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May 2021 Industrial Production

Production index declines for first time in three months due to major cut in motor vehicle production

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Summary

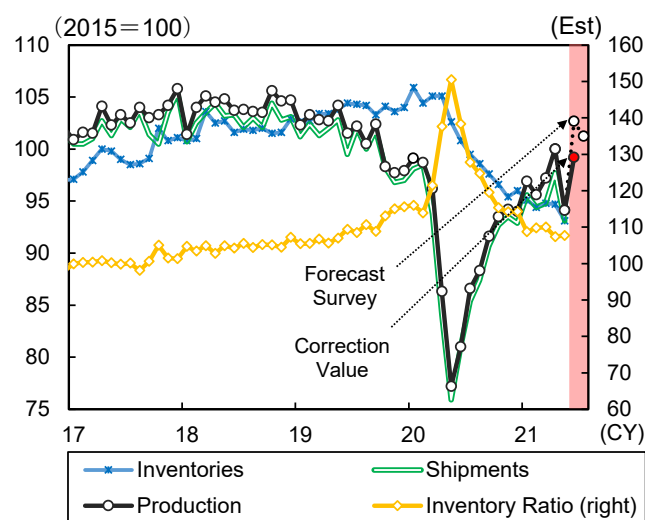
- The May 2021 indices of industrial production declined by -5.9% m/m, while at the same time falling below market consensus at -2.1%, recording its lowest level since December 2020. In addition to the major decline in production of motor vehicles as a result of the shortage in semiconductors, a broad range of industries experienced reactionary declines in response to the previous month's growth, including production machinery and electrical machinery, and information & communication electronics equipment.
- As for the future of industrial production, moderate growth is expected. Progress in the normalization of economic activity due to worldwide dissemination of the COVID-19 vaccine is expected to provide a push for production growth in a broad range of industries. Meanwhile, growth in production of semiconductors, such as integrated circuits and so on, as well as semiconductor manufacturing equipment is expected as a means of handling the worldwide shortage in semiconductors. Production of motor vehicles is also expected to make a comeback, but the recovery is expected to be moderate until around July due to the influence of damage from a fire experienced at the factory of a subsidiary of Renesas Electronics. The Ministry of Economy, Trade and Industry's Production Forecast Survey sees June 2021 production up by +9.1% in comparison to the previous month (+5.4% corrected for production plan bias, mode). Meanwhile, July is expected to be down by -1.4%.
- The May Indexes of Business Conditions is to be published on July 7, and the composite indexes, the leading index, is expected to be down by -1.4pt to 102.4, while the coincident index is expected to be down by -2.6pt to 92.7. Based on the predicted value, the assessment of coincident index should be automatically leaved unchanged at "improving."

Industrial Production (m/m %; SA basis) Chart 1

	2020					2021					May
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		
Industrial Production	2.0	3.7	2.1	0.7	-0.2	3.1	-1.3	1.7	2.9	-5.9	
Market consensus (Bloomberg)										-2.1	
DIR estimate										-3.8	
Shipments	2.3	3.8	2.2	0.9	-0.6	2.9	-1.3	0.4	3.1	-4.7	
Inventories	-0.9	-1.0	-1.0	-1.2	0.6	-0.9	-0.7	0.4	-0.1	-1.7	
Inventory ratio	-2.4	-4.2	-3.5	-1.0	0.1	-4.9	1.0	0.2	-2.4	0.3	

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

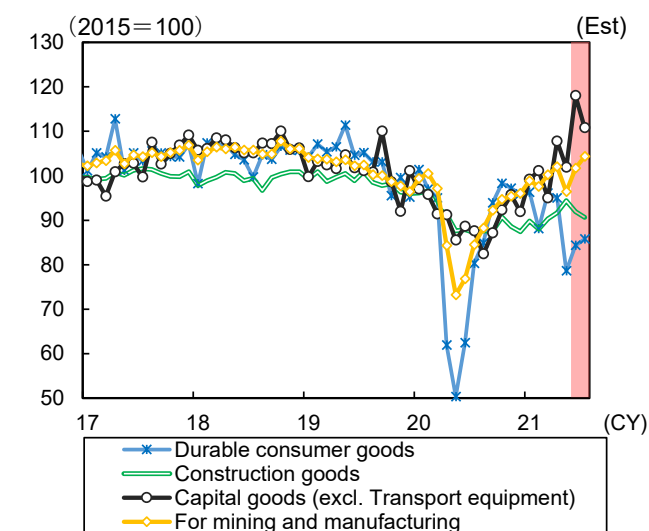
Production, Shipment, and Inventories Chart 2



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

Note: The predicted values of the Production Forecast Survey (the red circle) are the correction values for the Indices of Industrial Production (mode).

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.