News Release

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Nikkei Japan Manufacturing PMI®

Manufacturing sector continues to improve moderately

Key points:

- Output and employment increase at faster rates in June
- New export orders decline for first time since August 2016...
- ...while total inflows of new work rise at softest pace in ten months

Data collected June 12 - 22

Business conditions in the Japanese manufacturing sector improved further at the end of the second quarter. The upturn was supported by increased inflows of new work, which encouraged businesses to expand both output and employment at faster rates. However, for the first time since August 2016, export sales declined. Nevertheless, overall growth in new work kept pressure on operating capacities, with backlogs of work rising at a sharper pace.

On the price front, selling charges were raised to the greatest extent in five months amid sharper input price inflation.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – posted 53.0 in June, up from 52.8 in May, to indicate a stronger improvement in the manufacturing sector. Japan's goods-producing sector has observed growth in each of the past 22 months. Moreover, the latest rate of expansion was above the average seen over this sequence.

New orders increased during June, albeit to the weakest extent in ten months. Nevertheless, demand has improved in each month since October 2016. Meanwhile, sales to overseas clients declined for the first time in 22 months. Panellists mentioned that a combination of higher prices and weaker demand from North America and China had impacted export performance.

Nonetheless, overall inflows of new work tested capacities at Japanese goods producers in June, as signalled by a rise in outstanding business. Although backlogs of work were accumulated at a faster rate, the rise was only modest overall.

To help alleviate this pressure, production was expanded at an accelerated rate in June. Furthermore, extra staff were hired at a faster pace

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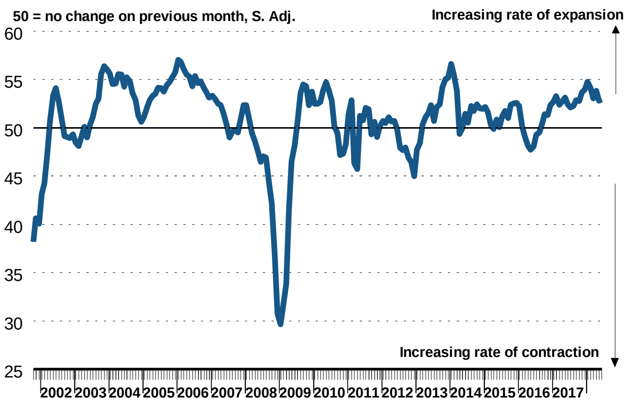

Sources: Nikkei, IHS Markit

in order to improve output capabilities. That said, the rate of job creation was still the second-slowest in 2018 so far.

Supply chain troubles were also apparent in June, with average lead times for the delivery of inputs lengthening to a sharp extent. Panellists noted that a combination of raw material shortages and stronger input demand had hampered vendor performance. Purchasing activity was ramped up by Japanese manufacturers in June. Anecdotal evidence indicated that additional materials were acquired in line with higher new order volumes.

However, input prices continued to rise at a steep pace at the end of the second quarter. In fact, the rate of inflation rose to a three-and-a-half year high amid reports of increased costs for oil and metals. Businesses responded by hiking selling charges at the quickest pace in five months. That said, the rate of increase in output prices was only modest overall and markedly slower than that of input costs.

Looking ahead, firms remained optimistic that output growth will continue over the coming 12 months. Positive sentiment was attributed to planned new factory openings and product launches, as well as forecasts of greater demand.

Continued…

Comment:

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

"Japan manufacturing PMI data continue to signal that the sector's current expansion phase still has legs. Output growth edged up in June, supported by further inflows of new work and an accelerated rate of employment growth.

"Concerns do remain however, as new order growth eased to a ten-month low and export sales decreased for the first time since August 2016. Moreover, with input price inflation jumping to a three-and-a-half year high, manufacturers may be forced to absorb higher cost burdens in order to remain competitive, particularly if the yen faces further safe haven demand."

-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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