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February 2023 Industrial Production

Weak tone remains despite progress in easing of production constraints

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Summary

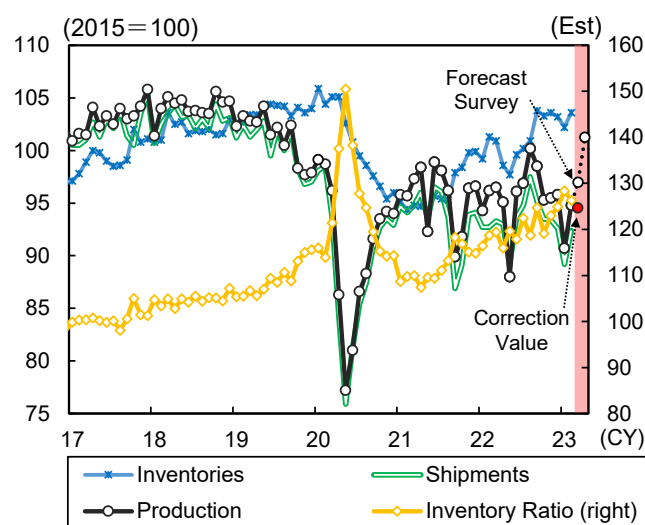
- The February 2023 indices of industrial production grew for the first time in two months at +4.5% m/m. The main factors behind growth appear to be a rebound from the major decline in January due to the Chinese New Year season falling early in January, and the easing of supply constraints. However, even if we ignore the Chinese New Year factor, the average for January and February fall -3.2% below performance in December 2022. The weak tone therefore continues with the major factor being the decline in overseas demand. The Ministry of Economy, Trade and Industry has therefore left its economic assessment unchanged at “industrial production has weakened.”
- As for the future of industrial production, the indices are expected to continue marking time with the competing influences of increasing production due to the easing up of supply constraints and shrinking overseas demand. While machinery order backlog has been building up recently, the supply chain is moving toward normalization, and the dissolution of order backlog due to the easing of supply constraints will likely be a supporting factor for the indices. On the other hand, it should be noted that excess demand for automobiles may be shrinking, mainly due to the economic slowdown in the US and Europe.
- The February 2023 Indexes of Business Conditions are to be published on April 7, 2023, and the leading index is expected to be up by +1.4pt to 98.0, while the coincident index is expected to be up by +2.7pt to 99.1. 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

	2022									2023	
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	-7.5	9.2	0.8	3.4	-1.7	-3.2	0.2	0.3	-5.3	4.5	
Market consensus (Bloomberg)										2.7	
DIR estimate										1.5	
Shipments	-4.1	5.0	1.2	2.8	-2.5	-1.7	-0.1	-0.9	-3.7	3.6	
Inventories	-0.9	1.9	0.6	0.7	2.9	-0.5	0.3	-0.4	-1.0	1.4	
Inventory ratio	3.1	-1.4	3.8	-3.0	5.1	-4.5	3.3	1.5	2.8	-1.6	

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

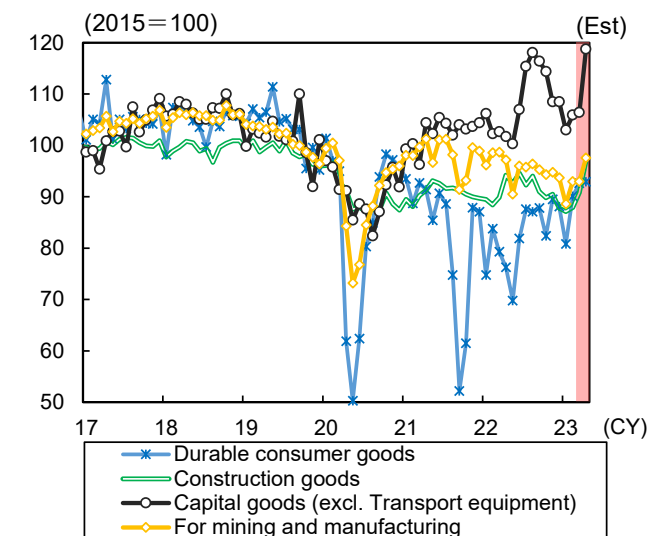
Production, Shipment, and Inventories Chart 2



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.