

【Fundamentals Navigator】

Japan machinery orders (Jun 2021): Core orders reverse three-month rise, but 2Q remains positive

(original Japanese report issued on Aug 18, 2021)

Double-digit rise forecast for 3Q; non-manufacturers may underperform, but overall recovery to continue

Machinery order data for June reveal that core orders (private-sector orders excluding ships and electric utilities) were down 1.5% MoM for the first drop in four months. Still, orders grew 4.6% QoQ in 2Q 2021, reversing a one-quarter setback. Manufacturers bounded 12.1% QoQ thanks to a buoyant export sector, while non-manufacturers slipped 1.8%. Core orders are expected to rise 11.0% QoQ in 3Q. A sharp recovery is projected for non-manufacturers, but the continued sluggishness in some sectors suggests that the results will underperform expectations. Manufacturers look to remain steady even after their double-digit growth the previous quarter, ensuring a sustained recovery in core orders overall. Overseas demand was up 3.6% QoQ in 2Q for a fourth successive gain and should remain healthy in 3Q.

(1) Overview: Core machinery orders (private-sector orders excluding ships and electric utilities) experienced the first MoM drop in four months in June, but the decline was smaller than the markets had anticipated. Manufacturer and non-manufacturer orders were both positive MoM when seasonal adjustments are applied separately. Manufacturers saw a return to growth in general-purpose/production and information/communications equipment, and overseas demand continued to thrive. The underlying trend remains upward. Non-ferrous metals posted a notable rise, led by engines/turbines. Core non-manufacturer orders (i.e., excluding ships and electric utilities) include double-digit gains from wholesalers (conveyance equipment) and construction firms (construction machinery).

(2) Quarterly results and forecast: Core orders climbed 4.6% QoQ in 2Q 2021, reversing a one-quarter setback. Manufacturers were up 12.1%, led by electrical and general-purpose/production machinery. Core non-manufacturers slipped 1.8% for a second straight decline. Core orders were 98.7% of the initial projection, an improvement over 1Q's 94.4%. The forecast for 3Q calls for an 11.0% rise. That includes a sharp recovery of 16.9% at non-manufacturers. Heavy machinery and rolling stock look to rebound, but we believe non-manufacturers will underperform given their low achievement rate of 95.3% in 2Q and the continued strong wariness over capex with the poor earnings in some sectors. Manufacturers expect a 3.4% gain even after the double-digit rise in the preceding quarter, which should ensure a sustained uptrend in core orders overall.

(3) Overseas demand: June saw the first downturn in three months. Demand in 2Q 2021 was up a fourth successive quarter, though slowing to a 3.6% QoQ rise (1Q: +31.4%). Computing equipment (almost exclusively semiconductor production equipment), construction equipment, and machine tools remained on the rise. The forecast for 3Q is another steady gain of 6.7%.

Results

Core private-sector machinery orders (excl. ships, power equipment): -1.5% MoM

(Bloomberg forecast: -2.8 %)

Manufacturing orders: +3.6% MoM

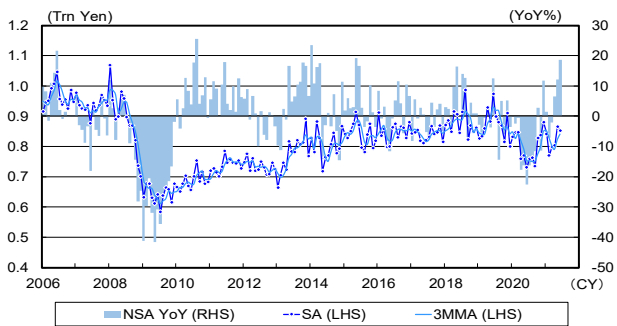
Non-manufacturing orders (excluding ships, power equipment): +3.8% MoM

Overseas orders: -10.0% MoM

Government: -2.8% MoM

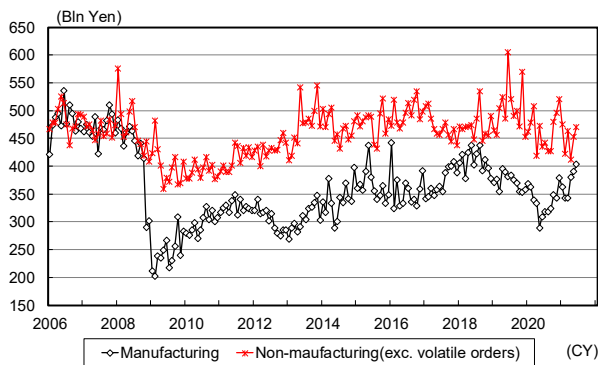
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Figure 1. Machinery order value (private sector, excluding shipping and electric power)



Source: MUMSS, from Cabinet Office machinery orders data

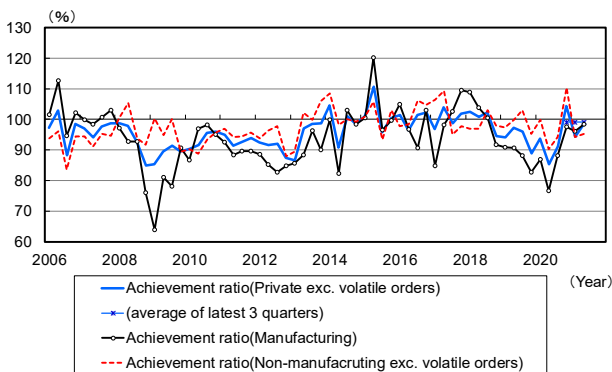
Figure 2. Machinery orders (manufacturing and non-manufacturing)



Note: Seasonally adjusted (SA)

Source: MUMSS, from Cabinet Office machinery orders data

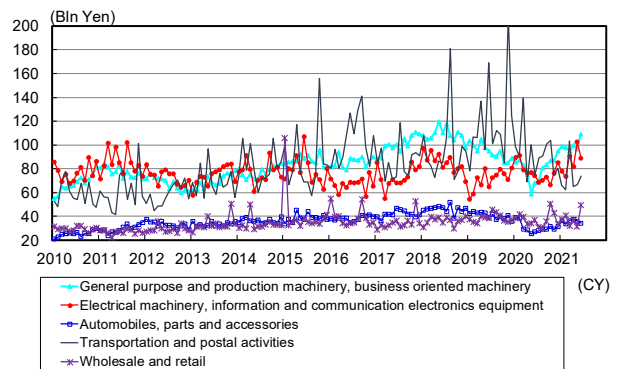
Figure 4. Machinery orders; Achievement ratio



Note: SA

Source: MUMSS, from Cabinet Office machinery orders data

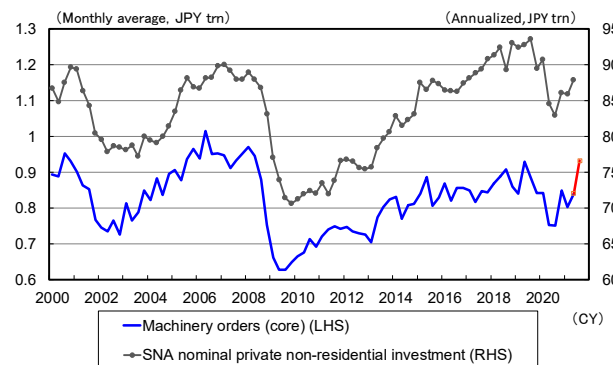
Figure 3. Machinery orders (domestic, by sector)



Note: SA

Source: MUMSS, from Cabinet Office machinery orders data

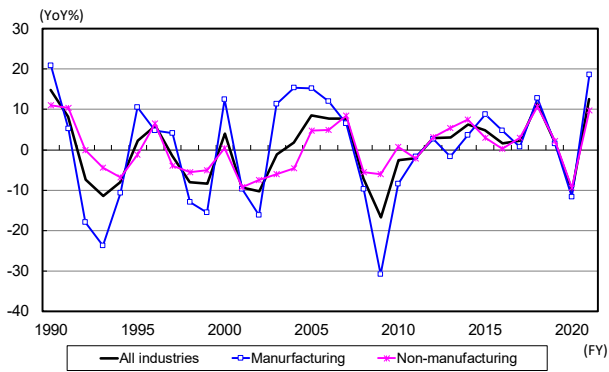
Figure 5. Machinery orders and Capex



Note: The red line for machine orders is the Cabinet Office forecast for 3Q.

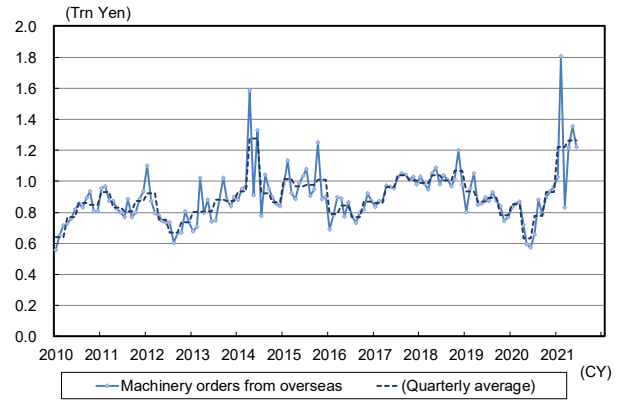
Source: MUMSS, from Cabinet Office machinery orders data, System of National Accounts

Figure 6. Capex plans



Note: Actual data through FY2020; forecast for FY2021.
 Source: MUMSS, from DBJ data

Figure 7. Machinery orders (overseas orders)



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

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Appendix A

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