MACRO BRIEF

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IP Slowdown: When Will the Fat Lady Sing? (Or Has She?)

Industrial production (IP) took another plunge in February and came down by 23.7% year-on- year, killing our hopes of IP having bottomed in January for the time being. Our effective-days adjustment methodology had produced a year-on-year reduction of 18% in January following an almost identical figure of 17.8% in December which lured us into thinking or rather hoping that IP growth had definitely hit rock bottom in year-on-year terms during these months. Further glimmer of hope emanated from the month-on-month increase we observed from December to January at 1.7% after having filtered the series through seasonal adjustment as well. Hint of another possible month-on-month increase despite a sizeable year-on-year reduction kept our hopes of year-on-year IP growth picking up alive until this morning, but postponement of such hopes seems to be the prudent approach at the moment. Nevertheless, the data still offers some hope as we discuss below but better not be hyped up too much for the time being.

The figure below displays officially announced and our effective-days adjusted year-on-year figures and adjusted figures display a less dire outlook than the official figures.

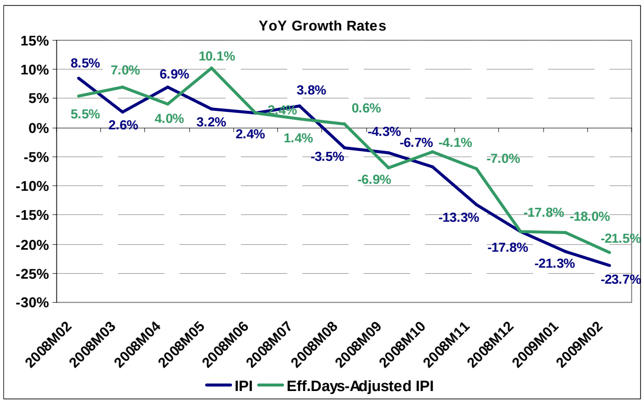


Figure.1

The hope-killer month on month growth rate obtained after the double filtering through seasonal and effective-day adjustment is provided in the graph below. The 1.7% increase in January was followed by a 3.6% reduction in February, but that by itself still does not call for a doomsday call.

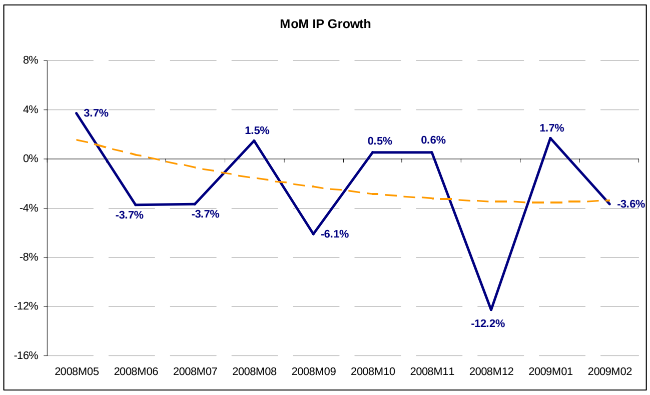


Figure.2

The very same graph above also suggests why it is still possible to hope for signs of recovery in IP activity. The dotted estimated trend line indeed suggests that IP growth rates in the vicinity of zero could indeed be observed some time late summer, but trend-fitting entails a crucial assumption with respect to the initial point of slowdown diagnostics and the graph below provides a simple explanation of the assumption we have utilized here.

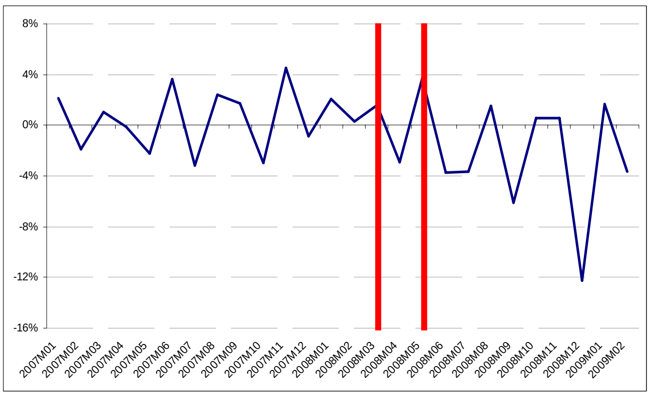


Figure.3

March and May stand out as possible candidates for slowdown initial points, and we took the average of the two and chose May as the initial point to be on the safe side. Fitted trend equation then suggests that the bottom has already been left behind (somewhere around November and December) and that negative growth rates should disappear as of summer months.

When looked at sector-wise, even the food and beverage sector could not withstand the storm and only tobacco products displayed positive growth according to raw data.

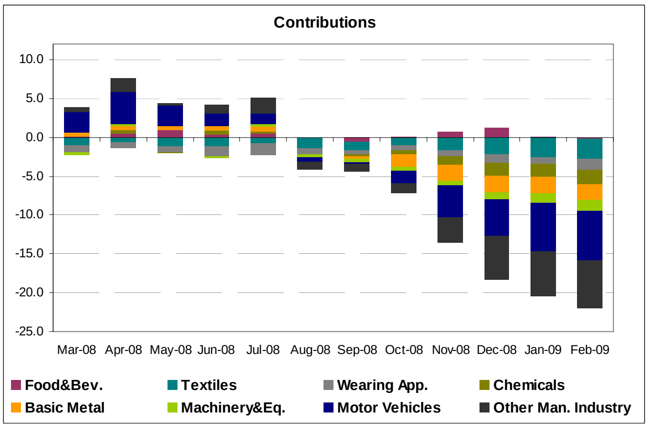


Figure.4

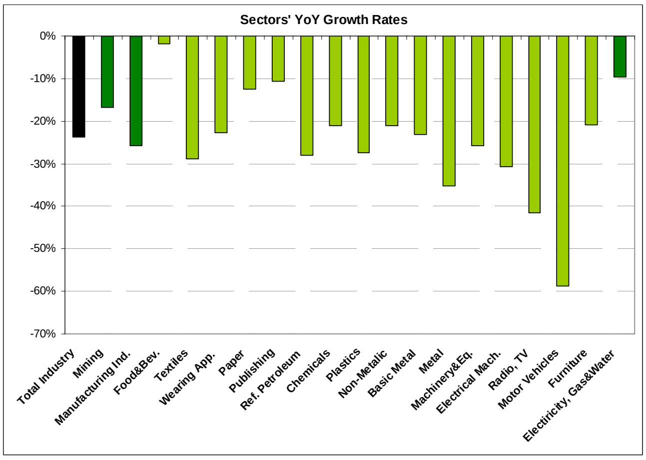


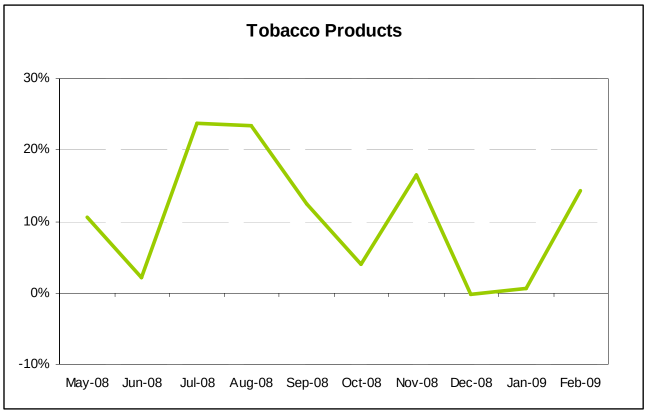
Figure.5

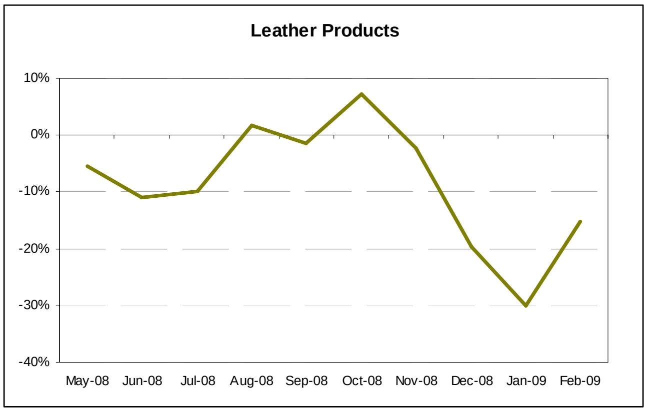
Only three sectors have shown improvement in year-on-year terms successively for two months and only three were able to perform better than the previous month. Their charts are given at the end of the piece.

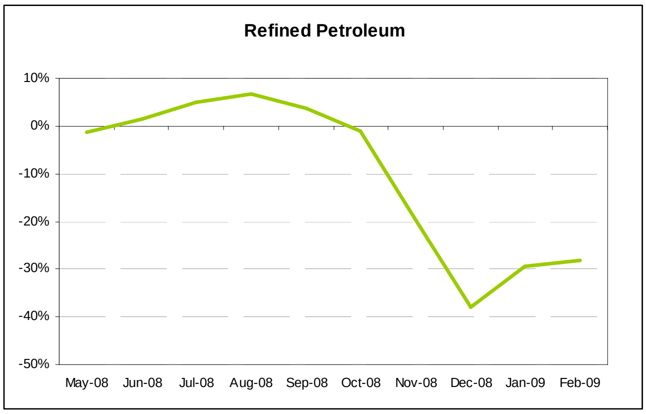
The data is thus somewhat mixed; labeling it "worse than expected" is not very meaningful as the difference between markets' expectation of minus 21% and the actual figure of minus 23.7%. It is more important to be able to assess whether the bottom has been passed and/or when positive growth zone will be entered.

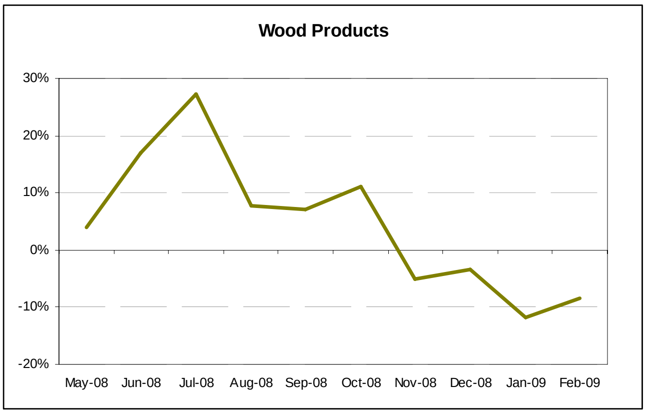
"Two-Months in a Row Improvement" Sectors

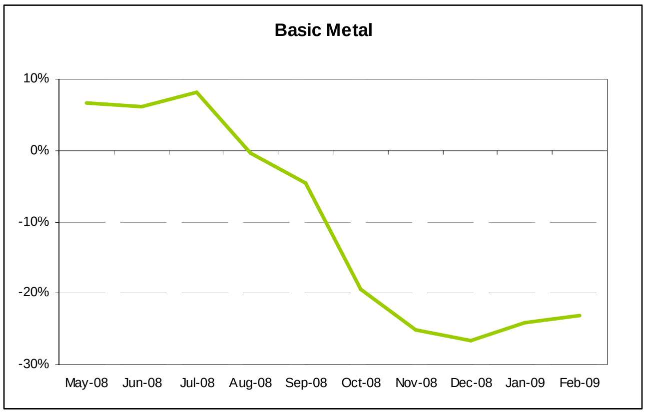
"Just Started to Improve" Sectors

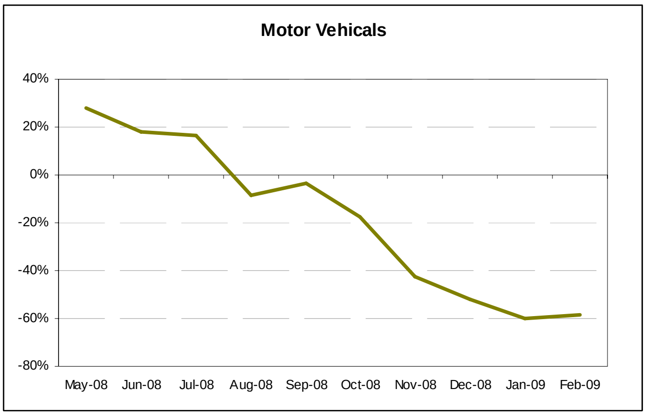












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