Nikkei Japan Manufacturing PMI™

Operating conditions worsen at fastest rate in over three years

Key points:

- Production declines for the first time since April 2015
- New orders fall at sharpest pace in nearly two years
- International demand decreases at quickest rate since January 2013

Summary:

Operating conditions at Japanese manufacturers deteriorated at the end of the first quarter of 2016. Production declined for the first time since April last year, led by a modest fall in new orders. Underpinning the decrease in total new work intakes was a sharp contraction in international demand.

Consequently, goods producers were cautious towards their hiring policies, with the rate of job creation easing to a six-month low. Meanwhile, input prices declined at a quicker rate enabling firms to reduce their selling prices further.

The headline Nikkei Japan Manufacturing *Purchasing Managers' Index*TM *(PMI)*TM 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 49.1 in March, down from 50.1 in February, thereby signalling worsening manufacturing conditions in Japan. Although a modest contraction, the latest reading was the lowest for over three years.

New orders at Japanese manufacturers decreased for the second month in a row. Moreover, the rate of contraction was the sharpest in nearly two years. Data suggested that the primarily contributor to the decline in total new work intakes was a sharp drop in international demand, as new export orders decreased at the fastest rate since January 2013. A number of the survey panel blamed instability in the wider Asian economy (particularly China and Taiwan) as the key factor behind the fall in overseas trade.

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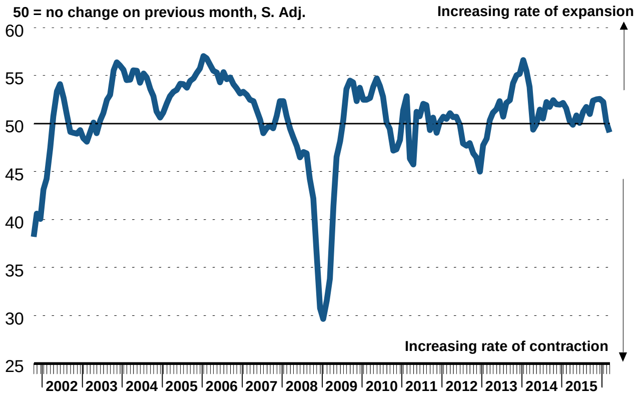

Sources: Nikkei, Markit

Subsequently, production contracted for the first time since April 2015. Although marginal, output has only fallen five times in the past two years.

Deteriorating operating conditions meant goods producers were less confident about hiring additional workers, with the rate of job creation easing to the weakest in the current six-month sequence of employment growth. Manufacturers also cut back on input buying for the first time in six months. Furthermore, the rate of decline was the sharpest in nearly two years.

Meanwhile, as a consequence of a reduction in production and a drop in new orders, less pressure was placed on suppliers and lead times shortened to the greatest extent since December 2012.

On the price front, reduced raw material costs, particularly oil and metal-related items led to a fall in input costs. Therefore, manufacturers were able to reduce their charges to a greater degree. Firms also mentioned client negotiations and competition driving down selling prices.

Comment:

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

"Manufacturing conditions in Japan worsened at the end of the first quarter of 2016. Both production and new orders contracted, with total incoming work declining at the sharpest rate in nearly two years. Latest PMI data suggests the primary factor behind the fall in total new work was a sharp drop in international demand, as new export orders decreased at the fastest rate since January 2013. Not surprisingly, goods producers were less confident towards their hiring policies, with the rate of job creation easing to a six-month low.

"Meanwhile, on a more positive note, cost pressures were reduced further, with input prices declining at the quickest rate in over three-and-a-half years. As a result, manufacturers were able to reduce their selling prices."

-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@markit.com.

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