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September Machinery Orders

Order amount achieves growth for first time in 4-months, expected to mark time in future

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Summary

- According to statistics for machinery orders in September 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up for the first time in four months at +7.5% m/m, while exceeding market consensus (+3.1%). On the other hand, the Cabinet Office outlook for Jul-Sep period machinery orders saw +0.3% q/q growth for private sector demand (excluding shipbuilding and electric power), while actual performance fell considerably below the original outlook by -10.0%.

- Looking at orders by source of demand in September, the manufacturing industries suffered declines for the fourth consecutive month at -5.5% m/m. The industry peaked out in May after special projects gave it a major boost, and the downward trend still continues. Non-manufacturing orders (excluding shipbuilding and electric power) achieved m/m growth for the first time in three months at +14.3% m/m, and for the time being appears to have pulled out of the continuing declines suffered since July.

- Machinery orders are expected to continue marking time in the future. According to the September BOJ Tankan, FY2015 capex plans of major corporations in all industries are on the relatively high side in comparison to the past tendency of downward revisions. However, considering the trend in machinery orders over the past several months, there are still possibilities that corporations may put off their capex plans due to stagnant exports arising from the slowdown in overseas economies and sluggish growth for production. It should be noted that this tendency could get worse, depending on the direction taken by overseas economies. At the same time, however, the improvement in corporate earnings in association with cheap crude oil which has continued since last summer is expected to provide underlying support for corporations' willingness to spend on capital expenditure.

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

	2014			2015								
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Machinery orders (private sector)*	-3.5	0.1	5.6	2.5	-1.4	2.9	3.8	0.6	-7.9	-3.6	-5.7	7.5
Market consensus (Bloomberg)												3.1
DIR estimate												2.5
Manufacturing orders	-2.9	-1.9	10.4	-3.2	-0.6	0.3	10.5	9.9	-14.0	-5.3	-3.2	-5.5
Non-manufacturing orders*	-2.8	-2.9	5.0	8.0	-5.0	4.7	-0.6	-4.0	0.6	-6.0	-6.1	14.3
Overseas orders	0.9	-7.0	0.1	14.2	6.6	-13.5	-7.0	3.7	20.3	10.2	-26.1	4.8

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

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Economic Research

September orders achieve growth for first time in four months

According to statistics for machinery orders in September 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up for the first time in four months at +7.5% m/m, while exceeding market consensus (+3.1%). On the other hand, the Cabinet Office outlook for Jul-Sep period machinery orders saw +0.3% q/q growth for private sector demand (excluding shipbuilding and electric power), while actual performance fell considerably below the original outlook by -10.0%.

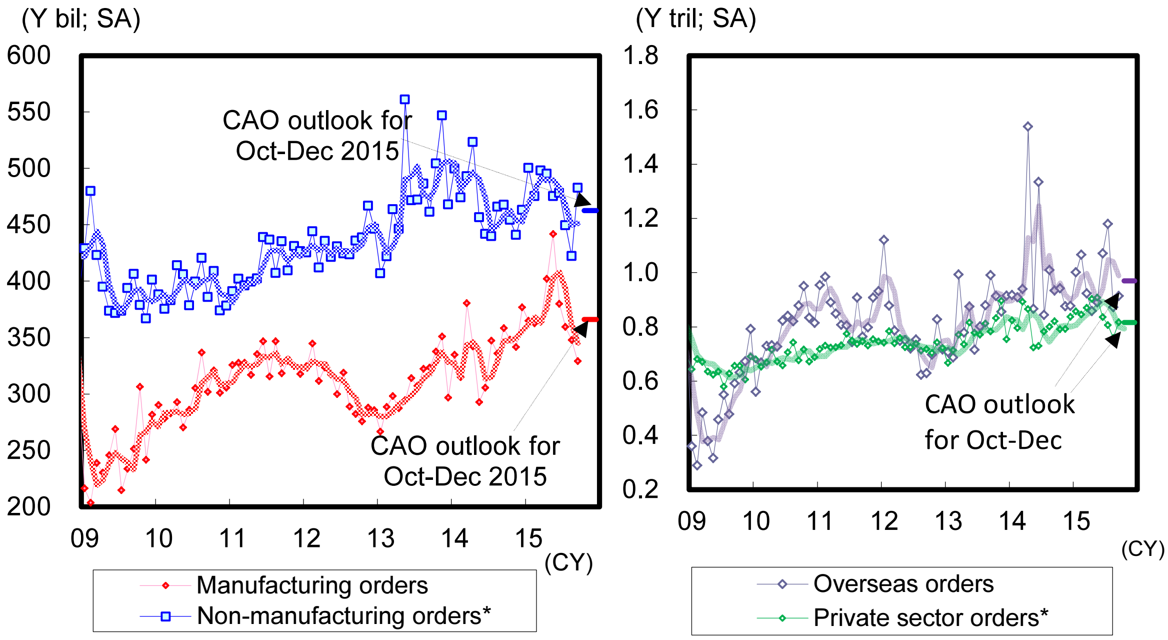
Manufacturing continues downward trend after May peak

Looking at orders by source of demand in September, the manufacturing industries suffered declines for the fourth consecutive month at -5.5% m/m. The industry peaked out in May after special projects gave it a major boost, and the downward trend still continues. As for performance by industry, petroleum & coal products, which received major orders last month, were down by -83.7%, while other transport equipment (-18.3%), other manufacturing (-8.5%), and fabricated metal products (-34.5%) also contributed to the overall downtrend. As for other transport equipment, the previous growth trend had been continuing, but then declines were experienced in September. This is considered to be most likely a reactionary decline in comparison to the previous month. Meanwhile, fabricated metal products have suffered declines for four consecutive months, with amount in orders received having fallen to the low previously experienced in April 2013. At the same time, growth was achieved in some other manufacturing industries, including chemicals (+31.0%) and automobiles, parts & accessories (+9.1%). Chemicals achieved four consecutive months of growth and movement in the opposite direction is now being detected.

Non-manufacturing industries pull out of previous declining trend

Non-manufacturing orders (excluding shipbuilding and electric power) achieved m/m growth for the first time in three months at +14.3% m/m, and for the time being appears to have pulled out of the continuing declines suffered since July. Looking at orders by industry, areas which contributed greatly to last month's decline, including finance & insurance (+104.5%) and transportation and postal activities (+33.9%) bounced back to help push up overall results. As for postal activities, signs of having hit bottom were seen.

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



Source: Cabinet Office (CAO); compiled by DIR.

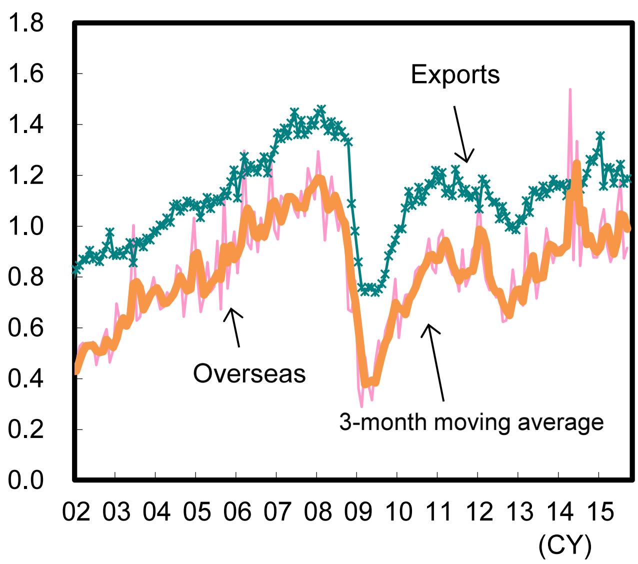
*excl. those for shipbuilding and from electric utilities.

Note: Thick lines 3M/MA basis.

Overseas orders achieve growth for first time in two months, but growth rate seems to have fallen short

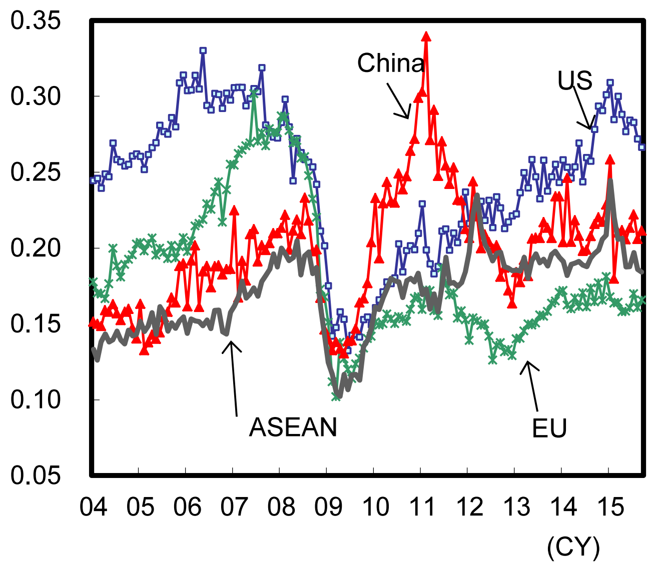
Overseas demand grew for the first time in two months at +4.8% m/m. However, in August it was down considerably by -26.1%. Considering this factor, there is the sense that growth in September fell a bit short. In addition to the economic slowdown in China, as well as the collapse in crude oil prices and the strong dollar which are leading to stagnant capex related demand from US corporations, uncertainty regarding the future of the world economy remains strong. One can't be too optimistic about the near 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.

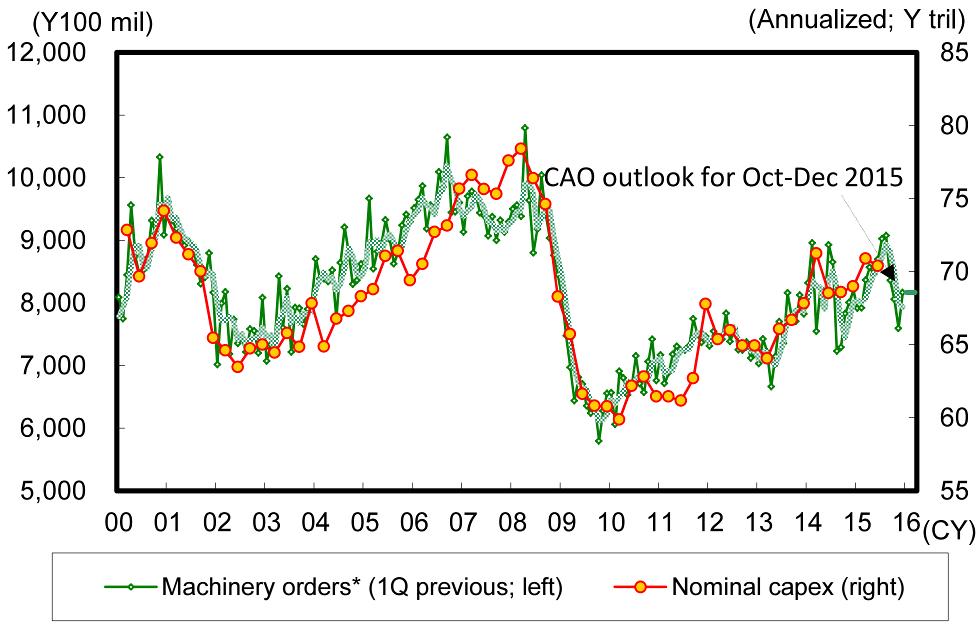
Machinery orders expected to continue marking time

According to the CAO outlook for the Oct-Dec 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to grow by +2.9% q/q, firming up somewhat in comparison to the Jul-Sep period. However, overseas demand is expected to decline by -1.9% during the Oct-Dec period, and the future of the world economy is becoming increasingly uncertain. Hence we see a decline in machinery orders in comparison to the Jul-Sep period.

Machinery orders are expected to continue marking time in the future. According to the September BOJ Tankan, FY2015 capex plans of major corporations in all industries are on the relatively high side in comparison to the past tendency of downward revisions. However, considering the trend in machinery orders over the past several months, there are still possibilities that corporations may put off their capex plans due to stagnant exports arising from the slowdown in overseas economies and sluggish growth for production. It should be noted that this tendency could get worse, depending on the direction taken by overseas economies. At the same time, however, the improvement in corporate earnings in association with cheap crude oil which has continued since last summer is expected to provide underlying support for corporations' willingness to spend on capital expenditure.

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.