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January Machinery Orders

Growth expected to continue through the Jan-Mar period

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Summary

- According to statistics for machinery orders in January 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in two months, recording an m/m advance of 13.4%, considerably exceeding market consensus (+7.1%). The three-month moving average was also up, a sign that machinery orders, which had been treading water for some time, have entered a growth trend. While machinery orders did stumble momentarily last month, they made a quick comeback, again affirming their return to a growth trend.

- As for performance by source of demand, manufacturing industries registered m/m growth of +13.4%, registering an advance for the first time in two months. Non-manufacturing orders (excluding shipbuilding and electrical power) also registered m/m growth for the first time in two months at +12.1%. A broad range of industries in the non-manufacturing category won m/m growth, leading to the generally positive results.

- Overseas orders achieved m/m growth for two consecutive months at +2.7%. However, when the numbers are averaged out, this is only moving sideways. Even so, the outlook clearly calls for a growth trend in the future as overseas economies increasingly recover.

- We believe that Jan-Mar 2014 machinery orders will continue in a growth trend. Both the manufacturing and non-manufacturing industries show corporate business results as clearly improving, while operating rates of production facilities continue to increase. This provides plenty of material to support an increase in capex. Although a reactionary decline in personal consumption and housing investment will be unavoidable after the raising of the consumption tax, capex is still expected to provide the main impetus for further growth after the increase has gone into effect.

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

	2013 Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2014 Jan
Machinery orders (private sector)*	4.2	14.2	-8.8	10.5	-2.7	-0.0	5.4	-2.1	0.6	9.3	-15.7	13.4
Market consensus (Bloomberg)												7.1
DIR estimate												10.2
Manufacturing orders	4.9	13.3	-7.3	3.8	2.4	4.8	0.8	4.1	-0.2	6.0	-17.3	13.4
Non-manufacturing orders*	0.3	14.3	-6.0	25.4	-17.5	0.0	6.2	-7.0	11.5	8.1	-17.2	12.1
Overseas orders	1.0	52.1	-19.9	10.3	-16.7	1.4	22.4	12.1	-16.0	-12.2	8.6	2.7

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

January Machinery Orders Exceed Market Expectations Significantly

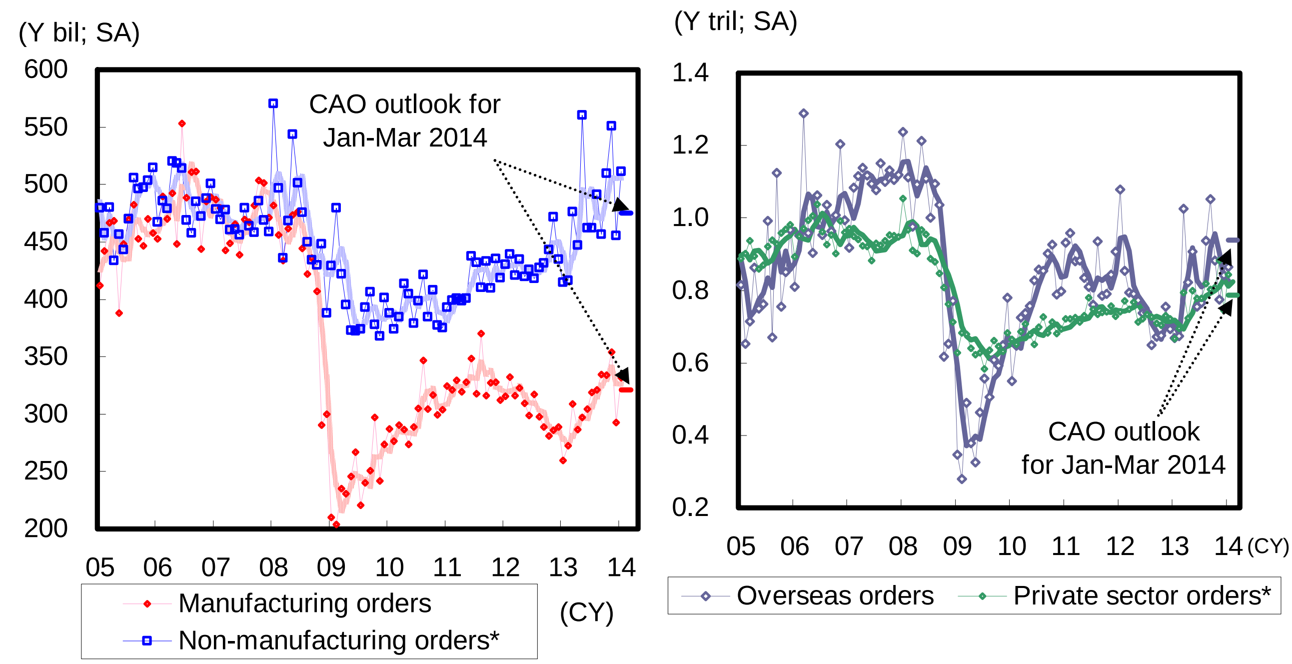
According to statistics for machinery orders in January 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in two months, recording an m/m advance of 13.4%, considerably exceeding market consensus (+7.1%). The three-month moving average was also up, a sign that machinery orders, which had been treading water for some time, have entered a growth trend. While machinery orders did stumble momentarily last month, they made a quick comeback, again affirming their return to a growth trend.

Non-manufacturing Industries Register Growth in a Broad Range of Industries

As for performance by source of demand, manufacturing industries registered m/m growth of +13.4%, registering an advance for the first time in two months. Averaged out this is pretty much flat, but also indicates that performance is back on track considering the previous month's steep decline. Manufacturing industries which registered m/m growth are as follows: electrical machinery (+29.1%), chemicals (+35.4%), and non-ferrous metals (+124.4%) registered especially strong growth, helping to push up the overall numbers. Meanwhile, chemicals regained their growth trend after steep declines last month, but electrical machinery did not recover completely, seemingly falling short of the mark. In the case of non-ferrous metals, special factors may also have contributed, and hence to a certain degree these results must be taken with a grain of salt.

Non-manufacturing orders (excluding shipbuilding and electrical power) also registered m/m growth for the first time in two months at +12.1%. The financial and insurance industries boasted m/m growth of +42.5%, while transportation and postal activities registered +25.9%, communications +15.1%, and agriculture, forestry and fisheries +21.4%, thereby uplifting overall results. A broad range of industries in the non-manufacturing category won m/m growth, leading to the generally positive results.

Orders by Demand Source (seasonally adjusted figures) **Chart 2**

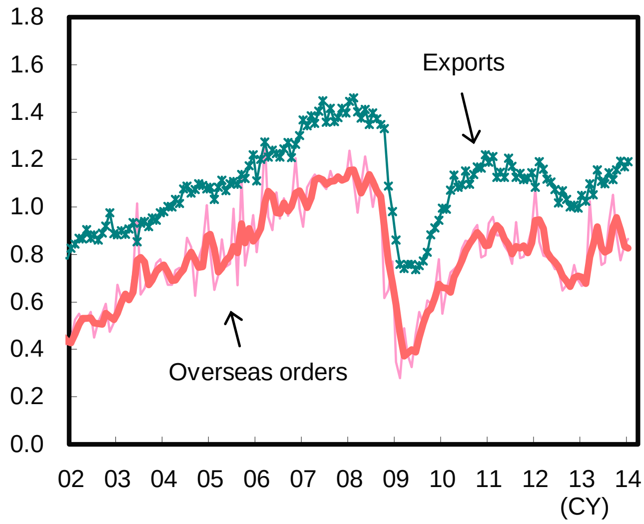


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

Overseas Orders Achieve Growth for Second Consecutive Month

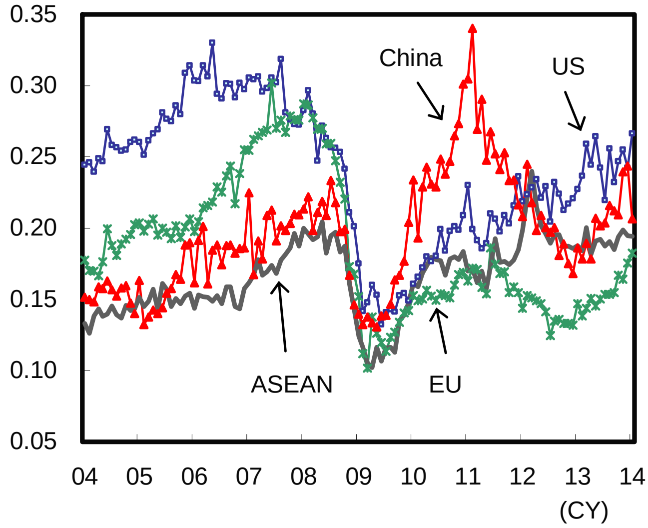
Overseas orders achieved m/m growth for two consecutive months at +2.7%. However, when the numbers are averaged out, this is only moving sideways. Even so, the outlook clearly calls for a growth trend in the future as overseas economies increasingly recover. The trend in exports of general machinery indicates that the US economy is continuing its recovery while exports to the EU appear to be continuing their growth trend as well. Exports to China declined temporarily during the lunar New Year celebrations, but are expected to continue growing in the long run. Meanwhile, exports to the ASEAN continue to recover.

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, general machinery exports by DIR.
2) Thick line for overseas orders 3MMA basis.

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

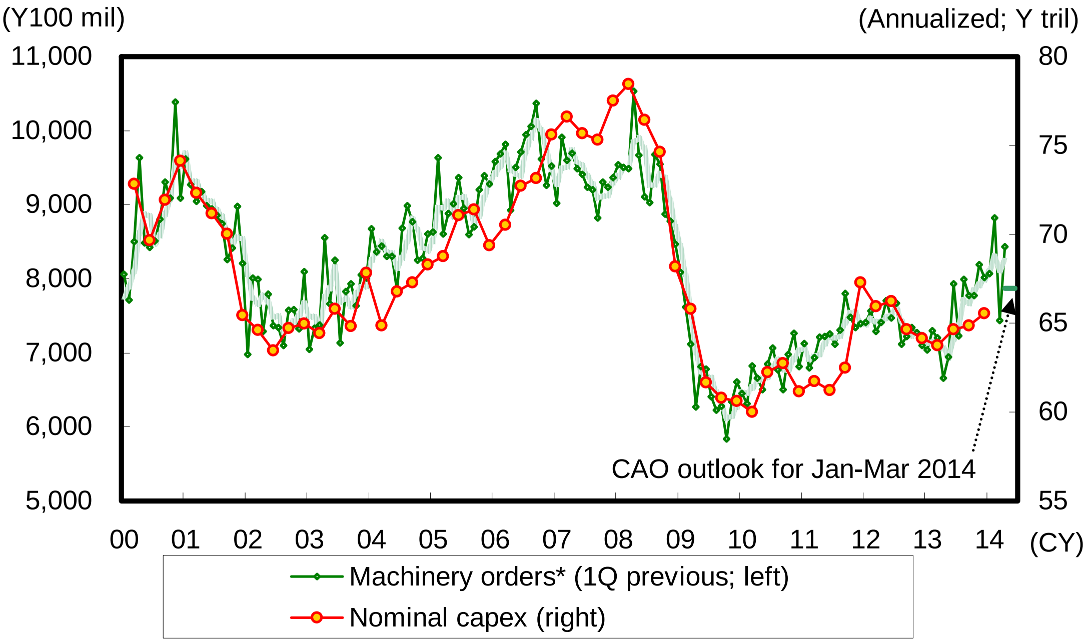


Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Growth Likely to Continue for Machinery Orders in the Jan-Mar Period

The CAO projected the first decline in four quarters in its Jan-Mar 2014 outlook, with private sector demand (excluding shipbuilding and electrical power) seen down 2.9% in comparison with the previous period. However, even if both February and March were to suffer m/m declines of 3.8%, the Jan-Mar 2014 results would still balance out as q/q growth. Hence, we believe that Jan-Mar 2014 machinery orders will continue in a growth trend. Both the manufacturing and non-manufacturing industries show corporate business results as clearly improving, while operating rates of production facilities continue to increase. This provides plenty of material to support an increase in capex. Although a reactionary decline in personal consumption and housing investment will be unavoidable after the raising of the consumption tax, capex is still expected to provide the main impetus for further growth after the increase has gone into effect.

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.