

## 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

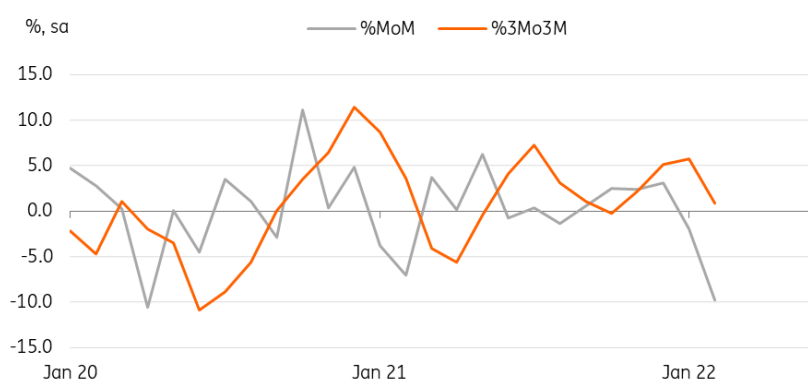
Japanese core machine orders dropped -9.8% MoM, seasonally adjusted in February (vs -2.0% in January); it's the biggest drop since April 2020. The second monthly drop suggests capital

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

### Author

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.