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# December 2016 Industrial Production

**Production maintains growth at +0.5% m/m**

Economic Intelligence Team  
**Kazuma Maeda**  
**Shunsuke Kobayashi**

## Summary

- The December 2016 indices of industrial production grew for the second consecutive month at +0.5% m/m, while at the same time exceeding market consensus at +0.3%. Meanwhile, the December shipping index was down for the first time in four months at -0.3%, with the inventory index growing for the first time in four months at +0.2%. Inventory ratio grew for the first time in three months at +0.9%. While production was up, shipments were down, with inventory growing, indicating that on average, production and shipments are in a growth trend with inventory in a declining trend, bringing a bright spot to the outlook for the future.
- The METI production forecast survey sees growth continuing in the future, with January 2017 performance up by +3.0% m/m and February production up by +0.8%. METI's estimated forecast value for the January 2017 Indices of Industrial Production also indicates growth at +0.5%.
- Production is expected to experience moderate growth in March 2017 and beyond. Durable consumer goods are expected to maintain a steady undertone, with major household appliances purchased when the ecopoint incentive program was introduced approaching the culmination of their replacement cycle. In addition, the negative effects of preconsumption over demand as a result of last minute demand prior to the increase in consumption tax are gradually falling away. As for overseas demand, recovery is seen continuing for overseas economies, especially the US economy which continues to maintain underlying strength centering on the household sector. Exports are expected to make a gradual comeback.

Industrial Production (m/m %; SA basis)											Chart 1
	2016										
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Industrial Production	3.8	0.5	-2.6	2.3	-0.4	1.3	0.6	0.0	1.5	<b>0.5</b>	
Market consensus (Bloomberg)										0.3	
DIR estimate										0.5	
Shipments	1.8	1.6	-2.6	1.7	0.7	-1.1	1.8	2.0	1.0	<b>-0.3</b>	
Inventories	2.9	-1.7	0.4	0.0	-2.4	0.3	-0.5	-2.1	-1.6	<b>0.2</b>	
Inventory ratio	3.3	-2.2	1.8	-1.5	1.1	-3.2	1.1	-0.6	-5.6	<b>0.9</b>	

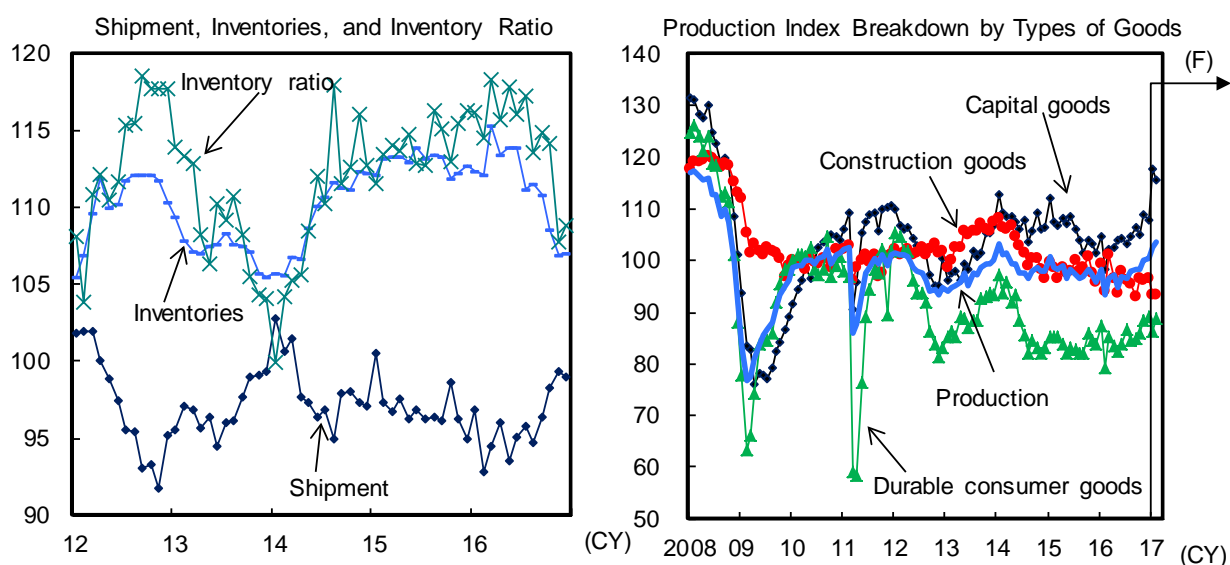
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

## Production maintains growth at +0.5% m/m

The December 2016 indices of industrial production grew for the second consecutive month at +0.5% m/m, while at the same time exceeding market consensus at +0.3%. Meanwhile, the December shipping index was down for the first time in four months at -0.3%, with the inventory index growing for the first time in four months at +0.2%. Inventory ratio grew for the first time in three months at +0.9%.

The METI production forecast survey sees growth continuing in the future, with January 2017 performance up by +3.0% m/m and February production up by +0.8%. While production was up, shipments were down, with inventory growing, indicating that on average, production and shipments are in a growth trend with inventory in a declining trend, bringing a bright spot to the outlook for the future.

**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.

## Twelve out of fifteen industries record production growth

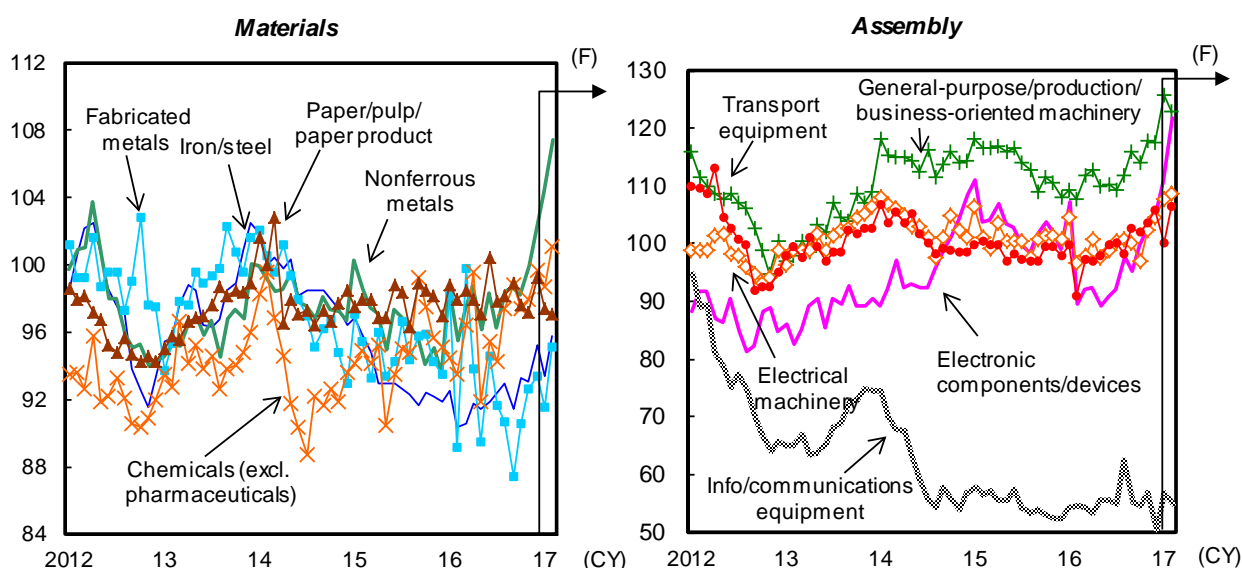
As for production index performance by industry in December, twelve out of the total of fifteen industries recorded production growth. Of these, contribution to positive results was especially high for transport equipment (+2.0%) and chemicals (minus pharmaceuticals) (+1.8%). As for transport equipment, growth in light vehicles and automobile parts was especially notable. Meanwhile, passenger vehicles also won m/m growth thanks to favorable sales of SUVs in the US as well as favorable domestic sales of new cars. As for chemicals (minus pharmaceuticals), beauty creams and synthetic detergents helped push up overall results. On the other hand, the production index fell for two industries. These were information and communications equipment (-10.7% m/m) and general-purpose, production and business related machinery (-0.4%). As for information and communications equipment, fixed communication devices and external storage devices brought a negative contribution to results, while in general-purpose, production and business related machinery, steam turbines and analytical instruments helped to bring down overall results. Meanwhile, other industries marked time.

## Production plans continue to be positive

The METI production forecast survey sees growth continuing in the future, with January 2017 performance up by +3.0% m/m and February production up by +0.8%. METI's estimated forecast value for the January 2017 Indices of Industrial Production also indicates growth at +0.5%. Looking at the production forecast survey by industry, we see that production plans are especially positive in the area of electronic parts and devices (+5.1% in January 2017 and +10.0% in February 2017). While the forecast as of this point should probably be taken with a certain grain of salt, since this industry has a tendency for production plans to be revised downwards at a later date, this industry is expected to lead in overall growth for industrial production in the future. Meanwhile, industries which suffered declines on the December report are expected to see production growth in January, though another decline is seen in February. These are information and communications equipment (+11.8% in January and -3.4% in February) and general-purpose, production and business related machinery (+7.2% in January and -2.4% in February). These industries also have a tendency for production plans to be revised downwards at a later date, so continued monitoring is advised.

Production by Industry (2010 = 100; SA basis)

Chart 3

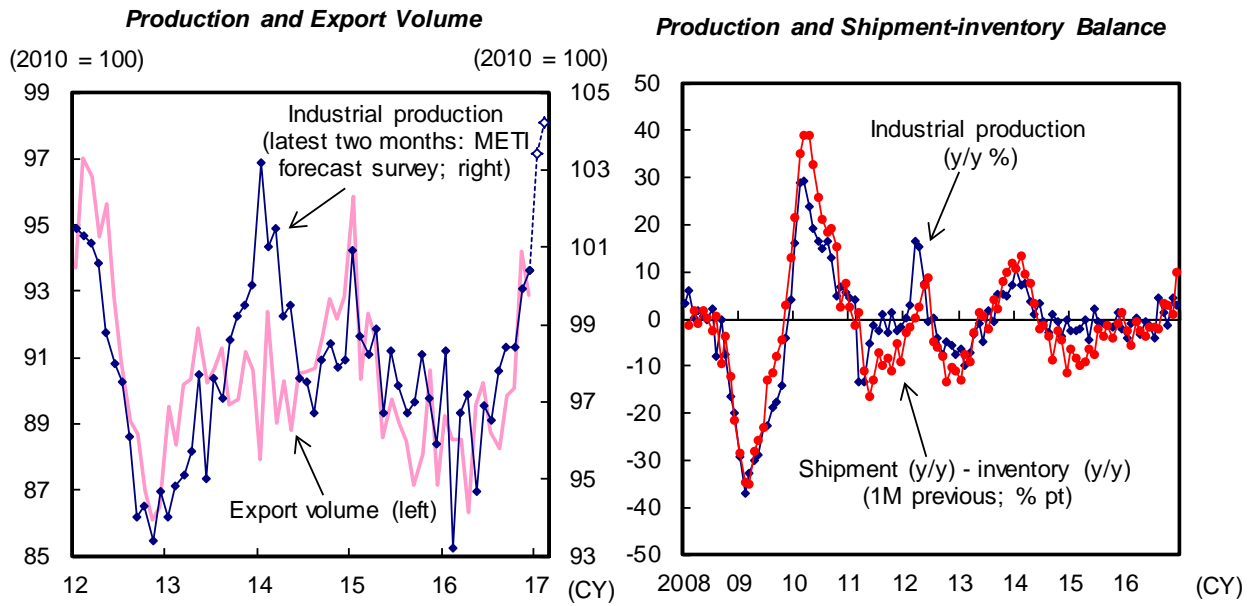


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.  
F: METI's forecast survey.

## Moderate growth seen in future

Production is expected to experience moderate growth in March 2017 and beyond. Durable consumer goods are expected to maintain a steady undertone, with major household appliances purchased when the ecopoint incentive program was introduced approaching the culmination of their replacement cycle. In addition, the negative effects of preconsumption over demand as a result of last minute demand prior to the increase in consumption tax are gradually falling away. As for overseas demand, recovery is seen continuing for overseas economies, especially the US economy which continues to maintain underlying strength centering on the household sector. Exports are expected to make a gradual comeback. However, there are some downside risks, including the protectionist policies of the new Trump administration in the US and the UK's withdrawal from the EU, both of which could bring an increase in uncertainty regarding the future in the global economy. Such an occurrence would likely become a hindrance to growth in overseas demand and a full-fledged recovery in capex.

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



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