

## Japan: Auto sector hampers overall industrial production in June

Industrial production plummeted as auto safety scandals resurfaced and we will revise down our GDP outlook for 2024 quite sharply. However, the continued rise in retail sales points to a recovery in consumption. We believe the BoJ will focus more on the virtuous cycle between the strength in consumption and wage growth



Source: Shutterstock

**-3.6%** Industrial Production  
% MoM, sa

Higher than expected

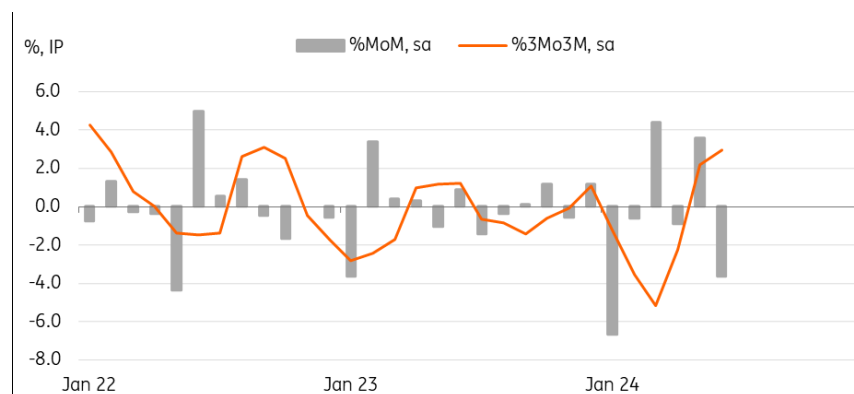
### Industrial production fell across almost all industries

Industrial production (IP) dropped -3.6% MoM sa in June (vs 3.6% in May, -4.5% market consensus), offsetting the gain in the previous month. In the first half of this year, industrial production data showed large month-on-month fluctuations due to the auto safety scandal. Some automotive production lines have been shut down since June and this is expected to continue in August. The disruption will hamper the recovery in manufacturing production for the time being.

In June, car output dropped -4.8%, after rising for the previous three months. While the drop in auto production is the most visible, the bigger concern is that production in most other major industries has also fallen. Machinery (-6.8%), non-machinery (-2.3%), general purpose machinery (-7.0%), and petrochemicals (5.9%) were down. This could be a temporary decline as we have seen solid growth in exports and the weak JPY should help manufacturing output.

According to the industry survey, manufacturers expect output to increase in July and August by 6.5% and 0.7% respectively. Thus, we expect overall production to recover in the coming months.

## Industrial production dropped in June



Source: CEIC

0.6%

Retail sales

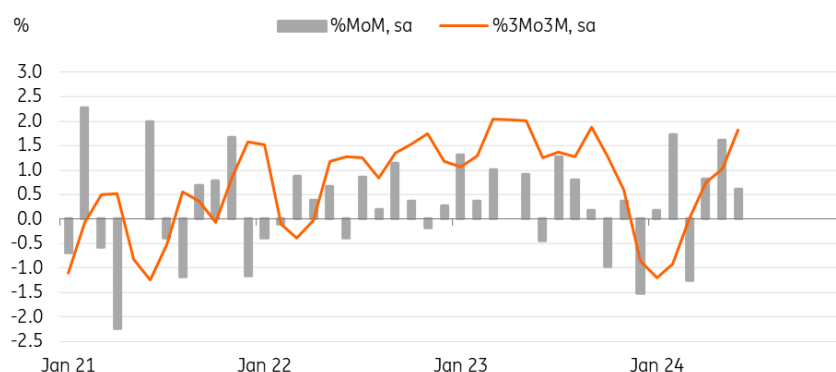
% MoM sa

Higher than expected

## Retail sales rose for a third month

Although industrial production plunged in June, we would like to focus on the gains in retail sales. Retail sales rose 0.6% MoM sa which was higher than the market consensus of 0.2%. Except for fuel, major items all gained. General merchandise rose for two months and motor sales recorded a firm 4% rise. With consumer sentiment bottoming out, we expect consumption to recover in the coming months.

## Retail sales have risen for three months in a row



Source: CEIC

## GDP is expected to grow a mere 0.1% YoY in 2024

For the GDP forecast, on a three-month comparison, IP improved to 2.9% 3Mo3M sa in June from -5.1% in March and retail sales also rose 1.8% 3Mo3M sa in June from 0.0% in March. The drop in IP should weigh on 2Q24 but is partially offset by the strong rebound in retail sales. Thus, we continue to believe that overall GDP growth should rebound modestly from the contraction in the first quarter. Based on today's results, we have revised down 2Q24 and 3Q24 GDP growth to 0.5% QoQ sa (from 1.5%) and the annual outlook to 0.1% YoY (from 1.0%).

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