

16 January 2014 (No. of pages: 4)

Japanese report: 16 Jan 2014

# November Machinery Orders

## Both Manufacturing and Non-Manufacturing Orders Reported Strong Results, Exceeding Market Consensus by a Wide Margin

Economic Research Dept  
Shotaro Kugo

### Summary

- According to statistics for machinery orders in November, 2013, private sector demand (excluding for shipbuilding and from electric power) grew for the second consecutive month, increasing by 9.3% in comparison with the previous month, thereby exceeding market consensus (+1.1%) by a wide margin. Meanwhile, the 3-month moving average rose for the fifth consecutive month, showing that machinery orders are strengthening their growth trend.
- Manufacturing orders grew for the first time in two months, up 6.0% from the previous month. Non-manufacturing orders (excluding for shipbuilding and from electric power) continued to improve, achieving gains for the second consecutive month with a month to month increase of 8.1%.
- Overseas orders declined for the second consecutive month, falling by 12.2% in comparison with the previous month. The 3-month moving average indicates that it is the first setback overseas orders have had in four months, occurring due to a variety of weak factors.
- The CAO has projected the first slide in three quarters for private sector demand (excluding for shipbuilding and from electric power) in Oct-Dec 2013 (down 2.1% q/q). However, DIR sees a very high possibility that machinery orders will achieve growth for the third consecutive quarter in the October-December 2013 period. Trends in corporate earnings also lead us to believe that equipment investment will continue to improve, creating the backdrop for continued growth in machinery orders.

Machinery Orders (m/m %; SA)													Chart 1
	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Machinery orders (private sector)*	-1.3	-7.5	4.2	14.2	-8.8	10.5	-2.7	-0.0	5.4	-2.1	0.6	9.3	
Market consensus (Bloomberg)												1.1	
DIR estimate												-1.2	
Manufacturing orders	1.0	-10.0	4.9	13.3	-7.3	3.8	2.4	4.8	0.8	4.1	-0.2	6.0	
Non-manufacturing orders*	-7.8	-4.5	0.3	14.3	-6.0	25.4	-17.5	0.0	6.2	-7.0	11.5	8.1	
Overseas orders	-8.3	-3.7	1.0	52.1	-19.9	10.3	-16.7	1.4	22.4	12.1	-16.0	-12.2	

Source: Cabinet Office, Bloomberg; compiled by DIR.

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

## November Machinery Orders Record Second Consecutive Month of Growth

According to statistics for machinery orders in November, 2013, private sector demand (excluding for shipbuilding and from electric power) grew for the second consecutive month, increasing by 9.3% in comparison with the previous month, thereby exceeding market consensus (+1.1%) by a wide margin. Meanwhile, the 3-month moving average rose for the fifth consecutive month, showing that machinery orders are strengthening their growth trend.

## Results Steady for Both Manufacturing and Non-manufacturing Orders

Manufacturing orders grew for the first time in two months, up 6.0% from the previous month.

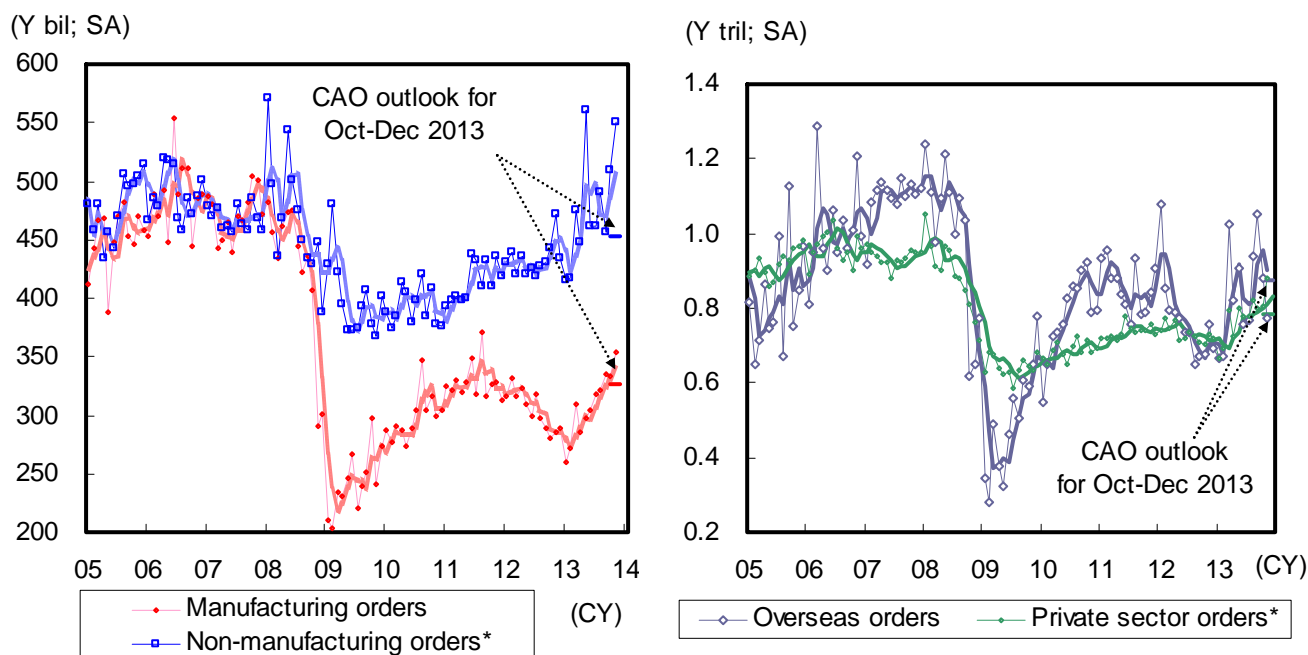
Those industries showing month to month growth included pulp & paper/paper products makers up 344.1%. However, this may have been due to special factors, such as large orders, and should therefore be taken with a grain of salt. Petroleum and coal products grew 390.5% month to month. The growth rate is especially high since the previous month reported a record low. In terms of level of growth it is not necessarily all that high. Meanwhile, chemicals were up 9.3% month to month, and information/communications equipment grew by 18.7% in comparison with the previous month. Declines were also seen for some industries. These were transport equipment, suffering a decline of 16.6% in comparison with the previous month, general machinery down 4.5%, and precision equipment, falling 15.7%. Though there were many industries experiencing a single month of decline, there were just as many registering a high month to month growth rate, so overall, there is a sense that things are moving upward.

Non-manufacturing orders (excluding for shipbuilding and from electric power) continued to improve, achieving gains for the second consecutive month with a month to month increase of 8.1%. Non-manufacturing orders recorded double digit growth in the previous month, and this trend has continued into the current month, one of the factors which have resulted in orders exceeding market consensus.

Results by industry were as follows: the wholesale & retail industry was up 51.7% from the previous month, while transportation and postal activities showed month to month gains of 11.6%, and information services grew by 12.7%, helping to boost growth for non-manufacturing orders overall. On the other hand, the finance and insurance industry suffered a month to month decline of 10.5%, and goods leasing fell by 14.3%. These industries all recorded major growth during the previous month, and are maintaining a high level of growth.

Orders by Demand Source (seasonally adjusted figures)

Chart 2



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

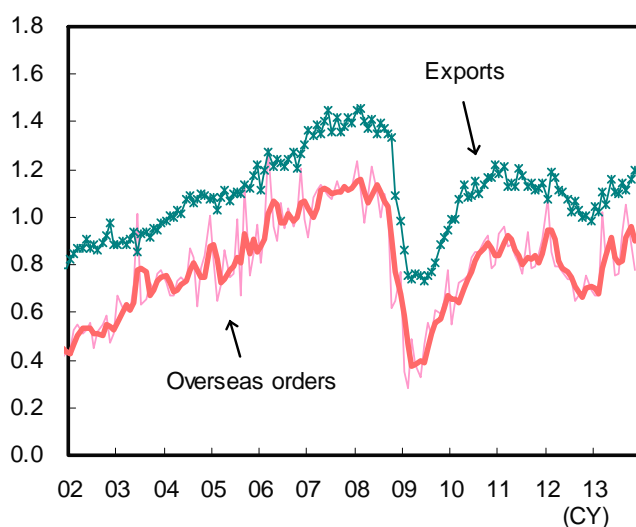
\*excl. those for shipbuilding and from electric utilities.

Note: Thick lines 3MMA basis.

## Overseas Orders Suffer Second Consecutive Month of Declines

Overseas orders declined for the second consecutive month, falling by 12.2% in comparison with the previous month. The 3-month moving average indicates that it is the first setback overseas orders have had in four months, and this was a major weak factor. General machinery exports by country according to trade statistics were as follows: Exports to the U.S. remain stagnant, but are expected to move toward a gradual growth trend in the future. In addition, exports of general machinery to the ASEAN countries are showing signs of recovery. These are expected to be supporting factors in future improvements for overseas orders

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

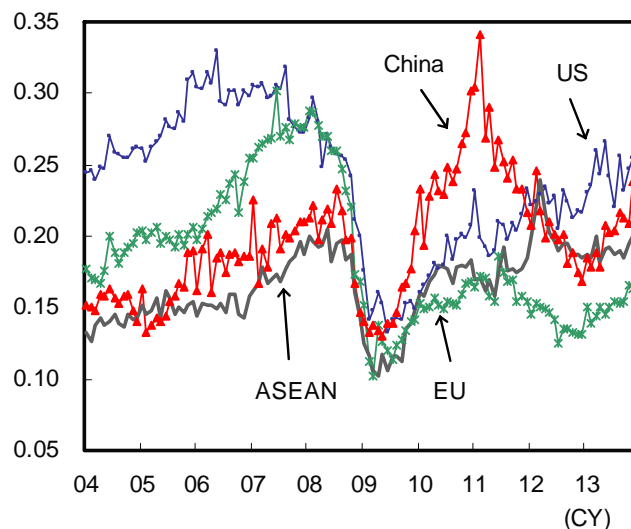


Source: Cabinet Office, Ministry of Finance; compiled by DIR.

Notes: 1) Exports seasonally adjusted by CAO, general machinery exports by DIR.

2) Thick line for overseas orders 3MMA basis.

General Machinery: Exports by Trading Partner (Y tril; SA) Chart 4



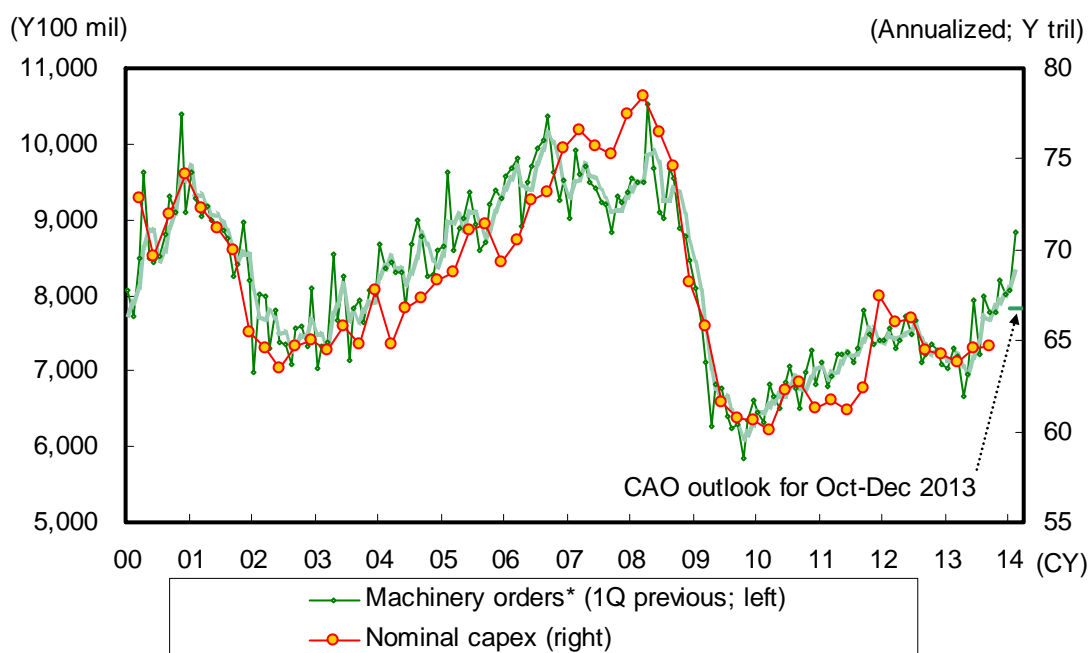
Source: Ministry of Finance; compiled by DIR.

Note: SA by DIR.

## Possibilities High for Third Consecutive Quarter of Growth in Machinery Orders in Oct-Dec

The CAO has projected the first slide in three quarters for private sector demand (excluding for shipbuilding and from electric power) in Oct-Dec 2013 (down 2.1% q/q). However, DIR sees a very high possibility that machinery orders will achieve growth for the third consecutive quarter in the October-December 2013 period. Trends in corporate earnings also lead us to believe that equipment investment will continue to improve, creating the backdrop for continued growth in machinery orders.

**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.