

## Nikkei Japan Manufacturing PMI™

### Headline PMI hits one-year high at start of Q4 2015

#### Key points:

- Growth in production accelerates to the fastest since February
- New orders increase at sharpest rate in a year
- Employment and buying activity increase, following declines seen in September

#### Summary:

Latest survey data pointed to an improvement in operating conditions in the Japanese manufacturing sector. Growth in production picked up to an eight-month high, supported by a marked increase in total new orders. Meanwhile, growth in new export orders resumed after decreasing slightly in the prior month. Subsequently, both employment and buying activity expanded, having both recorded declines in September.

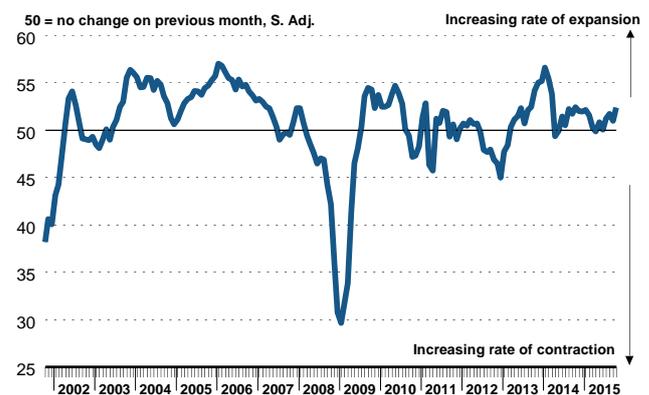
On the price front, the current exchange rate weighed on manufacturers as purchasing prices increased further, while charges declined for the second straight month.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)™ is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions.

The headline PMI posted at 52.4, up from 51.0 in September, indicating a marked improvement in operating conditions at Japanese manufacturers. The latest reading was the highest recorded since October 2014, which reflected faster rates of expansion in production and new orders and a return to growth in both employment and stock building.

Supporting the overall improvement in manufacturing conditions was a marked rise in production. The rate of increase was the fastest since February, with many panellists mentioning new product launches and strong demand.

#### Nikkei Japan Manufacturing PMI



Sources: Nikkei, Markit

Output was matched by a marked increase in new orders, which rose at the fastest rate in a year. According to panellists, advertising campaigns, the launching of new products and greater demand from both international and domestic clients all contributed to the expansion in incoming new work.

Meanwhile, new orders from abroad rose in October following a slight contraction seen in the prior month. Moreover, the rate of expansion was the sharpest since July and one that was well above the long-run trend.

Resulting from expansions in both production and new orders, manufacturers hired additional staff in October. The rate of job creation was the most marked in one-and-a-half years. Similarly, buying activity rose during the month at a rate which was the quickest since October last year.

Finally, mild inflationary pressures were evident, as reports of higher raw material prices stemming from the depreciation of the yen against the dollar increased input prices. On the other hand, charges declined as clients placed pressure on manufacturers to reduce their selling prices.

**Comment:**

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

*“Operating conditions at Japanese manufacturers improved substantially at the start of the final quarter of 2015. Growth in production accelerated to the fastest since February, underpinned by a sharp rise in total new orders. Supporting the marked increase in new work intakes was a rise in international demand as new export order growth resumed, having contracted slightly in the prior month. Subsequently both employment and buying activity increased, following declines seen in September.*

*“Meanwhile, cost pressures were evident as purchasing prices rose, albeit at a weak rate. In contrast, charges fell for the second straight month with manufacturers reporting pressure from their clients to push down their selling prices.”*

-Ends-

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## Notes to Editors:

The Nikkei Japan Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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@markit.com](mailto:economics@markit.com).

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