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Japanese report: 31 Jan 2022

December 2021 Industrial Production

Index suffers modest decline due to setback in production of capital goods

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Summary

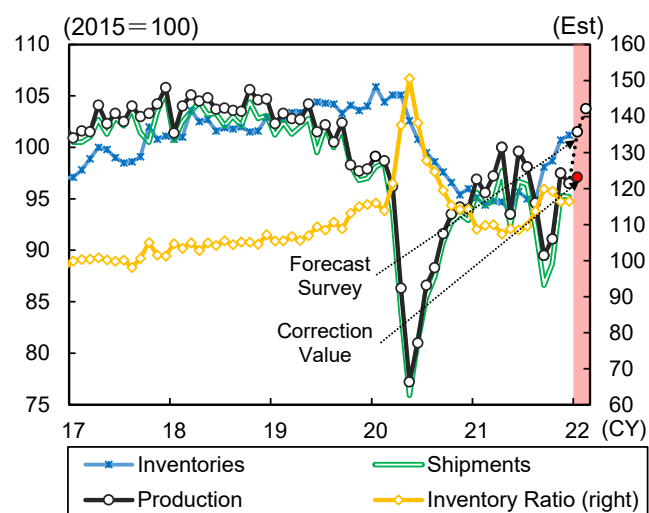
- The December 2021 indices of industrial production declined for the first time in three months at -1.0% m/m, while at the same time falling below market consensus (-0.6% according to the Bloomberg survey). Production of capital goods suffered a decline due to a reactionary decline after the previous month's major growth, but motor vehicles, major components in the index, and others experienced a continuation of production growth. Hence on average, the index can be seen as continuing its recovery phase. The Ministry of Economy, Trade and Industry has therefore maintained its economic assessment of "shows signs of an upward movement."
- As for the future of industrial production, the pace of recovery is expected to slow down somewhat. Production cuts in motor vehicles and the spread of COVID-19 in Japan will be a weight on performance. On the other hand, the spread of COVID-19 is considered to have reached its peak in the US and Europe, and export related goods are expected to provide underlying support for the production index. The Ministry of Economy, Trade and Industry's Production Forecast Survey sees January 2022 production up by +5.2% in comparison to the previous month (or +0.6% when corrected for production plan bias (mode)). Meanwhile, February 2022 production is expected to be up by +2.2%. However, it should be noted that some additional production cuts by domestic motor vehicle manufacturers have not been included in the calculation of the index.
- The December 2021 Indexes of Business Conditions are to be published on February 7, 2022, and the leading index, the composite index, is expected to be up by +0.8pt to 104.0, while the coincident index is expected to be down by -0.4pt to 92.4. Based on the predicted value, the assessment of the coincident index will automatically be left at "weakening."

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

	2020										
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Industrial Production	1.7	2.9	-6.5	6.5	-1.5	-3.6	-5.4	1.8	7.0	-1.0	
Market consensus (Bloomberg)										-0.6	
DIR estimate										0.2	
Shipments	0.4	3.1	-5.5	4.8	-0.3	-4.4	-6.1	2.4	7.4	-0.1	
Inventories	0.4	-0.1	-1.1	2.1	-0.7	-0.1	3.4	0.6	2.0	0.5	
Inventory ratio	0.2	-2.4	1.3	-0.3	1.0	3.7	5.5	-0.6	-2.3	0.1	

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

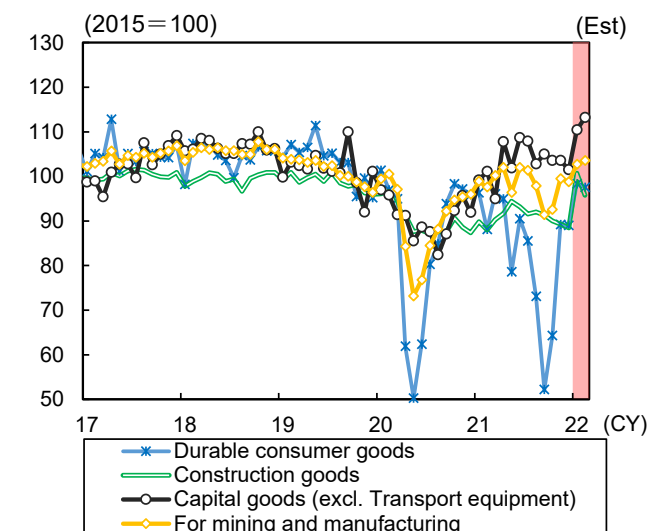
Production, Shipment, and Inventories Chart 2



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.