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October Machinery Orders

Oct-Dec orders off to a good start

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Summary

- According to statistics for machinery orders in October 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up for the second consecutive month at +10.7% m/m, while considerably exceeding market consensus (-1.5%). Results were also on the high side from the viewpoint of the 3-month moving average, leaving us to conclude that machinery orders hit bottom during the summer and are now back into a growth phase.

- Looking at orders by source of demand in October, the manufacturing industries achieved growth for the first time in five months at +14.5% m/m. It appears that the declines, which the manufacturing industry suffered after peaking out in May when special projects gave it a major boost, have come to a stop. Meanwhile, non-manufacturing orders (excluding shipbuilding and electric power) grew for the second consecutive month at +10.7% m/m.

- Machinery orders are expected to continue marking time in the near future. 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 capex. The non-manufacturing industries, which are relatively free of influence from the sluggish overseas economy, are getting underlying support from favorable domestic demand, and are expected to carry out investment in energy saving and labor saving as a means of dealing with the shortage of manpower.

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

	2014		2015									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Machinery orders (private sector)*	0.1	5.6	2.5	-1.4	2.9	3.8	0.6	-7.9	-3.6	-5.7	7.5	10.7
Market consensus (Bloomberg)												-1.5
DIR estimate												0.5
Manufacturing orders	-1.9	10.4	-3.2	-0.6	0.3	10.5	9.9	-14.0	-5.3	-3.2	-5.5	14.5
Non-manufacturing orders*	-2.9	5.0	8.0	-5.0	4.7	-0.6	-4.0	0.6	-6.0	-6.1	14.3	10.7
Overseas orders	-7.0	0.1	14.2	6.6	-13.5	-7.0	3.7	20.3	10.2	-26.1	4.8	41.6

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

October orders achieve growth for second consecutive month. Results considerably exceed market consensus

According to statistics for machinery orders in October 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were up for the second consecutive month at +10.7% m/m, while considerably exceeding market consensus (-1.5%). Results were also on the high side from the viewpoint of the 3-month moving average, leaving us to conclude that machinery orders hit bottom during the summer and are now back into a growth phase. October results encouraged the cabinet office to revise its overall assessment of machinery orders from “the economy remains at a standstill” to “there are signs of some recovery” for the first time in three months.

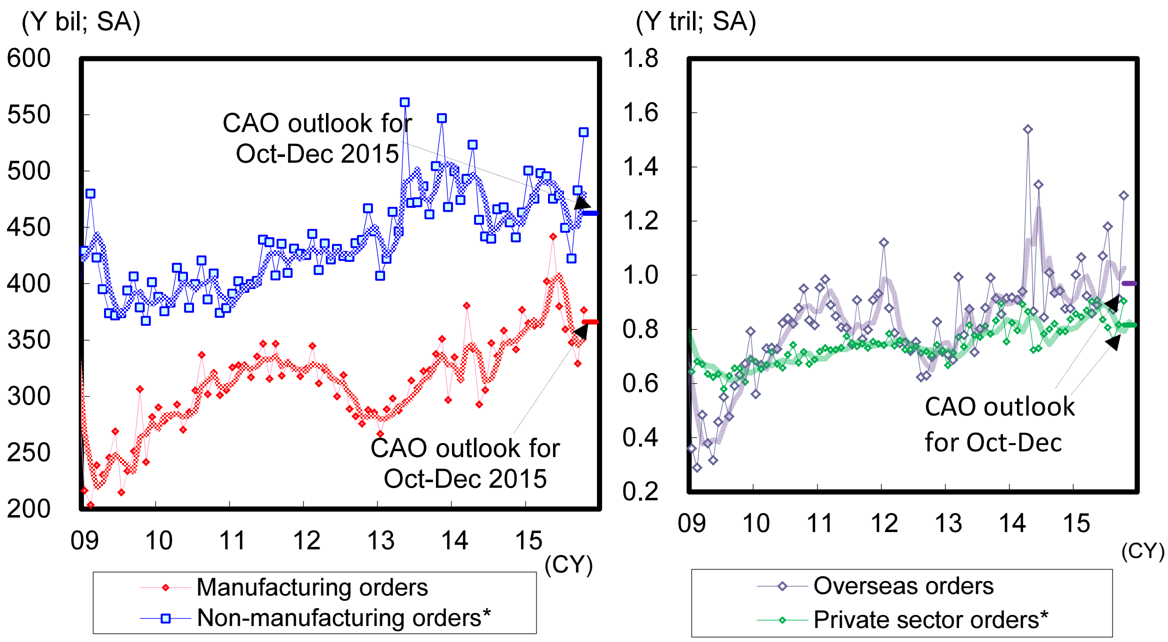
Manufacturing orders grow for first time in five months, bringing stop to months of decline

Looking at orders by source of demand in October, the manufacturing industries achieved growth for the first time in five months at +14.5% m/m. It appears that the declines, which the manufacturing industry suffered after peaking out in May when special projects gave it a major boost, have come to a stop. As for performance by industry, other manufacturing (+26.6% m/m), general machinery (+13.9%), other transport equipment (+48.7%), and iron & steel (+103.9%) contributed to overall growth. As for other transport equipment, the growth trend is clearly continuing. The growth rate won by orders for iron and steel was especially high, leaving us to assume that this leap is a rebound in reaction to the past two months of lows. At the same time, chemicals (-43.3%), which contributed to growth during the previous month, and electrical machinery (-7.5%) suffered declines. Chemicals are expected to continue to mark time with some fluctuations in the future.

Non-manufacturing industries win second consecutive month of growth

Non-manufacturing orders (excluding shipbuilding and electric power) grew for the second consecutive month at +10.7% m/m. Looking at performance by industry, transportation and postal activities (+98.6%) and agriculture, forestry and fishing (+32.7%) achieved growth. As for postal activities, on average favorable performance continues. On the other hand, finance and insurance (-7.7%) and construction (-11.4%) pulled down overall performance somewhat. Construction appears to have peaked out.

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

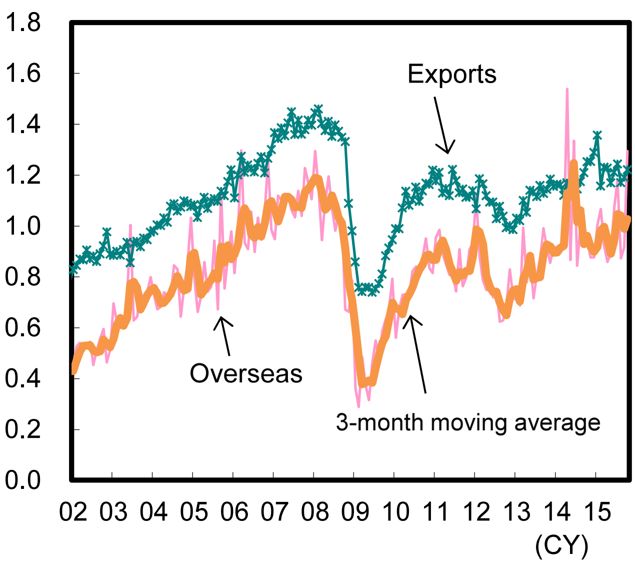


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders show signs of making a comeback

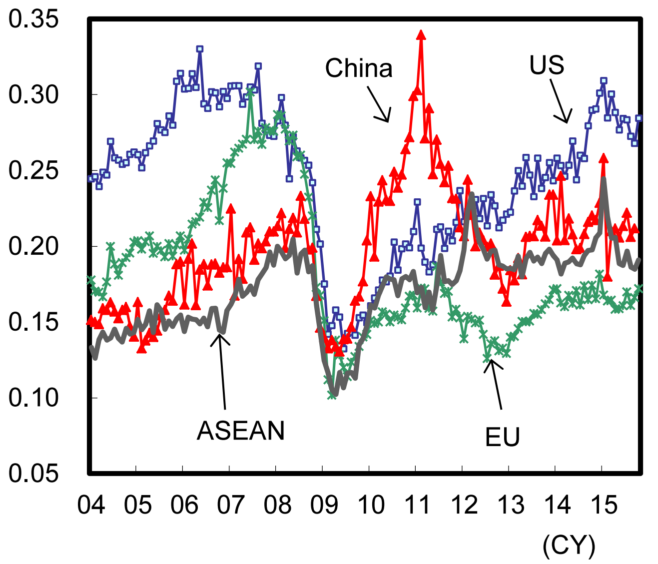
Overseas demand grew for the first time in two months at +41.6% m/m, showing signs of making a comeback. The influence of the slowdown in the world economy appears to be gradually easing up.

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**



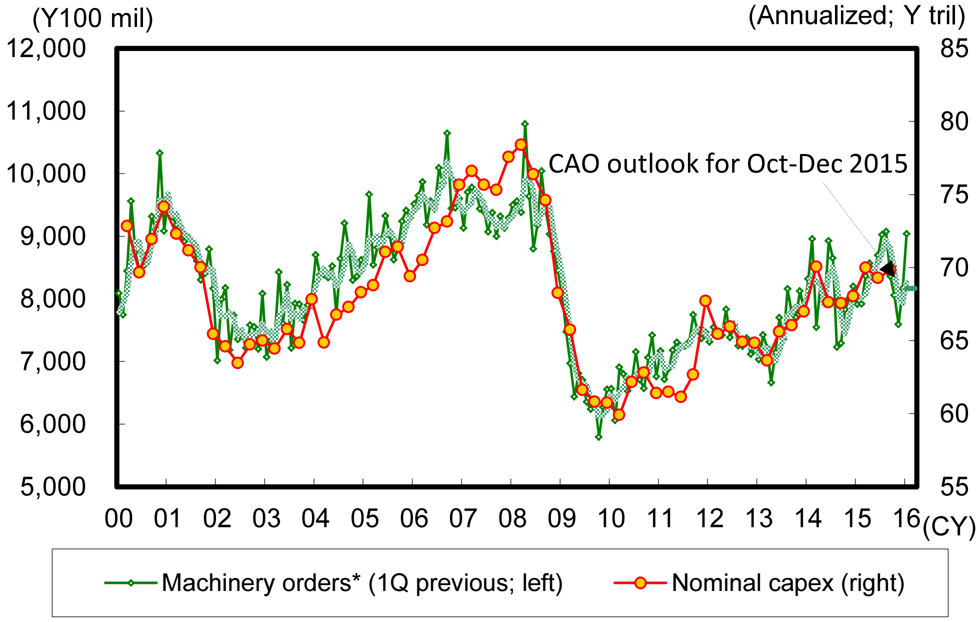
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

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. Considering the October results, the quarter has gotten off to a good start. However, overseas economies are still in a downswing, and because of this exports continue to be stagnant. Some export oriented corporations may begin approaching capital expenditure with even more care. This is something requiring continued caution.

Machinery orders are expected to continue marking time in the near future. 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 capex. The non-manufacturing industries, which are relatively free of influence from the sluggish overseas economy, are getting underlying support from favorable domestic demand, and are expected to carry out investment in energy saving and labor saving as a means of dealing with the shortage of manpower.

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.