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April Machinery Orders

Good results exceed bearish consensus

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Summary

- According to statistics for machinery orders in April 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +3.8% m/m, while at the same time exceeding market consensus (-2.1%). The CAO outlook for the Apr-Jun period was expecting major declines, and with fears of a setback haunting machinery orders, came up with a bearish consensus. But in an unexpected (though welcome) turnaround, results were good.

- Looking at results by source of demand, the manufacturing industries achieved growth for the second consecutive month at +10.5% m/m. The manufacturing industry had seemed somewhat lacking in dynamism recently, and the CAO outlook for the Apr-Jun period therefore expressed expectations of a decline. However, this month's results have swept away all doubts. Meanwhile, non-manufacturing orders (excluding shipbuilding and electric power) were somewhat lacking in energy, suffering an m/m decline for the first time in two months at -0.6%.

- 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. The outlook is expected to be achievable even if m/m declines of -12.5% are experienced in both May and June. However, if m/m declines of -5.1% are experienced in May and June, q/q growth can still be reached during the Apr-Jun 2015 period.

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

	2014								2015			
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Machinery orders (private sector)*	-16.4	0.8	7.4	2.3	2.4	-3.5	0.1	5.6	2.5	-1.4	2.9	3.8
Market consensus (Bloomberg)												-2.1
DIR estimate												-0.7
Manufacturing orders	-14.4	4.3	13.7	-3.3	6.7	-2.9	-1.9	10.4	-3.2	-0.6	0.3	10.5
Non-manufacturing orders*	-12.8	-3.2	-0.5	6.0	0.3	-2.8	-2.9	5.0	8.0	-5.0	4.7	-0.6
Overseas orders	-43.7	54.1	-36.8	19.6	-7.5	0.9	-7.0	0.1	14.2	6.6	-13.5	-7.0

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

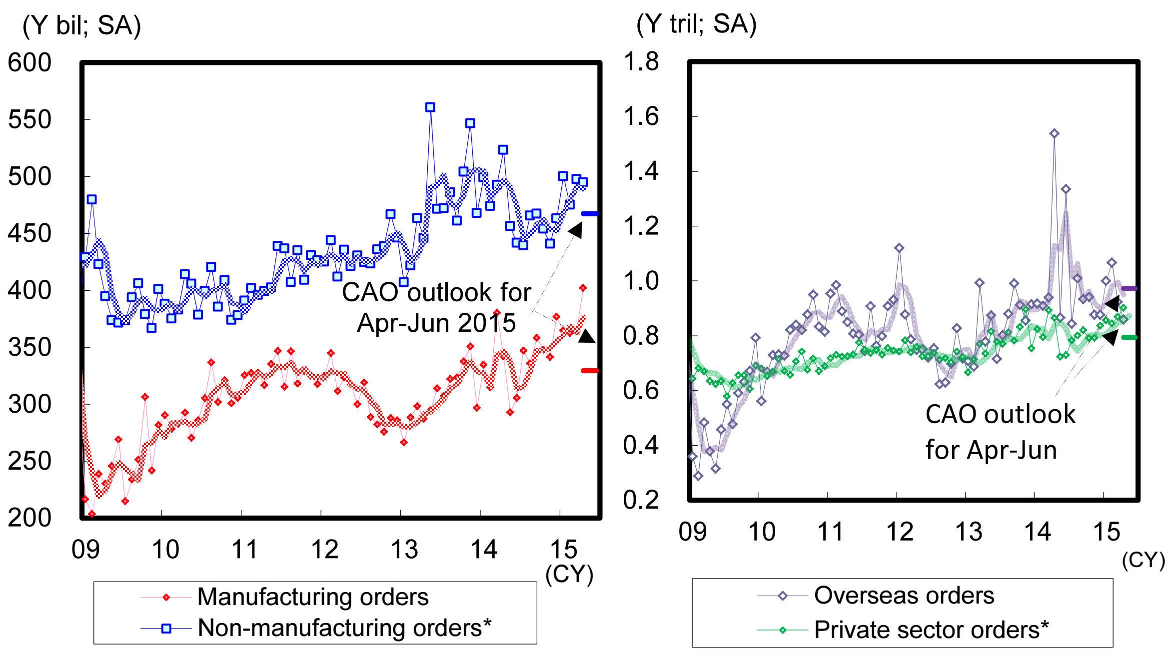
April orders win good results exceeding a bearish consensus

According to statistics for machinery orders in April 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +3.8% m/m, while at the same time exceeding market consensus (-2.1%). The CAO outlook for the Apr-Jun period was expecting major declines, and with fears of a setback haunting machinery orders, came up with a bearish consensus. But in an unexpected (though welcome) turnaround, results were good.

Manufacturing results sweep away fears of decline

Looking at results by source of demand, the manufacturing industries achieved growth for the second consecutive month at +10.5% m/m. The manufacturing industry had seemed somewhat lacking in dynamism recently, and the CAO outlook for the Apr-Jun period therefore expressed expectations of a decline. However, this month's results have swept away all doubts. Looking at results by industry, strength was especially conspicuous in the processing industries, with growth in electrical machinery (+44.7% m/m), automobiles, parts, and accessories (+38.7%), and general machinery (+7.9%). In the case of electrical machinery, this indicated an impressive reversal after the recent downtrend. Meanwhile, general machinery pulled in favorable results, reconfirming the continuation its vigorous performance. In the materials industries, non-ferrous metals boasted major growth of +132.8% m/m, most likely due to special factors, while other materials related areas suffered declines. However, foods and beverages (-12.1% m/m) and pulp, paper and paper products (-35.4%) are seen as experiencing the swing back after major growth due to special factors which occurred during the previous month. Hence there is no need for pessimism regarding these results.

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.

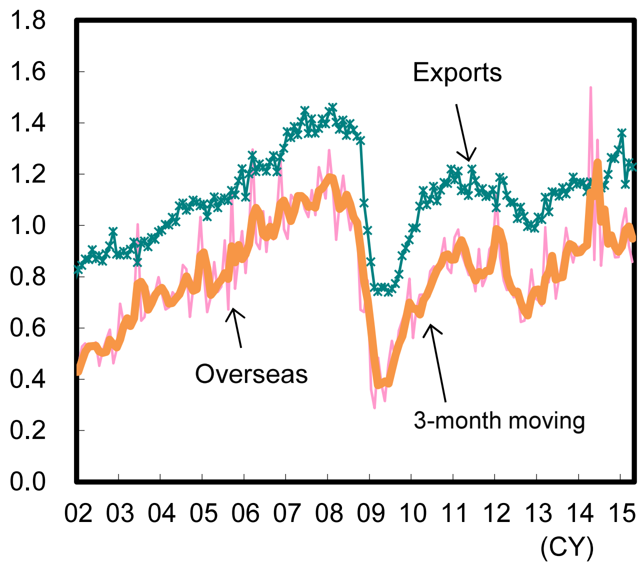
Non-manufacturing somewhat lacking in energy, but maintains high level

Non-manufacturing orders (excluding shipbuilding and electric power) were somewhat lacking in energy, suffering an m/m decline for the first time in two months at -0.6%. Telecommunications was down by -49.7% m/m while information services fell by -22.1%. Other non-manufacturing industries contributed to the overall decline with -4.4%. Telecommunications maintained its soft tone from previous months and does not yet appear to be close to bottoming out. Meanwhile, information services had recently established a growth trend, but fell to a considerably lower level in these results. On the other hand, finance and insurance (+116.2% m/m) and transportation and postal activities (+45.3%) achieved growth, helping to limit the overall decline for the non-manufacturing industry to a small one.

Overseas Orders show lack of vigor

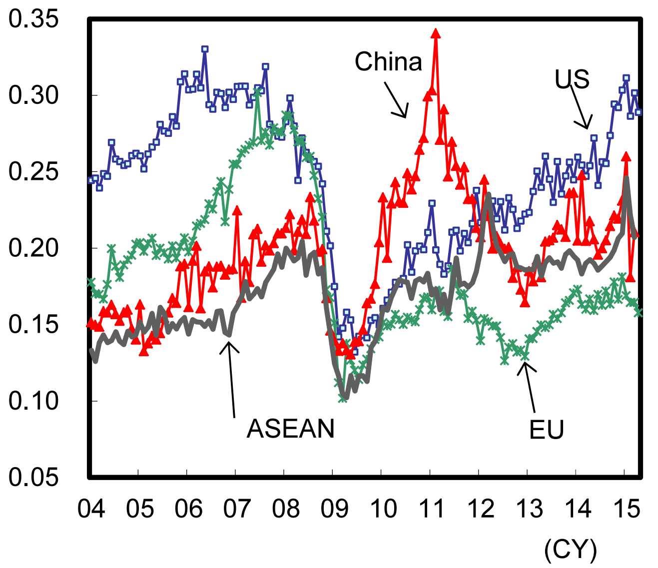
Overseas demand suffered a decline for the second consecutive month at -7.0% m/m. The CAO outlook for the Apr-Jun period sees a decline of -2.4% in comparison with the previous quarter, and though there had been expectations for a comeback, the final result was to fall below that. This is considered to be a reflection of the economic slowdown in China and the sense that there is a gathering stagnation in coming soon in overseas capex related demand.

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**



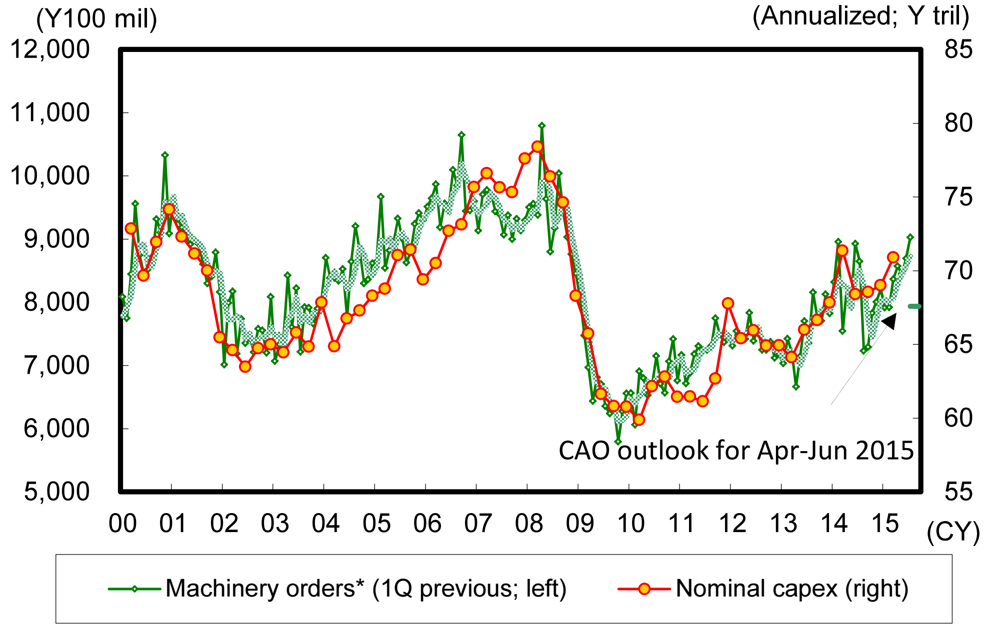
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Outlook sees good possibilities for gradual comeback continuing

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 by -7.4% q/q. The outlook is expected to be achievable even if m/m declines of -12.5% are experienced in both May and June. However, if m/m declines of -5.1% are experienced in May and June, q/q growth can still be reached during the Apr-Jun 2015 period.

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 continued to be stagnant from the Apr-Jun 2014 period and beyond, but began to move upwards after entering the new year of 2015. Machinery orders 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 continue in 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.