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# January Machinery Orders

## January orders decline by -3.2% m/m. Reactionary decline in manufacturing industry brings down overall results

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Summary

- According to statistics for machinery orders in January, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders declined for the first time in two months by -3.2% m/m, while at the same time falling below market consensus at -0.1%. While non-manufacturing (excluding ships and electrical power) made +0.7% m/m in gains, manufacturing suffered a major decline of -10.8%, bringing down overall results.

- Looking at orders by source of demand in January, the manufacturing industries declined for the first time in four months at -10.8% m/m. Our evaluation is that on average, manufacturing is marking time. Non-manufacturing orders (excluding ships and electric power) grew for the second consecutive month at +0.7% 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.

- Machinery orders, the leading indicator for capex, are expected to gradually expand in the future. Positive factors providing underlying support for machinery orders include the high level of recurring profits and investments in rationalization and labor-saving devices due to the fact that supply and demand for labor remains tight. The sense of a shortage in production facilities is growing stronger as the manufacturing industry experiences an expansion in exports due to the recovery in the world economy. Meanwhile, the non-manufacturing industries are expected to carry out investments in transport and distribution infrastructure.

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

| | 2016 Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | 2017 Jan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Machinery orders (private sector)* | -5.2 | 1.4 | -6.4 | -2.2 | 7.1 | 5.6 | -5.9 | 0.3 | 3.4 | -2.8 | 2.1 | -3.2 |
| Market consensus (Bloomberg) | | | | | | | | | | | | -0.1 |
| DIR estimate | | | | | | | | | | | | 1.0 |
| Manufacturing orders | -24.0 | 14.2 | -9.7 | 0.0 | 6.5 | 0.9 | -3.1 | -3.3 | 0.4 | 8.1 | 0.8 | -10.8 |
| Non-manufacturing orders* | 9.6 | -6.5 | -3.3 | 1.0 | 1.8 | 6.5 | -3.1 | 0.7 | 2.7 | -5.6 | 2.1 | 0.7 |
| Overseas orders | 8.6 | 12.9 | 4.7 | -16.3 | 9.7 | -9.0 | -0.7 | 2.8 | 7.1 | 16.3 | -12.1 | 3.2 |

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

# January orders: declines in manufacturing bring down overall results

According to statistics for machinery orders in January, the leading indicator for domestic capex and private sector demand (excluding ships and electrical power), orders declined for the first time in two months by -3.2% m/m, while at the same time falling below market consensus at -0.1%. While non-manufacturing (excluding ships and electrical power) made +0.7% m/m in gains, manufacturing suffered a major decline of -10.8%, bringing down overall results.

The Cabinet Office forecast for the Jan-Mar 2017 period sees private sector demand (excluding ships and electrical power) up by +1.5% q/q with results for the manufacturing industry up by +9.7%. However, in order to fulfill this forecast, private sector demand (excluding ships and electrical power) will have to pull in +10.4% in average orders received in February and March in comparison with January performance, while manufacturing will have to achieve growth of +29.0%, and the degree of certainty that this outlook can be achieved is not good. Besides this issue, the seasonally adjusted figures in the January survey were revised.

# Manufacturing orders suffer decline for first time in four months due to reactionary decline

Looking at orders by source of demand in January, the manufacturing industries declined for the first time in four months at -10.8% m/m. Our evaluation is that on average, manufacturing is marking time.

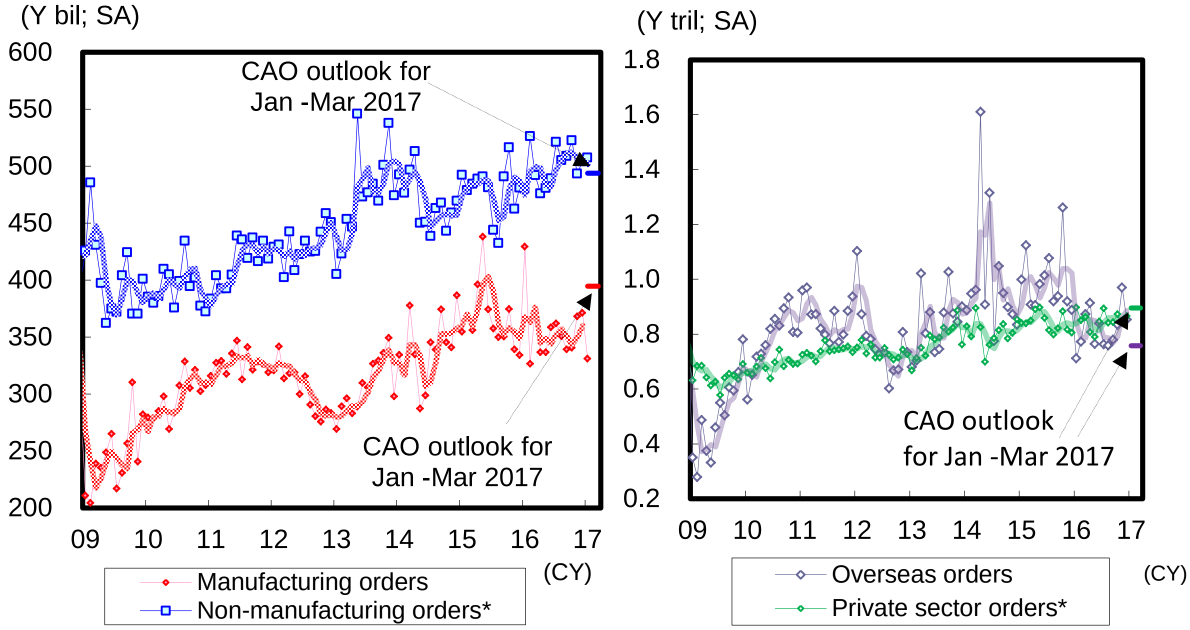
As for performance by industry, declines were seen in non-ferrous metals (-84.5% m/m), ceramics, stone and clay products (-61.4%), and petroleum and coal products (-59.1%). As for non-ferrous metals, the opinion is that the negative performance was due to reactionary declines after the major growth experienced in November and December last year. Ceramics, stone and clay products are also seen as having experienced a reactionary decline after positive performance in October-December 2016. On the other hand, m/m growth was seen by electrical machinery (+44.0%), fabricated metal products (+56.5%), and information & communications equipment (+16.1%). Electrical machinery has continued in a growth trend since early in 2016. Meanwhile, information & communications equipment, which won growth on the January report, is considered to be in decline when performance is averaged out.

# Non-manufacturing orders achieve growth for second consecutive month

Non-manufacturing orders (excluding ships and electric power) grew for the second consecutive month at +0.7% 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 growth was seen in finance and insurance (+57.3%), information services (+11.3%), and real estate (+85.4%). As for finance and insurance, a declining trend continued for much of 2016 ever since the beginning of the year. January results represent a return to growth for the first time in two months. Until now, the industry was suffering a reactionary decline in response to large-scale IT investments carried out in 2015. It is possible that this latest development may signal that these negative influences have finally run their course. Meanwhile, real estate achieved growth for the third consecutive month. On the other hand, some industries experienced declines. These are transportation and postal activities (-33.7% m/m), wholesale and retail trade (-31.3%), and other non-manufacturing (-11.1%).

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



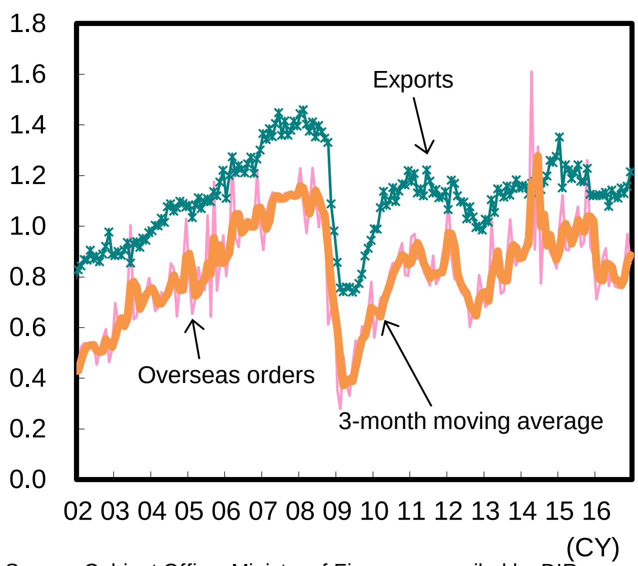

Source: Cabinet Office (CAO); compiled by DIR.
*excl. those for ships and from electric utilities.
Note: Thick lines 3M/MA basis.

## Overseas orders grow for first time in two months

Overseas orders achieved growth for the first time in two months at +3.2% m/m. According to the Cabinet Office, orders for industrial machinery and railway cars declined, while orders for engines and turbines, as well as electronics & telecommunications equipment grew.

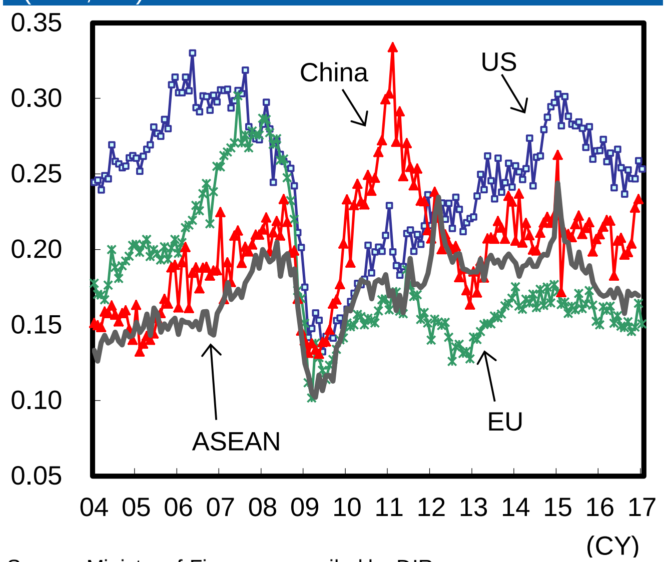
As for the future for overseas orders, out main scenario sees a continuation of the moderate growth trend due to the recovery in the world economy. However, in the mid to long-term, the world economy may become increasingly uncertain due to US President Trump's inward-looking policies. Therefore, we continue to take a cautious view as we move forward.

**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**

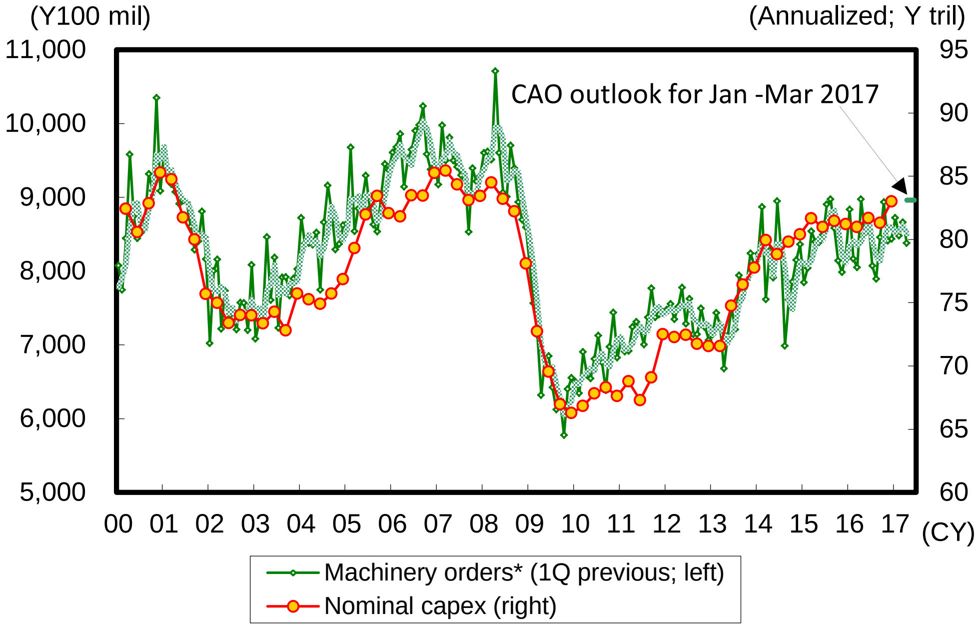



Source: Ministry of Finance; compiled by DIR.
Note: SA by DIR.

## Machinery orders expected to gradually expand in the future

Machinery orders, the leading indicator for capex, are expected to gradually expand in the future. Positive factors providing underlying support for machinery orders include the high level of recurring profits and investments in rationalization and labor-saving devices due to the fact that supply and demand for labor remains tight. The sense of a shortage in production facilities is growing stronger as the manufacturing industry experiences an expansion in exports due to the recovery in the world economy. Meanwhile, the non-manufacturing industries are 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.

**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.