

Nikkei Japan Manufacturing PMI®

Business conditions improve at slower pace

Key points:

- Total new order growth slows, but new export sales rise at quicker pace
- Suppliers' delivery times lengthen markedly, leading to higher cost pressures
- Employment increases at softest pace in seven months

Data collected May 11 - 23

Survey data indicated softer growth momentum in the Japanese manufacturing sector during May, reversing the acceleration recorded in April. Although both output and new orders continued to rise, the rates of expansion weakened. In turn, backlogs of work were accumulated at a slower pace, prompting a moderation in the rate of job creation.

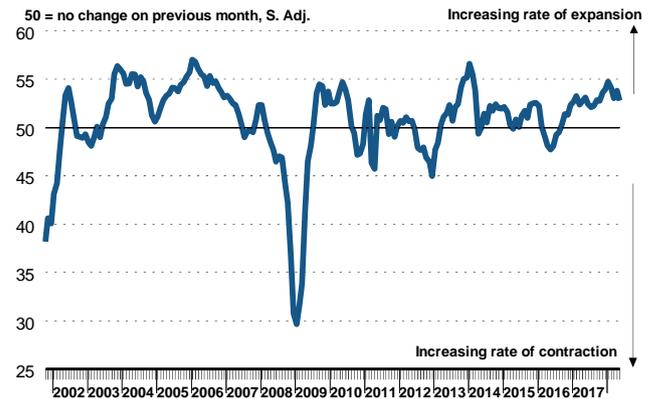
Meanwhile, material shortages led to both longer supplier delivery times and greater input prices. Firms responded by modestly raising selling prices.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – fell to 52.8 in May, from 53.8 in April, signalling a slower rate of improvement in the Japanese goods producing sector. Furthermore, the index pointed to the joint-weakest expansion in nine months, on a par with October 2017. However, the latest index reading was in line with the average observed across the current 21-month upswing.

Japanese manufacturers pointed to improving demand conditions during May, with new sales to both domestic and overseas clients rising. Although total new order growth eased on the previous month, a stronger increase in new export orders was recorded. China, Taiwan, Europe and North America were cited as sources of international custom. That said, the upturn in foreign demand was markedly weaker than the expansions seen at the beginning of the year. Nonetheless, a twentieth successive month of increasing new business inflows prompted firms to boost production line activity in May. Output growth was solid, albeit weaker than the three-month high seen in April.

A rise in outstanding business was recorded in May, signalling that greater influxes of new orders had

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Sources: Nikkei, IHS Markit

exerted pressure on production capacities. To accommodate for higher workloads, Japanese goods producers raised employment. However, in line with softer new order growth, rates of expansion in backlogs and employment both eased from April.

Supply chain pressures were also evident, with average lead times for the delivery of inputs lengthening to the most marked extent in seven years. Panellists attributed this to material shortages and strong input demand. Anecdotal evidence also suggested that operating costs were partly affected by shortfalls in supply. The rate of input price inflation remained sharp and accelerated to the joint-fastest in 41 months. Consequently, higher raw material costs motivated firms to hike selling charges. Output prices have now risen for 17 successive months, the longest period of charge inflation since the survey began in 2001.

Overall, businesses retained an optimistic outlook towards output over the forthcoming 12 months. In fact, the degree of confidence strengthened to a four-month high. Panellists indicated that planned capital investments and the expected launch of new products supported positive sentiment.

Comment:

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

“Japan’s manufacturing sector failed to gain traction from April’s upswing, with the headline PMI figure falling for the third time this year to a joint-nine-month low.

“Total new orders increased to a softer extent, while the exports index increased for the first time since January. A stronger improvement in foreign demand for Japanese goods will be welcomed; however the pace of expansion in May remains markedly below those seen at the start of the year prior to the JPY appreciation. To the downside, the weaker growth rate in overall new sales suggests some softening in the domestic economy.

“Survey data also pointed to supply-side constraints, with input delivery times rising at the fastest pace in seven years amid reports of material shortages. Consequently, purchasing price inflation accelerated to a joint-41-month high, with rising oil and steel prices adding to pressures on profit margins.”

-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.

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