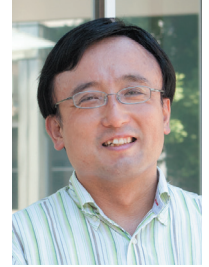


# When Will Japan's Industrial Production Fully Recover?



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## Production Level Reduced with Each “Shock”

The Indices of Industrial Production published by the Ministry of Economy, Trade and Industry at the end of every month allow us to see production trends in Japan. Production, shipments, inventory and inventory ratio of industrial production are the leading indices, and the 2020 standard (index of 2020 = 100) is currently used.

*Chart 1* shows trends in the indices of industrial production (seasonally adjusted values) over the past 30 years. While stock prices and rates of rises in prices are at an all-time high, industrial production continues to be stagnant. The most recent production index for the period April to June 2024 was 101.9, but it is at a lower standard by 4.6% compared to 106.8 for the period January to March 2020 when the coronavirus pandemic was just starting.

Looking at the long-term trend, it can be seen that the standard of production index is reduced every time there is a “shock”. The production index for January to March 2008, six months before the occurrence of the global financial crisis triggered by the failure of Lehman Brothers, was 131.5, the highest since 1994. During the

longest period of economic expansion since the end of the war that began in January 2002, the real effective exchange rate of the Japanese yen was on a declining trend, just as it is now, and together with the high growth of the world economy, Japanese exports and production continued to expand. This economic expansion ended in February 2008. Currently the yen is continuing its decline since around 2021 on a real effective exchange rate basis, but the trend for production remains almost flat after recovering from the coronavirus pandemic.

## 2023 Production for Nearly All Industries Falls Short of 2019

*Chart 2* looks at changes in production by industry in 2023 compared to 2019. With the exception of production machinery being positive, which includes semi-conductors and flat panel display manufacturing devices, production for all industries falls short of 2019. Identifying the contribution to the negative 6.9% of all industrial production, it was large for transport equipment at a negative 1.3% and chemicals at a negative 1.2%.

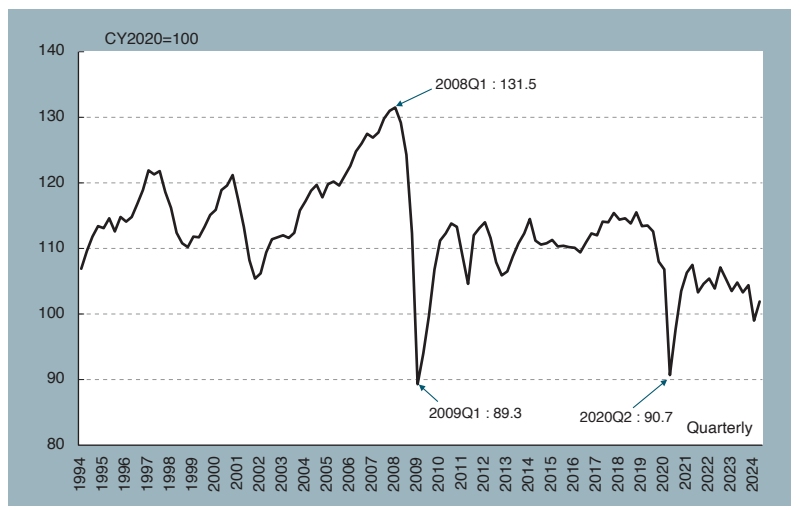
On the other hand, focusing on the year-on-year growth of industrial production for 2023, while entire industrial production fell for the second straight year by 1.3%, transport equipment rose by 14.2% and electrical machinery, and information and communication electronics equipment rose by 1.3%. The impact of transport equipment is large for entire industrial production, so its future trends will be closely watched.

## Shipments-Inventory Balance Showing Signs of Production Recovery?

Looking at the most recent production trend for the period April to June 2024, it is worth noting that shipments-inventory balance was negative 0.2 points, nearing zero with the negative width sharply shrinking. The shipments-inventory balance subtracts the year-on-year growth rate of inventory

CHART 1

## Trends in the Indices of Industrial Production



Source: Indices of Industrial Production, Ministry of Economy, Trade and Industry

from the year-on-year growth rate of shipments. If it is positive, it shows that growth in shipments exceeds inventory, and if negative, growth in inventory exceeds shipments. If growth in shipments exceeds inventory, inventory adjustment will proceed and expansion in production can eventually be expected. On the other hand, if growth in inventory exceeds shipments, pressure for inventory adjustment will heighten, and restraining production can be expected.

Indeed, as [Chart 3](#) shows, it can be confirmed that when the shipments-inventory balance becomes positive, production rises with a lag, and when it is negative, production falls. The shipments-inventory balance continued to be negative after it rose by 2.4 points for the period July to September 2021, except for when it barely rose by 0.2 points for the period October to December 2023. While the year-on-year growth for the period April to June 2024 was a negative 2.7%, it is expected to turn positive going forward.

### Electronic Parts & Devices Doing Well

Looking at the quarterly shipments-inventory balance by industry, electronic parts and devices, which includes integrated circuits, continues to be positive for the fourth consecutive quarter since the period July to September 2023. Year-on-year growth for production turned positive after the period January to March 2024 and continues to expand with the April to June 2024 period being a positive 7.0%. However, expansion to other industries is yet to be confirmed. The shipments-inventory balance for transport equipment was positive from the period April to June 2023 to October to December 2023 but turned negative for the period January to March 2024 and continued to be negative for April to June. With the impact of fraud in certification tests, production also turned negative for the period January to March 2024, and remained negative for April to June.

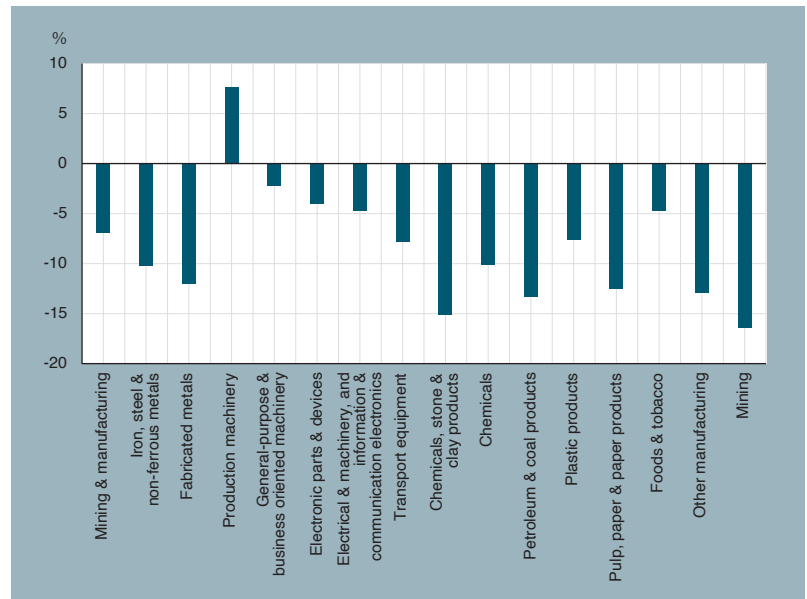
Whether the strong electronic parts and devices will spread to other industries remains to be seen.

**Note:** This article was written based on information obtained as of July 31, 2024.

Article translated from the original Japanese by Mio Uchida

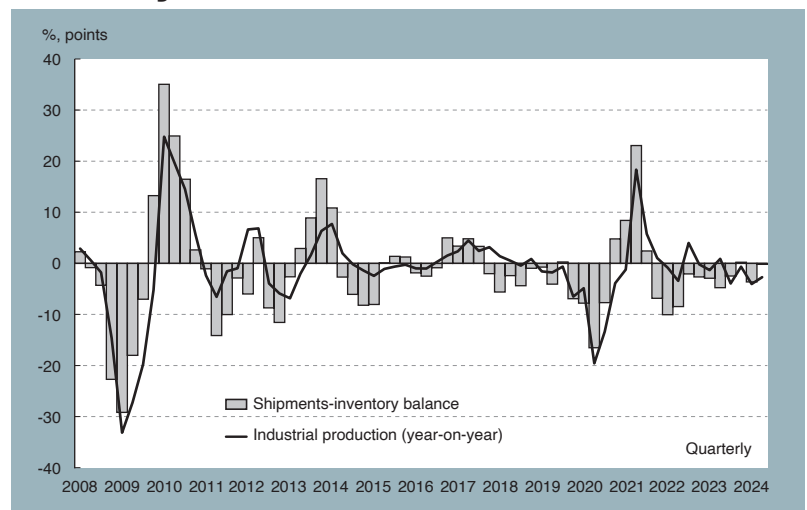


CHART 2  
**Changes in production by industry in 2023 compared to 2019**



Source: Indices of Industrial Production, Ministry of Economy, Trade and Industry

CHART 3  
**Trends in industrial production & shipments-inventory balance**



Source: Indices of Industrial Production, Ministry of Economy, Trade and Industry

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2016	542.1	0.8	544.4	1.2	-0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	0.6	0.9
2019	552.5	-0.4	557.9	0.2	-2.6	0.6
2020	529.5	-4.2	539.6	-3.3	-10.4	-0.2
2021	543.8	2.7	553.2	2.5	5.4	-0.2
2022	550.1	1.2	561.8	1.6	-0.1	2.3
2023	559.4	1.7	592.8	5.5	-1.3	3.1
2023/3rd Qtr.	557.2	-1.0	594.6	-0.1	-1.4	3.0
4th Qtr.	557.6	0.1	598.6	0.7	1.1	2.5
2024/1st Qtr.	554.3	-0.6	597.1	-0.2	-5.2	2.5
2nd Qtr.	558.6	0.8	607.9	1.8	2.7	2.5
2023/Nov.	—	—	—	—	-0.6	2.5
Dec.	—	—	—	—	1.2	2.3
2024/Jan.	—	—	—	—	-6.7	2.0
Feb.	—	—	—	—	-0.6	2.8
March	—	—	—	—	4.4	2.6
April	—	—	—	—	-0.9	2.2
May	—	—	—	—	3.6	2.5
June	—	—	—	—	-4.2	2.6
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2023	100.9	2.8	110.2	-7.0	20.3	11.0	11.5	-1.8	10.4	10.9
2023/3rd Qtr.	25.9	1.1	26.9	-16.1	5.3	10.6	2.9	-11.0	2.7	12.7
4th Qtr.	27.6	3.7	29.0	-10.4	5.8	11.3	3.0	-4.8	2.8	6.4
2024/1st Qtr.	25.1	8.8	26.8	-5.0	5.0	13.8	3.1	6.2	2.5	10.0
2nd Qtr.	26.5	8.8	27.9	7.0	5.4	14.0	3.4	24.5	2.4	-8.5
2023/Nov.	8.8	-0.2	9.6	-11.8	1.8	5.3	1.0	-3.4	0.9	-0.0
Dec.	9.6	9.7	9.6	-6.8	2.1	20.2	1.0	-6.9	1.0	10.3
2024/Jan.	7.3	11.9	9.1	-9.7	1.4	15.6	1.0	5.9	0.8	13.8
Feb.	8.2	7.8	8.6	0.6	1.7	18.4	1.0	9.3	0.9	14.6
March	9.5	7.3	9.1	-5.1	1.8	8.5	1.1	3.8	0.9	3.0
April	9.0	8.3	9.5	8.4	1.8	8.8	1.1	29.1	0.9	-2.0
May	8.3	13.5	9.5	9.5	1.7	23.9	1.2	29.8	0.7	-10.1
June	9.2	5.4	9.0	3.2	1.9	11.0	1.1	14.8	0.8	-13.4
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.5	11.4	131.4
2023	1.2	1.31	2.6	2.5	-6.5	21.4	140.5
2023/3rd Qtr.	0.9	1.29	2.6	2.4	-0.3	7.9	144.5
4th Qtr.	0.9	1.28	2.5	2.3	-1.0	5.5	147.9
2024/1st Qtr.	1.3	1.27	2.6	2.5	-1.4	6.2	148.6
2nd Qtr.	3.0	1.25	2.6	1.9	-1.2	6.4	155.9
2023/Nov.	0.7	1.27	2.5	2.3	-0.7	2.0	149.9
Dec.	0.8	1.27	2.5	2.3	0.1	0.8	144.1
2024/Jan.	1.5	1.27	2.4	2.5	-1.5	0.2	146.6
Feb.	1.4	1.26	2.6	2.4	-0.3	2.7	149.4
March	1.0	1.28	2.6	2.5	0.4	3.4	149.7
April	1.6	1.26	2.6	2.2	-0.7	2.1	153.6
May	2.0	1.24	2.6	1.9	-1.1	2.8	156.2
June	4.5	1.23	2.5	1.5	0.6	1.5	157.9
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	21.1	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2023	11.3	-1.3	34.7	-4.6	27.6	-3.4	17.8	-6.5	24.4	-1.7
2023/3rd Qtr.	2.9	7.0	8.7	-8.1	6.8	-11.7	4.6	-10.2	6.0	-10.3
4th Qtr.	3.0	-7.1	9.2	-3.9	7.2	-7.6	5.0	1.0	6.6	-2.0
2024/1st Qtr.	2.6	1.1	8.8	4.2	6.8	-4.1	4.3	13.3	5.8	-3.6
2nd Qtr.	3.0	4.1	9.2	9.6	6.9	6.7	4.8	11.3	6.2	7.6
2023/Nov.	1.0	-6.6	3.0	-5.1	2.4	-9.6	1.6	-2.2	2.3	-3.2
Dec.	0.9	-9.2	3.1	-0.4	2.4	-1.2	1.8	9.5	2.0	0.4
2024/Jan.	0.8	-10.3	2.6	7.3	2.3	-6.4	1.3	29.2	2.2	-7.6
Feb.	0.9	1.0	2.9	2.2	2.2	-0.5	1.3	2.5	1.8	17.0
March	1.0	12.0	3.3	3.6	2.3	-5.1	1.7	12.6	1.8	-13.8
April	1.0	3.4	3.1	9.8	2.3	9.9	1.6	9.6	2.1	10.9
May	1.0	5.3	2.9	11.4	2.3	8.0	1.6	17.8	2.1	12.3
June	1.0	3.8	3.2	7.9	2.3	2.6	1.6	7.2	2.0	0.0
Sources	"Trade Statistics of Japan", Ministry of Finance									