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September Machinery Orders

Manufacturing orders firm, non-manufacturing orders hold down overall orders

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Summary

- Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities) saw the first m/m slide in two months in September (down 2.1%), undershooting the consensus expectation (down 1.8%). However, they saw the third consecutive monthly gain on a three-month moving average basis, confirming that the underlying uptrend continues.

- Manufacturing orders saw the fifth consecutive monthly gain (up 4.1% m/m). Non-manufacturing orders (excl. those for shipbuilding and from electric utilities) saw the first slide in three months (down 7.0% m/m), driven by downward turns for those from the financial/insurance industry (down 27.8%), agriculture/forestry/fisheries (down 26.2%), and the construction industry (down 26.7%).

- Overseas orders saw the third m/m gain in a row (up 12.1%). In *Trade Statistics* (Ministry of Finance), ongoing improvement in exports of general machinery to the EU and China continues, meaning overseas orders will likely continue advancing.

- CAO projects the first slide in three quarters for machinery orders in Oct-Dec 2013 (down 2.1% q/q), a projection whereby a third gain in a row for manufacturing orders (up 0.6%) is unlikely to offset a decline for non-manufacturing orders (down 3.5%). Nevertheless, this projection of negative q/q growth would only transpire if overall orders declined a big 1.2% m/m each month from October to December. As a matter of fact, overall orders would still post a positive q/q figure for Oct-Dec even if there was a decline of 0.1% m/m each month, an easy hurdle to clear. Hence, we believe a third consecutive quarterly advance in Oct-Dec 2013 is a very likely scenario.

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

	2012 Oct	Nov	Dec	2013 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Machinery orders (private sector)*	-0.8	3.8	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	-0.0	5.4	-2.1
Market consensus (Bloomberg)												-1.8
DIR estimate												-3.2
Manufacturing orders	-2.7	1.8	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	4.8	0.8	4.1
Non-manufacturing orders*	2.7	6.4	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	0.0	6.2	-7.0
Overseas orders	0.5	11.8	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	1.4	22.4	12.1

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

First slide in two months in September

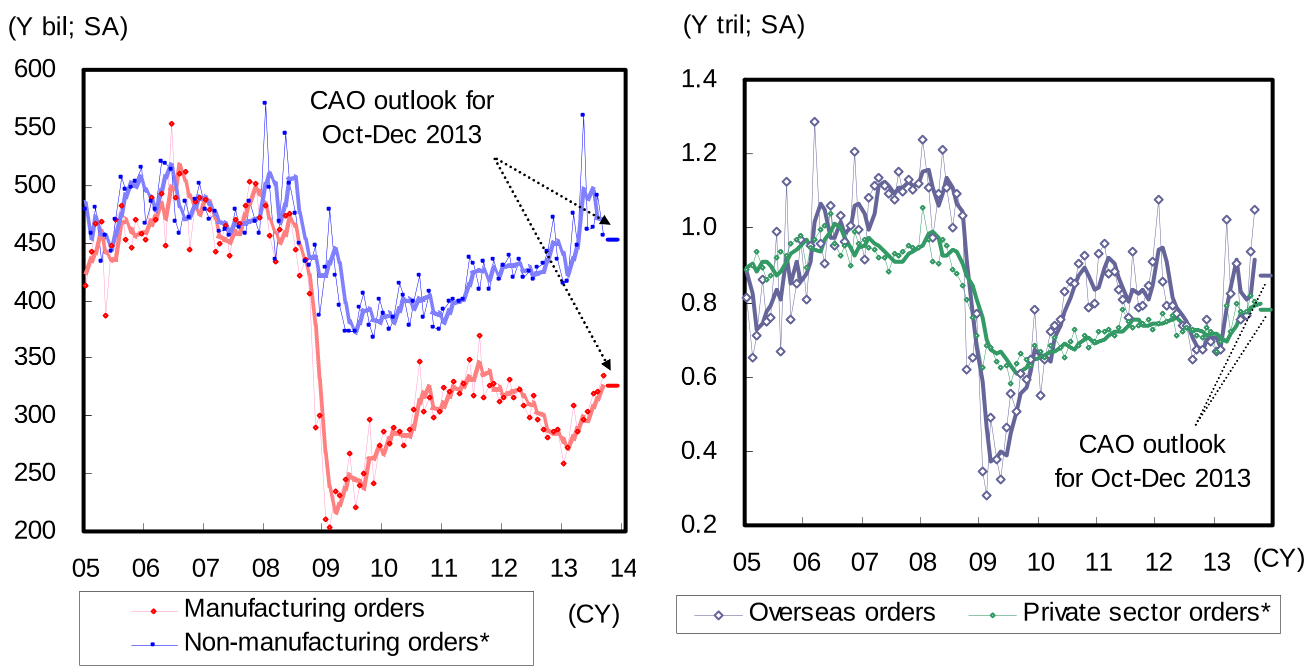
Machinery orders (CAO; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first m/m slide in two months in September (down 2.1%), undershooting the consensus expectation (down 1.8%). However, they saw the third consecutive monthly gain on a three-month moving average basis, confirming the underlying uptrend continues. Indeed, they saw the second consecutive quarterly advance (up 4.3% q/q), overshooting the CAO projection (down 5.3%).

Manufacturing orders firm, non-manufacturing orders hold down overall orders

Manufacturing orders saw the fifth consecutive monthly gain (up 4.1% m/m). In materials industries, those from pulp/paper/paper product makers surged (up 150.3%). However, this is very likely a reflection of large-scale projects and should be discounted to some extent. Those from chemicals makers saw the second gain in a row (up 15.2%). Meanwhile, those from oil/coal product makers plunged (down 49.5%) after the previous month's boost which was driven by large projects. As for assembling industries, advances were seen for orders from general machinery makers (up 11.6%) and info/communications equipment makers (up 33.7%). Meanwhile, those from electrical machinery makers saw the second monthly decline in a row (down 4.7%), an unfavorable showing.

Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first slide in three months (down 7.0% m/m), driven by downward turns for those from the financial/insurance industry (down 27.8%), agriculture/forestry/fisheries (down 26.2%), and the construction industry (down 26.7%).

Orders by Demand Source | **Chart 2**

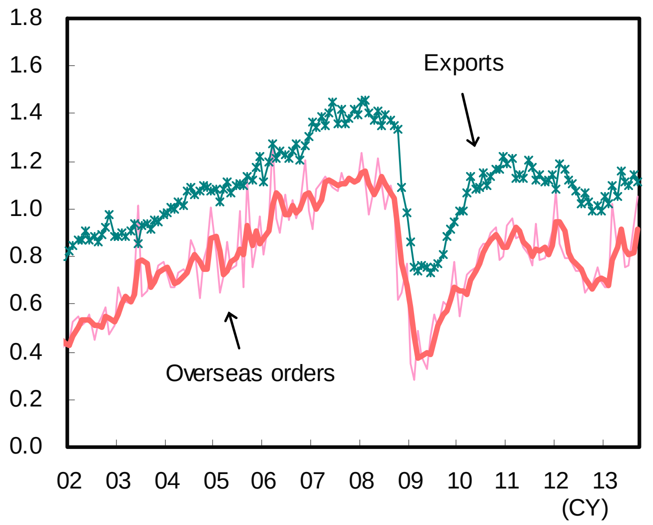


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

Third consecutive monthly gain in overseas orders

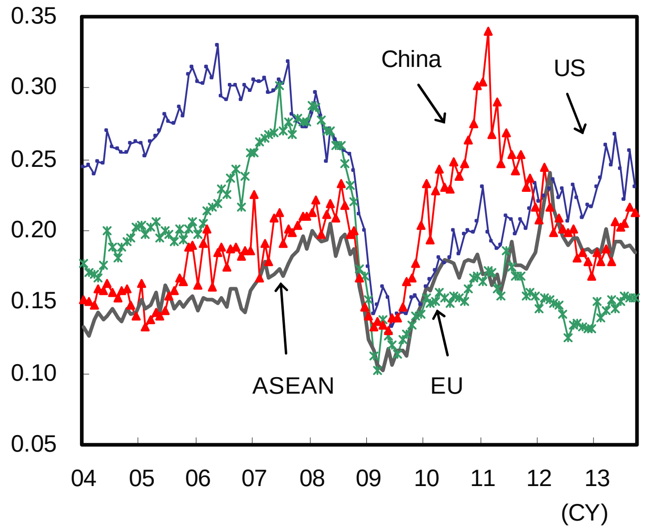
Overseas orders saw the third m/m gain in a row (up 12.1%). In *Trade Statistics* (Ministry of Finance), ongoing improvement in exports of general machinery to the EU and China continues, meaning overseas orders will likely continue advancing.

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**



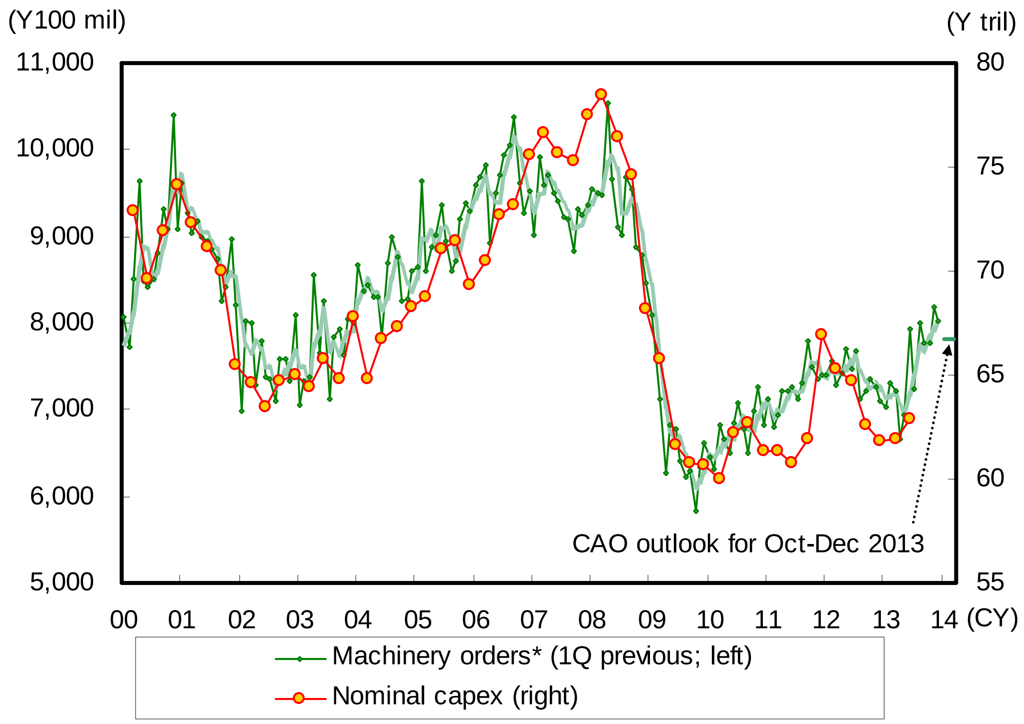
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Advance likely in Oct-Dec, despite projection of negative growth by CAO

As a whole, machinery orders have been on an uptrend. On a monthly basis, while non-manufacturing orders pulled down overall orders, manufacturing orders have been firm.

CAO projects the first slide in three quarters for machinery orders in Oct-Dec 2013 (down 2.1% q/q), a projection whereby a third gain in a row for manufacturing orders (up 0.6%) is unlikely to offset a decline for non-manufacturing orders (down 3.5%). Nevertheless, this projection of negative q/q growth would only transpire if overall orders declined a big 1.2% m/m each month from October to December. As a matter of fact, overall orders would still post a positive q/q figure for Oct-Dec even if there was a decline of 0.1% m/m each month, an easy hurdle to clear. Hence, we believe a third consecutive quarterly advance in Oct-Dec 2013 is a very likely scenario.

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.