

14 August 2014 (No. of pages: 4)

Japanese report: 14 Aug 2014

June Machinery Orders

Extent of growth limited, but gradual recovery seen

Economic Intelligence Team
Shotaro Kugo

Summary

- According to statistics for machinery orders in June 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in three months, up +8.8% m/m, though figures fell below market consensus (+15.3%). Considering the major downturn of the previous two months (-9.1% in April and -19.5% in May), growth is still limited, with machinery orders exhibiting a weak tone.
- The manufacturing industries achieved growth for the first time in three months at +6.7% m/m. Non-manufacturing orders (excluding shipbuilding and electrical power) grew for the first time in two months by +4.0% m/m.
- Overseas orders achieved major m/m growth at +62.8%. The growth trend continues due to the recovery in overseas economies.
- According to the CAO outlook for the Jul-Sep 2014 period, private sector demand (excluding shipbuilding and electrical power) is expected to achieve growth of +2.9% q/q for the first time in two quarters. Growth of +2.5% m/m is thought to be achievable in each of the three months making up the next quarter. On an industry by industry basis, the manufacturing industries are expected to suffer a -0.5% q/q decline, but the non-manufacturing industries are expected to see q/q growth of +2.2%. Though the manufacturing industries are expected to experience a decline, this is seen as being the influence of the steep declines in achievement rates during the Apr-Jun period, and hence should not be seen in an overly negative light.

Machinery Orders (m/m %; SA)												Chart 1	
	2013					2014							Jun
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May		
Machinery orders (private sector)*	0.3	5.1	-1.1	0.9	6.5	-12.1	8.1	-4.6	19.1	-9.1	-19.5	8.8	
Market consensus (Bloomberg)												15.3	
DIR estimate												15.3	
Manufacturing orders	5.5	-1.2	2.2	3.4	0.5	-7.8	4.9	-4.6	23.7	-9.4	-18.6	6.7	
Non-manufacturing orders*	0.5	4.1	-3.0	5.6	6.4	-11.5	6.1	-5.1	8.5	0.9	-17.8	4.0	
Overseas orders	1.5	15.2	13.6	-13.4	-5.6	3.2	3.7	2.3	3.2	71.3	-45.9	62.8	

Source: Cabinet Office, Bloomberg; compiled by DIR.

*excl. those for shipbuilding and from electric utilities.

Note: Figures on market consensus from Bloomberg

June Machinery Orders Exhibit Weak Tone

According to statistics for machinery orders in June 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), grew for the first time in three months, up +8.8% m/m, though figures fell below market consensus (+15.3%). Considering the major downturn of the previous two months (-9.1% in April and -19.5% in May), growth is still limited, with machinery orders exhibiting a weak tone.

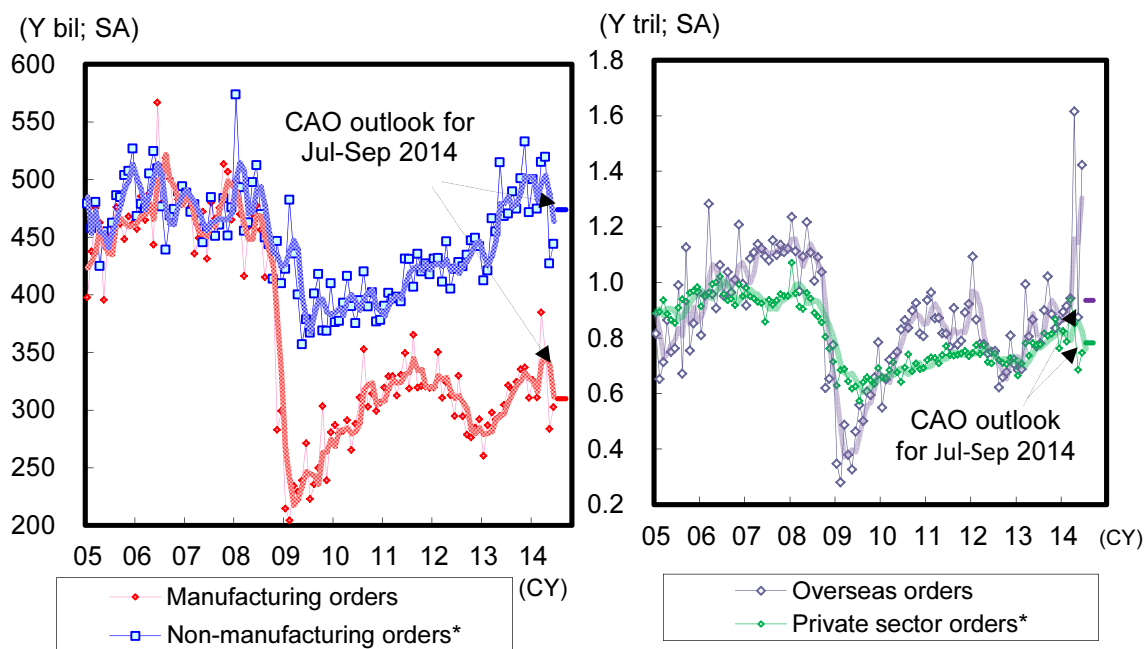
Manufacturing Industry Takes Upward Turn, but Lacks Energy

The manufacturing industries achieved growth for the first time in three months at +6.7% m/m. However, considering the wide range of industries suffering declines in the previous month, performance was somehow lacking in dynamism. Looking at performance by industry, electrical machinery was up by +24.6% m/m, with others following suit, including other manufacturing (+17.6%), precision equipment (+33.6%), and nonferrous metals (+40.3%), which helped push up overall manufacturing performance. Electrical machinery and precision equipment, which had previously been continuing a weak tone, showed signs of having pulled out of their former downturn. On the other hand, month-to-month declines were seen in chemicals (-26.5%), pulp, paper, and paper products (-32.7%), and general machinery (-1.3%).

Non-manufacturing Industry Achieves Growth for First Time in Two Months

Non-manufacturing orders (excluding shipbuilding and electrical power) grew for the first time in two months by +4.0% m/m. Construction (+26.2% m/m) and wholesaling & retailing (+10.8%) provided leverage for overall results.

Orders by Demand Source (seasonally adjusted figures) Chart 2

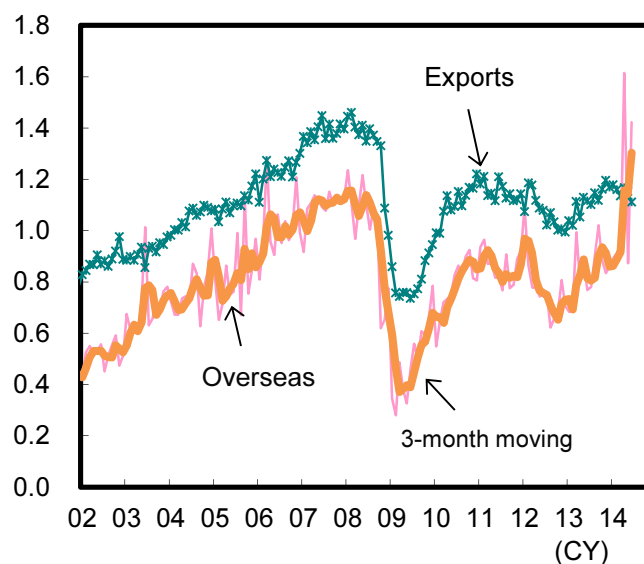


Source: Cabinet Office (CAO); compiled by DIR.
 *excl. those for shipbuilding and from electric utilities.
 Note: Thick lines 3MMA basis.

Overseas Orders Grow Dramatically Due to Orders for Large Projects

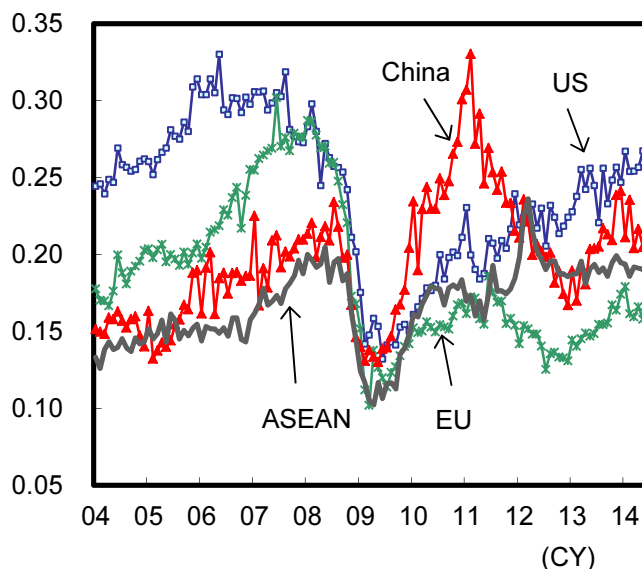
Overseas orders achieved major m/m growth at +62.8%. The growth trend continues due to the recovery in overseas economies. The outlook for the Jul-Sep period sees a rebound in reaction to the sharp growth which occurred during the Apr-Jun period due to special factors, hence a decline is expected, but in the long run, it appears that the growth trend should continue.

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.

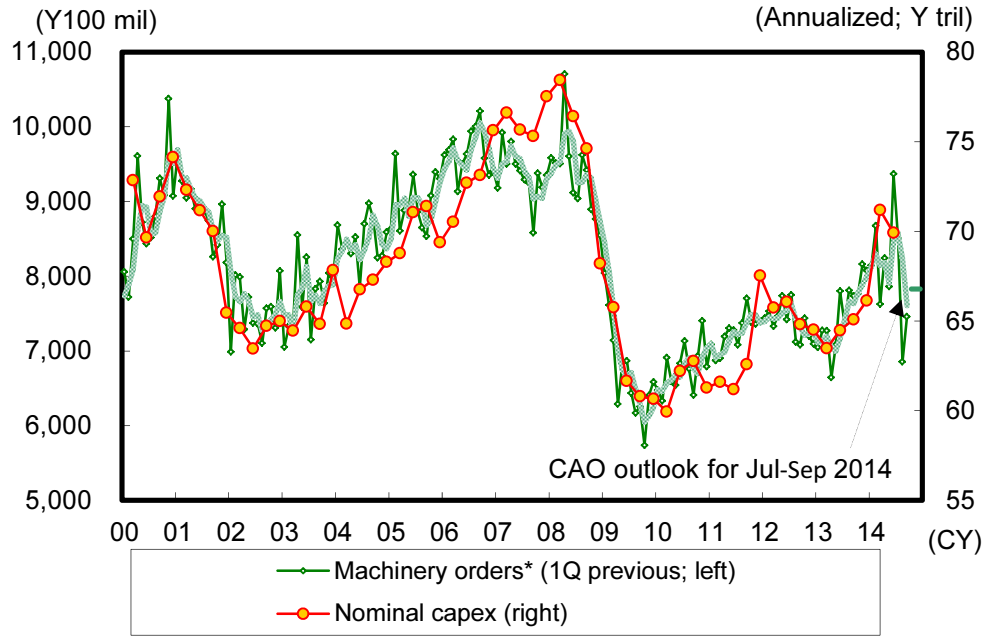
Machinery Orders Expected to Recover Growth Trend in Jul-Sep Period

According to the CAO outlook for the Jul-Sep 2014 period, private sector demand (excluding shipbuilding and electrical power) is expected to achieve growth of +2.9% q/q for the first time in two quarters. Growth of +2.5% m/m is thought to be achievable in each of the three months making up the next quarter. On an industry by industry basis, the manufacturing industries are expected to suffer a -0.5% q/q decline, but the non-manufacturing industries are expected to see q/q growth of +2.2%. Though the manufacturing industries are expected to experience a decline, this is seen as being the influence of the steep declines in achievement rates during the Apr-Jun period, and hence should not be seen in an overly negative light.

Although capex took a negative turn in the Apr-Jun GDP figures, it is actually continuing its upward movement when the dramatic growth of the Jan-Mar period is included in considerations. In addition, various business surveys including the BOJ Tankan Survey, note the positive attitude of corporations toward capex. With business performance improving for both the manufacturing and non-manufacturing industries, an environment which encourages growth in capex has developed. Meanwhile, personal consumption is also headed toward recovery from the post-tax hike reactionary decline, and capex is expected to provide support for further growth in the future.

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.