

【Fundamentals Navigator】

Japan machinery orders (Jan 2021): Recovery continues despite first core drop in 4 months

(original Japanese report issued on March 15, 2021)

Modest drop from 4Q average suggests possible 1Q upturn; overseas orders post 4th straight rise

Core machinery orders (i.e., private-sector orders excluding ships and electric utility orders), a leading indicator for capex, fell 4.5% MoM in January, the first downturn in four months. We attribute this largely to a backlash from the preceding month's strong performance in electrical machinery and finance/insurance, and believe the recovery remains intact. Core orders were down a modest 0.8% compared to the average for 4Q 2020. This tracks considerably below the 6.0% QoQ drop forecast by the Cabinet Office for 1Q 2021, opening the way for a possible second straight quarter of positive growth. Overseas machinery orders, which have been buoyed by the comeback in capex, posted a fourth successive rise as the contribution from the volatile ship category offset the halt in the recovery in semiconductor production equipment that had prevailed since late last year.

(1) Overview: Core machinery orders (i.e., private-sector orders excluding ships and electric utility orders) fell 4.5% MoM to JPY841.7bn in January, the first downturn in four months but around the median Bloomberg forecast of a 5.5% drop. Past seasonal adjustments were revised as well, but there was nothing to significantly alter our overall view.

(2) Manufacturers: Down 4.2% MoM (December: +10.3%), retreating after a one-month rise. Electrical machinery slumped 14.5% (+15.9%) for the first downturn in three months, the recovery in computing equipment (including semiconductor production equipment) stalled, and chemicals skidded 23.4% (-30.0%) in a further negative reaction from the powerful gains in chemical equipment recorded in Sep-Nov. At the same time, general-purpose/production machinery edged up 0.1% (+8.5%) for an eighth successive gain on vibrant demand both at home and abroad, and automobiles/auto parts were up 15.7% (+7.4%) for a second rise. A powerful 188.3% increase in non-ferrous metals (+96.3%) also helped curb the decline at manufacturers as a whole.

(3) Non-manufacturers: Core non-manufacturer orders (i.e., private orders excluding ships and electric utility orders) declined 8.9% MoM (December: +4.9%), breaking a three-month uptrend. The downturn was due mainly to a 15.8% slide in finance/insurance (+45.7%) and a 17.8% drop in transportation/postal (including ships, +8.3%). Finance/insurance remains on the rise thanks to IT investment, while transportation/postal is holding flat. Communications fell another 15.7% (-12.2%), but we believe the general trend continues to be led upward by 5G telecom equipment.

(4) Quarterly trend and forecast: Core orders grew 12.9% QoQ in 4Q 2020

January 2021 (announced 15 Mar)

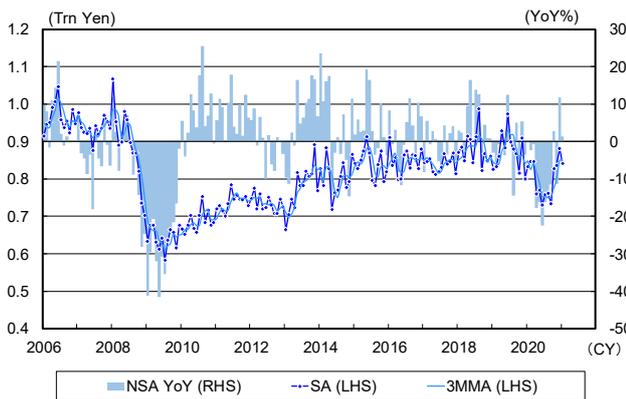
Core private-sector machinery orders (excl. ships, power equipment): -4.5% MoM
 (Bloomberg forecast: -5.5%)
 Manufacturing orders: -4.2% MoM
 Non-manufacturing orders (excluding ships, power equipment): -8.9% MoM
 Overseas orders: +6.4% MoM
 Government: -27.9% MoM

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but are projected by the Cabinet Office to dip 6.0% in 1Q 2021. The latter is weak due to the low past attainment rate versus previous projections (3Q average: 93.7%). The pre-adjusted result is actually up 0.3%. January was down only a modest 0.8% from the 4Q average. This is less dire than the adjusted 1Q forecast of a 6.0% QoQ falloff, leaving open the possibility of positive growth for the quarter. Capex plans at large corporations (including software, excluding land) in MoF's 1Q Financial Statement Statistics of Corporations called for a solid 8.7% rise in FY21. We expect an ongoing uptrend in core orders.

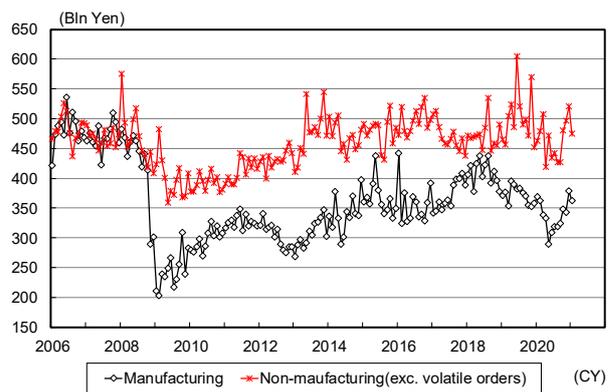
(5) Overseas orders: Up 6.4% MoM in a fourth consecutive rise. The figure was lifted by the ongoing growth in construction machinery and a sharp rise in the volatile category of ships. The rapid comeback since late last year in industrial robots, computing equipment (including semiconductor production equipment) and machine tools appears to have halted for a time, but we believe the trajectory remains upward on the turnaround in overseas capex. The Cabinet Office survey forecasts a 6.0% QoQ drop in overseas orders in 1Q following the buoyant 23.2% and 19.7% gains in 3Q and 4Q, but January orders, boosted by ships, outperformed the 4Q average by 10.3%.

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



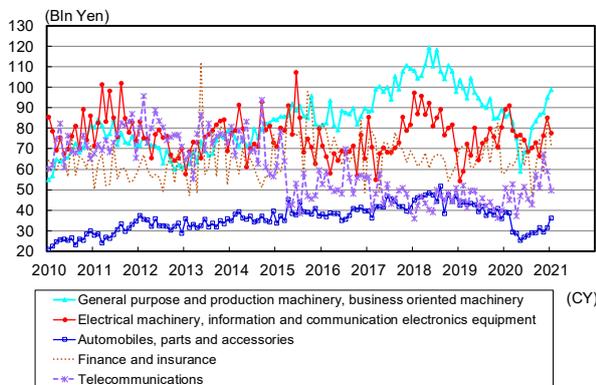
Source: MUMSS, from Cabinet Office machinery orders data

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



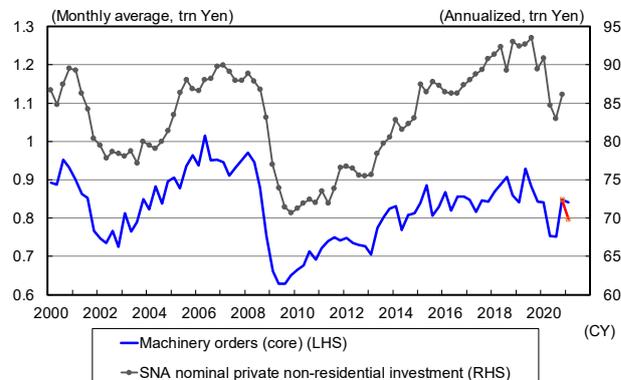
Note: Seasonally adjusted (SA)
Source: MUMSS, from Cabinet Office machinery orders data

Figure 3. Machinery orders (domestic, by sector)



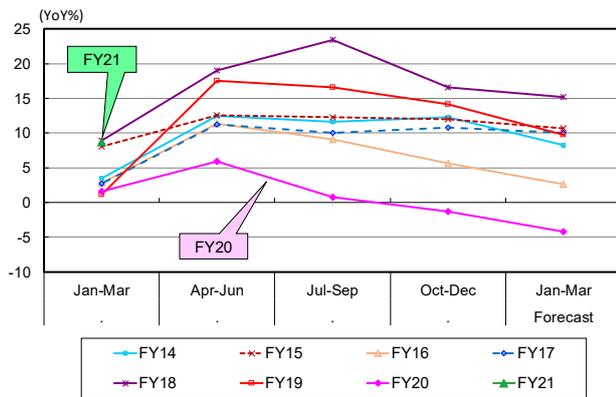
Note: SA
Source: MUMSS, from Cabinet Office machinery orders data

Figure 4. Machinery orders and capex



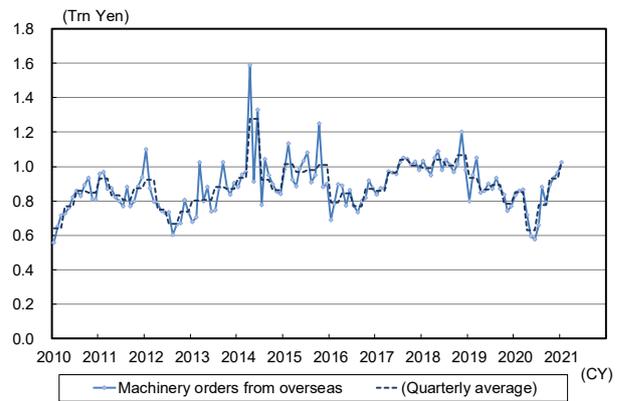
Note: SA; for latest figures, blue line is actual results for Oct-Dec, red indicates Cabinet Office projection for Jan-Mar, 2021
Source: MUMSS, from Cabinet Office machinery orders data, System of National Accounts

Figure 5. Capex plans at big corporations



Note: Including software, excluding land
 Source: MUMSS, from Ministry of Finance and Cabinet Office Business Outlook Survey data

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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