15 January 2015 (No. of pages: 4)

Japanese report: 15 Jan 2015

November Machinery Orders

Performance generally lacking in energy

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Summary

- According to statistics for machinery orders in November 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +1.3% m/m, while falling below market consensus (+4.4%). While results did achieve growth for the first time in two months, it was fairly limited considering the extent of last month's decline, leading to the sense that something was to be desired.

- Looking at results by source of demand, the manufacturing industries suffered a decline for the second month in a row at -7.0% m/m. Manufacturing orders continued their comeback after hitting bottom in May of last year, but the pace of that comeback has recently slowed. Non-manufacturing orders (excluding shipbuilding and electric power) grew for the first time in two months at +0.5% m/m. Growth was limited considering the extent of last month's decline, and detailed data show much to be negative about with a broad range of industries reporting m/m declines. Performance was generally lacking in energy.

- According to GDP statistics, Jul-Sep period capex fell in comparison with the previous quarter. Hopes had been pinned on capex to lead the economy back to growth after the April increase in consumption tax, but it was ultimately weaker than expected, and this weakness is considered to be one of the factors behind stagnant domestic demand. However, the coincident index for capex, shipments of capital goods, is steadily moving toward a comeback, and though machinery orders (a leading indicator) seem to be on the decline recently, they are seen as moving into an upswing when all is averaged out. In addition, the BOJ Tankan survey on planned capital spending shows a positive attitude amongst corporations towards capex. Hence we believe that capex spending is likely to recover and move into a growth phase later in the 2014 fiscal year.

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

	2013 Dec	2014 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Machinery orders (private sector)*	-12.1	8.1	-4.6	19.1	-9.1	-19.5	8.8	3.5	4.7	2.9	-6.4	1.3
Market consensus (Bloomberg)												4.4
DIR estimate												3.5
Manufacturing orders	-7.8	4.9	-4.6	23.7	-9.4	-18.6	6.7	20.3	-10.8	12.0	-5.5	-7.0
Non-manufacturing orders*	-11.5	6.1	-5.1	8.5	0.9	-17.8	4.0	-4.3	10.7	1.7	-7.5	0.5
Overseas orders	3.2	3.7	2.3	3.2	71.3	-45.9	62.8	-42.6	29.1	-9.4	-4.6	-6.0

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

November Machinery Orders Win Growth for First Time in Two Months, but Lack in Energy

According to statistics for machinery orders in November 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +1.3% m/m, while falling below market consensus (+4.4%). While results did achieve growth for the first time in two months, it was fairly limited considering the extent of last month's decline, leading to the sense that something was to be desired.

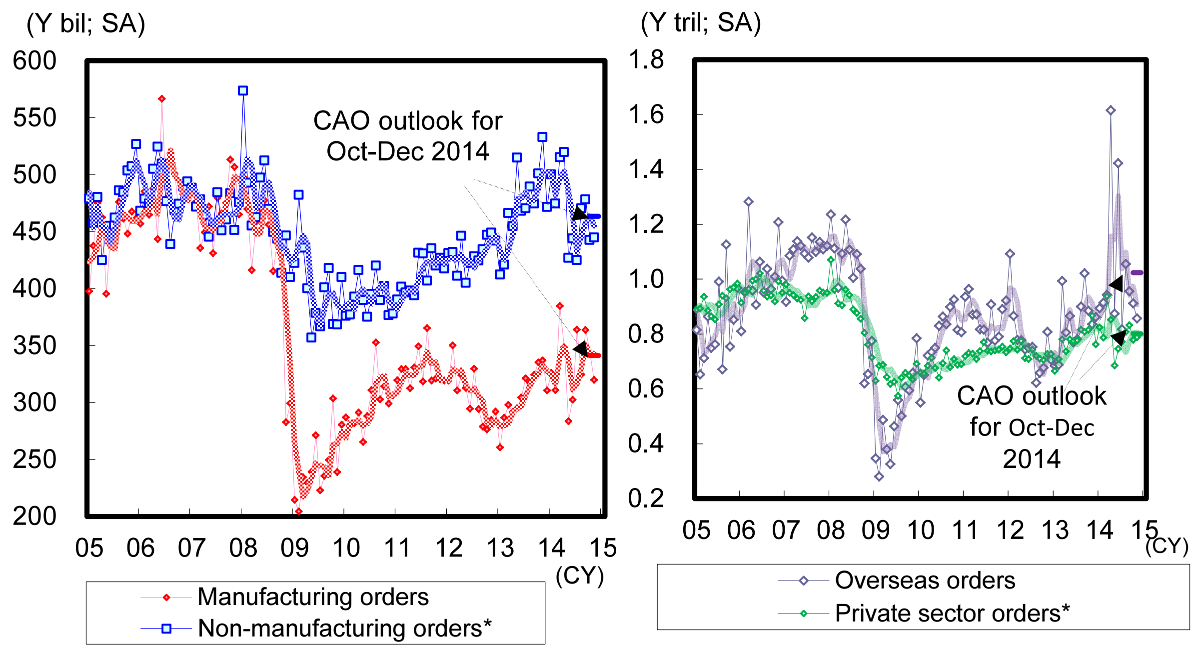
Manufacturing Slows Pace of Recent Growth

Looking at results by source of demand, the manufacturing industries suffered a decline for the second month in a row at -7.0% m/m. Manufacturing orders continued their comeback after hitting bottom in May of last year, but the pace of that comeback has recently slowed. Month-to-month declines were experienced by a broad range of industries with performance generally lacking energy. Results by industry were as follows: chemicals (-40.1% m/m), information and communication electronics equipment (-23.0%), iron and steel (-38.2%), general machinery (-4.1%), pulp, paper and paper products (-59.4%), and automobiles, parts and accessories (-4.7%).

Non-manufacturing Industry Suffers M/M Declines in Broad Range of Industries

Non-manufacturing orders (excluding shipbuilding and electric power) grew for the first time in two months at +0.5% m/m. Growth was limited considering the extent of last month's decline, and detailed data show much to be negative about with a broad range of industries reporting m/m declines. Results by industry showed positive contributions from information services (+10.3% m/m), other non-manufacturing (+5.8%), and goods leasing (+30.2%). But many other industries suffered declines in m/m terms, including transportation and postal activities (-27.8%), finance and insurance (-15.8%), agriculture, forestry and fishing (-15.4%), and construction (-12.1%). Poor performance in the transportation and postal activities industries is considered to be a reactionary decline after major growth experienced during the previous month. When averaged out the industry is still considered to be in a growth trend. On the other hand, agriculture, forestry and fishing fell considerably below its formal level sometime after the beginning of FY2014 and has not recovered since. As for construction, that industry has performed at a high level in recent months and now appears to have peaked out.

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

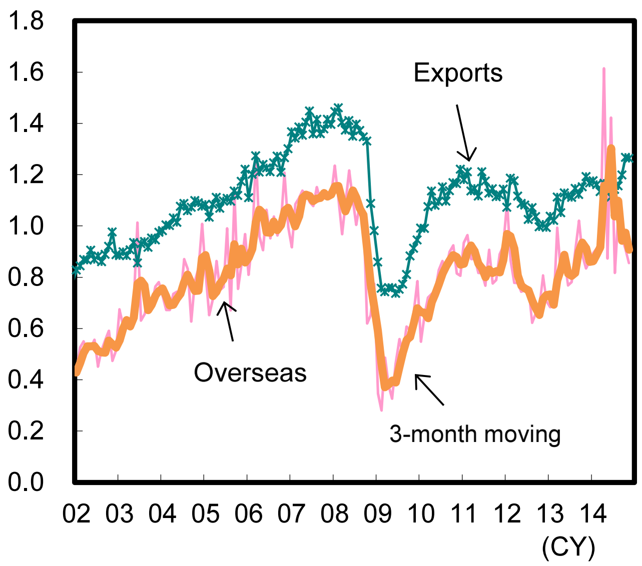


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas Orders Show Sharp Downtrend

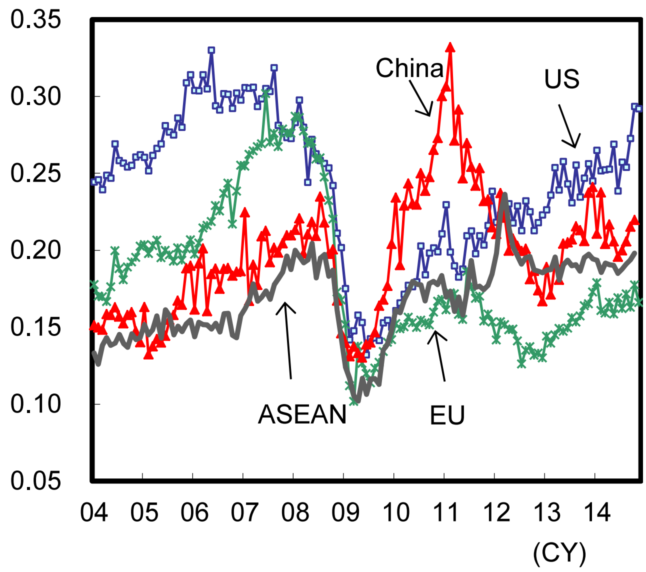
Overseas demand suffered a decline of -6.0% m/m. First there was the reaction to major growth experienced during the 2014 Apr-Jun quarter, with more recent performance revealing a sharp downtrend. Care should be taken regarding an increasingly unclear future, due mostly to the slowdown in the EU and 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 3M/MA basis.

General Machinery: Exports by Trading Partner (Y tril; SA) **Chart 4**



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

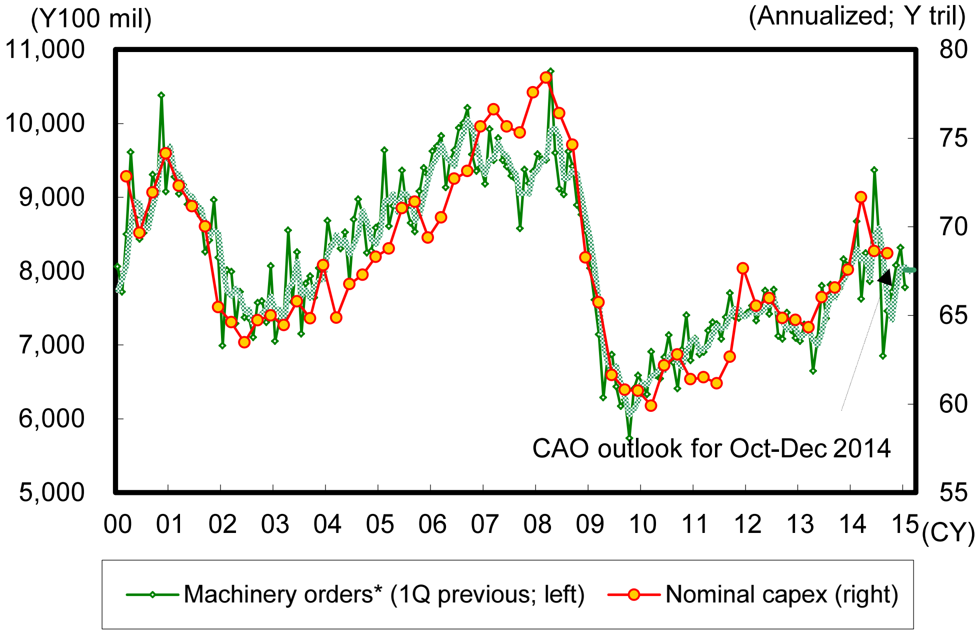
Possibilities Good that Capex Will Enter a Growth Phase Later in FY2014

According to the CAO outlook for the Oct-Dec 2014 period, private sector demand (excluding shipbuilding and electrical power) is expected to suffer a decline of -0.3% q/q, its first decline in two quarters. In order to achieve these results, m/m growth of +6.4% will be required in December. Meanwhile, in order for the Oct-Dec 2014 period to report overall q/q growth, December performance must record m/m growth of +7.3%.

According to GDP statistics, Jul-Sep period capex fell in comparison with the previous quarter. Hopes had been pinned on capex to lead the economy back to growth after the April increase in consumption tax, but it was ultimately weaker than expected, and this weakness is considered to be one of the factors behind stagnant domestic demand. However, the coincident index for capex, shipments of capital goods, is steadily moving toward a comeback, and though machinery orders (a leading indicator) seem to be on the decline recently, they are seen as moving into an upswing when all is averaged out. In addition, the BOJ Tankan survey on planned capital spending shows a positive attitude amongst corporations towards capex. Hence we believe that capex spending is likely to recover and move into a growth phase later in the 2014 fiscal year.

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 3M/MA basis.