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October 2016 Machinery Orders

October orders up by +4.1% m/m. High level of non-manufacturing orders helps increase overall results.

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Summary

- According to statistics for machinery orders in October 2016, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders grew for the first time in three months by +4.1% m/m, while at the same time exceeding market consensus at +1.1%. Manufacturing suffered a decline of -1.4% m/m, but non-manufacturing (excluding ships and electrical power) grew by +4.6%, helping to increase overall results.

- Looking at orders by source of demand in October, the manufacturing industries declined for the third consecutive month by -1.4% m/m. Manufacturing industry orders continue weak performance. Non-manufacturing orders (excluding ships and electric power) grew for the first time in three months by +4.6% m/m. The trend for orders in non-manufacturing maintains a relatively high level, and the industry is expected to continue the favorable trend in the future. Meanwhile, overseas orders grew for the third consecutive month at +1.9% m/m.

- Machinery orders, the leading indicator for capex, are expected to mark time in the future. With domestic demand continuing to lack strength, corporate earnings in the manufacturing industry show signs of peaking out. Consequently, corporations are becoming increasingly cautious as regards capex spending. However, supply and demand for labor remains tight, making investment in rationalization and labor-saving devices likely, while the non-manufacturing industries maintain a high level of recurring profits, and are expected to carry out investment in transport and distribution infrastructure. This should be a plus factor providing underlying support for machinery orders in the future.

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

	2015	2016									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Machinery orders (private sector)*	-9.7	1.0	15.0	-9.2	5.5	-11.0	-1.4	8.3	4.9	-2.2	-3.3	4.1
Market consensus (Bloomberg)												1.1
DIR estimate												1.0
Manufacturing orders	-6.6	-3.0	41.2	-30.6	19.7	-13.3	-6.4	17.7	0.3	-4.0	-5.0	-1.4
Non-manufacturing orders*	-12.7	4.5	1.0	10.2	-6.9	-3.9	-0.3	2.1	8.6	-1.9	-0.9	4.6
Overseas orders	-20.1	-2.2	-29.4	6.3	28.5	-6.9	-14.8	10.8	-11.7	6.8	1.4	1.9

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

October orders: high level of non-manufacturing orders helps increase overall results

According to statistics for machinery orders in October 2016, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders grew for the first time in three months by +4.1% m/m, while at the same time exceeding market consensus at +1.1%. Manufacturing suffered a decline of -1.4% m/m, but non-manufacturing (excluding ships and electrical power) grew by +4.6%, helping to increase overall results.

Manufacturing orders decline for third consecutive month, performance remains weak

Looking at orders by source of demand in October, the manufacturing industries declined for the third consecutive month by -1.4% m/m. Manufacturing industry orders continue weak performance.

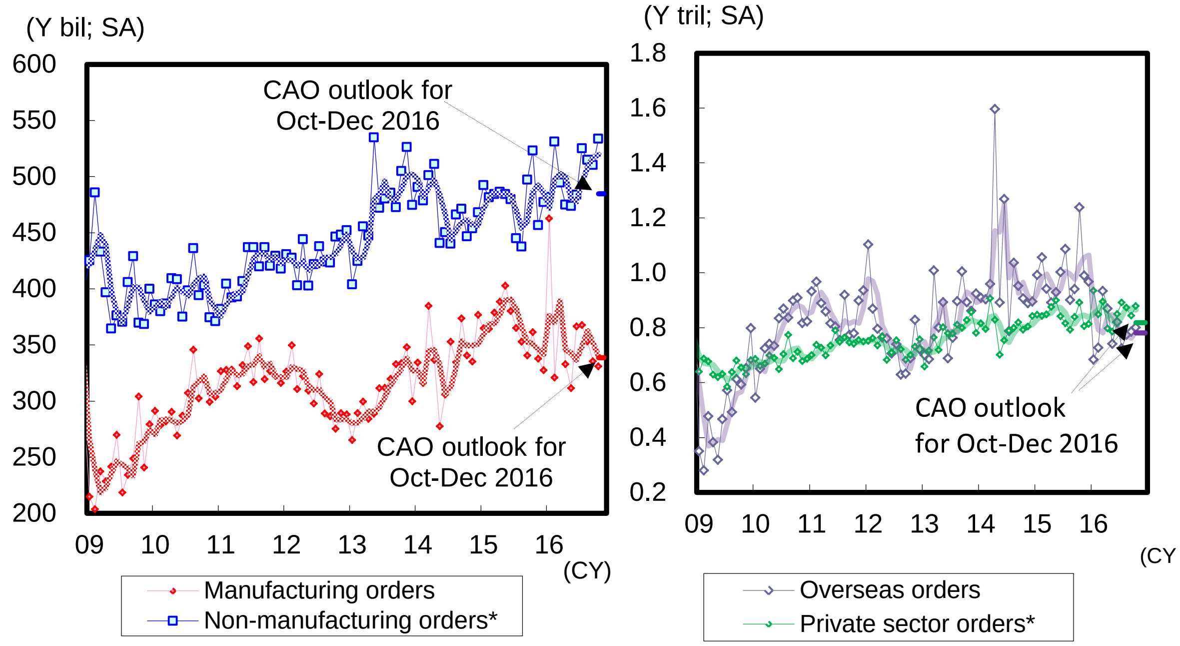
As for performance by industry, m/m declines were recorded by electrical machinery (-26.2%), non-ferrous metals (-69.6%), and general purpose & production machinery (-11.2%). As for electrical machinery, production had been marking time recently, but this month suffered a major decline. Demand for machinery of the type this industry produces has fallen off due to the worldwide decline in demand for smart phones. The future for this industry also requires caution. Non-ferrous metals suffered a reactionary decline following the previous month’s major growth. On the other hand, growth was achieved in comparison to the previous month in chemicals (+57.3%), petroleum and coal products (+333.0%), and fabricated metal products (+59.2%).

Non-manufacturing orders grow for the first time in three months, maintain high level

Non-manufacturing orders (excluding ships and electric power) grew for the first time in three months by +4.6% m/m. The trend for orders in non-manufacturing maintains a relatively high level, and the industry is expected to continue the favorable trend in the future.

Looking at performance by industry, month-to-month growth was seen in other non-manufacturing (+56.0%), agriculture, forestry and fishing (+26.7%), and telecommunications (+13.4%). As for other non-manufacturing, this industry rebounded from the previous month’s performance to win major growth. On the other hand, month-to-month declines were seen in transportation and postal activities (-38.2%), wholesale and retail trade (-28.8%), and finance & insurance (-17.5%). Transportation and postal activities suffered a decline for the first time in three months. The industry is considered to be merely taking a breather from its overall growth trend.

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



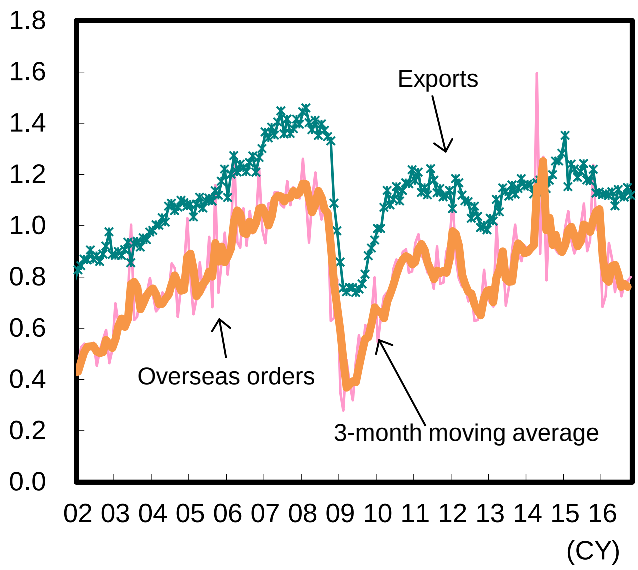
Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for ships and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders achieve growth for third consecutive month

Overseas orders grew for the third consecutive month at +1.9% m/m. Overseas orders have been maintaining favorable performance in recent months. According to the Cabinet Office, orders for aircraft and engines & turbines declined, while orders for information and communication electronics equipment grew.

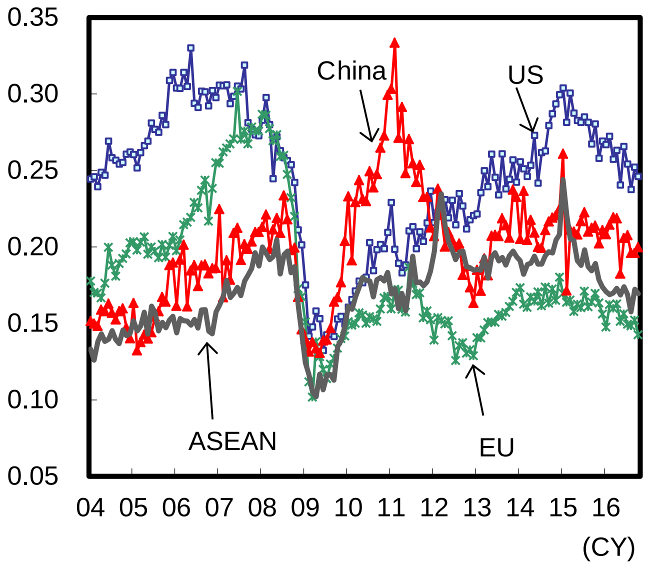
Ever since Republican candidate Donald Trump won the November 8 US presidential election, yen depreciation and stock price highs have progressively manifested on the capital markets. In the short-term the weak yen should help to shore up export value. On the other hand, in the mid to long-term, the world economy may become increasingly uncertain due to Trump's inward-looking policies. According to our main scenario for the future of overseas demand, we expect a gradual comeback. However, we continue to take a cautious view as we move forward.

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**

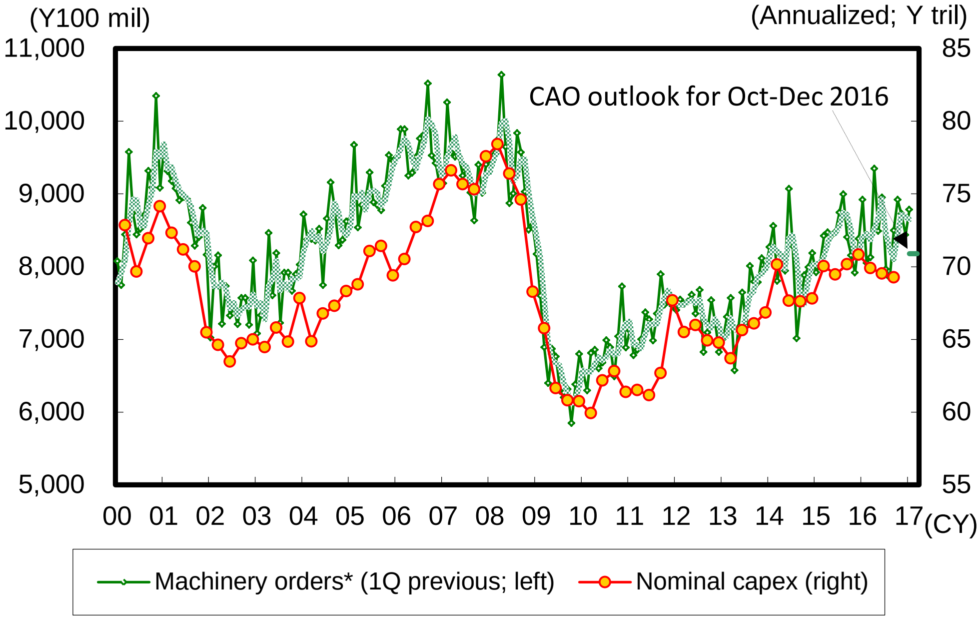


Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Machinery orders expected to mark time in future

Machinery orders, the leading indicator for capex, are expected to mark time in the future. With domestic demand continuing to lack strength, corporate earnings in the manufacturing industry show signs of peaking out. Consequently, corporations are becoming increasingly cautious as regards capex spending. However, supply and demand for labor remains tight, making investment in rationalization and labor-saving devices likely, while the non-manufacturing industries maintain a high level of recurring profits, and are expected to carry out investment in transport and distribution infrastructure. This should be a plus factor providing underlying support for machinery orders in the future.

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.