

Japan's industrial production plummets in August

Several idiosyncratic factors have weighed on industrial production in Japan, but a technical payback is expected from this year's fourth quarter onwards. Retail sales have improved gradually, and we expect the BoJ to deliver a 25bp hike from that point too



Japan's Tokyo Tower

-3.3%

Industrial production

% MoM, sa

Lower than expected

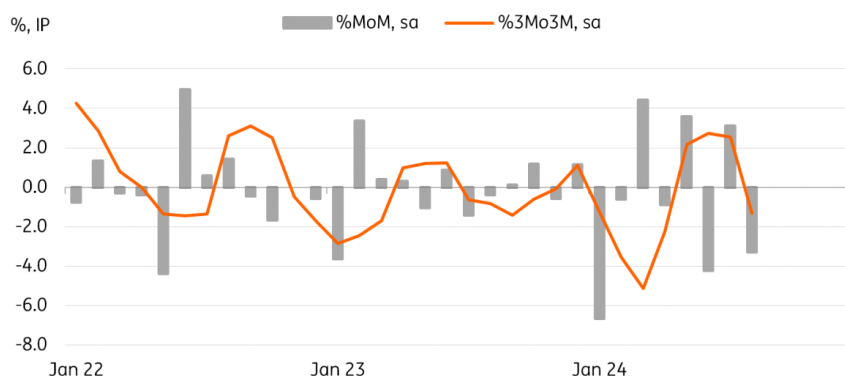
A large drop for IP

Japan's industrial production fell more than expected in August, by -3.3% month-on-month (vs. 3.1% in July, -0.5% market consensus).

We believe that the monthly fluctuation is related to the auto production disruptions caused by

the safety scandal. We also think that the government’s alert on mega-earthquake warnings and typhoon-related factory closures also probably exaggerated the fall in production activity in August. However, Toyota resumed production in early September, and there have been no major earthquakes since the alert – so we expect activity to return to normal in the coming months. In turn, We expect sluggish growth in the third quarter of 2024 but stronger payback to be seen in fourth-quarter GDP.

Choppy IP due to several idiosyncratic factors



Source: CEIC

0.8% Retail sales
%MoM, sa

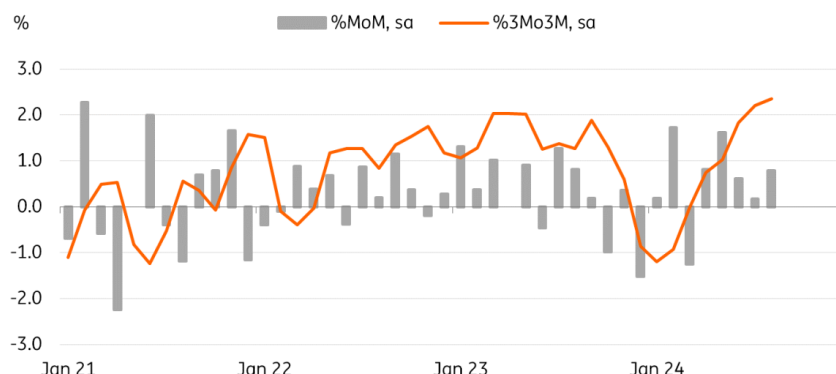
Higher than expected

Retail sales rose for six consecutive months, providing confidence for the BoJ

Meanwhile, retail sales rose 0.8% in August (vs. 0.2% in July, 0.5% market consensus). This component has risen for six consecutive months, demonstrating a continuation of relatively solid consumption. Car sales declined for the first time in four months (-3.49%), while other major consumption rose solidly, with increases in general merchandise (2.1%), apparel (12.2%), and food and beverages (2.0%).

The larger-than-expected decline in IP should be of concern for the Bank of Japan, but we think it's likely to normalise in the coming months. Retail sales have recently posted positive results, which should give the BoJ some confidence in continuing its policy normalisation.

Continued gains in retail sales should support the BoJ's policy normalisation



Source: CEIC

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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