

# Nikkei Japan Manufacturing PMI®

## Manufacturing sector growth slows to 11-month low

### Key points:

- New orders rise to softest extent since October 2016
- Delivery times lengthen at sharpest pace in over seven years
- Both input and output price inflation rates accelerate to multi-year highs

Data collected July 12 - 24

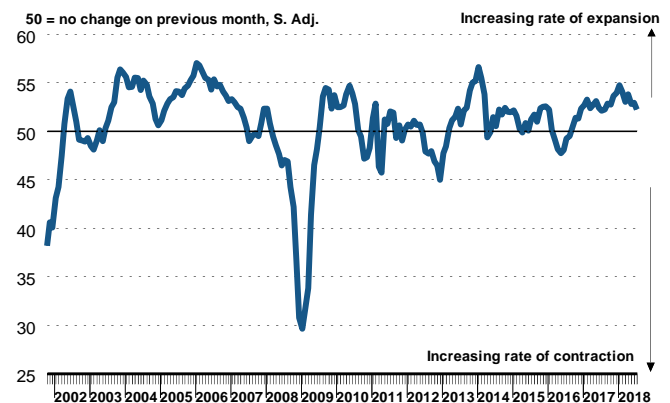
Japanese goods producers observed the slowest rate of improvement in the health of their sector since August last year, according to the latest PMI survey. New business growth eased to a mild pace, while output rose to the slowest extent in four months. Nonetheless, employment continued to grow at a relatively solid pace, despite reports of increased labour costs. At the same time, raw material prices reportedly increased sharply, contributing to the strongest rate of input cost inflation for over seven years. In response, selling prices were raised to a historically marked extent.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – declined to 52.3 in July, from 53.0 in June, thereby pointing to a softer rate of improvement in manufacturing sector business conditions.

New business growth eased noticeably during the latest survey period. In fact, the rate of increase slowed to a 21-month low and was only mild overall. Panellists mentioned that demand had been weaker among both domestic and international clients. Survey data pointed to unchanged export sales during July. Orders from overseas customers have failed to rise in each of the past two survey periods.

Nonetheless, output growth remained relatively robust, despite softening to a four-month low. Production has now increased in each survey period for the last two years. Japanese manufacturers also continued to enhance their operating capacities by recruiting extra staff. The rate of job creation, despite weakening, was

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Sources: Nikkei, IHS Markit

relatively robust in the context of historical data. In line with higher output and employment, backlogs of work accumulated to a softer degree in July. The rate of increase in outstanding business was only marginal amid a slowdown in new business growth.

Elsewhere, difficulties in acquiring raw materials from suppliers were reported by panellists. Average lead times for the delivery of inputs lengthened to the greatest extent since May 2011. The deterioration in vendor performance was attributed to stock shortages and stronger input demand.

Prices data indicated another sharp monthly rise in costs during July. Oil, metals, food and labour were all cited by panellists as being more costly. Furthermore, the rate of inflation accelerated to an 88-month high. To protect profits, firms passed on part of the rise in cost burdens to their clients through greater selling charges, with the rate of increase quickening to a near-decade high.

Despite higher prices and prolonged delivery times, Japanese goods producers continued to purchase additional inputs, albeit to a slower extent than in June. That said, delayed shipments contributed to a depletion in pre-production inventories.

Lastly, Japanese goods producers were optimistic towards future output. Planned expansions into new markets and new product launches were noted as reasons to be confident. However, the level of positive sentiment fell to a four-month low.

## Comment:

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

*“Latest survey data signalled a slowdown to manufacturing sector growth at the beginning of Q3. Output growth eased and there was a noticeable softening of demand, while export sales failed to record any upswing for a second month running.*

*“There was also evidence that supply-side constraints were beginning to bite harder. Employment growth slipped and was weaker than rates seen earlier in the year, meanwhile delivery times for inputs lengthened to the greatest extent in over seven years.*

*“In turn, input price inflation accelerated to an 88-month high, resulting in the strongest rate of increase in selling charges for almost a decade. Although stronger output price inflationary pressures will be welcomed by policymakers, anecdotal evidence indicates the latest rise was primarily cost-push. Further weakness in total new business growth could skew the inflationary outlook to the downside.”*

-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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