Daiwa
Daiwa Institute of Research

18 May 2015 (No. of pages: 4)
Japanese report: 18 May 2015

March Machinery Orders

Orders show firm undertone in most recent results, but caution required regarding future

Economic Intelligence Team
Shotaro Kugo

Summary

- According to statistics for machinery orders in March 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +2.9% m/m, while at the same time exceeding market consensus (+1.5%). Results were favorable, and confirmed that the growth trend is continuing. However, the Apr-Jun period outlook sees a sharp decline, leaving an uneasy aftertaste with this month's report.

- Looking at results by source of demand, the manufacturing industries achieved growth for the first time in three months at +0.3% m/m. Meanwhile, non-manufacturing orders (excluding shipbuilding and electric power) grew also for the first time in two months at +4.7% m/m. Growth was experienced in a broad range of industries with strong performance overall.

- According to the CAO outlook for the Apr-Jun 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to decline for the first time in four quarters at -7.4% q/q. On an industry by industry basis, performance is expected to take a breather from the recent growth trend, with manufacturing seen declining by -9.4% q/q, and non-manufacturing (excluding shipbuilding and electric power) expected to decline as well at -4.8%. The Apr-Jun period outlook for private sector demand (excluding shipbuilding and electric power) is expected to be achievable even if m/m declines of -4.4% in each month of the period (April, May, and June) are experienced. Moreover, if declines of -0.7% m/m are experienced in each month of the Apr-Jun period, q/q growth can still be reached. Considering the fact that capex related demand is beginning to appear due to the increase in exports, the CAO outlook can be said to be on the weak side.

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

	2014 Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2015 Jan	Feb	Mar
Machinery orders (private sector)*	-3.1	-16.4	0.8	7.4	2.3	2.4	-3.5	0.1	5.6	2.5	-1.4	2.9
Market consensus (Bloomberg)												1.5
DIR estimate												1.0
Manufacturing orders	-10.0	-14.4	4.3	13.7	-3.3	6.7	-2.9	-1.9	10.4	-3.2	-0.6	0.3
Non-manufacturing orders*	6.2	-12.8	-3.2	-0.5	6.0	0.3	-2.8	-2.9	5.0	8.0	-5.0	4.7
Overseas orders	63.7	-43.7	54.1	-36.8	19.6	-7.5	0.9	-7.0	0.1	14.2	6.6	-13.5

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

March orders win favorable results confirming growth trend

According to statistics for machinery orders in March 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +2.9% m/m, while at the same time exceeding market consensus (+1.5%). Results were favorable, and confirmed that the growth trend is continuing. However, the Apr-Jun period outlook sees a sharp decline, leaving an uneasy aftertaste with this month's report.

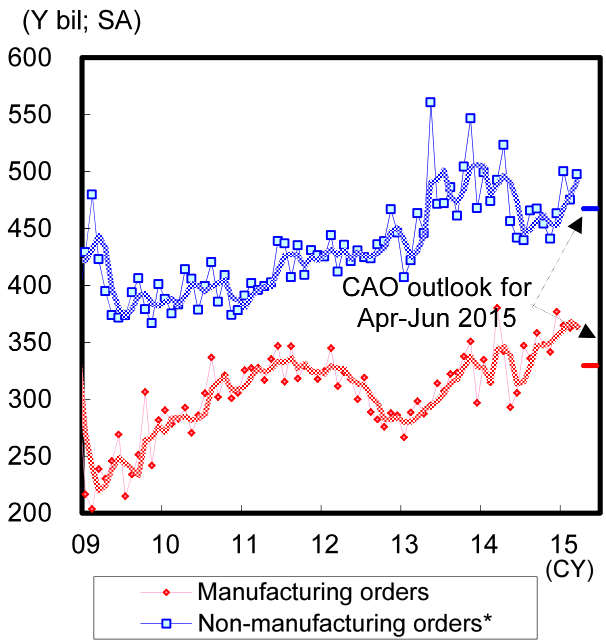
Manufacturing grows for first time in three months

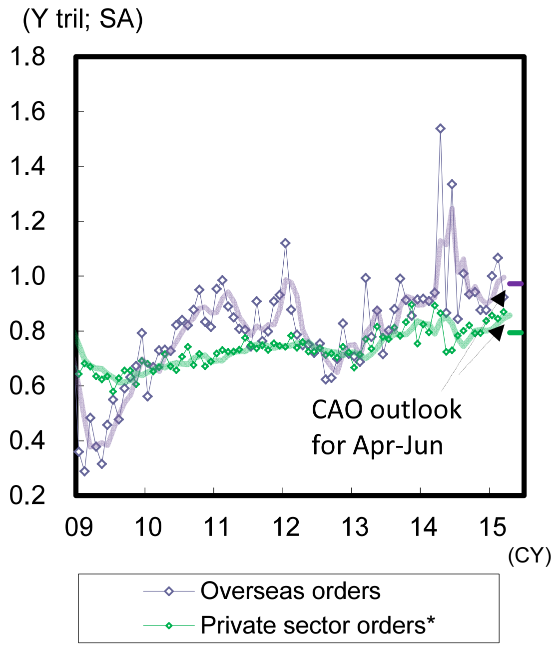
Looking at results by source of demand, the manufacturing industries achieved growth for the first time in three months at +0.3% m/m. Looking at results by industry, m/m growth was seen in pulp, paper and paper products (+363.9% m/m), chemicals (+23.9%), general machinery (+5.0%), and information and communications electronics equipment (+7.6%). In the case of pulp, paper and paper products, m/m growth of three figures was achieved for the second month in a row, suggesting that orders were received for large projects. Hence these results can be taken with a certain grain of salt. As for chemicals, sluggish performance has been continuing, but these results show that the industry is close to finally hitting bottom. When all is averaged out, general machinery remained flat in comparison to the previous month, while information and communications electronics exhibited favorable results, showing that this industry is clearly in a growth trend.

Non-manufacturing shows strong results for both headliners and others

Non-manufacturing orders (excluding shipbuilding and electric power) grew also for the first time in two months at +4.7% m/m. Performance was strong with growth achieved in a broad range of industries. Results by industry were as follows: other non-manufacturing (+12.1%), wholesale and retail trade (+30.3%), and transportation and postal activities (+10.6%). Other non-manufacturing is exhibiting a clear growth trend at this time with favorable results. As for wholesale and retail trade, as well as transportation and postal activities, fluctuations were experienced throughout the month ending finally in results which were flat in comparison to the previous month.

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



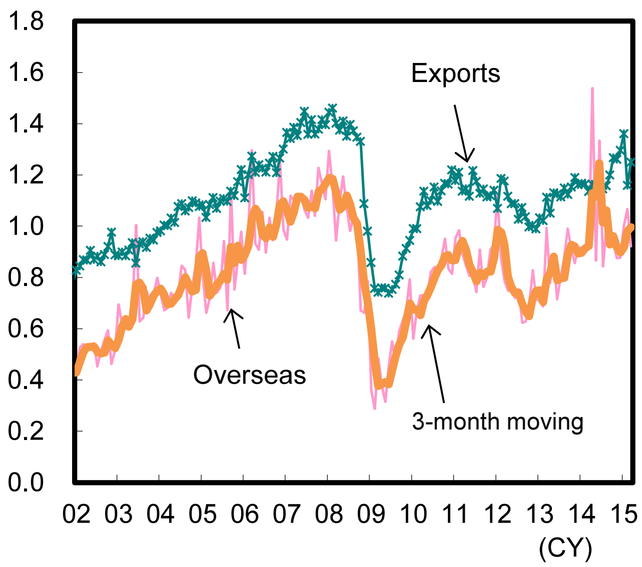


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas Orders recover moderate growth trend, but no acceleration seen

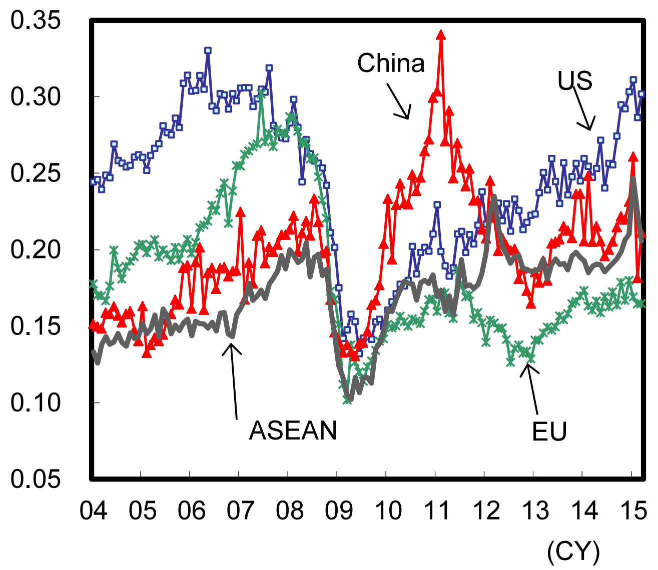
Overseas demand suffered a decline for the first time in four months at -13.5% m/m. However, the 3-month moving average shows three consecutive months of growth. Overseas demand hit bottom in December 2014 and has since been gradually recovering. However, the CAO outlook for the Apr-Jun period sees a decline of -2.4% in comparison with the previous quarter. It appears that overseas demand will be taking a breather from its recent growth trend. In addition to the economic slowdown in China, Jan-Mar 2015 capex spending in the US suffered its steepest decline since the Jan-Mar period of 2011. Capex related demand from overseas is therefore expected to be on the slow side, hence caution is required in the immediate future.

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**



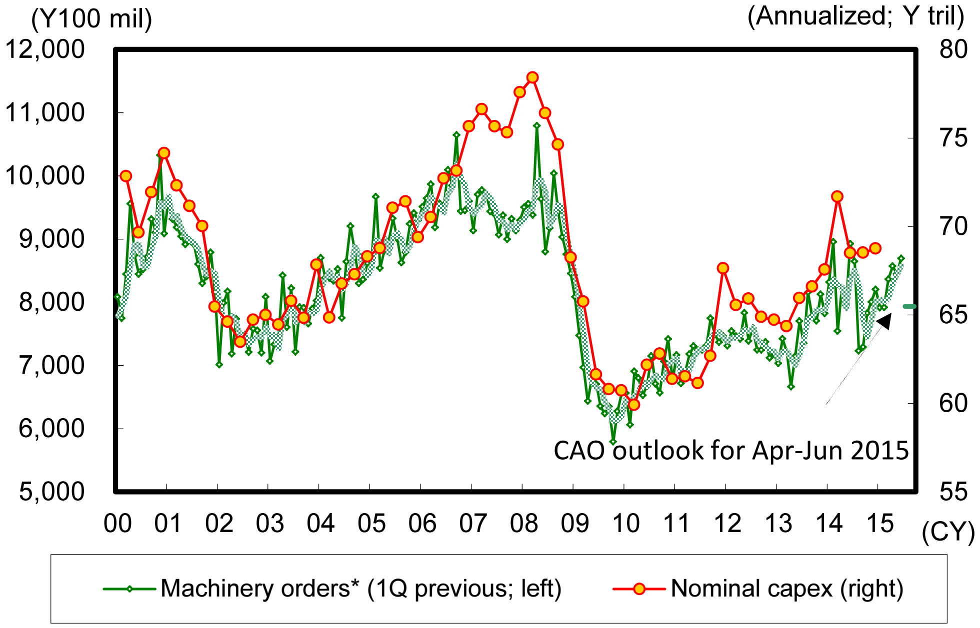
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

CAO outlook for the Apr-Jun period is muted

According to the CAO outlook for the Apr-Jun 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to decline for the first time in four quarters at -7.4% q/q. On an industry by industry basis, performance is expected to take a breather from the recent growth trend, with manufacturing seen declining by -9.4% q/q, and non-manufacturing (excluding shipbuilding and electric power) expected to decline as well at -4.8%. The Apr-Jun period outlook for private sector demand (excluding shipbuilding and electric power) is expected to be achievable even if m/m declines of -4.4% in each month of the period (April, May, and June) are experienced. Moreover, if declines of -0.7% m/m are experienced in each month of the Apr-Jun period, q/q growth can still be reached. Considering the fact that capex related demand is beginning to appear due to the increase in exports, the CAO outlook can be said to be on the weak side.

Considering the CAO outlook for the Apr-Jun period, it is possible that there will be a temporary slowdown in the growth trend, but even so, we still expect a gradual comeback to occur. According to GDP statistics, real capital expenditure fell in q/q terms during the Oct-Dec 2014 period, confirming that capex spending was stagnant. However, the coincident index for capex, shipments of capital goods (excluding transport equipment), is now in a moderate growth trend. On the whole, machinery orders, a leading indicator, are moving upwards, while the BOJ Tankan survey on planned capital spending shows a positive attitude amongst corporations towards capex. Hence we believe that capex spending on a GDP basis will gradually move back into a growth phase.

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.