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November 2012 Machinery Orders

Domestic and overseas orders steady

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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 second monthly gain in a row in November (up 3.9% m/m), surpassing consensus expectations (up 0.3%). On a three-month moving average basis, orders saw the first gain in three months, signaling the underlying downtrend is turning around.
- By demand source, manufacturing orders increased for the first time in two months (up 3.9% m/m). Among manufacturing orders, a substantial gain for those from the pulp & paper/paper product industry likely reflected a one-time factor, which warrants some latitude. However, advances were seen for those from a wide range of industries, such as chemicals, iron & steel, general machinery, electrical machinery, and autos/auto parts. Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities) made the fourth consecutive monthly gain (up 6.2%). Among non-manufacturing orders, substantial gains were seen for those from the agriculture/forestry/fishery and financial/insurance industries, driving overall non-manufacturing orders. At the same time, those from the information services and real estate industries remained firm, both posting the third consecutive monthly gain in a row.
- The CAO projects that machinery orders will increase 5.0% q/q in Oct-Dec 2012, the first gain in three quarters. To meet the projection, they have to increase 11.5% m/m in December, not an easy hurdle. However, they would see positive q/q growth in Oct-Dec even if they decline 3.1% m/m in December, making it very likely that they will turn around to positive growth. Given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely begin to increase in Jan-Mar 2013. At the same time, other factors also suggest capex is likely to recover gradually. Such tailwind factors include the shift to a weaker yen of late and public support of private investment stipulated in a policy measure approved on 11 January by the Cabinet.

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

	2011 Dec	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Machinery orders (private sector)*	-2.5	0.7	2.8	-2.8	5.7	-14.8	5.6	4.6	-3.3	-4.3	2.6	**3.9**
Market consensus (Bloomberg)												**0.3**
DIR estimate												**-0.6**
Manufacturing orders	-4.0	-1.3	9.5	-8.4	3.4	-8.0	-2.9	12.0	-15.1	2.8	-3.6	**3.9**
Non-manufacturing orders*	-4.0	1.4	2.1	-3.9	5.7	-6.4	2.6	-2.1	3.6	1.3	2.8	**6.2**
Overseas orders	4.1	14.6	-13.4	-14.4	0.3	0.3	-9.8	3.0	-14.7	0.0	9.4	**17.0**

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

Halt to downtrend in machinery orders

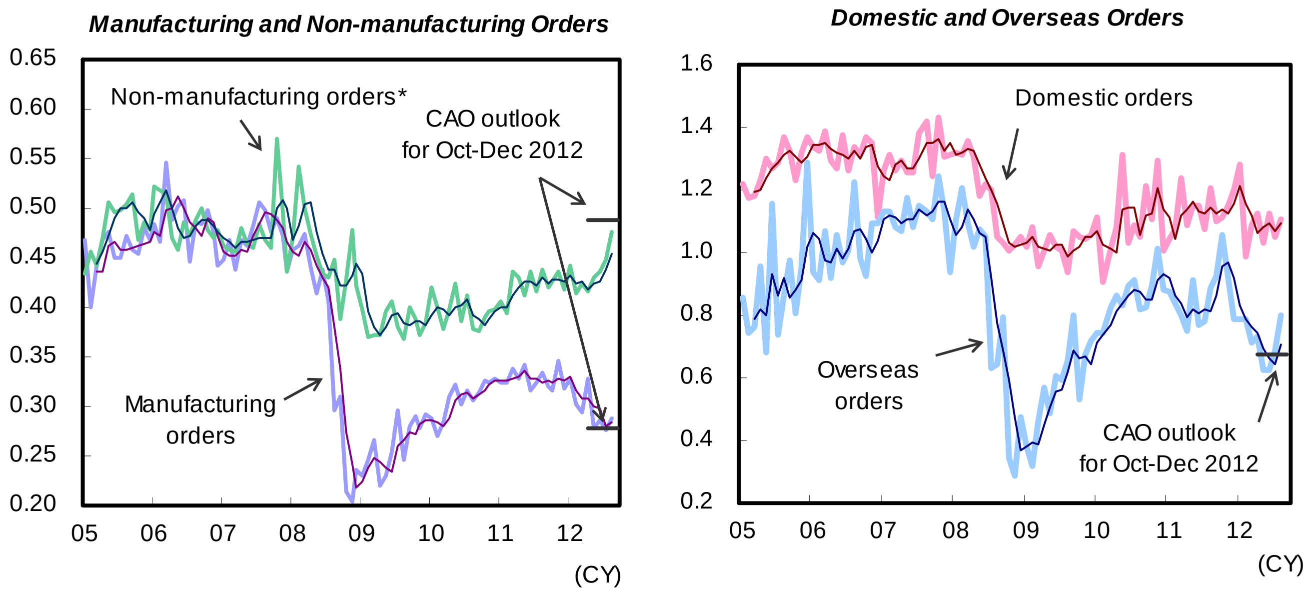
Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified; leading indicator of domestic capex) posted the second monthly gain in a row in November (up 3.9% m/m), surpassing consensus expectations (up 0.3%). On a three-month moving average basis, orders saw the first gain in three months, signaling the underlying downtrend is turning around.

Manufacturing order downtrend vs. steady non-manufacturing orders

By demand source, manufacturing orders increased for the first time in two months (up 3.9% m/m). Among manufacturing orders, a substantial gain of 336.8% for those from the pulp & paper/paper product industry likely reflected a one-time factor (large investment projects, etc), which warrants some latitude. However, advances were seen for those from a wide range of industries, such as chemicals (up 26.0%), iron & steel (up 42.3%), general machinery (up 1.9%), electrical machinery (up 3.6%), and autos/auto parts (up 12.6%). Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) made the fourth consecutive monthly gain (up 6.2%). Among non-manufacturing orders, substantial gains were seen for those from the agriculture/forestry/fishery industry (up 46.2%) and financial/insurance industry (up 29.1%), driving overall non-manufacturing orders. At the same time, those from the information services industry (up 1.5%) and real estate industry (up 26.9%) remained firm, both posting the third consecutive monthly gain in a row.

On a monthly basis, both manufacturing and non-manufacturing orders increased in November. However, on average, manufacturing orders have remained on a downtrend. In contrast, non-manufacturing orders have been on an uptrend, driving overall domestic machinery orders.

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

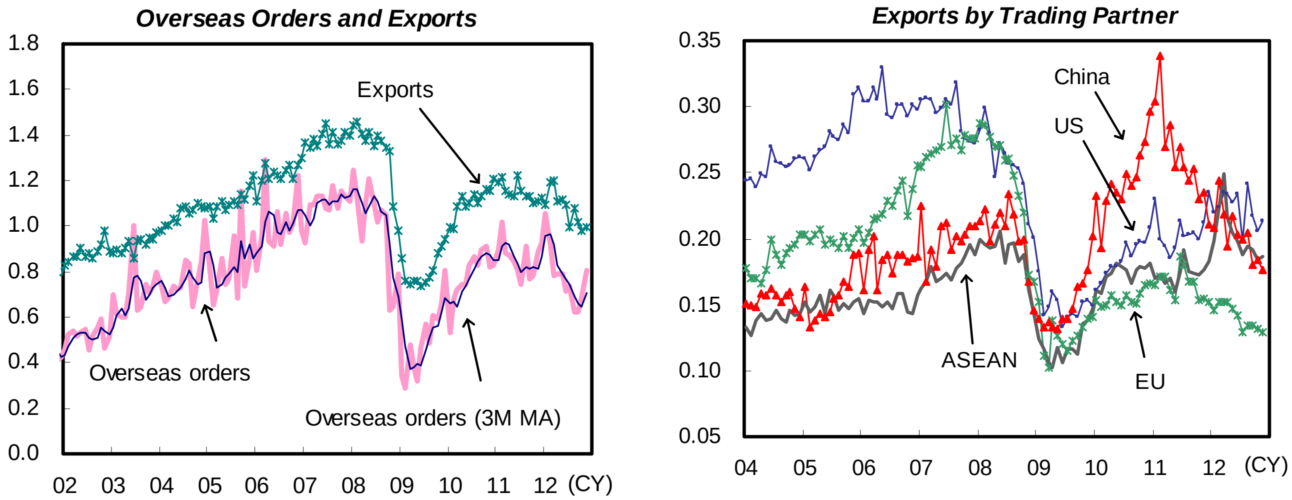


Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines and thin lines denote actual results and 3M MAs, respectively.

Overseas orders likely bottoming

Overseas orders saw a significant m/m gain (up 17.0%) and the first gain in nine months on a three-month moving average basis. They broke out of sluggishness attributable to a slowdown in the global economy. Although monthly data tends to fluctuate significantly and should warrant some latitude, given that economies in China and ASEAN (major destinations of Japanese exports) are showing signs of bottoming, overseas orders are very likely to bottom out.

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



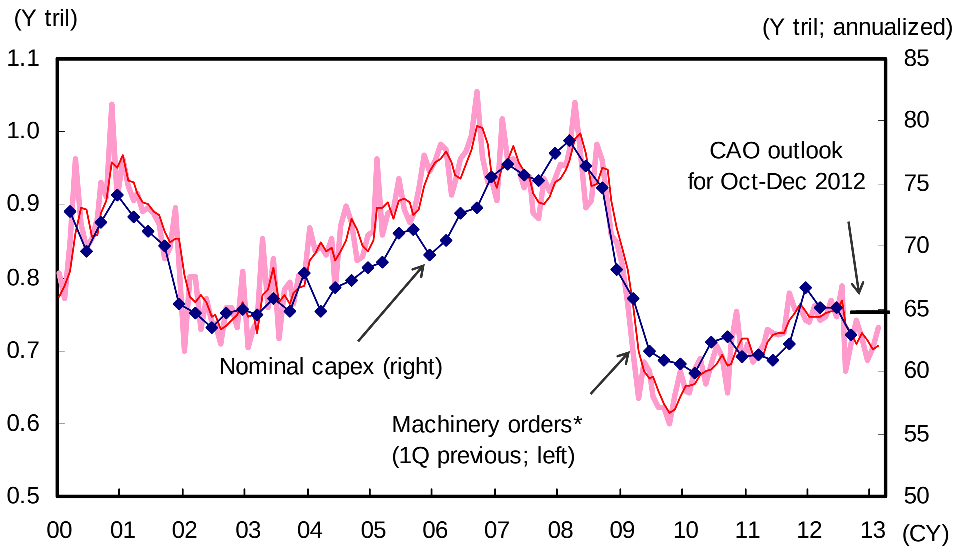
Source: Cabinet Office, Ministry of Finance; compiled by DIR.

Note: Exports seasonally adjusted by DIR.

Capex likely to increase in Jan-Mar 2013

The CAO projects that machinery orders will increase 5.0% q/q in Oct-Dec 2012, the first gain in three quarters. To meet the projection, they have to increase 11.5% m/m in December, not an easy hurdle. However, they would see positive q/q growth in Oct-Dec even if they decline 3.1% m/m in December, making it very likely that they will turn around to positive growth. Given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely begin to increase in Jan-Mar 2013. At the same time, other factors also suggest capex is likely to recover gradually. Such tailwind factors include the shift to a weaker yen of late and public support of private investment stipulated in a policy measure approved on 11 January by the Cabinet (Emergency Economic Measures for the Revitalization of the Japanese Economy).

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.