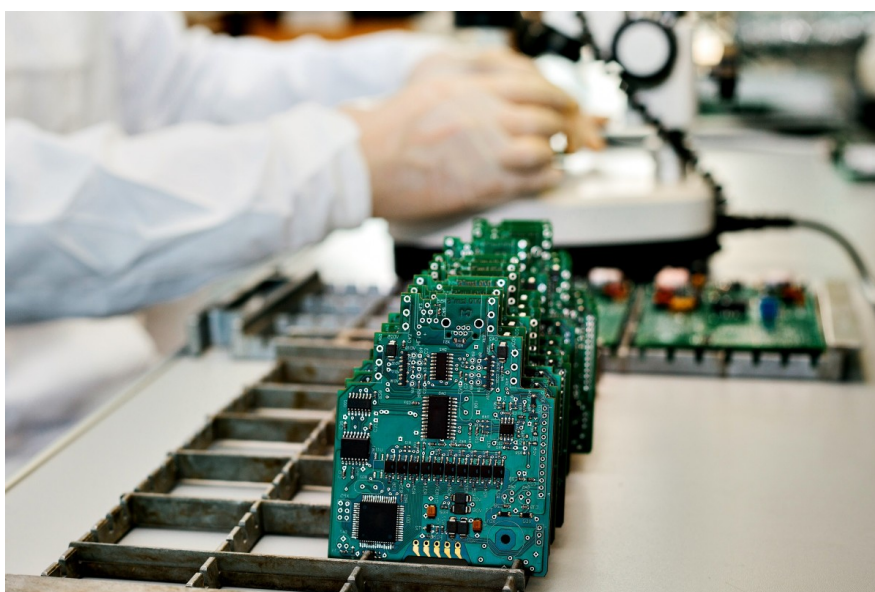


North Asian production softens in May

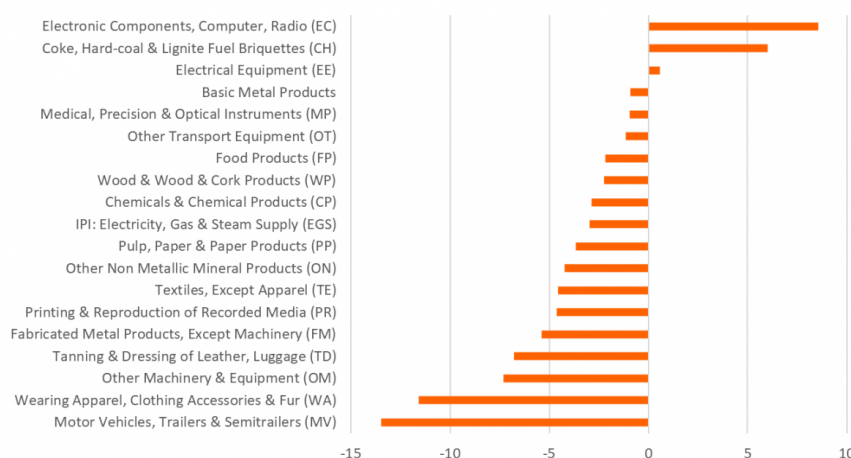
Japanese and Korean production figures for May both disappointed - we dig through the base effects and other noise to see what is going on



-5.9% Japanese Production
May MoM%

Worse than expected

Japanese Industrial production by sub-group (seasonally adjusted MoM%)



Source: CEIC, ING

What's driving Japan's production weakness?

With year-on-year percentage figures still heavily distorted by last year's weakness, it is difficult to look at Japan's 22%YoY production growth for May and consider that something might be wrong.

The 5.9% decline from the previous month is more useful. So what is driving that decline?

It turns out to be practically everything, though we are still waiting for an update on the sub-components for food/tobacco, and chemicals. That said, the overall picture was a disappointing one.

At the top of the month-on-month growth pile, electronics and information/communications equipment support the thesis that demand for electronics remains strong. Though neither of these sub-groups is growing substantially, and this may be evidence of capacity constraints in those industries.

At the opposite end of the spectrum, the transport sector is showing strong declines from the previous month. Again, our suspicion is that this is a semiconductor shortage phenomenon, with cars now chock full of chips, a shortage in these components slows the whole vehicle production line.

Korea - same pattern as Japan

So what about Korea, where the month on month figures also showed a decline, albeit a smaller one of -0.7%MoM?

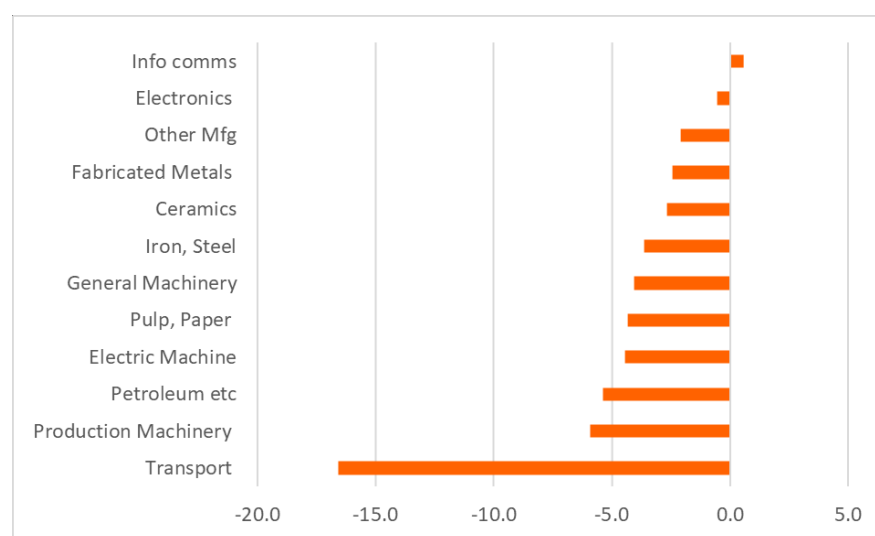
It is a very similar picture here, with electronics at the top of the pile, but most other components showing declines from the previous month, and transport bringing up the rear with a substantial contraction.

There is a lot of investment currently underway to address the global shortfall of supply relative to the demand for semiconductors - a problem that has been exacerbated by the US-China

technology wars. But this extra supply will not come on stream quickly. It takes time to set up these extremely advanced fabrication plants. Consequently, these shortages are likely to persist, and we will probably see production levels struggle to push much higher over the coming quarter, though possibly things will start to improve next year.

This will also keep chip prices high in the medium term - another inflation pressure for central banks around the world to take into account when mulling whether or not to remove pandemic emergency accommodation.

Korea industrial production by subgroup (Seasonally adjusted MoM%)



Source: CEIC, ING

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