Daiwa
Daiwa Institute of Research

**10 September 2014 (No. of pages: 4)**

Japanese report: 10 Sep 2014

# July Machinery Orders

## Orders show signs of a comeback, though lacking somewhat in vigor

Economic Intelligence Team
**Masahiko Hashimoto**

### Summary

- According to statistics for machinery orders in July 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +3.5% m/m, though figures fell somewhat below market consensus (+4.0%). Considering the major downturn in April (-9.1% m/m) and May (-19.5%), growth was somewhat lacking in vigor, but these figures represent the second consecutive month of growth for machinery orders, which are now showing definite signs of a comeback.

- The manufacturing industries achieved growth for the second month in a row at +20.3% m/m. The extent of growth was considerable, and it seems the manufacturing industries have regained the lost ground suffered during the declines of previous months (down -9.4% m/m in April and -18.6% in May). This sudden jump in orders may be due to large projects having come in all at once and hence only temporary. But even if we discount it, most manufacturing industries also reported growth, so it is safe to say that manufacturing industry orders are on their way to a comeback.

- Non-manufacturing orders (excluding shipbuilding and electrical power) suffered a decline for the first time in two months by -4.3% m/m. In contrast to the performance seen in the manufacturing industries, non-manufacturing orders remained stagnant. Overall figures were brought down by declines in the construction industry (-12.4% m/m), leasing (-27.5%), and real estate (-25.5%).

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

| | 2013 | | | | | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul |
| Machinery orders (private sector)* | 5.1 | -1.1 | 0.9 | 6.5 | -12.1 | 8.1 | -4.6 | 19.1 | -9.1 | -19.5 | 8.8 | **3.5** |
| Market consensus (Bloomberg) | | | | | | | | | | | | **4.0** |
| DIR estimate | | | | | | | | | | | | **5.3** |
| Manufacturing orders | -1.2 | 2.2 | 3.4 | 0.5 | -7.8 | 4.9 | -4.6 | 23.7 | -9.4 | -18.6 | 6.7 | **20.3** |
| Non-manufacturing orders* | 4.1 | -3.0 | 5.6 | 6.4 | -11.5 | 6.1 | -5.1 | 8.5 | 0.9 | -17.8 | 4.0 | **-4.3** |
| Overseas orders | 15.2 | 13.6 | -13.4 | -5.6 | 3.2 | 3.7 | 2.3 | 3.2 | 71.3 | -45.9 | 62.8 | **-42.6** |

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

## July Machinery Orders Show Signs of a Comeback, Winning Growth for the Second Month in a Row

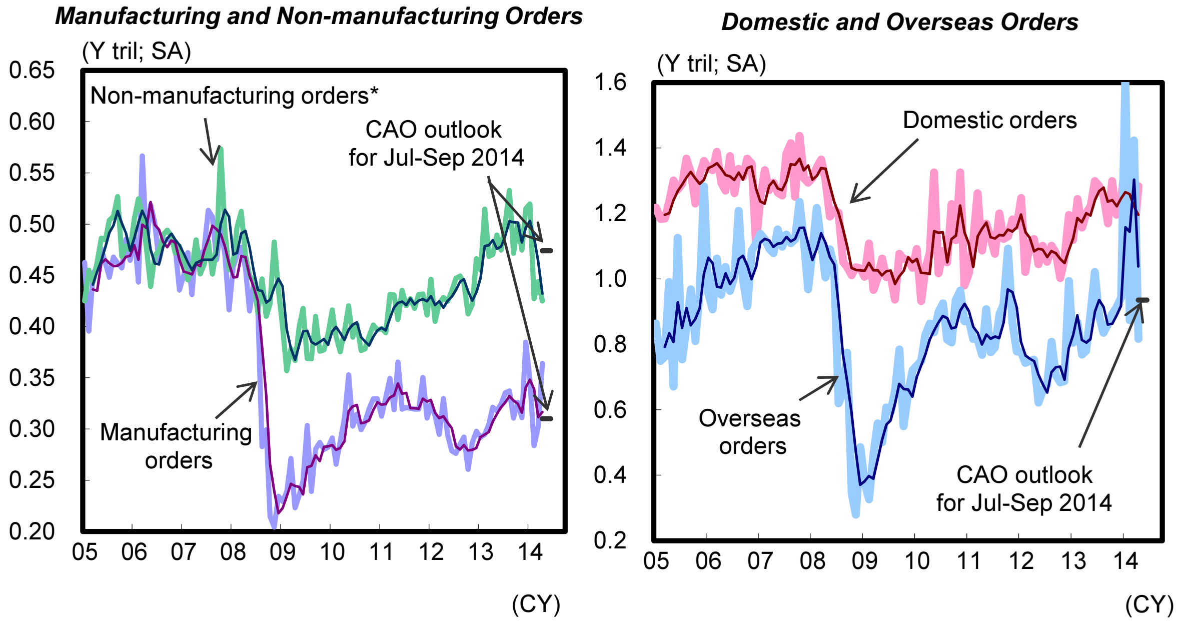
According to statistics for machinery orders in July 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +3.5% m/m, though figures fell somewhat below market consensus (+4.0%). Considering the major downturn in April (-9.1% m/m) and May (-19.5%), growth was somewhat lacking in vigor, but these figures represent the second consecutive month of growth for machinery orders, which are now showing definite signs of a comeback.

## Manufacturing Industry Orders back on track; Non-Manufacturing Stagnant

The manufacturing industries achieved growth for the second month in a row at +20.3% m/m. The extent of growth was considerable, and it seems the manufacturing industries have regained the lost ground suffered during the declines of previous months (down -9.4% m/m in April and -18.6% in May). Looking at performance by industry, chemicals were up by +185.8% m/m, with general machinery up by +21.3%, and petroleum and coal products up by +223.4%, helping to bring up overall manufacturing performance along with them. Month-to-month performance was especially dramatic for the chemicals and petroleum and coal products industries – much higher than seen in the past, leading us to believe that this sudden jump in orders may be only temporary, most likely due to large projects having come in at the same time. But even if we discount performance in these industries, most manufacturing industries also reported growth in orders, so it is safe to say that manufacturing industry orders are on their way to a comeback.

Non-manufacturing orders (excluding shipbuilding and electrical power) suffered a decline for the first time in two months by -4.3% m/m. In contrast to the performance seen in the manufacturing industries, non-manufacturing orders remained stagnant. Overall figures were brought down by declines in the construction industry (-12.4% m/m), leasing (-27.5%), and real estate (-25.5%).

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

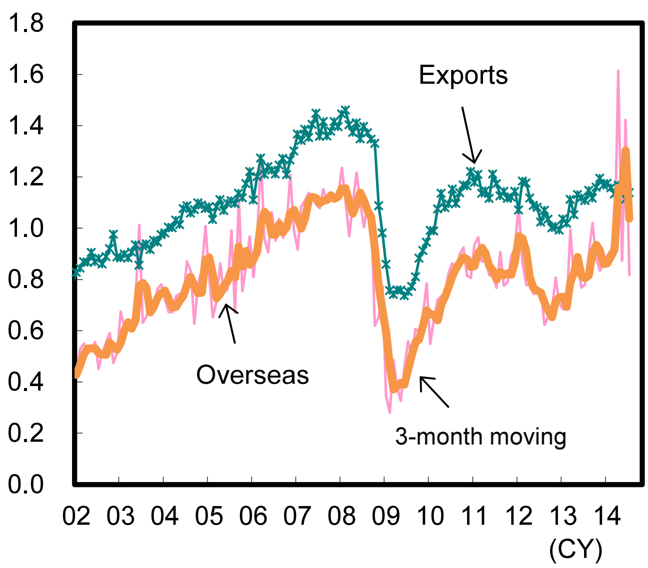



Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thin lines 3MMA basis.

## Overseas Orders Suffer Major Decline in Single Month Terms, but Growth Trend Seen When Performance Averaged Out

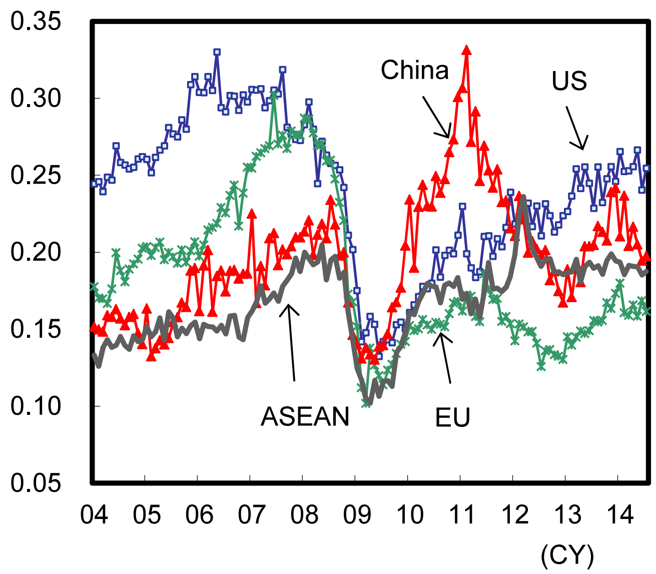
In reaction to the major growth experienced by overseas orders during the previous month (+62.8% m/m), the first decline in two months occurred to the tune of -42.6% m/m. Fluctuations have been so extreme over the past several months that it is difficult for orders to set a clear tone, but in monetary terms the level reached is not so low, so when things average out, we believe that a growth trend continues. The monetary value of exports of general machinery according to trade statistics has been on the decline since the beginning of 2014, but considering the fact that overseas orders have been generally in a growth trend up to now, there is still a good chance that orders will again move into a growth phase.

**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.

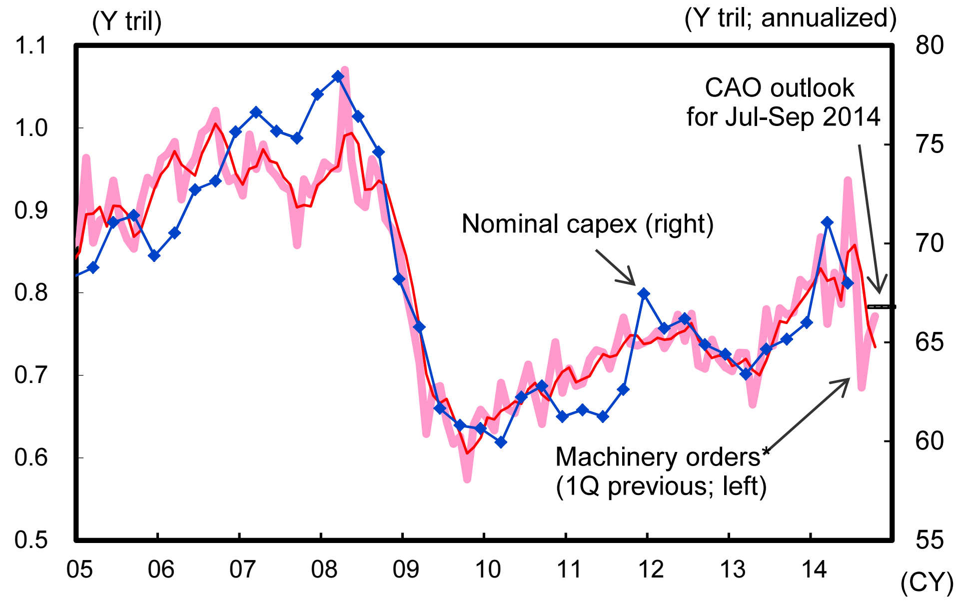
## Chances Good for Return to Growth Trend in capex in Jul-Sep Period and Beyond

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. This outlook will be achievable assuming there is growth of at least +1.5% m/m in August and September. Machinery orders are therefore expected to achieve q/q growth for the first time in two quarters in the Jul-Sep period.

Although capex took a negative turn in the Apr-Jun GDP figures, corresponding indices such as shipment and aggregate supply of capital goods are now getting back on track. Machinery orders, which are a leading indicator, are also considered to be headed toward a comeback despite their relative lack of vigor in July. Various business surveys, including the BOJ Tankan Survey, note the positive attitude of corporations toward capex. Therefore, we expect capex to recover and move into a growth trend in the Jul-Sep period and beyond.

## Domestic Demand and Nominal Capex

Chart 5




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