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November 2016 Machinery Orders

November orders fall by -5.1% m/m. Declines in non-manufacturing industries bring downward pressure on overall performance

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Summary

- According to statistics for machinery orders in November 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 -5.1% m/m, while at the same time falling below market consensus at -1.7%. While manufacturing won growth of +9.8% m/m, non-manufacturing (excluding ships and electrical power) suffered a decline of -9.4%, bringing downward pressure on overall performance.

- Looking at orders by source of demand in November, the manufacturing industries grew for the first time in four months at +9.8% m/m, though in the balance manufacturing is seen as marking time. Non-manufacturing orders (excluding ships and electric power) declined for the first time in two months by -9.4% m/m. The trend for orders in non-manufacturing maintains a relatively high level, but as of this point in time, performance continues to experience ups and downs. Meanwhile, overseas orders grew for the fourth consecutive month at +37.3% 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 Dec	2016 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Machinery orders (private sector)*	1.0	15.0	-9.2	5.5	-11.0	-1.4	8.3	4.9	-2.2	-3.3	4.1	-5.1
Market consensus (Bloomberg)												-1.7
DIR estimate												-2.8
Manufacturing orders	-3.0	41.2	-30.6	19.7	-13.3	-6.4	17.7	0.3	-4.0	-5.0	-1.4	9.8
Non-manufacturing orders*	4.5	1.0	10.2	-6.9	-3.9	-0.3	2.1	8.6	-1.9	-0.9	4.6	-9.4
Overseas orders	-2.2	-29.4	6.3	28.5	-6.9	-14.8	10.8	-11.7	6.8	1.4	1.9	37.3

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

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Economic Research

November orders: Declines in non-manufacturing industries bring downward pressure on overall performance

According to statistics for machinery orders in November 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 -5.1% m/m, while at the same time falling below market consensus at -1.7%. While manufacturing won growth of +9.8% m/m, non-manufacturing (excluding ships and electrical power) suffered a decline of -9.4%, bringing downward pressure on overall performance.

Manufacturing orders achieve growth for first time in four months

Looking at orders by source of demand in November, the manufacturing industries grew for the first time in four months at +9.8% m/m, though in the balance manufacturing is seen as marking time.

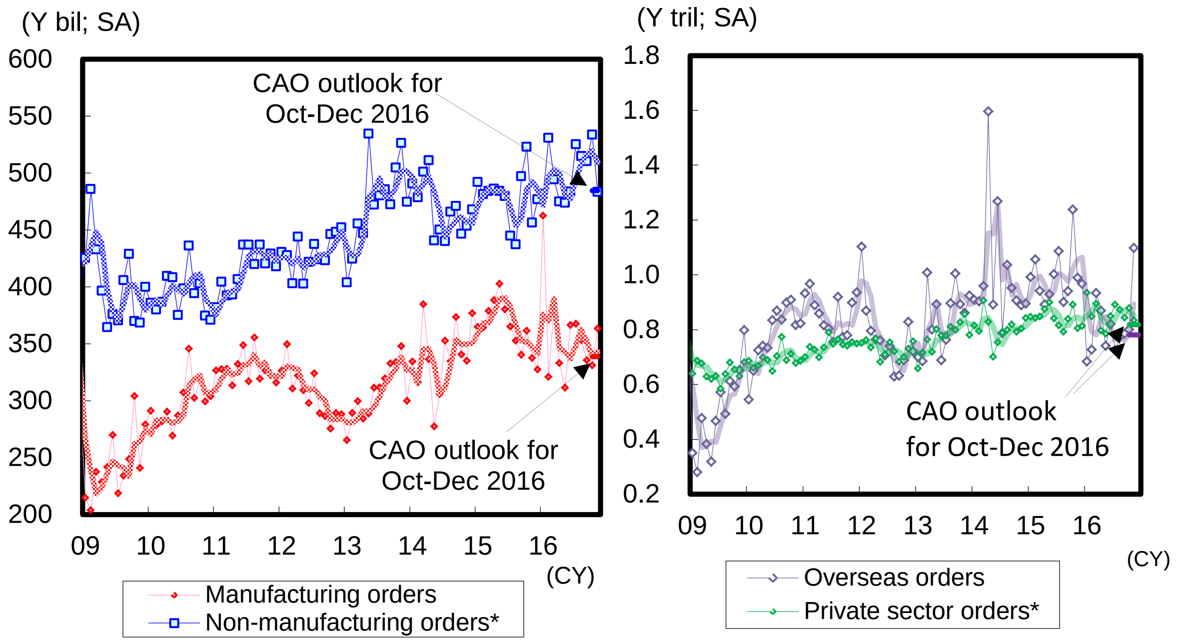
As for performance by industry, growth in comparison to the previous month was seen in electrical machinery (+68.0%), non-ferrous metals (+339.0%), and other manufacturing (+9.9%). As for electrical machinery, performance reflects a rebound from the previous month's decline and the industry is seen as continuing to mark time on average. Demand for machinery oriented toward the manufacture of smart phones is seen as weakening due to the worldwide slowdown in demand for smart phones. This industry should be carefully monitored in the future. Meanwhile, non-ferrous metals are believed to have won major growth due to the influence of large scale orders received. On the other hand, m/m declines were suffered by some industries due to a reactionary decline in comparison to the previous month, including chemicals & chemical products (-33.3%), petroleum & coal products (-55.8%), and fabricated metal products (-41.8%)

Non-manufacturing orders decline for first time in two months. Ups and downs expected to continue

Non-manufacturing orders (excluding ships and electric power) declined for the first time in two months by -9.4% m/m. The trend for orders in non-manufacturing maintains a relatively high level, but as of this point in time, performance continues to experience ups and downs.

Looking at performance by industry, month-to-month declines were seen in other non-manufacturing (-16.1%), transportation and postal activities (-12.5%), and wholesale and retail trade (-16.0%). As for other non-manufacturing, this industry suffered a reactionary decline from the previous month's positive performance. Meanwhile, transportation and postal activities suffered a major decline for the second consecutive month. This is viewed as only a temporary adjustment after the growth trend the industry has experienced since the beginning of 2016. On the other hand, month-to-month growth was seen in a limited number of industries, including finance & insurance (+47.4%), construction (+10.5%), and telecommunications (+4.4%).

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



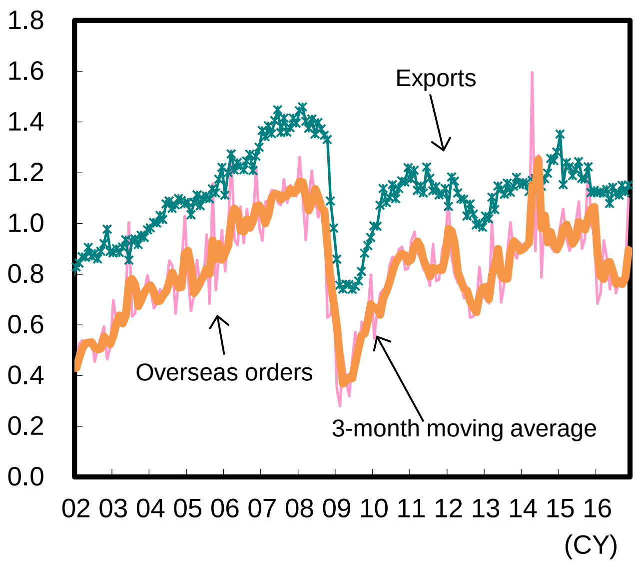
Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for ships and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas orders achieve growth for fourth consecutive month

Overseas orders grew for the fourth consecutive month at +37.3% m/m. Overseas orders won considerable growth thanks to major yen depreciation in November, with all major machinery types recording growth, including turbines and railway cars. The assessment is that overseas orders have been favorable recently.

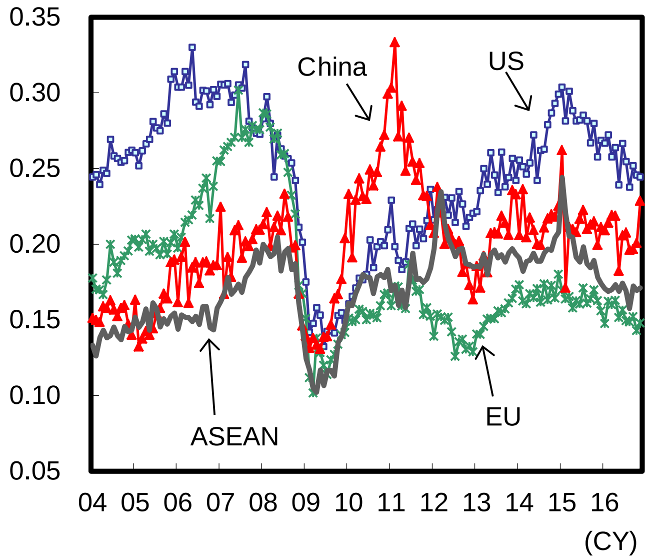
Ever since Republican candidate Donald Trump won the November 8 US presidential election, yen depreciation and stock price highs have progressively manifested on the capital markets. In the short-term the weak yen should help to shore up export value. On the other hand, the yen has begun to strengthen recently, while 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 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)



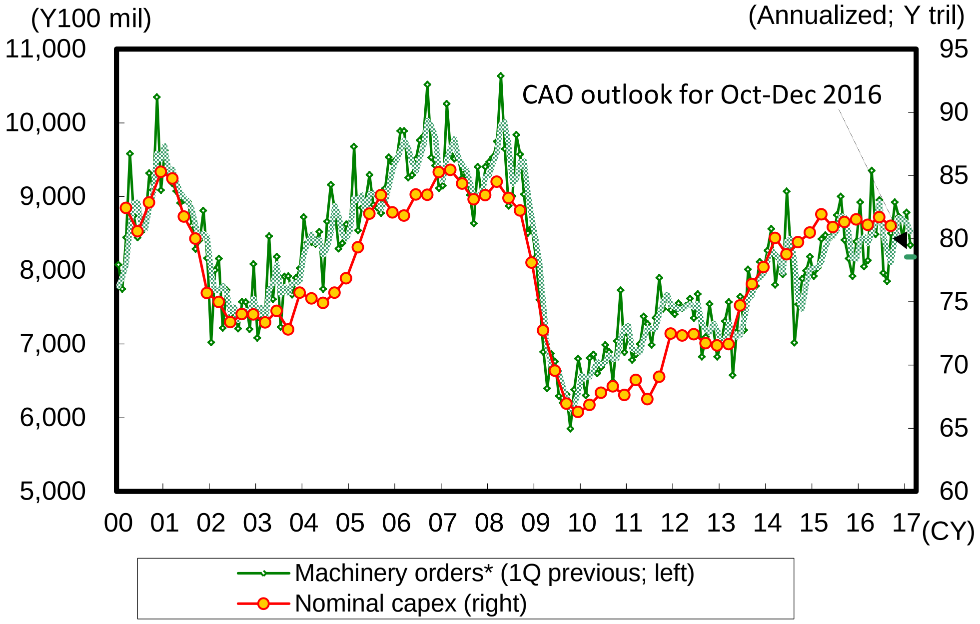
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

Machinery orders expected to mark time in future

According to the Cabinet Office forecast for the Oct-Dec 2016 period, domestic demand (excluding ships and electric power) is expected to decline by -5.9% q/q. Considering October and November results, this forecast can be achieved if December orders record results of -11.0% m/m or better. It is therefore thought to be highly probable that the Cabinet Office forecast can be achieved.

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.