

【Fundamentals Navigator】

Japan machinery orders (Aug 2020): Core orders up for 2nd month

(original Japanese report issued on October 12, 2020)

Likely to see near-term dropout of big rise in overseas demand, but recovering overall

Contrary to market expectations, August core machinery orders (private-sector orders excluding ships and electric utility orders), a leading indicator for capex, rose 0.2% MoM for their second straight monthly increase. Manufacturer orders (-0.6%) dropped slightly, but there was a sustained comeback for automotive and general purpose/production machinery, as well as growth for electric machinery. Non-manufacturing orders were weighed down by a decrease in computer orders from finance/insurance, but FY20 sector guidance suggests that a lasting capex downturn is unlikely. August orders from overseas rose by 49.6%, higher growth than in July. By industry, chemical machinery saw rapid growth, although it is likely to see a pullback in September. Machine tools and construction machinery orders are recovering.

(1) Overview: August core machinery orders (private-sector orders excluding ships and electric utility orders), a leading indicator for capex, rose 0.2% MoM to JPY752.5bn. This is the second consecutive month of growth, beating the market consensus for a 1.0% decrease (median forecast; range -6.5% to +3.9%; Bloomberg). However, order volume was down MoM from both manufacturers and non-manufacturers (excluding ships and electric utility orders), showing some difference vs. core orders, but this is due to seasonal adjustments for each.

(2) Manufacturers: Orders from manufacturers were down 0.6% MoM. Following four straight monthly declines through May, orders rose in June (+5.6%) and July (+5.0%), so the slight drop in August is the first decrease in three months. Chemicals (-35.3%; +2.3% in July) and iron & steel (-32.8%; +17.2%) also saw their first MoM declines in three months. Otherwise, the machinery sector showed noteworthy increases. Automotive/auto parts (+6.6%; +6.2%) and general purpose/production machinery (+27.2%; +3.3%) both continued in the growth trajectory seen since June, while electric machinery orders (+1.5%; -3.3%) ticked upward for their first increase in three months.

(3) Non-manufacturers: Orders from non-manufacturers (excluding ships and electric utility orders) fell by 6.9% MoM (+3.4% in July), the first decline in two months. This reflects the sharp drop in computer orders from finance/insurance (-38.1%; +17.0%). Information & communication electronics equipment, including computers, account for just under 30% of finance/insurance capex (excluding software and land; from 2018 GDP data). However, the August order decline should

August 2020 (announced 12 Oct)

Core private-sector machinery orders (excl. ships, power equipment): +0.2% MoM (Bloomberg forecast: -1.0%)

Manufacturing orders: -0.6% MoM

Non-manufacturing orders (excluding ships, power equipment): -6.9% MoM

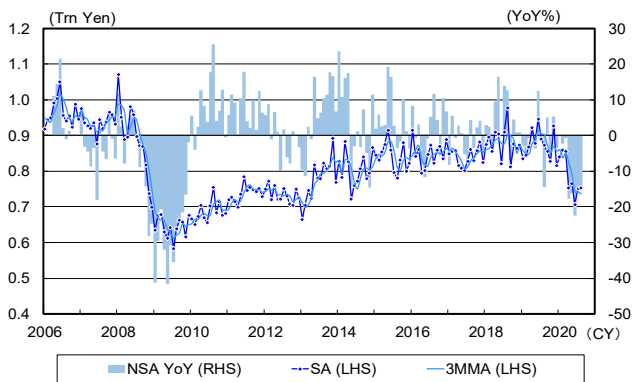
Overseas orders: +49.6% MoM
Government: +28.3% MoM

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be temporary, given the robust finance/insurance FY20 capex plans (+38.9% when excluding software, R&D and land; amendment ratio of +0.1%) reported in the September Tankan survey. Subsectors booking increases in August included information services (+11.3%; -11.2%).

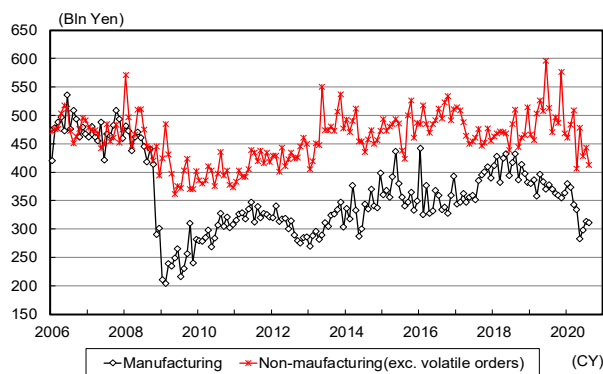
- (4) **Quarterly trend:** Core orders sank 12.9% QoQ in Apr-Jun for a fourth successive quarterly decline. We note that the initial forecast for Jul-Sep was for a continued decline (-1.9% QoQ), but the Jul-Aug average outpaced Apr-Jun by 1.4%. It is uncertain whether we will see quarterly growth for the first time in five quarters in Jul-Sep, as a 4.3% decline in September would bring the quarter into negative territory, but we do expect to see orders bottom out.
- (5) **Overseas orders:** Overseas orders shot up by 49.6% MoM to JPY919.0bn in August. This constitutes sharply higher growth than in July (+13.8%), which was, in turn, the first such increase in five months. By industry, there was a big increase for chemical machinery, so some kind of dropout effect seems inevitable in September. However, the overall trajectory seems to be one of a recovery as overseas capex demand picks up. Looking at trends for the major areas other than chemical machinery, we can see an ongoing slump for computers (including SPE), but recent gradual increases for machine tools, construction machinery, industrial robots, and others.

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



Source: MUMSS, from Cabinet Office machinery orders data

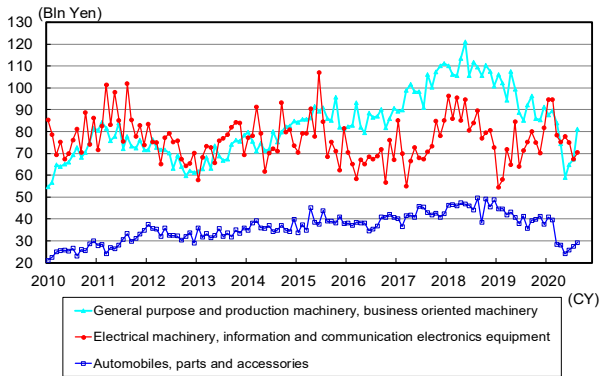
Figure 2. Core machinery orders value (by industry)



Note: Seasonally adjusted (SA).

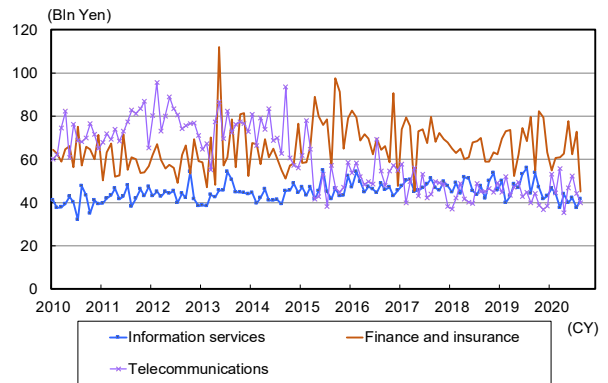
Source: MUMSS, from Cabinet Office machinery orders data

Figure 3. Manufacturing machinery orders (by sector)



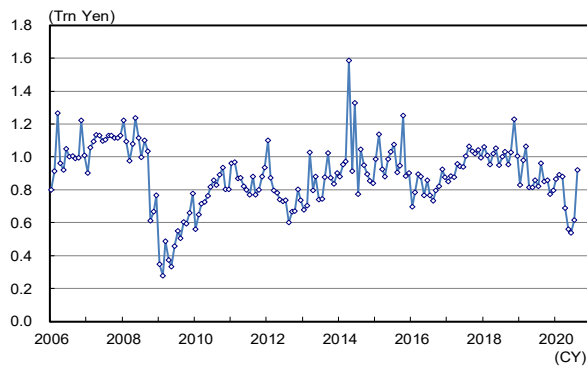
Note: SA.
Source: MUMSS, from Cabinet Office machinery orders data

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



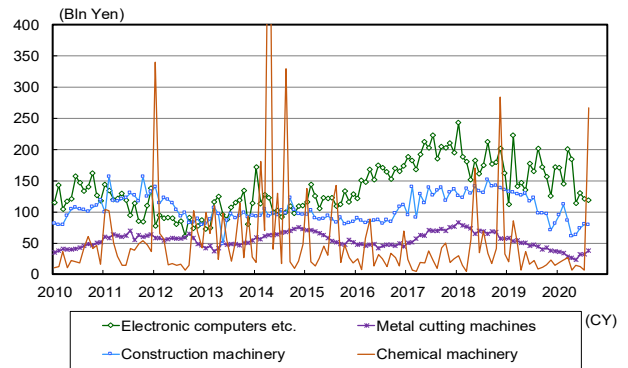
Note: SA.
Source: MUMSS, from Cabinet Office machinery orders data

Figure 5. Machinery orders (overseas orders)



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

Figure 6. Machinery orders (overseas orders, by machinery type)



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

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Appendix A

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