

## Japan: industrial production records biggest fall in two years

The sharp decline in industrial production indicates that Japan's second-quarter GDP rebound should be limited, and it is clear that the Bank of Japan will not change its easing stance anytime soon given the weak economic environment



The contraction in industrial production intensified in May

**-7.2%** Industrial production  
MoM, sa

Lower than expected

### Industrial production falls -7.2% in May (vs -0.3% market consensus)

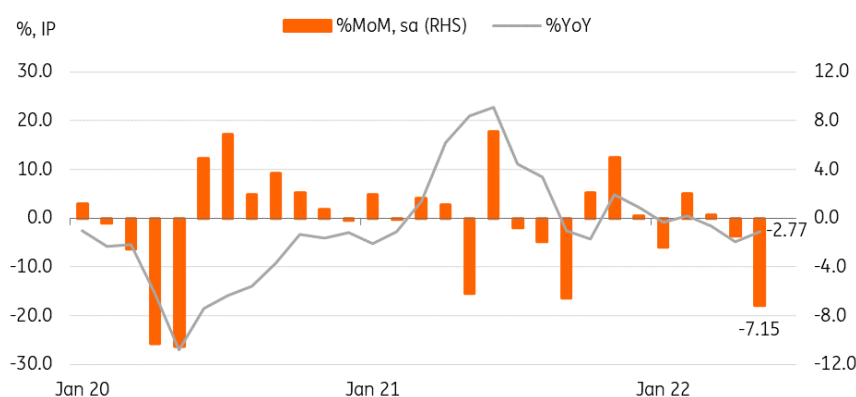
While overall production has been fragile, vehicle production was particularly weak in May with a -9% drop, recording the third consecutive month of decline. China's lockdowns disrupted the supply of auto parts to Japanese automakers. The output of tech products contracted significantly

as well. Electrical machinery, including batteries for e-vehicles and home appliances, plummeted by -6.7% , and electronic equipment also fell by -11.4%. Meanwhile, the gain in petroleum and chemical products stood out, rising 7.6% in May following a 1.7% gain in April, with external and internal demand for petroleum products holding up relatively well.

Going forward, we expect a positive technical payback from the relaxation of China’s lockdown, however, the recent slowdown in the US economy is likely to create headwinds for the fourth-quarter recovery.

Based on today’s data release, in addition to the weaker-than-expected consumption outcome last week, we revise down Japan’s second-quarter GDP from 0.5% quarter-on-quarter seasonally-adjusted to 0.3%, and the 2022 annual GDP from 1% year-on-year to 0.8%.

## The contraction in industrial production intensified in May



Source: CEIC

## Bank of Japan will remain unchanged

Today's data supports the Bank of Japan’s longstanding claim that the economy is in need of support from accommodative monetary policy. External conditions will further push the yen and longer-term yields higher as the yield differential widens, but without clear evidence that the economy is on the recovery path, the Bank of Japan will have no choice but to stick to its current policy position.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

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