Japanese core machine orders plunge by nearly 10% as investment outlook darkens

Core machine orders in February recorded a second monthly decline, well below the market consensus of -1.5%, suggesting Japanese firms put their investment on hold due to growing uncertainty in the global economy

-9.8%

Core machine orders

Japan

Lower than expected

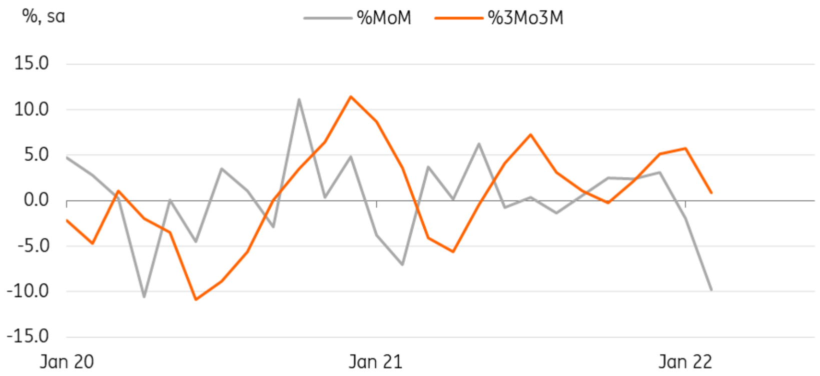
The biggest drop in two years

Japanese core machine orders dropped -9.8% MoM, seasonally adjusted in February (vs -2.0% in January); it's the biggest drop since April 2020. The second monthly drop suggests capital investment will shrink in the second or third quarter of this year, adding to the downside risks to our current GDP growth forecasts.

Given the choppiness of the data, it is better to look at the numbers sequentially rather than just the monthly changes. A 3-month over 3-month growth decelerated sharply to 0.9%, seasonally adjusted in February (vs 5.8% in January). Orders from overseas remained relatively good at 2.8% while domestic demand fell -by 3.7%. By industry, service orders contracted to -2.2% as the Omicron surge hurt the service sector harder than manufacturing. The decline was broad-based with transportation (-40.3%) and leasing (-18.7%) down the most.
Meanwhile, manufacturing orders came down to 0.5% (vs 6.1% in January).

As a leading indicator for capital investment, today's weaker than expected outcome adds downside risk to the current GDP forecast. We expect a slight contraction in 1Q22, followed by a rebound in 2Q22 and 3Q22. Along with other forward-looking data suggested, companies could turn more cautious about future investments and activities on the back of higher commodity prices and a slowdown in the global economy, which clouds our outlook for Japan's GDP this year.

Core machine orders contracted for the second month



Source: CEIC

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