Nikkei Japan Manufacturing PMI™

Manufacturing conditions improve and outlook brightens at start of 2017

Key points:

- Operating conditions improve at sharpest rate in nearly three years
- New orders increase at quicker rate
- Newly-launched Future Output Index reaches 31-month high

Data collected January 12 - 24

The Japanese manufacturing sector started 2017 on a good footing, with operating conditions improving at the sharpest rate in nearly three years. Forecasts towards the outlook over the next 12 months were also positive, with business sentiment the strongest in over two-and-a-half years.

Both production and new orders rose in January, with the latter rising at the quickest rate since December 2015. As a result, goods producers added to their staff numbers and increased their buying activity. On the price front, input prices rose at the fastest rate in nearly two years, which in turn led to an increase in prices charged.

The headline Japan Manufacturing Purchasing Managers' Index™ (PMI)™ – a composite single-figure indicator of manufacturing performance – posted 52.7 in January, up from 52.4 in December, signalling a stronger improvement in operating conditions at Japanese manufacturers. In fact, the latest reading was the highest since March 2014, reflecting expansions in output, new orders and employment.

Production rose for the sixth consecutive month at the start of 2017. Moreover, the rate of expansion was little-changed from December's 12-month high. According to panellists, stronger demand resulting from new product launches and an increase in new export orders helped to boost output.

January data pointed to the sharpest increase in new work inflows since December 2015. Firms linked this to greater domestic and international demand as well as improved advertising. Reports of an increase in foreign demand was also backed by the survey data, with new export orders rising at the quickest rate in one year.

Resulting from improved manufacturing conditions, manufacturers continued to hire additional workers

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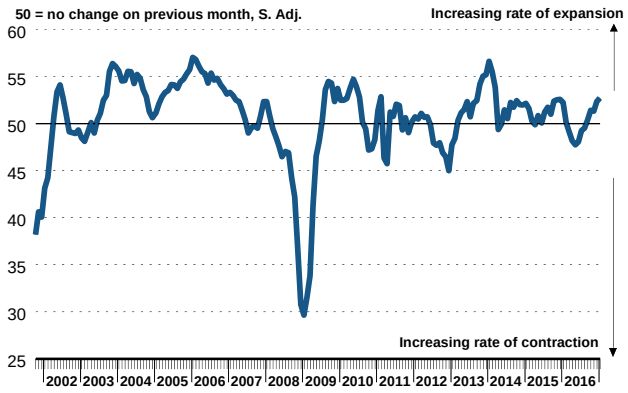

Sources: Nikkei, IHS Markit

in January. In fact, the rate of job-creation was little-changed from December's 32-month high.

As well as adding to their payroll numbers, goods producers increased their buying activity at the quickest rate in one year. Despite this, inventories of pre-production items were depleted for the second month running, albeit only marginally.

According to anecdotal evidence, increased new work inflows and buying activity led to greater pressure on suppliers' delivery schedules as lead times lengthened, although only fractionally.

Meanwhile, the weakness of the yen continued to exert upward pressures on manufacturers' cost burdens in January. Subsequently, selling prices increased at the quickest rate in 14 months as firms tried to pass some of their cost burdens on to clients.

Finally, the newly-launched Future Output Index signalled strong confidence towards the outlook over the next 12 months, with over one-quarter of the survey panel forecasting higher production. Expectations of greater demand stemming from the preparations in hosting the 2020 Tokyo Olympic Games and new product launches were cited as some of the factors behind the confidence.

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Amy Brownbill,** economist at IHS Markit, which compiles the survey, said**:**

"Latest survey data signalled a further improvement in operating conditions at Japanese manufacturers. Output and new orders rose at solid rates, with the latter increasing at the quickest pace in over one year. Firms were also optimistic towards the outlook over the next 12 months, with business sentiment accelerating to a 31-month high. Confidence towards the future was also backed up with an increase in jobs, with the rate of job creation little-changed from December's 32-month record.

"However, the weakness of the yen continued to exert upward pressures on cost burdens as input prices rose at the quickest rate in nearly two years."

-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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