Daiwa
Daiwa Institute of Research

11 October 2017 (No. of pages: 6)

Japanese report: 11 Oct 2017

August Machinery Orders

General-purpose & production machinery achieves major growth

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Summary

- According to statistics for machinery orders in August, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders grew for the second consecutive month by +3.4% m/m. Manufacturing achieved major growth at +16.1% centering on general-purpose & production machinery, thereby helping to increase overall results.

- While the manufacturing industry achieved major growth in August due to receiving large-scale orders, the growth trend is not that strong when the numbers are averaged out. And while the non-manufacturing industry also grew for the third consecutive month, the degree of certainty that the Cabinet Office forecast for the Jul-Sep 2017 period can be achieved is low. The Cabinet Office forecast sees orders up by +13.5% q/q. However, in order to make this target, September orders will have to win growth of more than +22.2% m/m.

- Machinery orders, the leading indicator for capex, are expected to experience ups and downs in the future. Investment in maintenance & repair looks promising in the manufacturing industry, but willingness to invest in capacity increase is not strong. In order for capex spending to become full-fledged, operating rates must grow more. The non-manufacturing industry is expected to carry out investments in transport and distribution infrastructure with the continuing growth in foreign visitors to Japan, as well as expectations regarding the 2020 Tokyo Olympics and Paralympics.

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

	2016 Sep	Oct	Nov	Dec	2017 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Machinery orders (private sector)*	0.3	3.4	-2.8	2.1	-3.2	1.5	1.4	-3.1	-3.6	-1.9	8.0	3.4
Market consensus (Bloomberg)												1.0
DIR estimate												1.0
Manufacturing orders	-3.3	0.4	8.1	0.8	-10.8	6.0	0.6	2.5	1.0	-5.4	2.9	16.1
Non-manufacturing orders*	0.7	2.7	-5.6	2.1	0.7	1.8	-3.9	-5.0	-5.1	0.8	4.8	3.1
Overseas orders	2.8	7.1	16.3	-12.1	3.2	-1.1	-2.8	17.4	-5.2	-3.1	9.1	11.5

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

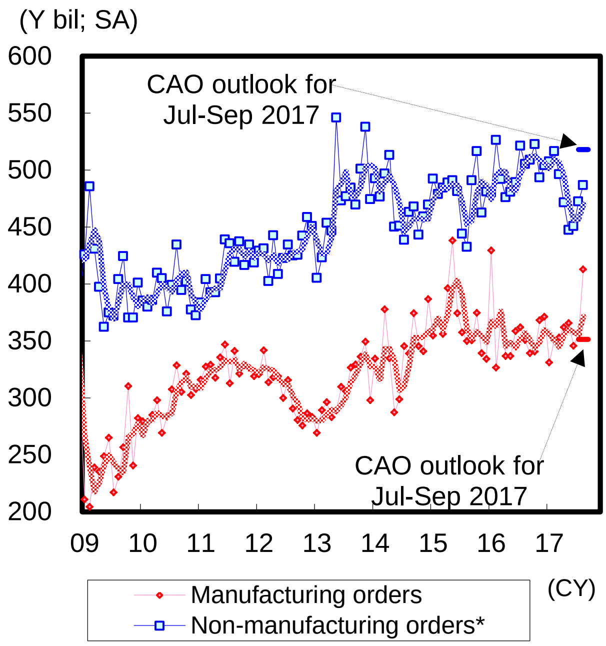
August orders: manufacturing achieves major growth

According to statistics for machinery orders in August, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders grew for the second consecutive month by +3.4% m/m, while at the same time exceeding market consensus (+1.0%). Manufacturing achieved major growth at +16.1%, thereby helping to increase overall results, while non-manufacturing (excluding ships and electrical power) grew for the third consecutive month at +3.1%.

August results prompted the Cabinet Office to revise its economic assessment upwards to "showing signs of a comeback."

While the manufacturing industry achieved major growth in August due to receiving large-scale orders, the growth trend is not that strong when the numbers are averaged out. And while the non-manufacturing industry also grew for the third consecutive month, the degree of certainty that the Cabinet Office forecast for the Jul-Sep 2017 period can be achieved is low. The Cabinet Office forecast sees orders up by +13.5% q/q. However, in order to make this target, September orders will have to win growth of more than +22.2% m/m.

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.

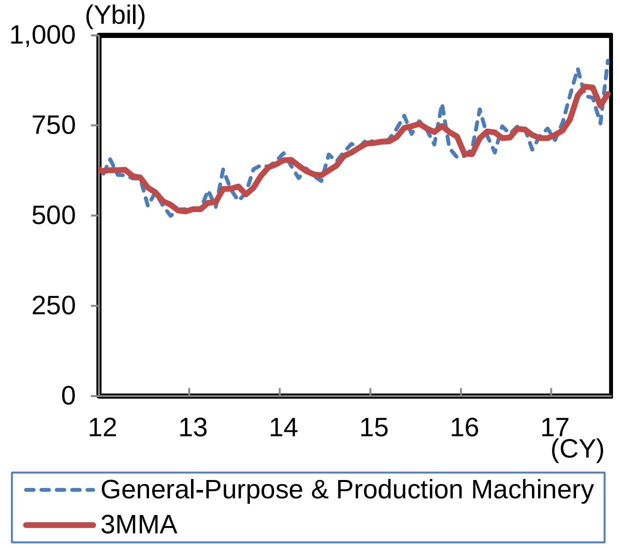
Manufacturing orders: general-purpose & production machinery achieves major growth

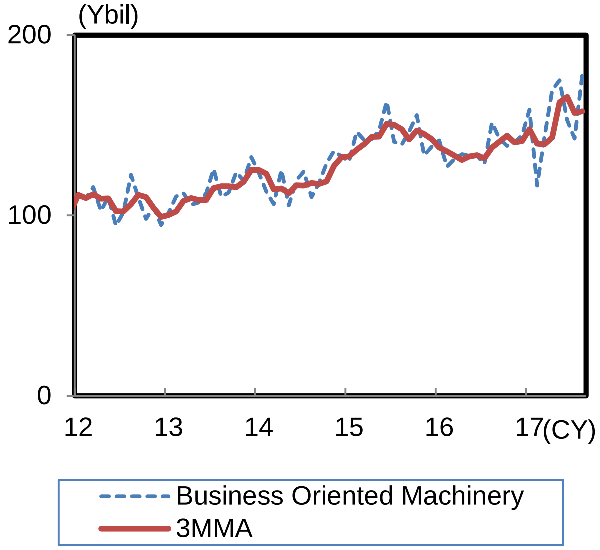
Looking at performance by source of demand, we see that the manufacturing industry grew for the second consecutive month by +16.1% m/m. It appears that there are ups and downs in manufacturing orders.

As for performance by industry, major growth in production facilities provided support for growth of +23.1% m/m for general-purpose & production machinery, which had been weak in recent months, and +24.7% for business oriented machinery, thereby helping to increase overall results. The opinion is that large-scale orders were influential in these results.

Production and shipments have been growing in these sectors, while inventory continues to decline. With demand as active as it has been, one would expect that production might have a hard time catching up. It is thought that favorable growth in exports centering on semiconductor manufacturing equipment is behind the positive performance.

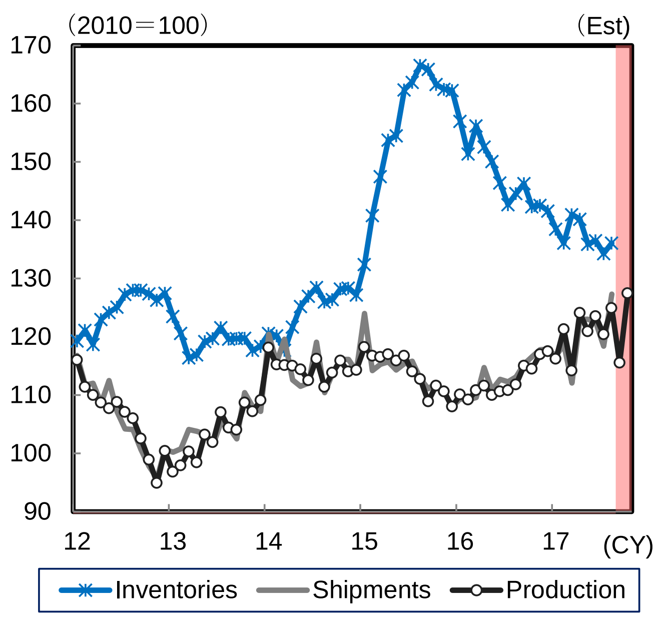
Order Amounts for General-Purpose & Production Machinery (Left), and Business Oriented Machinery (Right) (Seasonally Adjusted) **Chart 3**

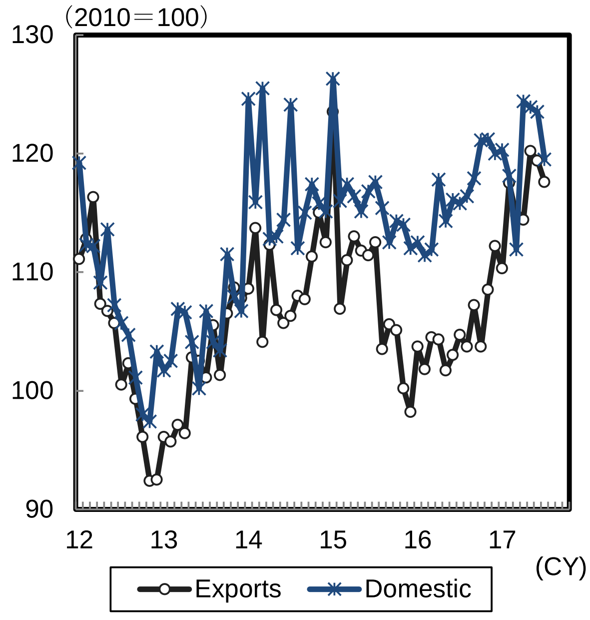




Source: Cabinet Office (CAO); compiled by DIR.

Production, Shipments, and Inventory for General-Purpose & Production, and Business Oriented Machinery (Left), and Breakdown of Shipments (Right) **Chart 4**





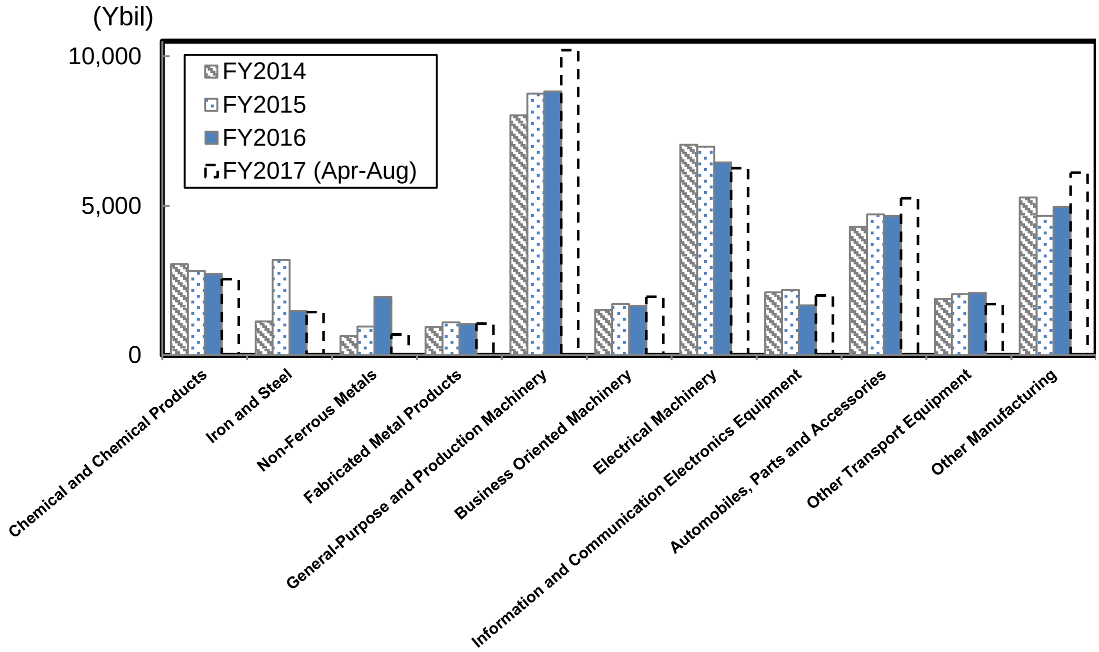
Source: Ministry of Economy, Trade and Industry; compiled by DIR.
Note: Values for most recent two months of the production index are from the METI Production Forecast Survey.

Non-manufacturing orders grow for third consecutive month

Non-manufacturing orders (excluding ships and electrical power) grew for the third consecutive month by +3.1% m/m. Non-manufacturing orders had been in a declining trend, but are now in a gradual comeback.

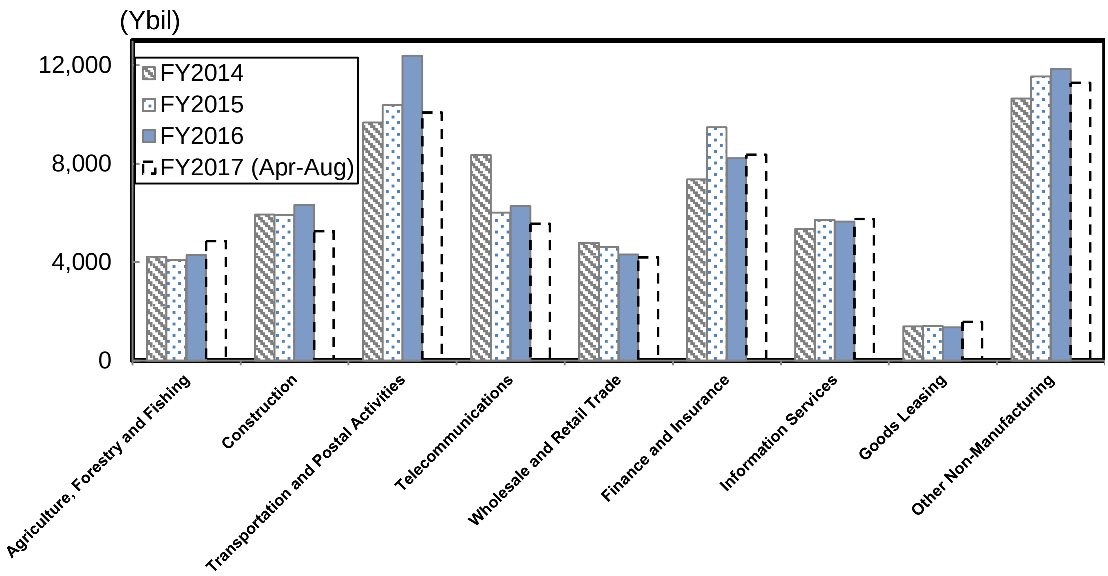
Looking at performance by industry, month-to-month growth was seen in other non-manufacturing (+57.7%), and finance & insurance (+24.2%). As for other non-manufacturing, it is thought that large-scale orders were influential. Meanwhile, finance & insurance have recently been in a growth trend.

Order Amounts by Industry (Manufacturing) (FY2014 – FY2017 Apr-Aug) **Chart 5**



Source: Cabinet Office (CAO); compiled by DIR.
Note: Figures for FY2017 Apr-Aug are converted to fiscal year.

Order Amounts by Industry (Non-Manufacturing) (FY2014 – FY2017 Apr-Aug) **Chart 6**

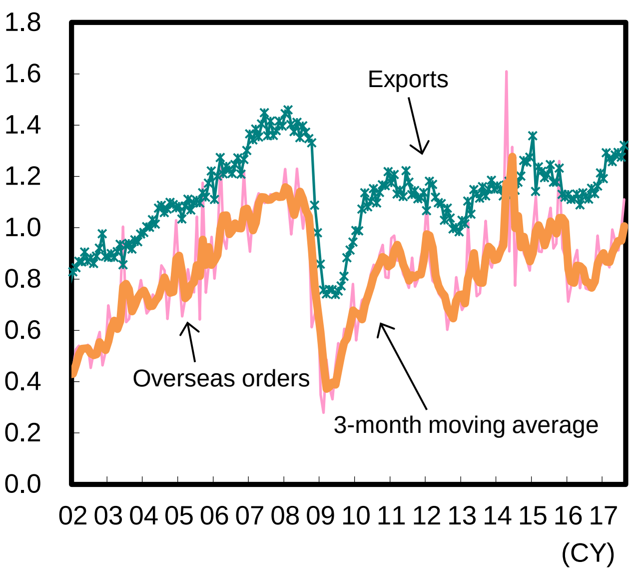


Source: Cabinet Office (CAO); compiled by DIR.
Note: Figures for FY2017 Apr-Aug are converted to fiscal year. Information Services includes newspapers and publishing.

Overseas orders grow for second consecutive month

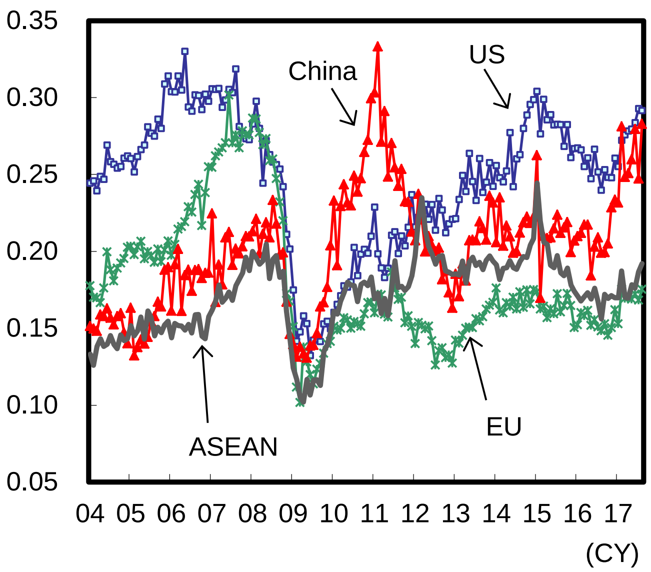
Overseas orders grew for the second consecutive month at +11.5% m/m. According to the Cabinet Office, orders for electronics & telecommunications equipment, as well as railway cars declined, while orders for motors and heavy electric machinery achieved growth. Looking at export value of general machinery by region, we see that in addition to major growth in export amount to China, export amount to the US also maintained favorable performance.

General Machinery: Overseas Orders and Exports
(Y tril; SA) **Chart 7**



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 8**



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

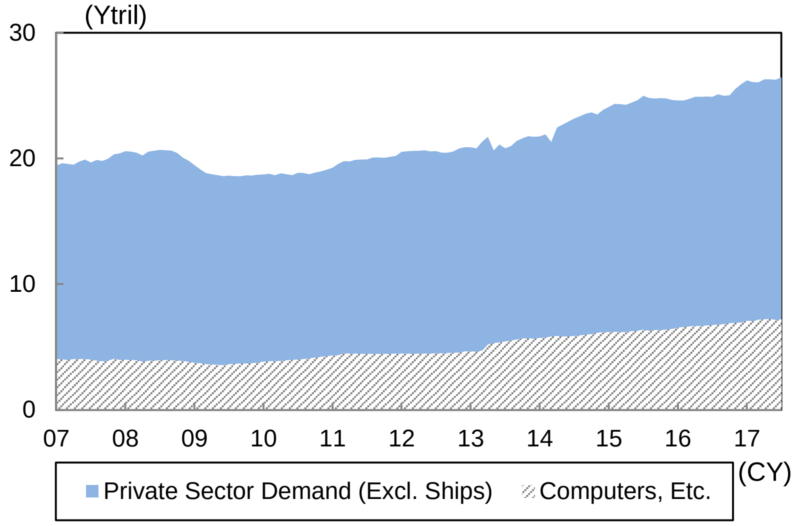
Machinery orders to experience ups and downs in future

Machinery orders, the leading indicator for capex, are expected to experience ups and downs in the future. With supply & demand for labor remaining tight, investment in rationalization and labor saving are seen, but order backlog for computers including those associated with IT investment are accumulating. There are concerns that this could lead to an increase in the cost of IT investment and postponement of orders.

Looking at performance by industry, investment in maintenance & repair looks promising in the manufacturing industry, but willingness to invest in capacity increase is not strong. In order for capex spending to become full-fledged, operating rates must grow more. On the other hand, the non-manufacturing industry is expected to carry out investments in transport and distribution infrastructure with the continuing growth in foreign visitors to Japan, as well as expectations regarding the 2020 Tokyo Olympics and Paralympics, and this is expected to lead capex spending overall.

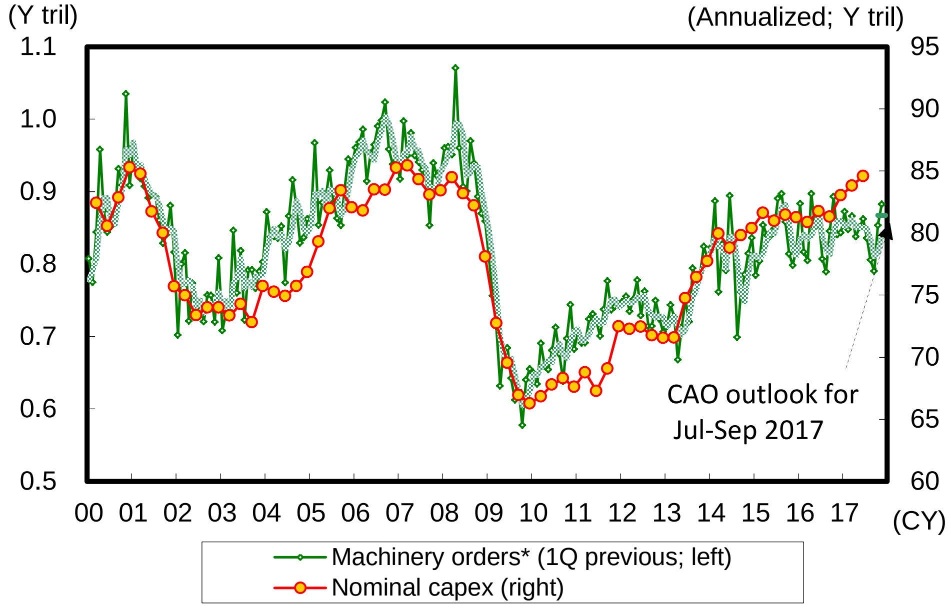
Meanwhile, the future of overseas demand according to our main economic scenario is expected to continue gradual expansion, with the overseas economy maintaining underlying strength. However, caution is required as regards downside risk in association with the Fed’s exit strategy which could cause a slowdown in the US economy and turmoil in the emerging markets, as well as the risk that China’s economy could slow down after the October 2017 meeting of the National Congress of the Communist Party of China.

Changes in Order Backlog (Seasonally Adjusted) Chart 9



Source: Cabinet Office; compiled by DIR.
Notes: 1) Seasonal adjustment of data on computers etc. by DIR.
2) The category Computers includes general use computers and programs, as well as semiconductor manufacturing equipment.

Domestic Demand and Nominal Capex (seasonally adjusted figures) Chart 10



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