

Nikkei Japan Manufacturing PMI™

Capital goods producers underpin further growth of manufacturing economy

Key points:

- PMI hits year-to-date low, but signals ongoing solid growth
- Capital goods producers indicate marked rises in output, new orders and exports
- Yen weakness continues to underpin cost inflation

Data collected March 13-24

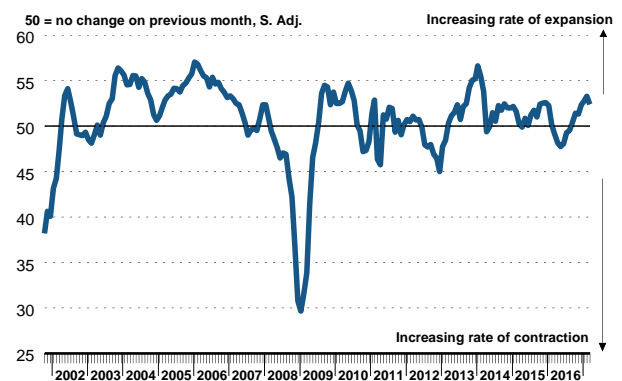
There was a further improvement in the health of Japan's manufacturing economy during March, with growth underpinned by rising levels of output, new orders and employment. Although rates of expansion eased in all cases, they nonetheless remained solid and were underpinned by marked gains in the capital goods sector.

While yen depreciation provided some positive support to new export orders, the corollary was further inflation in imported goods prices. This led to another marked rise in manufacturers' input costs, which served to eat into margins as manufacturers were in general unable to pass on higher costs to clients.

The headline Japan Manufacturing *Purchasing Managers' Index*™ (PMI)™ – a composite single-figure indicator of manufacturing performance – slipped to its lowest level of the year so far in March. Down from 53.3, the PMI posted a level of 52.4, a reading consistent with solid growth. March also marked the seventh month in succession that an improvement in sector health has been recorded.

Output rose for an eighth successive month in March, with growth underpinned by further gains in new orders. In both instances, rates of expansion were the lowest recorded since last November, although they remained solid. There were reports from panellists of rising client demand, particularly for investment goods. These anecdotal observations were backed up by market group data which showed capital goods producers registering the strongest growth in March. The investment goods sector also recorded the sharpest gains in new export orders.

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Sources: Nikkei, IHS Markit

Higher levels of new business underpinned jobs growth across all market-based groups, with recruitment also reflective of positive expectations for output. Activity levels are widely expected to increase in line with upbeat projections for demand, new business and capacity expansion.

That said, overall confidence was the lowest in four months, reflective of concerns around the effect of overseas competition. Latest data also showed that cost pressures continued to build as yen weakness raised the price of imported goods. Cost inflation remained close to February's two-year peak during March, but margins came under pressure as manufacturers generally struggled to pass on higher costs to price-conscious clients. As a result, output charges were little changed.

Responding to higher output requirements, manufacturers continued to increase their purchasing activity, with capital goods producers again leading the way in terms of growth. Rising buying levels meant that pressure on vendors was sustained, with lead times for the delivery of inputs continuing to deteriorate modestly.

Finally, excess growth of output relative to new orders enabled manufacturers to add to their warehouse inventories. Companies were also able to limit backlog accumulation, with latest data showing only marginal growth in work outstanding at the end of Q1 2017.

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Paul Smith**, senior economist at IHS Markit, which compiles the survey, said:

“Confirming the trend highlighted by the earlier flash data, the March PMI data signalled a slower rate of growth but one that nonetheless rounds off a solid quarter. Indeed, observed relationships with equivalent data suggest a sector growing at a 3m/3m rate of around 2%.

“And growth is likely to have some near-term sustainability: exports are rising at an underlying rate of close to 3%, and overall demand is being driven by a desire amongst manufacturers’ clients for capital products.

“This has spilt over positively to the labour market. Latest PMI data pointed to a seventh successive month of jobs growth, with March’s data consistent with year-on-year expansion in official jobs numbers of close to 3%.”

-Ends-

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Notes to Editors:

The Nikkei Japan Manufacturing *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on the industry contribution to GDP. 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, 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.

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 Markit. Please contact economics@ihsmarkit.com.

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