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August Machinery Orders

Orders continue to work toward comeback

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Summary

- According to statistics for machinery orders in August 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +4.7% m/m, greatly exceeding market consensus (+0.5%). This represents the third consecutive month of growth, indicating that orders continue to work their way toward a comeback.

- The manufacturing industries suffered a decline for the first time in three months at -10.8% m/m. However, this was due mainly to the fact that the previous month's results hit a one-time high due to special factors. Looked at in terms of averages the growth trend continues. Non-manufacturing orders (excluding shipbuilding and electrical power) achieved growth for the first time in two months at +10.7% m/m. Though the overall result shows the non-manufacturing industries to be moving toward a comeback, many industries actually suffered declines, hence results were lacking in vitality.

- Overseas demand grew +29.1% m/m moving into a growth trend despite ups and downs.

- 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 with September results at -4.7% m/m. Machinery orders are therefore expected to have an excellent chance at achieving q/q growth for the first time in two quarters.

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

	2013 Sep	Oct	Nov	Dec	2014 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Machinery orders (private sector)*	-1.1	0.9	6.5	-12.1	8.1	-4.6	19.1	-9.1	-19.5	8.8	3.5	4.7
Market consensus (Bloomberg)												0.5
DIR estimate												1.3
Manufacturing orders	2.2	3.4	0.5	-7.8	4.9	-4.6	23.7	-9.4	-18.6	6.7	20.3	-10.8
Non-manufacturing orders*	-3.0	5.6	6.4	-11.5	6.1	-5.1	8.5	0.9	-17.8	4.0	-4.3	10.7
Overseas orders	13.6	-13.4	-5.6	3.2	3.7	2.3	3.2	71.3	-45.9	62.8	-42.6	29.1

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

August Machinery Orders Continue to Work Toward Comeback

According to statistics for machinery orders in August 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +4.7% m/m, greatly exceeding market consensus (+0.5%). This represents the third consecutive month of growth, indicating that orders continue to work their way toward a comeback.

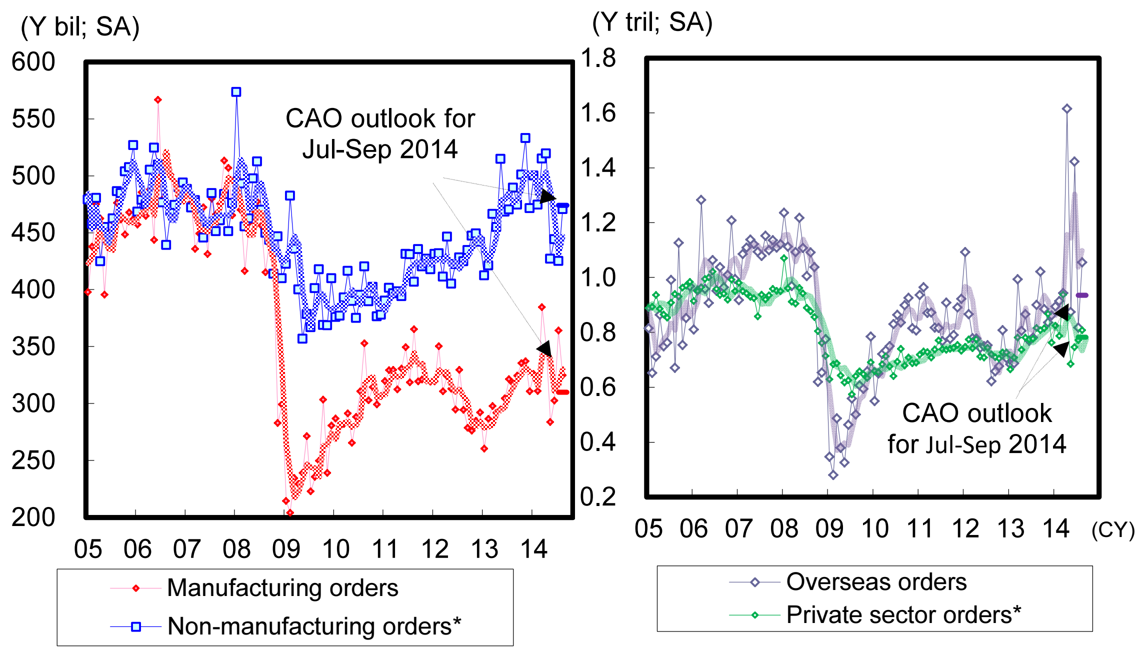
Manufacturing Industry Orders Maintain Growth Trend in Average Terms

The manufacturing industries suffered a decline for the first time in three months at -10.8% m/m. However, this was due mainly to the fact that the previous month's results hit a one-time high due to special factors. Looked at in terms of averages the growth trend continues. On an industry by industry basis, declines in the following areas pulled overall results down – chemicals and chemical products (-50.1%), petroleum and coal products (-82.2%), and general machinery (-7.6%). This represents a reactionary decline in these industries following temporary highs experienced during the previous month due to having taken in orders for large projects. Underlying support was provided for this month's manufacturing results in the form of growth seen in pulp, paper, and paper products (+145.6%), other transport equipment (+43.2%), and non-ferrous metals (+48.4%).

Non-manufacturing Industry Shows Overall Growth, but Lacking in Vitality

Non-manufacturing orders (excluding shipbuilding and electrical power) achieved growth for the first time in two months at +10.7% m/m. Though the overall result shows the non-manufacturing industries to be moving toward a comeback, many industries actually suffered declines, hence results were lacking in vitality. Growth in leasing (+219.9% m/m) and construction (+12.1%) kept the overall figures up. But growth in the leasing industry was most likely a one-time high due to orders for large projects, and therefore must be taken with a grain of salt. In contrast, the following industries suffered declines in comparison with the previous month – finance and insurance (-19.4%), telecommunications (-4.7%), and agriculture, forestry, and fishing (-9.0%).

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

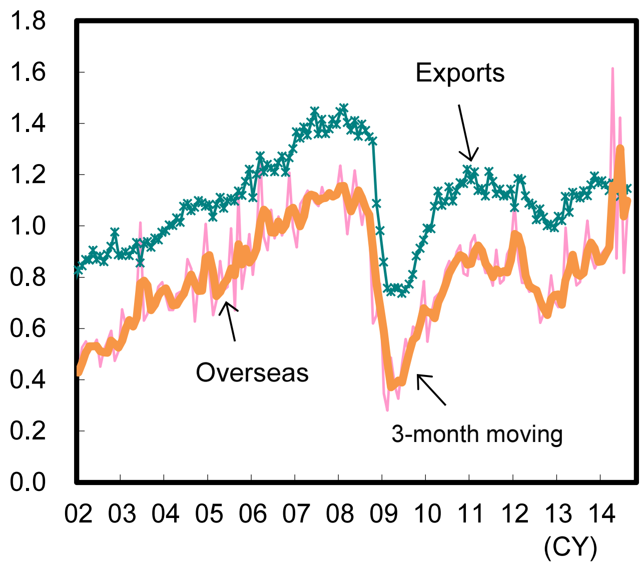


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3MMA basis.

Overseas Orders in Growth Trend Despite Ups and Downs

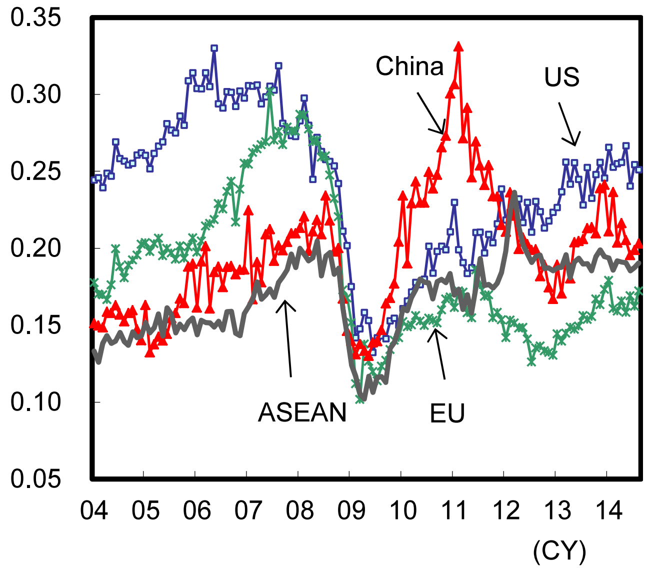
Overseas demand grew +29.1% m/m moving into a growth trend despite ups and downs. According to trade statistics, exports of general machinery in monetary terms have been in a downtrend since the beginning of 2014, but recent orders show a growth trend. Hence chances are good that overseas orders may return to a growth trend.

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**



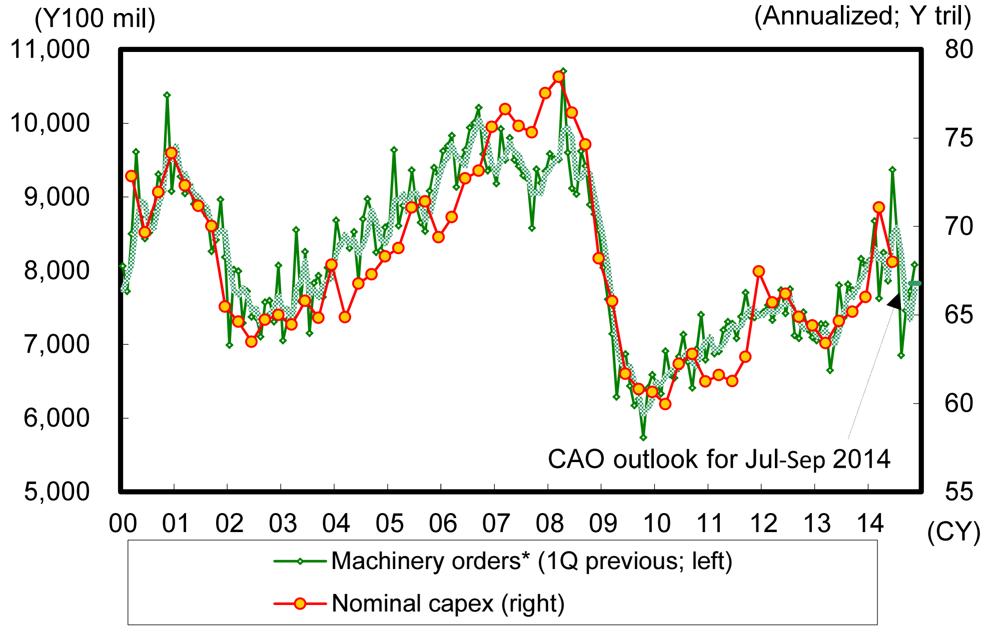
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Machinery Orders Stand Good Chance of Achieving Growth for First Time in Two Quarters 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. This outlook will be achievable with September results at -4.7% m/m. Machinery orders are therefore expected to have an excellent chance at achieving q/q growth for the first time in two quarters.

According to GDP statistics, capex suffered a q/q decline during the Apr-Jun period. However, the coinciding indicator to capex spending, shipments of capital goods, has recently been experiencing a comeback in total supply. Machinery orders, which are a leading indicator, are moving toward a comeback centering on the manufacturing industries, and the BOJ Tankan survey on planned capital spending shows a positive attitude towards capex. Hence capex spending is likely to recover and move into a growth trend from 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; thick lines 3MMA basis.