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April Machinery Orders

Rate of decline slight, no change in positive tone

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Summary

- According to statistics for machinery orders in April 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), fell for the first time in two months, down -9.1% m/m, while at the same time exceeding market consensus, which recorded -10.8%. the decline was in reaction to the previous month's major growth, but was not nearly as steep as predicted, and therefore results are considered to be positive. Averaged out, machinery orders are still continuing growth.

- As for performance by source of demand, manufacturing industries suffered a decline for the first time in two months at -9.4%, non-manufacturing orders (excluding shipbuilding and electrical power) registered growth for the second consecutive month at +0.9% m/m.

- Overseas orders achieved major m/m growth of +71.3%, a record high. Most likely this is due to large orders received by chemical machinery and shipbuilding.

- 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% q/q. This figure is seen as being achievable even if growth in May and June remains modest at +0.2% m/m. Therefore, we expect to see a continuation of growth for machinery orders in the Apr-Jun period.

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

	2013								2014			
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Machinery orders (private sector)*	6.1	-1.0	0.3	5.1	-1.1	0.9	6.5	-12.1	8.1	-4.6	19.1	-9.1
Market consensus (Bloomberg)												-10.8
DIR estimate												-10.2
Manufacturing orders	1.0	3.3	5.5	-1.2	2.2	3.4	0.5	-7.8	4.9	-4.6	23.7	-9.4
Non-manufacturing orders*	13.2	-9.0	0.5	4.1	-3.0	5.6	6.4	-11.5	6.1	-5.1	8.5	0.9
Overseas orders	7.6	-11.2	1.5	15.2	13.6	-13.4	-5.6	3.2	3.7	2.3	3.2	71.3

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

Note: Figures on market consensus from Bloomberg

April Machinery Orders Decline, But Only Slightly

According to statistics for machinery orders in April 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), fell for the first time in two months, down -9.1% m/m, while at the same time exceeding market consensus, which recorded -10.8%. The decline was in reaction to the previous month's major growth, but was not nearly as steep as predicted, and therefore results are considered to be positive. Averaged out, machinery orders are still continuing growth.

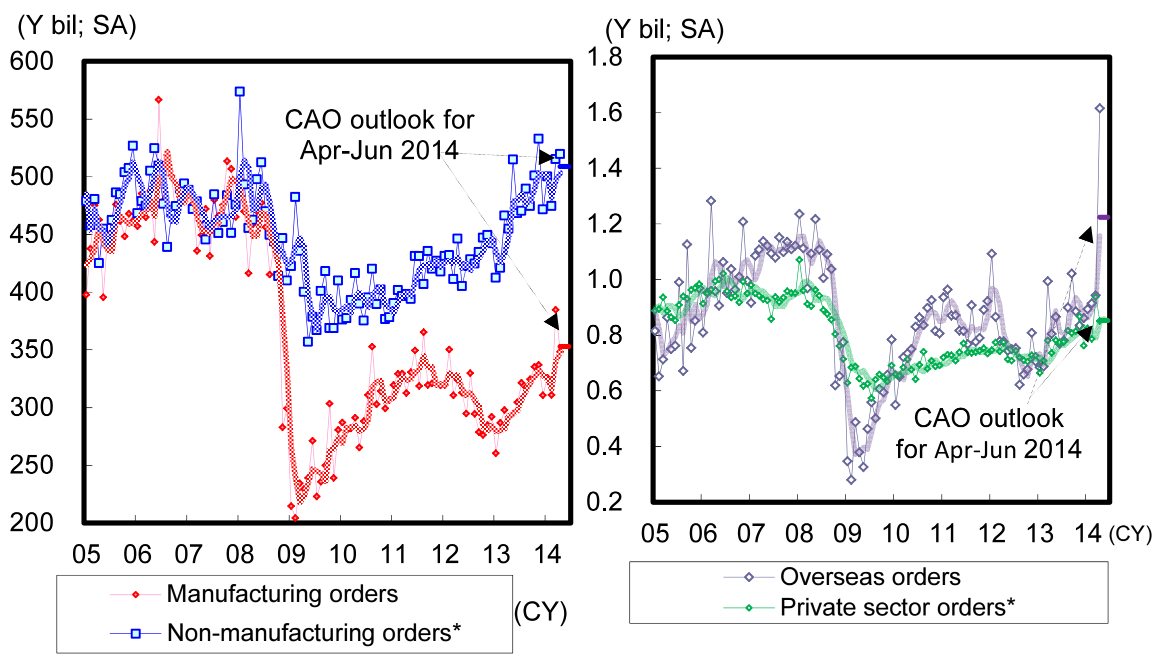
Headlines Point to Decline in the Manufacturing Industries, but Performance Actually Not That Bad

The manufacturing industries suffered a decline for the first time in two months at -9.4%. Looking at performance by industry, declines in other transport equipment (-57.0% m/m), other manufacturing industries (-48.1%), and non-ferrous metals (-25.8%) pulled overall manufacturing performance down. The lackluster performance in other transport equipment and other manufacturing industries is seen as being due to reaction declines after huge gains recorded during the previous month. On the other hand, industries which managed to achieve month to month growth during the period were more than a few. These included chemicals (+34.3% m/m), general machinery (+9.4%), iron & steel (+42.8%), and fabricated metal products (+29.4%). All things considered, results were not nearly as bad as they appeared according to the headlines.

Non-Manufacturing Industries Grow for Second Consecutive Month

Non-manufacturing orders (excluding shipbuilding and electrical power) registered growth for the second consecutive month at +0.9% m/m. As for performance by industry, growth in the following industries served to push up overall results. These were finance and insurance (+74.7% m/m), transport and postal activities (+39.0%), and wholesaling & retailing (+77.0%). Meanwhile, declines were seen in the telecommunications industry (-25.3% m/m) and the agricultural, forestry and fisheries industries (-13.6%) reported month-to-month declines.

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

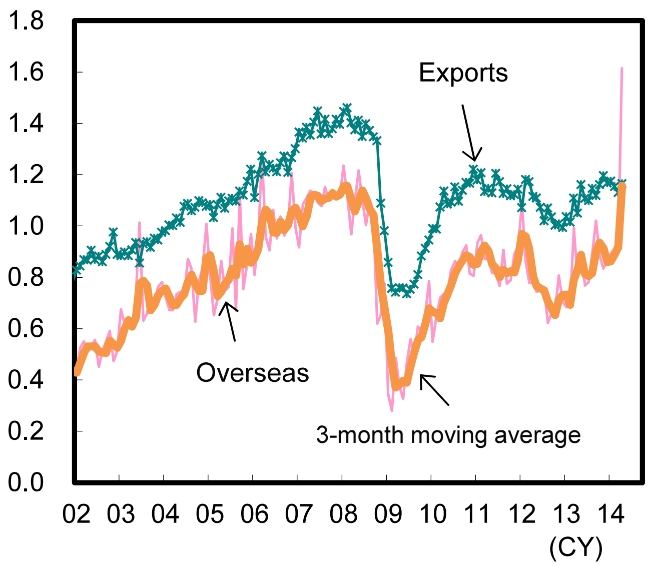


Source: Cabinet Office (CAO); compiled by DIR.

Overseas Orders Achieve Considerable Growth Due to Large Projects

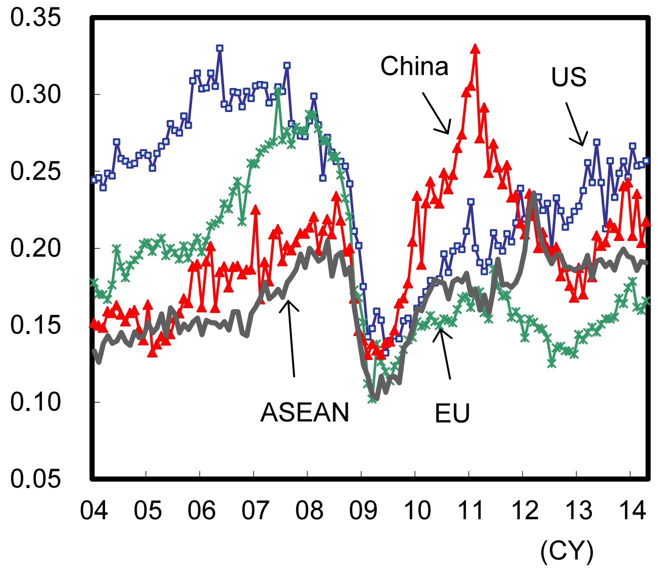
Overseas orders achieved major m/m growth of +71.3%, a record high. Most likely this is due to large orders received by chemical machinery and shipbuilding. The Apr-Jun estimate made public last month saw external demand up +33.5%, a fairly aggressive outlook. It appears that the inclusion of major projects pushed this estimate up even further.

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**



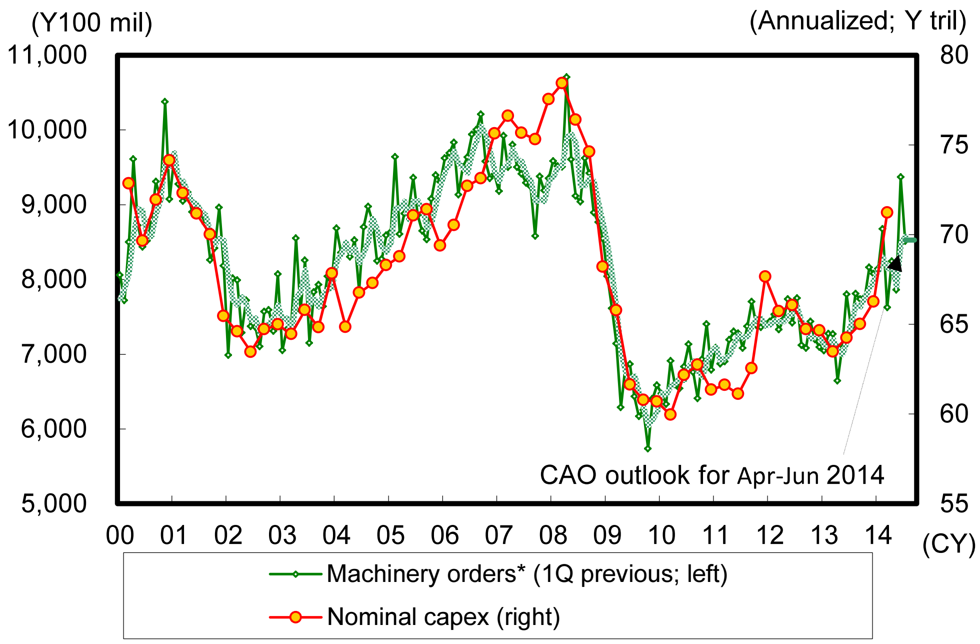
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Machinery Orders Likely to Continue Growth in the Apr-Jun Period

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% q/q. This figure is seen as being achievable even if growth in May and June remains modest at +0.2% m/m. Therefore, we expect to see a continuation of growth for machinery orders beyond 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. Hence moderate growth in capex is expected to continue beyond the Jan-Mar period. Although a reactionary decline in personal consumption and housing investment was unavoidable after the raising of the consumption tax, capex is still expected to provide the main impetus for further growth now that 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.