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Japanese report: 31 Aug 2021

July 2021 Industrial Production

Motor vehicle production undergoes cuts due to impact on supply chain of spread of COVID-19 in Southeast Asia

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Summary

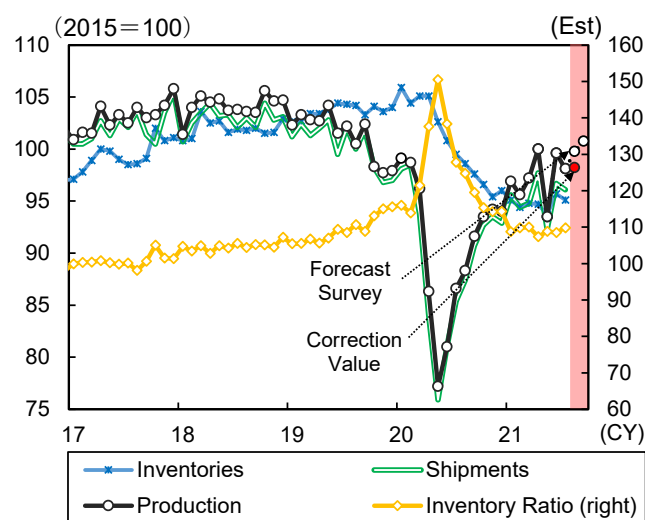
- The July 2021 indices of industrial production declined for the first time in two months by -1.5% m/m, while at the same time exceeding market consensus at -2.4%. Motor vehicles, a major component in the index, suffered a production cut due to the shortage in semiconductors and direct impact on the supply chain caused by lockdown measures in Southeast Asia in response to the spread of COVID-19. On the other hand, production grew in the area of semiconductor manufacturing equipment due to the persistent demand for semiconductors.
- 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 experience make-up production, but the recovery is expected to be moderate due to the influence of spread of the COVID-19 infection in Southeast Asia, and the shortage in semiconductors. The Ministry of Economy, Trade and Industry's Production Forecast Survey sees August 2021 production up by +3.4% in comparison to the previous month (or +0.1% when corrected for production plan bias, mode). Meanwhile, September is also expected to be up by +1.0%.
- The July Indexes of Business Conditions is to be published on September 7, and the leading index, the composite indexes, is expected to be down by -1.1pt to 103.0, while the coincident index is expected to be down by -0.1pt to 94.4. Based on the predicted value, the assessment of the coincident index should be left unchanged at "improving."

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

	2020			2021						
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Industrial Production	2.1	0.7	-0.2	3.1	-1.3	1.7	2.9	-6.5	6.5	-1.5
Market consensus (Bloomberg)										-2.4
DIR estimate										-2.9
Shipments	2.2	0.9	-0.6	2.9	-1.3	0.4	3.1	-5.5	4.8	-0.6
Inventories	-1.0	-1.2	0.6	-0.9	-0.7	0.4	-0.1	-1.1	2.1	-0.6
Inventory ratio	-3.5	-1.0	0.1	-4.9	1.0	0.2	-2.4	1.3	-0.3	1.2

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

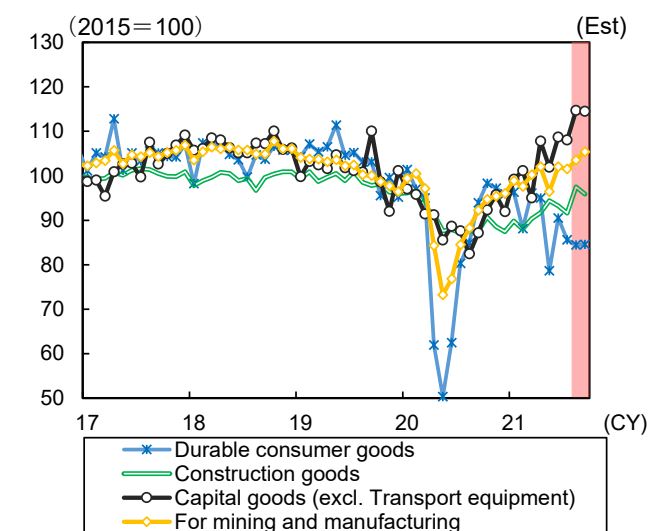
Production, Shipment, and Inventories Chart 2



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.