9 June 2016 (No. of pages: 5)
Japanese report: 09 Jun 2016

April 2016 Machinery Orders

April results negative, but on average, moderate growth phase continues

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Summary

- According to statistics for machinery orders in April 2016, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders fell for the first time in two months by -11.0% m/m, while falling below market consensus as well (-3.0%). Shipbuilding and non-ferrous metals, which received large-scale orders during the previous month, suffered major declines in April, hence pulling overall results down along with them.

- Looking at orders by source of demand in April, the manufacturing industries fell for the first time in two months by -13.3% m/m. This is considered to be a reactionary decline after the major +19.7% in growth experienced in March. Non-manufacturing orders (excluding ships and electric power) declined by -3.9% m/m, the second consecutive month of decline for the industry. The non-manufacturing industries have recently appeared to be taking a breather, but there seems to be no reason to change our basic view that orders are still in a moderate growth phase.

- Machinery orders, the leading indicator for capex, are expected to mark time in the future. With supply and demand for labor remaining tight, the non-manufacturing industries, which are not so easily influenced by overseas demand, are expected to maintain stable business performance, which should encourage investment in rationalization and labor-saving devices. Meanwhile, demand for machinery is expected to expand, especially for equipment oriented toward restoration and reconstruction of production facilities lost or damaged in the recent Kumamoto earthquake. On the other hand, a worsening external environment as seen in the slowdown of the world economy and the accelerating tendency toward a strong yen/weak dollar situation will likely become a drag on the business performance of export-driven industries, especially in manufacturing, and this is cause for concern. If the assumption of good business performance, which provides the support for capex spending, should collapse, the number of corporations putting off capex spending could increase.

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

	2015 May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2016 Jan	Feb	Mar	Apr
Machinery orders (private sector)*	2.9	-6.6	-3.0	-2.9	5.9	6.4	-9.7	1.0	15.0	-9.2	5.5	-11.0
Market consensus (Bloomberg)												-3.0
DIR estimate												0.9
Manufacturing orders	3.7	-5.6	-4.0	-3.4	-3.5	6.2	-6.6	-3.0	41.2	-30.6	19.7	-13.3
Non-manufacturing orders*	-0.4	-0.9	-7.3	-1.7	13.7	5.2	-12.7	4.5	1.0	10.2	-6.9	-3.9
Overseas orders	4.1	7.9	8.5	-17.1	4.4	31.6	-20.1	-2.2	-29.4	6.3	28.5	-6.9

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

April results negative, but on average, moderate growth phase continues

According to statistics for machinery orders in April 2016, the leading indicator for domestic capex, private sector demand (excluding ships and electrical power), orders fell for the first time in two months by -11.0% m/m, while falling below market consensus as well (-3.0%). Shipbuilding and non-ferrous metals, which received large-scale orders during the previous month, suffered major declines in April, hence pulling overall results down along with them. While April results were negative, on average, machinery orders are assessed as being in a moderate growth phase.

Manufacturing orders experience reactionary decline in response to previous month's performance. Orders are beginning to peak out.

Looking at orders by source of demand in April, the manufacturing industries fell for the first time in two months by -13.3% m/m. This is considered to be a reactionary decline after the major +19.7% in growth experienced in March. The manufacturing industries are experiencing major fluctuations at this time, with signs of orders peaking out beginning to appear.

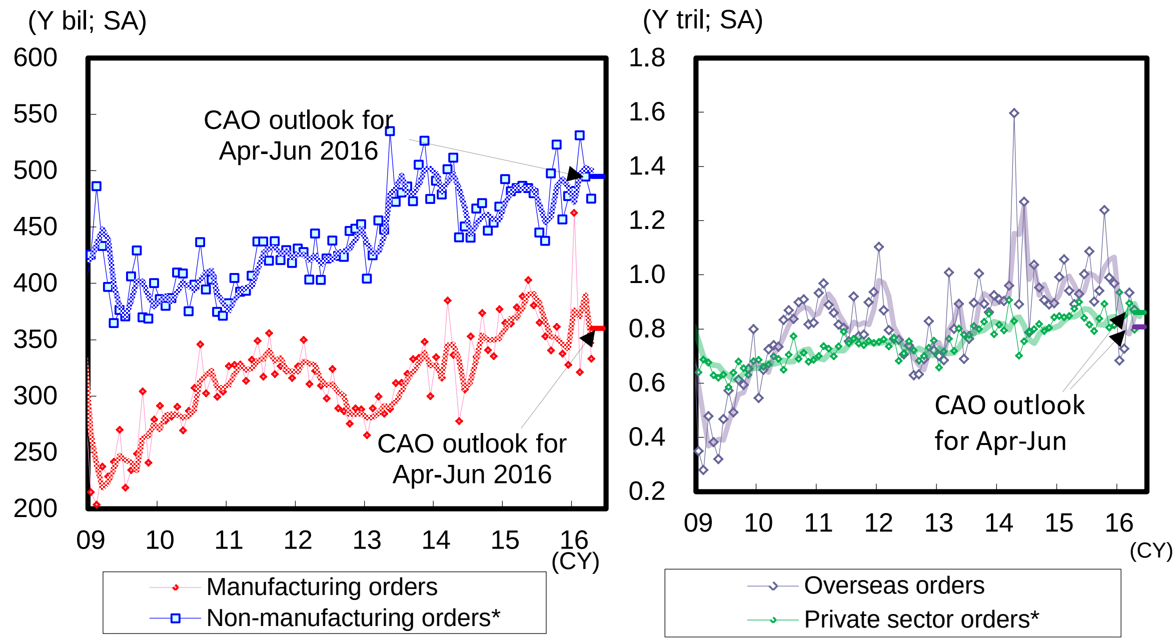
As for performance by industry, declines in shipbuilding (-50.0% m/m) and non-ferrous metals (-86.4%) stood out. These two industries took in major large-scale orders during the previous month. Month-to-month declines were also seen in general purpose and production machinery (-6.1%) and other manufacturing (-9.5%). Shipbuilding experienced a reactionary decline in response to its March performance, but considering the sluggish world economy, it is quite possible that the huge growth in orders during March was only a temporary phenomenon. General purpose and production machinery declined for the first time in 3 months, but looking at the 3-month moving average appear to still be in a moderate growth phase. On the other hand, some industries actually achieved growth in comparison to the previous month, including electrical machinery (+24.8%), petroleum and coal products (+109.1%), and information & communication electronics equipment (+29.4%). As for electrical machinery, growth was achieved for the first time in 4 months, but the industry remains in a declining trend overall. This is thought to be due to the worldwide decline in demand for smart phones, which may be weakening demand for machinery in this industry. The future should be approached with caution here. Finally, orders have been in a growth trend in the case of petroleum and coal products since the middle of last year. The price of crude oil bottomed out in the middle of February and has since been in a growth trend, and it is possible that orders are growing as a result of expectations that the price of crude oil will go up in the future.

Non-manufacturing industries taking a breather, though opinion that they are in a moderate growth trend remains unchanged

Non-manufacturing orders (excluding ships and electric power) declined by -3.9% m/m. Order amount for the non-manufacturing industries decline for the second consecutive month, but the percentage of decline has lessened somewhat. The non-manufacturing industries have recently appeared to be taking a breather, but there seems to be no reason to change our basic view that orders for this industry are still in a moderate growth phase.

Looking at performance by industry, we see a broad range of industries reporting declines in orders in comparison to the previous month, including other non-manufacturing (-26.9%), telecommunications (-19.2%), wholesale and retail trade (-25.3%), and information services (-16.5%). Wholesale and retail trade suffered declines for the first time in two months. The industry has been in a declining trend since the end of last year due to sluggish personal consumption and the general slowdown in the domestic economy. Only three industries achieved growth in comparison to the previous month. These were finance and insurance (+42.9%), agriculture, forestry and fishing (+7.3%), and mining, quarrying of stone, and gravel (+17.1%). Finance and insurance are in a growth trend despite fluctuations. This is thought to be due to the fact that changes in systems after the introduction of the negative interest rate are now complete, and up and running.

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

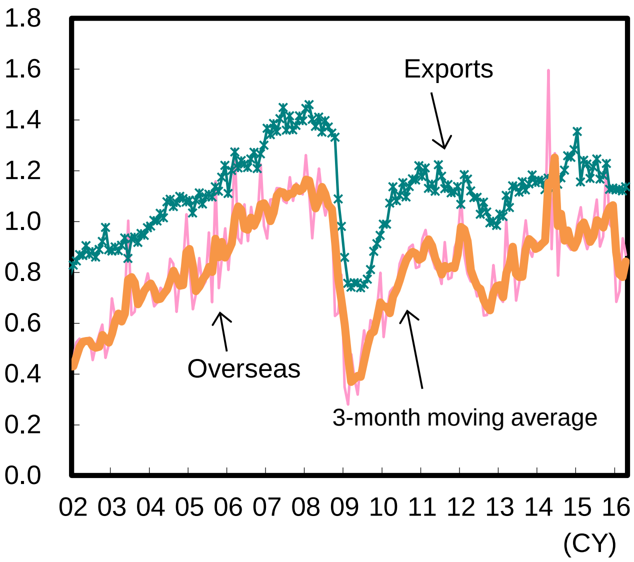


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for ships and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders decline for first time in 3 months. Orders decline for aircraft and railroad cars

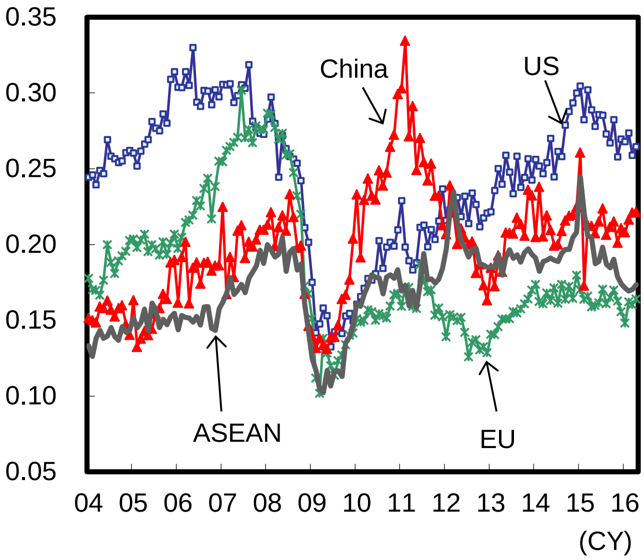
Overseas demand declined for the first time in three months by -6.9% m/m. According to the Cabinet Office, orders grew for production machinery and telecommunications equipment, but declined for aircraft and railroad cars. This is considered to be due to a reactionary decline appearing in response to the major growth experienced in March (+28.5%). While the feeling is growing that the world economy is beginning to settle down now in comparison to the sluggish performance at the beginning of the year, but the US economy, which maintained a favorable tone last year, is now beginning to slow down. Hence a variety of uncertain factors have begun to surface. As for the future of overseas demand, we expect a gradual comeback, but in the short-term, we prefer to approach the situation with care.

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**

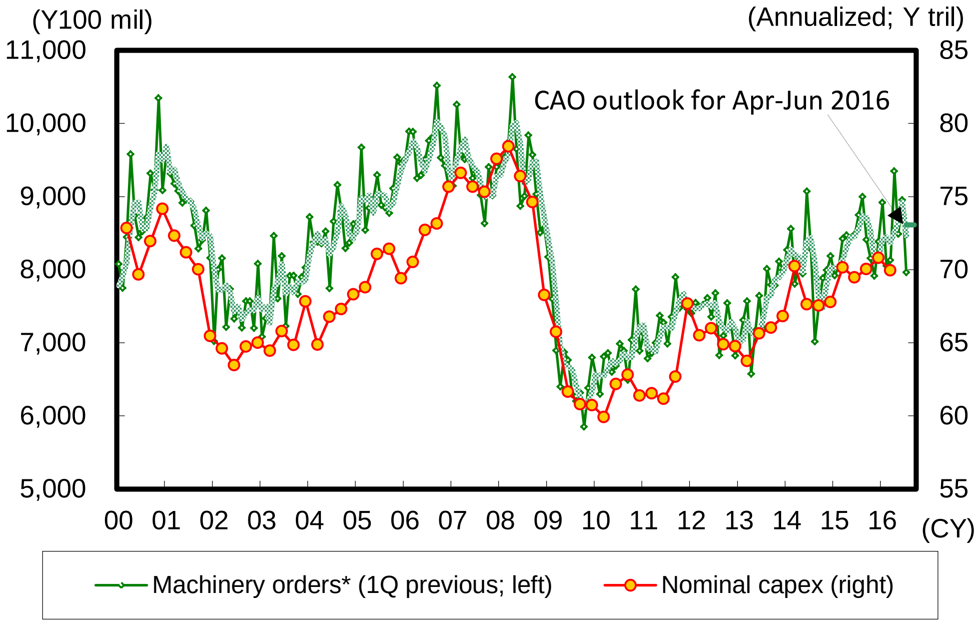


Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Machinery orders expected to mark time in the future

Machinery orders, the leading indicator for capex, are expected to mark time in the future. With supply and demand for labor remaining tight, the non-manufacturing industries, which are not so easily influenced by overseas demand, are expected to maintain stable business performance, which should encourage investment in rationalization and labor-saving devices. Meanwhile, demand for machinery is expected to expand, especially for equipment oriented toward restoration and reconstruction of production facilities lost or damaged in the recent Kumamoto earthquake. On the other hand, a worsening external environment as seen in the slowdown of the world economy and the accelerating tendency toward a strong yen/weak dollar situation will likely become a drag on the business performance of export-driven industries, especially in manufacturing, and this is cause for concern. If the assumption of good business performance, which provides the support for capex spending, should collapse, the number of corporations putting off capex spending could increase.

Domestic Demand and Nominal Capex (seasonally adjusted figures) — Chart 5



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

Note: Excluding those for ships and from electric utilities; thick lines 3M/MA basis.