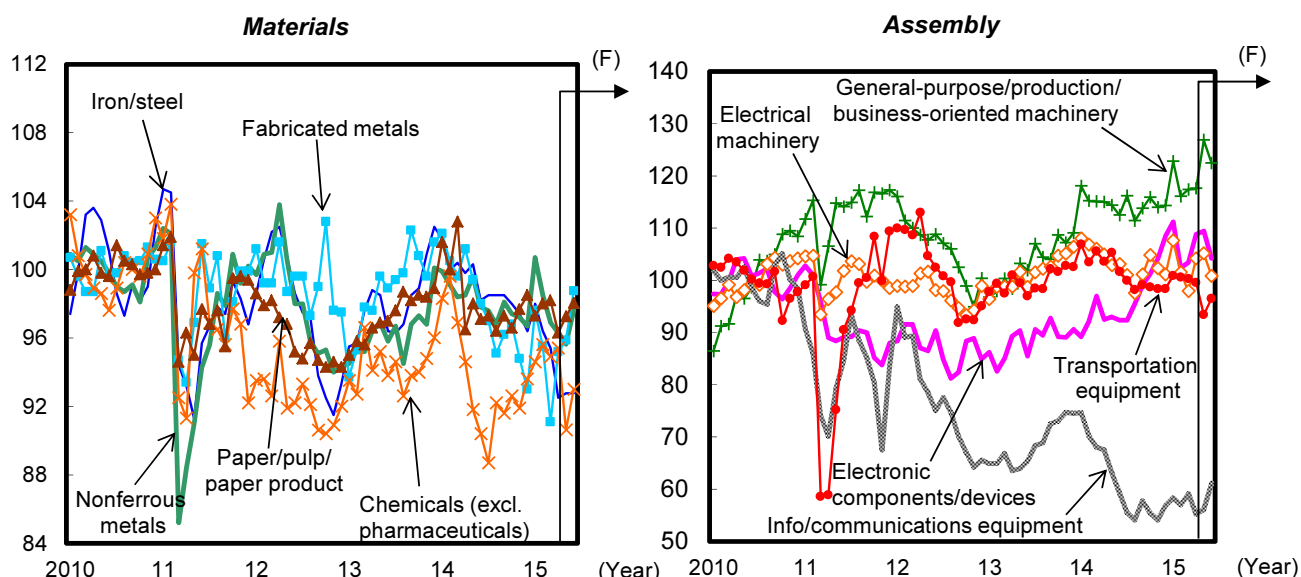
As for production index performance by industry in April, nine out of the total of fifteen industries recorded growth. Generally, results were in keeping with last month's forecast survey. Electronic parts and devices (+5.2% m/m) continued its favorable performance from the previous month, helping to push up overall performance. Meanwhile, a recovery was seen in the materials industries, which was weak in the previous month's results, with fabricated metals up by +4.5% m/m, petroleum and coal products up by +8.5%, plastic products up by +2.2%, chemicals (excluding pharmaceuticals) up +0.5%, and electrical machinery up by +6.4%. On the other hand, transport equipment, regarding which there had been fears of weakness on last month's forecast survey, fell just slightly at -0.7%.

As for April production index performance by types of goods, other than durable consumer goods which were down by -1.9% m/m, production of all other types of goods exhibited moderate growth. Capital goods (excluding transport equipment) grew by +2.1% m/m, with construction goods up by

+2.4% and non-durable consumer goods up by +1.4%. Results were basically in keeping with the forecast survey of the previous month.

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 shows feeble sense of direction

Looking at METI's production forecast survey by industry for May, production plans appear to be weak, with the transport equipment industry expecting a decline of -6.2% m/m and chemicals down by -5.0%. On the other hand, general-purpose, production and business oriented machinery expects to be up considerably by +7.9%, helping to push up overall figures. As for June, plans for production show strength in transport equipment, up by +3.3% m/m after initially hitting bottom, and information and communications electronics equipment, which expects to be up by +9.0%. On the other hand, some areas see declines in production, such as general-purpose, production and business oriented machinery (-3.5%), electronic parts and devices (-4.8%), and electrical machinery (-4.1%). Production overall is expected to see a pattern of advance-then-retreat.

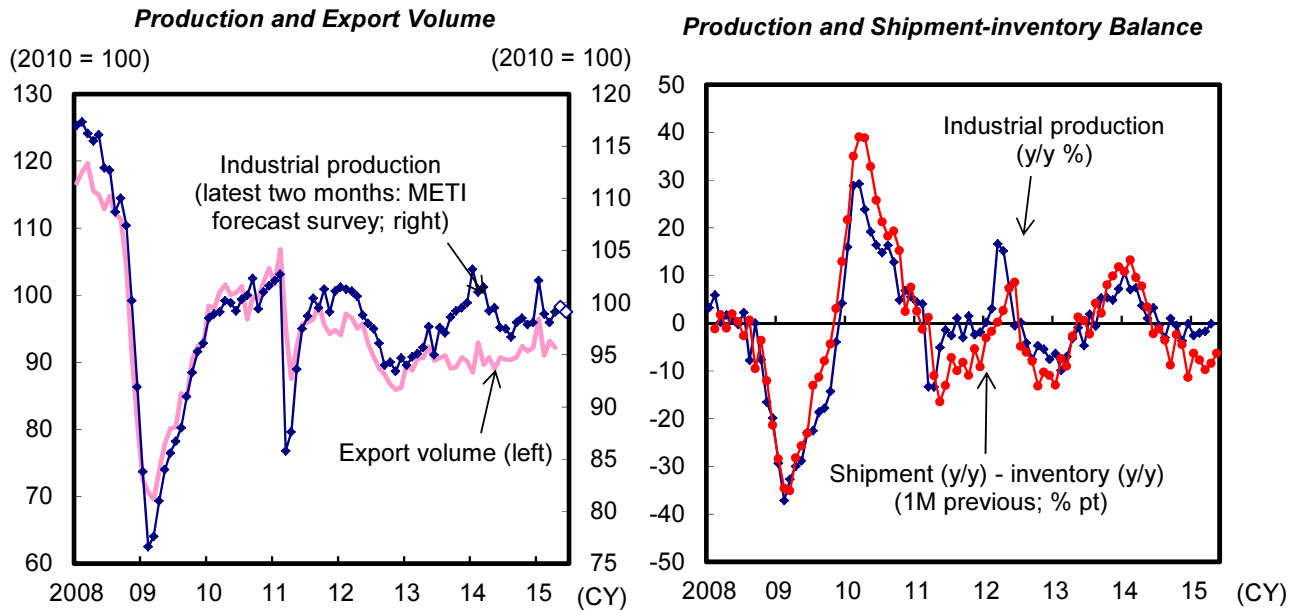
Looking at the forecast survey by types of goods, May is expected to see a continuation of production increases for capital goods (excluding transport equipment) at +7.4% m/m and construction goods at +2.4%. On the other hand, non-durable consumer goods expect a decline in production at -2.1% m/m. Production performance is expected to be weak in June with the exception of durable consumer goods (+0.9%), while capital goods (excluding transport equipment) see a decline in production at -3.0% m/m and non-durable consumer goods down by -0.6%.

Future sees moderate growth in production supported by both domestic and overseas demand

As for the future of industrial production, the growth trend is expected to continue, supported by the underlying strength of exports. It has just recently been confirmed that the US economy was trading water, but if this most recent stagnant period merely ends up stalling interest rate hikes a bit longer, it may actually end up having a positive effect on the world economy. A bright spot appeared in the EU economy, which had been in a downtrend up to this point, due to support of the monetary easing policy. Furthermore, a new policy in China reducing the ratio of cash reserves to deposits is expected to bring a certain amount of support to the economy, which had been in a slowdown. On the other hand,

domestic demand promises to improve in the future thanks to the positive employment environment and the collapse in energy prices, which are giving a lift to real income.

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



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