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May Machinery Orders

Orders fall well below market expectations in negative tone

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Summary

- According to statistics for machinery orders in May 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), fell for the second time in two months, down -19.5% m/m. Figures were well below market consensus (+0.7%), hence setting a negative tone.

- As for performance by source of demand, manufacturing industries suffered a decline for the second time in two months at -18.6%, while non-manufacturing orders (excluding shipbuilding and electrical power) fell for the first time in three months by -17.8% m/m. Overseas orders suffered major m/m declines due to a reactionary decline after the growth of the previous month at -45.9%.

- 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. Hence machinery orders are expected to recover their growth trend in June after May's declines.

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

	2013 Jun	Jul	Aug	Sep	Oct	Nov	Dec	2014 Jan	Feb	Mar	Apr	May
Machinery orders (private sector)*	-1.0	0.3	5.1	-1.1	0.9	6.5	-12.1	8.1	-4.6	19.1	-9.1	-19.5
Market consensus (Bloomberg)												0.7
DIR estimate												4.3
Manufacturing orders	3.3	5.5	-1.2	2.2	3.4	0.5	-7.8	4.9	-4.6	23.7	-9.4	-18.6
Non-manufacturing orders*	-9.0	0.5	4.1	-3.0	5.6	6.4	-11.5	6.1	-5.1	8.5	0.9	-17.8
Overseas orders	-11.2	1.5	15.2	13.6	-13.4	-5.6	3.2	3.7	2.3	3.2	71.3	-45.9

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

May Machinery Orders Fall Well Below Market Expectations

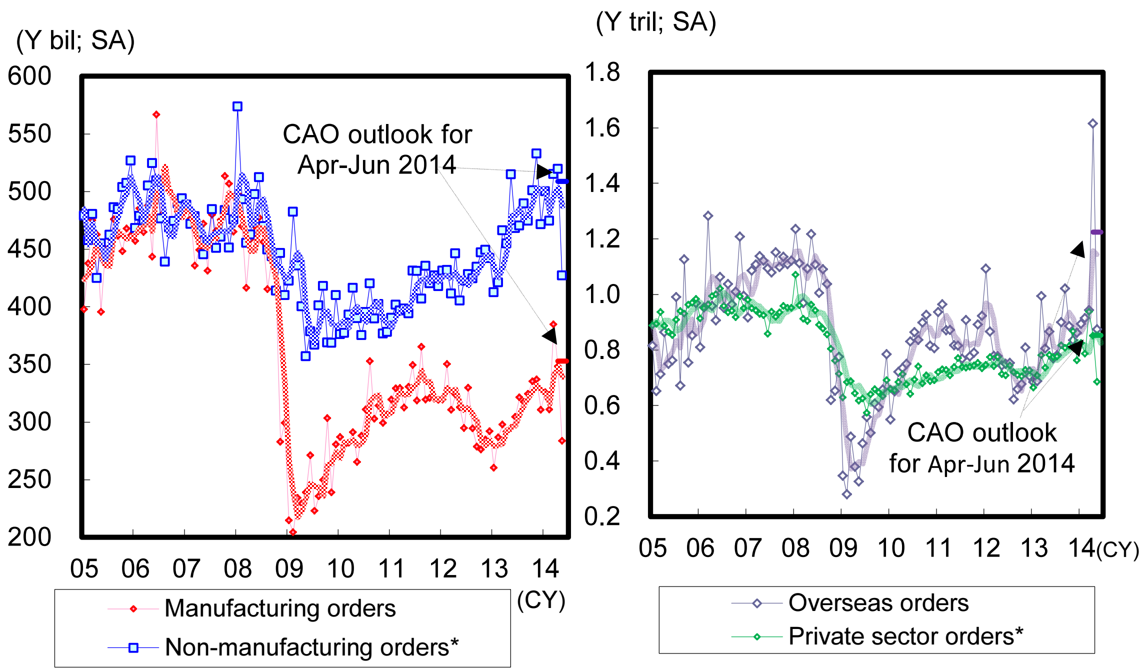
According to statistics for machinery orders in May 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), fell for the second time in two months, down -19.5% m/m. Figures were well below market consensus (+0.7%), hence setting a negative tone.

Both Manufacturing and Non-Manufacturing Industries Suffer Major Declines

As for performance by source of demand, manufacturing industries suffered a decline for the second time in two months at -18.6%. Declines were seen in a broad range of industries, especially electrical machinery (-34.0% m/m), chemicals (-33.2%), general machinery (-9.6%), and information communication electronics equipment (-31.1%), pulling down overall manufacturing performance. Growth in orders for general machinery and electrical machinery is experiencing a momentary slowdown, hence it is recommended that these be watched closely in the future. On the other hand, month-to-month growth was seen in other transport equipment (+61.3%), pulp, paper, and paper products (+39.4%), and other manufacturing (+2.3%).

Non-manufacturing orders (excluding shipbuilding and electrical power) also experienced a downturn for the first time in three months at -17.8% m/m. As for performance by industry, declines in the following industries served to bring down overall results. These were transport and postal activities (-35.3% m/m), finance and insurance (-30.0%), and wholesaling & retailing (-47.1%).

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

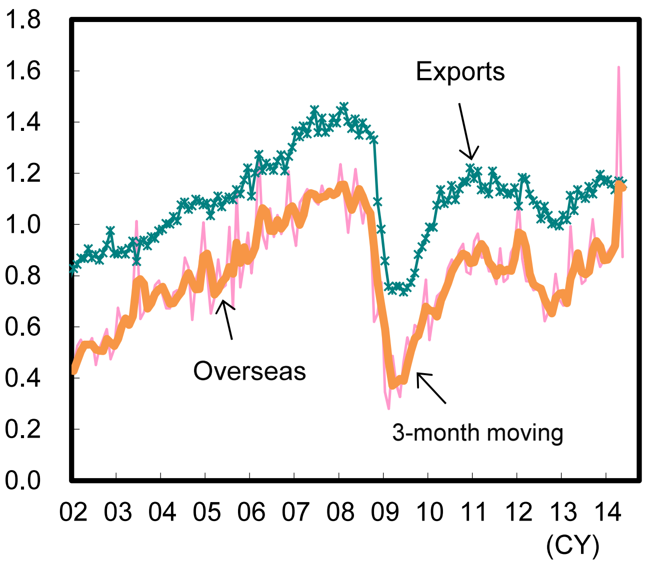


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric power.
Note: Thick lines 3MMA basis.

Overseas Orders Fall Considerably Due to Reactionary Decline, but Expected to Continue Overall Growth Trend

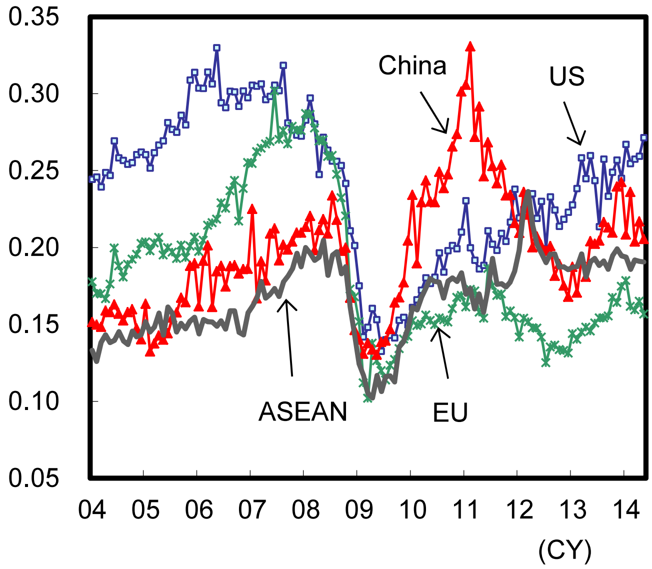
Overseas orders suffered major m/m declines due to a reactionary decline after the growth of the previous month at -45.9%. However, when everything is averaged out, the growth trend continues due to the recovery in overseas economies.

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.

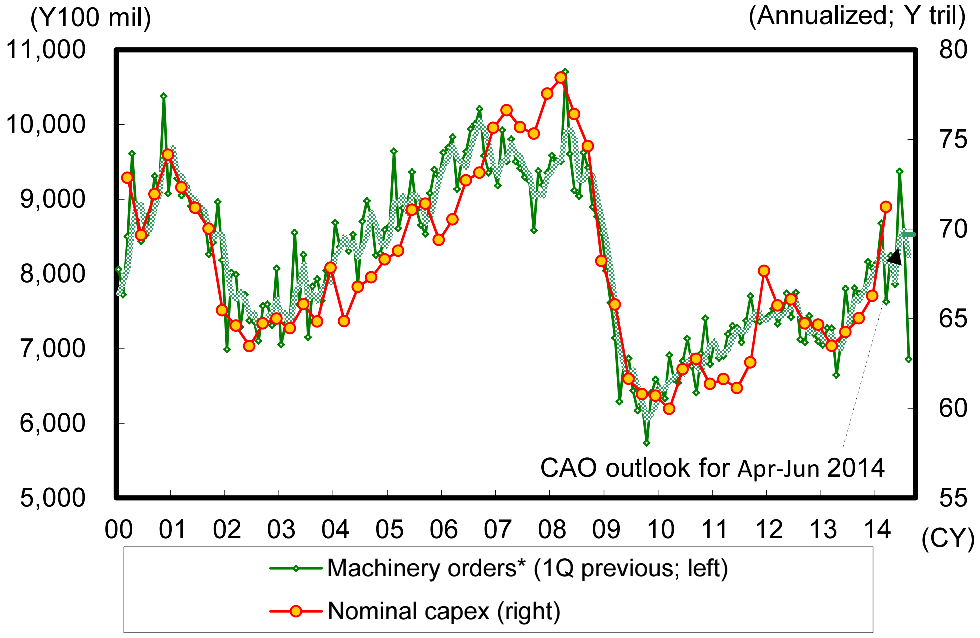
Machinery Orders to Decline in Apr-Jun Period, but Expected to Recover Growth Trend in Jul-Sep Period

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 quarter of growth at +0.4% q/q. However, this figure is now seen as being difficult to achieve, since in order to do so, growth in June would have to reach +49.0% m/m. Therefore, it is likely that machinery orders will experience a setback in the Apr-Jun period.

However, 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 machinery orders, which experienced major declines in May, are expected to recover their growth trend in June.

While reactionary declines in personal consumption and housing investment have been unavoidable after the increase in the consumption tax, growth in capex continues to provide support for further growth. Capex is expected to weaken temporarily during the Apr-Jun 2014 period, but is expected to recover during the Jul-Sep period.

Domestic Demand and Nominal Capex
Chart 5



Source: Cabinet Office (CAO); compiled by DIR.
Note: Excluding those for shipbuilding and from electric utilities; thick line 3MMA basis.