

Japan Industrial Production Unexpectedly Rises 0.9% on Exports

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Japan's industrial production unexpectedly rebounded in July as demand in Asia helped exporters withstand a slump in shipments to the U.S.

Factory output gained 0.9 percent from June, when it fell 2.2 percent, the Trade Ministry said today in Tokyo. The median estimate of 37 economists surveyed by Bloomberg News was for a 0.3 percent decline.

Today's figure may not be strong enough to alleviate concern that the U.S. slowdown is spreading around the world, threatening Japan's longest postwar expansion. Both the Bank of Japan and the government cut their economic assessments this month after sluggish exports and weak consumer spending caused gross domestic product to contract last quarter.

“There is no change to our assessment that production is on a gradual downward trend,” said Mamoru Yamazaki, chief Japan economist at RBS Securities Japan Ltd. in Tokyo. “The economy entered a downturn and we forecast this will continue until mid- 2009.”

Japan's exports rebounded in July as China replaced the U.S. as the nation's largest customer. Exports to China climbed to a record, while shipments to the U.S. slumped for an 11th month.

The Bank of Japan last week described growth as “sluggish” for the first time in a decade, citing weakening exports as well as higher commodity costs. Japan's economy shrank at an annual 2.4 percent pace in the second quarter shipments abroad dropped the most in seven years.

Hino's SUVs

Weakening U.S. demand and rising raw-material costs have squeezed profits and forced companies to pare production.

Hino Motors Ltd., Japan's largest maker of heavy trucks, said yesterday that it will make fewer sport-utility vehicles as higher gasoline prices damp North American sales. Toyota yesterday lowered its 2009 sales forecast to 9.7 million vehicles from 10.4 million as record fuel prices damp demand.

“Manufacturers are being cautious about production because the slowdown in the global economy is cooling demand,” said Susumu Kato, chief economist at Calyon Securities in Tokyo. “The economic downturn in Japan will probably continue for another six to nine months.”

Still, Japan's economy may be more resilient now than it was during the three recessions since 1990 because companies have shed excess workers, factories and debt, economists and policy makers say.

The economy is unlikely to suffer a "major deterioration" because companies don't have excess capacity and labor, Bank of Japan Governor Masaaki Shirakawa said last week.

"This current expansion hasn't been characterized any degree of excess," said Glenn Maguire, chief Asia-Pacific economist at Societe Generale in Hong Kong. "We're just looking purely at a cyclical slowing in the economy, so it's unlikely that any recession will be deep or long lasting."

Source: Bloomberg