

Japan Capital Goods

Dec JMTBA orders -10% YoY; China and Japan improve

Industry Overview

Dec orders: -10% YoY; better than expected

Japan Machine Tool Builders' Association (JMTBA) published the final orders data for December. Orders declined 10% YoY (+10% MoM) to ¥127.1bn, improving from November (-14%), as noted in our report [Japan Capital Goods: December JMTBA data: Orders declined 10% YoY, better than expected 16 January 2024](#). China and Japan saw a pickup in YoY momentum, though we note the possibility of one-off large-scale orders. Moreover, the diffusion index for March 2024 quarter orders (published in December) weakened to -19.2 vs. -13.7 in the December 2023 quarter outlook. As such, we cannot rule out the possibility of some weakness in the near term. That said, overall YoY trends do appear to be improving gradually from May 2023 (-22% YoY), and we continue to believe the bias of risk is to the upside, given (1) YoY comps will get easier into the spring, and (2) the latest uptick in the BofA Japan FA Indicator, which leads JMTBA by three months. For Jan, we expect orders to decline by around 10% YoY.

China improved, while US decelerated

Exports momentum slowed somewhat from -6% YoY in Nov to -10% YoY in Dec. The US saw weaker momentum (+5% YoY → -9% YoY), driven largely by a continued slowdown in autos. On the other hand, YoY trends improved in China (-25% YoY → -19% YoY) and Europe (-5% YoY → +1% YoY).

The better momentum in China was driven by a pickup in general machinery-related orders (-30% YoY → -12% YoY), which we see as one indicator for demand from small-to medium-sized enterprises and end-markets that are less exposed to structural tailwinds. Other end-markets, like electronics (-14% YoY → -8% YoY) and autos (-34% YoY → -16% YoY), helped overall momentum, though the latter was largely due to a low base. JMTBA noted large-scale orders, and while we are wary of turning too optimistic on the outlook due to the possibility of one-off factors, we believe incremental improvements in China are largely consistent with the China-related macro data points we follow, as well as some recent pickup in 3C-related demand, as noted by our colleagues in Hong Kong.

Domestic orders declined 10% YoY

Domestic orders improved significantly from -28% YoY in Nov to -10% YoY in Dec. Momentum improved in industrial machinery (-33% YoY → -10% YoY) and electronics (-49% YoY → -21% YoY), while autos moderated (+2% YoY → -2% YoY). However, we believe the improvement in industrial machinery was partly due to a low base, and we remain cautious on the short-term outlook.

25 January 2024

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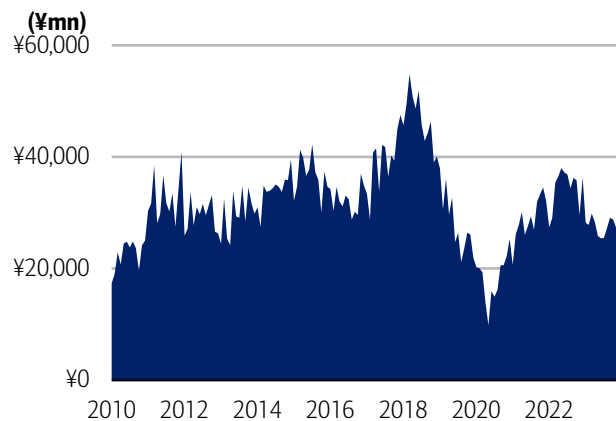
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Exhibit 1: Global auto-related orders

Auto-related orders +15% MoM

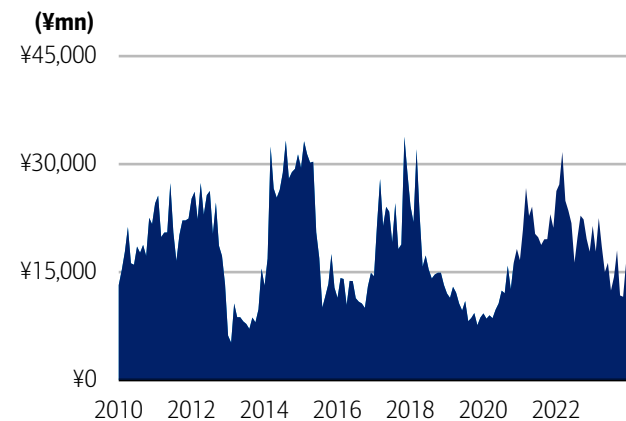


Source: JMTBA, BofA Global Research

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Exhibit 2: Global electronics/precision-related orders

Electronics/precision-related orders +43% MoM

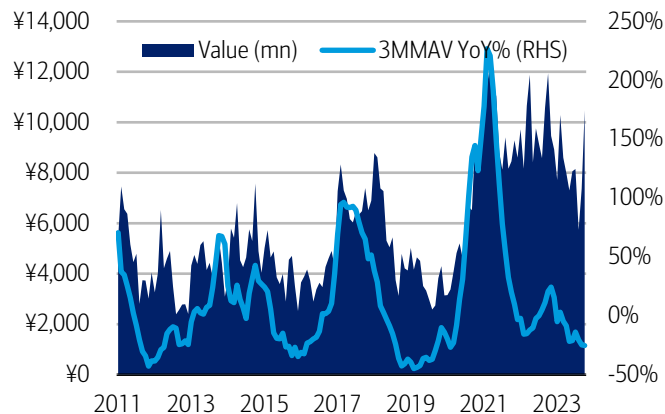


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Exhibit 3: China machine tool orders – General machinery

China general machinery-related orders +42% MoM

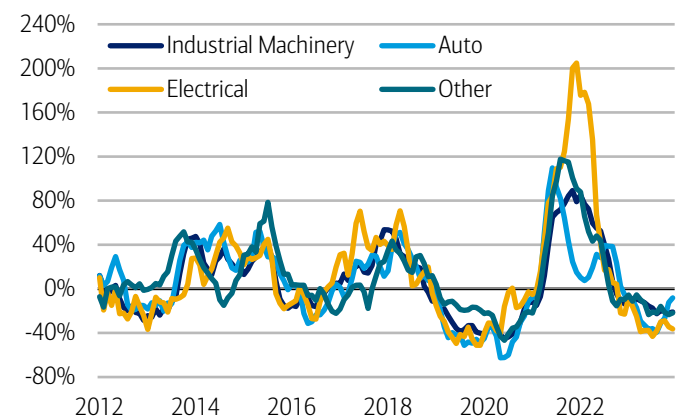


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Exhibit 4: Domestic machine tool orders by key end-markets (YoY 3MAVG %)

Most end-markets are still weak

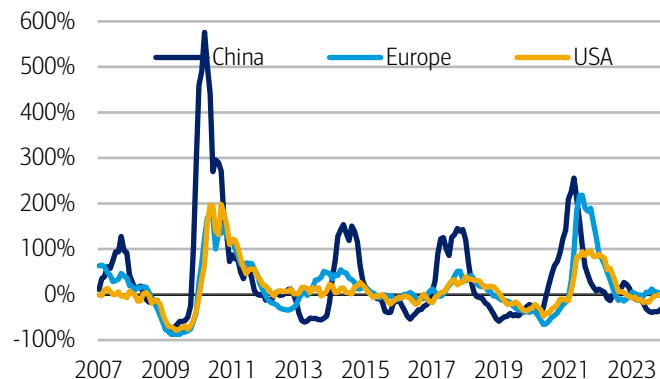


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Exhibit 5: Japan machine tool orders (3MMAV YoY%) by key region/country

All regions are showing slower momentum

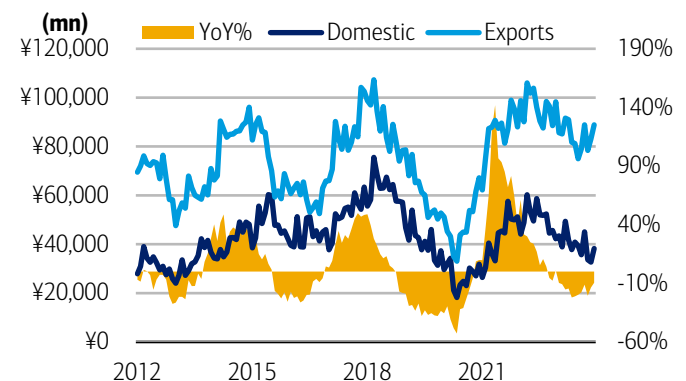


Source: JMTBA, BofA Global Research

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Exhibit 6: Japan machine tool orders (absolute and YoY%)

YoY growth is negative



Source: JMTBA, BofA Global Research

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