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Japanese report: 30 Sep 2021

August 2021 Industrial Production

Government revises its economic assessment downwards to “has paused”, due to major cuts in motor vehicle production

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Summary

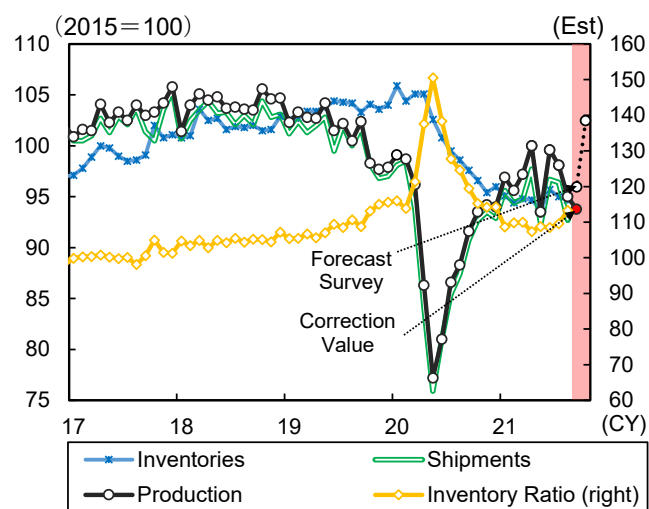
- The August 2021 indices of industrial production declined for the second consecutive month by -3.2% m/m, while at the same time falling below market consensus at -0.5%. Motor vehicles suffered major production cuts, with overall results for the production index in August reflecting the impact of the worldwide shortage in semiconductors, and lockdown measures in Vietnam and other Southeast Asian countries in response to the spread of COVID-19. In addition, electrical machinery, and Information and communication electronics equipment also suffered a decline, due to that industry's susceptibility to the effects of the shortage in semiconductors. The Ministry of Economy, Trade and Industry has therefore revised its economic assessment downwards from “improving” to “pausing”.
- As for the future of industrial production, performance is expected to mark time. As for the motor vehicles industry, a major component in the index, recovery is expected to take time. On the other hand, growth is expected in both domestic and overseas demand throughout the second half of the fiscal year as supply constraints ease up and dissemination of the COVID-19 vaccine progresses, and this should boost production in a broad range of industries. The Ministry of Economy, Trade and Industry's Production Forecast Survey sees September 2021 production up by +0.2% in comparison to the previous month (or -1.3% when corrected for production plan bias, mode). Meanwhile, October is also expected to be up by +6.8%.
- The August Indexes of Business Conditions is to be published on October 7, and the leading index, the composite index, is expected to be down by -2.9pt to 101.2, while the coincident index is expected to be down by -3.4pt to 91.0. 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							
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Industrial Production	0.7	-0.2	3.1	-1.3	1.7	2.9	-6.5	6.5	-1.5	-3.2
Market consensus (Bloomberg)										-0.5
DIR estimate										-0.3
Shipments	0.9	-0.6	2.9	-1.3	0.4	3.1	-5.5	4.8	-0.3	-3.8
Inventories	-1.2	0.6	-0.9	-0.7	0.4	-0.1	-1.1	2.1	-0.7	-0.3
Inventory ratio	-1.0	0.1	-4.9	1.0	0.2	-2.4	1.3	-0.3	1.0	3.4

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

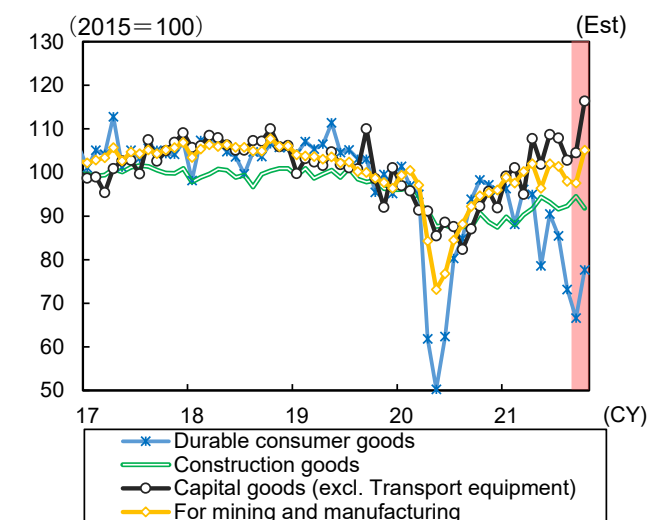
Production, Shipment, and Inventories Chart 2



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.