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Masaru Hamasaki
Senior Strategist

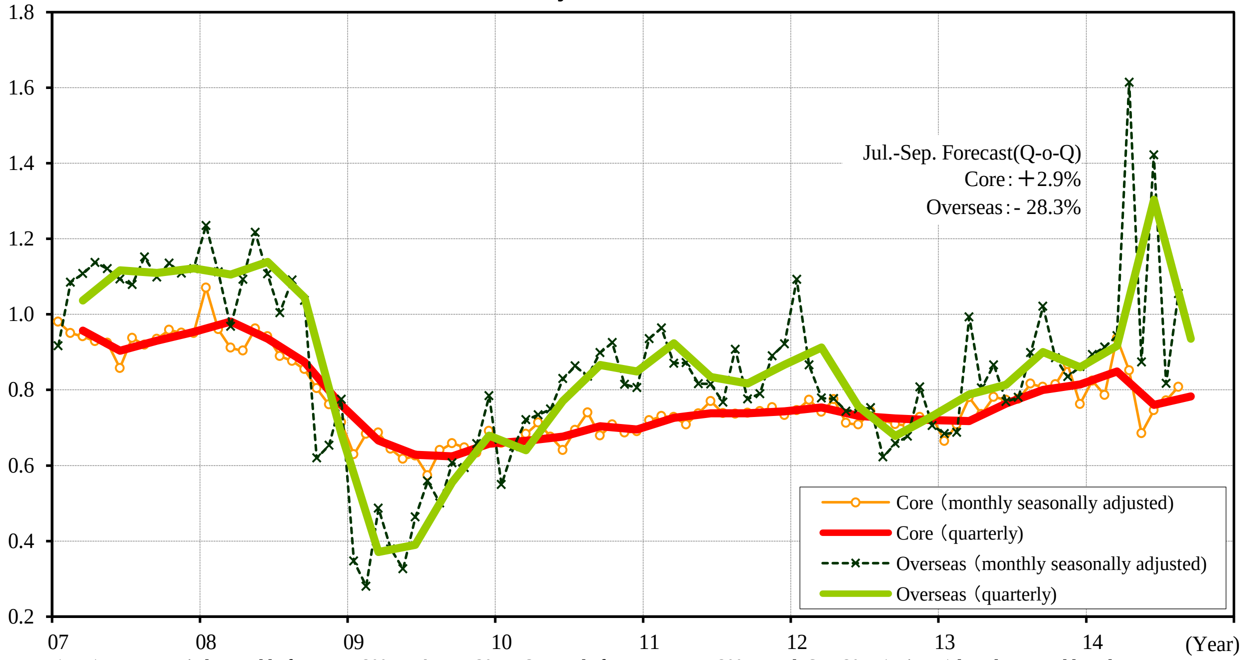
August Machinery Orders - Moderate Recovery to Sustain

August Machinery Orders

On October 9, the Cabinet Office released August Machinery Orders. Core machinery orders (orders by private-sectors except for shipbuilding and electric power companies), indicating domestic capex trend, rose 4.7% m-o-m. After a sharp decline by 19.5% m-o-m in May due to the pullback effect of consumption tax hike, the core machinery orders marked the third straight month of m-o-m growth. The basic accessment of the core machinery orders statistics by the Cabinet office was lifted to "Showing a moderate improvement" this time, from "Mixed of improvement and deterioration" for June and July.

As for sectors, the orders of manufacturing sector for August declined 10.8% m-o-m while the orders of non-manufacturing sector rose 10.7% m-o-m. For the manufacturing sector, the August figure was negatively affected by a pullback effect of large orders received in July by Chemical companies. For the non-manufacturing sector, the substantial increase in orders of construction and goods leasing sectors, offset a pullback effect of the IT investments by financial & insurance sector (-19.4% m-o-m,decline for four consecutive months) early this year which was caused by the termination of maintainance support service of Windows XP.

Core Machinery Orders & Overseas Orders



(Note) 1 .Data Period: Monthly from Jan. 2007 to August 2014. Quarterly from Jan.-Mar. 2007 to Jul.-Sep. 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.

Sumitomo Mitsui Asset Management
SMAM

Jul.-Sep. Forecast and Focus

The average growth rate of the core machinery orders for Jul.-Aug. was +3.8%, outpacing a Jul.-Sep. forecast of + 2.9% q-o-q. Although it is still uncertain whether Jul.-Sep. forecast of the core machinery orders can be achieved, as this index is very volatile, I have a view that the core machinery orders is on a track of returning to its growth path from the beginning of year 2013 as the effect of volatile movement before and after the consumption tax hike has almost diminished as was expressed in the basic accessment by the Cabinet office.

As for comparison of profitablility of domestic and overseas investments, I consider that the domestic capex investments seems back to be more profitable than overseas investments as the overseas investment is now less appealing than before due to the progress of JPY depreciation. For instant, in year 2012, while the Purchasing Power Parity (PPP) rate of industrial goods was about 86 yen against US$, the yearly average rate of US$/JPY was about 80 yen in the same period. On the other hand, after 2013, the PPP rate of industrial goods is almost unchanged at around 87 yen from year 2013, however, the actual average forex rate of US$/JPY weakened to about 100 yen level (measured until September end 2014). I think this indicates that, for the new capital investment at least, the return on the investment in Japan is more advantageous than that of investment in the overseas countries. Such transformation of investment environment will sustain amounts of the machinery orders in Japan going forward.

Sumitomo Mitsui Asset Management
SMAM