

## 【Fundamentals Navigator】

## Japan industrial production September 2020: Recovery continues with solid 3Q rise

(original Japanese report issued on October 30, 2020)

### Slower but sustained strong pace anticipated in 4Q

Industrial production posted a fourth monthly gain at 4.0% MoM in September. Growth was led by a further uptrend in transportation machinery as well as the first turnaround in production machinery in three months. The results exceeded market expectations and generated a 8.8% QoQ rise in 3Q 2020, returning to positive growth after the previous quarter's decline in a notably strong performance. METI's forecast index calls for further increases of 4.5% MoM in October (forward estimate: +1.4%) and 1.2% in November. Production has come back at a rapid pace since the lifting of the state of emergency, but the momentum looks to slow in the coming months, including the first falloff in transportation machinery in six months in November. Nevertheless, growth is expected to remain robust in 4Q.

**(1) Overview:** Industrial production (preliminary estimate) rose 4.0% MoM in September, up for a fourth month running (August: +1.0%). This exceeded market expectations of a 3.0% gain (Bloomberg). The index stands at 91.6 (2015 average = 100), reaching 95.6% of March's 95.8 reading prior to the state of emergency declaration. Output was up 8.8% QoQ in 3Q in a comeback after a one-quarter drop (1Q +0.4%, 2Q -16.9%).

**(2) Growth by industry:** Production was led again by transportation machinery, up 9.6% MoM (August +8.6%, +1.69ppt contribution to September MoM growth). Automobiles climbed 10.9% (August: +8.9%) to an index reading of 97.6, topping March's level of 94.6. Production machinery rose 11.1% (-9.9%, +0.72ppt) for the first upturn in three months, while machinery and mining equipment boasted a double-digit gain of 19.3% (-3.1%) on the back of recovering overseas demand. Metal products were up 3.2% (+1.0%, +0.13ppt) and plastic products up 5.9% (0.0%, +0.28ppt), underpinned by demand for machine parts and materials. Semiconductors and devices grew 5.7% (+3.9%, +0.36ppt) in a positive streak continuing since June.

**(3) Shipments, inventories and inventory ratio:** Shipments rose 3.8% MoM (August: +1.5%) for a fourth straight increase. Durable goods, buoyed by autos, remained steady with a 9.6% gain (+5.6%); production goods were up 3.4% (+3.2%) in an ongoing recovery; and capital goods, considered a representative indicator of capex, were up 4.3% after a two-month downturn (August -2.0% MoM, 3Q -5.0%

### Results (preliminary)

IIP: +4.0 % MoM

(Bloomberg forecast: +3.0%)

- Shipments: +3.8%
- Inventories: -0.3%
- Inventory ratio: -3.7%

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

Oct 2020: +4.5% (adjusted to exclude prediction error: +1.4%)

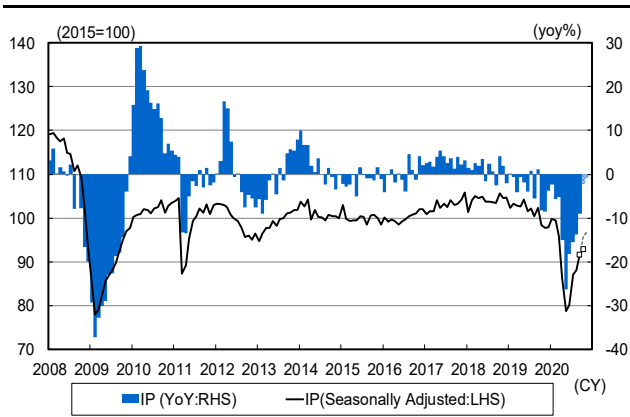
Nov 2020: +1.2%

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QoQ). Inventories were down 0.3% in a sixth successive decline, and the inventory ratio saw a fourth straight drop at -3.7%, falling below its March level.

- (4) Forecast index:** METI's forecast index calls for rises of 4.5% in October and 1.2% in November. Its forward estimate for October, which adjusts the forecast index by predictive error, is a 1.4% increase. These figures would mean an average 5.1% gain in October-November over 3Q. While slowing from 3Q's strong pace, production is nevertheless expected to remain robust.
- (5) Forecast by industry:** Transportation machinery, which has driven the production comeback, is projected to increase 6.1% in October before dropping 3.7% in November. The forecast for this sector tends to be close to the actual result, so we see a good chance that November output will indeed suffer its first downturn in six months. That said, the average for October-November is expected to post a double-digit rise of 13.5% above 3Q, which was itself up 51.3% QoQ. General-purpose and business oriented machinery typically adopts bullish targets and is likely to come in short of forecast (October +5.9%, November +7.6%), but recent machinery order data suggest that the situation should soon bottom (3Q -1.7% QoQ).

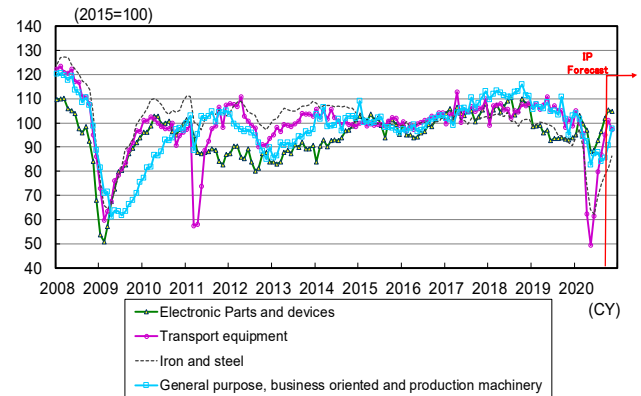
**Figure 1. Industrial production (monthly)**



Note: Seasonally adjusted figures for Oct-Nov 2020; dotted lines indicate MoM change in the forecast index; squares indicate estimates adjusted for prediction error. YoY changes are for the forecast index.

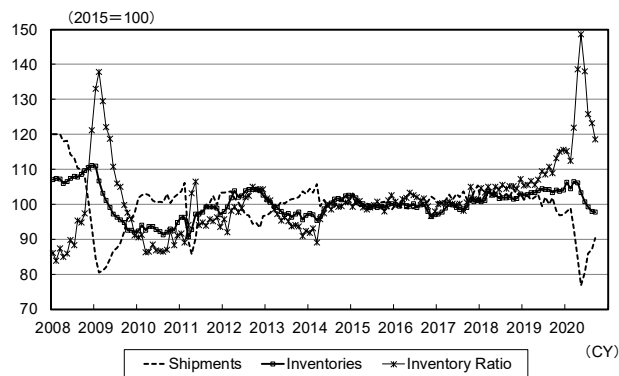
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast"

**Figure 2. Industrial production by industry (monthly, SA, 2015=100)**



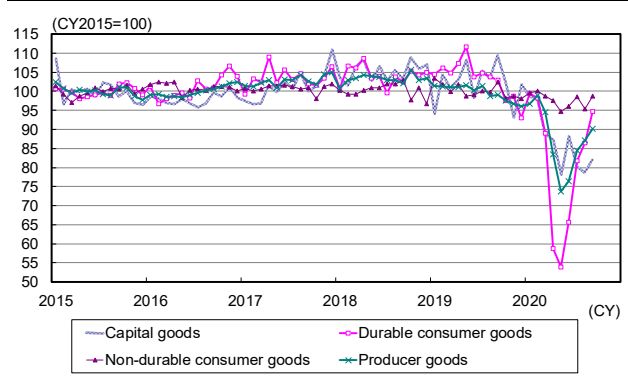
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast"

**Figure 3. Shipments, inventories and inventory ratio**



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

**Figure 4. Shipments by product category**



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

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## Appendix A

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