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December 2012 Industrial Production

Undershooting expectations but signaling a bottoming

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Summary

- In the Preliminary Report for December 2012 (Ministry of Economy, Trade and Industry [METI]), industrial production increased for the first time in two months (up 2.5% m/m). However, falling short of the market consensus (up 4.1%), the result is somewhat unfavorable. Nevertheless, a wide range of industries saw production advances and anticipate further increases going forward, evidencing signs of bottoming as a whole. Meanwhile, reflecting an increase in shipments (up 4.4%) and a decline in inventories (down 1.1%), the inventory ratio declined (improved) for the third consecutive month (down 0.6%).
- The METI survey projects overall production to increase 2.6% m/m in January 2013, and to further advance 2.3% in February for the third monthly gain in a row. With regard to January, while the general machinery and electrical machinery industries anticipate setbacks from surges in December, the transportation equipment, chemical, and electronic component/device industries are likely to boost overall production. As for February, only the electronic component/device industry anticipates a production cut, auguring well for improvements in production in general.
- Accompanied by recoveries in overseas economies, which will likely gain momentum centering on China, ASEAN, and other Asian trading partners, export volume, which moves in tandem with production, began to show signs of bottoming. Combined with a recent shift to a weaker yen, this likely led to a bottoming of export shipments in Oct-Dec 2012, to be followed by a probable turnaround thereafter. Thus, production is likely to gain momentum, accompanied by gains in exports.

Industrial Production (m/m %; SA basis)

Chart 1

	2012							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Industrial Production	-3.4	0.4	-1.0	-1.6	-4.1	1.6	-1.4	2.5
Market consensus (Bloomberg)								4.1
DIR estimate								5.5
Shipments	-1.3	-0.9	-3.1	0.2	-4.3	-0.1	-0.8	4.4
Inventories	-0.7	-1.2	2.9	-1.6	-0.9	-0.1	-1.2	-1.1
Inventory ratio	-3.7	4.2	3.7	-2.3	4.2	-2.1	-0.3	-0.6

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

Note: SA by METI.

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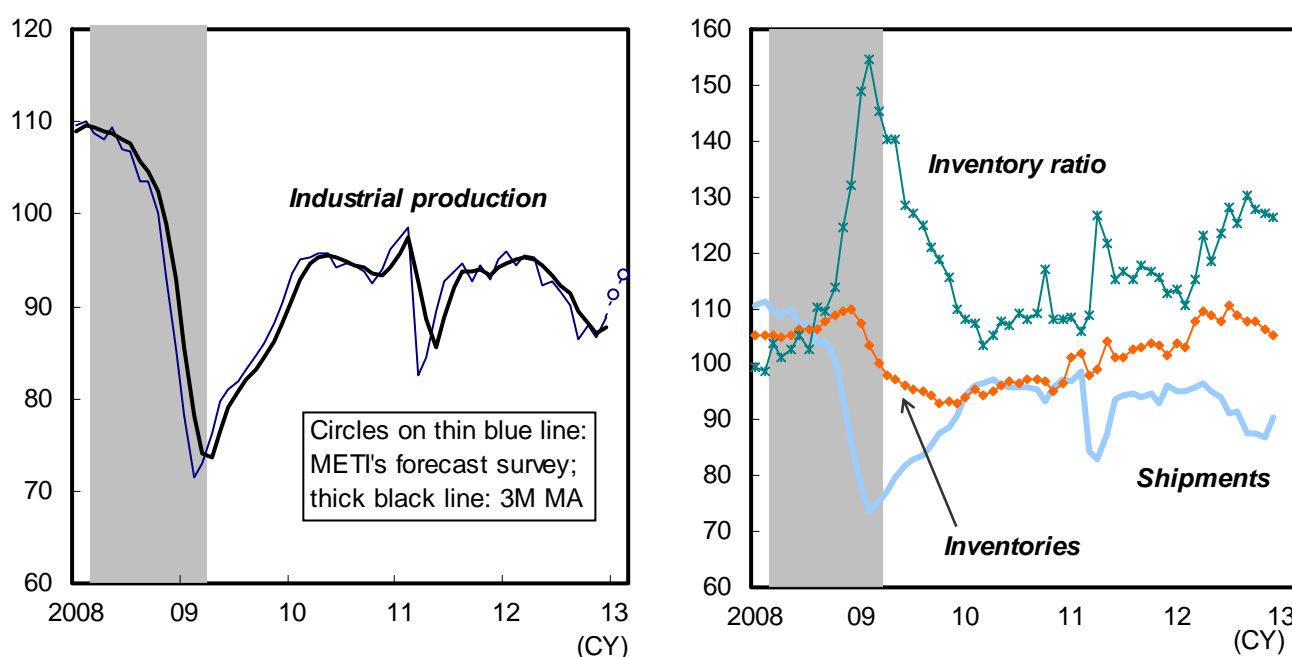
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First gain in two months

In the Preliminary Report for December 2012 (Ministry of Economy, Trade and Industry [METI]), industrial production increased for the first time in two months (up 2.5% m/m). However, falling short of the market consensus (up 4.1%), the result is somewhat unfavorable. Nevertheless, a wide range of industries saw production advances and anticipate further increases going forward, evidencing signs of bottoming as a whole. Meanwhile, reflecting an increase in shipments (up 4.4%) and a decline in inventories (down 1.1%), the inventory ratio declined (improved) for the third consecutive month (down 0.6%).

Production, Shipments, and Inventories (2005 = 100; SA basis)

Chart 2



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

Notes: 1) Shaded areas denote economic downturns.

2) SA by METI.

Gains seen in wide range of industries, improvement anticipated in general

Production increased m/m in December for 12 industries out of 16 for which data is available on a preliminary estimate basis. Regardless of whether assembling or materials industries, a wide range of industries posted gains. Among them, the transportation equipment and general machinery industries made notable positive contributions to overall production growth.

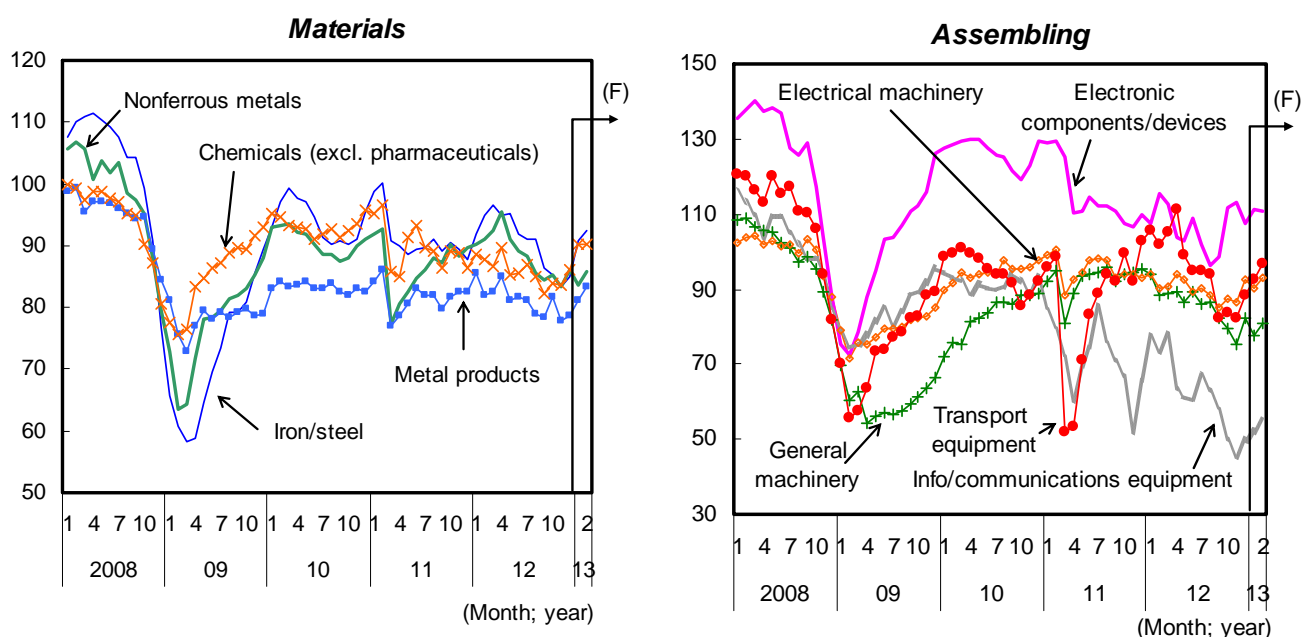
Production of transportation equipment increased for the first time in two months (up 6.9% m/m). Behind the decline coming to a halt was a swift recovery in domestic new car sales from the slump seen after the eco-car subsidy program ended. Although production in the industry declined 16.2% y/y, remaining at a low level, the underlying trend is moving toward improvement. At the same time, production of general machinery saw the first gain in four months (up 8.7% m/m), supported by a surge in production of semiconductor manufacturing equipment (up 89.0%).

In contrast to a robust projection in the previous report released in December, production in the electronic component/device industry declined (down 5.3% m/m), undershooting the projection for overall production.

The current METI survey projects overall production to increase 2.6% m/m in January, and to further advance 2.3% in February for the third monthly gain in a row. With regard to January, while the general machinery and electrical machinery industries anticipate setbacks from December surges, the transportation equipment, chemical, and electronic component/device industries are likely to boost overall production. As for February, only the electronic component/device industry anticipates a production cut, auguring well for improvements in production in general.

Production by Industry (2005 = 100; SA basis)

Chart 3



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

Note: SA by METI.

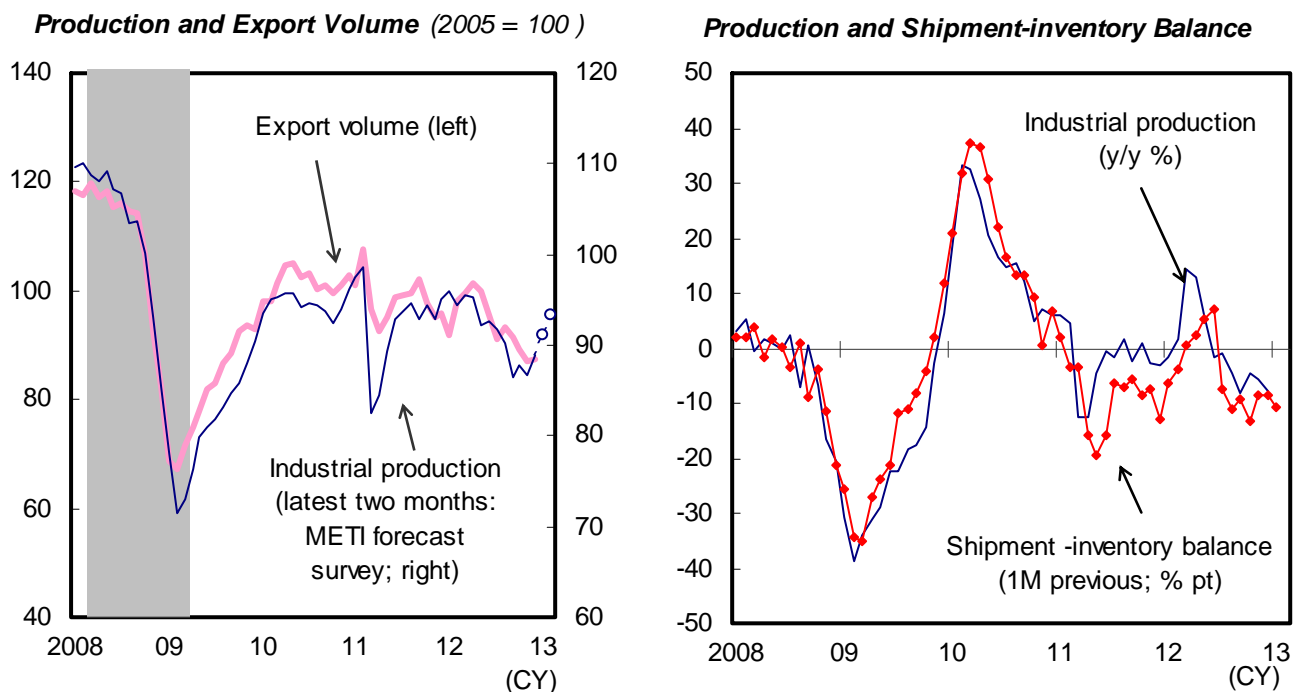
F: METI's forecast survey.

Production to move toward uptrend, driven by exports

Accompanied by recoveries in overseas economies, which will likely gain momentum centering on China, ASEAN, and other Asian trading partners, export volume, which moves in tandem with production, began to show signs of bottoming. Combined with a recent shift to a weaker yen, this likely led to a bottoming of export shipments in Oct-Dec 2012, to be followed by a probable turnaround thereafter. Thus, production is likely to gain momentum, accompanied by gains in exports.

Shipment-inventory Balance and Outlook for Industrial Production

Chart 4



Source: Ministry of Economy, Trade, and Industry (METI); Cabinet Office; compiled by DIR.
 Note: Shaded area denotes economic downturn.