8 October 2015 (No. of pages: 4)
Japanese report: 08 Oct 2015

August Machinery Orders

Orders suffer three consecutive months of decline for first time in six years and three months

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Summary

- According to statistics for machinery orders in August 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down -5.7% m/m, falling below market consensus as well (+2.3%). This is the first time machinery orders have suffered declines for three consecutive months since the Mar-May period of 2009. Last month the Cabinet Office assessment of machinery orders was “the trend toward a comeback has stalled”. This assessment has now been downgraded to “orders appear to be marking time.” This is the second month in a row that the Cabinet Office has revised its assessment downwards.

- Looking at orders by source of demand, the manufacturing industries suffered declines for the third consecutive month at -3.2% 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. Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the second consecutive month at -6.1% m/m. A wide range of industries suffered declines in a continuation of the July trend.

- 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. Considering results in July and August, in order to achieve this outlook, September orders will have to achieve growth of +43.5%, which is a nearly impossible goal at this point. Hence machinery orders, which fell below the Apr-Jun period average by -11.3% in July and August, will likely be weak in the Jul-Sep period despite the growth trend experienced up to that time.

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

	2014				2015							
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Machinery orders (private sector)*	2.4	-3.5	0.1	5.6	2.5	-1.4	2.9	3.8	0.6	-7.9	-3.6	-5.7
Market consensus (Bloomberg)												2.3
DIR estimate												2.3
Manufacturing orders	6.7	-2.9	-1.9	10.4	-3.2	-0.6	0.3	10.5	9.9	-14.0	-5.3	-3.2
Non-manufacturing orders*	0.3	-2.8	-2.9	5.0	8.0	-5.0	4.7	-0.6	-4.0	0.6	-6.0	-6.1
Overseas orders	-7.5	0.9	-7.0	0.1	14.2	6.6	-13.5	-7.0	3.7	20.3	10.2	-26.1

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

August orders suffer three consecutive months of decline for first time in six years and three months

According to statistics for machinery orders in August 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down -5.7% m/m, falling below market consensus as well (+2.3%). This is the first time machinery orders have suffered declines for three consecutive months since the Mar-May period of 2009. Last month the Cabinet Office assessment of machinery orders was “the trend toward a comeback has stalled”. This assessment has now been downgraded to “orders appear to be marking time.” This is the second month in a row that the Cabinet Office has revised its assessment downwards.

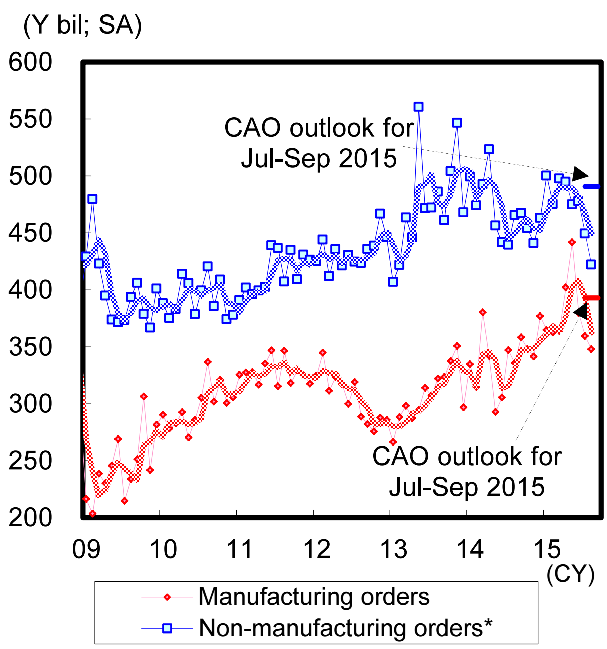
Manufacturing clearly in downward trend after peaking out in May

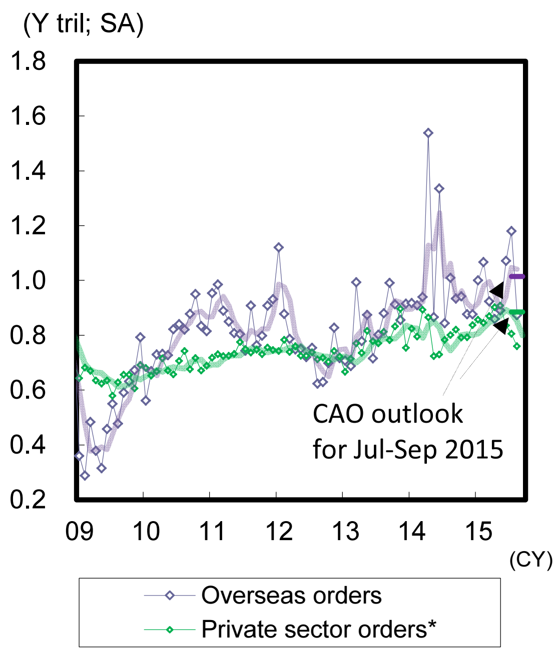
Looking at orders by source of demand, the manufacturing industries suffered declines for the third consecutive month at -3.2% m/m. The industry peaked out in May after special projects gave it a major boost, but now the downward trend has revealed itself with ever more clarity. Overall performance was pushed downwards by general machinery (-6.8% m/m) despite the growth it had experienced during the previous month, and Electrical machinery (-22.1%). It appears that general machinery, which had been in a growth trend until now, has peaked out. Looking at performance in other industries declines were notable in areas which had achieved major growth during the previous month, including automobiles, parts & accessories (-16.1% m/m) and information & communications electronic equipment (-20.0%). On the other hand, growth was achieved in petroleum & coal products (+361.0%) and chemicals (+5.9%), which had been in a sluggish trend.

Wide range of non-manufacturing industries suffer declines in continuation of July trend

Non-manufacturing orders (excluding shipbuilding and electric power) suffered a m/m decline for the second consecutive month at -6.1% m/m. A wide range of industries suffered declines in a continuation of the July trend. Other non-manufacturing was down -16.7% m/m, with transportation and postal activities (-18.4%) and finance & insurance (-40.4%) contributing to the overall downward trend. In terms of the three-month moving average, transportation and postal activities was at its lowest point in the last two and a half years.

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



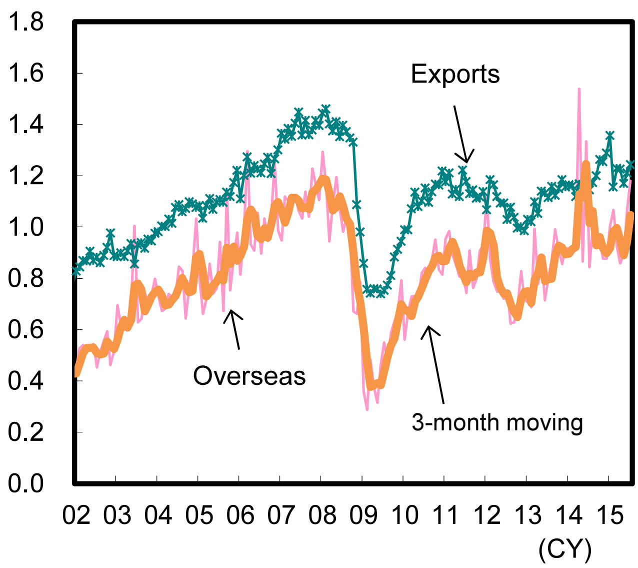


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders suffer decline for first time in four months in growing uncertainty regarding future of world economy

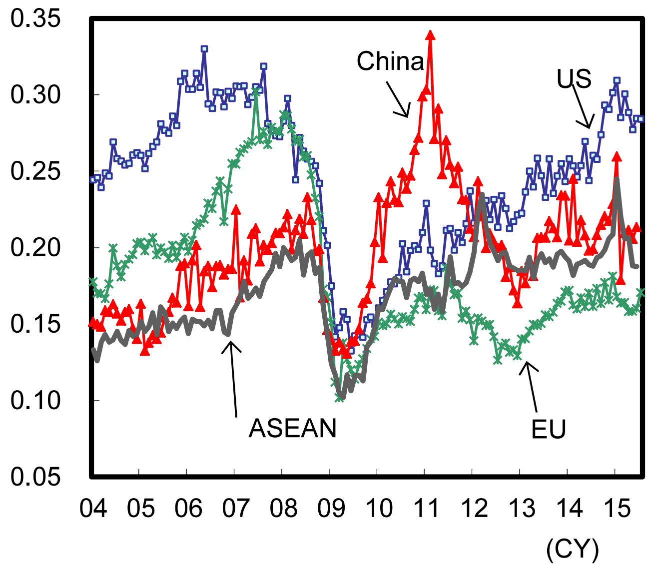
Overseas demand suffered a decline for the first time in four months at -26.1% m/m. In addition to the economic slowdown in China, the decline likely reflects recent capex related demand overseas, which is increasingly appearing to be stagnant. However, machinery orders is an index which tends to fluctuate quite a bit, so a single month's major fluctuations should be taken with a certain grain of salt. It is too early to say that machinery orders are in a slowdown.

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.

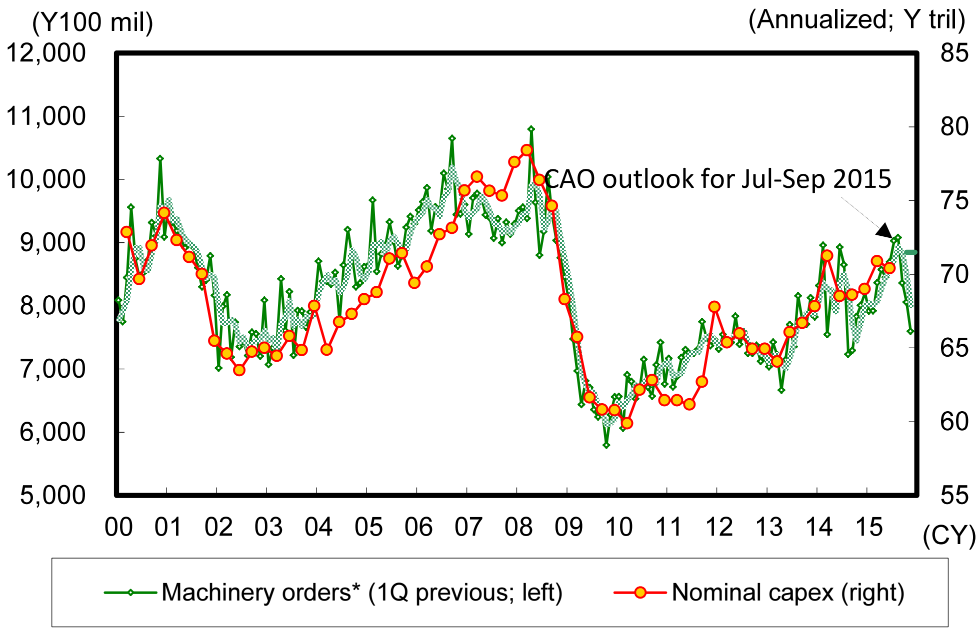
Machinery orders expected to weaken in Jul-Sep period

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. Considering results in July and August, in order to achieve this outlook, September orders will have to achieve growth of +43.5%, which is a nearly impossible goal at this point. Hence machinery orders, which fell below the Apr-Jun period average by -11.3% in July and August, will likely be weak in the Jul-Sep period despite the growth trend experienced up to that time.

However, machinery orders are expected to move toward a gradual comeback in the future. Plans for capex spending are seen up based on pattern of upward revisions according to the September BOJ Tankan. While manufacturers are more cautious regarding capex spending due to stagnant exports associated with slowdowns in overseas economies, as well as sluggish production, the non-manufacturing industries still show a willingness to invest in capex as the sense of undercapacity increases. Additionally, corporate earnings are improving in association with the low price of crude oil which has continued since last summer, and this is expected to provide a boost for capex spending in the future.

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.