

28 February 2017 (No. of pages: 4)

Japanese report: 28 Feb 2017

January 2017 Industrial Production

Production declines for first time in six months at -0.8% m/m

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Summary

- The January 2017 indices of industrial production declined by -0.8% m/m, falling below market consensus at +0.4%. This is the first time in six months that the index of industrial production has suffered a decline. The January shipping index was down for the second consecutive month at -0.4%, with the inventory index marking time at +0.0%. Inventory ratio grew for the second consecutive month at +1.7%. Both production and shipments suffered declines.
- January results were influenced primarily by the Lunar New Year celebrations in the Sinosphere. This is considered to be one of the reasons that export volume was stagnant in January. Production appears to be taking a breather from its recent growth trend. The declines seen in the January index have not been accompanied by major declines in shipments or an increase in inventory. Hence there is no need for overly much pessimism.
- The METI production forecast survey sees ups and downs in the future, with February performance up by +3.5% m/m and March production down by -5.0%. METI's estimated forecast value for the February 2017 Indices of Industrial Production indicates growth of +1.1%.
- Production is expected to experience moderate growth in April 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										2017
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Industrial Production	0.5	-2.6	2.3	-0.4	1.3	0.6	0.0	1.5	0.7	-0.8	
Market consensus (Bloomberg)										0.4	
DIR estimate										0.8	
Shipments	1.6	-2.6	1.7	0.7	-1.1	1.8	2.0	1.0	-0.4	-0.4	
Inventories	-1.7	0.4	0.0	-2.4	0.3	-0.5	-2.1	-1.6	0.6	0.0	
Inventory ratio	-2.2	1.8	-1.5	1.1	-3.2	1.1	-0.6	-5.6	1.6	1.7	

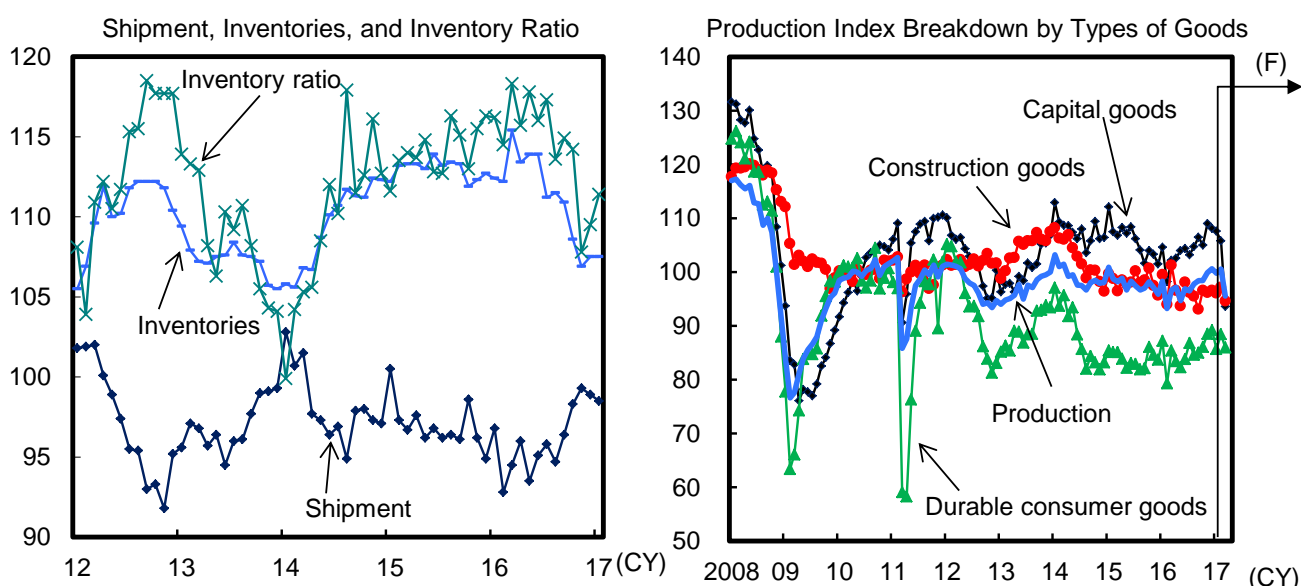
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

Production declines for first time in six months at -0.8% m/m

The January 2017 indices of industrial production declined by -0.8% m/m, falling below market consensus at +0.4%. This is the first time in six months that the index of industrial production has suffered a decline. The January shipping index was down for the second consecutive month at -0.4%, with the inventory index marking time at +0.0%. Inventory ratio grew for the second consecutive month at +1.7%. Both production and shipments suffered declines. The METI production forecast survey sees February performance up by +3.5% m/m and March production down by -5.0%.

January results were influenced primarily by the Lunar New Year celebrations in the Sinosphere. This is considered to be one of the reasons that export volume was stagnant in January. Looking at achievement rates for electrical machinery and non-ferrous metals, we see declines in comparison to past performance. Production appears to be taking a breather from its recent growth trend. The declines seen in the January index have not been accompanied by major declines in shipments or an increase in inventory. Hence there is no need for overly much pessimism.

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 declines

As for production index performance by industry in January, twelve out of the total of fifteen industries recorded production declines. Of these, contribution to negative results was especially notable for transport equipment (-4.7% m/m) and chemicals (excluding pharmaceuticals) (-3.5%). As for transport equipment, a decline of -5.4% was expected as of the point when the January forecast survey was carried out. Hence said decline in production was actually according to plan. However, we should also keep in mind when looking at exports to the US that passenger vehicles appear to be about to peak out. As for chemicals (excluding pharmaceuticals), beauty creams and foundation were responsible for pulling down overall results. On the other hand, the production index grew for three industries. These were electronic parts and devices (+5.7% m/m), plastic products (+0.9%), and pulp, paper & paper products (+0.3%). As for electronic parts and devices, production increases were seen of MOS integrated circuits (memory chips) and active-matrix liquid-crystal displays (middle-sized and small). Electronic parts for information devices such as smartphones were favorable. As for plastic products, plastic film & sheet and plastic convenience goods helped to improve overall performance.

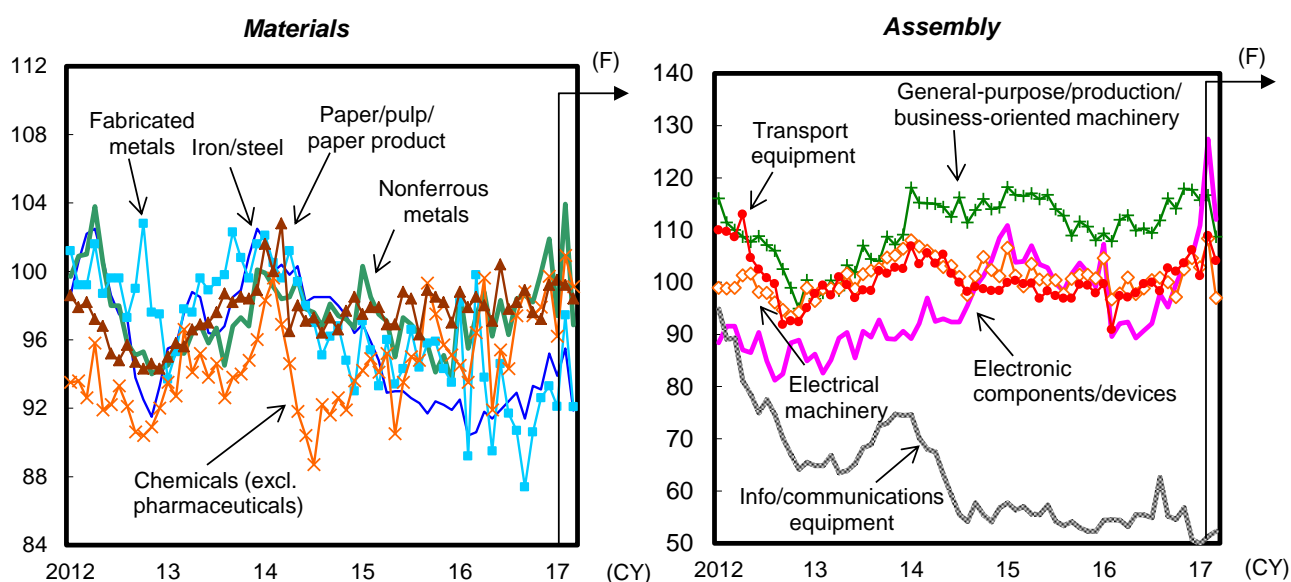
Looking at performance by types of goods, we see that capital goods declined by -0.5% m/m, while construction goods were down by -0.5%. Durable consumer goods suffered an especially steep decline at -3.9% m/m.

Production plans expected to see ups and downs

The METI production forecast survey sees ups and downs in the future, with February performance up by +3.5% m/m, but then March production down again by -5.0%. METI's estimated forecast value for the February 2017 Indices of Industrial Production indicates growth of +1.1% (adjusted for prediction error). All industries are expected to see production increases in February, while in March, all industries are expected to experience declines in production with the exception of information and communication electronics equipment. Looking at the production forecast survey by industry, we see that production plans are up and down for the most part. For example, electronic parts and devices (+14.9% m/m in February and -12.1% m/m in March), electrical machinery (+5.4% in February and -10.5% in March), and non-ferrous metals (+6.7% in February and -6.8% in March).

Production by Industry (2010 = 100; SA basis)

Chart 3

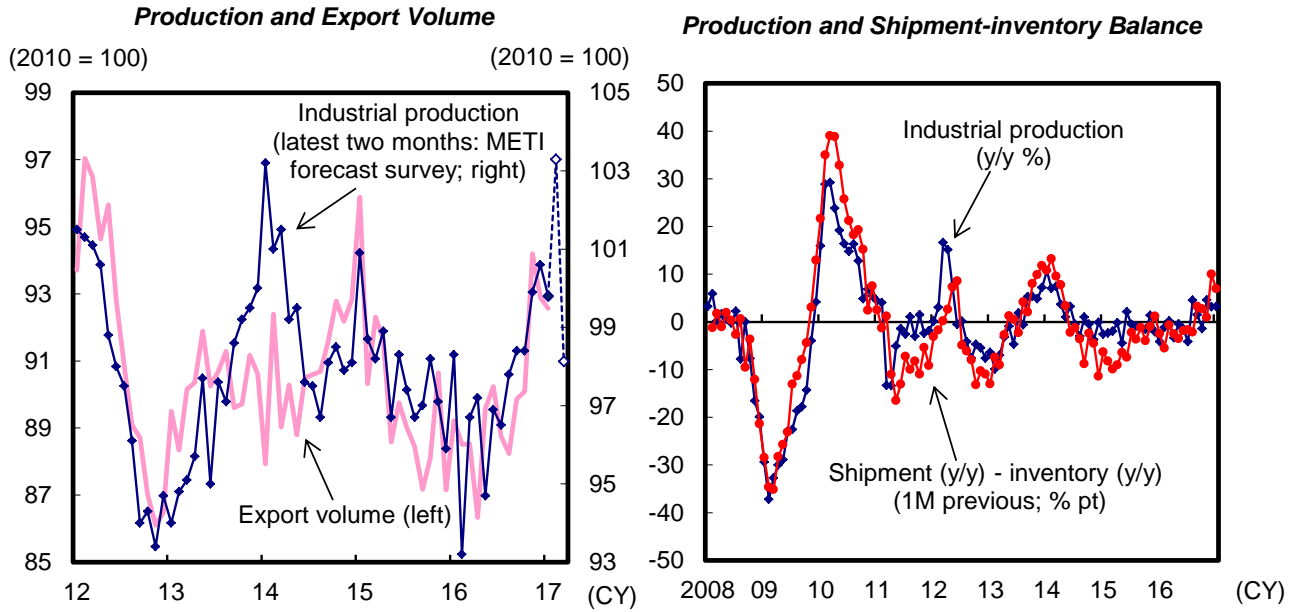


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.
F: METI's forecast survey.

Moderate growth seen in future

Production is expected to experience moderate growth in April 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.