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August Machinery Orders

Non-manufacturing orders favorable

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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) saw the first m/m gain in three months in August (up 5.4%), overshooting consensus expectations (up 2.5%). They saw the second consecutive monthly gain on a three-month moving average basis, confirming the underlying uptrend continues.

- Manufacturing orders increased 0.8% m/m, the fourth consecutive monthly gain. Those from oil/coal product makers surged (up 223.2%). However, it is a reflection of a large-scale project and should be discounted to some extent. Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the second monthly gain in a row (up 6.2%).

- Overseas orders saw the second m/m gain in a row (up 22.4%). Looking at exports of general machinery in the Trade Statistics (Ministry of Finance), those to the EU and China continue to improve. 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 29.0% m/m in September. If they decline 14.1%, 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 Sep	Oct	Nov	Dec	2013 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Machinery orders (private sector)*	-2.4	-0.8	3.8	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	- 0.0	-5.4
Market consensus (Bloomberg)												2.5
DIR estimate												0.5
Manufacturing orders	-3.0	-2.7	1.8	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	4.8	0.8
Non-manufacturing orders*	0.8	2.7	6.4	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	0.0	6.2
Overseas orders	3.6	0.5	11.8	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	1.4	22.4

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

First gain in three months in August

Machinery orders (CAO; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first m/m gain in three months in August (up 5.4%), overshooting consensus expectations (up 2.5%). They saw the second consecutive monthly gain on a three-month moving average basis, confirming the underlying uptrend continues.

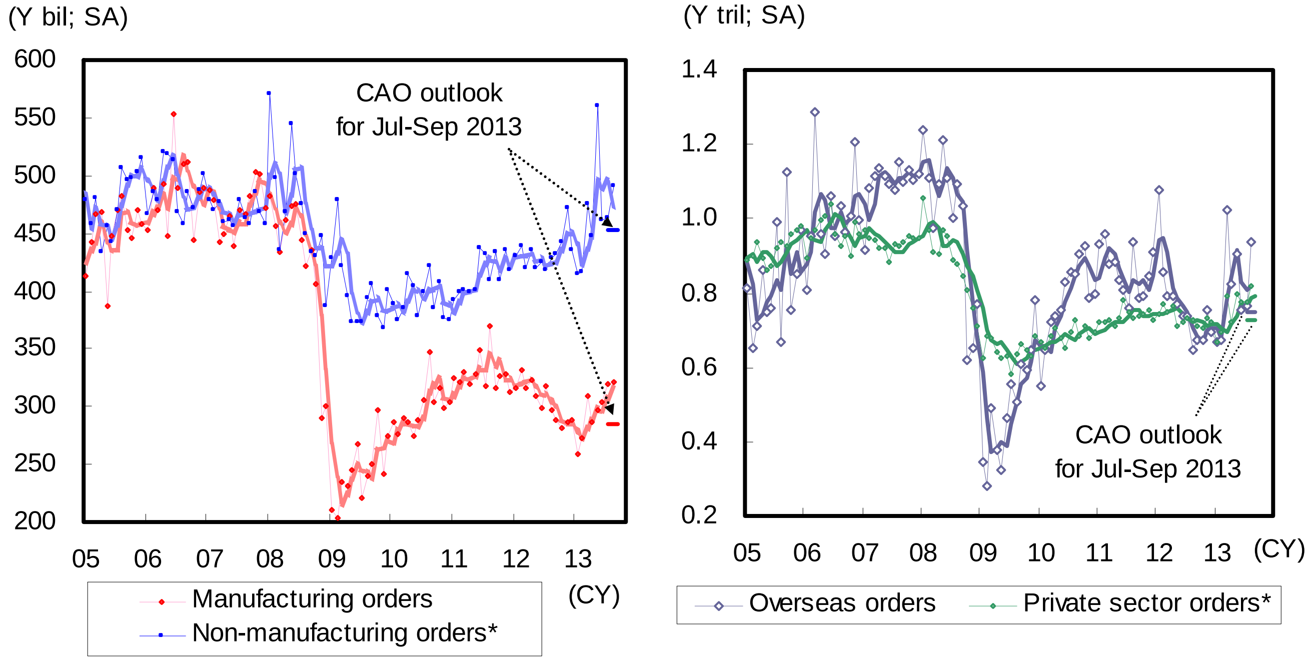
Non-manufacturing orders boosting overall orders

Manufacturing orders increased 0.8% m/m, the fourth consecutive monthly gain. On the materials industry side, those from oil/coal product makers surged (up 223.2%). However, it is a reflection of a large-scale project and should be discounted to some extent. Those from chemicals makers saw the first gain in three months (up 31.0%). Meanwhile, those from pulp/paper/paper product and nonferrous metal makers saw reactionary slides to previous month’s boosts driven by multiple midsize projects taking place at the same time. On the assembling industry side, those from info/communications equipment makers turned around (up 32.1%), while those from electrical machinery makers declined (down 5.7%).

Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the second monthly gain in a row (up 6.2%), driven by the first gains in three months for those from the financial/insurance industry (up 55.7%) and transportation/postal services (up 34.2%). Meanwhile, those from information services declined for the first time in two months (down 16.4%).

While non-manufacturing orders pushed up overall orders on a monthly basis, underlying trends of both manufacturing and non-manufacturing orders are moving upward.

Orders by Demand Source **Chart 2**

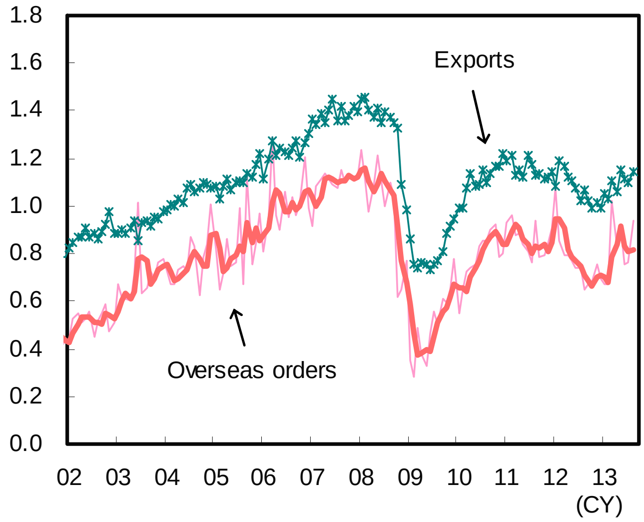


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

Second consecutive monthly gain in overseas orders

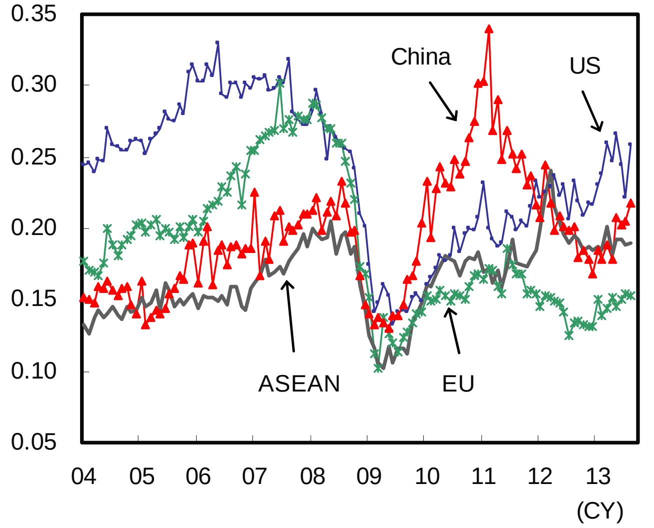
Overseas orders saw the second m/m gain in a row (up 22.4%). While the August surge is a reflection of a large-scale project, overseas demand has been on an uptrend. Indeed, in the Trade Statistics (Ministry of Finance), exports of general machinery to the EU and China continue to improve. Thus, overseas 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**



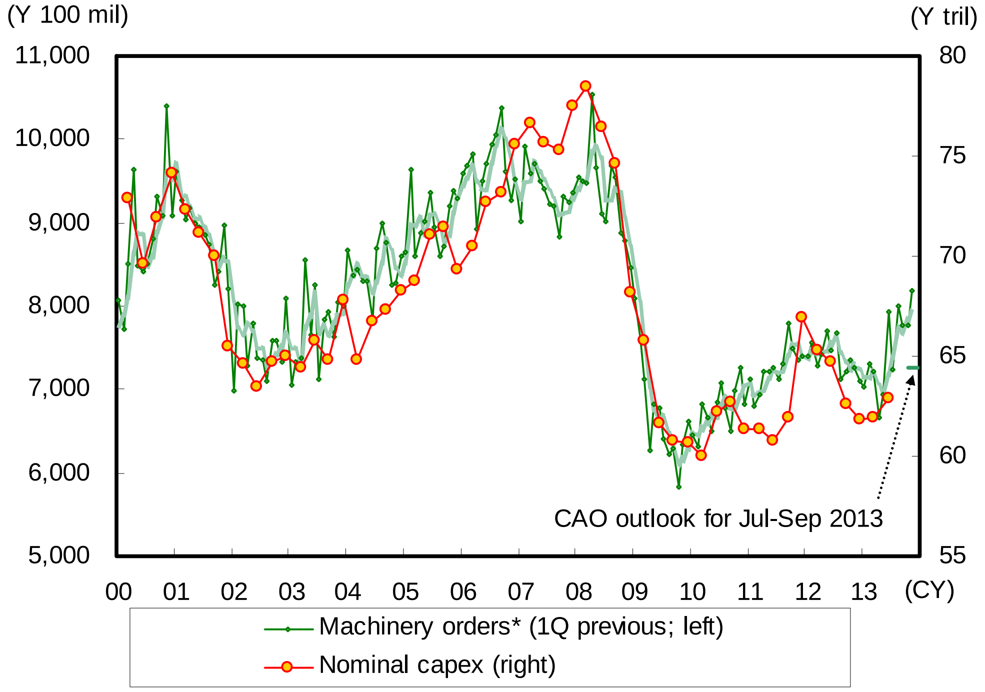
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

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 29.0% m/m in September. If they decline 14.1%, 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 machinery orders tend to lead GDP-based capex by around three months, capex is likely to maintain the ongoing uptrend on a GDP basis.

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.