

## Japan: core machinery orders rose unexpectedly in April

A surge in machinery orders is a positive sign for future business spending, despite mounting uncertainties



Core machinery orders grew to 10.8% month-on-month in April

# 10.8%

Core machinery orders

(%MoM, seasonally-adjusted)

Better than expected

### Core machinery orders gained for two consecutive months

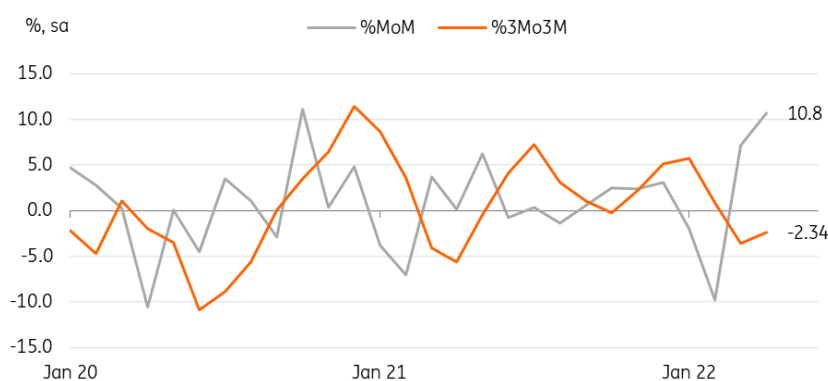
The seasonally-adjusted core machinery orders growth accelerated to 10.8% month-on-month in April, from 7.1% in March. The April outcome was surprisingly higher than the market consensus of a -1.3% decline, suggesting that businesses are continuing to increase investment in the face of accelerating inflation and the recent sharp depreciation in the Japanese yen (JPY). Smoothing the volatility in monthly data, the sequential three-month over three-month trend bottomed out from -3.6% in March to -2.3% in April, and we expect the upward trend will continue for a while.

In the manufacturing sector, electrical machinery, information technology and auto sectors rose firmly suggesting that global IT demand (including semiconductors) remained solid while the prolonged global supply chain disruption in the auto sector appeared to improve. In the service

sector, the gain was mainly driven by transportation, finance, and whole/retail sales as reopening is expected to boost activities in those sectors. Meanwhile, overseas orders jumped 52.1% (vs 7.8% in domestic demand), recording the fastest growth since February 2021. A weak JPY may have given Japanese companies a competitive edge, but it is too early to draw conclusions.

The tertiary industry index in April rose 0.7% month-on-month seasonally-adjusted, slightly missing the market consensus of 0.8%, but the March outcome was revised up from 1.3% to 1.7%. Summing up today's data releases, the Japanese economy is recovering from the contraction in the first quarter, and companies are expected to increase investment in the near future.

## Core machinery orders bottoming out



Source: CEIC

## Bank of Japan meeting preview

The turmoil in the financial market will continue to put a strain on the monetary policy of the Bank of Japan (BoJ), but the real economy does appear to be recovering from the recent contraction. The BoJ recently purchased Japanese government bonds (JGBs) to maintain the yield cap, while some market participants expect policy adjustments in the near future. Markets are looking for signs of currency market intervention after the BoJ and the government issued a joint statement last week expressing concerns about the sharp JPY movement. There have been occasions in the past when Japan has intervened to support the yen, typically during large capital outflows or financial crises. It is true that the BoJ is in a corner, but we are not sure the recent market environment is considered an extraordinary time. We expect the BoJ to keep its current policy stance unchanged at this week's meeting, but if the sharp JPY devaluation continues, it could increase the likelihood of raising the ceiling on 10Y JGB in the future.

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