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Japanese report: 29 Jul 2022

June 2022 Industrial Production

Index achieves sharp recovery as lockdown in China is lifted

Economic Research Dept.
Kazuma Kishikawa

Summary

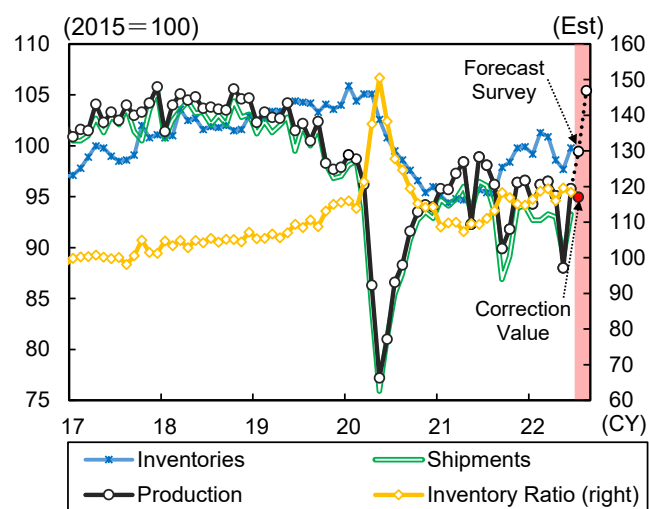
- The June 2022 indices of industrial production grew for the first time in three months at +8.9% m/m, while at the same time significantly exceeding market consensus (+4.0% according to the Bloomberg survey). The recovery trend in domestic production moved at a quicker pace than had been expected, due to the easing up of difficulties in procuring parts. The recovery more than made up for the sharp drop in May due to the lockdown in China. The Ministry of Economy, Trade and Industry has therefore revised its economic assessment upwards to “Industrial Production fluctuates indecisively.”
- As for the future of industrial production, the index is expected to remain more or less flat for some time. With rising inventories of integrated circuits and the lifting of the lockdown in China, the pickup in the motor vehicles and other sectors will continue. On the other hand, caution should be exercised due to the possibility of the further spread of COVID-19 in Japan, parts procurement difficulties due to the reintroduction of lockdowns in China, and the possibility that shrinking external demand due to interest rate hikes in the US and Europe will bring downward pressure on the index.
- The June 2022 Indexes of Business Conditions are to be published on August 5, and the leading index, the composite index, is expected to be down by -1.1pt to 100.1, while the coincident index is expected to be up by +4.1pt to 99.0. 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						
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Industrial Production	-6.5	2.1	5.0	0.2	-2.4	2.0	0.3	-1.5	-7.5	8.9	
Market consensus (Bloomberg)										4.0	
DIR estimate										4.4	
Shipments	-7.2	2.5	5.4	0.2	-1.5	0.0	0.6	-0.3	-4.1	4.6	
Inventories	2.7	0.5	1.4	0.1	-0.7	2.1	-0.4	-2.3	-0.9	2.1	
Inventory ratio	4.5	-1.2	-1.5	-0.3	1.4	2.0	0.6	-2.8	3.1	-1.0	

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

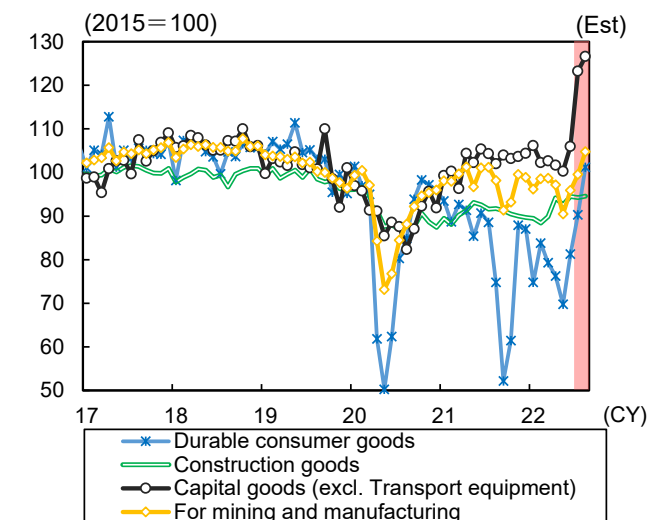
Production, Shipment, and Inventories Chart 2



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.