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# October Industrial Production

**Results fall below market consensus, but growth in production expected to be maintained**

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## Summary

- The October indices of industrial production recorded growth of +0.5% m/m, while shipments declined by -0.5%, resulting in a major increase in inventory at +3.1%. The METI production forecast survey sees November performance up by +2.8% m/m, and December up by +3.5%.
- Though industrial results fell below market consensus at +1.8% m/m, production is expected to grow in November and December, hence growth will likely be maintained in the future. Meanwhile, one of Japan's major automobile manufacturer halted production and shipments at its domestic factories, contributing to growth in inventories on overall results.
- Production is expected to experience moderate growth in January 2018 and beyond. As for capital goods, exports are expected to lead the economy and expand centering on semiconductor manufacturing equipment due to the recovery in the global economy. However, caution is required regarding overseas demand due to possible downside risk. If US interest rates undergo a rapid rise in association with the Fed's exit strategy, this could bring downward pressure on the US economy, while at the same time encouraging capital outflows from the emerging nations.

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

**Chart 1**

	2017									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Production	-2.1	3.2	-1.9	4.0	-3.6	2.2	-0.8	2.0	-1.0	<b>0.5</b>
Market consensus (Bloomberg)										1.8
DIR estimate										2.0
Shipments	-1.1	1.4	-0.8	2.7	-2.9	2.5	-0.7	1.8	-2.5	<b>-0.5</b>
Inventories	0.1	0.7	1.5	1.5	0.0	-2.0	-1.1	-0.6	0.0	<b>3.1</b>
Inventory ratio	2.5	-0.3	0.2	2.9	-1.9	-1.9	2.6	-4.1	1.6	<b>3.5</b>

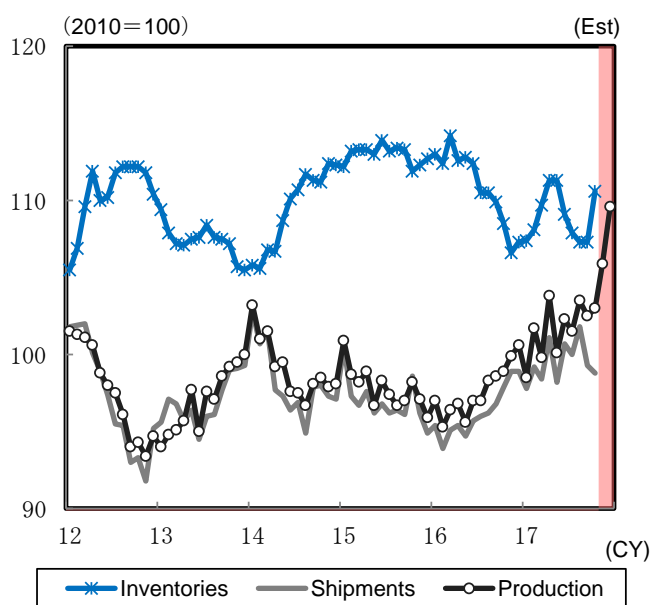
Source: Ministry of Economy, Trade, and Industry; Bloomberg; compiled by DIR.

## Growth expected to be maintained

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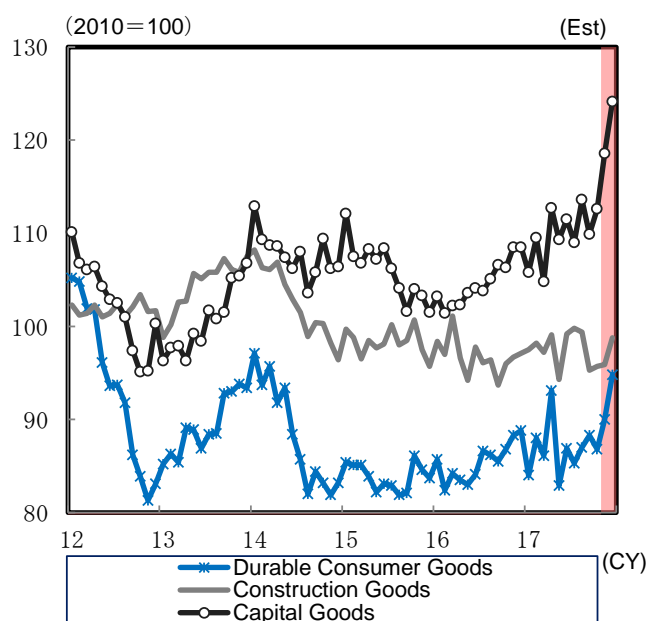
**Production, Shipment, and Inventories**  
Chart 2



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 Index and Breakdown by Types of Goods**  
Chart 3



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.

## Eight out of fifteen industries register growth

As for production index performance by industry in October, eight out of the total of fifteen industries registered growth. Of these, contribution to growth was especially notable for electrical machinery. Measuring instruments for semiconductors and ICs also contributed to growth, along with switching control systems.

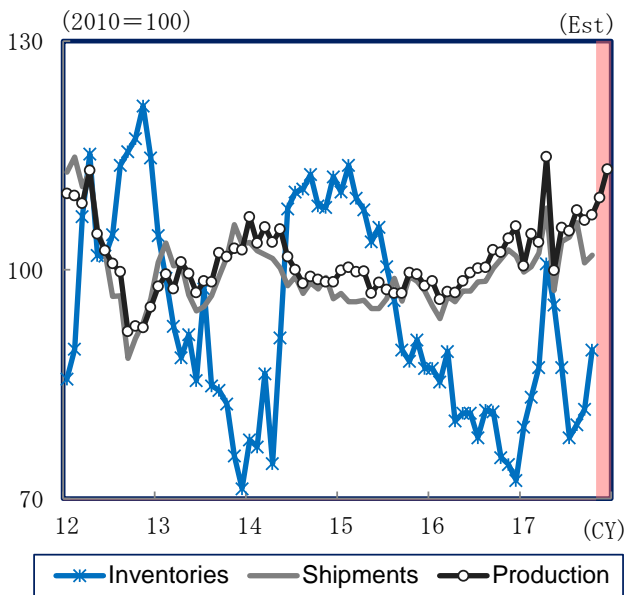
Meanwhile, the production index for transport equipment managed to register growth of +0.7% despite the decline for passenger vehicles. The final result came from growth in drive, transmission and steering parts. The realization rate in October was -2.3%, while the prediction correction factor for November is up by +2.4%. The manufacturing industry's production forecast survey sees November performance up by +2.1% m/m, and December up by +3.4%. The effects of the halt in production and shipments at the domestic factories of one of Japan's automobile manufacturers are expected to be temporary

## Production plans continue to be strong for general-purpose, production and business oriented machinery

The METI production forecast survey sees November performance up by +2.8% m/m, and December performance up by +3.5%. Meanwhile, METI’s estimated forecast value for the November Indices of Industrial Production indicates a decline of -0.1% (mode value).

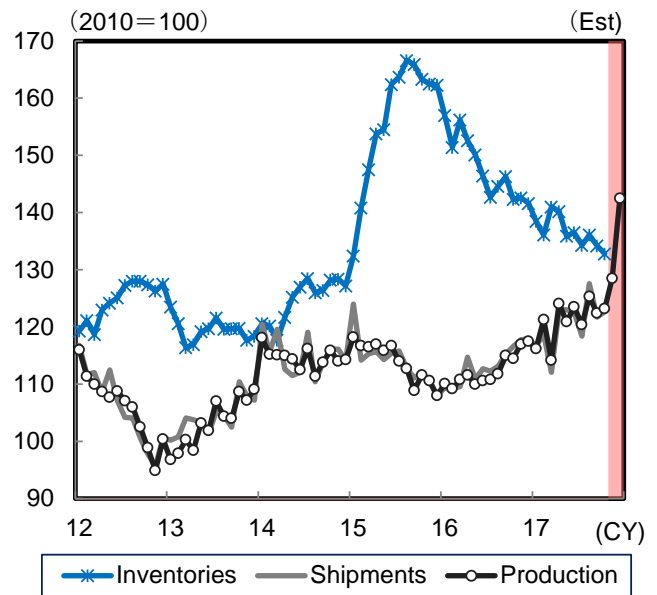
Looking at the production forecast survey by industry, we see that production plans continue to be strong for general-purpose, production and business oriented machinery (+4.3% m/m in November and +10.9% in December), and electronic parts and devices (+6.5% in November and +7.0% in December). As for general-purpose, production and business oriented machinery, exports are favorable centering on semiconductor manufacturing equipment due to the recovery in the global economy. However, these industries tend to experience downturns in production after initial plans have been announced; hence figures should be taken with a certain grain of salt.

**Production, Shipments, and Inventory (Left: Transport Equipment, Right: General-Purpose, Production and Business Oriented Machinery) 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.

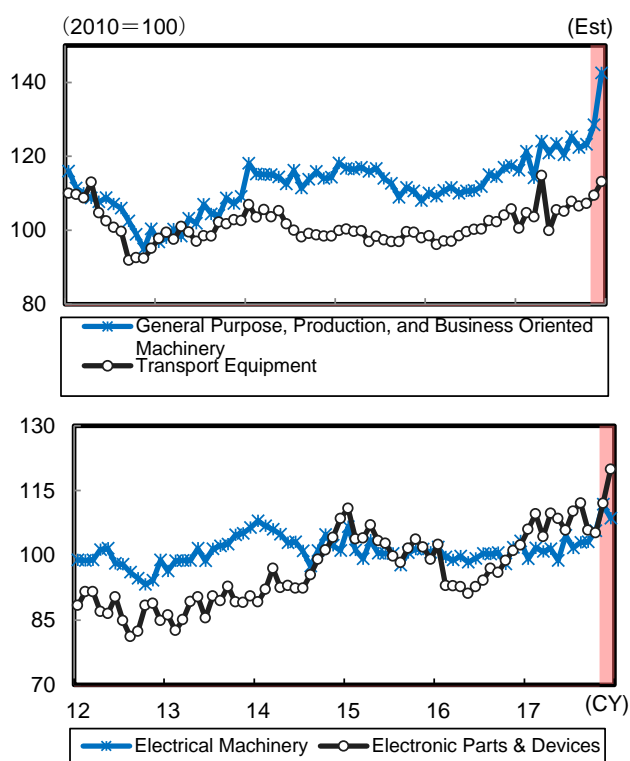


Source: Ministry of Economy, Trade, and Industry (METI), compiled by DIR.

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

## Production Indices (Assembly)

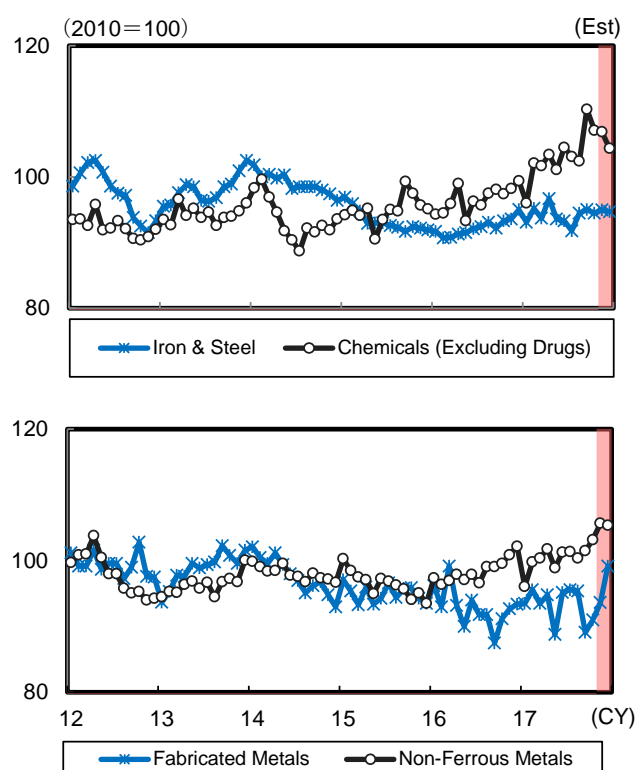
Chart 5



Source: Ministry of Economy, Trade and Industry; compiled by DIR.  
Note: Figures for most recent two months of the production index are from the METI production forecast survey.

## Production Indices (Materials)

Chart 6



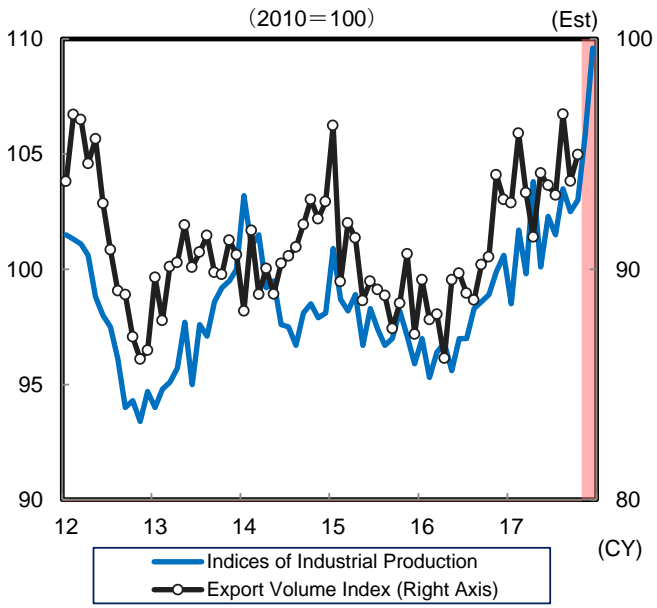
Source: Ministry of Economy, Trade and Industry; compiled by DIR.  
Note: Figures for most recent two months of the production index are from the METI production forecast survey.

## Moderate growth in production seen in future

Production is expected to experience moderate growth in January 2018 and beyond. As for capital goods, exports are expected to lead the economy and expand centering on semiconductor manufacturing equipment due to the recovery in the global economy. As for the domestic scene, capex spending in the area of maintenance & repair remains promising throughout the current fiscal year, but caution is required as it is unknown whether the growth trend in operating rate can be maintained.

However, caution is required regarding overseas demand due to possible downside risk. In the US, the Fed began asset reduction in October 2017, and may carry out a third interest rate increase within the year. If US interest rates undergo a rapid rise in association with these actions, this could bring downward pressure on the US economy, while at the same time encouraging capital outflows from the emerging nations. Meanwhile, the ECB has decided to begin reducing its quantitative easing activities in January 2018, hence we advise caution regarding the possibility that this could bring downward pressure on the EU economy. While our main scenario sees a continuation of moderate growth for the global economy, if uncertainty regarding the future grows, it could lead to a slowdown in exports and risks bringing downward pressure on the Japanese economy.

**Industrial Production & Export Volume** Chart 7



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 8



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