

【Fundamentals Navigator】

Japan machinery orders (Sep 2020): Core orders flat QoQ in 3Q

(original Japanese report issued on November 12, 2020)

Decline forecast in 4Q; upturn possible if recovery continues, but pandemic is risk

Machinery order data for September reveal that core orders (private-sector orders excluding ships and electric utility orders), a leading indicator for capex, fell 4.4% MoM to mark the first downturn in three months. Orders in 3Q 2020 edged down 0.1% QoQ for virtually flat growth, an improvement over 2Q's 12.9% slump amid the stark uncertainties of the pandemic. The 4Q forecast for core orders calls for another 1.9% drop. We believe positive growth is possible if the economic recovery continues, but a further worsening of the pandemic at home and abroad remains a threat. Overseas demand was down in September but bounded 28.4% QoQ in 3Q, a strong comeback from the previous quarter's 32.1% decrease.

- (1) Overview:** Core machinery orders (private-sector orders excluding ships and electric utility orders) fell 4.4% MoM to JPY719.3bn to mark the first downturn in three months (August: +0.2%). This was worse than the lower end of consensus expectations (Bloomberg: median -1.0%, range -3.5% to +4.2%).
- (2) Manufacturers:** Manufacturer and non-manufacturer orders both rose MoM. Manufacturer orders were up 2.0% MoM after a one-month setback, continuing its post-May uptrend. General-purpose/production machinery posted a fourth straight rise at 0.1% (August: +27.2%), joined by gains of 22.6% in business equipment (-5.5%) and 6.4% in electrical machinery (+1.5%). Autos and auto parts were down 1.8% (+6.6%) for the first retreat in four months, but basically maintained their slow but steady recovery.
- (3) Non-manufacturers:** Non-manufacturer core orders (i.e., excluding ships and electric utility orders) climbed 3.2% MoM, reversing the previous month's downturn. This was led by a 45.8% increase in communications (August: -10.1%) and 29.4% rise in banking/insurance (-38.1%). We believe the former was buoyed by 5G demand and the latter by computer orders.
- (4) Quarterly:** Core orders slipped 0.1% QoQ in 3Q. This was the fifth successive decline but essentially flat and an improvement over the preceding quarter's 12.9% drop. The attainment rate versus the initial 3Q forecast was 91.0%, still well below 100% but far better than the 82.5% of 2Q when uncertainty over the future was rife despite the economic recovery. Manufacturer orders in 3Q rebounded 3.0% (2Q:

September 2020 (announced 12 Nov)

Core private-sector machinery orders (excl. ships, power equipment): -4.4% MoM
(Bloomberg forecast: -1.0 %)

Manufacturing orders: +2.0% MoM

Non-manufacturing orders (excluding ships, power equipment): +3.2% MoM

Overseas orders: -16.7% MoM

Government: +20.0% MoM

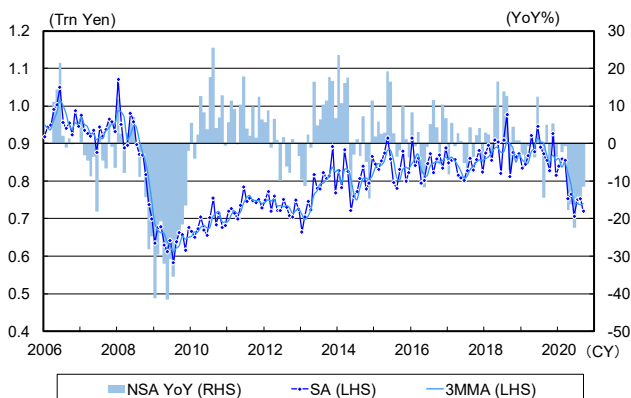
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-16.6%) for attainment 87.2% (74.9%), while non-manufacturer core orders slid 2.5% (-9.7%) for a rate of 93.8% (88.3%).

(5) 4Q forecast: Core orders are forecast to fall 1.9% QoQ in 4Q. This represents values reported by manufacturers adjusted by the three-quarter average attainment rate. The latter rate is 89.5%, so the adjusted forecast by simple calculation would be a gain of over 8%. Under our scenario of a sustained economic recovery, the attainment rate should continue to improve along with the corporate capex sentiment, suggesting positive core order growth in 4Q. Still, a further worsening in the pandemic at home and abroad could temper this rise. Note that the forecast was made at the end of September and does not reflect the recent increase in infections.

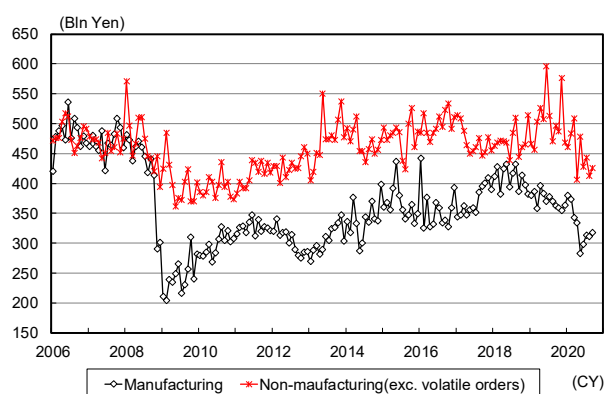
(6) Overseas demand: Overseas demand was down 16.7% MoM in September for the first decline in three months, but bounded 28.4% in 3Q for a strong comeback (2Q: -32.1%). Another double-digit drop, of 14.2%, is projected in 4Q. This translates to a slight decline on a pre-adjusted basis, but we should be alert to a bigger falloff should the pandemic intensify.

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



Source: MUMSS, from Cabinet Office machinery orders data

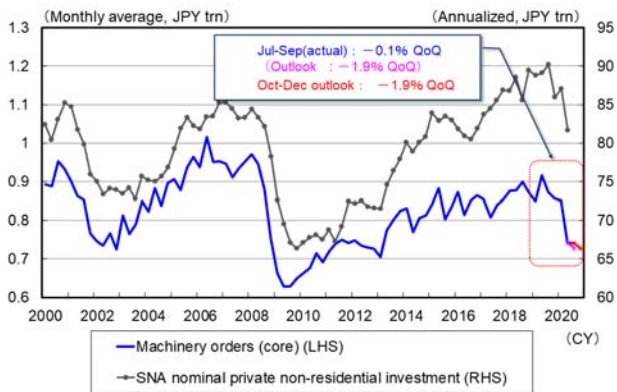
Figure 2. Machinery orders (manufacturing and non-manufacturing)



Note: Seasonally adjusted (SA).

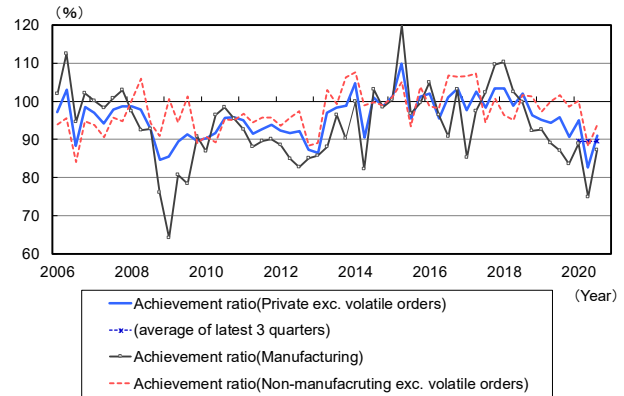
Source: MUMSS, from Cabinet Office machinery orders data

Figure 3. Machinery orders and capex



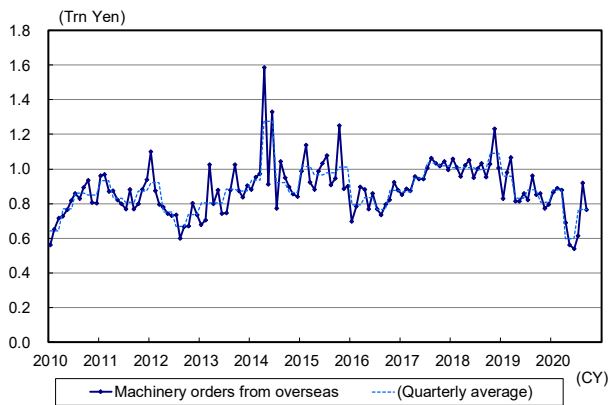
Note: SA.
 Source: MUMSS, from Cabinet Office machinery orders data, System of National Accounts

Figure 4. Machinery orders attainment rate



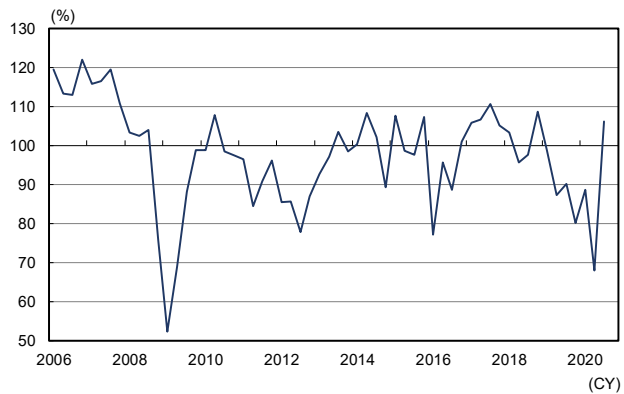
Note: SA.
 Source: MUMSS, from Cabinet Office machinery orders data

Figure 5. Machinery orders (overseas orders)



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

Figure 6. Machinery orders attainment rate (overseas orders)



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

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Appendix A

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