

News Release

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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Markit/JMMA Japan Manufacturing PMI™

Output and new orders fall for the first time in 14 months following rise in sales tax

Key points:

- Output falls at fastest pace since December 2012
- New orders also down; exports decline slightly
- Rate of job creation accelerates to highest since February 2007

Summary:

Japanese manufacturing firms saw a decline in output for the first time in 14 months in April. Alongside this fall in output was a deterioration in new orders which also decreased for the first time in 14 months. In both cases, firms linked the reductions to the rise in the sales tax.

In contrast, April saw the highest rate of growth in payroll numbers since February 2007. Both prices charged and input prices rose in April, with selling prices increasing marginally following a decline in March.

The headline seasonally adjusted Markit/JMMA Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snapshot of the performance of the manufacturing economy – posted at 49.4 in April, down from 53.9 in March. This was the first time in 14 months that the Japanese manufacturing sector saw a deterioration in business conditions.

Output fell to the greatest extent seen since December 2012. The main contributor according to anecdotal evidence was a decline in demand. Indeed, similar to output, new orders decreased, with evidence suggesting the increase in the sales tax was the main factor behind lower new orders, as clients had brought forward purchases in March to avoid paying additional costs the following month.

Markit/JMMA Manufacturing PMI: Output Index

Sources: METI, Markit, JMMA.

Alongside the falls in output and new orders was also a reduction in new export business. The rate of decline was marginal in April, but nonetheless the first reduction recorded in eight months.

A solid decline in work outstanding was observed in April. About 24% of firms reported a reduction in volumes of unfinished orders, as overall workloads declined following the sales tax induced fall in demand during April.

In contrast to the majority of the indexes, Japanese manufacturers in April saw employment growth for the ninth month running. Moreover, the rate of job creation quickened to the sharpest since February 2007 as companies took on extra staff in anticipation of future workload growth.

Buying capacity declined sharply in April and at the fastest pace since December 2012. Firms commented on a decrease in purchasing activity because of a drop in new orders. In contrast, stocks of purchases continued to expand, but the rate of accumulation slowed to the weakest in three months.

Both prices charged and input prices rose in April. Some panellists attributed inflation to an increase in raw material prices. Other panellists blamed the depreciation of the yen for higher import costs. That said, the increase in selling prices was only marginal and input cost inflation was the slowest since July 2013.

Vendor performance deteriorated for the seventh successive month in April. The latest lengthening of suppliers' lead times was attributed by some panellists to be caused by product shortages.

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Amy Brownbill, Economist** at Markit and author of the report said:

“As was expected, the implementation of the increase in the sales tax negatively impacted on Japanese manufacturing companies. Output and new orders both fell for the first time in 14 months. In both cases, Japanese manufacturing companies linked the reductions to the increase in the sales tax.

“That said, payroll numbers increased at a faster rate than in March and growth in employment was the sharpest seen since February 2007. Therefore, it will be interesting to see whether the increase in the sales tax will continue to have a negative impact on Japanese manufacturing activity in the future months or whether the effects will only be short lived.”

-Ends-

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Notes to Editors:

The Markit/JMMA Japan Manufacturing *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Markit/JMMA Japan Manufacturing *PMI*[™] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

About JMMA

Japan Materials Management Association (JMMA) is a voluntary organization, established by members in 1958. JMMA contributes to the practice of business management in the field of research, education, books and standardization of materials / purchasing management. In relation to education, JMMA is the organization which trains Purchasing Managers, the specialists of materials / purchasing. JMMA is the organization which gives the certification of "Certified Purchasing Manager (CPM)", the globally recognized certification for purchasing managers. JMMA is also the representative of IFPMM (International Federation of Purchasing and Materials Management) in Japan. JMMA, 6F Iwamotochokiita-bld, 1-8-15, Chiyoda-ku, Tokyo, Japan. Tel: +81 3 5687 3477; Fax: +81 3 5687 3660 email: info_jmma@jmma.gr.jp website: www.jmma.gr.jp

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About PMI

Purchasing Managers' Index[™] (*PMI*[™]) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

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