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# November Industrial Production

**Production remains on underlying uptrend and projected to be strong**

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## Summary

- In Indices of Industrial Production (preliminary; Ministry of Economy, Trade and Industry [METI]), November industrial production saw the third m/m gain in a row (up 0.1%). Although undershooting the consensus expectation (up 0.4%), the November figure confirmed that production remains on an underlying uptrend. Shipments saw the first slide in three months (down 0.1%), while inventories posted the fourth monthly slide in a row (down 1.9%), resulting in a decline (improvement) in the inventory-shipment ratio (down 1.4%).
- Production was mixed by industry, up m/m in eight, down in seven. Among those that saw advances and pushed up overall production were transportation equipment, info/communications equipment, and chemicals.
- METI's production forecast survey projects strong gains in overall production in December 2013 (up 2.8% m/m) and January 2014 (up 4.6%). Considering that both the revision ratio and realization ratio vs. projections have been negative figures, centering on general-purpose/production/business-oriented machinery, strong projections by industries should be discounted to some extent. However, the bullish projection of a production increase by the transportation equipment industry is likely factoring in a demand surge prior to the April consumption tax hike. Thus, production trends require close monitoring going forward.

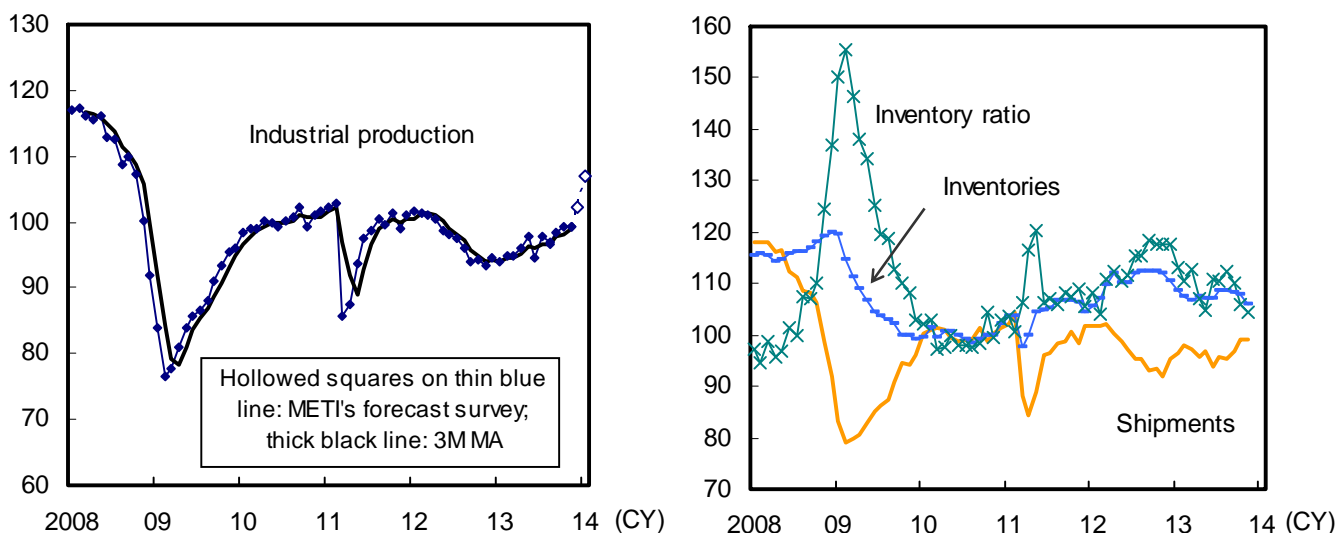
Industrial Production (m/m %; SA basis)											Chart 1
	2013										
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Industrial Production	0.9	0.1	0.9	1.9	-3.1	3.4	-0.9	1.3	1.0	<b>0.1</b>	
Market consensus (Bloomberg)										0.4	
DIR estimate										0.1	
Shipments	1.8	-0.8	-1.4	1.0	-3.2	2.0	-0.1	1.5	2.3	<b>-0.1</b>	
Inventories	-1.2	-0.7	0.8	-0.4	0.0	1.6	-0.2	-0.2	-0.3	<b>-1.9</b>	
Inventory ratio	-2.6	2.3	-5.1	-2.1	5.9	-0.5	1.8	-2.1	-3.7	<b>-1.4</b>	

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

## Third m/m gain in a row

In Indices of Industrial Production (preliminary; METI), November industrial production saw the third m/m gain in a row (up 0.1%). Although undershooting the consensus expectation (up 0.4%), the November figure confirmed that production remains on an underlying uptrend. Shipments saw the first slide in three months (down 0.1%), while inventories posted the fourth monthly slide in a row (down 1.9%), resulting in a decline (improvement) in the inventory-shipment ratio (down 1.4%).

**Production, Shipments, and Inventories (2010 = 100; SA basis) Chart 2**



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

## Transportation equipment, info/communications equipment, chemicals driving overall production

Production was mixed by industry, up m/m in eight, down in seven. Among those that saw advances and pushed up overall production were transportation equipment, info/communications equipment, and chemicals.

Transportation equipment posted the third m/m gain in a row (up 0.7%), driven by increases in production of mini-vehicles and small passenger cars, reflecting firm domestic automobile sales. Info/communications equipment posted the first gain in two months (up 3.9%), driven by higher production of desk-top PCs, reflecting increasing replacement purchases by companies. Chemicals posted the third gain in a row (up 1.2%), driven by higher production of housing and construction materials.

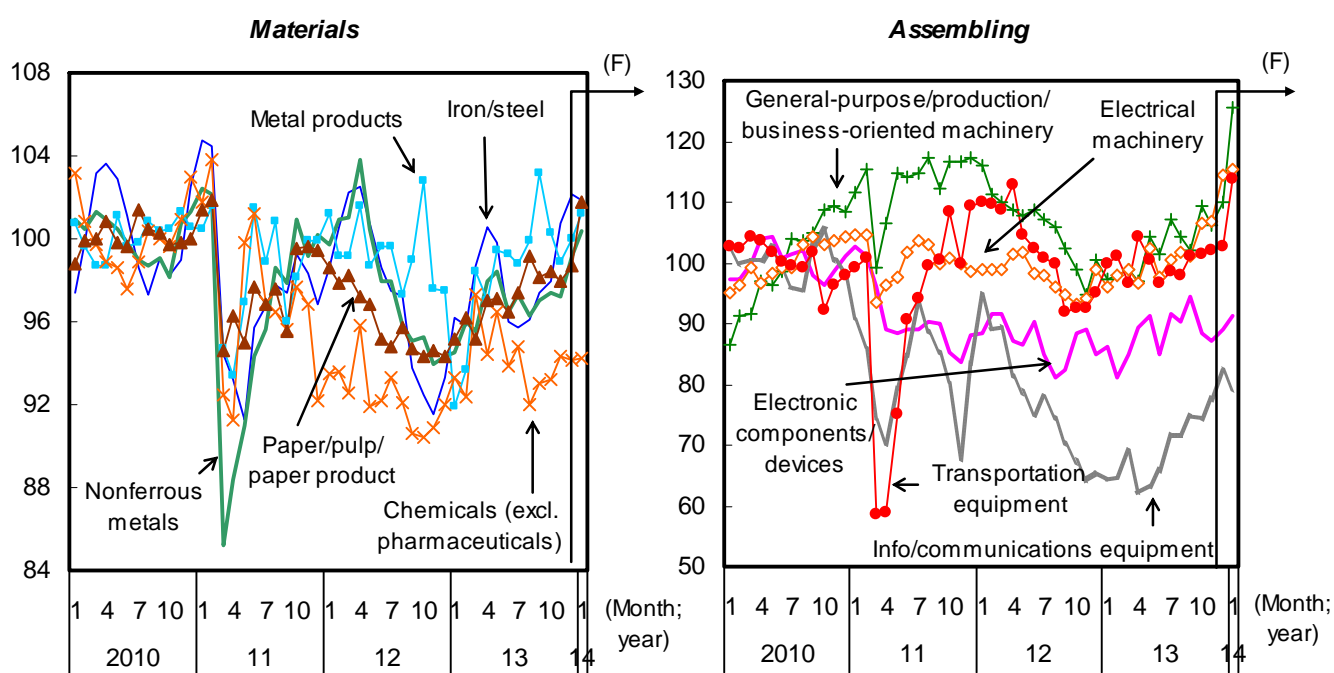
Among those that saw m/m declines and pulled down overall production were general-purpose/production/business-oriented machinery (down 2.9%), electronic components/devices (down 1.4%), and metal products (down 1.4%).

## Strong gains projected

METI's production forecast survey projects strong gains in overall production in December 2013 (up 2.8% m/m) and January 2014 (up 4.6%). As for December, excluding projections by chemicals and "other", gains are seen across the board, exhibiting a bullish projection in general. Strong gains are projected by electrical machinery (up 7.2%) and info/communications equipment (up 6.4%). As for January, excluding projections of declines by info/communications equipment (down 3.6%) and iron/steel (down 0.2%), gains are projected across the board, meaning that the underlying uptrend is projected to continue in general. Strong gains of double-digit growth are projected by general-purpose/production/business-oriented machinery (up 14.3%) and transportation equipment (up 11.0%), boosting overall production.

Considering that both the revision ratio and realization ratio vs. projections have been negative figures, centering on general-purpose/production/business-oriented machinery, strong projections by industries should be discounted to some extent. However, the bullish projection of a production hike by the transportation equipment industry is likely factoring in a demand surge prior to the April consumption tax hike. Thus, production trends require close monitoring going forward.

**Production by Industry (2010 = 100; SA basis) Chart 3**

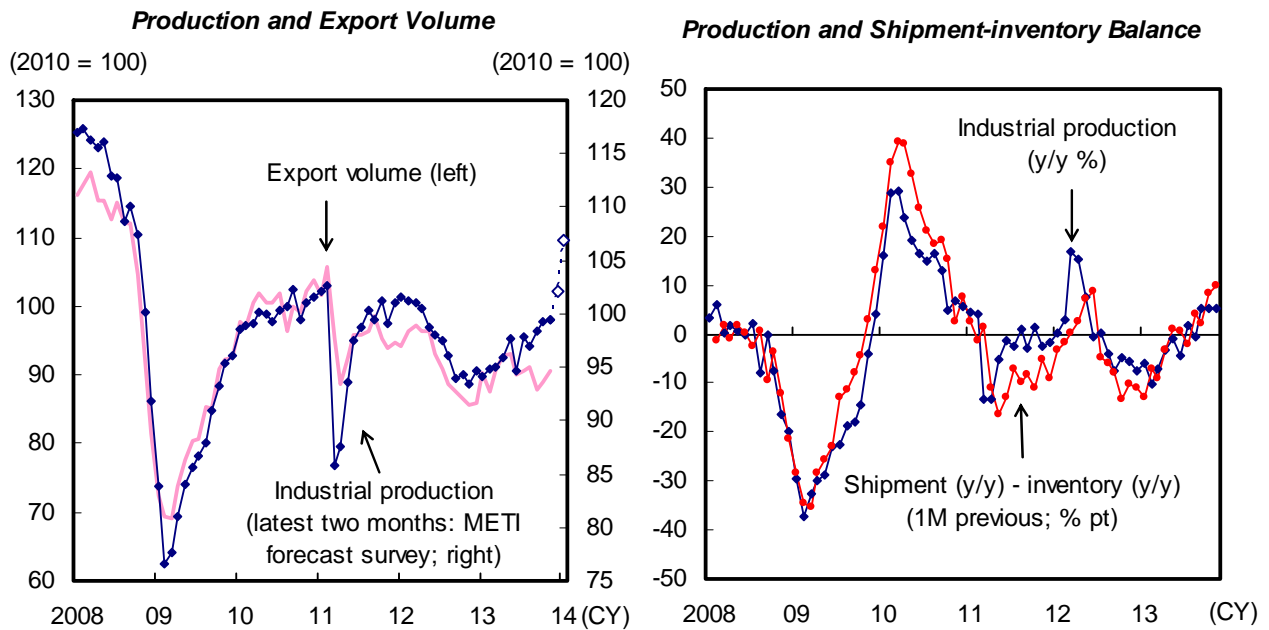


Source: Ministry of Economy, Trade, and Industry (METI); compiled by DIR.  
 F: METI's forecast survey.

## Domestic demand to accelerate toward end-FY13 driving production

Going forward, we expect production to maintain the uptrend. Considering a likely acceleration in personal consumption centering on durable goods toward end-FY13 prior to the consumption tax hike scheduled for April 2014, and also taking into account public works projects likely maintaining the current high level, domestic demand will lift overall production. Meanwhile, export volume, which tends to move in tandem with industrial production, has returned to an uptrend, albeit at a moderate pace, and, reflecting the weak yen and economic growth in the US, is likely to gain momentum, also driving production.

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



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