

The NewsLine

24.08.2015

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JAPAN

Industrial production getting set for a comeback

Economic development came as a disappointment in the second quarter, not least due to weak exports. The data on the purchasing managers' index that was released today underpins expectations of a recovery in the current quarter. Despite the fluctuations in economic activity, the Japanese economy seems to be on a moderate upward trajectory.

The provisional August data on the purchasing managers' index for the manufacturing sector supports the view that the economic setback witnessed in the second quarter was only a temporary blip. The overall index improved for the second month running. As well as a favorable production trend, other encouraging developments include the renewed improvement in the assessment of new orders and the reduction in end product inventory levels. This also creates a positive environment for future production development.

Within this context, industrial production appears likely to increase again in the current quarter. The slump in both industrial production and exports in the second quarter stemmed from very unfavorable developments in May. A partial recovery had already been achieved in June, and the foreign trade data also published this week points towards a continued recovery in real goods exports in July. Although there is some uncertainty surrounding the strength of demand from east Asian trading partners and a chance that the inventory correction process might not quite have reached its conclusion yet, Japanese industry should be able to more than compensate for the slump in the second quarter.

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