The Third Quarter of 2014
Analysis of All Industrial Activities in Japan
Summary

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Economic Analysis Office
Ministry of Economy, Trade and Industry (METI)
JAPAN

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Outline of all industrial activities

- The indices of all industrial activities decreased for the second consecutive quarter, down by 0.1% from the previous quarter.
- In spite of increases in the indices of tertiary industry activities and construction industry activity, the indices of industrial production decreased.

Index Level (2005 = 100, seasonally adjusted)
Outline of industrial activities “Production trends”

- The indices of industrial production decreased for the second consecutive quarter, down by 1.9% from the previous quarter.
- By type of goods, decreases were observed in all goods, such as durable consumer goods and capital goods.
- By type of business, production in 15 industries, including the transport equipment industry and the information and communication electronics equipment industry, decreased.

Changes in the Indices of Industrial Production (by type of goods)
(2010 = 100, seasonally adjusted)
Outline of industrial activities “Production trends by item”

<Major items that decreased>
- Large passenger cars (for the second consecutive quarter)
- Small passenger cars (for the second consecutive quarter)

<Major items that increased>
- Metal oxide semiconductor ICs (Memory) (for the first time in two quarters)
- Conveyors (for the first time in two quarters)

Changes from the Previous Quarter by Item and Contribution Ratio

<table>
<thead>
<tr>
<th>Items that Contributed to Decrease</th>
<th>Changes from the Previous</th>
<th>Contribution Ratio (% points)</th>
<th>Items that Contributed to Increase</th>
<th>Changes from the Previous</th>
<th>Contribution Ratio (% points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Large passenger cars</td>
<td>-4.5</td>
<td>-0.25</td>
<td>1) Metal oxide semiconductor ICs (Memory)</td>
<td>25.7</td>
<td>0.29</td>
</tr>
<tr>
<td>2) Small passenger cars</td>
<td>-16.6</td>
<td>-0.21</td>
<td>2) Conveyors</td>
<td>76.9</td>
<td>0.12</td>
</tr>
<tr>
<td>3) Desktop computers</td>
<td>-37.5</td>
<td>-0.18</td>
<td>3) Metal oxide semiconductor ICs (CCD)</td>
<td>27.8</td>
<td>0.11</td>
</tr>
<tr>
<td>4) Engines for motor vehicles</td>
<td>-5.5</td>
<td>-0.10</td>
<td>4) Fixed capacitors</td>
<td>8.5</td>
<td>0.05</td>
</tr>
<tr>
<td>5) Midget passenger cars</td>
<td>-9.8</td>
<td>-0.09</td>
<td>5) Printing machinery</td>
<td>19.7</td>
<td>0.04</td>
</tr>
</tbody>
</table>
Outline of industrial activities “Shipment trends”

• The indices of industrial shipments decreased for the second consecutive quarter, down by 0.8% from the previous quarter.
• By demand, shipments for domestic demand decreased for the second consecutive quarter, and shipments for exports increased for the first time in three quarters.
• By type of goods, decreases were observed in durable consumer goods and construction goods.
Outine of industrial activities
“Trends of Shipments from Domestic Corporations and Overseas Affiliates in Manufacturing Industries”

- The indices of global shipments for the second quarter of 2014 increased for the fourth consecutive quarter, by 2.5% from same quarter of the previous year.
- Looking at the breakdown, for domestic shipments increased for the fourth consecutive quarter, by 1.8% from the previous year, for exports shipments decreased for the first time in four quarters, by 1.2% from the previous year, and overseas shipments increased for the tenth consecutive quarter, by 5.8% from the previous year.
- Looking at the indices of global shipments in terms of the changes in contribution ratio from the previous year, the rate for domestic shipments increased by 1.1% points, the rate for exports shipments decreased by 0.2% points, and the rate for overseas shipments increased by 1.7% points.

Changes in the Indices of Global Shipments
Outline of industrial activities
“Weakening relationship between sales of Japanese cars in the U.S. and exports of cars”

• Due to overseas transfer of production bases of automobile manufacturers, etc., the sales of Japanese cars (passenger cars) in the U.S. has not linked to the export of cars from Japan.
• Statistical analysis results show the structural change has occurred in their relationship from July 2011.
• From July 2011, the sales of Japanese cars (passenger cars) in the U.S. has been uncorrelated with the exports of passenger cars from Japan, while the correlation coefficient between the sales of Japanese cars and local sales of the US affiliates (transport equipment) is 0.838.

The relationship of the sales of Japanese cars (passenger cars) in the U.S. and the shipment index of “passenger cars” for the U.S.

The relationship of the sales of Japanese cars (passenger cars) and the local sales of the U.S. affiliates (transport equipment)

(Note)
1. ** indicates the correlation coefficient is significant at the significance level of 1%.
2. All data is seasonally adjusted.
3. The local sales amount is adjusted based on the US CPI “New vehicles”.

(Note)
1. ** indicates the correlation coefficient is significant at the significance level of 1%.
2. All data is seasonally adjusted.
Outline of industrial activities “Inventory trends (1)”

- The indices of industrial inventories increased for the third consecutive quarter, by 1.1% as compared to the end of the previous quarter.
- By type of goods, increases were observed mainly in durable consumer goods and producer goods.
- By type of business, production in 11 industries, including the petroleum and coal products industry and iron and steel industry, increased.
The inventory cycle of mining and manufacturing industry during the third quarter of 2014 continued “expanding inventory stage”.

![Diagram illustrating inventory trends]
Outline of tertiary industry activities

- Tertiary industry activities increased for the first time in two quarters, by 0.3% from the previous quarter.
- By type of business, Finance and Insurance increased for the first time in three quarters, and 6 out of 13 types of business in broad category increased.

Changes in Indices of Tertiary Industry Activities of Major Industry Sectors
(2005 = 100, seasonally adjusted)
During the third quarter of 2014, broad-ranging personal services increased by 0.6% from the previous quarter, and broad-ranging business services also increased by 0.1% from the previous quarter, both up for the first time in two quarters.
Outline of supply trends for final demand

- Supply for final demand of domestic products remained flat, at 0.0% change from the previous quarter.
- Overall industrial supply for consumption decreased by 0.5% from the previous quarter, down for the second consecutive quarter.
- Overall industrial supply for investment increased by 0.1% from the previous quarter, up for the first time in two quarters.
- Exports increased by 1.0% from the previous quarter, up for the first time in two quarters, and imports decreased by 0.4% from the previous quarter, down for the second consecutive quarter.

### Changes in the Indices of All Industries (Final Demand Components)

(2005 = 100, ratio to the previous year (quarter))

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Ratio to the previous year</td>
<td></td>
<td>Ratio to the previous year</td>
<td></td>
</tr>
<tr>
<td>Total of final demand sector</td>
<td>0.9</td>
<td>0.6</td>
<td>-1.2</td>
<td>-0.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Mining and manufacturing (Goods)</td>
<td>-1.3</td>
<td>-2.3</td>
<td>-7.9</td>
<td>-0.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Tertiary industries (Services)</td>
<td>1.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Consumption</td>
<td>1.2</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Investment</td>
<td>2.4</td>
<td>3.9</td>
<td>-1.2</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Exports</td>
<td>-1.5</td>
<td>2.6</td>
<td>-5.0</td>
<td>-1.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Imports</td>
<td>2.3</td>
<td>3.7</td>
<td>0.0</td>
<td>-0.8</td>
<td>1.6</td>
</tr>
</tbody>
</table>
Looking at the trends of consumption in terms of supply from mining and manufacturing, the overall supply of durable consumer goods decreased by 8.0% from the previous quarter, down for the second consecutive quarter. The overall supply of non-durable consumer goods increased by 0.1% from the previous quarter, up for the first time in two quarters.
The trends of investments in terms of supply from mining and manufacturing (overall supply of capital goods) increased by 1.8% from the previous quarter, up for the first time in two quarters.
Outline of supply trends for final demand “Export trends”

- Looking at the trends of export goods and services (on a quantity basis), in terms of the indices of all industries (final demand components), exports of goods (mining and manufacturing industry) increased by 1.1% from the previous quarter, and exports of services (tertiary industry) also increased by 1.0% from the previous quarter, resulting in a 1.0% increase from the previous quarter for all exports.
- By region, exports of goods to East Asia, ASEAN, and the Middle East increased, while those to the United States and Europe decreased.
The export dependence (the percentage of exports to the total mining and manufacturing shipments) increased to 19.9%, up for the second consecutive quarter.

Changes in the Export Dependence

(Note) Export dependence = (Export indices of each goods and mining and manufacturing industry × Export weight) / (Shipment index of each goods and mining and manufacturing × Shipment weight) × 100
Outline of supply trends for final demand “Import trends”

- Looking at the trends of import goods and services (on a quantity basis), in terms of the indices of all industries (final demand components), imports of goods (mining and manufacturing industry) increased by 0.9% from the previous quarter, while imports of services (tertiary industry) decreased by 2.5% from the previous quarter, resulting in a 0.4% decrease from the previous quarter for all imports.
- By region, imports of goods from the United States, the Middle East, and ASEAN increased, while those from Europe and East Asia decreased.

Changes in Imports by Region (Goods, 2010 = 100, seasonally adjusted)
Outline of supply trends for final demand
“Trends of import penetration rate”

- The import penetration rate (the percentage of imports to the overall supply from mining and manufacturing) increased to 24.0%, up for the second consecutive quarter.

Changes in the Import Penetration Rate

(Note) Import penetration rate = (Import indices of each goods and mining and manufacturing × Import weight) / (The indices of overall supply of each goods and mining and manufacturing industry × Overall supply weight) × 100