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March Machinery Orders

Strong results exceed market expectations – outlook solid

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Summary

- According to statistics for machinery orders in March 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in two months, gaining 19.1% m/m, while considerably outperforming market consensus by +5.8%. The three-month moving average was also up for the first time in two months, indicating that machinery orders have entered a growth trend.
- As for performance by source of demand, manufacturing industries registered growth for the first time in two months at +23.7%. The three-month moving average was also up for the first time in four months, indicating that the manufacturing industries have entered a growth trend. Non-manufacturing orders (excluding shipbuilding and electrical power) also registered growth for the first time in two months at +8.5% m/m.
- Overseas orders achieved m/m growth for the fourth consecutive month at +3.2%. According to the CAO outlook for the Apr-Jun period, external demand is expected to continue aggressive performance with +33.5% m/m in gains seen, and the recovery in the world economy is expected to lead the way toward further growth in external demand.
- According to the CAO outlook for the Apr-Jun 2014 period, private sector demand (excluding shipbuilding and electrical power) is expected to achieve its fifth consecutive period of growth at +0.4%. This figure is seen as being achievable even if month-to-month growth remains modest for each of the months in the period at -4.6%. Therefore, we expect to see a continuation of growth for machinery orders in the Apr-Jun period. Both the manufacturing and non-manufacturing industries show corporate business results as clearly improving, and there is a growing sense that capex in the non-manufacturing industries is deficient. This provides plenty of material to support an increase in capex.

Machinery Orders (m/m %; SA)											Chart 1		
	2013									2014			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Machinery orders (private sector)*	-5.6	6.1	-1.0	0.3	5.1	-1.1	0.9	6.5	-12.1	8.1	-4.6	19.1	
Market consensus (Bloomberg)												5.8	
DIR estimate												6.7	
Manufacturing orders	-2.0	1.0	3.3	5.5	-1.2	2.2	3.4	0.5	-7.8	4.9	-4.6	23.7	
Non-manufacturing orders*	-2.5	13.2	-9.0	0.5	4.1	-3.0	5.6	6.4	-11.5	6.1	-5.1	8.5	
Overseas orders	-19.0	7.6	-11.2	1.5	15.2	13.6	-13.4	-5.6	3.2	3.7	2.3	3.2	

Source: Cabinet Office, Bloomberg; compiled by DIR.

*excl. those for shipbuilding and from electric power.

March Machinery Orders Exceed Market Expectations

According to statistics for machinery orders in March 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in two months, gaining 19.1% m/m, while considerably outperforming market consensus by +5.8%. The three-month moving average was also up for the first time in two months, indicating that machinery orders have entered a growth trend.

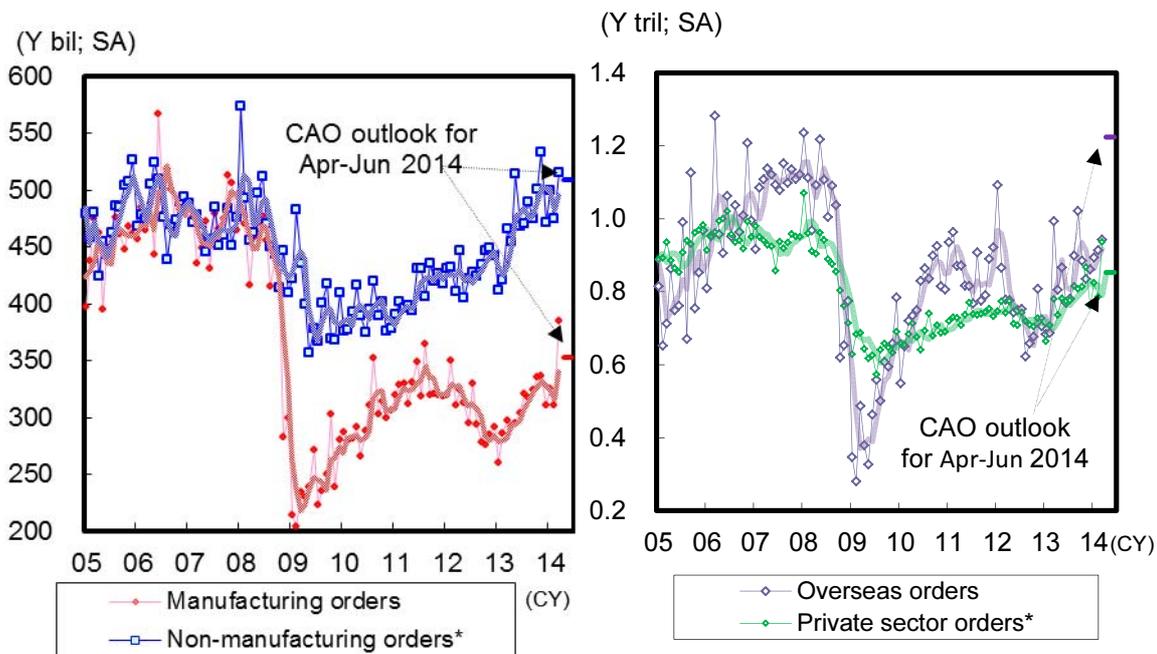
Growth in Manufacturing Industries Pushes Overall Results Up

As for performance by source of demand, manufacturing industries registered growth for the first time in two months at +23.7%. The three-month moving average was also up for the first time in four months, indicating that the manufacturing industries have entered a growth trend. Manufacturing industries registering month-to-month growth were as follows: other manufacturing industries (+101.0% m/m), other transport equipment (+68.7%), non-ferrous metals (+270.1%), and electrical machinery (+8.8%). Growth in these industries helped to push up overall results. In the case of some manufacturing industries, special factors may have influenced performance, and so these figures should to some extent be taken with a grain of salt. However, with the exception of these special factors, overall numbers are looking up, so these are definitely positive results.

Non-Manufacturing Industries Achieve Growth for First Time in 2-Months

Non-manufacturing orders (excluding shipbuilding and electrical power) also registered growth for the first time in two months at +8.5% m/m. As for performance by industry, growth in the following industries served to push up overall results. These were telecommunications (+27.1% m/m), other non-manufacturing industries (+18.6%), and information services (+6.7%). On the other hand, transport and postal activities (-26.1%) and the agricultural, forestry and fisheries industries (-27.8%) reported month-to-month declines.

Orders by Demand Source (seasonally adjusted figures) Chart 2

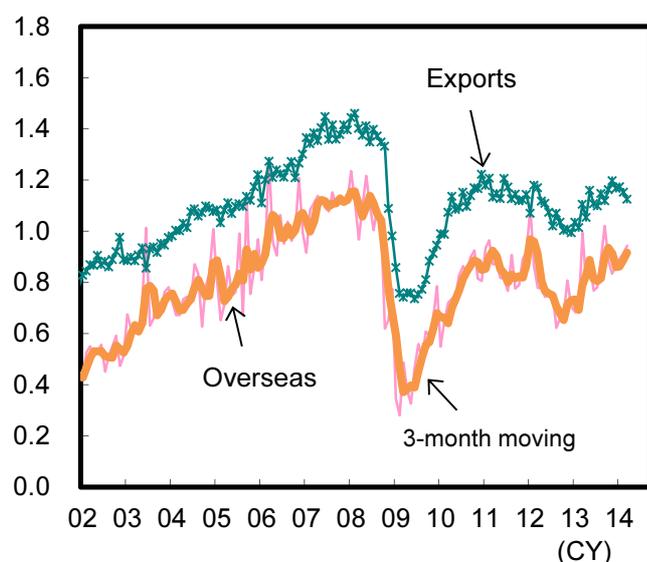


Source: Cabinet Office (CAO); compiled by DIR.
 *excl. those for shipbuilding and from electric utilities.
 Note: Thick lines 3MMA basis.

Overseas Orders Achieve Growth for Fourth Consecutive Month, Outlook Strong

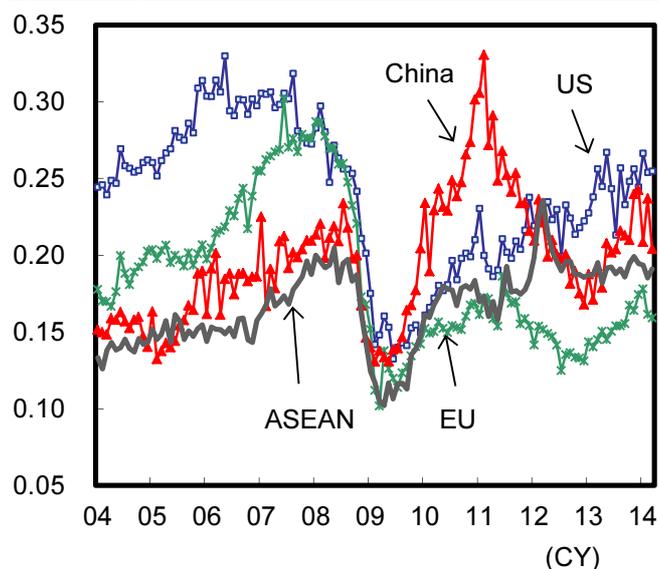
Overseas orders achieved m/m growth for the fourth consecutive month at +3.2%. According to the CAO outlook for the Apr-Jun period, external demand is expected to continue aggressive performance with +33.5% q/q gains seen, and the recovery in the world economy is expected to lead the way toward further growth in external demand.

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**



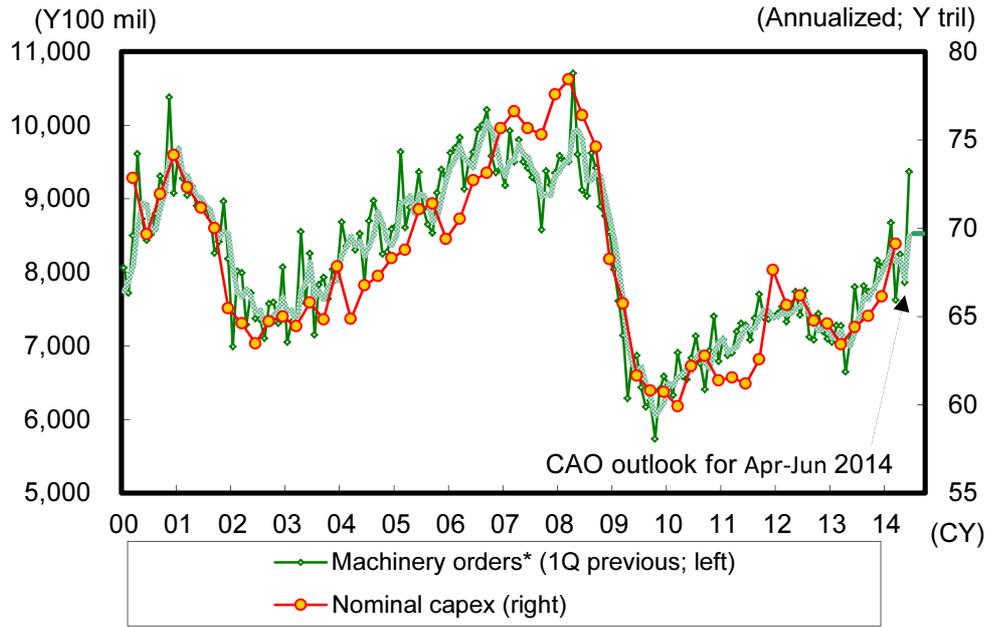
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

CAO outlook for the Apr-Jun Period Sees Firm Results

According to the CAO outlook for the Apr-Jun 2014 period, private sector demand (excluding shipbuilding and electrical power) is expected to achieve its fifth consecutive period of growth at +0.4%. This figure is seen as being achievable even if month-to-month growth remains modest for each of the months in the period at -4.6%. Therefore, we expect to see a continuation of growth for machinery orders in the Apr-Jun period. Both the manufacturing and non-manufacturing industries show corporate business results as clearly improving, and there is a growing sense that capex in the non-manufacturing industries is deficient. 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.