

13 November 2014 (No. of pages: 4)

Japanese report: 13 Nov 2014

# September Machinery Orders

**Both manufacturing and non-manufacturing sectors show good results**

Economic Intelligence Team  
**Shotaro Kugo**

## Summary

- According to statistics for machinery orders in September 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +2.9% m/m, while exceeding market consensus (-1.0%). This is the fourth consecutive month of growth, indicating that orders are now clearly in a growth trend.
- Looking at results by source of demand, the manufacturing industries achieved growth for the first time in two months at +12.0% m/m. A wide range of industries reported growth in orders, showing good results overall. Non-manufacturing orders (excluding shipbuilding and electric power) achieved growth for the second consecutive month at +1.7% m/m.
- Overseas demand suffered a decline of -9.4% m/m. This appears to be in reaction to the major growth experienced during the Apr-Jun quarter, but is still on the positive side in comparison to earlier declines.
- According to the CAO outlook for the Oct-Dec 2014 period, private sector demand (excluding shipbuilding and electric power) is expected to suffer a decline of -0.3% q/q, its first decline in two quarters. Corporations are a bit bearish in their outlooks for orders, creating a somewhat negative tone. Domestic demand has been weaker than expected after the increase in the consumption tax, and this increasing sense of an unclear future is likely to show up in corporate outlooks. Hence care should be taken regarding the future.

Machinery Orders (m/m %; SA)												Chart 1
	2013			2014								
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Machinery orders (private sector)*	0.9	6.5	-12.1	8.1	-4.6	19.1	-9.1	-19.5	8.8	3.5	4.7	2.9
Market consensus (Bloomberg)												-1.0
DIR estimate												-0.5
Manufacturing orders	3.4	0.5	-7.8	4.9	-4.6	23.7	-9.4	-18.6	6.7	20.3	-10.8	12.0
Non-manufacturing orders*	5.6	6.4	-11.5	6.1	-5.1	8.5	0.9	-17.8	4.0	-4.3	10.7	1.7
Overseas orders	-13.4	-5.6	3.2	3.7	2.3	3.2	71.3	-45.9	62.8	-42.6	29.1	-9.4

Source: Cabinet Office, Bloomberg; compiled by DIR.

\*excl. those for shipbuilding and from electric utilities.

Note: Figures on market consensus from Bloomberg

## September Machinery Orders win Fourth Consecutive Month of Growth

According to statistics for machinery orders in September 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electric power), were up by +2.9% m/m, while exceeding market consensus (-1.0%). This is the fourth consecutive month of growth, indicating that orders are now clearly in a growth trend.

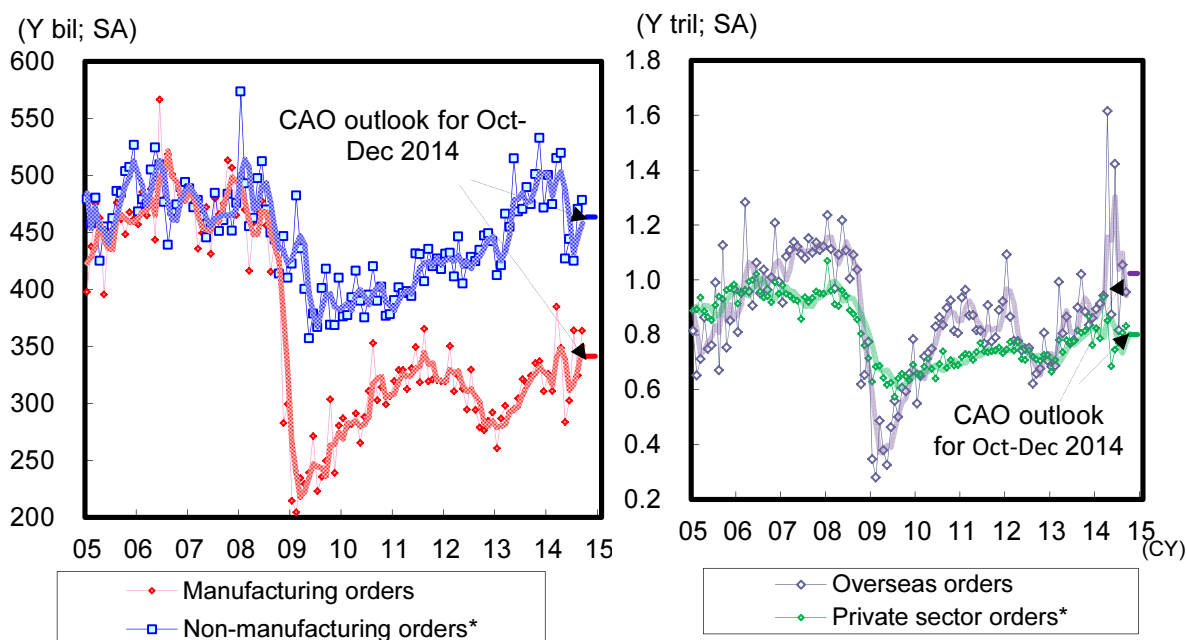
## Manufacturing Industry Orders Show Good Results, with Growth Seen in a Broad Range of Industries

Looking at results by source of demand, the manufacturing industries achieved growth for the first time in two months at +12.0% m/m. A wide range of industries reported growth in orders, showing good results overall. Especially notable for helping to bring overall results up were electrical machinery (+46.1% m/m), petroleum and coal products (+492.1%), chemicals (+24.3%), and automobiles, parts, and accessories (+15.8%). The sudden leap in growth for petroleum and coal products may be a temporary phenomenon due to having taken on orders for large projects and so can be taken with a grain of salt. However, in the case of automobiles, parts, and accessories, this is a sign of having hit bottom after a downtrend which has lasted since earlier this year.

## Non-manufacturing Industry Continues to Move Toward Comeback

Non-manufacturing orders (excluding shipbuilding and electric power) achieved growth for the second consecutive month at +1.7% m/m. Results by industry showed especially large contributions from telecommunications (+49.1% m/m), information services (+19.8%), finance and insurance (+5.8%), and real estate (+44.4%). Telecommunications and information services had been in a decline until now, but as of this point show signs of hitting bottom.

Orders by Demand Source (seasonally adjusted figures) Chart 2

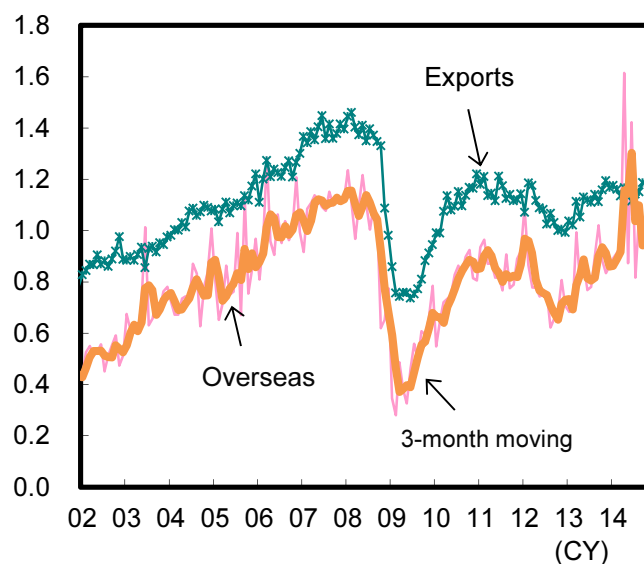


Source: Cabinet Office (CAO); compiled by DIR.  
 \*excl. those for shipbuilding and from electric utilities.  
 Note: Thick lines 3MMA basis.

## Overseas Orders Maintain High Level, but Future is Unclear

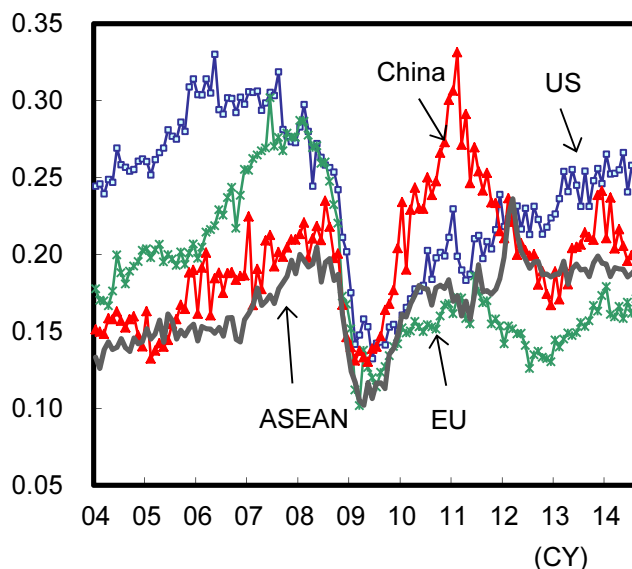
Overseas demand suffered a decline of -9.4% m/m. This appears to be in reaction to the major growth experienced during the Apr-Jun quarter, but is still on the positive side in comparison to earlier declines. Care should be taken regarding an increasingly unclear future, due mostly to the slowdown in the EU and Chinese 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**

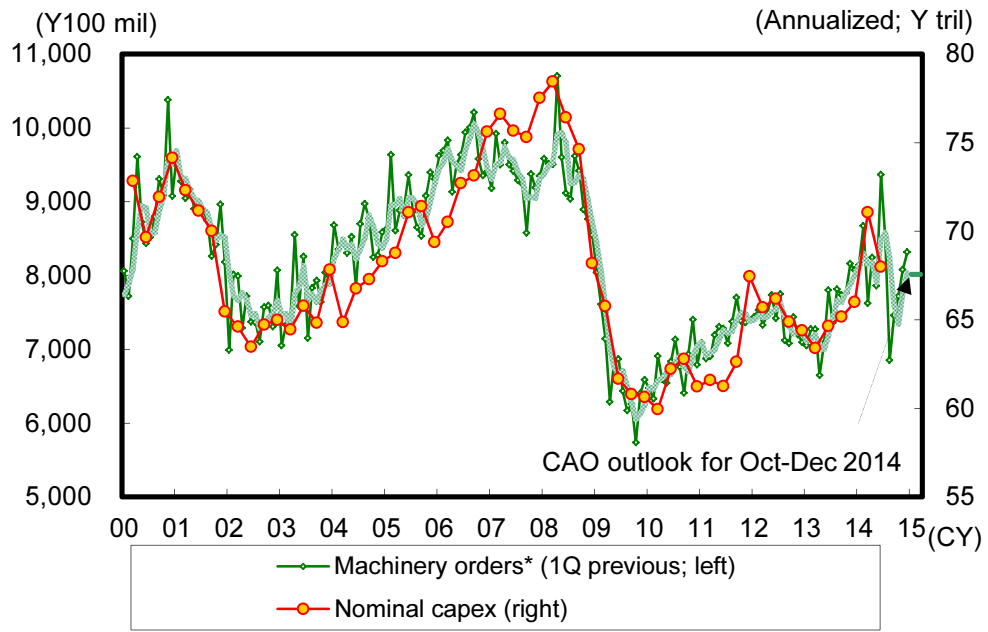


Source: Ministry of Finance; compiled by DIR.  
Note: SA by DIR.

## Machinery Orders Stand Good Chance of Achieving Growth for Second Consecutive Quarter in Oct-Dec Period

According to the CAO outlook for the Oct-Dec 2014 period, private sector demand (excluding shipbuilding and electric power) is expected to suffer a decline of -0.3% q/q, its first decline in two quarters. Corporations are a bit bearish in their outlooks for orders, creating a somewhat negative tone. Domestic demand has been weaker than expected after the increase in the consumption tax, and this increasing sense of an unclear future is likely to show up in corporate outlooks. Hence care should be taken regarding the future. However, results should easily hit this figure assuming that there is an average decline of -1.8% m/m during each month of the quarter. If the average decline is only -1.6% m/m, Oct-Dec period results should be able to report growth. Hence machinery orders are thought to stand a good chance of achieving their second consecutive quarter of growth in Oct-Dec 2014 based on strong result up to now. 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.

## **IMPORTANT**

This document is not intended as a solicitation for investment. Content herein is based on reliable information available at the time the document was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to accuracy or completeness. Daiwa Securities Group is the parent of Daiwa Institute of Research Holdings (parent of Daiwa Institute of Research) and Daiwa Securities. Daiwa Institute of Research retains all rights related to the content of this document, which may not be redistributed or otherwise transmitted without prior consent.

### **United Kingdom**

This document was produced by Daiwa Institute of Research Ltd., and is distributed by Daiwa Capital Markets Europe Limited which is regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange, Eurex and NYSE Liffe.

Daiwa Capital Markets Europe Limited may, from time to time, to the extent permitted by applicable UK law and other applicable law or regulation, participate or invest in other financing transactions with the issuers of the Securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options therefore and/or may have acted as an underwriter during the past three years for the issuer of such Securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliate may have positions and effect transactions in such Securities or options and may serve as directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this document is published to recipients.

This document is intended for investors who are not Retail Clients within the meaning of the Rules of FCA and should not, therefore, be distributed to Retail Clients in the United Kingdom. This document is not to be used or considered as an offer to sell or solicitation of an offer to buy any Securities. Information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but neither Daiwa Capital Markets Europe Limited and/or its affiliates accepts liability for any loss arising from the use hereof or makes any representation as to their accuracy or completeness. Any information to which no source has been attributed should be taken as an estimate by Daiwa Institute of Research Ltd. This document is not to be relied upon as such or used in substitution for the exercise of independent judgment. Should you enter into investment business with any Daiwa Capital Markets Europe Limited affiliate outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available. Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

### **Germany**

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Frankfurt branch, which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

### **North America**

This document was prepared by Daiwa Institute of Research ("DIR"), a Japanese company. It may not be accurate or complete and should not be relied upon as such. It reflects the preparer's views at the time of its preparation, but it is provided with a time delay and does not reflect events occurring after its preparation. The preparer has no obligation to update this document or to continue to prepare research on this subject. This document is not an offer to sell or the solicitation of any offer to buy securities. Unless this report says otherwise, any recommendation it makes is risky and appropriate only for sophisticated speculative investors able to incur significant losses. Readers should consult their financial advisors to determine whether any such recommendation is consistent with their own investment objectives, financial situation, and needs.

This document does not recommend to U.S. recipients the use of Daiwa Capital Markets America Inc. or its non-U.S. affiliates to effect trades in any security and is not supplied with any understanding that U.S. recipients will direct commission business to such entities. Unless applicable law permits otherwise, non-U.S. customers wishing to effect a transaction in any securities referenced in this document should contact a Daiwa entity in their local jurisdiction. U.S. customers wishing to obtain further information or effect transactions in any securities mentioned in this document should contact Daiwa Capital Markets America Inc. ("DCMA"), Financial Square, 32 Old Slip, New York, New York 10005 (telephone 212-612-7000).

Attention

This cover letter is an unofficial translation. The official document is in Japanese.

**Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law  
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)**

If you decide to enter into a business arrangement with our company based on the information described in materials presented along with this cover letter, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association

The Financial Futures Association of Japan

Japan Investment Advisers Association

Type II Financial Instruments Firms Association