

“March Machinery Orders & Apr.-Jun. Forecast - Stable Growth of Capex Expected”

March Machinery Order

On May 19, the Cabinet Office released March Machinery Orders and Apr.-Jun. Forecast. Core machinery orders (private-sector excluding shipbuilding and electric power companies), which is the benchmark indicator, was +19.1% m-o-m. It substantially exceeded the consensus forecast (Bloomberg survey median) of +5.8%. This was partly due to the rush demand ahead of the consumption tax hike and also due to orders from large projects. For the quarter of Jan.-Mar., machinery orders rose 4.2% q-o-q making a fourth consecutive quarterly gain and beat the Cabinet Office forecast of -2.9% q-o-q.

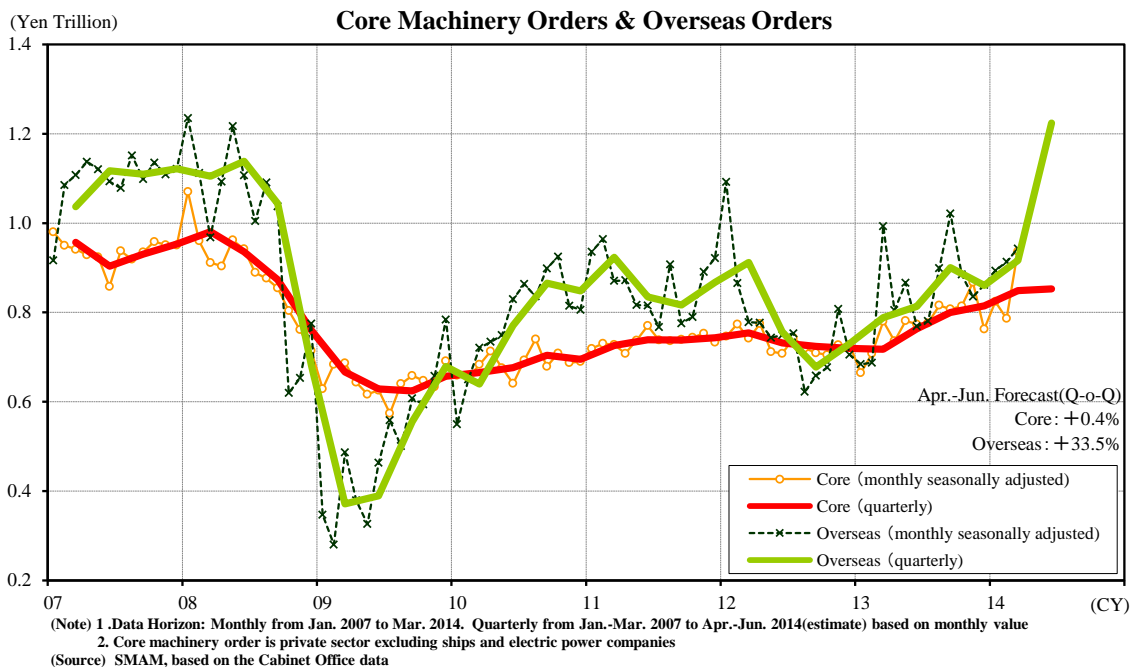
Analysing machinery orders by breaking down into machinery classification, it can be observed that there were large orders placed to “Boilers & power units” and “Aircraft”. We can also observe upswing in orders placed to “Communication equipment”, “Semiconductor making equipment” under Electronic & communication equipment sector, as a whole, and to “Industrial robots” and “Chemical machinery” under Industrial machinery. These upswings can be attributed to the rush demand ahead of the consumption tax hike.

Apr.-Jun. Forecast

Machinery makers' forecast of core machinery orders for Apr.-Jun. is expected to be + 0.4% q-o-q which estimates the continuous stable growth going forward. This figure is achievable even if month-on-month growth remains negative at around - 4.0% for each of the three consecutive months from April to June because a month of March marked much stronger-than-expected growth level. Even if April growth turns out to be negative 10% m-o-m due to subsequent pull-back of rush orders before the consumption tax hike, still the forecast is achievable if month-on-month growth of May and June are more than + 1.2%, respectively. I therefore think that achieving growth of 0.4% q-o-q is not an ambitious forecast at all.

Overseas orders are projected to surge 33.5% q-o-q in the quarter of Apr.-Jun. which was stronger-than-expected forecast based on the Cabinet Office survey of major machinery makers. It is quite likely that this forecast was based on the recovery of Europe and US economy, however, it is not yet clear whether this is achievable or not, as the economy of developing countries are slowing down. For the time being, we should keep an eye on the slowing Chinese economy, however, the overseas orders may increase if the Chinese government act quickly to implement economic stimulation which will create new machinery orders necessary for the infrastructure improvement.





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