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July Machinery Orders

Short of expectations but favorable overall

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Summary

- Machinery orders (CAO; private sector excl. those for shipbuilding and from electric utilities) saw the second consecutive m/m decline in July (down 0.0%) and short of consensus expectations (up 2.4%). However, they saw the first gain in two months on a three-month moving average basis, confirming the underlying uptrend continues.

- By demand source, manufacturing orders increased 4.8% m/m, the third consecutive monthly gain, driven by advances in those from materials industries—pulp/paper/paper products (up 993.2%) and nonferrous metals (up 202.0%). However, this was due to multiple midsize projects (Y1-10 bil) taking place at a same time. Thus, it should be discounted to some extent. Non-manufacturing orders (excl. those for shipbuilding and from electric utilities) saw the first m/m gain in two months (up 0.0%).

- Overseas orders saw the first m/m gain in two months (up 1.4%). However, this was somewhat disappointing, factoring in a plunge in June. Nevertheless, looking at exports of general machinery in the Trade Statistics (Ministry of Finance), those to the EU and China began to signal a bottoming out. Thus, overseas orders will likely continue to grow.

- As a whole, machinery orders continue to recover. While CAO projects a decline of 5.3% q/q for machinery orders in Jul-Sep 2013, the first slide in two quarters, this would transpire if they decline 6.7% m/m in both August and September. If they decline 1.3% in each month, they would post the second consecutive q/q gain in Jul-Sep, an easy hurdle to clear. We believe the second consecutive quarterly advance is a very likely scenario.

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

	2012					2013						
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Machinery orders (private sector)*	-1.0	-2.4	-0.8	3.8	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	-0.0
Market consensus (Bloomberg)												2.4
DIR estimate												3.1
Manufacturing orders	-6.2	-3.0	-2.7	1.8	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	4.8
Non-manufacturing orders*	2.3	0.8	2.7	6.4	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	0.0
Overseas orders	-12.1	3.6	0.5	11.8	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	1.4

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

Minor decline in July

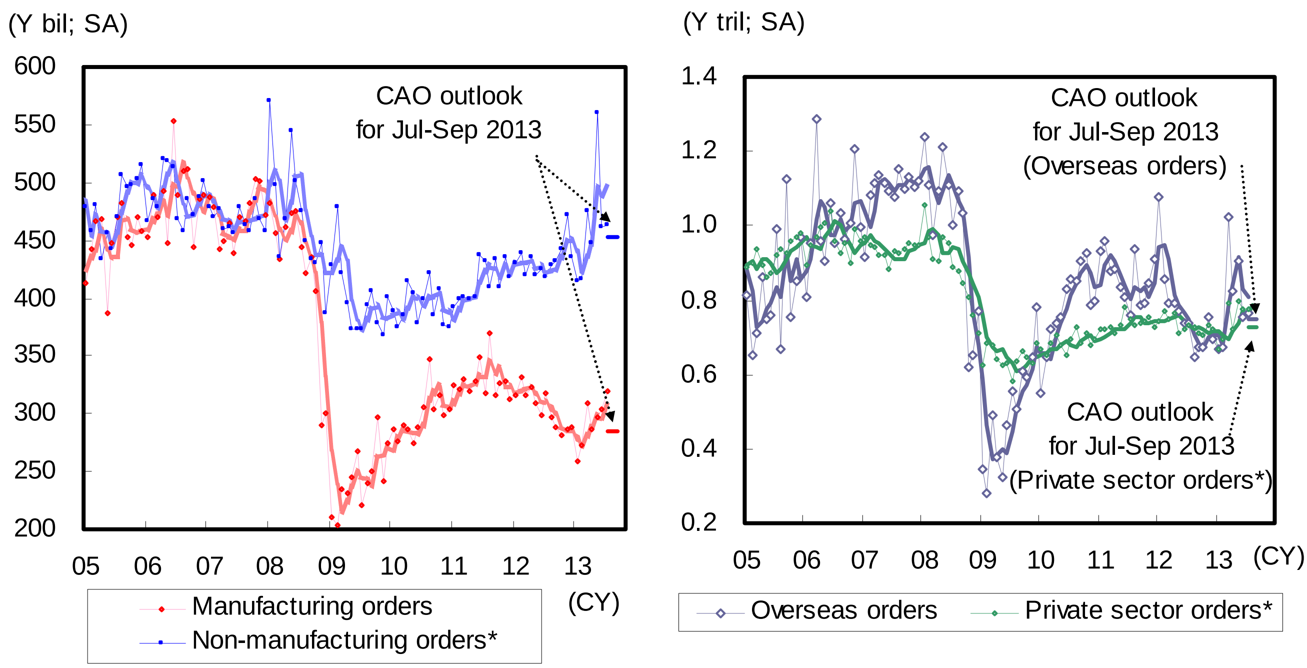
Machinery orders (CAO; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the second consecutive m/m decline in July (down 0.0%) and short of consensus expectations (up 2.4%). However, they saw the first gain in two months on a three-month moving average basis, confirming the underlying uptrend continues.

Manufacturing orders favorable, excl. one-time effect

By demand source, manufacturing orders increased 4.8% m/m, the third consecutive monthly gain, driven by advances in those from materials industries—pulp/paper/paper products (up 993.2%) and nonferrous metals (up 202.0%). However, this was due to multiple midsize projects (Y1-10 bil) taking place at a same time. Thus, it should be discounted to some extent. With regard to other materials industries, those from chemicals makers declined for the second consecutive month (down 15.2%) but those from iron/steel makers surged (up 85.4%). On the assembling industry side, advances were seen following surges in June for those from electrical machinery makers (Jul: up 6.1%; Jun: up 39.8%) and precision instrument firms (Jul: up 18.8%; Jun: up 32.0%), favorable figures. If factoring in one-time effects, manufacturing orders were favorable overall.

Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first m/m gain in two months (up 0.0%). Gains were seen for those from communications (up 20.4%) and information services (up 27.6%), while second consecutive plunges were seen for those from transportation/postal services (down 12.3%) and the financial/insurance industry (down 10.7%).

Orders by Demand Source **Chart 2**

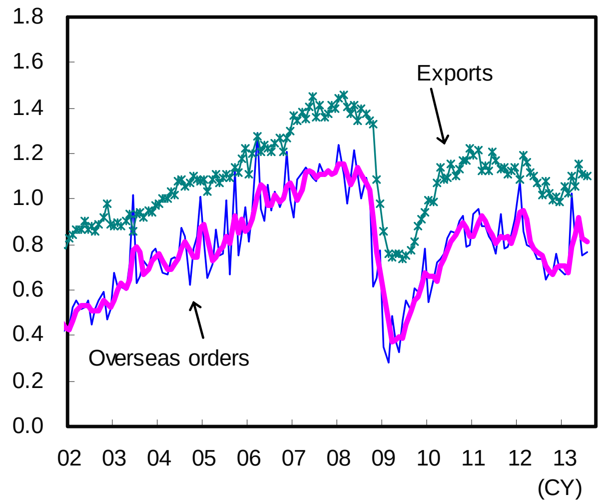


Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

First gain in two months in overseas orders

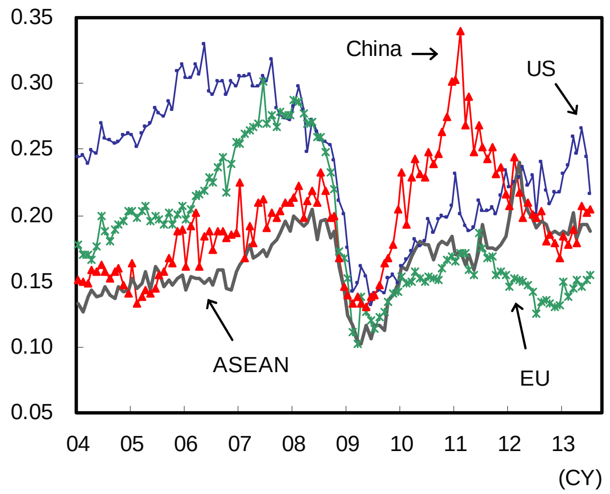
Overseas orders saw the first m/m gain in two months (up 1.4%). However, this was somewhat disappointing, factoring in the plunge in June. Nevertheless, looking at exports of general machinery in the Trade Statistics (Ministry of Finance), those to the EU and China began to signal a bottoming out. Thus, overseas orders will likely continue to grow.

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



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 Chart 4
(Y tril; SA)

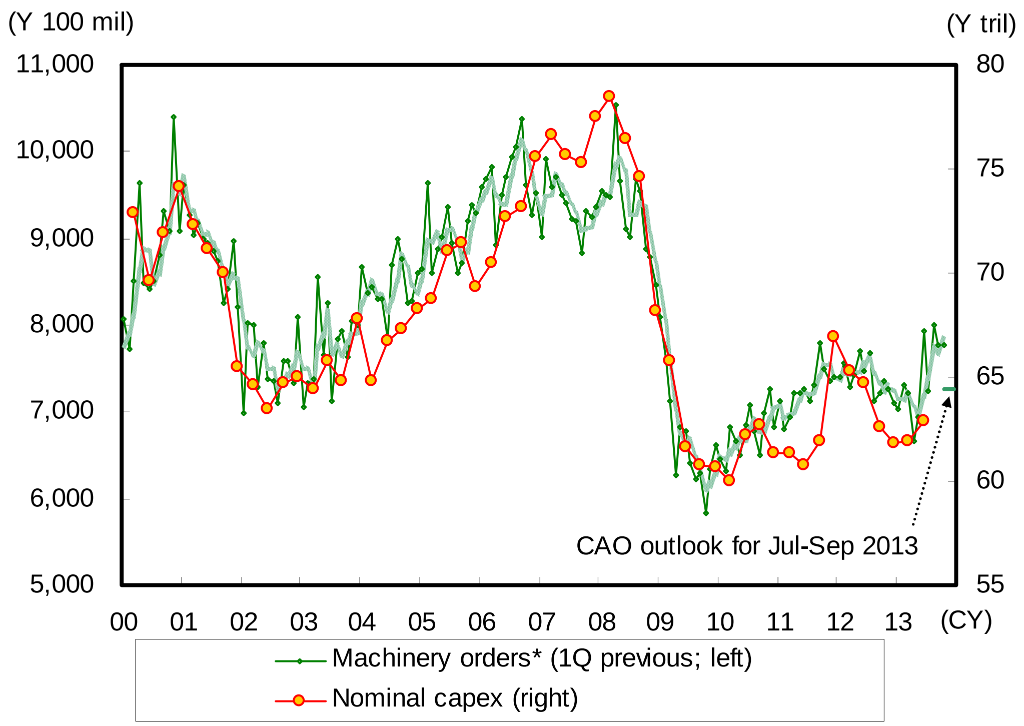


Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Second consecutive q/q gain likely in Jul-Sep

As a whole, machinery orders continue to recover. While CAO projects a decline of 5.3% q/q for machinery orders in Jul-Sep 2013, the first slide in two quarters, this would transpire if they decline 6.7% m/m in both August and September. If they decline 1.3% in each month, they would post the second consecutive q/q gain in Jul-Sep, an easy hurdle to clear. We believe the second consecutive quarterly advance is a very likely scenario. In addition, given that GDP-based capex tends to lead machinery orders by around three months, machinery orders are likely to maintain the ongoing uptrend in Jul-Sep and beyond.

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.