10 September 2015 (No. of pages: 4)

Japanese report: 10 Sep 2015

July Machinery Orders

Downward trend revealed with ever more clarity

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Summary

- According to statistics for machinery orders in July 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down by -3.6% m/m, falling below market consensus as well (+3.0%). Not only did the non-manufacturing industry exhibit a more marked downtrend, the manufacturing industry, which had until now been exerting the most traction on the index, also weakened. Results were negative overall.

- Looking at orders by source of demand, the manufacturing industries suffered declines for the second consecutive month at -5.3% m/m. The industry peaked out in May after special projects gave it a major boost, but now the downward trend has revealed itself with ever more clarity. Not only that, in terms of basic levels the manufacturing industry fell below its performance of early 2015, overall manufacturing industry performance lacking in dynamism. Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the first time in two months at -6.0%. A wide range of industries suffered declines in addition to declining numbers for the headliners, bringing notably weak results.

- According to the CAO outlook for the Jul-Sep 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to grow by +0.3% q/q. In order to achieve this outlook, month-to-month growth of +9.6% will be required in both the months of August and September, so the hurdle is high. Hence machinery orders, which until now had continued in an upward trend, stand a good possibility of marking time in the Jul-Sep period.

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

	2014					2015						
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Machinery orders (private sector)*	2.3	2.4	-3.5	0.1	5.6	2.5	-1.4	2.9	3.8	0.6	-7.9	-3.6
Market consensus (Bloomberg)												3.0
DIR estimate												1.7
Manufacturing orders	-3.3	6.7	-2.9	-1.9	10.4	-3.2	-0.6	0.3	10.5	9.9	-14.0	-5.3
Non-manufacturing orders*	6.0	0.3	-2.8	-2.9	5.0	8.0	-5.0	4.7	-0.6	-4.0	0.6	-6.0
Overseas orders	19.6	-7.5	0.9	-7.0	0.1	14.2	6.6	-13.5	-7.0	3.7	20.3	10.2

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

July orders reveal downward trend with ever more clarity

According to statistics for machinery orders in July 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down by -3.6% m/m, falling below market consensus as well (+3.0%). Not only did the non-manufacturing industry exhibit a more marked downtrend, the manufacturing industry, which had until now been exerting the most traction on the index, also weakened. Results were negative overall.

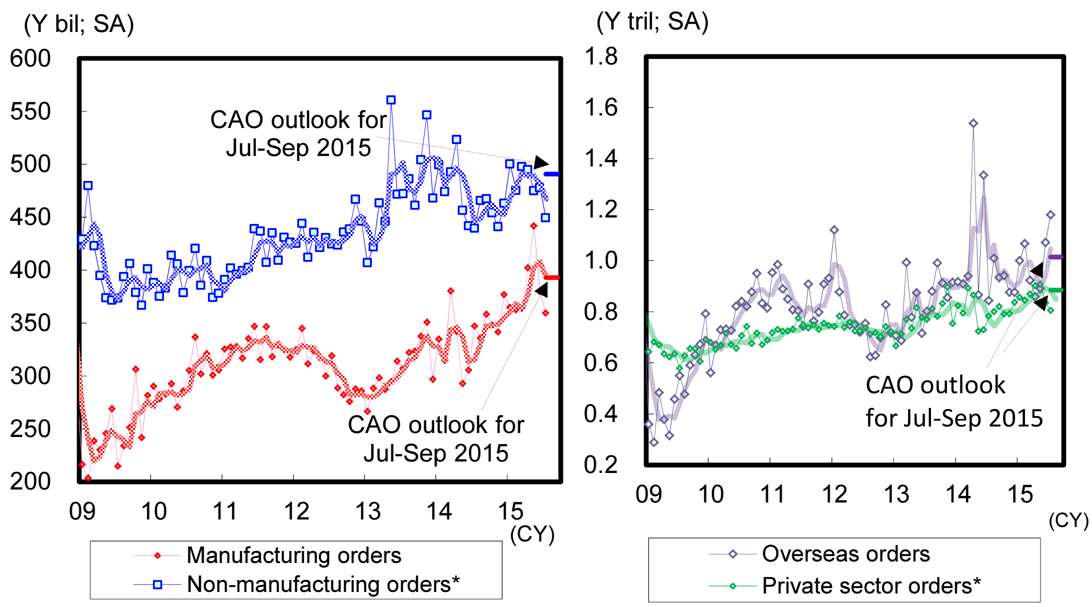
Manufacturing has some bright spots, but lacks dynamism overall

Looking at orders by source of demand, the manufacturing industries suffered declines for the second consecutive month at -5.3% m/m. The industry peaked out in May after special projects gave it a major boost, but now the downward trend has revealed itself with ever more clarity. Not only that, in terms of basic levels the manufacturing industry fell below its performance of early 2015, overall industry performance lacking in dynamism. Electrical machinery (-27.3% m/m) and foods & beverages (-62.2%), which recorded growth rates on the high side during the previous month, were largely responsible for pushing down overall results, suffering from the aftershocks of last month's activity. However, in the case of electrical machinery, the overall tone is still positive and the extent of weakness is not enough to elicit pessimism. Looking at performance in other industries there were declines in a broad range of areas, bringing a generally weak tone to overall results. Other manufacturing was down by -6.7% m/m, with precision instruments down -20.3% and petroleum & coal products plunging -40.3%. On the other hand, there were a few bright spots, such as general machinery (+9.2% m/m) and automobiles, parts & accessories (+23.2%), which achieved growth after having suffered declines during the previous month.

Non-manufacturing performance notably weak in both headline and overall performance

Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the first time in two months at -6.0%. A wide range of industries suffered declines in addition to the decline in the headline, bringing notably weak results. Looking at results by industry, declines in the following contributed to the overall downward trend: agriculture, forestry and fishing (-44.3% m/m), telecommunications (-29.6%), and information services (-19.7%). As for agriculture, forestry and fishing, results were extremely low compared to past performance, while for telecommunications, there was clearly a downward trend since the beginning of FY2015.

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

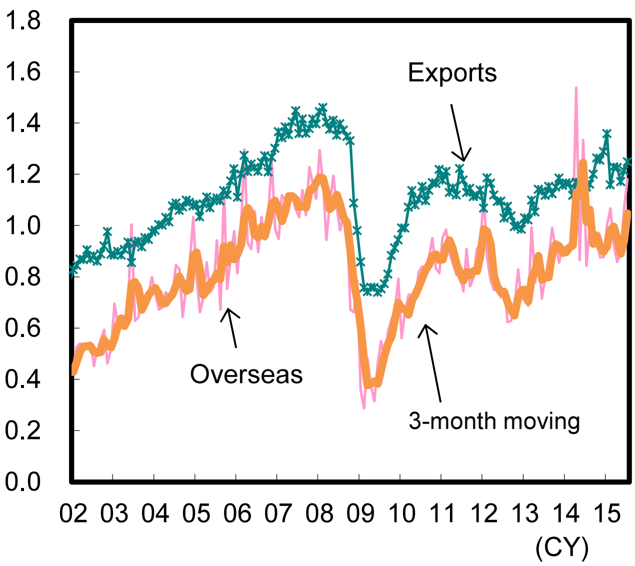


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas Orders show signs of a comeback with good results

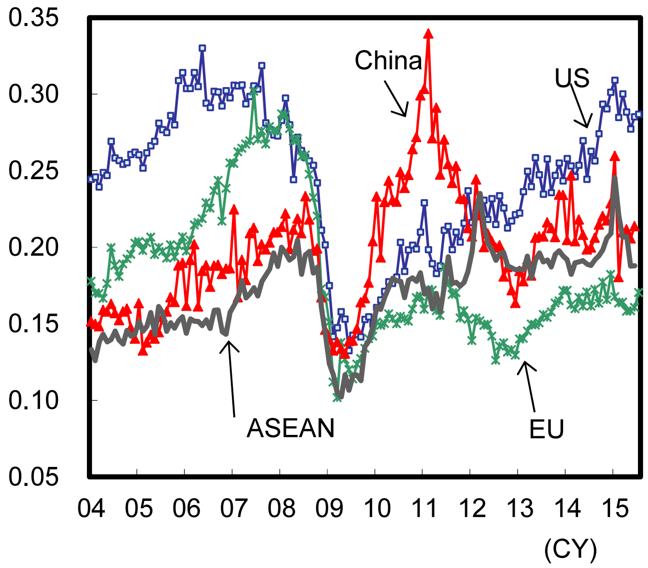
Overseas demand won growth for the third consecutive month at +10.2% m/m. The sense of uncertainty grows stronger with the economic slowdown in China, as well as stagnant capex related demand overseas. However, overseas demand, which had aroused feelings of caution of late, appears to be headed for a comeback, bringing a ray of sunshine into this month's results. Private sector demand also provided a contrast to overall results with its favorable performance.

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.

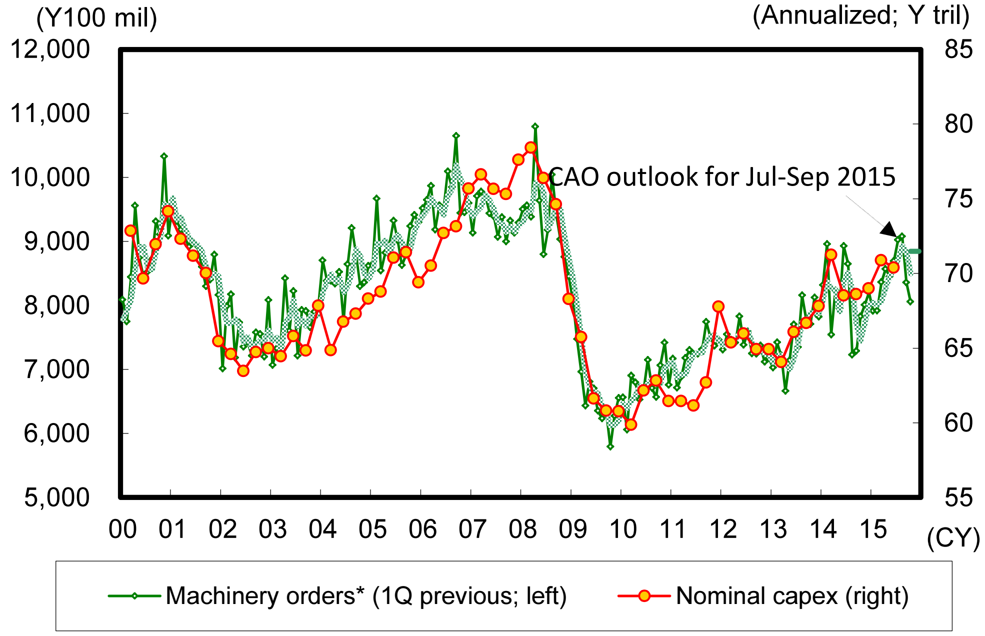
Machinery orders expected to mark time during the Jul-Sep Period

According to the CAO outlook for the Jul-Sep 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to grow by +0.3% q/q. In order to achieve this outlook, month-to-month growth of +9.6% will be required in both the months of August and September, so the hurdle is high. Hence machinery orders, which until now had continued in an upward trend, stand a good possibility of marking time in the Jul-Sep period.

However, machinery orders are expected to move toward a gradual comeback in the future. Plans for capex spending maintain a steady undertone according to the BOJ Tankan and other surveys, while the sense of undercapacity in the Non-manufacturing industry is growing. Meanwhile, the gradual resolution of the sense of overcapacity in the manufacturing industry is expected to continue. Both of these are positive factors. Moreover, along with the progressive weakening of the yen and the move toward increasing the ratio of domestic production seen amongst some manufacturers, corporate earnings are improving in association with the low price of crude oil. These factors are all providing a boost for capex spending.

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.