

Nikkei Japan Manufacturing PMI[®]

Japanese manufacturing sector expands at slower rate as growth in exports falters

Key points:

- Slower gains in output and new orders recorded
- Rise in demand for high-tech manufactures offset in part by weaker rise in exports
- Optimism regarding future output hits series record high

Data collected July 12-24

Growth of the Japanese manufacturing sector was sustained at a modest rate during July, supported by further gains in output, new orders and employment. However, in each case, rates of expansion were lower than seen in June, whilst export trade rose at the weakest pace in nearly a year.

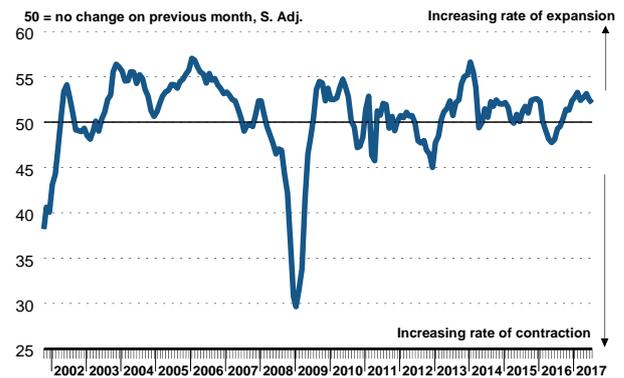
On the price front, output charges increased marginally, whilst input costs continued to increase at a noticeable pace. Nonetheless, optimism improved to its highest level in over five years of data collection, amid positive projections for demand, planned new product launches and preparations for the 2020 Tokyo Olympics.

The headline Japan Manufacturing *Purchasing Managers' Index*[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance – recorded 52.1 in July. This marks the eleventh month of improvement in operating conditions within the Japanese manufacturing sector although, having fallen from 52.4 in June, growth was the slowest since last November.

Latest data again showed concurrent increases in both output and new orders. As was the case with the PMI, rates of expansion were a little lower than in June, easing to modest levels. Whilst demand for high-tech products was reported to be firm, there was evidence that overseas orders had faltered somewhat. Latest data showed that new export orders rose for an eleventh month running, but at the weakest pace in this sequence.

Backlogs of work outstanding were reduced during July as companies were comfortably able to deal with the dual requirements of both incoming and existing orders. July marked the first time since January that work outstanding had fallen.

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Sources: Nikkei, IHS Markit

Extended capacity enabled companies to keep on top of workloads, as signalled by a twenty-second successive monthly rise in staffing levels. Growth was again solid, albeit the weakest since the start of the year. Higher production requirements and staffing shortages supported the rise in employment.

Meanwhile, operating costs increased for a ninth successive month. Inflation was slightly lower, but remained marked amid reports of a general increase in raw material prices linked in part to supply shortages at vendors. This was further highlighted by the greatest deterioration in delivery times for over five-and-a-half years. High-tech items in particular were noted as being short in supply due to strong global demand. Purchasing activity amongst Japanese manufacturers rose for a ninth month in a row according to the latest data.

Although reduced new order growth has led to a slower expansion of firms' productive capacity and output, optimism among Japanese manufacturers remained strong. In July, the Future Output Index reached a series-record high. Respondents highlighted the potential for new business related to the 2020 Tokyo Olympics, new product launches and expected general firmer demand as the main factors behind their optimism.

Comment:

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

“The expansion of the Japanese manufacturing sector was undermined somewhat during July by a slump in new export order growth, which led to the lowest rises in both output and new orders since the final few months of last year.

“Moreover, sectoral growth was further impacted by ongoing marked deteriorations in delivery times, which deteriorated to the greatest extent for over five-and-a-half years.

“However, sentiment reached its highest level in over five years of data collection and, combined with ongoing rises in staffing levels, provides some reassurance that growth should be sustained in the coming months.”

-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.

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.

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