

Nikkei Japan Manufacturing PMI®

Output falls at fastest rate in nearly three years in March

Key points:

- Demand remains sluggish, pulling output lower
- Firms push resources to clearing backlogs due to lack of new work
- Business confidence remain among lowest on record

Data collected March 12 - 22

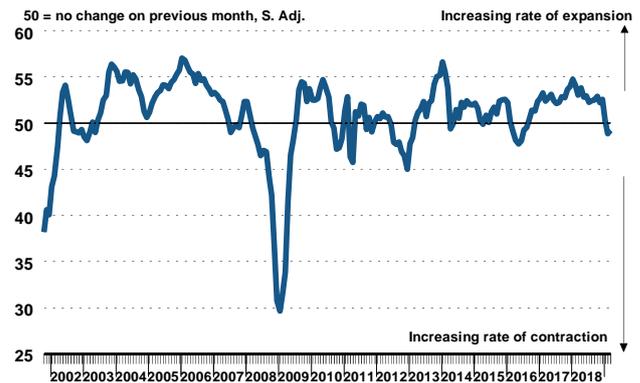
Japan's manufacturing economy ended the first quarter in poor shape, with weaker demand pulling production volumes deeper into contraction. New orders from domestic and international markets alike fell during March, with panellists citing increasingly difficult economic conditions. Hiring decisions were also impacted by reduced sales, with employment up only mildly. Purchasing activity was meanwhile reduced in line with lower output levels and excess existing stocks. Looking ahead, the outlook remained subdued, with business confidence among the lowest on record.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – recorded 49.2 in March, slightly up from February's 48.9, but still below the no-change mark of 50.0, thus signalling a further slowdown. Latest data rounded off the worst quarterly performance in Japan's manufacturing sector since Q2 2016.

There were little signs of economic improvement since February, with demand easing at a rate similar to the 32-month record seen in the previous month during March. New orders from domestic and international clients had reportedly both fallen further. Panellists linked weaker foreign sales to Chinese and Taiwanese clients. Overall exports fell moderately during March. In response, production volumes were cut across the Japanese manufacturing sector for the third straight month. Furthermore, although only moderate, the reduction was the sharpest since May 2016.

In line with lower output requirements, firms reined in their hiring efforts in March. The rate of job creation eased to the weakest since November 2016, with increasing retirements at some firms offsetting staffing level expansions at others. Nevertheless, firms were able to alleviate capacity

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Sources: Nikkei, IHS Markit

pressures to the greatest extent in almost three years in March, owing to lower order book volumes. Backlogs of work were reduced at a solid rate, helped by firms that ran-down existing inventories of finished goods.

The outlook subsequently remained underwhelming in March. Despite confidence improving for the first time in almost a year, optimism remained subdued and close to February's multi-year low. Global trade fears, the impact of the incoming sales tax hike and weaker growth in China were cited as factors weighing down sentiment.

Elsewhere, purchasing activity was scaled back in March. Sufficient stock levels and lower incoming new business were mentioned by panel members. Reduced production needs led firms to consume fewer inputs, subsequently contributing to an increase in stocks of purchases.

There were reports of greater costs for food, fuel, transport and labour, leading input prices to rise markedly in March. Nonetheless, the rate of inflation eased for a fifth month running to the weakest since August 2017. The trend in selling charges diverged, however, with output price inflation accelerating. According to anecdotal evidence, this reflected efforts at some companies to pass on some of the increase in operating expenses.

Continued...

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

“The final manufacturing PMI print of Q1 for Japan points to the worst quarterly performance in the sector since Q2 2016. The likelihood of the negative trend in output being stymied any time soon appears slim, with demand for goods from both domestic and international sources waning further. Firms cut production at the fastest rate in almost three years and showed reluctance to replace out-going staff, with employment growth at the lowest since late-2016.

“The economic backdrop for the manufacturing sector in Japan remains fiercely challenging. Asian goods producers face headwinds from slowing growth in Europe and China, while global trade risks are yet to be mitigated by a breakthrough in US-Sino relations.

“For the Japanese economy to keep its head above water, the service sector will need to pick up any manufacturing slack, which will hinge on domestic demand pressures sustaining the strength that supported the growth rebound at the end of 2018.”

-Ends-

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Notes to Editors:

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified by GDP and company workforce size. 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, and 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 Nikkei 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 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 <https://ihsmarkit.com/products/pmi.html>.

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