

【Fundamentals Navigator】

Japan machinery orders (July 2020): Core orders up in July following decline in June

(original Japanese report issued on September 10, 2020)

Orders from manufacturers turn upward as output picks up, while overseas orders climb MoM after falling for four consecutive months through June

Core machinery orders (private-sector orders excluding ships and electric utility orders), a leading indicator for capex, rose 6.3% MoM in July following a 7.6% fall in June. Growth in orders from manufacturers remained in positive territory in July following an uptick in June that broke a four-month negative streak through May. We think orders have bottomed on the back of an upturn in production and see them picking up. Orders from non-manufacturers rose in July having fallen in June, and although prolonged weak demand from some industries could hold back overall orders, we expect significant support from IT investment in particular. Machinery orders from overseas were up in MoM terms for the first time in five months in July, suggesting that an upturn in economic prospects has put a brake on the slide in demand..

- (1) Overview:** Core machinery orders (private-sector orders excluding ships and electric utility orders) rose 6.3% MoM to JPY715.3bn in July, following a 7.6% decline in June. The July figure compared well with the market forecast (Bloomberg) for a +2.0% increase (median forecast; range -2.6% to +17.5%).
- (2) Manufacturers:** Manufacturer orders were up 5.0% MoM, after also rising 5.6% in June on the back of four consecutive months of decline. Among major sectors, autos/parts was up 6.2% MoM for consecutive months of growth (June +7.8%; May -14.9%) as output in the industry recovers rapidly. There were also increases following on from June in general-purpose/production machinery (+3.3%; June +10.3%) and business-oriented machinery (+5.7%, +10.3%). While production of capital goods remains fairly sluggish, we think orders are being buoyed by brighter demand prospects. Orders from manufacturers look to have bottomed in the whole, although there was a notable decline in electrical machinery orders (-3.3%; June -7.5%).
- (3) Non-manufacturers:** Core non-manufacturer orders (i.e., excluding ships and electric utility orders) edged up 3.4% MoM in July following a 10.4% slide in June. Overall orders were boosted by finance/insurance (+17.0%; June -19.9%), transportation/postal activities (+11.0%; -23.7%), and construction (+18.9%; -7.4%). Although there are wide monthly variations in orders from each of these industries, it is worth noting that orders from the transportation/postal activities sector have been fairly weak of late, particularly for motor vehicles (buses and trucks). Orders from the finance/insurance industry have grown on the back of IT investment, while orders from the construction industry have stayed largely flat on the whole.
- (4) Quarterly trend:** Core orders sank 12.9% QoQ in 2Q 2020 for a fourth

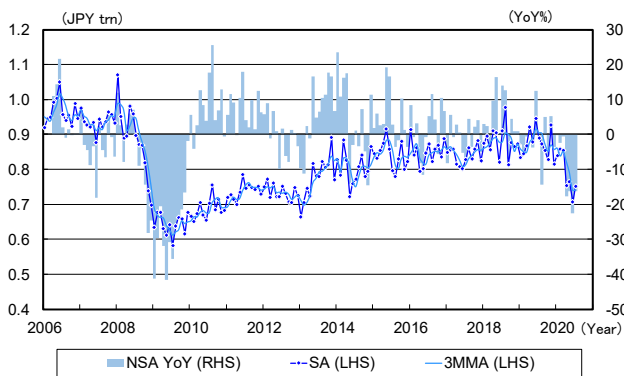
July 2020 (announced 10 Sep)
 Core private-sector machinery orders (excl. ships, power equipment): +6.3% MoM (Bloomberg forecast: +2.0 %)
 Manufacturing orders: +5.0% MoM
 Non-manufacturing orders (excluding ships, power equipment): +3.4% MoM
 Overseas orders: +13.8% MoM
 Government: -30.4% MoM

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successive quarterly decline as the pandemic started to take its toll on economic growth. We note that the initial forecast for Jul-Sep was for a continued decline (-1.9% QoQ), but orders in July outpaced the Apr-Jun average by 1.3%, breaking down to +2.7% from manufacturers and +1.2% from non-manufacturers (ex-volatile orders). We expect manufacturer orders to pick up soon, as production is expected to recover. Meanwhile, there are concerns that orders from some non-manufacturers could be held back somewhat by persistent sluggish demand, but we think IT investment in particular will underpin orders.

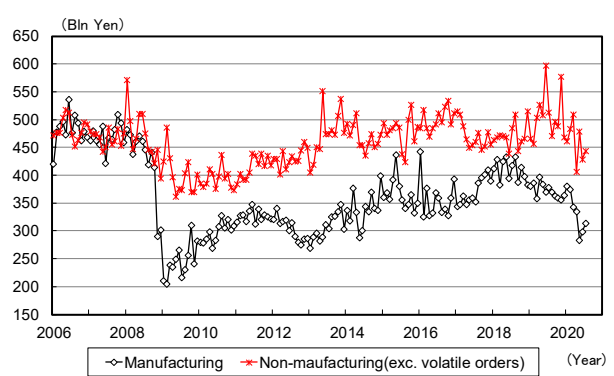
(5) Overseas orders: Overseas orders climbed 13.8% MoM to JPY614.2bn in July for the first MoM increase in five months. Orders slipped sharply in Apr-Jun with a 32.1% QoQ decline, pulled down by anemic demand across a range of industries. Orders for electronic computers (including SPE) remained listless, but picked up somewhat for construction machinery, machine tools, and for conveying, elevating & material handling machinery. Overall, machinery order data seems to confirm that economic conditions overseas are looking rosier.

Figure 1. Machinery orders value (private sector, excluding shipping and electric power)



Source: MUMSS, from Cabinet Office machinery orders data

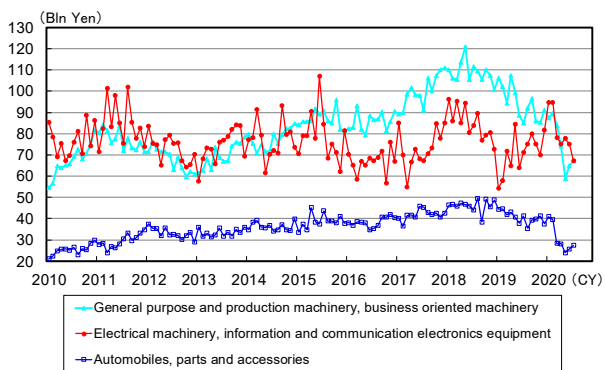
Figure 2. Core machinery orders value (by industry)



Note: Seasonally adjusted (SA)

Source: MUMSS, from Cabinet Office machinery orders data

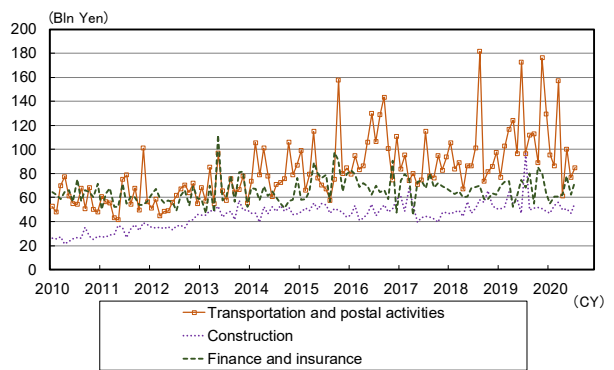
Figure 3. Manufacturing machinery orders (by sector)



Note: SA

Source: MUMSS, from Cabinet Office machinery orders data

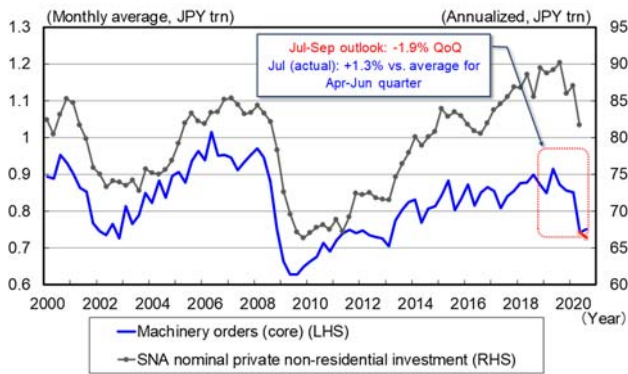
Figure 4. Non-manufacturing machinery orders (by sector)



Note: SA

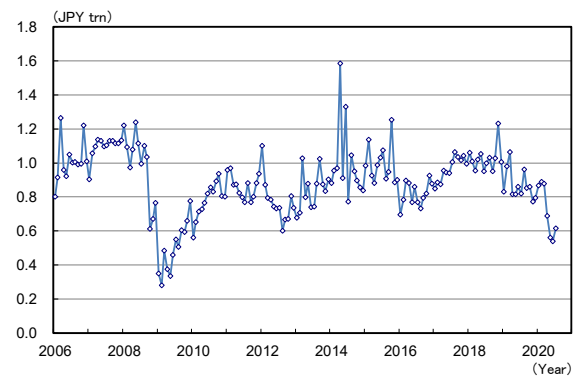
Source: MUMSS, from Cabinet Office machinery orders data

Figure 5. Machinery orders and capex



Note: SA
 Source: MUMSS, from Cabinet Office machinery orders data, System of National Accounts

Figure 6. Machinery orders (overseas orders)



Note: SA
 Source: MUMSS, from Cabinet Office machinery orders data

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Appendix A

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