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May Machinery Orders

Growth trend maintained centering on manufacturing industry

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Summary

- According to statistics for machinery orders in May 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +0.6% m/m, while at the same time exceeding market consensus (-4.9%).

- Looking at orders by source of demand, the manufacturing industries achieved growth for the third consecutive month at +9.9% m/m. The Iron and steel industry recorded major growth of +969.4% m/m, most likely due to special factors, hence the fact that overall results were raised significantly by this number should be taken with a certain grain of salt. However, even when this number is removed from overall results, the manufacturing industry continues to move upwards. Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the second consecutive month at -4.0%. A wide range of industries suffered declines, creating the sense that non-manufacturing was taking a breather from its recent momentum.

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

	2014							2015				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Machinery orders (private sector)*	0.8	7.4	2.3	2.4	-3.5	0.1	5.6	2.5	-1.4	2.9	3.8	0.6
Market consensus (Bloomberg)												-4.9
DIR estimate												-2.0
Manufacturing orders	4.3	13.7	-3.3	6.7	-2.9	-1.9	10.4	-3.2	-0.6	0.3	10.5	9.9
Non-manufacturing orders*	-3.2	-0.5	6.0	0.3	-2.8	-2.9	5.0	8.0	-5.0	4.7	-0.6	-4.0
Overseas orders	54.1	-36.8	19.6	-7.5	0.9	-7.0	0.1	14.2	6.6	-13.5	-7.0	3.7

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

May orders achieve good results exceeding market consensus

According to statistics for machinery orders in May 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up by +0.6% m/m, while at the same time exceeding market consensus (-4.9%).

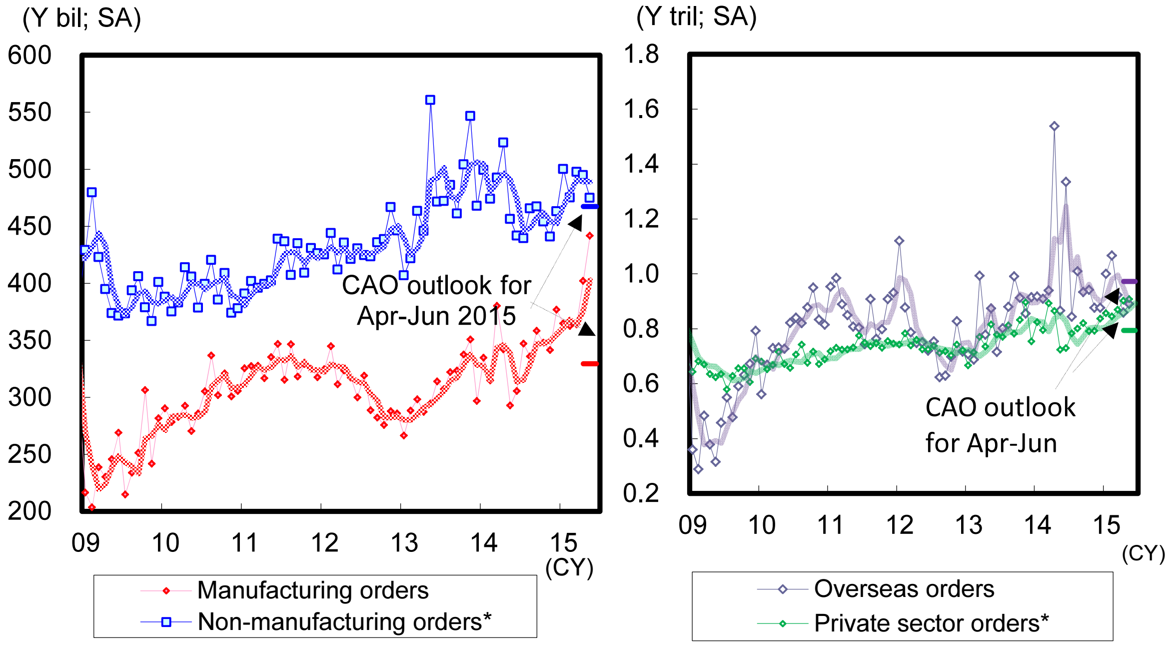
Manufacturing continues growth, pushed upwards by special factors

Looking at orders by source of demand, the manufacturing industries achieved growth for the third consecutive month at +9.9% m/m. The Iron and steel industry recorded major growth of +969.4% m/m, most likely due to special factors, hence the fact that overall results were raised significantly by this number should be taken with a certain grain of salt. However, even when this number is removed from overall results, the manufacturing industry continues to move upwards. All in all we can conclude that this month achieved good results. Growth was also seen in many other industries, including other transport equipment (+53.3% m/m), fabricated metal products (+61.2%), and general machinery (+3.3%). Especially notable was general machinery, which has strengthened its growth momentum, bringing a positive tone to current results.

Non-manufacturing takes breather from recent momentum

Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the second consecutive month at -4.0%. A wide range of industries suffered declines, creating the sense that non-manufacturing was taking a breather from its recent momentum. Looking at results by industry, declines were suffered in transportation and postal activities (-38.5% m/m), finance and insurance (-33.3%), real estate (-70.5%), wholesale & retail trade (-15.6%), and construction (-9.3%). Transportation and postal activities is currently fluctuating, and in sum, marking time. Meanwhile, finance and insurance recorded strong numbers during the previous month, and started the current month on the high side, but then ultimately back-stepped to end the month in decline. However, it is still moving at a high level, so there is no pessimism necessary here. As for the real estate industry, performance has continued at a high level since the beginning of the year, and it appears here to be merely taking a breather from that overall trend.

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

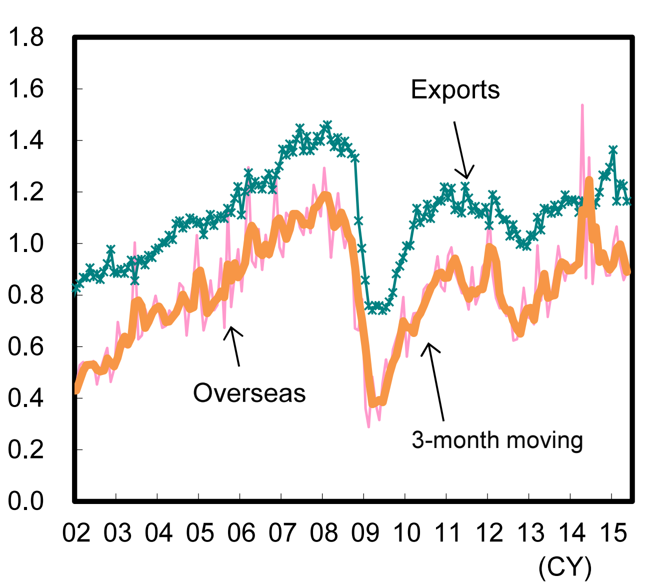


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas Orders show signs of having hit bottom

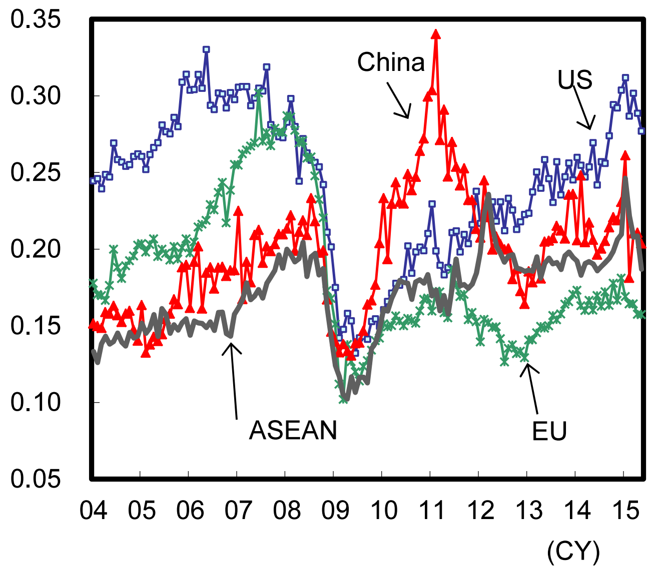
Overseas demand won growth for the first time in three month at +3.7% m/m. This is considered to be a reflection of the economic slowdown in China, as well as stagnant capex related demand overseas. However, overseas demand, which had aroused feelings of caution of late, appears to have hit bottom.

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 continuation of moderate comeback

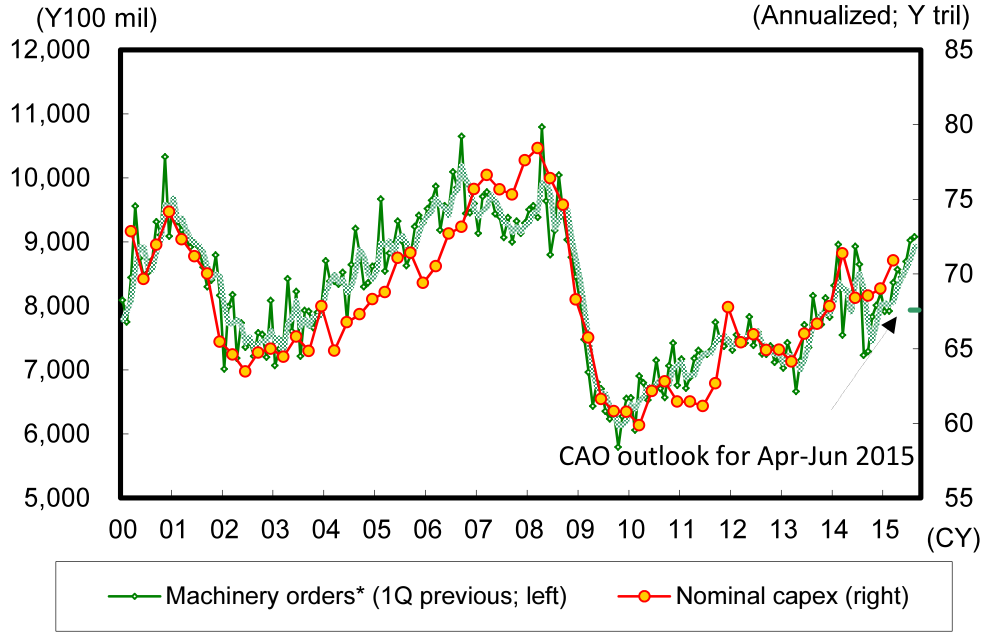
According to the CAO outlook for the Apr-Jun 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to decline for the first time in four quarters at -7.4% q/q. Not only is the outlook expected to be achievable based on April and May results, there is a strong indication that q/q growth will be achieved.

Real capex spending according to GDP statistics continued to be sluggish after the Apr-Jun 2014 period, but then began to move upwards after the beginning of 2015. Machinery orders, a leading economic indicator, are on the way up, and according to the BOJ Tankan and other surveys, corporations are showing a positive attitude toward capex spending. For all of the reasons discussed in this section, capex spending on a GDP basis is expected to continue growth.

As for the Jul-Sep period outlook to be announced next month, possibilities are that the numbers will have a strong upward bias due to the way in which the statistics are produced, so a certain amount of care should be taken here. The outlook is produced by adding up the corporate outlooks in a simple tabulation process, and then multiplying this number by the average value of the realization ratios of the previous three quarters. If the recent tone of corporate performance is maintained, the realization ratio for the Apr-Jun period is expected to be at an especially high level. Hence there is a very good possibility that the outlook for results next quarter will also have a strong upward bias. For this reason, it should be taken with a certain grain of salt due to this quirk in statistics.

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.