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October Machinery Orders

Manufacturing orders saw first slide in sixth months; non-manufacturing orders supporting 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 gain in two months in October (up 0.6%), almost on par with the consensus expectation (up 0.7%).
- Manufacturing orders saw the first m/m slide in six months (down 0.2%), but this is likely to be temporary and the uptrend continues in general. Non-manufacturing orders (excl. those for shipbuilding and from electric utilities) saw the first gain in two months (up 11.5% m/m).
- Overseas orders saw the first m/m slide in four months (down 16.0%). However, they posted the third monthly gain in a row on a three-month moving average basis, meaning the underlying uptrend continues.
- CAO projects the first slide in three quarters for machinery orders in Oct-Dec 2013 (down 2.1% q/q). This projection of negative q/q growth would only transpire if overall orders declined a big 3.0% m/m in both November and December. As a matter of fact, overall orders would still post a positive q/q figure for Oct-Dec even on a decline of 0.9% m/m each month. 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		2013									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Machinery orders (private sector)*	3.8	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	-0.0	5.4	-2.1	0.6
Market consensus (Bloomberg)												0.7
DIR estimate												0.7
Manufacturing orders	1.8	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	4.8	0.8	4.1	-0.2
Non-manufacturing orders*	6.4	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	0.0	6.2	-7.0	11.5
Overseas orders	11.8	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	1.4	22.4	12.1	-16.0

Source: Cabinet Office, Bloomberg; compiled by DIR.

* excl. those for shipbuilding and from electric utilities.

First gain in two months in October

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 two months in October (up 0.6%), almost on par with the consensus expectation (up 0.7%). The underlying uptrend continues.

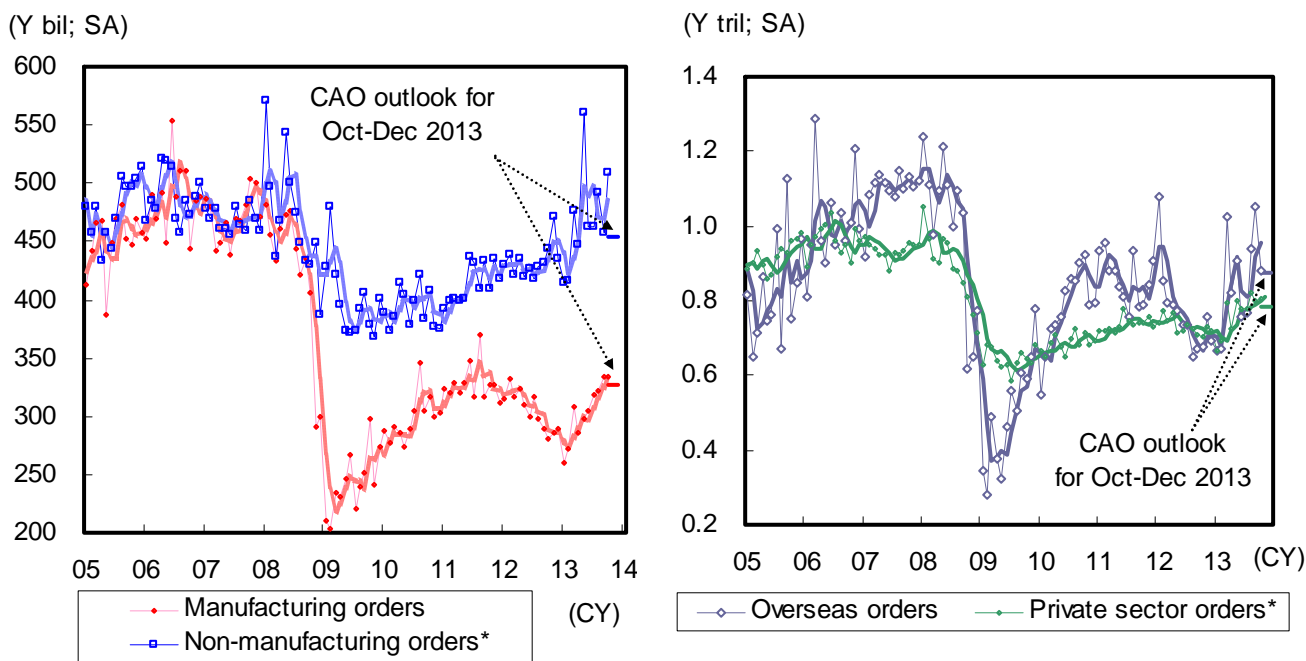
Manufacturing orders saw first slide in six months, non-manufacturing orders supporting overall orders

Manufacturing orders saw the first m/m slide in six months (down 0.2%), but this is likely to be temporary and the uptrend continues in general.

Manufacturing orders were mixed. Those from oil/coal product makers saw a double-digit plunge for the second consecutive month (down 72.9%), marking a record low. Those from pulp & paper/paper product makers declined (down 8.4%) after the previous month's boost. Those from info/communications equipment makers declined (down 40.7%), but, this is likely to be a temporary lull, given the double-digit advances for two consecutive months in August (up 32.1%) and September (up 33.7%). Meanwhile, those from chemicals makers saw the third consecutive double-digit gain (up 12.3%), a favorable result. Advances were also seen for those from electrical machinery makers (up 29.2%), those from auto/auto parts makers (up 15.9%), and general machinery makers (up 4.4%).

Non-manufacturing orders (excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first gain in two months (up 11.5% m/m), meaning the recovery continues. Non-manufacturing orders were driven by gains in those from the financial/insurance industry (up 74.8%), construction industry (up 62.5%), and transportation/postal services (up 9.9%). However, those from info/communications services saw the third monthly slide in a row (down 9.2%).

Orders by Demand Source Chart 2

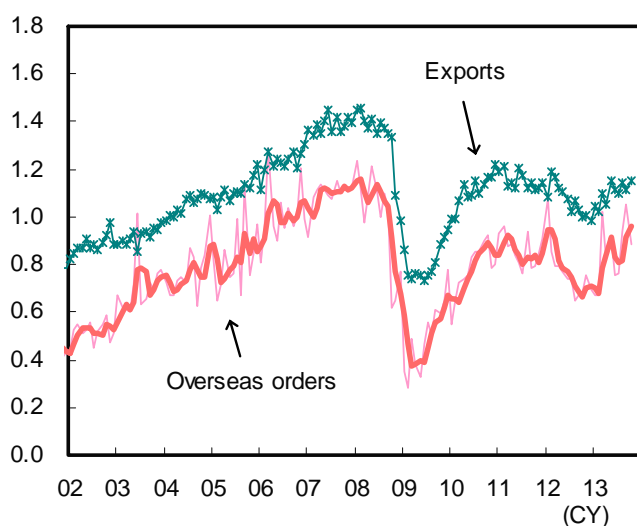


Source: Cabinet Office (CAO); compiled by DIR.
 *excl. those for shipbuilding and from electric utilities.
 Note: Thick lines 3MMA basis.

Overseas orders saw first slide in four months

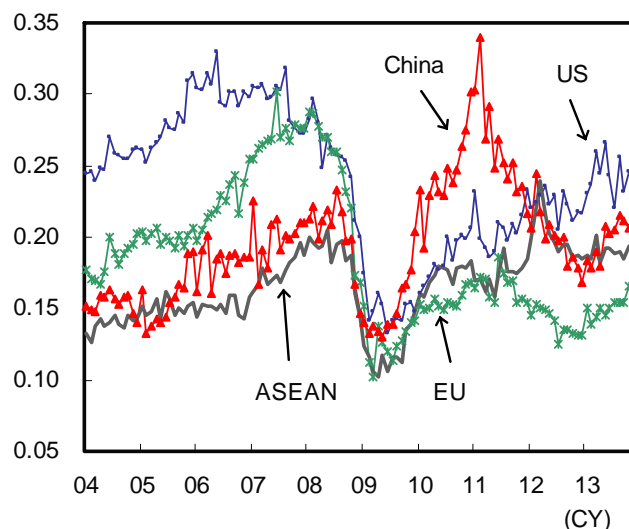
Overseas orders saw the first m/m slide in four months (down 16.0%). However, they posted the third monthly gain in a row on a three-month moving average basis, meaning the underlying uptrend continues. In *Trade Statistics* (Ministry of Finance), ongoing improvement in exports of general machinery to the EU and China will likely continue, indicating overseas orders will likely continue to be firm.

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**



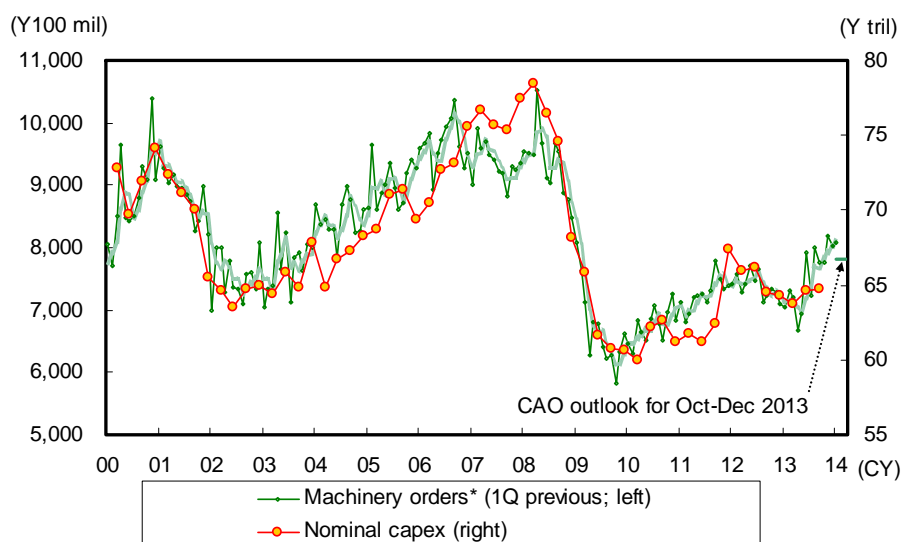
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Oct-Dec likely to see third quarterly advance in a row

CAO projects the first slide in three quarters for machinery orders in Oct-Dec 2013 (down 2.1% q/q). This projection of negative q/q growth would only transpire if overall orders declined a big 3.0% m/m in both November and December. As a matter of fact, overall orders would still post a positive q/q figure for Oct-Dec even on a decline of 0.9% m/m each month. 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.