

## 【Fundamentals Navigator】

## Japan industrial production February 2021: Turns back down after Jan uptick, partly due to Feb quake impact

(original Japanese report issued on March 31, 2021)

### Transport equipment down; capital goods, electronic parts solid; QoQ growth likely in Jan-Mar

Production fell 2.1% MoM in Feb (Jan: +4.3%), the first decline in two months. The decline reflected strong downward pressure from transport equipment. Since demand for autos is apparently solid, we believe the decline owes heavily to the forced suspension of production at multiple plants affected by the 13 Feb earthquake. Capital goods output remained solid, thanks to recovery in capex both in Japan and overseas, while electronic parts stayed positive for the fourth straight month. METI's forecast index calls for a 1.4% decline in March, but even with such a result production would still be up QoQ (+1.5%) in Jan-Mar. The Survey of Production Forecast for April is for +9.3% growth. Even though April forecasts around this time of year tend to be bullish, production does seem poised to keep recovering.

- (1) Overview:** Production (preliminary estimate) fell 2.1% MoM in Feb (Jan: +4.3%), the first decline in two months and a steeper fall than the Bloomberg forecast (-1.3%).
- (2) By sector:** Transportation equipment fell 6.9% MoM in Feb after edging up 0.5% in January (-1.21pt contribution to MoM growth in Feb). We think the decline reflects the temporary suspension of auto production at several plants due to the 13 Feb earthquake. Production turned back down in Feb after advances in Jan for electrical machinery and information & communication electronics equipment (-2.9% in Feb; +7.6% in Jan; -0.26ppt contribution) as well as for chemicals ex-medicine (-2.7%; +2.5%; -0.24ppt). The former saw MoM fallbacks from robust demand in Jan for base station equipment and durable consumer goods (PCs, A/C units), while the latter fell back from strong demand for cosmetics and detergents. Production machinery remained up for a second straight month (+3.7%+; +8.1%; +0.28ppt). The recovery for industrial robots and plastic processing machinery paused for the first time in six months, but output for the category remained up as output of SPE was strong in Feb (as in Jan). Output of electronic parts & devices remained positive for the fourth straight month, albeit just barely (+0.2%; +10.3%; +0.01pt).
- (3) Shipments, inventories, inventory ratio:** Shipments fell 1.5% MoM in Feb (Jan: +3.2%). Durable consumer goods (-8.7% in Feb; +6.0% in Jan) and producer goods (-1.8%; +4.0%) categories both declined (falls in autos for the former; auto parts for the latter). Meanwhile, shipments of capital goods (excl. transport equipment) remained up for a second straight month (+2.9%; +8.9%) thanks to support from a capex recovery both inside and outside Japan. Inventories fell 1.0% in February with notable declines in categories where demand was solid: transport equipment (-8.8%) and electronic parts & devices (-7.1%).
- (4) Forecast adjustment rate and realization rate:** The realization rate (results divided by previous month's forecast) was -3.5% in Feb, with the result below the forecast as of the preceding month. The reading for transportation

### Results (preliminary)

IIP: -2.1% MoM

(Bloomberg forecast: -1.3%)

- Shipments: -1.5
- Inventories: -1.0%
- Inventory ratio: +1.0%

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

Mar 2021: -1.9%

(adjusted to exclude prediction error: -1.4%)

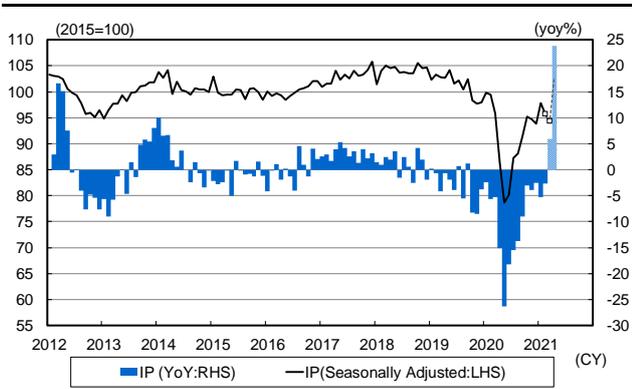
Apr 2021: +9.3%

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machinery was sharply negative (-5.6%), with the underperformance likely because the forecast as of last month did not take into account production cuts stemming from earthquake impact. The forecast adjustment rate (current forecast divided by previous month's forecast) for March is +0.8% overall and +0.7% for transport equipment (likely reflecting expectations that impact from the recent earthquake ended in Feb).

**(5) Forecast index:** METI's production forecast adjusted for predictive error is -1.4% MoM for March (unadjusted forecast: -1.9%). Despite negative MoM values for a majority of sectors, the forecast for transport equipment is +5.1%. Even if March output ends as forecast (-1.4%), quarterly output for Jan-Mar would still be up QoQ (+1.5%) from Oct-Dec, when output also rose 6.4% QoQ. The Survey of Production Forecast for April is +9.3%. Even discounting the tendency for April forecasts to be slightly bullish (the April 2020 forecast was +6.8%), production is expected to keep recovering. One potential downside risk is the 19 March fire at an electronic parts plant. Key products from this plant are automotive applications, raising prospects of depressed production for both electronic parts as well as automobiles. The chipmaker is reportedly considering alternative production either at other production sites or in conjunction with overseas makers..

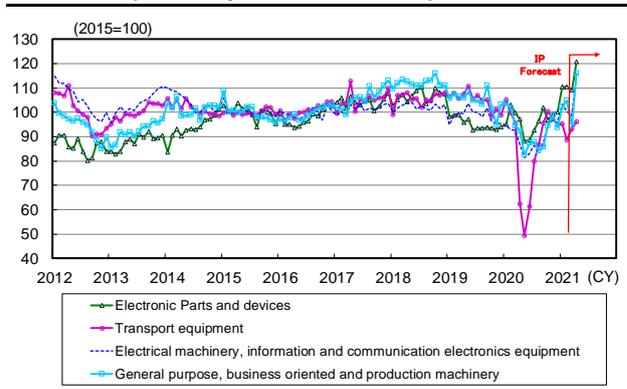
**Figure 1. Industrial production (monthly)**



Note: Seasonally adjusted figures for Mar- Apr 2021; dotted lines indicate MoM change in the forecast index; squares indicate estimates adjusted for prediction error. YoY changes are for the forecast index.

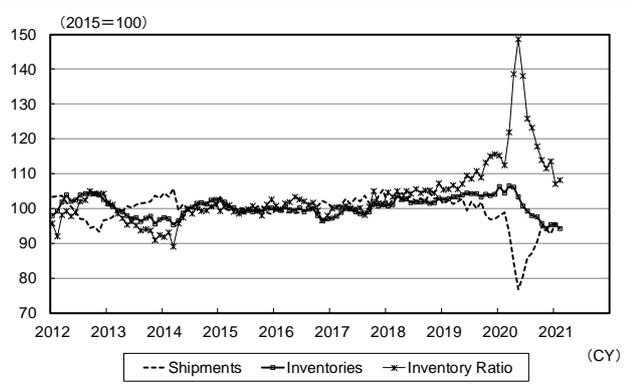
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast"

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



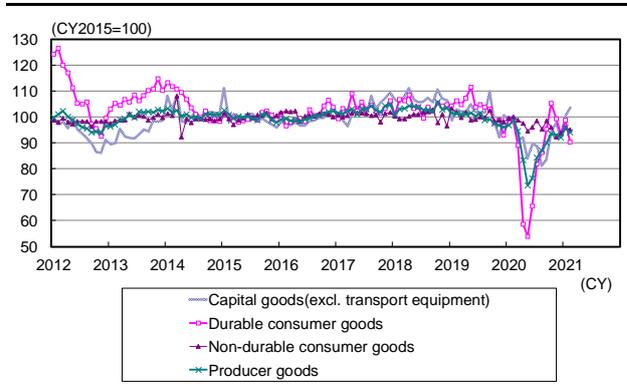
Source: MUMSS, from METI "Indices of Industrial Production" and "Indices of Industrial Production Forecast"

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



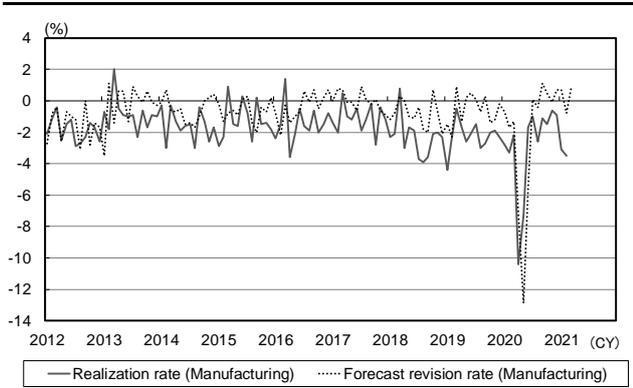
Source: MUMSS, from METI "Indices of Industrial Production Forecast"

**Figure 4. Shipments by product category**



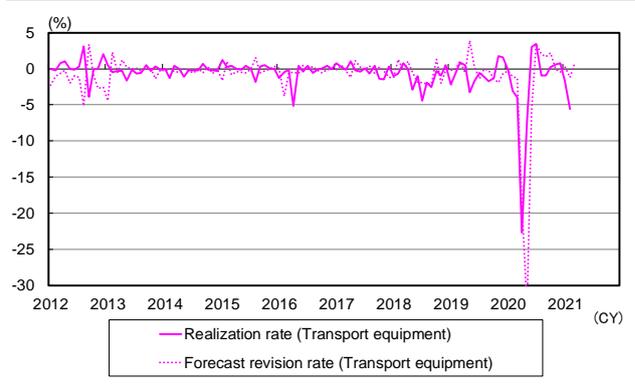
Source: MUMSS, from METI "Indices of Industrial Production"

**Figure 5. Realization and amendment ratios based on forecast index**



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

**Figure 6. Realization and amendment ratios based on forecast index (Transport equipment)**



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

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## Appendix A

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