

## Nikkei Japan Manufacturing PMI®

### PMI rises to three-month high as declines in output and demand ease

#### Key points:

- PMI climbs to three-month high of 50.2
- New orders and output continue to fall, but to lesser extents
- Employment growth picks up, while business confidence improves

Data collected April 10 - 23

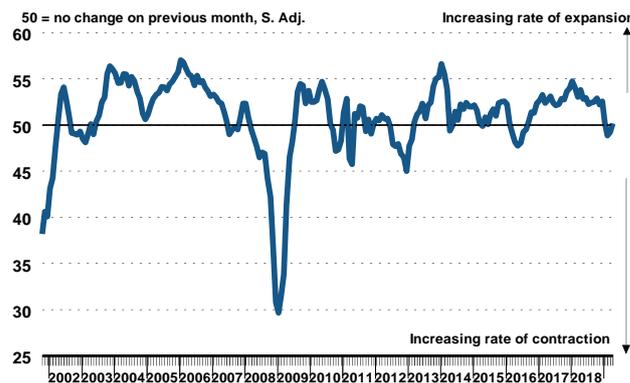
Latest survey data for Japan's manufacturing sector revealed that the headline PMI returned to expansion territory during April. The improvement partly reflected weaker downturns in the index's two key components, output and new orders. A positive sign came from employment, which rose at a stronger pace, but both stocks and quantities of purchases fell as firms looked to cut costs and clear spare inventories. Nevertheless, the outlook towards output improved, with business confidence rising to five-month high.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – ticked higher to 50.2 in April, from 49.2 in March, to reach its highest mark since January.

As has been the case since the turn of the new year, new orders placed with Japanese manufacturers fell during the latest survey period. The continued downturn in sales was attributed to underlying weakness in demand, as well as lower investment and lower orders from export markets. However, the decline lost momentum and eased since March. Split by market group, capital goods producers recorded the steepest fall in demand. Meanwhile, new business from abroad fell at a slightly sharper pace in April.

With demand conditions remaining challenging, firms reported further cutbacks to production at the start of the second quarter. Although latest data pushed the current period of contraction into a fourth month, the rate of decrease slowed to a modest pace that was the weakest since January. Again, it was manufacturers of investment goods that reduced production by the steepest extent of all three market groups.

#### Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

Latest survey data revealed that companies stepped up their efforts to clear excess stocks. Both pre- and post-production inventories were depleted in April, reflecting the recent soft patch in order book volumes. Finished goods were taken from warehouses and used to fulfil outstanding orders, contributing to the quickest drop in backlogs of work since June 2016.

In line with the trend seen in stocks of purchases, input buying was reduced by Japanese goods producers in April. Again, lower near-term output requirements prompted firms to scale back their input purchasing. Nonetheless, firms reported stronger efficiency losses across their supply chains. According to anecdotal evidence, shortages of labour and materials underpinned the lengthening of input delivery times.

Operating costs increased during the latest survey period, with firms attributing the rise to greater expenses for fuel, labour, construction materials and metals. However, the rate of inflation was the weakest since August 2017. Output charges were raised at a broadly similar pace to March.

Business confidence improved during April, building on the gain seen in March and hitting a five-month peak. Firms expect demand to pick up and support manufacturing over the coming 12 months.

Continued...

## Comment:

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

*“A pick-up in the Japan Manufacturing PMI to a three-month high will be a welcome sign that the recent drop in momentum has potentially subsided for now. New orders and output both declined in April, but to lesser extents, while business confidence continued to climb from its near-record low in February. Given the difficulties faced by firms in semi-conductor and automobile-related industries in recent months, it bodes well that anecdotal evidence indicated that stronger optimism was in part driven by more upbeat forecasts for these two key Asian industries.”*

-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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