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# September Industrial Production

Better performance than expected – exceeds upper limit of market expectations

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## Summary

- The September 2015 indices of industrial production was up by +1.0% m/m, its first increase in 3 months, considerably exceeding market consensus (-0.6%). Results exceeded the upper limit of market expectations. Activity centered on the consumer goods sector brought in favorable results. The shipment index was also up for the first time in 3 months at +1.3% m/m, while the inventory ratio index fell for the first time in 2 months at -2.9%.
- As for the future of industrial production, the growth trend is expected to return despite ups and downs along the way. First, in the area of domestic demand, recovery is expected for consumption, reflecting the improvement in real income for both working households and pensioners. Meanwhile, corporations have not lost their willingness to invest in domestic capex, and this should provide underlying support for demand in the area of capital goods. Overseas demand is expected to remain weak for the time being, but exports are expected to gradually recover with a mixture of both strong and weak points. In the US, economic growth continues with a strong undertone especially in the household sector. Exports to the US are expected to recover and reenter a growth phase centering on durable goods. In the Eurozone, the trend toward recovery is expected to continue, supported by cheap crude oil and the ECB's quantitative easing. As for the Asian economy, China's ratio of cash reserves to deposits has been lowered along with its interest rates, and there are signs that the real economy has hit bottom. It is very possible that soon there will also be signs of hitting bottom for various goods, centering on consumer goods.

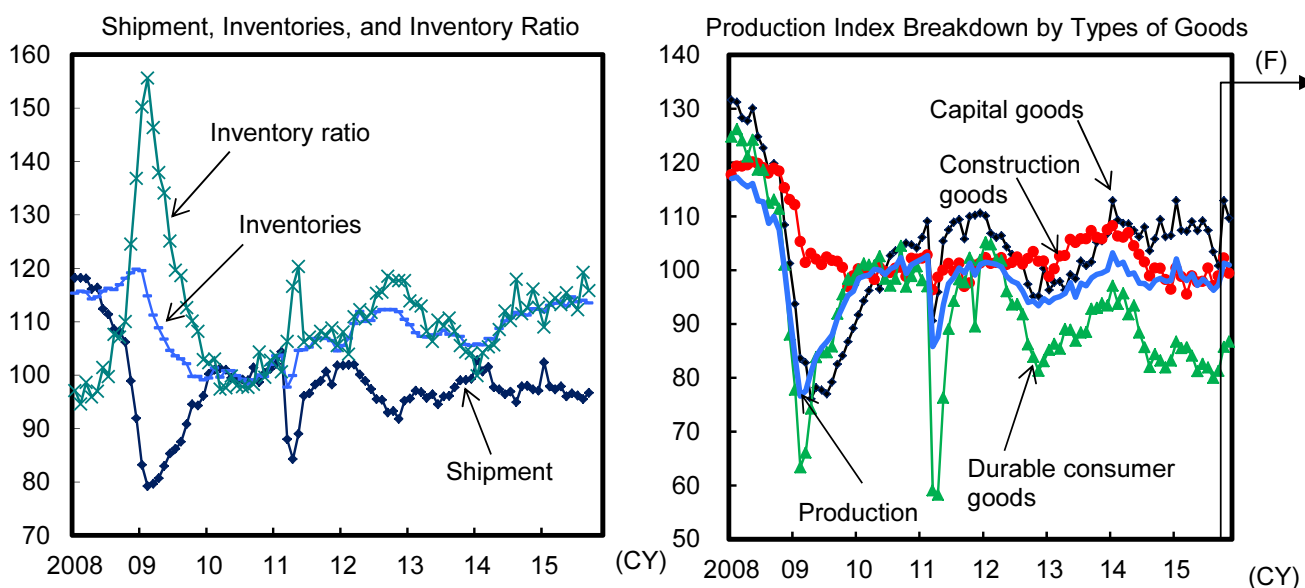
Industrial Production (m/m %; SA basis)											Chart 1
	2014		2015								
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Industrial Production	0.2	4.1	-3.1	-0.8	1.2	-2.1	1.1	-0.8	-1.2	1.0	
Market consensus (Bloomberg)										-0.6	
DIR estimate										-0.7	
Shipments	-0.2	5.5	-4.4	-0.6	0.6	-1.9	0.6	-0.4	-0.7	1.3	
Inventories	-0.1	-0.4	1.1	0.4	0.4	-0.8	1.5	-0.8	0.3	-0.4	
Inventory ratio	-2.9	-3.3	4.0	0.9	-1.0	1.9	-1.6	-1.1	6.2	-2.9	

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

## September 2015 production index performs much better than expected – exceeds upper limit of market expectations

The September 2015 indices of industrial production was up by +1.0% m/m, its first increase in 3 months, considerably exceeding market consensus (-0.6%). Results exceeded the upper limit of market expectations. Activity centered on the consumer goods sector, which brought in favorable results. The shipment index was also up for the first time in 3 months at +1.3% m/m, while the inventory ratio index fell for the first time in 2 months at -2.9%.

**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.

### Consumer goods sector favorable, though capital goods and materials remain weak

As for production index performance by industry in September, eight out of the total of fifteen industries recorded production increases. Electronic parts & devices were up by +6.0% m/m, with the sector overall showing major growth in production due to special demand related to the iPhone. Improvements were seen in both domestic and overseas demand centering on consumer goods with chemicals (less pharmaceuticals) at +5.4%, electrical machinery at +5.4%, and transport equipment at +1.3%. On the other hand, the capital goods and materials sectors showed weak performance due to unfavorable exports and machinery orders. General-purpose, production and business oriented machinery was down -4.8% m/m, with ceramics, stone and clay products down by -1.7%, plastic products down by -0.7%, iron & steel down -1.0%, and petroleum & coal products down by -1.5%.

Looking at September production index performance by types of goods, we see that consumer goods won favorable performance at +0.5% m/m, while investment goods were weak at -1.5%. Durable consumer goods were up +1.6% while non-durable consumer goods were up by +1.0%. The decline suffered by investment goods was due mostly to capital goods (less transport equipment), which fell by -3.6%. When transport equipment is included the overall decline for capital goods is -2.5%. Meanwhile, construction goods won growth of +1.9% m/m.

## Favorable performance in the consumer goods sector expected to continue in October

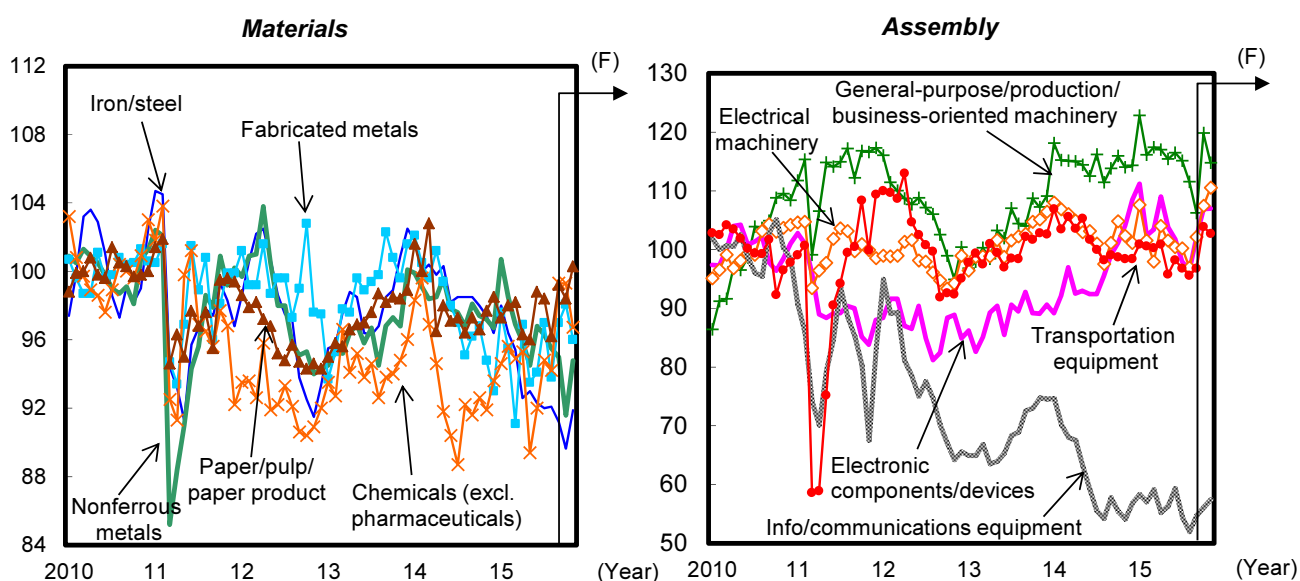
The October forecast survey is expected to achieve a major increase of +4.1% m/m. This is due to the favorability of the consumer goods sector. In performance by industry, electronic parts and devices is expected to be up by +4.6% m/m, with electrical machinery up +5.2%, information communication & electronics equipment up +2.6%, and transport equipment up by +7.3%. On the other hand, the materials sector is expected to continue to be weak, with iron & steel down by -1.7% and non-ferrous metals down by -3.6%. However, general-purpose, production and business oriented machinery, which suffered a decline in production in September, is expected to see major growth in production in October at +12.8%.

The November forecast survey is expected to be down by -0.3% m/m, taking a breather from production increases. While production increases are expected to be maintained in the area of electrical machinery (+2.9%) and information communication & electronics equipment (+2.3%), declines are seen for general-purpose, production and business oriented machinery (-4.2%) and transport equipment (-1.1%).

Looking at the forecast survey by types of goods, plans for production increases in October stand out in the capital goods sector (less transport equipment) at +12.0% m/m, durable consumer goods at +5.5%, and construction goods at +3.4%. Meanwhile, production decreases are expected in November, with capital goods down by -2.9% m/m and construction goods down by 2.8%. However, a production increase is expected for durable consumer goods at +1.1%.

Production by Industry (2010 = 100; SA basis)

Chart 3



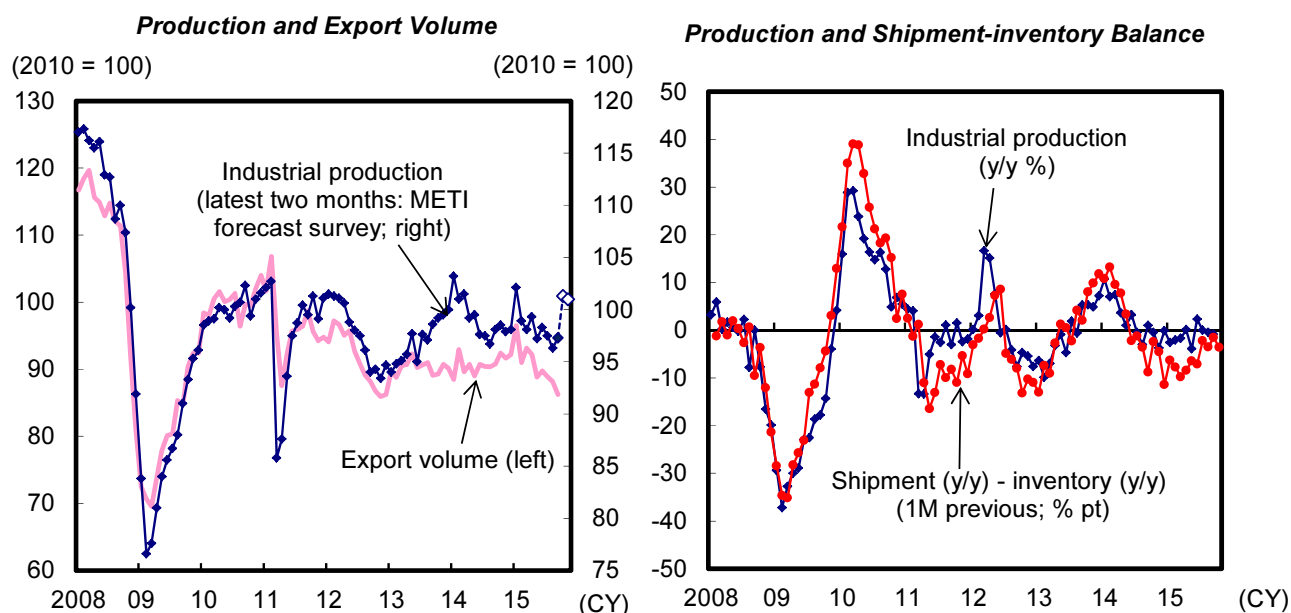
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.  
F: METI's forecast survey.

## Production to move toward a comeback in the future

As for the future of industrial production, the growth trend is expected to return despite ups and downs along the way. First, in the area of domestic demand, recovery is expected for consumption, reflecting the improvement in real income for both working households and pensioners. Meanwhile, corporations have not lost their willingness to invest in domestic capex, and this should provide underlying support for demand in the area of capital goods. Overseas demand is expected to remain weak for the time being. One thing to watch out for is that capital goods and materials will likely remain unfavorable due to the weight of falling crude oil prices and a strong dollar on the US corporate sector, while Asia still requires further adjustment to handle excess production capacity. However, exports are expected to gradually recover with a mixture of both strong and weak points. In the US, economic growth continues with a strong undertone especially in the household sector. Exports to the US are expected to recover and reenter a growth phase centering on durable goods. In the Eurozone, the trend toward recovery is expected to continue, supported by cheap crude oil and the ECB's quantitative easing. As for the Asian economy, China's ratio of cash reserves to deposits has been lowered along with its interest rates, and there are signs that the real economy has hit bottom. It is very possible that soon there will also be signs of hitting bottom for various goods, centering on consumer goods.

Production, Export Volume, and Shipment-inventory Balance

Chart 4



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