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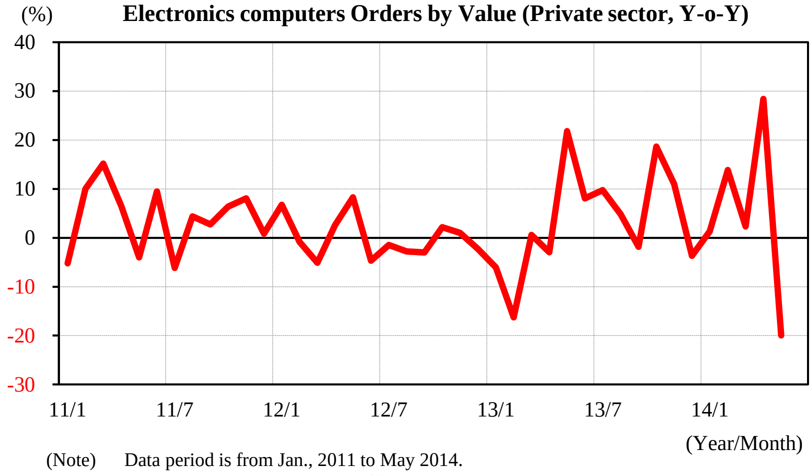
May Machinery Orders - Sharp Decline but only Caused by Special Factors

May Machinery Orders

On July 10, the Cabinet Office released May Machinery Orders. Core machinery orders (private-sector excluding shipbuilding and electric power companies), indicating domestic capex trend, declined 19.5% m-o-m for two consecutive months. Double digit decline was recorded for the first time in five months. In my previous report, I commented that the impact of the pullback of the rush demand ahead of the consumption tax hike on the core machinery orders is limited, however, with this double digit decline, I should say that the "forecast" by the corporations of 0.4% in Apr.-Jun. 2014 q-o-q is now turned difficult to achieve. On year on year basis, it declined 14.3% for the first time in thirteen months. Overseas orders which increased substantially by 71.3% m-o-m in April also fell 45.9% m-o-m in May to the level below that of March.

(Note) M-o-m and q-o-q are seasonally adjusted, y-o-y is based on original series, these applies to all of the figures hereafter



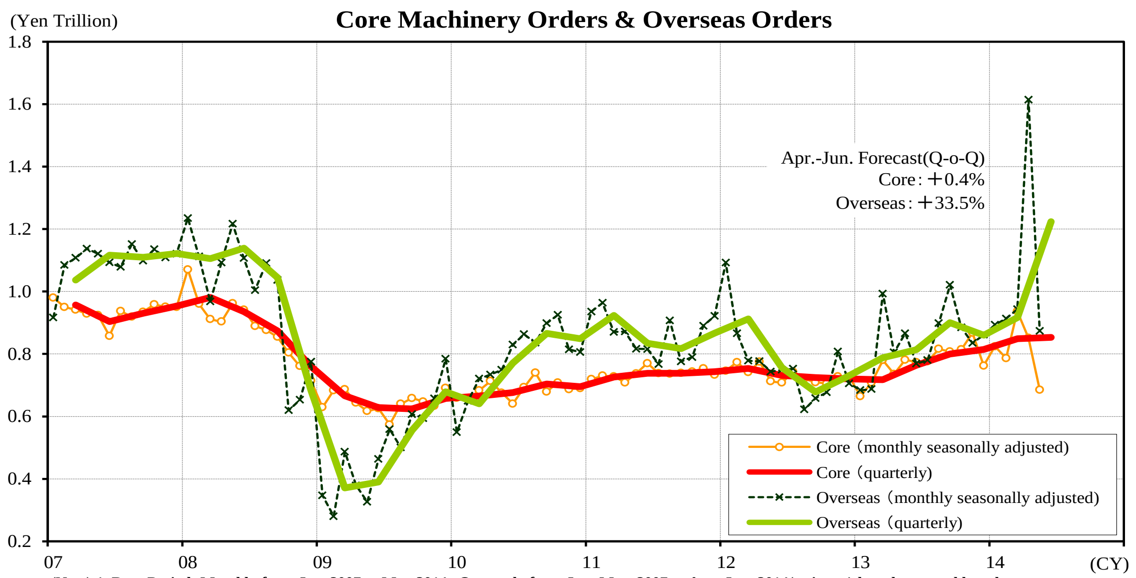
(Note) Data period is from Jan., 2011 to May 2014.
(Source) SMAM, based on the Cabinet Office data.

This time, the substantial decline of the machinery orders might have been partly caused by the reaction from large-scaled orders placed in the previous month. The orders of chemical & chemical products, electrical machinery, boilers & power units of ship building, chemical machinery classified in the manufacturing sector, and rolling stock of transportaion & postal activities, electronic computer of finance & insurance classified in non-manufacturing sector are assumed to have pushed the overall core machinery orders in April higher almost by JPY100 billion. I did expect that the reflection of these orders would impact the May figures to some extents, however, what surprised me was the fact that out of 27 industry sectors (including Electric power companies), 21 sectors showed a decline in the orders compared to the previous month.

Another factor I have in my mind is an effect of completion of IT investment in this April . The maintainance support service of Windows XP terminated on April 9. I assumed that the indispensable IT investment related to the termination of this support could have almost completed by the end of the previous fiscal year (March end, 2014) before the consumption tax hike. However, the value of electronic computer order (private-sectors) which once rose 28.4% y-o-y in April substantially declined by 20.0% y-o-y in May. While mass media pointed out some possible delays in the IT investment related to the termination of the support, this turned out to be not only for the case of finance & insurance sectors. I think, there might be a large number of corporations who have finally realised the impact of this termination on their business activities after the termination and rushed into investment from that day or afterwards in April.

Future Outlook and Focus

I hold a view that the substantial decline of the core machinery orders this time was a tentative phenomenon when considering the two reasons which were; the reaction from the large-scaled orders placed in the previous month and the unexpected IT investment after the termination of the maintainance support of Windows XP. I am always carefuly watching whether the domestic demand would recover or not after the pullback of rush demand ahead of the consumption tax which I believe is a key to both private consumption and private capex. I have not changed my view that the domestic demand will gradually improve from this summer unless a serious external shock, pulling down the whole economy, would happen. My view is that the core machinery orders in Apr.-Jun. quarter would see a decline, unable to achieve the “forecast” of +0.4% q-o-q, however, it will recover in Oct.-Dec. quarter.



(Note) 1 .Data Period: Monthly from Jan. 2007 to May 2014. Quarterly from Jan.-Mar. 2007 to Apr.-Jun. 2014(estimate) based on monthly value.
2. Core machinery order is private sector excluding ships and electric power companies.
(Source) SMAM, based on the Cabinet Office data.

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