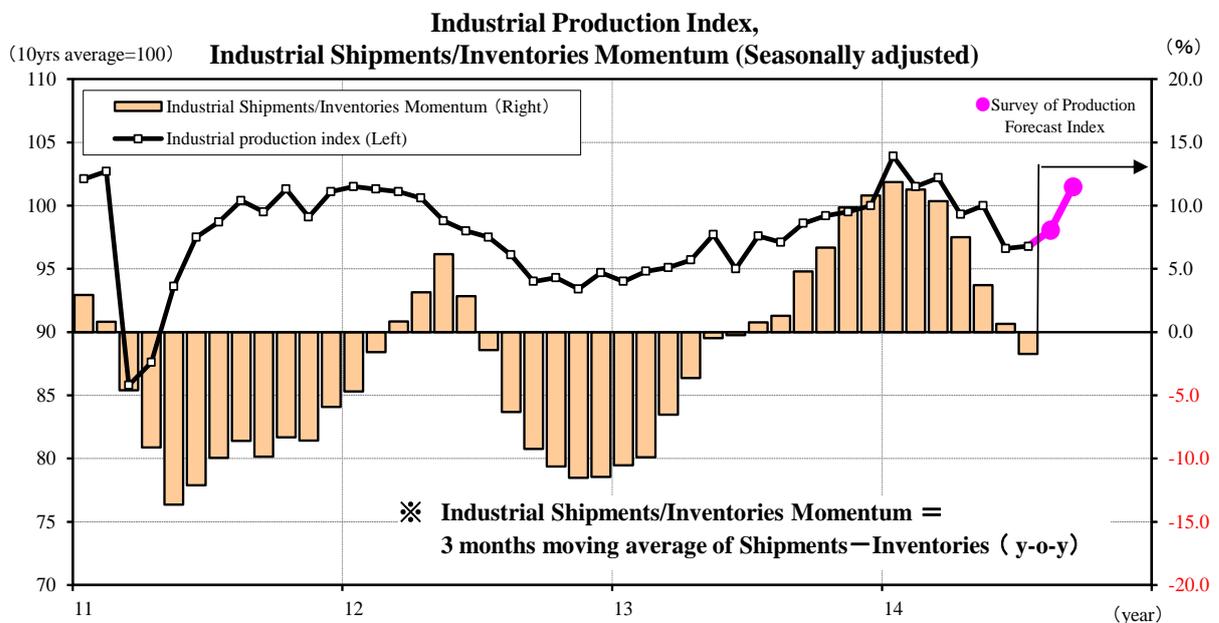


“July Industrial Production Indices – Recovery in this year is anticipated”

July Industrial Production Indices

On August 29, the Ministry of Economy, Trade & Industry released a preliminary report on Industrial Production Indices for July. Industrial production index rose 0.2% m-o-m. While there was an expectation of a strong recovery from substantial decline of 3.4% in June, the July figure turned out to be lackluster, lower than both of the previous Survey of Production Forecast Index figure (+ 2.5% m-o-m for July) and the latest market consensus figure (+1.0% m-o-m, by Bloomberg survey).

Breaking down the production index by sectors, sub-indices such as Transport equipment (-2.5%), Information & communication electronics equipment (-6.9%) and Chemicals (excl. Drugs) (-1.9%) declined m-o-m, while sub-index of General-purpose, production & business oriented machinery increased by 6.3% m-o-m, which is the sole contributor to compensate the production decrease in the other sectors. This increase was attributable for production increase in industries such as Boilers & power units, Transport equipment, and Semiconductor manufacturing equipment, but it was partly affected by temporary concentration of production timing in July.



(Notes) Data is from Jan. 2011 to Jul. 2014 (Survey of Production Forecast Index : Aug. and Sep, 2014).

(Source) SMAM, based on the Ministry of Economy, Trade & Industry data.



◇ Latest Trend

(Unit: %)

Year/Month	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Production MM	-2.3	+0.7	-2.8	+0.7	-3.4	+0.2
YY	+7.0	+7.4	+3.8	+1.0	+3.1	-0.9
Momentum	+11.3	+10.3	+7.5	+3.7	+0.7	-1.7

(Notes) MM means Month on month comparison, YY means Year on year comparison.

Momentum is Industrial Shipments/Inventories Momentum(%).

(Source) SMAM, based on the Ministry of Economy, Trade & Industry data.

Future Outlook & Focus

The shipments/inventories momentum turned negative for first time in thirteen months, indicating that it had entered into an inventory adjustment phase. Once entering into the inventory adjustment phase, it can be judged production will remain subdued for some time. However, I believe some part of inventory adjustment this time should be attributable to the impact of pullback of demand caused by the consumption tax hike and that part will fade away shortly. I therefore think the production will moderately recover this year together with an export recovery, of which sign can be observed lately.

According to the Survey of Production Forecast Index, August and September figures are estimated to be + 1.3% and + 3.5% m-o-m, respectively. Based on this estimation, we will see a slight increase of 0.1% in Jul.-Sep. quarter. However, actual Jul.-Sep. quarter figure could possibly be weaker than the previous quarter despite the recovery of production, as final figures tend to be 1 to 2 % lower than that of estimated figures.

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