

【Fundamentals Navigator】

Japan machinery orders (Dec 2020): Core orders remain buoyant with 16.8% gain in 4Q

(original Japanese report issued on February 17, 2021)

Retreat likely to be mild in 1Q given improved capex stance; overseas orders also healthy

Core private-sector machinery orders (excluding those for ships and from electric power companies), a leading indicator for capex, rose 5.2% MoM in December for a third successive increase. Manufacturers saw high growth at general-purpose/production machinery and electrical machinery makers, while non-manufacturers were buoyed by finance/insurance and information services. For 4Q 2020, core orders saw their first upturn in six quarters with a 16.8% QoQ gain. The forecast for 1Q 2021 calls for an 8.5% QoQ drop, but we expect a smaller decline given the improvement in capex appetite as evident in the achievement rate of over 100% this month. Overseas orders also posted a third straight month of rise in December and grew an impressive 26% QoQ in 4Q.

- (1) **Overview:** Core private-sector machinery orders (excluding those for ships and from electric power companies) rose 5.2% MoM to JPY899.6bn in December. The rise was against the Bloomberg median consensus for the first decline (-6.1%) in three months.
- (2) **Manufacturers:** Growth returned to double digits at +12.2% MoM (November: -2.4%) after a one-month break. General-purpose/production machinery was up 10.9% (+1.0%) for a seventh straight rise, and electrical machinery posted another strong gain at 20.6% (+21.4%) on the turnaround in computing equipment (including semiconductor production equipment). Autos and auto parts remained in recovery on average with a 11.3% increase (-9.2%). A 114.9% surge in the shipbuilding sector (-14.9%) also lifted the total.
- (3) **Non-manufacturers:** Core private-sector non-manufacturer orders (excluding those for ships and from electric power companies) were up 4.3% MoM (+5.6%), marking a fourth straight monthly increase. Finance/insurance soared 70.2% (-33.3%) and information services climbed 24.9% (-7.3%) on a boost from computing equipment. Non-manufacturer orders for computers, which had been weak since mid-2020, has turned upward in a sign of a recovery in information-related investment. Communications slipped 18.3% (+41.6%), but we believe the general uptrend remains intact thanks to demand for communications equipment, presumably 5G related
- (4) **Quarterly trends and outlook:** Core orders were up a substantial 16.8% QoQ in 4Q 2020 (3Q: -0.1%), the first positive growth in six quarters. The total in monetary terms was 1.7% higher than pre-pandemic 1Q 2020. The achievement rate (results divided by previous quarter's forecast) came to 106.6%. This rate had fallen until 2Q last year, but picked up thereafter and has finally passed 100% (i.e., results outperformed expectations) for the first time in nine quarters.
- (5) **Forecast:** The Cabinet Office forecasts an 8.5% QoQ downturn in core orders

December 2020 (announced 17 Feb)

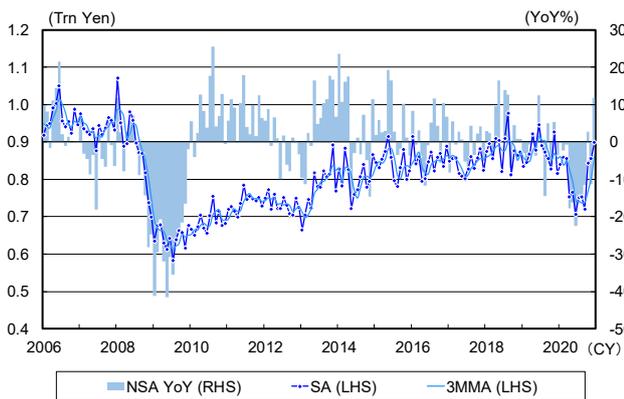
Core private-sector machinery orders (excl. ships, power equipment): +5.2% MoM (Bloomberg forecast: -6.1 %)
 Manufacturing orders: +12.2% MoM
 Non-manufacturing orders (excluding ships, power equipment): +4.3% MoM
 Overseas orders: +1.6% MoM
 Government: +30.0% MoM

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in 1Q. This figure is adjusted by the attainment rate of the preceding three quarters. The average rate during that period was short of the 100% mark at 93.4%, meaning by simple calculation of the pre-adjusted forecast would be a decline of around 2%. A backlash is to be expected in 1Q given the buoyant rise the previous quarter, but given the positive capex stance at corporations, as indicated by the over-100% attainment rate in 4Q, we believe the drop in 1Q should be smaller than the projected 8.5%.

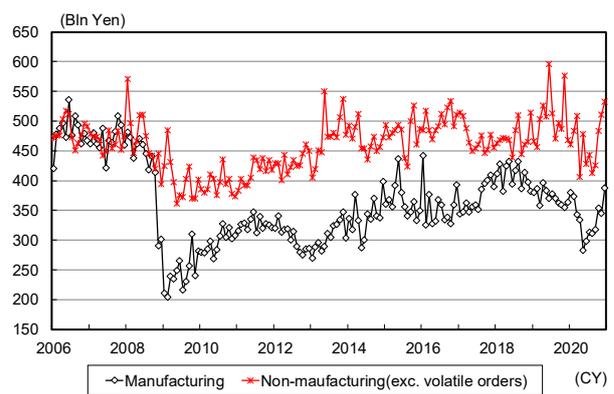
(6) Overseas orders: Overseas orders improved 1.6% MoM in December, up a third month running. The total for 4Q again exceeded 20% with a rise of 26.0% QoQ (3Q: +28.4%), bolstered by construction equipment, robots, and computing equipment (including semiconductor production equipment). The forecast for 1Q is a 5.2% decline, halting the two-quarter uptrend, and a similar retreat is expected even before adjustment for the attainment rate (three-quarter average of 100.9%). Still, we believe the trajectory remains upward on an average basis and expect capital goods exports to remain solid for the foreseeable future..

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



Source: MUMSS, from Cabinet Office machinery orders data

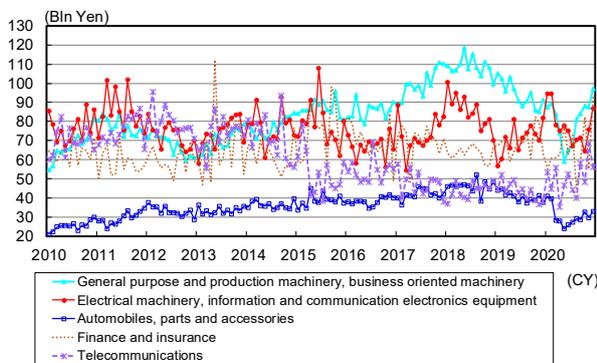
Figure 2. Machinery orders (manufacturing and non-manufacturing)



Note: Seasonally adjusted (SA)

Source: MUMSS, from Cabinet Office machinery orders data

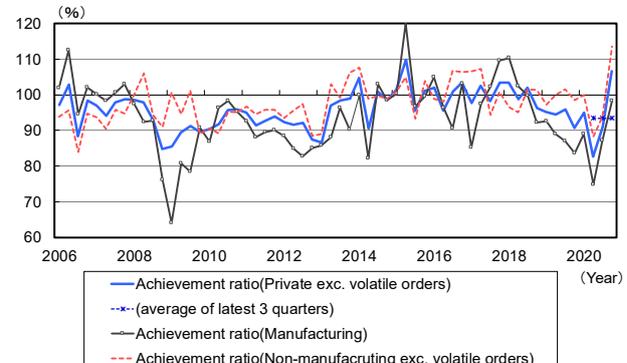
Figure 3. machinery orders (domestic, by sector)



Note: SA

Source: MUMSS, from Cabinet Office machinery orders data

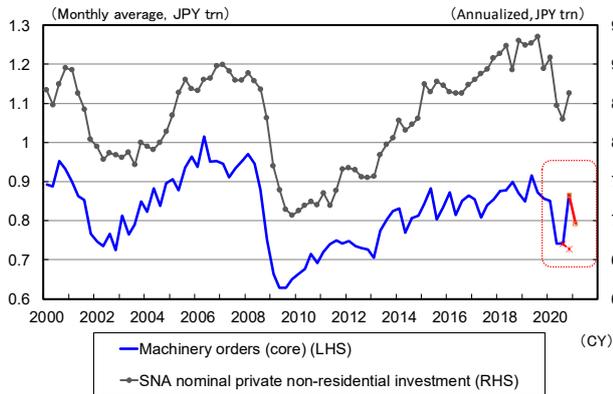
Figure 4. Machinery orders attainment rate



Note: SA

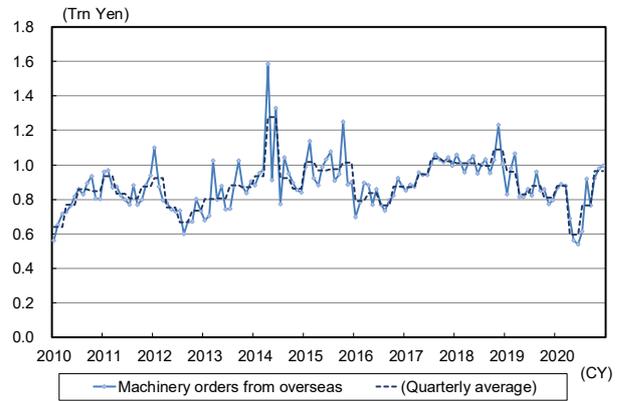
Source: MUMSS, from Cabinet Office machinery orders data

Figure 5. Machinery orders and capex



Note: SA; for latest figures, blue line is actual results for Oct-Dec, red indicates Cabinet Office projection for Jan-Mar,2021
 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

Shuji Tonouchi
 Senior Market Economist
 Lee Chiwoong
 Chief Economist

Appendix A

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