Daiwa
Daiwa Institute of Research

14 January 2016 (No. of pages: 4)

Japanese report: 14 Jan 2016

November Machinery Orders

Orders experience reactionary decline after previous month's major gains, while falling below market consensus as well

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Summary

- According to statistics for machinery orders in November 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), orders declined for the first time in three months at -14.4% m/m, while falling below market consensus at -7.3%. November results represent a reactionary decline after the major gains achieved during the months of September and October 2015.

- Looking at orders by source of demand in November, the manufacturing industries suffered declines for the first time in two months at -10.2% m/m. This is thought to be a reactionary decline after the major growth experienced in October (+14.5%). According to the 3-month moving average, though results were low, figures remained within the range of marking time. Meanwhile, non-manufacturing orders (excluding shipbuilding and electric power) declined for the first time in three months at -18.0% m/m.

- Machinery orders are expected to continue marking time in the near future. According to the December BOJ Tankan, manufacturers are cautious in regard to capex, while non-manufacturing maintains a healthy attitude toward capital investment. With favorable domestic demand, the non-manufacturing industries are expected to carry out investment in energy saving and labor saving as a means of dealing with the shortage of manpower. On the other hand, fears of another economic slowdown in China have flared up again, causing some worries. If the sense of uncertainty regarding the future of the world economy grows stronger, corporations could become even more cautious in regard to capex spending, especially amongst export driven manufacturers.

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

	2014	2015										
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Machinery orders (private sector)*	5.6	2.5	-1.4	2.9	3.8	0.6	-7.9	-3.6	-5.7	7.5	10.7	-14.4
Market consensus (Bloomberg)												-7.3
DIR estimate												-1.5
Manufacturing orders	10.4	-3.2	-0.6	0.3	10.5	9.9	-14.0	-5.3	-3.2	-5.5	14.5	-10.2
Non-manufacturing orders*	5.0	8.0	-5.0	4.7	-0.6	-4.0	0.6	-6.0	-6.1	14.3	10.7	-18.0
Overseas orders	0.1	14.2	6.6	-13.5	-7.0	3.7	20.3	10.2	-26.1	4.8	41.6	-25.0

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

November orders suffer declines for first time in three months in reaction to previous month's major gains

According to statistics for machinery orders in November 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), orders declined for the first time in three months at -14.4% m/m, while falling below market consensus at -7.3%. November results represent a reactionary decline after the major gains achieved during the months of September and October 2015. Machinery orders tend to fluctuate quite a bit, so the results of a single month should not be viewed pessimistically. That said, the rebound in machinery orders since hitting bottom during the summer of 2015 has most certainly been a gradual one.

Manufacturing orders suffer declines for first time in two months, but averaged out, performance remains within the range of marking time

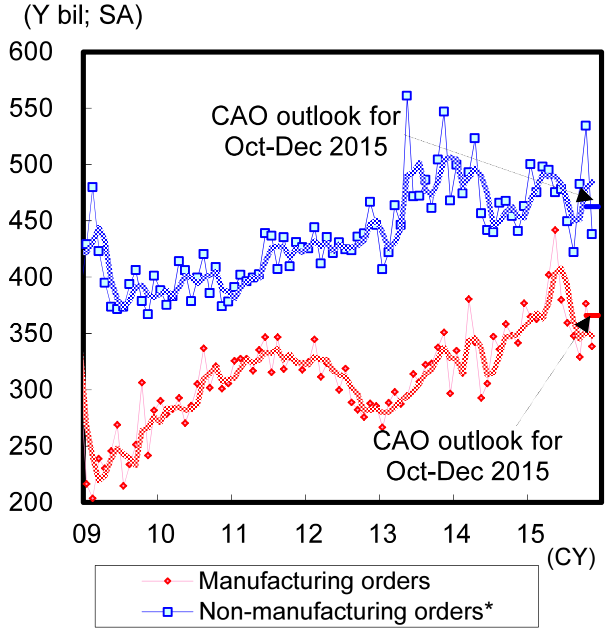
Looking at orders by source of demand in November, the manufacturing industries suffered declines for the first time in two months at -10.2% m/m. This is thought to be a reactionary decline after the major growth experienced in October (+14.5%). According to the 3-month moving average, though results were low, figures remained within the range of marking time.

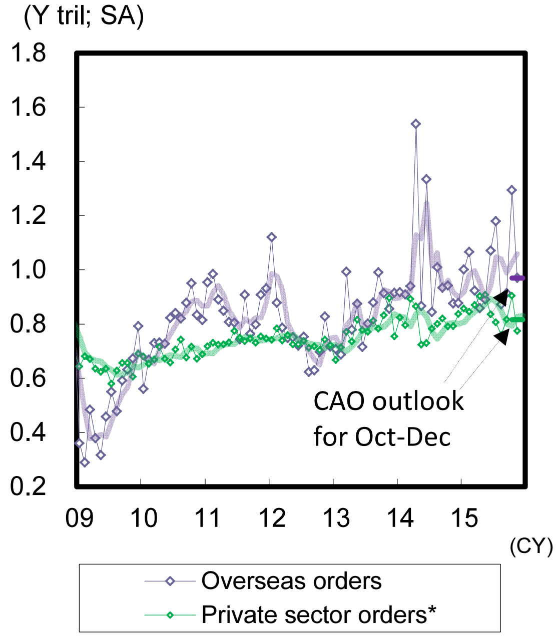
As for performance by industry, the following industries especially contributed to the overall decline: Other transport equipment (-46.7% m/m), general machinery (-16.0%), other manufacturing (-15.3%), and iron & steel (-42.3%). As for other transport equipment, it appears the industry has peaked out after the recent growth trend. Meanwhile, general machinery suffered an especially large rate of decline and now continues to mark time. At the same time, chemicals (+110.7%) and petroleum & coal products (+185.6%), which brought a negative contribution during the previous month, experienced a major rebound. Chemicals are expected to move into a moderate growth rate with some fluctuations in the future. Meanwhile, petroleum & coal products are expected to continue the downtrend despite November's major gains.

Non-manufacturing industries suffer major declines for first time in 3-months

Non-manufacturing orders (excluding shipbuilding and electric power) declined for the first time in three months at -18.0% m/m. Looking at performance by industry, finance and insurance (-41.6%) and transportation and postal activities (-44.5%) contributed to negative results. As for postal activities, though November results saw a major decline, on average, favorable performance continues. On the other hand, other non-manufacturing (+26.8% m/m) as well as wholesale and retail trade (+10.4%) achieved growth. As for wholesale and retail trade, the industry continues to mark time.

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



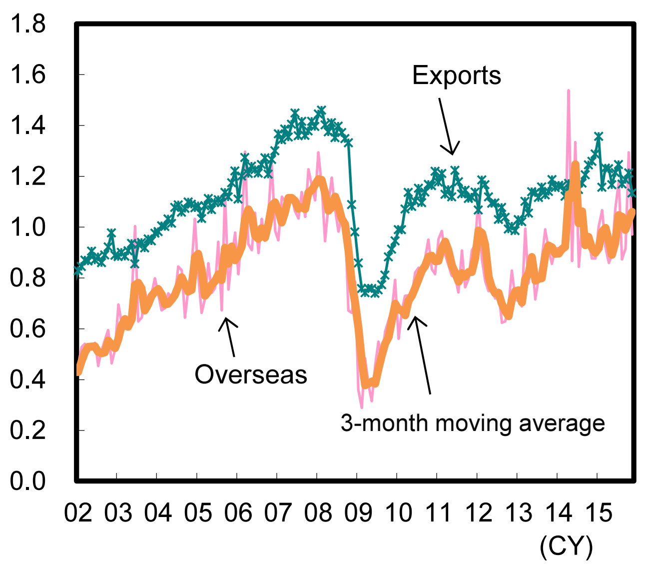


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders decline for the first time in three months, but the moderate growth trend continues

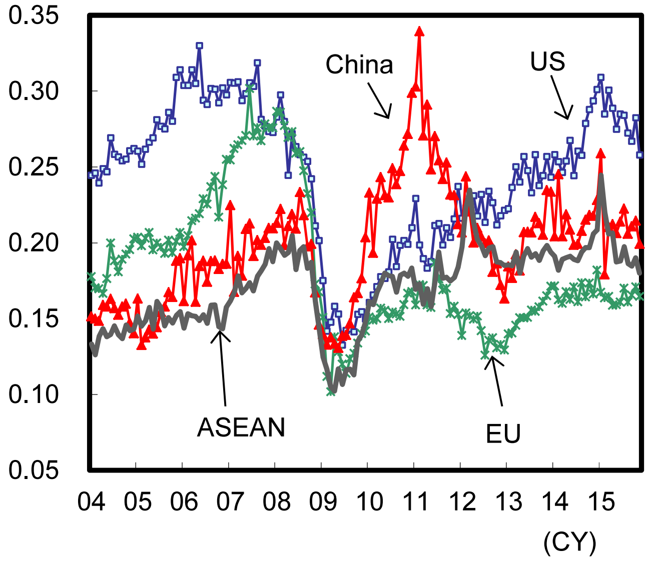
Overseas demand declined for the first time in three months at -25.0% m/m, but in terms of the 3-month moving average, it appears to be maintaining a moderate growth trend. Trade statistics show that export volume to Asia and the EU is beginning to grow. Meanwhile, the influence of the slowdown in the world economy appears to be gradually easing up. Hence overseas demand promises to maintain underlying strength in the future.

General Machinery: Overseas Orders and Exports **Chart 3**
(Y tril; SA)



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 **Chart 4**
(Y tril; SA)



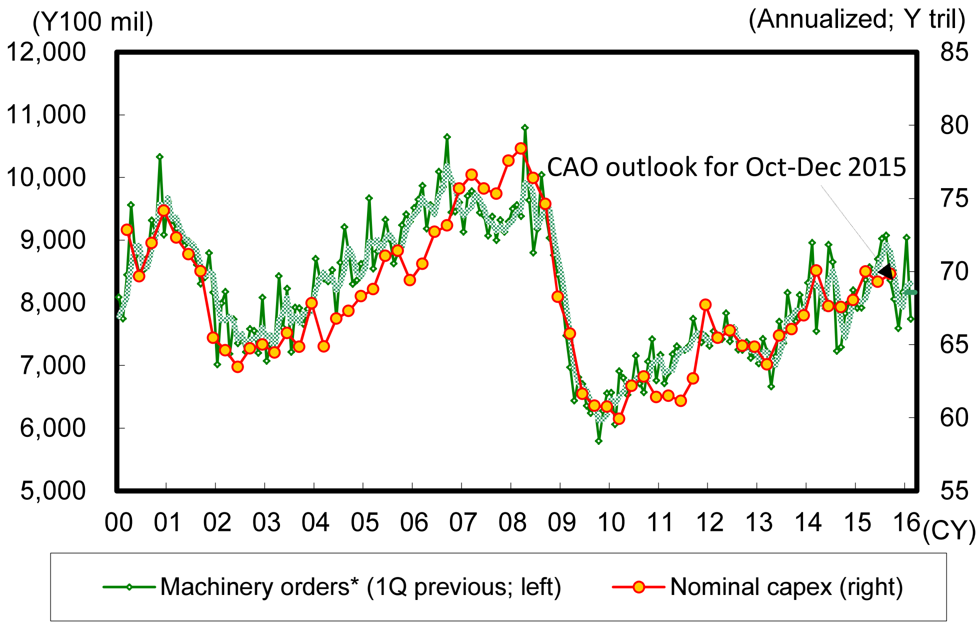
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

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 and November results, the Oct-Dec 2015 quarter should be able to achieve the results predicted by the CAO. However, in order to do so, December orders must perform better than -0.1% m/m. Although there is a good chance that predictions can be achieved, the level of performance will not likely be high in light of the major declines experienced during the Jul-Sep 2015 period (-10.0% q/q).

Machinery orders are expected to continue marking time in the near future. According to the December BOJ Tankan, manufacturers are cautious in regard to capex, while non-manufacturing maintains a healthy attitude toward capital investment. With favorable domestic demand, the non-manufacturing industries are expected to carry out investment in energy saving and labor-saving as a means of dealing with the shortage of manpower. On the other hand, fears of another economic slowdown in China have flared up again, causing some worries. If the sense of uncertainty regarding the future of the world economy grows stronger, corporations could become even more cautious in regard to capex spending, especially amongst export driven manufacturers.

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.