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December 2012 Machinery Orders

Orders firming up and should advance going forward

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Summary

- 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 third monthly gain in a row in December (up 2.8% m/m), much better than consensus expectations (down 0.8%). On a three-month moving average basis, orders saw the second consecutive monthly gain, confirming the underlying recovery trend. In the Oct-Dec quarter, orders increased for the first time in three quarters (up 2.0% q/q), although falling short of the CAO projection (up 5.0%).

- CAO projects that machinery orders will increase 0.8% q/q in Jan-Mar 2013, the second consecutive q/q gain. By demand source, while manufacturing orders are expected to post the fourth consecutive quarterly slide (down 0.1%), non-manufacturing orders are anticipated to increase (up 0.4%), driving overall machinery orders.

- For capex to see a full-fledged recovery, whether those by manufacturers will move toward an uptrend holds the key. Reflecting recent weakness in the yen, the profit environment surrounding manufacturing industries should have improved, providing an incentive to effect capex. Additionally, the environment surrounding capex will likely improve because of government policy measures, including tax breaks for capex in Japan. Thus, going forward, capex will probably gradually gain momentum.

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

	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Machinery orders (private sector)*	0.7	2.8	-2.8	5.7	-14.8	5.6	4.6	-3.3	-4.3	2.6	3.9	**2.8**
Market consensus (Bloomberg)												**-0.8**
DIR estimate												**-1.5**
Manufacturing orders	-1.3	9.5	-8.4	3.4	-8.0	-2.9	12.0	-15.1	2.8	-3.6	3.9	**3.0**
Non-manufacturing orders*	1.4	2.1	-3.9	5.7	-6.4	2.6	-2.1	3.6	1.3	2.8	6.2	**-8.0**
Overseas orders	14.6	-13.4	-14.4	0.3	0.3	-9.8	3.0	-14.7	0.0	9.4	17.0	**-12.6**

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

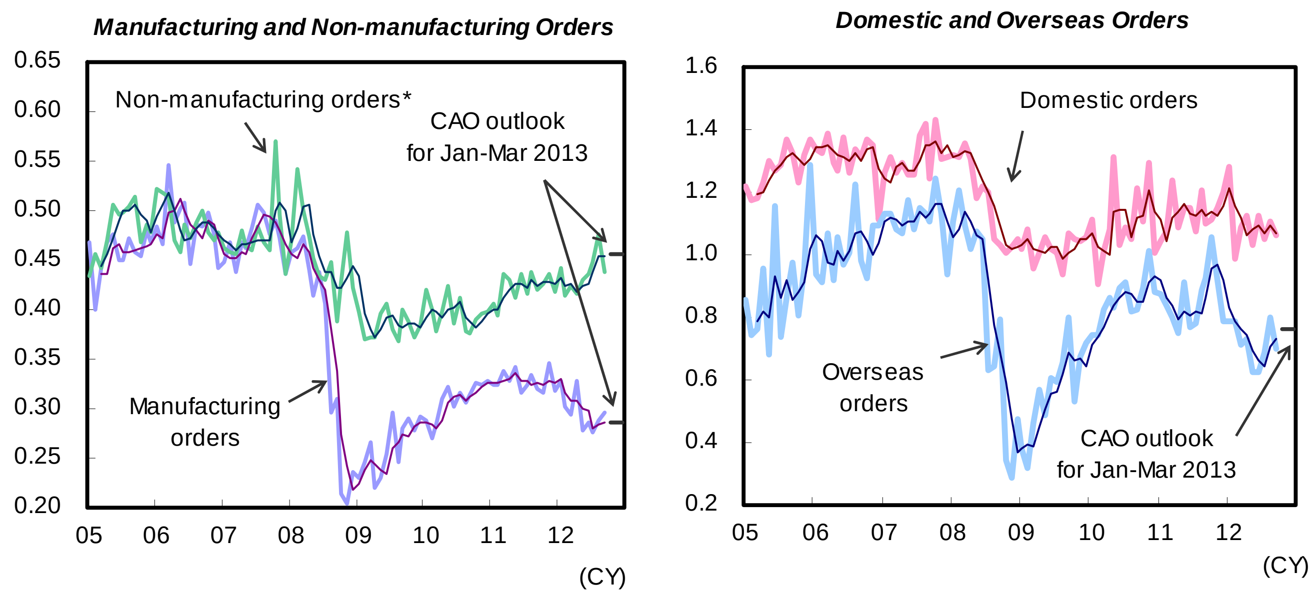
Machinery orders firming up

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 third monthly gain in a row in December (up 2.8% m/m), much better than consensus expectations (down 0.8%). On a three-month moving average basis, orders saw the second consecutive monthly gain, confirming the underlying recovery trend. In the Oct-Dec quarter, orders increased for the first time in three quarters (up 2.0% q/q), although falling short of the CAO projection (up 5.0%).

Second consecutive monthly gain in manufacturing orders vs. first slide in five months in non-manufacturing orders

By demand source, manufacturing orders increased for the second consecutive month (up 3.0% m/m). Among manufacturing orders, a reactionary slide to the previous month's boost was seen for those from the pulp & paper/paper product industry (down 56.4%). However, advances were seen for those from the chemical (up 9.5%), info/communications equipment (up 14.1%), metal product (up 30.5%), and general machinery (up 2.9%) industries, driving manufacturing orders. Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) posted the first slide in five months (down 8.0%). Among non-manufacturing orders, reactionary slides to the previous month's boosts were seen for those from the agriculture/forestry/fishery (down 35.7%) and financial/insurance (down 28.5%) industries, dragging down non-manufacturing orders. However, advances were seen for those from the construction (up 11.5%) and real estate (up 11.9%) industries, increasing for the third and fourth consecutive month, respectively. The picture suggests that non-manufacturing orders remain stable as a whole.

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

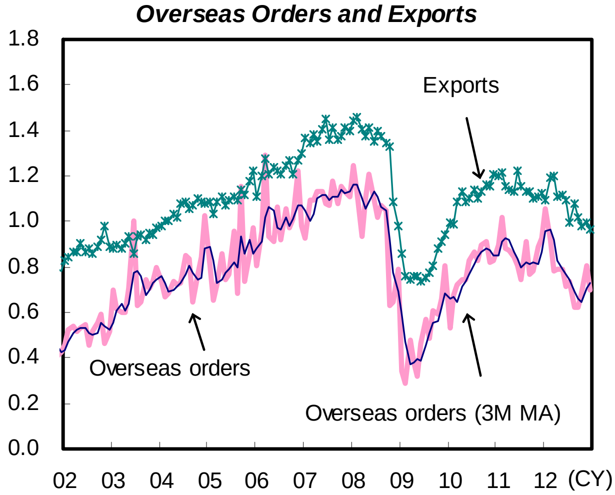


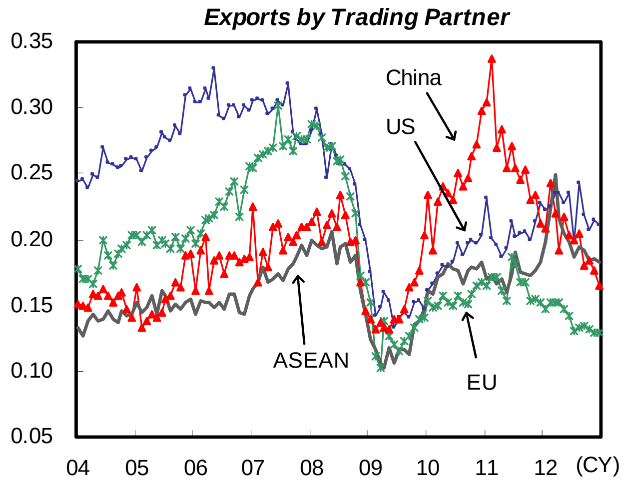
Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines and thin lines denote actual results and 3M MAs, respectively.

Overseas orders declined but recovering in general

Overseas orders declined 12.6% m/m. While the slide was substantial, they posted the second consecutive m/m gain on a three-month basis, evidencing that overseas demand has also been recovering in general. In *Trade Statistics of Japan* (Ministry of Finance), exports of general machinery have been on a downtrend. However, the economies of China and ASEAN countries, major destinations of such exports, have begun to show signs of recovery. Thus, accompanied by a likely improvement in overseas orders, general machinery exports will probably recover going forward.

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





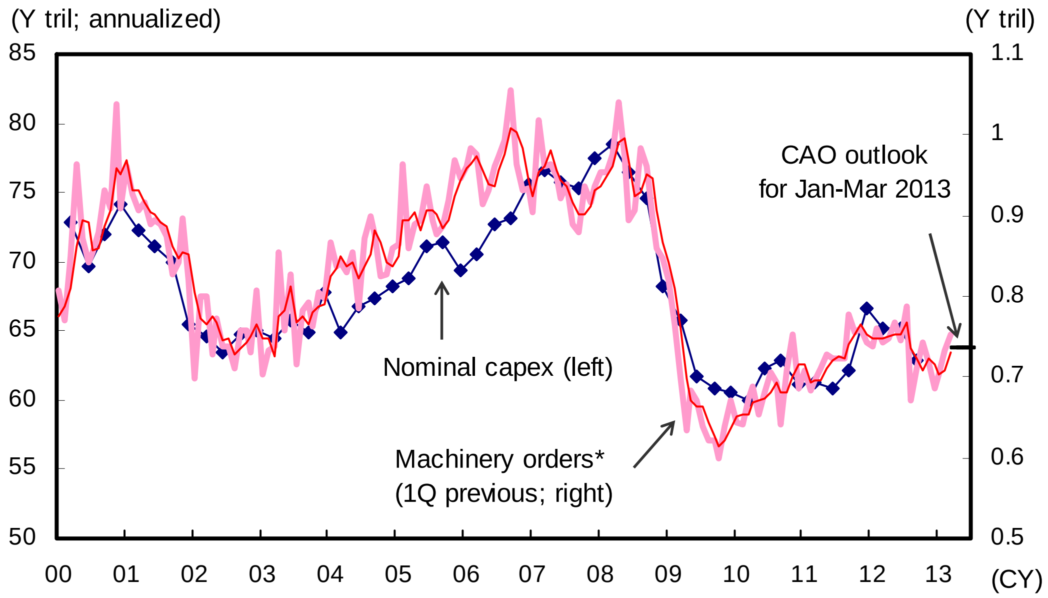
Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Note: Exports seasonally adjusted by DIR.

Second consecutive q/q growth likely in Jan-Mar 2013

CAO projects that machinery orders will increase 0.8% q/q in Jan-Mar 2013, the second consecutive q/q gain. By demand source, while manufacturing orders are expected to post the fourth consecutive quarterly slide (down 0.1%), non-manufacturing orders are anticipated to increase (up 0.4%), driving overall machinery orders. In the preliminary GDP estimate for Oct-Dec 2012 (to be released 14 Feb by CAO), capex will likely see a decline. However, given the tendency for machinery orders to lead GDP-based capex by around three months, capex is very likely to see advances in Jan-Mar and Apr-Jun 2013.

For capex to see a full-fledged recovery, whether capex by manufacturers will move toward an uptrend holds the key. Reflecting recent weakness in the yen, the profit environment surrounding manufacturing industries should have improved, providing an incentive to effect capex. Additionally, the environment surrounding capex will likely improve because of government policy measures, including tax breaks for capex in Japan. Thus, going forward, capex will probably gradually gain momentum.

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.