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January Machinery Orders

Plunge in domestic/foreign demand vs. bright signs by industry

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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 first m/m slide in four months (down 13.1%), substantially short of consensus expectations (down 1.7%). On a three-month moving average basis, orders saw the first slide in three months. However, given some bright notes among many industries, January figures should be seen as a one-off plunge amid a modest underlying recovery trend.

- By demand source, manufacturing orders posted the first m/m slide in three months (down 13.2%) and non-manufacturing orders the second consecutive m/m slide (down 6.3%). A closer look, however, reveals that orders from many industries posted increases. Thus, the underling trend should not be seen as stagnating, as indicated by overall machinery orders, and the January result reflects one-off volatility.

- Corporate earnings, centering on manufacturers, have improved, reflecting the recent weakness in the yen. Meanwhile, industrial production has been on an uptrend since November 2012. Thus, capex will very likely move toward an uptrend, albeit possibly stagnating for a while due to an expected slide in machinery orders in Jan-Mar 2013.

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

	2012											2013
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Machinery orders (private sector)*	2.8	-2.8	5.7	-14.8	5.6	4.6	-3.3	-4.3	2.6	3.9	2.8	-13.1
Market consensus (Bloomberg)												-1.7
DIR estimate												-2.8
Manufacturing orders	9.5	-8.4	3.4	-8.0	-2.9	12.0	-15.1	2.8	-3.6	3.9	3.0	-13.2
Non-manufacturing orders*	2.1	-3.9	5.7	-6.4	2.6	-2.1	3.6	1.3	2.8	6.2	-8.0	-6.3
Overseas orders	-13.4	-14.4	0.3	0.3	-9.8	3.0	-14.7	0.0	9.4	17.0	-12.6	-4.8

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

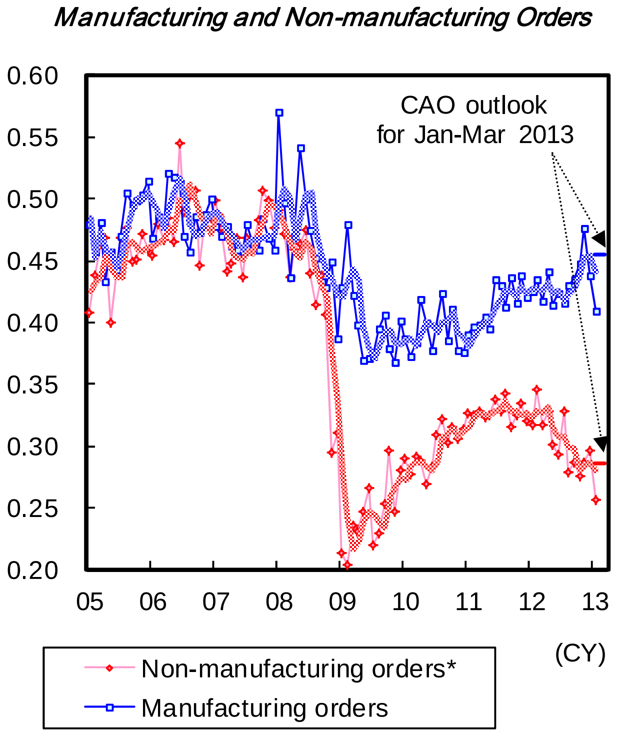
Sharp slides in four months

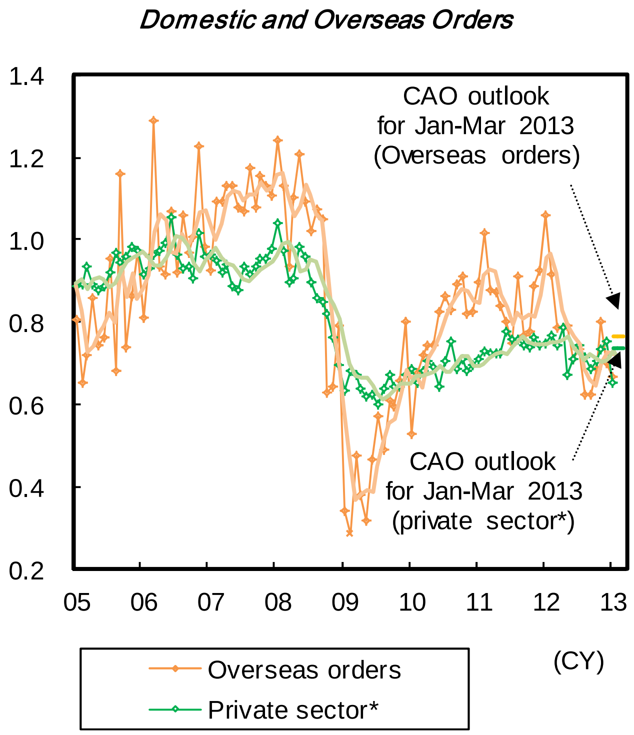
Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified; leading indicator of domestic capex) posted the first m/m slide in four months (down 13.1%), substantially short of consensus expectations (down 1.7%). On a three-month moving average basis, orders saw the first slide in three months. However, given some bright notes among many industries, January figures should be seen as a one-off plunge amid a modest underlying recovery trend.

First slide in three months in manufacturing orders vs. second consecutive monthly slide in non-manufacturing orders

By demand source, manufacturing orders posted the first m/m slide in three months (down 13.2%). A plunge was seen for orders from such industries as “other” manufacturing (down 28.0%), chemicals (down 25.8%), and electrical machinery (down 13.5%), dragging down overall manufacturing orders. However, encouraging signs were seen as well—orders from the pulp & paper/paper product industry saw a reactionary boost (up 48.6%) to the previous month’s slide, while those from the auto/auto parts industry accelerated the pace of recovery (up 24.8%).

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: Thin lines and thick lines denote actual results and 3M MAs, respectively.

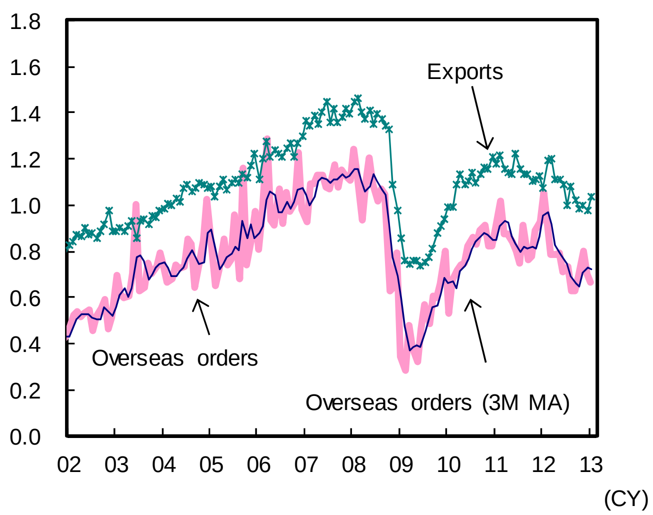
Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) posted the second consecutive m/m slide (down 6.3%). Orders from the communication service industry posted the second monthly slide in a row (down 7.4%) and those from the real estate industry turned to negative growth (down 36.8%) following recent successive advances, dragging down overall non-manufacturing orders. However, those from the agriculture/forestry/fishery (up 27.6%) and transportation/postal service (up 27.6%) industries posted reactionary gains to the previous month's slides, cancelling out negative impact on non-manufacturing orders to some extent.

Looking more closely, however, reveals that orders from many industries posted increases. Thus, the underling trend should not be seen as stagnating as indicated by overall machinery orders, and the January result reflects one-off volatility.

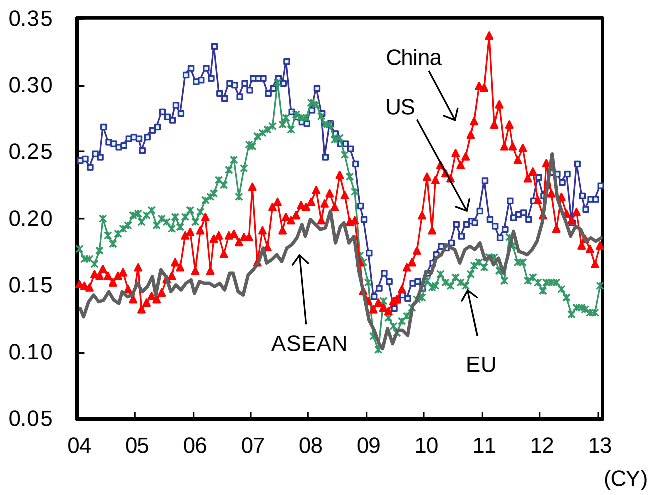
Time needed before overseas demand sees full-fledged recovery

Overseas orders declined m/m (down 4.8%), following previous month's plunge, and posting the second monthly slide in a row. On a three-month moving average basis, they saw the first slide in three months (down 0.8%). This was seen against the background that the economies of China and ASEAN countries, major destinations of Japan's exports, appear to have bottomed out, and that a shift to a weaker yen has progressed. Thus, it will take some time before overseas orders see a full-fledged recovery.

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



General Machinery: Exports by Trading Partner
(Y tirl; SA) **Chart 4**



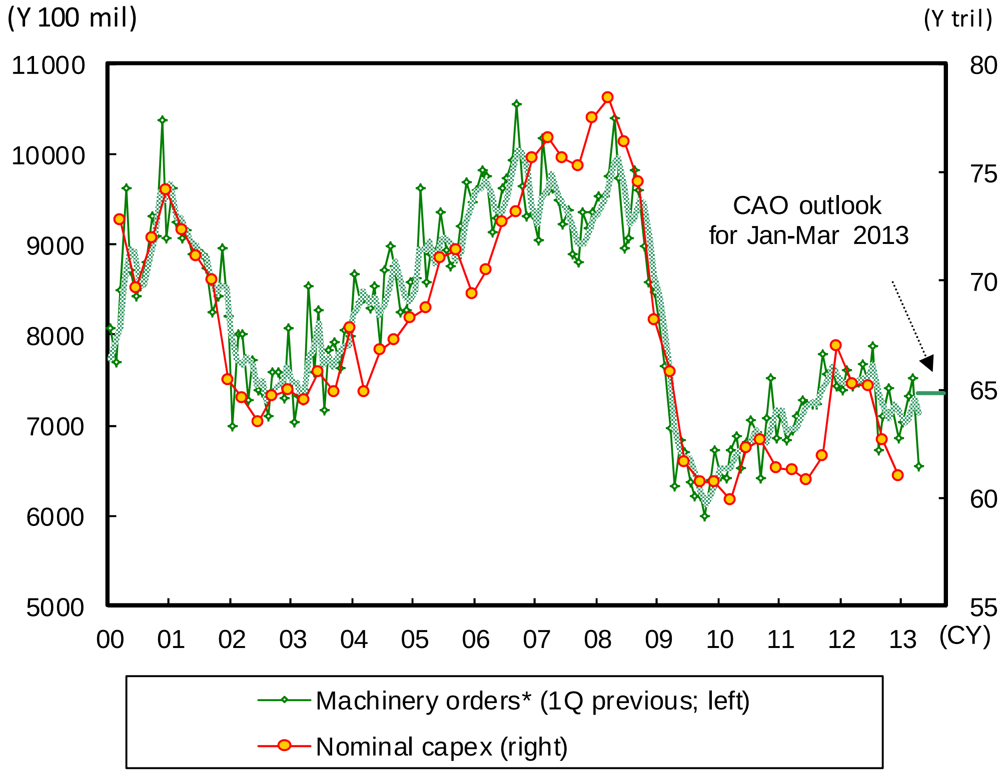
Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Note: Exports seasonally adjusted by DIR.

Capex to see moderate recovery from 2H 2013

CAO projects that machinery orders will increase 0.8% q/q in Jan-Mar 2013, the second consecutive q/q gain. If orders meet the projection or post a positive q/q figure, they have to increase 12.0% or 11.2% m/m, respectively, for both February and March, a high hurdle to clear. Therefore, Jan-March will likely see the first q/q slide in two quarters.

Factoring in that machinery orders turned to positive growth in Oct-Dec 2012, and given the tendency for machinery orders to lead GDP-based capex by around three months, capex is very likely to turn to an increase in Jan-Mar 2013. Currently, corporate earnings, centering on manufacturers, have improved, reflecting the recent weakness in the yen. In addition, industrial production turned to an uptrend in November 2012. Thus, capex will very likely move toward an uptrend, albeit possibly stagnating for a while due to an expected slide in machinery orders in Jan-Mar 2013.

Machinery Orders and Nominal GDP-based Capex (SA) — Chart 5



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