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December Machinery Orders

Strong Results Sweep Away Fears of Slowdown

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Summary

- According to statistics for machinery orders in December 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +8.3% m/m, while exceeding market consensus as well (+2.3%). Machinery orders experienced a bit of a slowdown in recent months, but strong results for December confirm that a fundamental growth trend is continuing.
- Looking at results by source of demand, the manufacturing industries won considerable growth for the first time in three months at +24.1% m/m. Non-manufacturing orders (excluding shipbuilding and electric power) grew for the second consecutive month at +7.2% m/m. Considering the weakness of the previous two months, these were not especially strong results. However, it is definitely a sign of recovery and return to a growth trend.
- According to the CAO outlook for the Jan-Mar 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to be up by +1.5% q/q, its first growth to be recorded in three quarters. This figure is considered to be achievable even if declines of as much as -2.0% m/m are suffered in each month of the first quarter. Though some foot-dragging was seen in CY2014 Oct-Dec period private sector demand (excluding shipbuilding and electrical power), it has now moved into a moderate growth phase. Considering this fact, the CAO outlook could actually be said to be a bit overly constrained. As will be shown in this report, capex has regained enough territory to head more substantially toward a growth trend. Hence DIR sees private sector demand (excluding shipbuilding and electrical power) showing clear signs of a comeback in the Jan-Mar 2015 period with a growth rate exceeding that reported in the CAO outlook.

Machinery Orders (m/m %; SA)												Chart 1
	2014											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Machinery orders (private sector)*	8.1	-4.6	19.1	-9.1	-19.5	8.8	3.5	4.7	2.9	-6.4	1.3	8.3
Market consensus (Bloomberg)												2.3
DIR estimate												3.5
Manufacturing orders	4.9	-4.6	23.7	-9.4	-18.6	6.7	20.3	-10.8	12.0	-5.5	-7.0	24.1
Non-manufacturing orders*	6.1	-5.1	8.5	0.9	-17.8	4.0	-4.3	10.7	1.7	-7.5	0.5	7.2
Overseas orders	3.7	2.3	3.2	71.3	-45.9	62.8	-42.6	29.1	-9.4	-4.6	-6.0	-6.9

Source: Cabinet Office, Bloomberg; compiled by DIR.

*excl. those for shipbuilding and from electric utilities.

Note: Figures on market consensus from Bloomberg

December Orders Win Strong Results, Sweeping Away Fears of Slowdown

According to statistics for machinery orders in December 2014, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +8.3% m/m, while exceeding market consensus as well (+2.3%). Machinery orders experienced a bit of a slowdown in recent months, but strong results for December confirm that a fundamental growth trend is continuing.

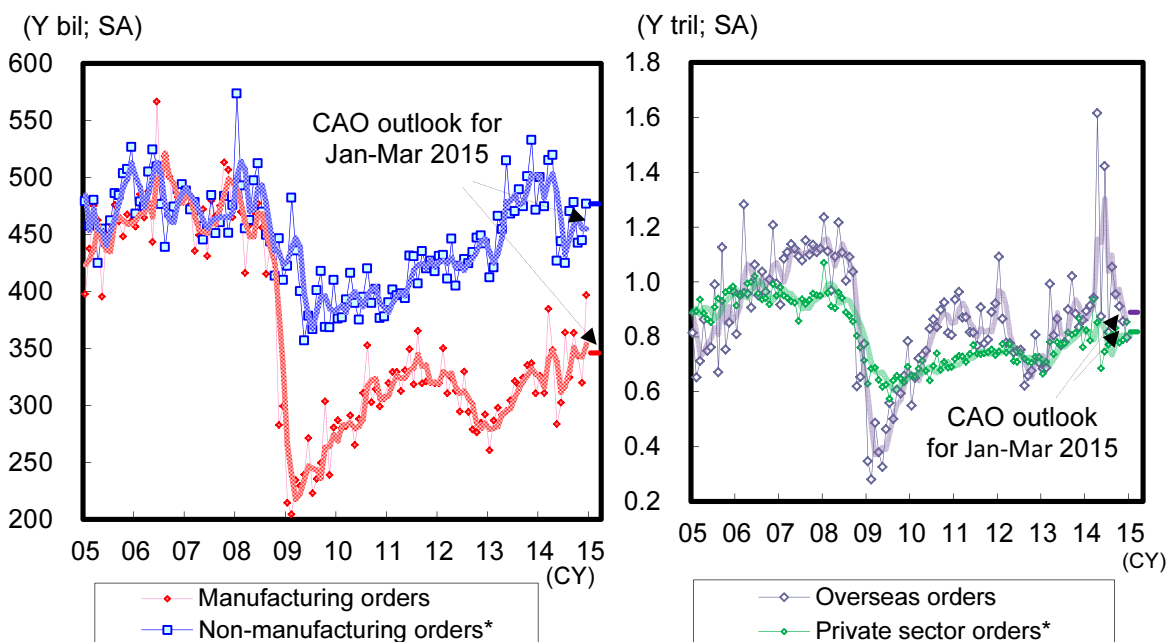
Manufacturing Achieves Growth for First Time in Three Months

Looking at results by source of demand, the manufacturing industries won considerable growth for the first time in three months at +24.1% m/m. Results by industry were given a considerable boost by positive performance in the following areas: other manufacturing (+114.0% m/m), other transport equipment (+50.1%), automobiles, parts and accessories (+18.9%), general machinery (+5.2%), and pulp, paper and paper products (+219.6%). Growth in orders for other manufacturing was especially high in comparison to recent months, most likely due to receiving orders for large projects. Hence this figure can be taken with a certain grain of salt. Pulp, paper and paper products also won especially high growth, due to the extremely low level of orders during the previous month. As for general machinery, the recent growth trend continues.

Non-manufacturing Industry Shows Signs of Recovery to Growth Trend

Non-manufacturing orders (excluding shipbuilding and electric power) grew for the second consecutive month at +7.2% m/m. Considering the weakness of the previous two months, these were not especially strong results. However, it is definitely a sign of recovery and return to a growth trend. Results by industry showed positive contributions from other non-manufacturing (+15.8%), finance and insurance (+52.4%), and transportation and postal activities (+30.1%). This indicates that industries whose performance was weak in recent months, such as other non-manufacturing and finance and insurance, are about to hit bottom. Meanwhile, transportation and postal activities has clearly moved into a growth trend which began during the last half of 2014.

Orders by Demand Source (seasonally adjusted figures) Chart 2

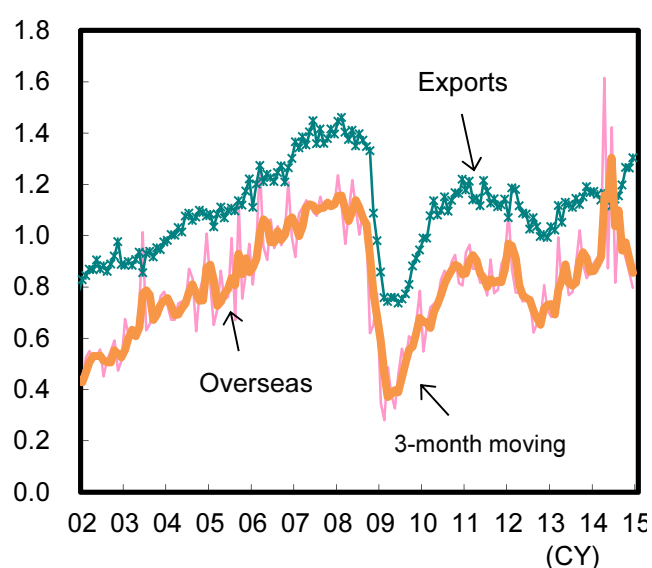


Source: Cabinet Office (CAO); compiled by DIR.
 *excl. those for shipbuilding and from electric utilities.
 Note: Thick lines 3M/MA basis.

Overseas Orders in a Downtrend, but Gradually Moving Toward Bottoming Out

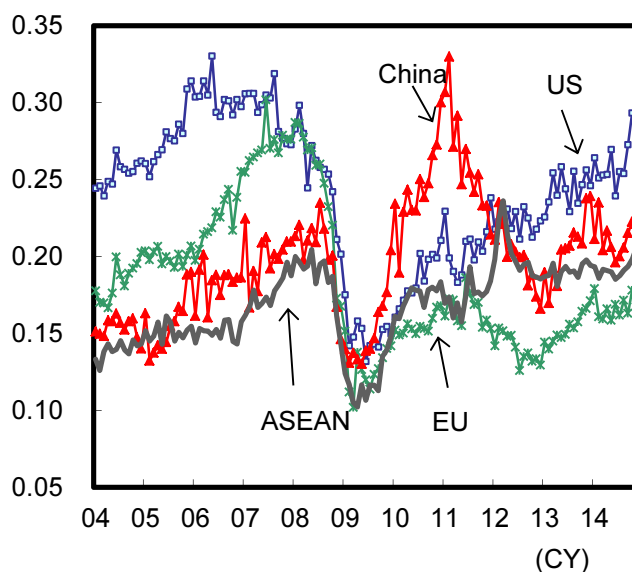
Overseas demand was down for the fourth consecutive month at -6.9% m/m. This is due partly to the reaction to major growth experienced during the 2014 Apr-Jun quarter, with more recent performance revealing a sharp downtrend. Care should be taken regarding an increasingly unclear future, due mostly to the slowdown in the EU and Chinese economies, but positive support should be provided by the continuing strong undertone of economic expansion in the US. According to the CAO outlook for the Jan-Mar 2015 period, growth is seen for the first time in three quarters at +4.0% q/q, with orders likely to gradually move toward bottoming out.

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.

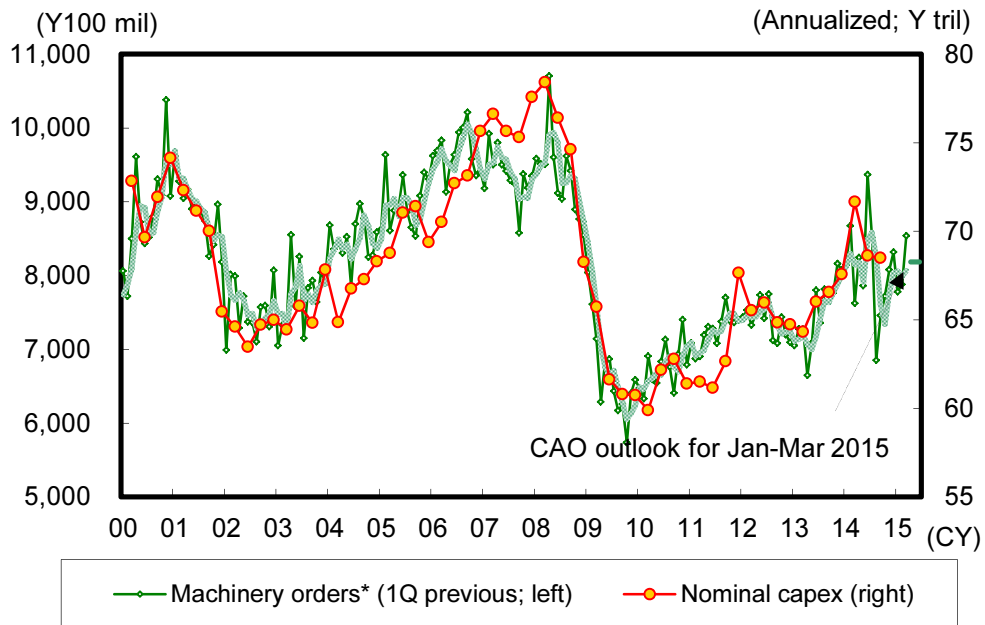
CY2015 Jan-Mar Period Promises Growth Rate Exceeding CAO Outlook

According to the CAO outlook for the Jan-Mar 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to be up by +1.5% q/q, its first growth to be recorded in three quarters. This figure is considered to be achievable even if declines of as much as -2.0% m/m are suffered in each month of the first quarter. Though some foot-dragging was seen in CY2014 Oct-Dec period private sector demand (excluding shipbuilding and electrical power), it has now moved into a moderate growth phase. Considering this fact, the CAO outlook could actually be said to be a bit overly constrained. As will be shown in this report, capex has regained enough territory to head more substantially toward a growth trend. Hence DIR sees private sector demand (excluding shipbuilding and electrical power) showing clear signs of a comeback in the Jan-Mar 2015 period with a growth rate exceeding that reported in the CAO outlook.

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 the BOJ Tankan survey on planned capital spending shows a positive attitude amongst corporations towards capex. In addition, the decline in the price of crude oil will likely provide positive support for growth in capex, contributing to improvement

in corporate earnings. Hence we believe that capex spending on a GDP basis is likely to move into a growth phase later in the CY2014 Oct-Dec period, after which said growth phase should become increasingly clear.

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.

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- 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.
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* 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.

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