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October Machinery Orders

Sluggish manufacturing orders vs. firm non-manufacturing orders

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Summary

- Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; leading indicator of domestic capex) posted the first gain in three months in October (up 2.6% m/m), but short of consensus expectations (up 3.0%). On a three-month moving average basis, orders saw the second monthly slide in a row, meaning the underlying downtrend continues.

- By demand source, manufacturing orders declined for the first time in two months (down 3.6% m/m). Among manufacturing orders, a reactionary slide to the September gain was seen for those from the iron/steel industry (down 13.1%) and those from the info/communications equipment industry continued to decline (down 12.5%), decreasing overall manufacturing orders. Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities) made the third consecutive monthly gain (up 2.8%). Among non-manufacturing orders, substantial gains following lengthy stagnation were seen for those from the construction industry (up 36.2%) and leasing industry (up 102.3%), and those from the information services industry remained firm with the third consecutive gain in a row (up 23.9%), driving overall non-manufacturing orders.

- The CAO projects that machinery orders will increase 5.0% q/q, the first gain in three quarters for Oct-Dec. To meet the projection, they have to increase 6.5% m/m in both November and December, not an easy hurdle. However, they would see positive q/q growth in Oct-Dec if they increase 1.5% m/m in these two months, a feasible hurdle. Given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely begin to recover from 2013 onward.

Machinery Orders (m/m %; SA) **Chart 1**

	2011		2012									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Machinery orders (private sector)*	3.1	-2.5	0.7	2.8	-2.8	5.7	-14.8	5.6	4.6	-3.3	-4.3	**2.6**
Market consensus (Bloomberg)												**3.0**
DIR estimate												**1.5**
Manufacturing orders	2.9	-4.0	-1.3	9.5	-8.4	3.4	-8.0	-2.9	12.0	-15.1	2.8	**-3.6**
Non-manufacturing orders*	5.4	-4.0	1.4	2.1	-3.9	5.7	-6.4	2.6	-2.1	3.6	1.3	**2.8**
Overseas orders	14.1	4.1	14.6	-13.4	-14.4	0.3	0.3	-9.8	3.0	-14.7	0.0	**9.4**

Source: Cabinet Office, Bloomberg; compiled by DIR.
* excl. those for shipbuilding and from electric utilities.

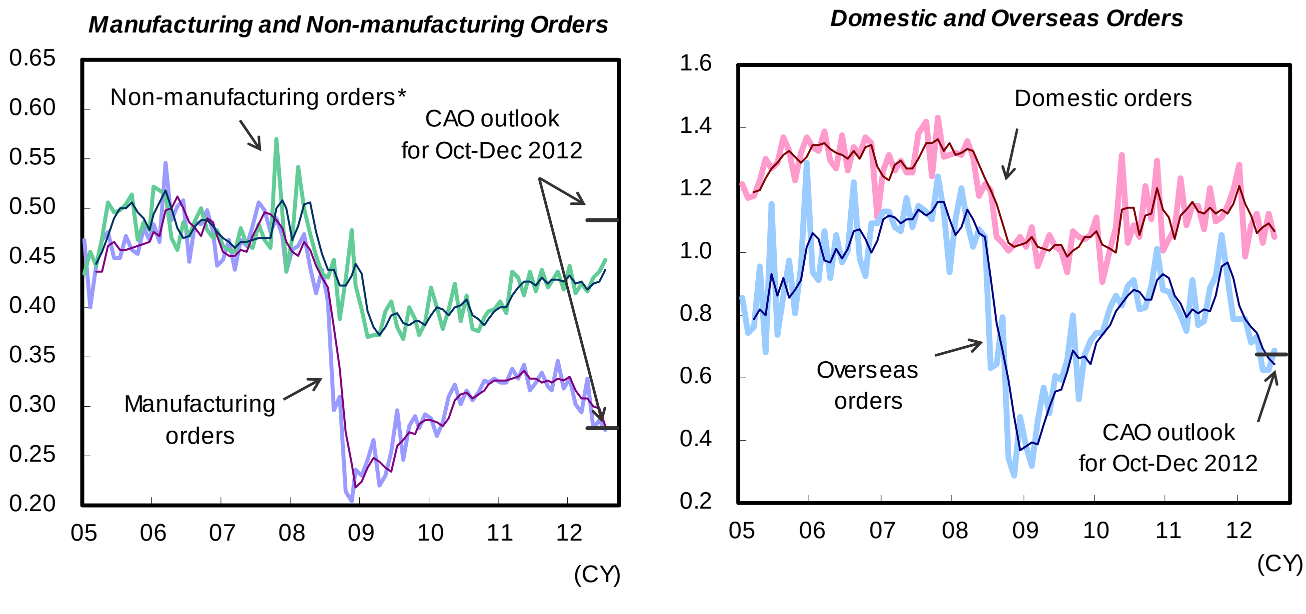
Underlying downtrend continues

Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified; leading indicator of domestic capex) posted the first gain in three months in October (up 2.6% m/m), but short of consensus expectations (up 3.0%). On a three-month moving average basis, orders saw the second monthly slide in a row, meaning the underlying downtrend continues.

Sluggish manufacturing orders vs. firm non-manufacturing orders

By demand source, manufacturing orders declined for the first time in two months (down 3.6% m/m). Among manufacturing orders, a reactionary slide to the September gain was seen for those from the iron/steel industry (down 13.1%) and those from the info/communications equipment industry continued to decline (down 12.5%), decreasing overall manufacturing orders. Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) made the third consecutive monthly gain (up 2.8%). Among non-manufacturing orders, substantial gains following lengthy stagnation were seen for those from the construction industry (up 36.2%) and leasing industry (up 102.3%), and those from the information services industry remained firm with the third consecutive gain in a row (up 23.9%), driving overall non-manufacturing orders.

Machinery Orders by Demand Source (Y tril; SA) **Chart 2**

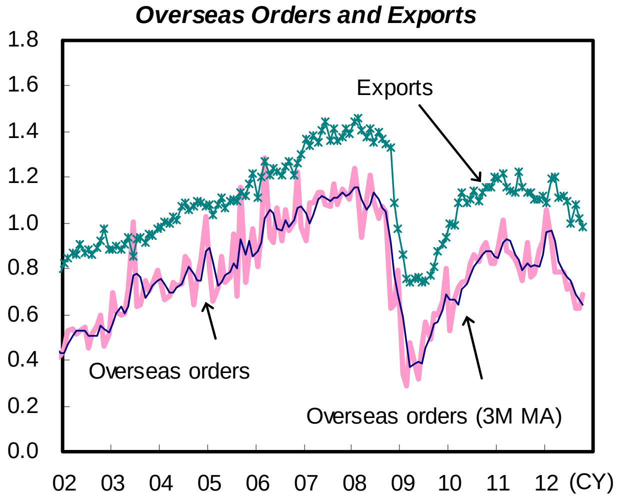


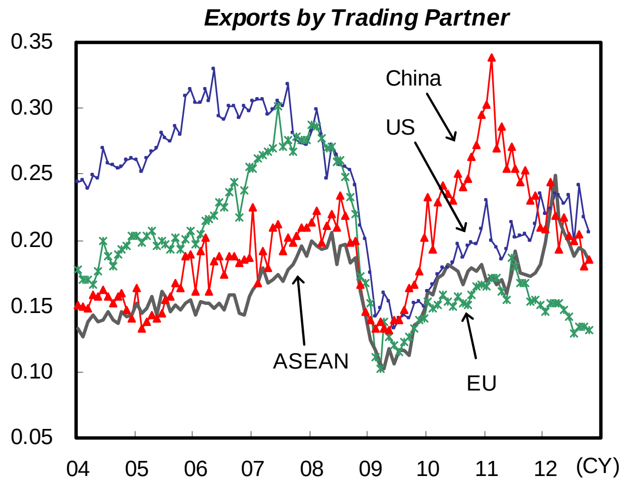
Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines and thin lines denote actual results and 3M MAs, respectively.

Surge in overseas orders, likely sign of bottoming

Overseas orders saw a significant gain (up 9.4% m/m). Although they remained at a low level, it is probable that they will break out of sluggishness, given the CAO survey projecting them to advance in Oct-Dec and China (major destination of Japanese exports) showing a sign of bottoming of the economy.

General Machinery: Overseas Orders and Exports (Y tril; SA) **Chart 3**



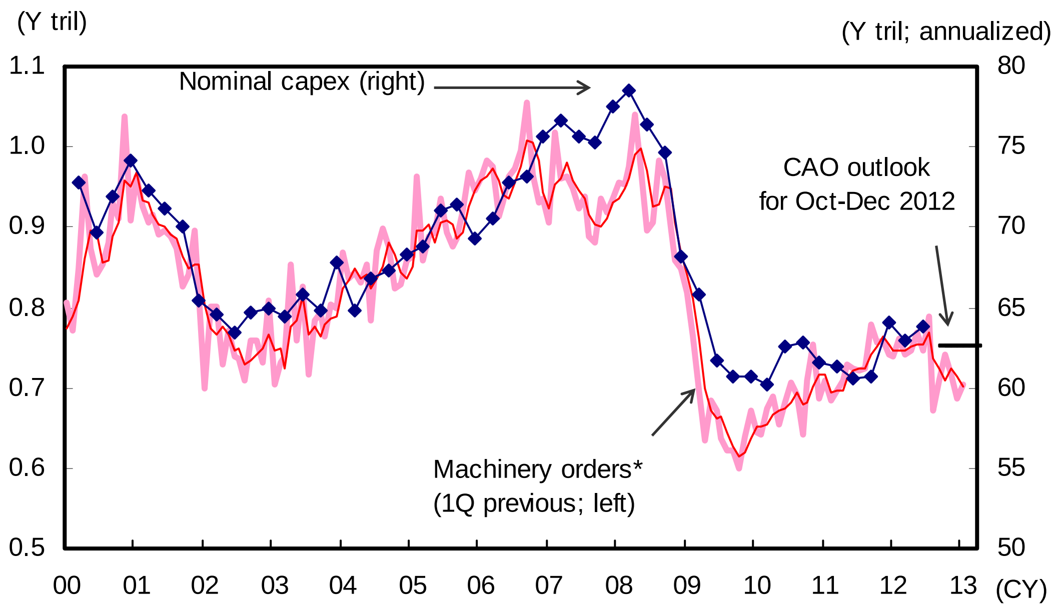


Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Note: Exports seasonally adjusted by DIR.

Non-manufacturing orders to surge in Oct-Dec

The CAO project that machinery orders will increase 5.0% q/q, the first gain in three quarters for Oct-Dec. To meet the projection, they have to increase 6.5% m/m in both November and December, not an easy hurdle. However, they would see positive q/q growth in Oct-Dec if they increase 1.5% m/m in these two months, a feasible hurdle. Given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely begin to recover from 2013 onward.

Machinery Orders and Nominal GDP-based Capex (SA) **Chart 4**



Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities; thick line and thin line denote actual result and 3M MA, respectively.