

13 August 2013 (No. of pages: 4)

Japanese report: 13 Aug 2013

# June Machinery Orders

**Advance of 6.8% q/q in overall orders in Apr-Jun; non-manufacturing orders treading water**

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) declined 2.7% m/m in June, the first slide in two months but narrower than consensus expectations (down 7.0%). As a result, Apr-Jun orders increased 6.8% q/q, the first gain in five quarters.
- By demand source, manufacturing orders posted the second consecutive monthly gain (up 2.4% m/m), but non-manufacturing orders posted the first slide in two months (down 17.5%). The former were driven by advances in those from electrical machinery and automobile/auto parts industries. In the case of the latter, in addition to reactionary declines to the previous month's surges, slides were seen for those from the construction industry and wholesaling/retailing firms.
- Overseas orders declined 16.7%, the first slide in two months. They have seen significant volatility recently. However, looking at exports of general machinery, those to the US remained firm and those to China began to signal a bottoming out. Thus, overseas orders will likely continue to grow.
- As a whole, machinery orders continue to recover. CAO released a projection that machinery orders would decline 5.3% q/q in Jul-Sep 2013, the first slide in two quarters. This would transpire only if they decline 3.3% m/m in each month from July to September. However, even if they decline 0.6% in each month, they would post the second consecutive q/q gain in Jul-Sep, a very likely scenario.

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

**Chart 1**

	2012					2013							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Machinery orders (private sector)*	1.7	-1.0	-2.4	-0.8	3.8	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	
Market consensus (Bloomberg)												-7.0	
DIR estimate												-3.5	
Manufacturing orders	6.1	-6.2	-3.0	-2.7	1.8	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	
Non-manufacturing orders*	-1.8	2.3	0.8	2.7	6.4	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	
Overseas orders	0.1	-12.1	3.6	0.5	11.8	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	

Source: Cabinet Office, Bloomberg; compiled by DIR.

\* excl. those for shipbuilding and from electric utilities.

## Minor slide in June

Machinery orders (CAO; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) declined 2.7% m/m in June, the first slide in two months but narrower than consensus expectations (down 7.0%). As a result, the Apr-Jun orders increased 6.8% q/q, the first gain in five quarters.

## Advance in manufacturing orders for second consecutive month vs. slide in non-manufacturing orders in reaction to previous month

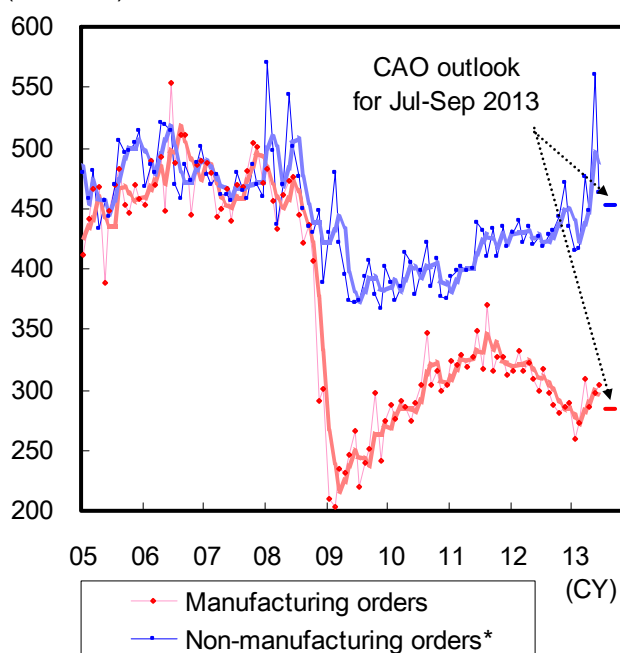
By demand source, manufacturing orders increased 2.4% m/m, the second consecutive monthly gain, driven by advances in those from electrical machinery makers (up 39.8%) and automobile/auto parts firms (up 13.8%). Meanwhile, reactionary slides to the previous month's surges were seen for those from the general machinery and chemicals industries.

Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) declined 17.5% m/m, the first monthly slide in two months. Behind this were plunges in those from the financial/insurance industry and transportation/postal services. However, this was in reaction to the previous month's surges. Thus, the June result was not as bad as at first glance. However, those from the construction industry posted the first m/m slide in nine months, while those from wholesaling/retailing firms saw the first decline in six months, an unfavorable development. Furthermore, those from a wide range of industries posted slides, signaling a halt of the uptrend in non-manufacturing orders in general.

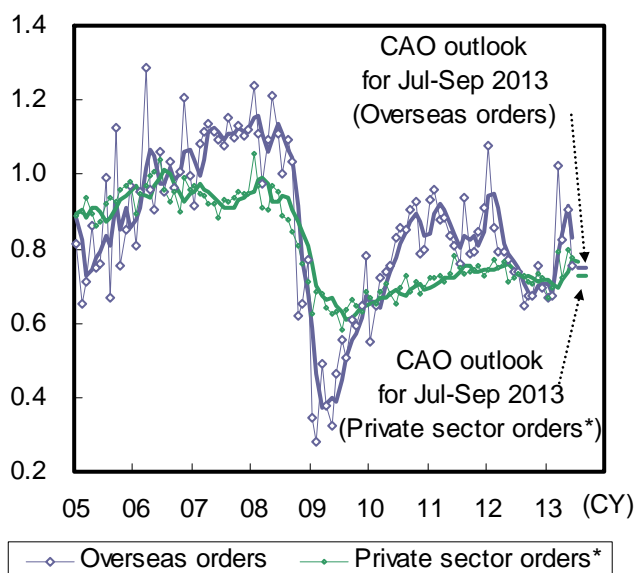
Orders by Demand Source

Chart 2

(Y bil; SA)



(Y tril; SA)



Source: Cabinet Office (CAO); compiled by DIR.

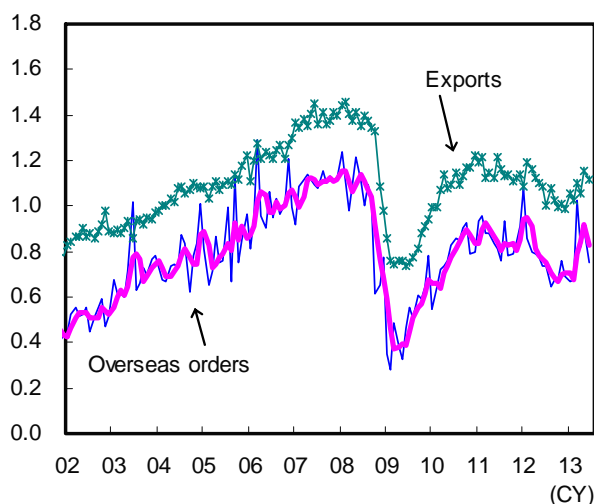
\* excl. those for shipbuilding and from electric utilities.

Note: Thick lines 3MMA basis.

## First slide in two months in overseas orders as well

Overseas orders declined 16.7% m/m, the first monthly slide in two months. Overseas orders have seen significant volatility recently. However, looking at exports of general machinery, those to the US remained firm and those to China began to signal a bottoming out. Thus, overseas orders will likely continue to grow.

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

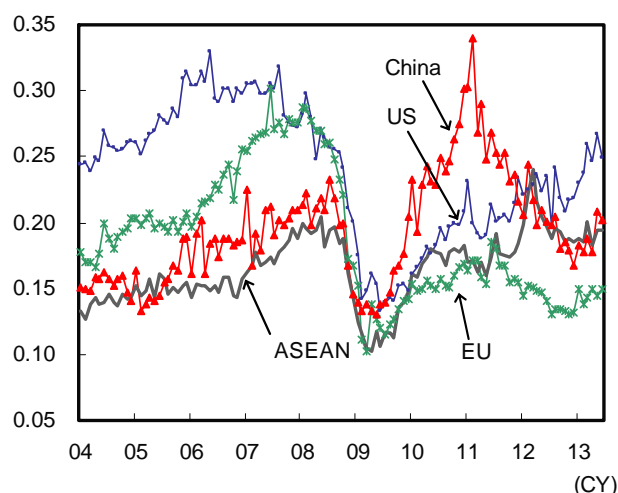


Source: Cabinet Office, Ministry of Finance; compiled by DIR.

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 4**



Source: Ministry of Finance; compiled by DIR.

Note: SA by DIR.

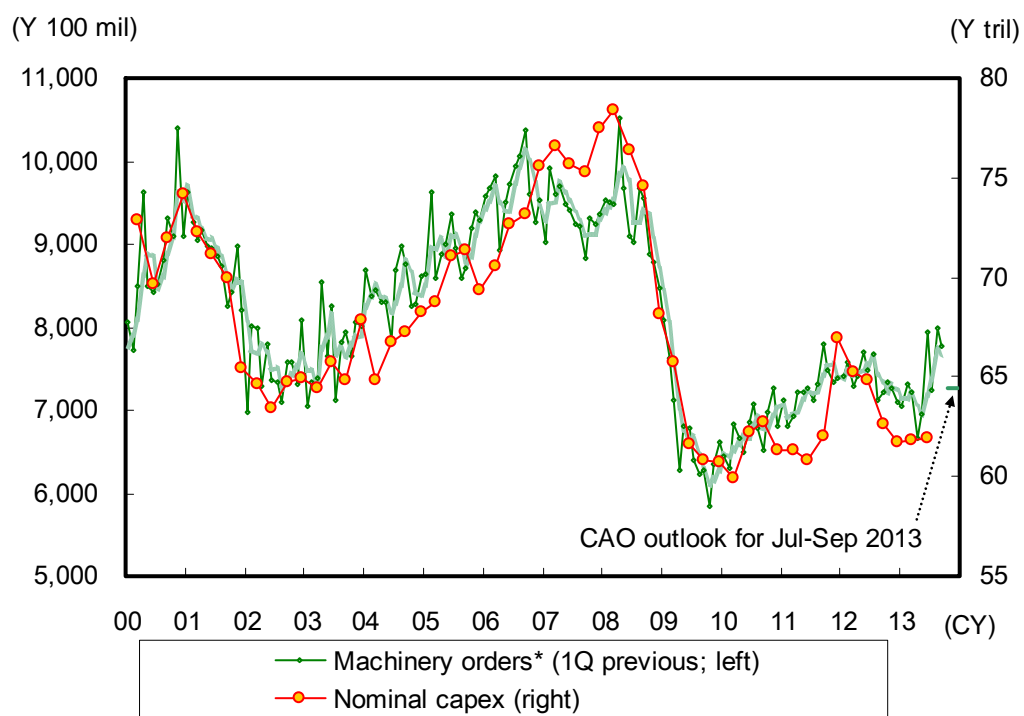
## Despite CAO projection of slide, second consecutive q/q gain likely in Jul-Sep

As a whole, machinery orders continue to recover. CAO released a projection that machinery orders would decline 5.3% q/q in Jul-Sep 2013, the first slide in two quarters. This would transpire only if they decline 3.3% m/m in each month from July to September. However, even if they decline 0.6% in each month, they would post the second consecutive q/q gain in Jul-Sep, a very likely scenario. However, given that non-manufacturing orders began treading water, capex by manufacturers will likely determine machinery order trends.

While machinery order trends tend to lead GDP-based capex by around three months, such capex saw the sixth consecutive quarterly slide in Apr-Jun (down 0.1% q/q), but a turnaround is expected in Jul-Sep.

## Machinery Orders and Nominal Capex (SA)

Chart 5



Source: Cabinet Office (CAO); compiled by DIR.

\*excl. those for shipbuilding and from electric utilities; thick line 3MMA basis.