17 May 2013 (No. of pages: 4)

Japanese report: 17 May 2013

March Machinery Orders

Projection for higher manufacturing orders a signal for capex advance?

Economic Research Dept
Tsutomu Saito

Summary

- Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) posted the second consecutive m/m gain in March (up 14.2%), substantially overshooting consensus expectations (up 3.5%).

- By demand source, manufacturing orders posted the second consecutive m/m gain (up 13.3%) and non-manufacturing orders also posted the second consecutive m/m gain (up 14.3%). A rise was seen for orders from assembling industries, and those from the construction industry continued to advance, thanks to increased public works projects, pushing up overall machinery orders.

- Overseas orders posted the second consecutive m/m gain (up 52.1%). While the boost could be a result of one-off large-scale orders, we believe overseas orders have been on a moderate uptrend.

- CAO projects that machinery orders will decline 1.5% q/q in Apr-Jun 2013 for the fifth consecutive quarter. However, manufacturing orders are projected to increase for the first time in seven quarters (up 0.8%), indicating that corporate stance may change to a positive direction on capex, centering on export industries. Indeed, exports increased, earnings improved, and domestic demand recovered steadily, meaning the capex environment has already begun to improve, which will, in turn, lead to a steady recovery in domestic and foreign demand. As such, machinery orders will likely gradually move toward an uptrend in mid-2013 and beyond.

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

	2012									2013		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Machinery orders (private sector)*	2.6	-7.1	1.4	1.7	-1.0	-2.4	-0.8	3.8	-1.3	-7.5	4.2	14.2
Market consensus (Bloomberg)												3.5
DIR estimate												2.3
Manufacturing orders	2.2	-4.1	-3.4	6.1	-6.2	-3.0	-2.7	1.8	1.0	-10.0	4.9	13.3
Non-manufacturing orders*	3.4	-3.5	1.5	-1.8	2.3	0.8	2.7	6.4	-7.8	-4.5	0.3	14.3
Overseas orders	-0.4	-2.3	-4.5	0.1	-12.1	3.6	0.5	11.8	-8.3	-3.7	1.0	52.1

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

Boost for overall orders

Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) posted the second consecutive m/m gain in March (up 14.2%), substantially overshooting consensus expectations (up 3.5%). In the forecast figures released along with the March figures, CAO projects that overall orders will decline 1.5% q/q in Apr-Jun 2013 for the fifth consecutive quarter. However, this does not warrant an overly pessimistic view going forward, as manufacturing orders are projected to increase for the first time in seven quarters.

Manufacturing/non-manufacturing orders saw second consecutive m/m gains

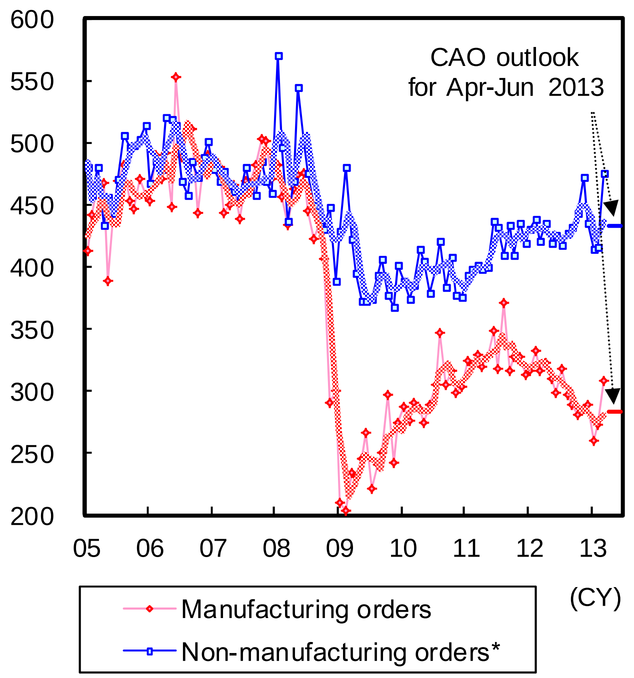
By demand source, manufacturing orders posted the second consecutive m/m gain (up 13.3%). A rise was seen for orders from assembling industries—general machinery (up 13.3%), info/communications equipment (up 25.9%), and automobiles/auto parts (up 10.4%)—as well as a surge for those from petroleum/coal products (up 237.3%), pushing up overall manufacturing orders.

Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) also posted the second consecutive m/m gain (up 14.3%). Orders from the construction industry posted the sixth m/m gain in a row (up 5.6%), accompanying increased public works projects. At the same time, boosts were seen for those from the financial/insurance industry (up 54.2%) and info/communication services (up 18.0%).

Uptrend for orders for industrial machinery continues

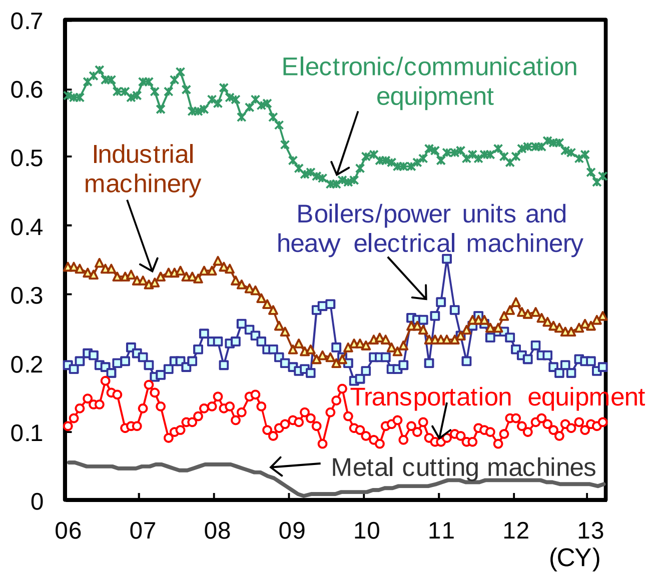
By type of machinery, orders for industrial machinery continued to advance on the back of increased public works projects. As effects of the FY12 supplementary budget have permeated, public works projects are likely to accelerate in April and beyond. Thus, orders for construction machinery will likely continue to increase for the time being.

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



Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

Orders by Machine Type (Y tril; SA) **Chart 3**



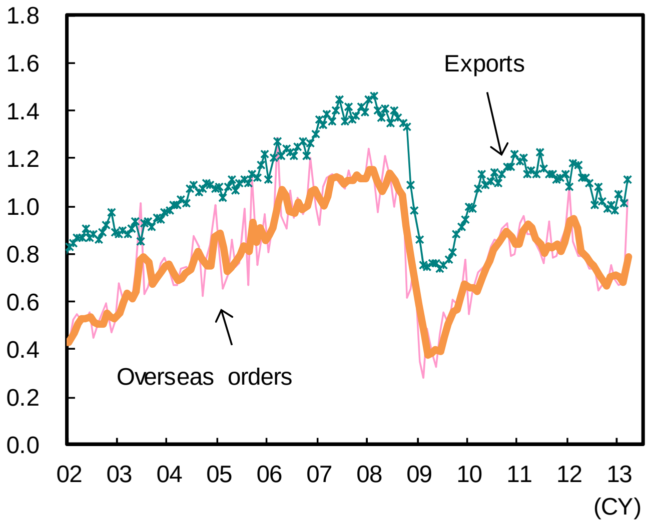
Source: Cabinet Office; compiled by DIR.
Notes: 1) 3MMA basis.
2) SA by DIR.

Overseas demand also saw second consecutive m/m gain

Overseas orders also posted the second consecutive m/m gain (up 52.1%). While the boost could be a result of one-off large-scale orders, we believe overseas orders have been on a moderate uptrend.

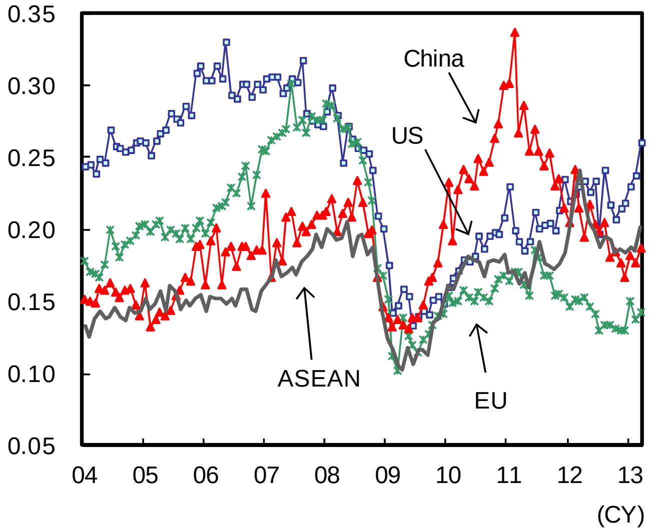
Looking at exports of general machinery, prominent increases were seen for such exports to the US, China, and ASEAN, where economies are showing signs of recovery, meaning production will likely increase and spur demand for industrial and other machinery. Considering the ongoing shift to a weaker yen, overseas orders will likely continue to increase going forward.

General Machinery: Overseas Orders and Exports
(Y tril; SA) **Chart 4**



Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Notes: 1) Exports seasonally adjusted by DIR.
2) Thick line for overseas orders 3MMA basis.

General Machinery: Exports by Trading Partner
(Y tril; SA) **Chart 5**



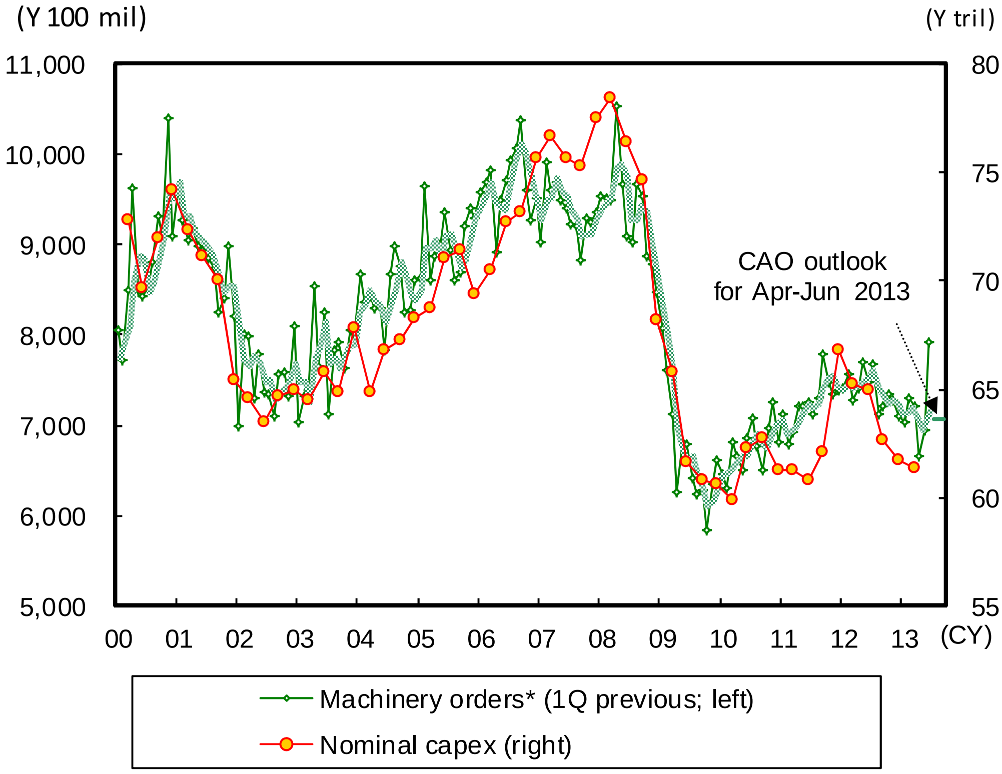
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

First gain in seven quarters projected for manufacturing orders

CAO projects that machinery orders will decline 1.5% q/q in Apr-Jun 2013 for the fifth consecutive quarter. However, manufacturing orders are projected to increase for the first time in seven quarters (up 0.8%), indicating that corporate stance may begin to change to a positive direction on capex, centering on export industries.

Indeed, exports increased, earnings improved, and domestic demand recovered steadily, meaning the capex environment has already begun to improve, which will, in turn, lead to a steady recovery in domestic and foreign demand. As such, machinery orders will likely gradually move toward an uptrend in mid-2013 and beyond.

Machinery Orders and Nominal GDP-based Capex (SA) **Chart 6**



Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities; thick line 3MMA basis.