

# Nikkei Japan Manufacturing PMI®

## Output growth accelerates to eight-month high

### Key points:

- Solid output expansion on average over Q4...
- ...but demand pressures remain subdued
- Business optimism at lowest since November 2016

Data collected December 5 - 14

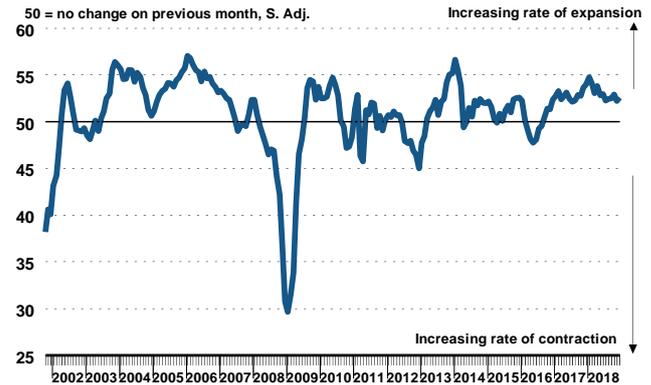
The Japanese manufacturing sector finished 2018 on a solid footing, with business conditions improving at a stronger rate. Driving the firmer upturn was a sharper expansion in production, which rose at the strongest rate since last April. New orders also increased at a faster pace, but overall remained relatively muted, while export sales declined on the month. Employment increased to a weaker extent, while input deliveries continued to be delayed. The net effect contributed to another rise in backlogs of work. Meanwhile, business confidence slid to the lowest in just over two years amid concerns towards the impending consumption tax hike.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – increased to 52.6 in December, rebounding from November's 15-month low of 52.2. This signalled a moderate improvement in operating conditions and reflected increases in the two key sub-components of the headline index: output and new orders.

Supporting the strengthening of the PMI was a faster increase in output. The expansion was strong overall and the sharpest since last April. Some panellists indicated that favourable order intakes had underpinned greater output efforts. Survey data indicated a quicker increase in new sales during December. New product launches and larger input needs at clients had driven demand. That said, growth was only modest overall. International orders returned to contraction, however, declining following two months of higher inflows. Unfavourable workload growth in key export markets such as North America, China and Taiwan were reported by panellists.

To accommodate for increased output, input buying was ramped up to the greatest extent for eight months during December. However, supply side

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Sources: Nikkei, IHS Markit

constraints were evidenced by a further marked prolonging of input delivery times. Stock shortages, capacity issues at vendors and higher raw material demand weighed on suppliers' ability to fulfil orders in a timely manner. Capacity pressures were also apparent across the wider-manufacturing sector. Despite output expanding at a faster rate than new business, backlogs of work were accumulated during December.

Hampering the overall increase in the PMI was a softer rise in employment. The rate of job creation was the weakest in three months and only modest. While increased operational requirements encouraged recruitment, retirements hampered the overall extent of the rise.

On the price front, there was a broad cooling of inflationary pressures. Input costs rose sharply, but at the softest pace in eight months. As a result, the rate of increase in selling charges weakened.

Looking ahead, Japanese manufacturers remained upbeat on growth prospects; however, confidence slid for a seventh successive month to the lowest since November 2016. Optimism arising from the 2020 Olympic Games was in part hampered by concerns about the upcoming sales tax hike.

Continued...

## Comment:

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

*“The final print of the December Manufacturing PMI showed that Japan’s goods-producing economy looks set to contribute to a bounce-back in GDP growth for Q4. Output increased at the strongest rate since April last year, while new order growth also improved.*

*“Nonetheless, the survey data provide reason to remain cautious on growth prospects. Most notably, demand pressures were relatively subdued. Exports also declined on the month amid reports of sluggish sales to Europe and China. The fall in confidence, the seventh time this has been the case in as many months, also suggests that companies are becoming increasingly less bullish on the year-ahead outlook. With the sales tax increase set to come into play, fears over the durability of demand conditions are worrying.”*

-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](mailto:economics@ihsmarkit.com).

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