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# March Industrial Production

Jan-Mar 2016 period registers negative growth; weakness to continue in future

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## Summary

- The March 2016 indices of industrial production was up by +3.6% m/m, registering growth for the first time in two months, while exceeding market consensus at +2.8%. However, on average, Jan-Mar period results ended on a negative note, with a decline of -1.1% on a q/q basis, making this the first time in two quarters for the index to record a decline. The shipment index was up just slightly at +1.4% m/m, while inventories grew by +2.8% and inventory ratio was up by +3.5% m/m, achieving growth for the first time in three months.
- Production is expected to continue in a weak tone for some time. As is indicated in this month's METI forecast, ups and downs are expected, but as of yet, the effects of the earthquake in Kyushu have not shown up in the index. Therefore, the realization rate for this forecast will likely be lower than usual. Complete recovery for domestic demand, especially for personal consumption, will likely take time due to sluggish growth for wages and household income for pensioners. In addition, the income environment for corporations is worsening due to the continuing strong yen, and this will very likely narrow the focus of domestic capex to labor-saving as a means of handling the shortage in manpower, research and development, and energy-saving.

## Industrial Production (m/m %; SA basis)

Chart 1

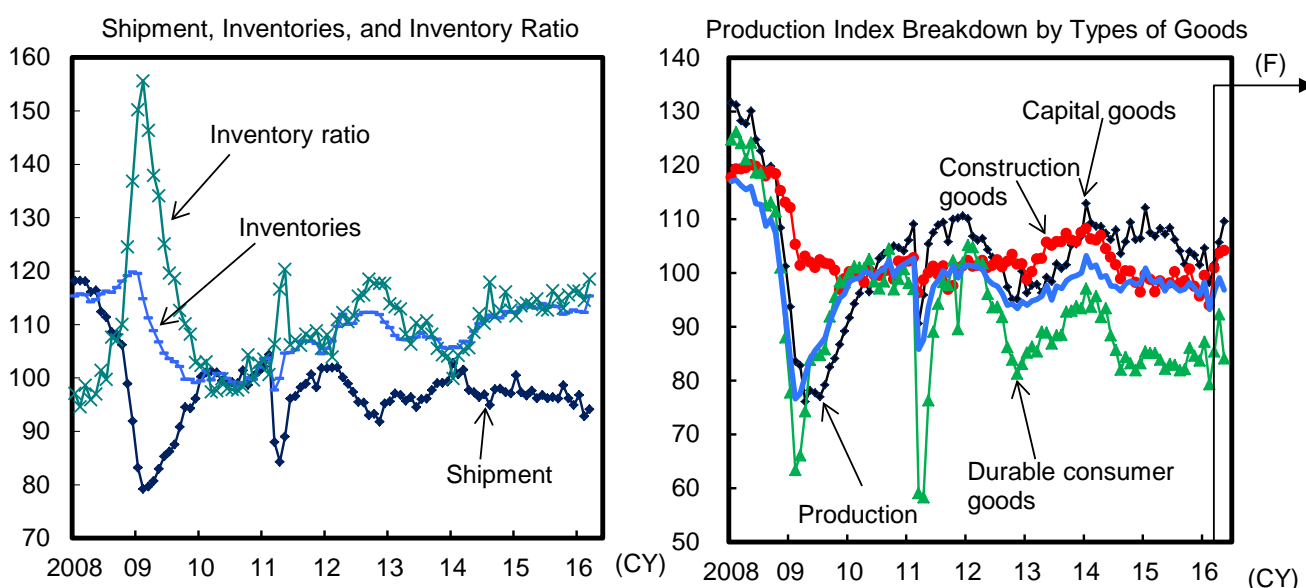
	2015							2016		
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Industrial Production	1.7	-0.9	-0.7	0.3	1.2	-1.1	-1.2	2.5	-5.2	<b>3.6</b>
Market consensus (Bloomberg)										2.8
DIR estimate										2.4
Shipments	0.6	-0.6	0.2	-0.3	2.6	-2.4	-1.4	2.0	-4.1	<b>1.4</b>
Inventories	0.8	-0.6	0.2	-0.1	-1.2	0.4	0.4	-0.3	-0.2	<b>2.8</b>
Inventory ratio	-1.7	-0.1	3.2	-1.0	-1.8	2.2	0.7	-0.1	-1.5	<b>3.5</b>

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

## March production was up, but on average, Jan-Mar period suffered decline

The March 2016 indices of industrial production was up by +3.6% m/m, registering growth for the first time in two months, while exceeding market consensus at +2.8%. However, on average, Jan-Mar period results ended on a negative note, with a decline of -1.1% on a q/q basis, making this the first time in two quarters for the index to record a decline. The shipment index was up just slightly at +1.4% m/m, while inventories grew by +2.8% and inventory ratio was up by +3.5% m/m, achieving growth for the first time in three months. Meanwhile, the METI forecast sees +2.6% in April and -2.3% in May after some ups and downs, but the realization rate for this forecast will likely be lower than usual due to the fact that the effects of the recent earthquake in Kyushu are not yet reflected in index results.

### 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.

## Lunar New Year backlash and reactionary decline after advance production at end of last year loom large in Jan-Mar period results

As for production index performance by industry in March, twelve out of the total of fifteen industries recorded production growth. Sectors which recorded major declines in February due to the effects of the Lunar New Year holiday in Asia achieved a major recovery. These included transport equipment (+8.8% m/m), general-purpose, production and business oriented machinery (+3.2%), fabricated metals (+11.9%), electronic parts & devices (+2.8%), and chemicals (minus pharmaceuticals) (+3.3%). On average the Jan-Mar period saw results dragged down by sectors experiencing a major reactionary decline in response to advance production occurring at the end of last year. These included electronic parts and devices (-5.2% q/q) and transport equipment (-2.5%).

Looking at March production index performance by types of goods, we see that recovery was especially noticeable in sectors which experienced major declines in February, with growth in production seen for durable consumer goods (+7.7%), capital goods (+3.5%), and construction goods (+7.3%). On average the Jan-Mar period saw results dragged down by capital goods (-1.4% q/q) and durable consumer goods (-0.9%).

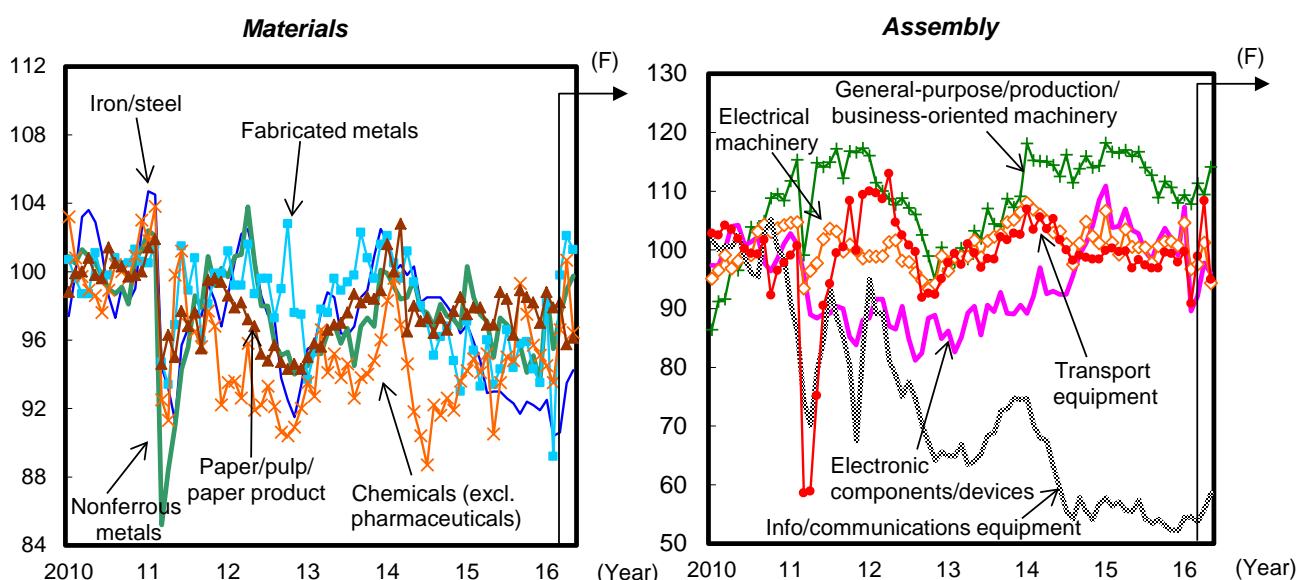
## Production index to suffer ups and downs in future; polarization of upstream and downstream demand seen

The METI production forecast survey sees +2.6% in April and -2.3% in May after some ups and downs. Looking at the METI forecast by industry, we see relative favorability for production plans in information communication & electronics equipment (+4.1% in April and +4.8% in May) and electronic parts & devices (+6.2% in April and -1.8% in May), while on the other hand, uneven performance is expected for transport equipment (+9.6% in April and -12.4% in May) and electrical machinery (+3.8% in April and -6.8% in May). Future business trends are expected to be patchy depending on the performance of the particular industry.

Looking at the forecast survey by types of goods, we see strong performance for production of capital goods (minus transport equipment) (+4.0% m/m in April and +3.7% in May), while ups and downs are seen for durable consumer goods (+8.1% in April and -8.9% in May). Meanwhile, performance is expected to be weak for non-durables (+1.5% in April and -9.2% in May). All in all, downstream demand (consumer related) is expected to be weak, while upstream demand oriented towards industry is expected to be relatively favorable, though even here, only in IT related areas.

Production by Industry (2010 = 100; SA basis)

Chart 3



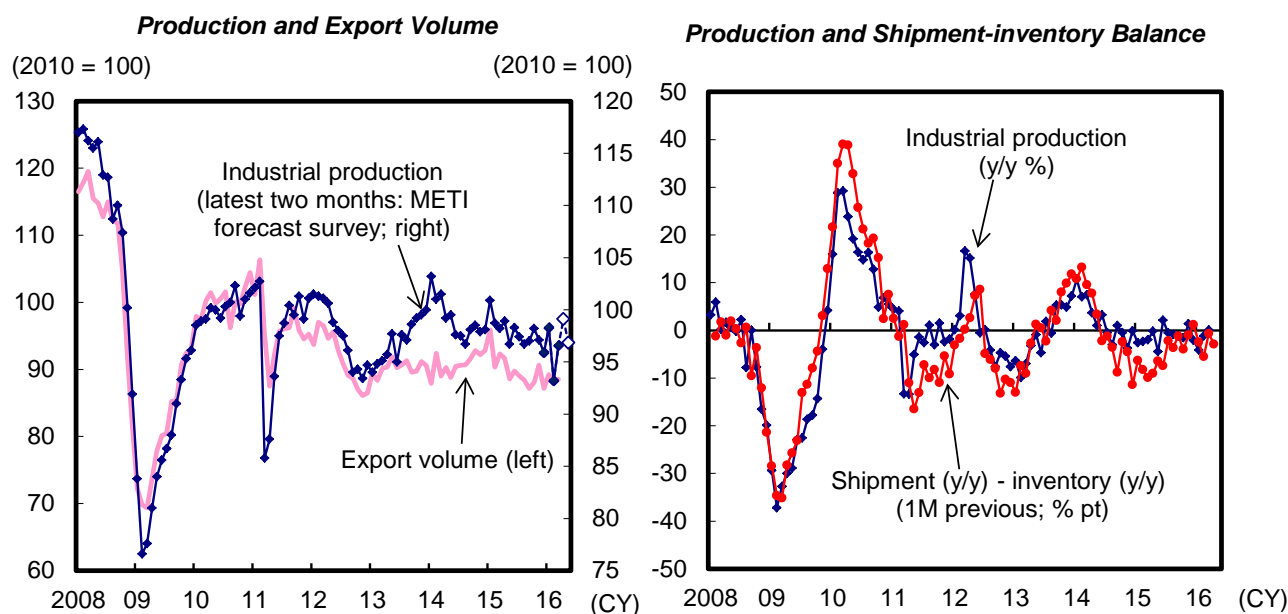
Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.  
F: METI's forecast survey.

## Weak trend expected for the time being due partly to effects of the earthquake in Kyushu

Production is expected to continue in a weak tone for some time. As is indicated in this month's METI forecast, ups and downs are expected, but as of yet, the effects of the earthquake in Kyushu have not shown up in the index. Therefore, the realization rate for this forecast will likely be lower than usual. Complete recovery for domestic demand, especially for personal consumption, will likely take time due to sluggish growth for wages and household income for pensioners. In addition, the income environment for corporations is worsening due to the continuing strong yen, and this will very likely narrow the focus of domestic capex to labor-saving as a means of handling the shortage in manpower, research and development, and energy-saving. As for overseas demand, while strengths and weaknesses are expected, the steady undertone should continue. The US economy continues to show a steady undertone especially in the household sector, and this is expected to compensate for Japan's ailing exports of capital goods by encouraging exports of durables. As for exports to the EU, the European economy is making a comeback thanks to the effects of falling crude oil prices and the ECB's quantitative monetary easing, and the recovery trend is expected to continue in the balance. Meanwhile, in regard to the Asian economy, fears associated with the tightening of US monetary policy are on the wane, and the negative influence of capital outflows in association with this factor are gradually abating. Chances are good that this will help to avoid any more declines in demand.

### Production, Export Volume, and Shipment-inventory Balance

Chart 4



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