

# Nikkei Japan Manufacturing PMI®

## Manufacturing sector grows at fastest rate since June

### Key points:

- Headline PMI ticks up to four-month high of 52.9
- Foreign demand improves for first time in five months
- Output price inflation jumps to decade-high

Data collected October 12 - 24

October survey data indicated that Japan's goods-producing sector began the final quarter of 2018 in growth territory, with the key measures of macroeconomic health (output, new orders and employment) all showing stronger rates of increase. New export sales also returned to growth following a recent soft patch in international demand. Prices data pointed to a sharper rate of input cost inflation, prompting firms to raise output prices to the greatest extent for ten years. Input delivery times were hampered by strong sales performances encouraging higher buying activity.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – increased from 52.5 in September to 52.9 in October, therefore indicating a faster rate of improvement. Moreover, it was the strongest expansion since June, albeit only moderate overall.

Underpinning the latest improvement in business conditions was sharper output growth, following September's 14-month low. According to panellists, production levels were supported by healthy inflows of new work. There were some reports that output was raised to cover for shortfalls resulting from adverse weather conditions in September.

Survey data pointed to robust demand conditions at Japanese manufacturers in October. Moreover, the rate of new order growth was relatively solid and quickened to a four-month high. Higher sales to new and existing clients in domestic and international markets, promotional work and new product launches all helped to drive the latest upturn. Data also indicated growth in demand from overseas clients for the first time since May.

Encouraged by order book volume growth, firms expanded staffing levels in October to boost operating capacities. The rate of job creation was

**Nikkei Japan Manufacturing PMI**



Sources: Nikkei, IHS Markit

solid and the strongest in six months. However, the level of incomplete work at Japanese manufacturers increased, despite greater employment. Delayed input deliveries and on-going disruption from recent natural disasters weighed on capacity.

Amid reports from panellists of supply chain pressures, survey data indicated that average lead times for the delivery of inputs lengthened in October, extending the current period of deterioration to two-and-a-half years. While strong input demand was cited as one factor impacting vendor performance, logistical issues arising from the recent poor weather were also mentioned.

Firms were motivated to raise buying levels in October to accommodate for greater production requirements. Delayed input shipments and expectations of price increases encouraged manufacturers to stockpile some of these items, however. Input price inflation accelerated at the fastest pace since March 2011 amid higher metal and fuel costs. To offset profit margin erosion, output prices were increased at the fastest rate in ten years.

Looking ahead, the outlook towards output over the coming year was positive overall; however, the degree of optimism edged down to a 23-month low, with some firms projecting less supportive demand conditions.

*Continued...*

## Comment:

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

*“With PMI data for Q3 pointing to a slowdown in Japanese manufacturing sector growth momentum, a renewed acceleration at the beginning of the fourth quarter is welcome news, with the key macroeconomic health gauges of output, new orders and employment all growing at faster rates. A rebound in export sales is also a positive development given the backdrop of global trade woes.*

*“However, whether the upturn is the start of a new trend or a transitory response to September’s weather-impacted performance remains to be seen. Anecdotes suggest that supply chains were still suffering during October from the aftermath of natural disasters in the region.*

*“Nonetheless, with firms passing through input cost inflation to output prices, this suggests that manufacturers judge the short-term demand outlook to be robust enough to withstand purchasing power erosion.”*

-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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