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May 2022 Industrial Production

Index suffers major decline due to direct hit from influence of China lockdown

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Summary

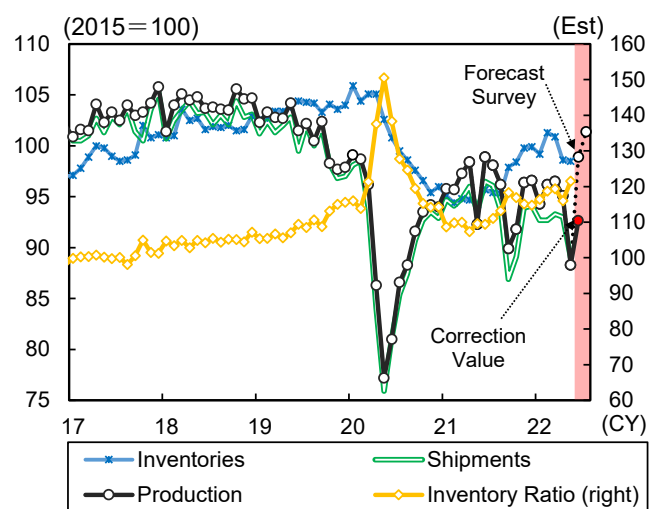
- The May 2022 indices of industrial production declined for the second consecutive month at -7.2% m/m, while at the same time falling significantly below market consensus (-0.3% according to the Bloomberg survey). It is believed that the series of domestic production cuts in automobiles and other industries, due mainly to the lockdown in China, are behind this. The Ministry of Economy, Trade and Industry has therefore revised its economic assessment downwards to “weakening.”
- As for the future of industrial production, the index is expected to shift into growth as the COVID-19 situation improves in China. The mitigation of difficulty in parts procurement and other issues will likely provide a tailwind to production activities. On the other hand, we must be aware of the many downside risks that remain, such as the possibility that lockdowns could be re-instigated in China, the high price of resources due to the Ukraine crisis, the semiconductor shortage, and fears of an economic slowdown in the US associated with the tightening of monetary policy.
- The May 2022 Indexes of Business Conditions are to be published on July 7, and the leading index, the composite index, is expected to be down by -1.5pt to 101.4, while the coincident index is expected to be down by -2.8pt to 94.0 (subject to change depending on the results of Employment Referral For General Workers to be announced on July 1). Based on the predicted value, the assessment of the coincident index will automatically remain at “improving.”

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

	2021					2022					May
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		
Industrial Production	-1.9	-6.5	2.1	5.0	0.2	-2.4	2.0	0.3	-1.5	-7.2	
Market consensus (Bloomberg)										-0.3	
DIR estimate										-0.2	
Shipments	-2.6	-7.2	2.5	5.4	0.2	-1.5	0.0	0.6	-0.3	-4.3	
Inventories	-0.1	2.7	0.5	1.4	0.1	-0.7	2.1	-0.4	-2.3	-0.1	
Inventory ratio	1.9	4.5	-1.2	-1.5	-0.3	1.4	2.0	0.6	-2.8	4.7	

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

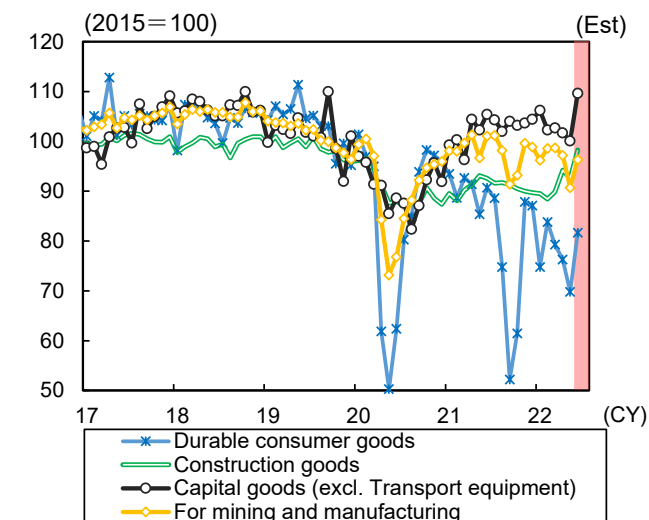
Production, Shipment, and Inventories Chart 2



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.