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April Machinery Orders

Favorable overall excl. reactionary slide

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Summary

- Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) declined 8.8% m/m in April, the first slide in three months, undershooting consensus expectations (down 8.1%).

- By demand source, manufacturing orders posted the first slide in three months (down 7.3% m/m). Non-manufacturing orders saw the first slide in three months (down 6.0% m/m). While reactionary slides to the previous month’s boost were seen, positive developments were also seen—orders from the electrical machinery and construction industries were firm. Thus, the April result was favorable overall, excluding reactionary slides.

- Overseas orders posted the first m/m slide in three months (down 19.9%). The slide was small compared to the previous month’s boost (up 52.1%), and the level of such orders has risen. Thus, we believe overseas orders have been on a moderate uptrend.

- CAO projects that machinery orders will decline 1.5% q/q in Apr-Jun 2013 for the fifth consecutive quarter. The projection will be fulfilled if orders decline 2.2% m/m in May and June, easy targets to satisfy. Indeed, we expect machinery orders to post the first q/q gain in five quarters in Apr-Jun. In addition, exports will gain momentum going forward, as benefits from a weaker yen will emerge in full swing. This will, in turn, improve corporate stance on capex, centering on manufacturing industries. Non-manufacturing industries project advances in capex, centering on IT-related investment. As such, capex will likely move to an uptrend in mid-2013 and beyond.

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

	2012								2013			
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Machinery orders (private sector)*	-7.1	1.4	1.7	-1.0	-2.4	-0.8	3.8	-1.3	-7.5	4.2	14.2	-8.8
Market consensus (Bloomberg)												-8.1
DIR estimate												-9.0
Manufacturing orders	-4.1	-3.4	6.1	-6.2	-3.0	-2.7	1.8	1.0	-10.0	4.9	13.3	-7.3
Non-manufacturing orders*	-3.5	1.5	-1.8	2.3	0.8	2.7	6.4	-7.8	-4.5	0.3	14.3	-6.0
Overseas orders	-2.3	-4.5	0.1	-12.1	3.6	0.5	11.8	-8.3	-3.7	1.0	52.1	-19.9

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

Favorable overall excl. reactionary slide

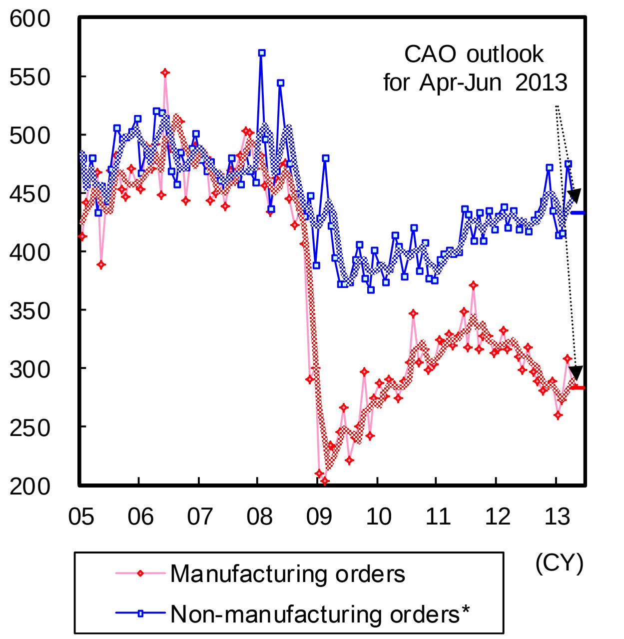
Machinery orders (Cabinet Office [CAO]; private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) declined 8.8% m/m in April, the first slide in three months, undershooting consensus expectations (down 8.1%). The slide was mainly in reaction to the previous month's surge. On a three-month moving average basis, they increased for the second month in a row (up 2.6%). Thus, excluding the reactionary slide, the April figure was favorable overall.

Declines in manufacturing and non-manufacturing orders

By demand source, manufacturing orders posted the first slide in three months (down 7.3% m/m). Declines were seen for orders from petroleum/coal products (down 63.3%), pulp/paper products (down 69.5%), and autos/auto parts (down 13.7%) in reaction to the previous month's surges, dragging down overall manufacturing orders. At the same time, sharp rises were seen for those from iron/steel (up 49.1%) and electrical machinery (up 24.6%), cancelling out the reactionary slides to some extent. Worth monitoring is the order trend from electrical machinery, which has improved remarkably on the back of recovery in order value for semiconductor manufacturing equipment (SME). Production of and orders for SME began to turn around after bottoming at around end-2012. Demand for semiconductors overall stagnated for a while (due to flagging demand for smartphone-related semiconductors) but it appears to have turned around so far in 2013 and should continue to increase in 2014. Demand for SME will likely be a positive factor for machinery orders for a while.

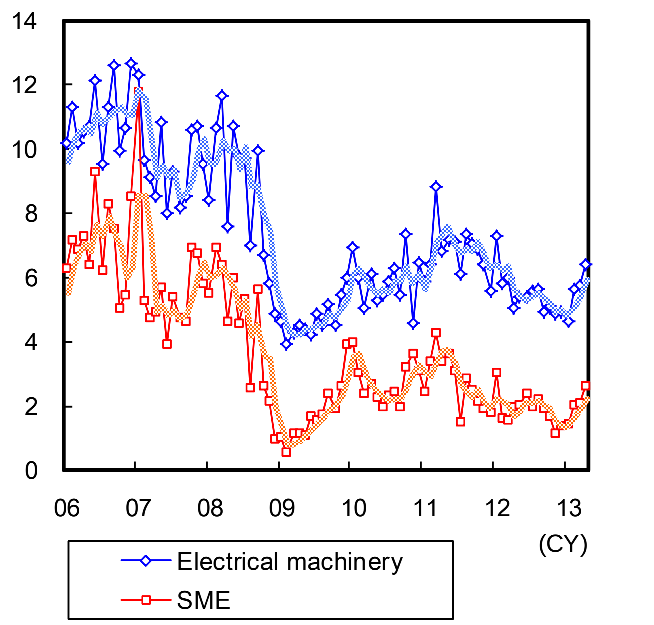
Non-manufacturing orders (private sector excl. those for shipbuilding and from electric utilities; this basis hereafter unless otherwise specified) saw the first slide in three months (down 6.0% m/m). Slides in reaction to the previous month's boost were seen for orders from the financial/insurance industry (down 12.3%) and info/communication services (down 7.7%), dragging down overall non-manufacturing orders. At the same time, positive developments were also seen—those from the construction industry posted the seventh m/m gain in a row, accompanying increased public works projects, and those from wholesaling/retailing saw the fourth consecutive m/m advance.

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



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

Orders for Electrical Machinery and SME (Y bil; SA) **Chart 3**



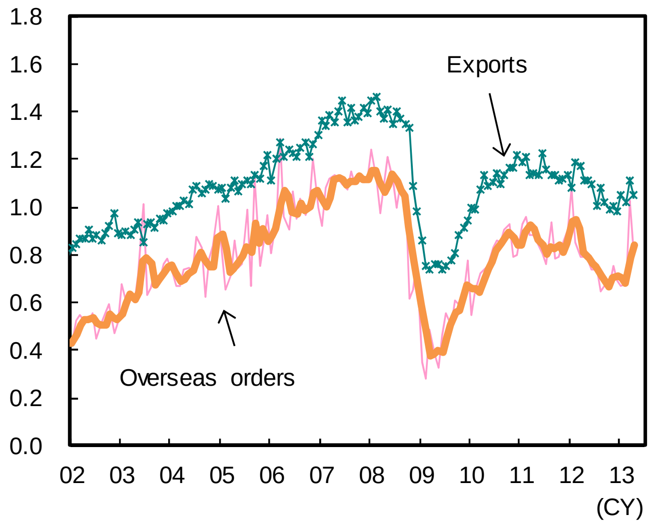
Source: Cabinet Office; compiled by DIR.
Notes: 1) Thick lines 3MMA basis.
2) SME (semiconductor manufacturing equipment) seasonally adjusted by DIR.

First slide in three months but levels high for overseas orders

Overseas orders posted the first m/m slide in three months (down 19.9%). The slide was small compared to the previous month's boost (up 52.1%), and the level of such orders has risen. Thus, we believe overseas orders have been on a moderate uptrend.

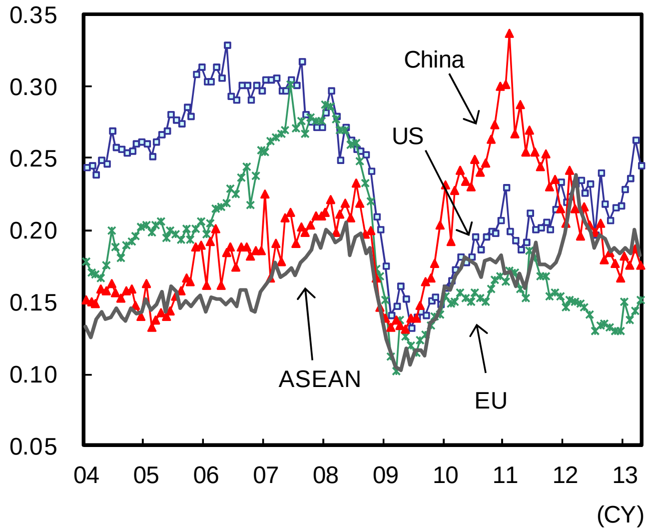
Looking at exports of general machinery, such exports to the US increased and those to the EU began to signal a bottoming. A steady recovery in the US economy and a bottoming out of EU economies would lead to higher production there and spur demand for industrial machinery. Considering the ongoing weaker yen trend, overseas orders will likely continue to grow going forward. However, it should be noted that there is rising concerns about an economic slowdown in China, one of the main export destinations for Japan.

General Machinery: Overseas Orders and Exports
(Y tril; SA) **Chart 4**



Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Notes: 1) Exports seasonally adjusted by DIR.
2) Thick line for overseas orders 3MMA basis.

General Machinery: Exports by Trading Partner
(Y tril; SA) **Chart 5**



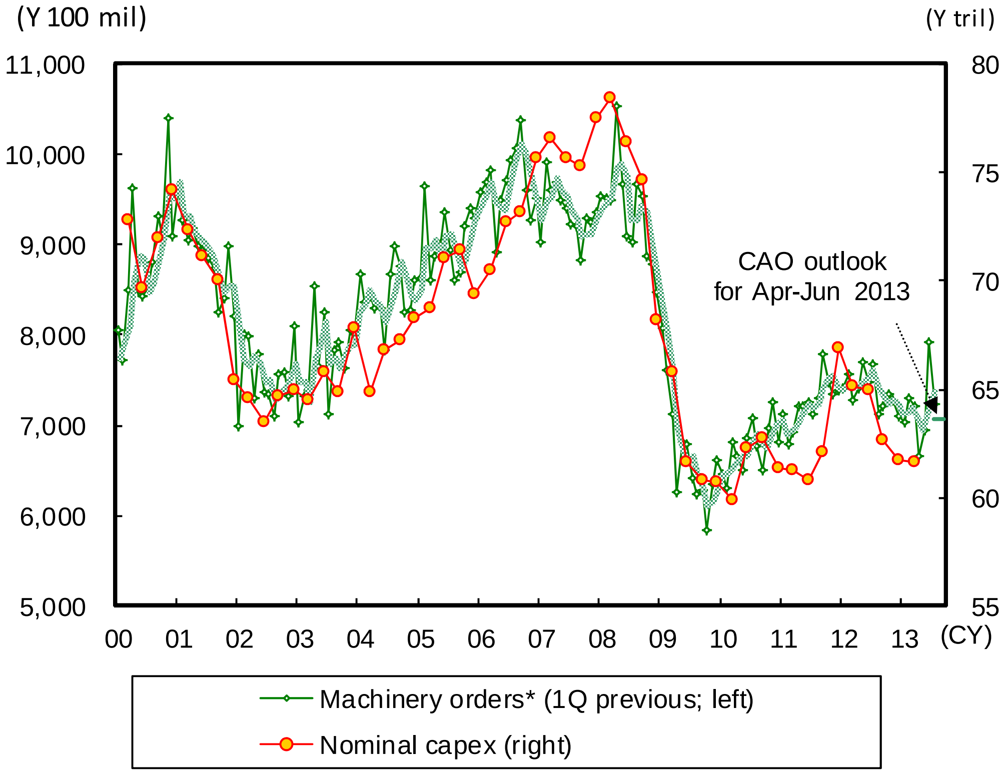
Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

First gain in five quarters likely in Apr-Jun 2013

CAO projects that machinery orders will decline 1.5% q/q in Apr-Jun 2013 for the fifth consecutive quarter. The projection will be fulfilled if orders decline 2.2% m/m in May and June, easy targets to satisfy. Indeed, we expect machinery orders to post the first q/q gain in five quarters in Apr-Jun 2013.

Exports will gain momentum going forward, as benefits from a weaker yen will emerge in full swing. This will, in turn, improve corporate stance on capex, centering on manufacturing industries. Non-manufacturing industries project advances in capex, centering on IT-related investment. As such, capex will likely move to an uptrend in mid-2013 and beyond.

Machinery Orders and Nominal GDP-based Capex (SA) Chart 6



Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities; thick line 3MMA basis.