

Japan: industrial production falls but retail sales hold up

Although monthly activity data has been mixed and the outlook is cloudy, consumption and facility investment are expected to drive moderate growth in the third quarter of 2022



-1.6% Industrial production
%MoM, sa

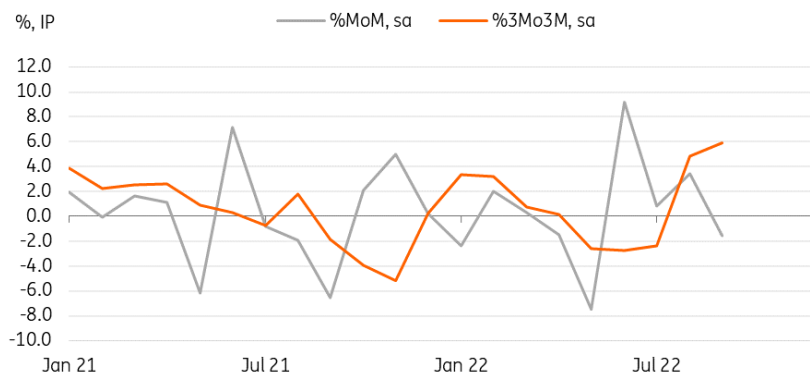
Lower than expected

Industrial production falls for the first time in four months

Industrial production declined -1.6% month-on-month seasonally-adjusted in September (vs 3.4% in August), weaker than the market expectation of -0.8%. This was mainly due to a sharp decline in motor vehicle production (-12.4%) – we think auto production took somewhat of a breather after strong gains over the past few months. Meanwhile, the upward trend of IT equipment such as electrical machinery and information and communication equipment continued in September, suggesting that global IT investment demand was rising until recently. However, the near-term

production outlook is cloudy as companies have cut their production plans for October, with a -0.4% drop in October compared to a 3.2% gain in the previous month.

September IP fell but the sequential trend improved compared to the previous quarter

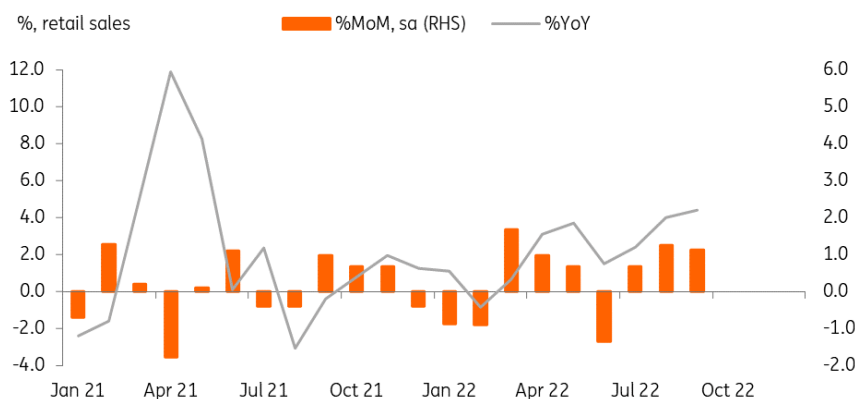


Source: CEIC

Retail sales rose more than expected in September

Retail sales rose stronger than expected in September, by 1.1% vs 1.4% in August and a 0.8% market consensus. All items gained except apparel which recorded the fourth month of decline. Motor vehicles and household machinery gained the most, by 11.1% and 14.6% respectively. Despite higher inflation, pent-up demand appeared to boost retail sales. Since the beginning of October, the government has been expanding its travel subsidy programme, which is having a positive impact on service consumption.

Retail sales continued to rise in September



Source: CEIC

Third quarter GDP outlook

Recent activity outcomes including today's release support our view that third-quarter GDP growth will decelerate to 0.5% quarter-on-quarter seasonally adjusted from the previous quarter's increase of 0.86%. Household consumption is expected to rise but at a slower pace mainly due to higher inflation, while facility investment in transportation and machinery will likely recover.

However, net exports contribution should drag on growth as a weak Japanese yen and higher commodity prices significantly hurt terms of trade.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.