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September Machinery Orders

Ongoing decline continues but non-manufacturing order projection strong

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Summary

- September machinery orders (Cabinet Office; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified; leading indicator of domestic capex) declined 4.3% m/m, the second consecutive monthly slide and falling wider than the market consensus (down 2.1%). On a three-month moving average basis, orders had turned to increase in August but reversed to decline in September. Jul-Sep machinery orders declined 1.1% q/q, the second quarterly slide in a row, but almost on par with the Cabinet Office forecast (down 1.2% q/q).

- By demand source, manufacturing orders increased 2.8% m/m for the first time in two months. Among manufacturing orders, reactionary gains to August slides were seen for those from the iron/steel (up 48.5%) and “other” transportation equipment industries (up 73.0%), driving overall manufacturing orders. However, the advance in manufacturing orders was small compared to the August plunge (down 15.1%), indicating that a downtrend continues as a whole.

- Cabinet Office forecasts, released with September figures, project Oct-Dec machinery orders will increase 5.0% q/q, the first gain in three quarters. While manufacturing orders are projected to decline (down 6.9%) for the third consecutive quarter, non-manufacturing orders are projected to post a good showing (up 14.3%). Meanwhile, the market expects capex to decline in the first preliminary estimate of Jul-Sep GDP to be released on 12 November by the Cabinet Office. However, given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely stagnate through end-2012 and begin to recover in 2013.

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

	2011 Oct	Nov	Dec	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Machinery orders (private sector)*	-0.6	3.1	-2.5	0.7	2.8	-2.8	5.7	-14.8	5.6	4.6	-3.3	**-4.3**
Market consensus (Bloomberg)												**-2.1**
DIR estimate												**2.0**
Manufacturing orders	2.8	2.9	-4.0	-1.3	9.5	-8.4	3.4	-8.0	-2.9	12.0	-15.1	**2.8**
Non-manufacturing orders*	-4.8	5.4	-4.0	1.4	2.1	-3.9	5.7	-6.4	2.6	-2.1	3.6	**1.3**
Overseas orders	1.6	14.1	4.1	14.6	-13.4	-14.4	0.3	0.3	-9.8	3.0	-14.7	**0.0**

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

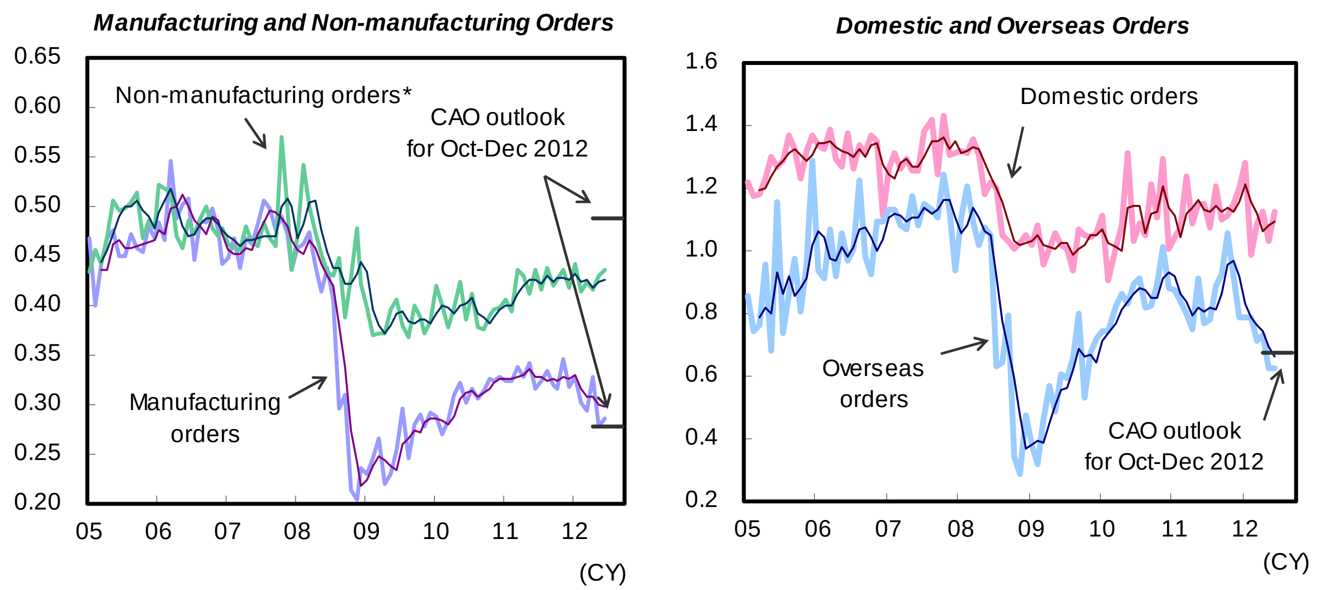
Ongoing Decline Continues

September machinery orders (Cabinet Office; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified; leading indicator of domestic capex) declined 4.3% m/m, the second consecutive monthly slide and falling wider than the market consensus (down 2.1%). On a three-month moving average basis, orders had turned to increase in August but reversed to decline in September, meaning the underlying downtrend continues. Jul-Sep machinery orders declined 1.1% q/q, the second quarterly slide in a row, but almost on par with the Cabinet Office forecast (down 1.2% q/q).

Small Reactionary Gain in Manufacturing Orders

By demand source, manufacturing orders increased 2.8% m/m for the first time in two months. Among manufacturing orders, reactionary gains to August slides were seen for those from the iron/steel (up 48.5%) and "other" transportation equipment industries (up 73.0%), driving overall manufacturing orders. However, the advance in manufacturing orders was small compared to the August plunge (down 15.1%), indicating a downtrend continues as a whole. Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) rose 1.3%, the second consecutive monthly gain. Among non-manufacturing orders, those from the transportation/postal services industry increased (up 9.1%), the fourth consecutive monthly advance, and those from the financial/insurance industry increased (up 6.3%), driving overall non-manufacturing orders. Despite increases in orders from both manufacturing and non-manufacturing industries, overall machinery orders declined, perhaps owing to technical reasons, namely (1) shipbuilding-related orders are included in manufacturing orders but they are excluded from overall orders, and (2) seasonal adjustments (overall orders, manufacturing orders, non-manufacturing orders, and industry orders are adjusted independently).

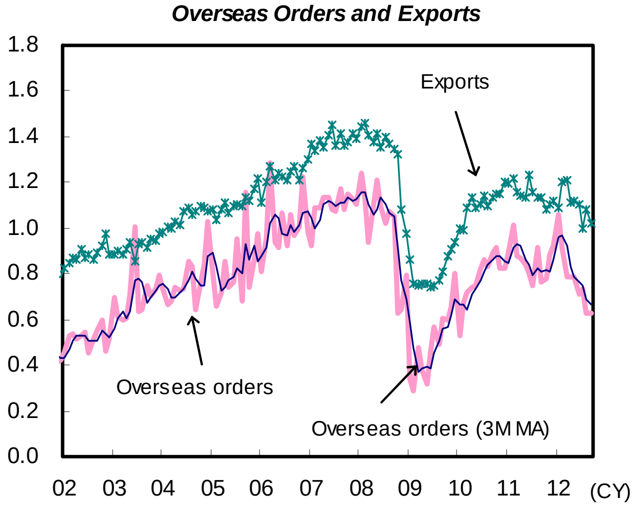
Machinery Orders by Demand Source (Y tril; SA) **Chart 2**

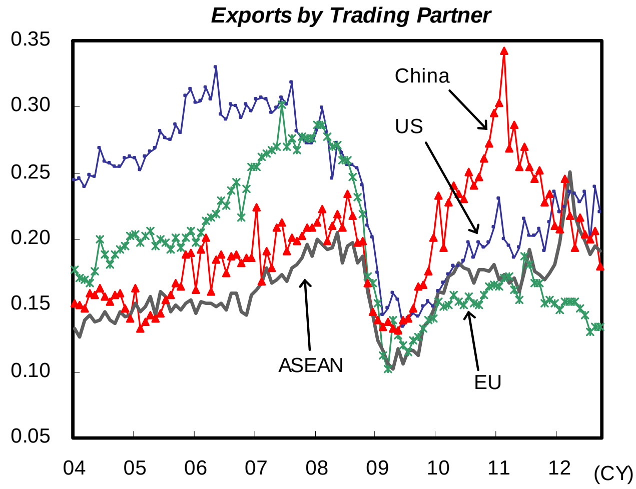


Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities.
Note: Thick lines and thin lines denote actual results and 3M MAs, respectively.

Meanwhile, overseas orders were flat m/m. The ongoing sluggishness of overseas orders is consistent with the situation seen in trade statistics, namely, shipments of general machinery to Europe (experiencing persistent economic doldrums) and China (the major destination of Japanese exports) continued to decline.

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



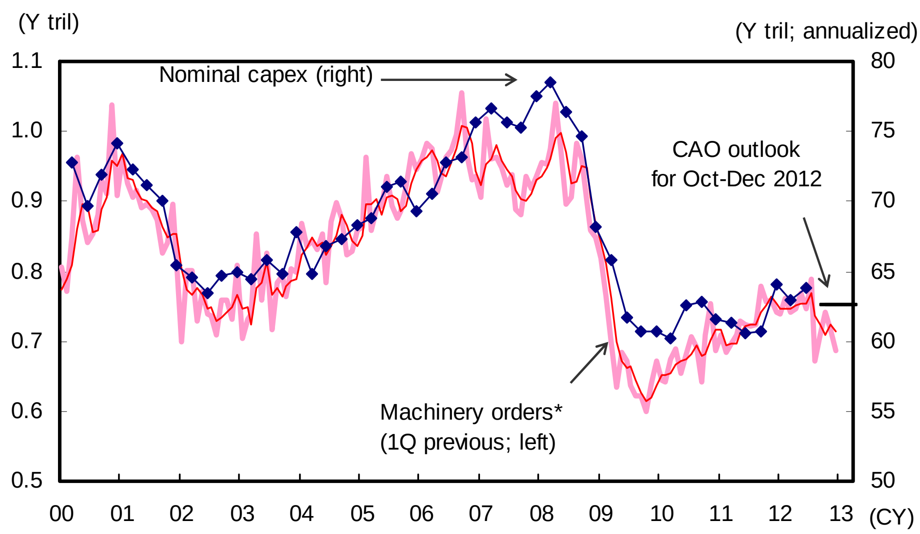


Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Note: Exports seasonally adjusted by DIR.

Non-manufacturing Order to Increase in Oct-Dec

Cabinet Office forecasts, released along with September figures, project Oct-Dec machinery orders will increase 5.0% q/q, the first gain in three quarters. While manufacturing orders are projected to decline (down 6.9%) for the third consecutive quarter, non-manufacturing orders are projected to post a good showing (up 14.3%). Meanwhile, the market expects capex to decline in the first preliminary estimate of Jul-Sep GDP to be released on 12 November by the Cabinet Office. However, given the tendency that machinery orders lead GDP-based capex by around three months, capex will likely stagnate through end-2012 and begin to recover in 2013.

Machinery Orders and Nominal GDP-based Capex (SA) **Chart 4**



Source: Cabinet Office (CAO); compiled by DIR.
* excl. those for shipbuilding and from electric utilities; thick line and thin line denote actual result and 3M MA, respectively.