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January Machinery Orders

Orders continue to move toward comeback despite m/m decline

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Summary

- According to statistics for machinery orders in January 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down by -1.7% m/m, while at the same time exceeding market consensus (-4.0%). Compared to the major growth of the previous month, the current month's decline is a limited one, and machinery orders are expected to continue moving toward a comeback in the coming months.

- Looking at results by source of demand, the manufacturing industries suffered a decline at -11.3% m/m for the first time in two months. Meanwhile, non-manufacturing orders (excluding shipbuilding and electric power) grew for the third consecutive month at +3.7% m/m.

- According to the CAO outlook for the Jan-Mar 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to be up by +1.5% q/q, its third consecutive quarter of growth. This figure is considered to be achievable even if declines of as much as -2.4% m/m are suffered in February and March of the first quarter. Hence there are no high hurdles to achieving further growth. DIR sees private sector demand (excluding shipbuilding and electrical power) showing clear signs of a comeback in the Jan-Mar 2015 period with q/q growth seen.

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

	2014											2015
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Machinery orders (private sector)*	-4.6	19.1	-9.1	-19.5	8.8	3.5	4.7	2.9	-6.4	1.3	8.3	-1.7
Market consensus (Bloomberg)												-4.0
DIR estimate												-0.3
Manufacturing orders	-4.6	23.7	-9.4	-18.6	6.7	20.3	-10.8	12.0	-5.5	-7.0	24.1	-11.3
Non-manufacturing orders*	-5.1	8.5	0.9	-17.8	4.0	-4.3	10.7	1.7	-7.5	0.5	7.2	3.7
Overseas orders	2.3	3.2	71.3	-45.9	62.8	-42.6	29.1	-9.4	-4.6	-6.0	-6.9	24.2

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

January Orders continue to move toward comeback despite m/m decline

According to statistics for machinery orders in January 2015, the leading indicator for domestic capex, private sector demand (excluding shipbuilding and electrical power), were down by -1.7% m/m, while at the same time exceeding market consensus (-4.0%). Compared to the major growth of the previous month, the current month's decline is a limited one, and machinery orders are expected to continue moving toward a comeback in the coming months.

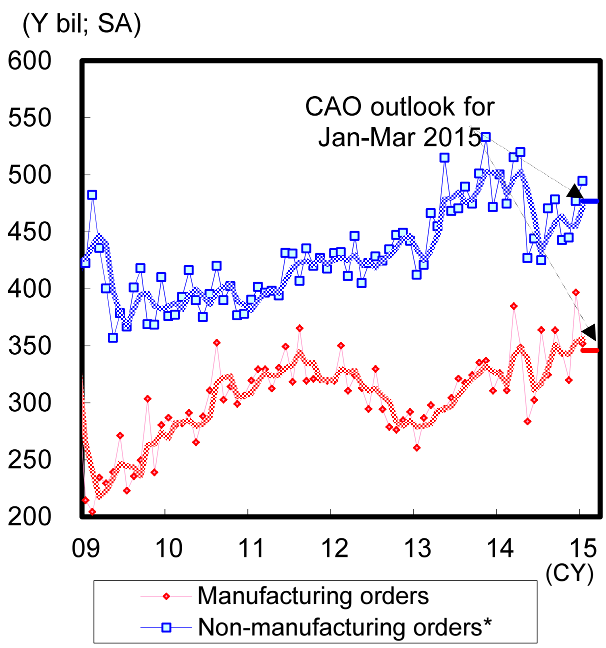
Manufacturing pursues moderate growth trend

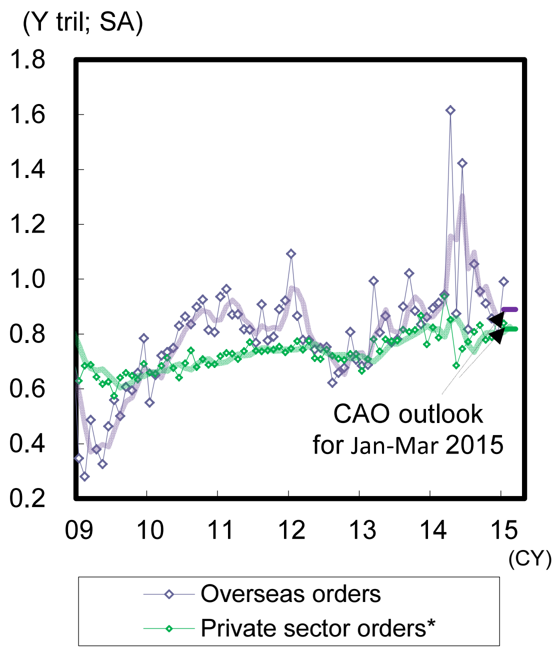
Looking at results by source of demand, the manufacturing industries suffered a decline at -11.3% m/m, their first decline in two months. However, the three-month moving average grew for the second consecutive month, suggesting that orders are actually continuing their previous growth trend. Results by industry the main downward pressure on overall results from the following areas: other manufacturing (-50.5% m/m), automobiles, parts and accessories (-23.3%), and other transport equipment (-39.0%). In the case of other manufacturing, the previous month saw especially significant growth due to special factors, hence the January decline is considered to be merely a rebound from previous performance. In the area of automobiles, parts and accessories, as well as other transport equipment, performance finished flat after some up and down swings during the month. On the other hand, growth was prominent in the areas of petroleum and coal products (+513.6% m/m), iron and steel (+26.9%), and information and communication electronic equipment (+7.8%). In the case of petroleum and coal products, large scale projects were responsible for pushing results up to this notable high, and hence should be taken with a certain grain of salt.

Non-manufacturing wins third consecutive month of growth

Non-manufacturing orders (excluding shipbuilding and electric power) grew for the third consecutive month at +3.7% m/m. Results by industry were as follows: wholesale and retail trade (+264.3%), agriculture, forestry and fishing (+116.3%), information services (+9.6%), and construction (+8.4%). As for wholesale and retail trade, the sharp rise in orders is likely due to large-scale shipping related orders. Meanwhile positive results in the information services area confirm that this industry is continuing its growth trend. Construction remains a bit on the weak side, but is considered to be close to making a comeback.

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



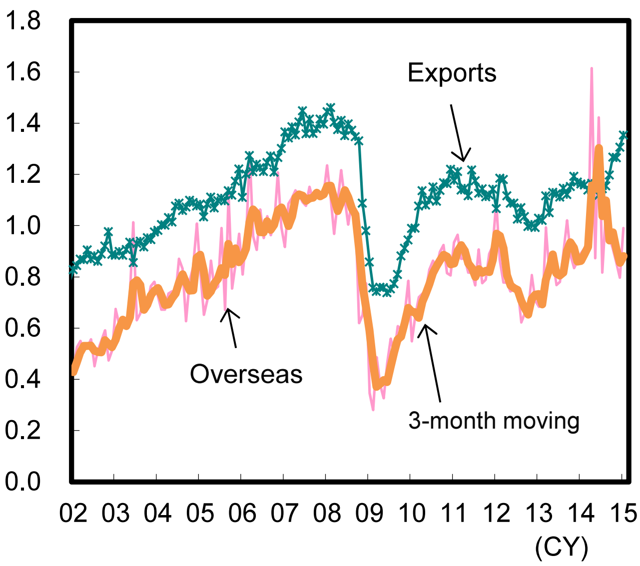


Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for shipbuilding and from electric utilities.
Note: Thick lines 3M/MA basis.

Overseas Orders grow for the first time in five months; may be near bottom

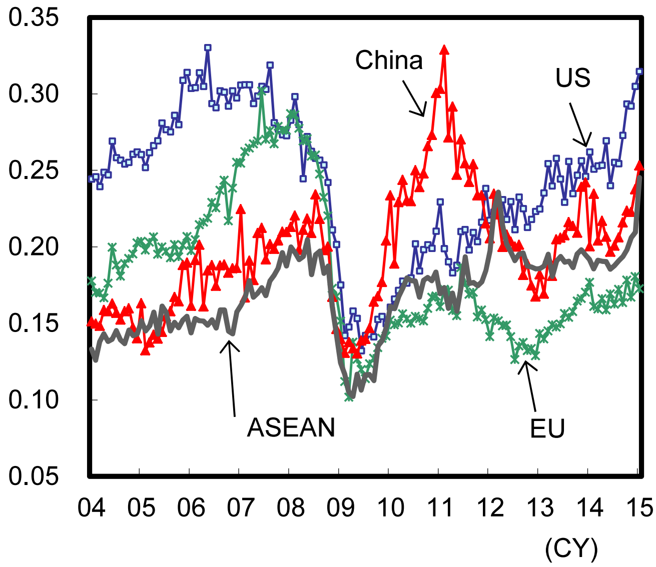
Overseas demand won growth for the first time in five months at +24.2% m/m. With a clearly downward trend up to this point, these results indicate that overseas demand may be about to hit bottom. The economic slowdown in China requires caution in the future, but it is the US economic recovery providing the bulk of support for overseas demand.

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.

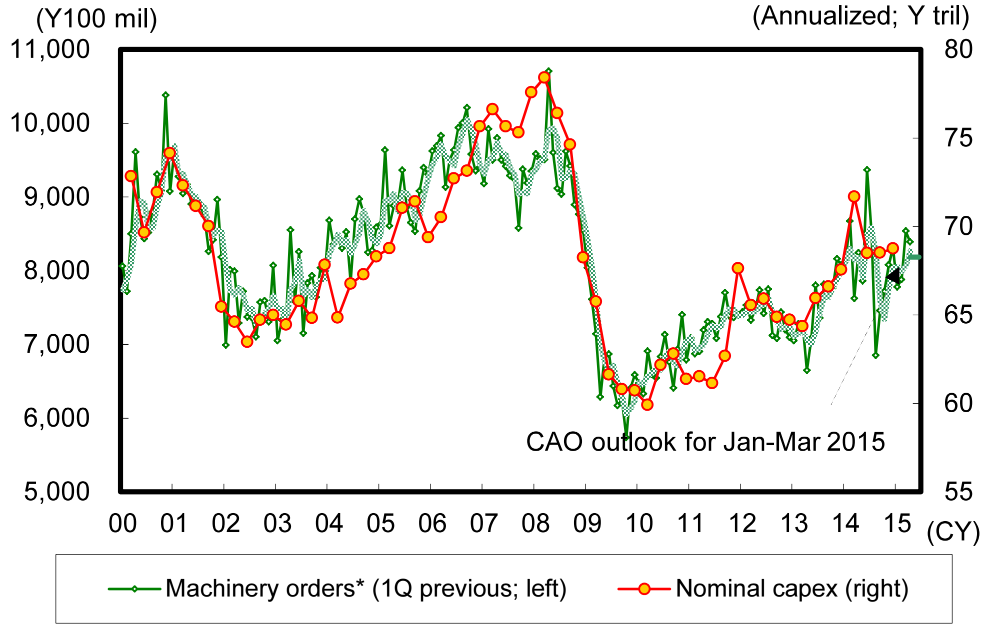
CY2015 Jan-Mar Period Promises Growth Rate Exceeding CAO Outlook

According to the CAO outlook for the Jan-Mar 2015 period, private sector demand (excluding shipbuilding and electrical power) is expected to be up by +1.5% q/q, its third consecutive quarter of growth. This figure is considered to be achievable even if declines of as much as -2.4% m/m are suffered in February and March of the first quarter. Hence there are no high hurdles to achieving further growth. DIR sees private sector demand (excluding shipbuilding and electrical power) showing clear signs of a comeback in the Jan-Mar 2015 period with q/q growth seen.

According to GDP statistics, real capital expenditure fell in q/q terms during the Oct-Dec 2014 period, dashing hopes that capex spending would lead the economy back to growth after the April 2014 increase in consumption tax. Capex performance was in fact confirmed to be stagnant. However, the coincident index for capex, shipments of capital goods, is now in a growth trend. On the whole, machinery orders, a leading indicator, are moving upwards, while the BOJ Tankan survey on planned capital spending shows a positive attitude amongst corporations towards capex. In addition, the decline in the price of crude oil will likely provide positive support for growth in capex, as it contributes to improvement in corporate earnings. Hence we believe that capex spending on a GDP basis will gradually move back into a growth phase.

Domestic Demand and Nominal Capex

Chart 5



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