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February Industrial Production

Production grows by +2.0% m/m. April production plans reveal strength

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Summary

- The February indices of industrial production grew by +2.0% m/m, while exceeding market consensus at +1.2%. This is the first time in two months that the index of industrial production has achieved growth. The February shipping index was down for the first time in two months at -0.1%, with the inventory index growing for the first time in two months at +0.9%. Inventory ratio fell for the first time in three months at -0.1%.
- The previous month's results were contrary to market expectations, falling into a decline. However, this month's results suggest that the trend toward production increases since the beginning of 2016 is maintaining. Meanwhile, production plans for April show considerable strength at +8.3% m/m despite indications of a downward trend approaching, meaning that figures should be taken with a certain grain of salt.
- The METI production forecast survey sees March performance down by -2.0% m/m, but then major growth in production in April at +8.3%. METI's estimated forecast value for the March Indices of Industrial Production indicates a decline of 0.3%.
- Production is expected to experience moderate growth in May 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

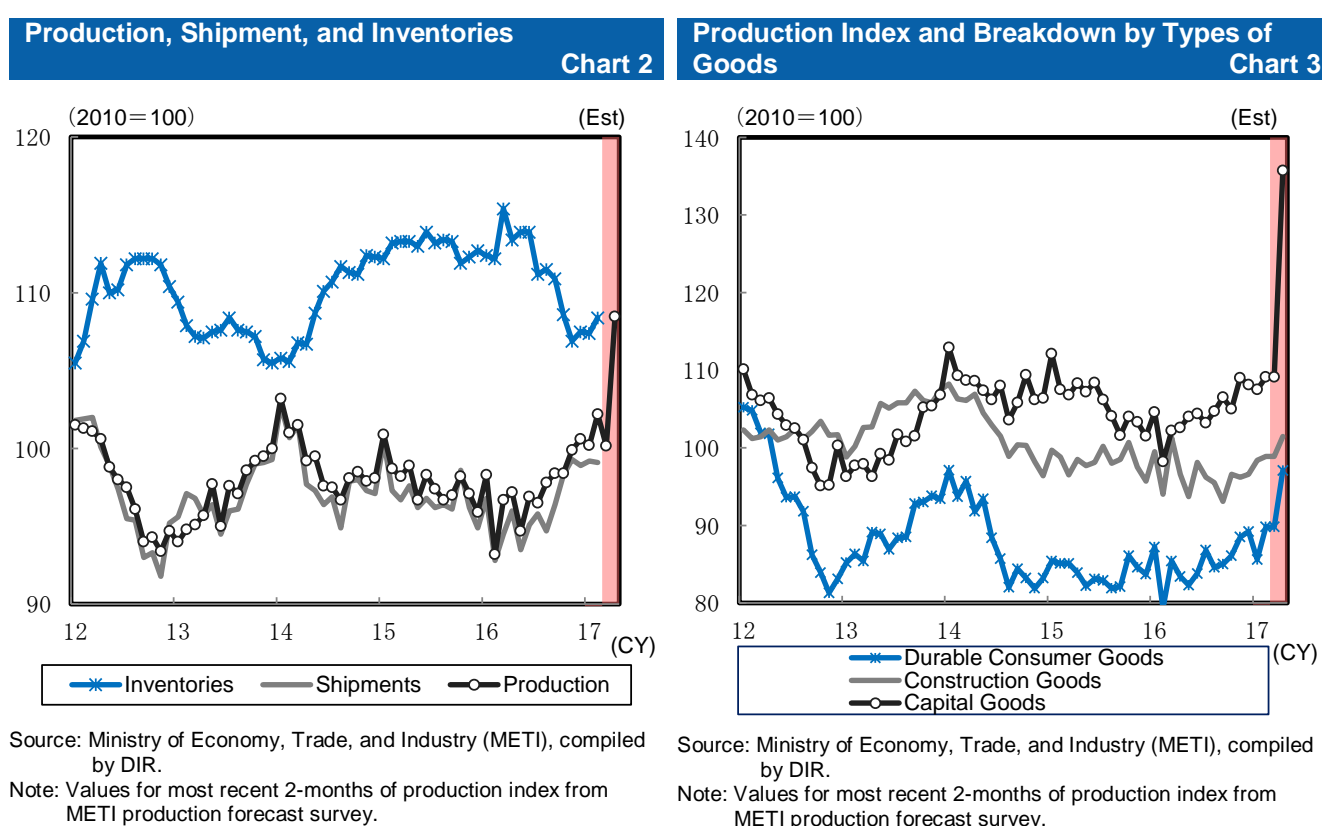
	2016									2017	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	-2.6	2.3	-0.4	1.3	0.6	0.0	1.5	0.7	-0.4	2.0	
Market consensus (Bloomberg)										1.2	
DIR estimate										0.7	
Shipments	-2.6	1.7	0.7	-1.1	1.8	2.0	1.0	-0.4	0.3	-0.1	
Inventories	0.4	0.0	-2.4	0.3	-0.5	-2.1	-1.6	0.6	-0.1	0.9	
Inventory ratio	1.8	-1.5	1.1	-3.2	1.1	-0.6	-5.6	1.6	1.5	-0.1	

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

Production grows for first time in two months by +2.0% m/m.

The February indices of industrial production grew by +2.0% m/m, while exceeding market consensus at +1.2%. This is the first time in two months that the index of industrial production has achieved growth. The February shipping index was down for the first time in two months at -0.1%, with the inventory index growing for the first time in two months at +0.9%. Inventory ratio fell for the first time in three months at -0.1%. The METI production forecast survey sees March performance down by -2.0% m/m with a rebound in April at +8.3%.

The previous month's results were contrary to market expectations, falling into a decline. However, this month's results suggest that the trend toward production increases since the beginning of 2016 is maintaining. Meanwhile, production plans for April show considerable strength at +8.3% m/m despite indications of a downward trend approaching, meaning that figures should be taken with a certain grain of salt.



Nine out of fifteen industries record production growth

As for production index performance by industry in February, nine out of the total of fifteen industries recorded production growth. Of these, contribution to positive results was especially notable for transport equipment (+4.7% m/m), general-purpose, production and business oriented machinery (+4.9%), and chemicals (excluding pharmaceuticals) (+7.2%). As for transport equipment, favorable performance for both domestic and export sales led to the increase in production. Domestic sales were favorable for new models of major vehicles which manufacturers placed on the market at the end of last year. Meanwhile, February exports gained some levitation for overall performance from performance of bus and truck exports to the US, and passenger vehicle exports to the EU. On the other hand, production declined for six industries. The major ones were electronic parts and devices (-1.6% m/m), plastic products (-0.9%), and textile products (-1.3%). As for electronic parts and devices (+5.7% in January, down by -1.6% in February), it is believed that the industry experienced a

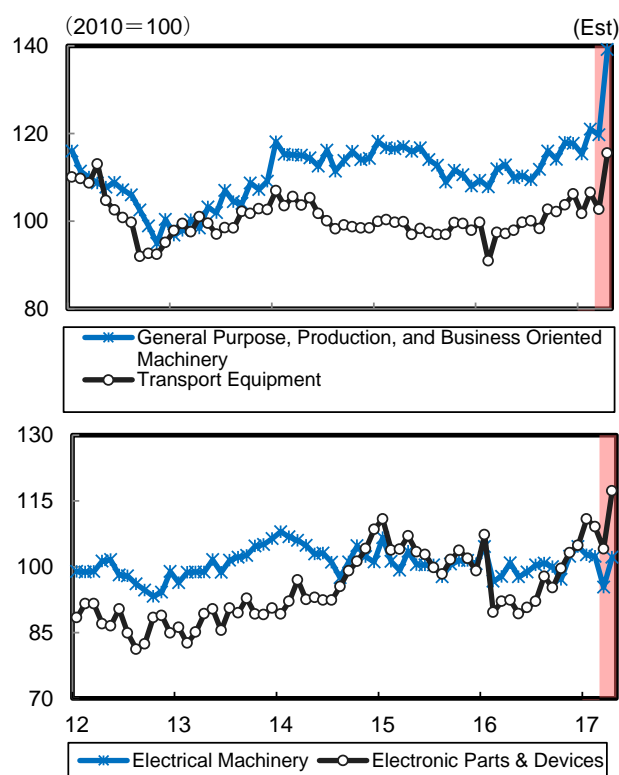
reactionary decline after the production increases of the previous month. Despite the decline, when all is averaged out the industry is still believed to be in a production growth phase.

Looking at performance by types of goods, we see that capital goods grew by +1.5% m/m, while construction goods were up by +0.5%, and durable consumer goods grew by +4.9%. All goods saw production increases. Although there have been ups and downs for capital goods recently, April is expected to see major growth in production, with inventory levels continuing to decline. Meanwhile, construction goods have continued to experience ups and downs, but durable consumer goods have maintained a growth trend since the beginning of last year.

April production plans show confidence

The METI production forecast survey sees March performance down by -2.0% m/m, but then major growth in production in April at +8.3%. METI’s estimated forecast value for the March Indices of Industrial Production indicates a decline of 0.3%. Looking at the production forecast survey by industry, we see that production plans are especially confident for information and communication electronics equipment (+10.1% m/m in March and +7.1% in April). Meanwhile, general-purpose, production and business oriented machinery (-1.1% m/m in March and +16.3% in April), electronic parts and devices (-4.6% m/m in March and +12.7% in April), and transport equipment (-3.6% m/m in March and +12.5% in April) are all expecting major growth in production in April. However, with the exception of transport equipment, all of these industries have experienced a strong downward trend in production since the time these production plans were made public. For this reason, precise figures should be taken with a certain grain of salt.

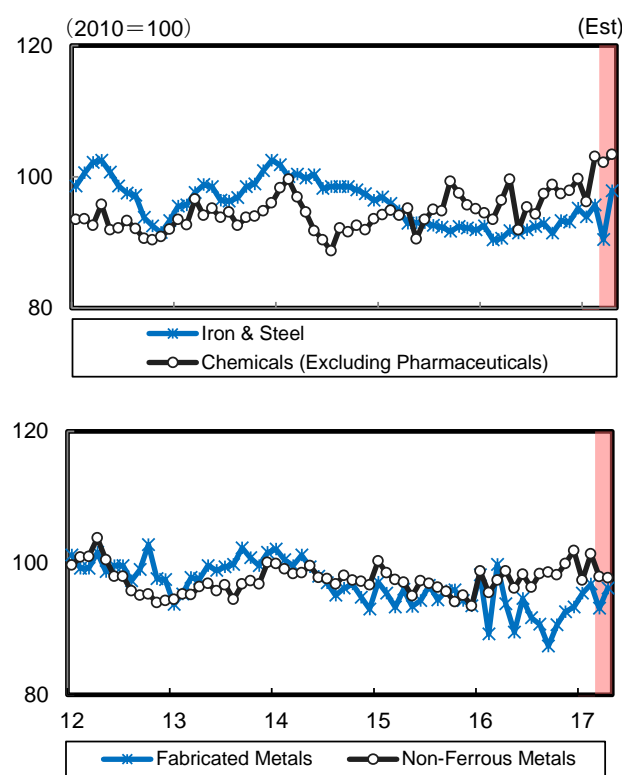
Production Indices (Assembly) Chart 4



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

Note: Values for most recent 2-months of production index from METI production forecast survey.

Production Indices (Materials) Chart 5



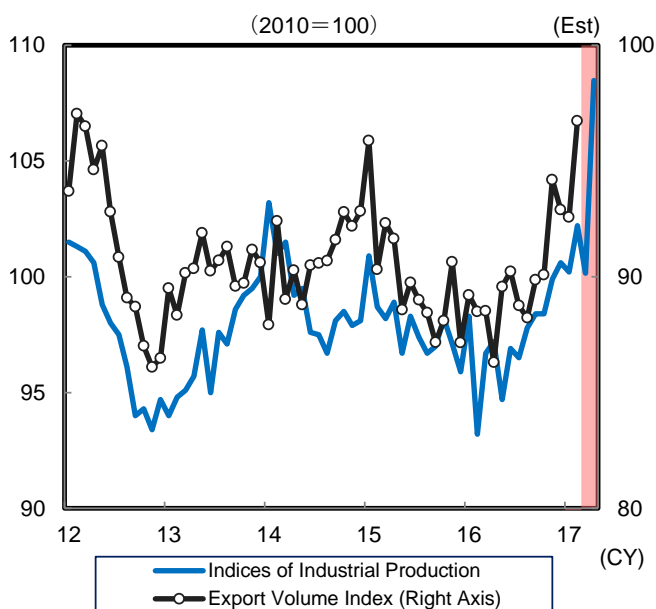
Source: Ministry of Economy, Trade, and Industry (METI), compiled by DIR.

Note: Values for most recent 2-months of production index from METI production forecast survey.

Moderate growth seen in future

Production is expected to experience moderate growth in May 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. Meanwhile, the yen has recently been appreciating progressively, and any further appreciation could become a hindrance to the willingness of corporation to spend on capex, as well as to the recovery of exports.

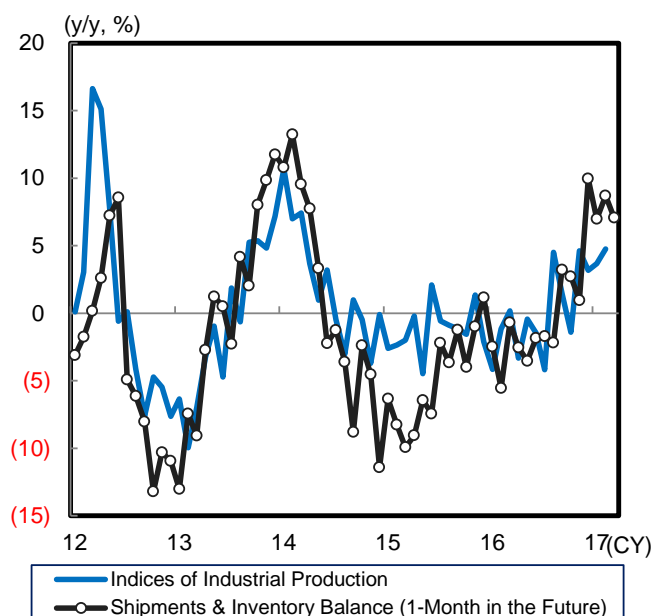
Industrial Production & Export Volume Chart 6



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

Note: Values for most recent 2-months of production index from METI production forecast survey.

Shipments, Inventory Balance & Production Chart 7



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