

## 【Fundamentals Navigator】

## Japan industrial production Jul 2021 : First decline in two months, weighed by transportation equipment

(original Japanese report issued on August 31, 2021)

### Outlook for Jul-Sep growth: autos shortfall possible, but capital goods, electronic parts stay firm

Industrial production fell 1.5% MoM in July, the first decline in two months. Despite firm production for electronic components and SPE, autos (within transport equipment category) declined owing to ongoing semiconductor shortages, and electronic machinery also stagnated. METI forecasts 0.1% MoM growth for August (adjusted to exclude prediction error) followed by +1.0% in September. If correct, output for Jul-Sep would land in positive territory, at +0.8% QoQ. The METI figure should be discounted given the possibility that September outlook (+3.1% MoM) for transportation equipment does not reflect large production cuts by major automakers, made public in late August. However, car demand is solid. The outlook for capital goods and electronic components is firm, and should underpin production for Jul-Sep.

**1) Overview:** Industrial production fell in July for the first time in two months, but the extent of decline was less pronounced than the market forecast.

**2) Sectors:** Transportation equipment fell, owing to autos and auto parts; electrical/information & communication electronics was weighed down by air conditioners and LiBs. On the other hand, production equipment was up for the second straight month, buoyed by brisk production of SPE, bringing output to the highest level since comparative data was made available in 2003. Electronic parts/devices remained positive after turning up in June.

**3) Shipments/inventories:** July shipments fell by slightly less than production. Passenger vehicle shipments were positive, contributing to an improvement in durable consumer goods. Although capital goods ex. transportation equipment turned down for the first time in two months, the uptrend remains unchanged, driven by capex demand in Japan and overseas.

**4) Realization rate and forecast adjustment rate:** The July realization rate (actual production divided by forecast as of the prior month) was -2.8%. The August forecast adjustment rate (current forecast divided by forecast as of the previous month) was -1.2%, largely unchanged from July (-1.3%). A major upward revision for production equipment was offset by an ongoing downward revision for transportation equipment (owing in part to semiconductor shortages). Electrical/information & communication electronics has recently fallen further into negative territory, seemingly reflecting the semiconductor shortages.

**5) Forecasts:** If the METI forecasts for August (adjusted to exclude prediction error) and September prove correct, Jul-Sep production would be up 0.8% QoQ (+1.1% in Apr-Jun). While the September outlook for transportation equipment is firm (+3.1%), it was set as of 10 August, so may not reflect major reductions in auto production announced in late August (caused by semiconductor shortages, and delayed component supplies from overseas). The reduction

### Results (preliminary)

IIP: -1.5% MoM  
(Bloomberg forecast: -2.5%)

- Shipments: -0.6  
- Inventories: -0.6%  
- Inventory ratio: +1.2%

### METI Survey of Production Forecast (MoM):

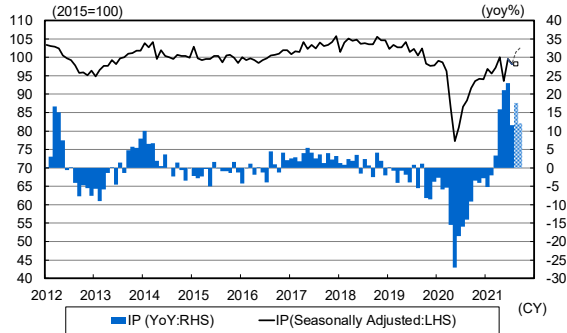
Aug 2021: +3.4% (adjusted to exclude prediction error: +0.1%)

Sep 2021: +1.0%

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could weigh on September industrial production by 1.5%. That said, demand is firm and makers may seek to make up for lost production in 2H. The forecast index for capital goods and electronic components is also firm, and is expected to underpin production in Jul-Sep.

**Figure 1. Industrial production (monthly)**



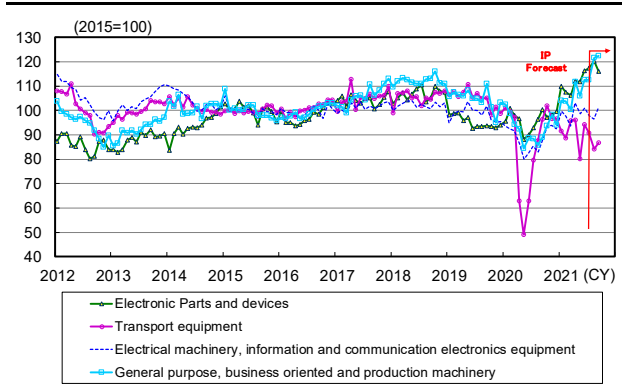
Note: Seasonally adjusted figures for Aug-Sep 2021; dotted lines indicate MoM change in the forecast index; squares indicate estimates adjusted for prediction error. YoY changes based on forecast indices.  
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast".

**Figure 2. Industrial production by industry (by sector)**

	Weight	May. MoM	Jun. MoM	Jul. MoM	Contribution
Mining and manufacturing	10000.0	-6.5	6.5	-1.5	
Production machinery	708.0	-6.0	10.3	1.6	0.14
Pulp, paper, paper products	226.5	-4.3	0.0	5.3	0.11
Electronic parts and devices	580.8	-0.2	3.9	0.9	0.06
Iron, steel and Non-ferrous metals	624.8	-3.6	3.6	0.7	0.04
Other manufacturing	751.9	-2.0	3.1	0.3	0.02
Mining	17.0	2.5	-2.9	0.6	0.00
General-purpose and business oriented machinery	728.6	-4.1	1.6	-0.1	-0.01
Petroleum/coal products	118.0	-5.4	7.8	-1.8	-0.02
Ceramics, stone and clay products	322.0	-2.7	-0.6	-1.2	-0.04
Plastic products	441.7	-4.4	4.0	-1.3	-0.06
Fabricated metals	438.1	-2.5	3.6	-3.5	-0.15
Chemicals (excl. Medicine)	856.0	0.5	2.7	-3.1	-0.28
Electrical /information and communication electronics	839.3	-4.6	2.6	-3.4	-0.29
Transport equipment	1,796.5	-16.6	17.6	-3.6	-0.61

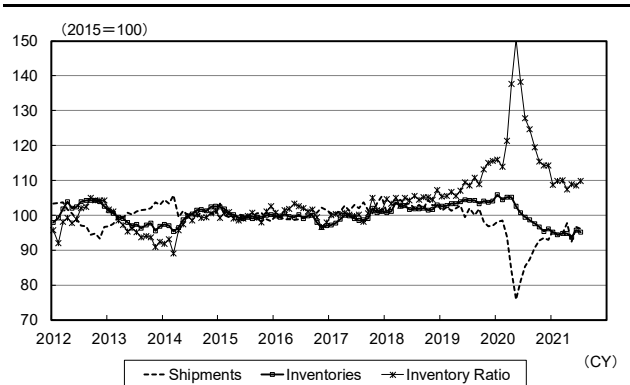
Source: MUMSS, from METI "Indices of Industrial Production Forecast"

**Figure 3. Industrial production by sector (monthly, SA, 2015=100)**



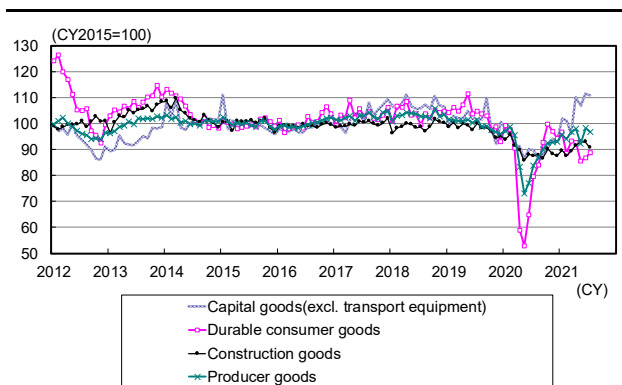
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast"

**Figure 4. Shipments, inventories and inventory ratio**



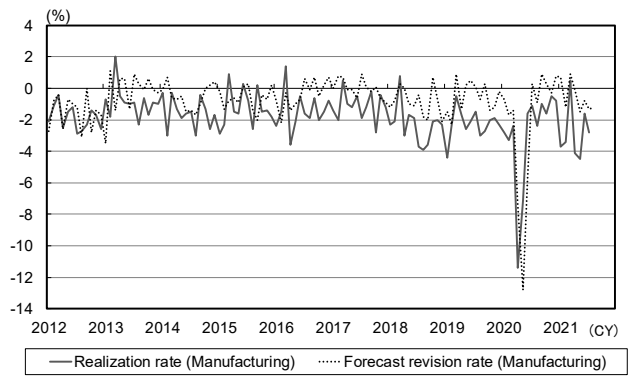
Source: MUMSS, from METI "Indices of Industrial Production Forecast"

**Figure 5. Shipments by product category**



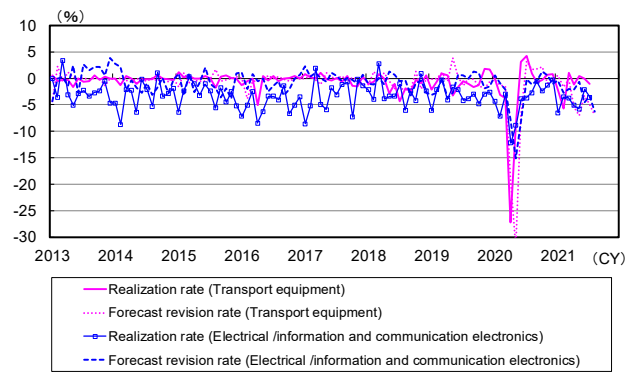
Source: MUMSS, from METI "Indices of Industrial Production"

**Figure 6. Realization and amendment ratios based on forecast index**



Source: MUMSS, from METI "Indices of Industrial Production"

**Figure 7. Realization and amendment ratios based on forecast index (by sector)**



Source: MUMSS, from METI "Indices of Industrial Production"

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## Appendix A

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