

Nikkei Japan Manufacturing PMI™

Operating conditions continue to worsen

Key points:

- Headline PMI posts below crucial 50.0 no-change mark for the fourth month running
- Total new orders decline, led by sharp drop in export orders
- Employment growth slows and input buying falls at the fastest rate in 26-months

Summary:

Manufacturing operating conditions in Japan worsened at the end of the second quarter of 2016. Production declined for the fourth month running, led by a drop in new orders. Underpinning the fall in total new orders was a sharp contraction in international demand, with new exports decreasing at the same rate as May's 40-month record. As a result, employment growth slowed and was only marginal overall. Buying activity was also cut back and at the quickest rate in over two years.

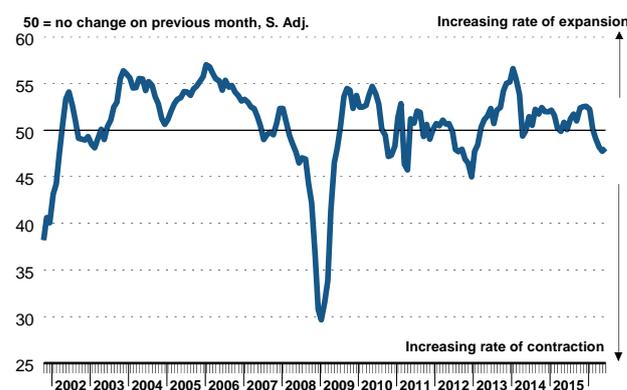
On the price front, input prices declined, albeit at only a marginal rate. Meanwhile, charges fell at the sharpest rate since February 2013.

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 48.1 in June, up from 47.7 in May, signalling a slightly slower rate of deterioration in operation conditions at Japanese manufacturers. However, the latest reading contributed to the lowest quarterly average since Q4 2012.

Contributing to the overall worsening in operating conditions was a fall in production. According to panellists, a decline in new orders from both domestic and international clients led to a reduction in output. Some firms also mentioned the earthquakes that occurred back in April as still having a negative effect on manufacturing production.

Nikkei Japan Manufacturing PMI



Sources: Nikkei, Markit

A fall in output was matched by a decline in new orders in June. A key driver behind the fall in total new orders was a marked drop in international demand. Evidence suggested that, due to the appreciation of the yen against the dollar, global competitiveness was reduced which led to a decrease in trade volumes.

Consequently, manufacturers were cautious towards their hiring policies, with the rate of job creation slowing to the weakest rate in the current nine-month sequence of expansion. Goods producers also cut back on their buying activity for the fourth consecutive month.

With a slump in demand, less pressure was placed on capacity and volumes of unfinished work were depleted. Stocks of post-production items were also reduced, albeit at only a fractional rate.

Meanwhile, the higher yen against the dollar drove down raw material prices and led to a fall in cost burdens. Subsequently, charges declined at the quickest rate in over three years.

Comment:

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

“Manufacturing conditions in Japan continued to worsen at the end of the second quarter of 2016. Total new orders declined sharply caused primarily by a marked drop in international demand. New export orders decreased at the same pace as May’s 40-month record, with evidence suggesting the stronger yen/dollar having detrimental effects on global competitiveness and reducing trade volumes. As a result, production contracted with some firms also mentioning the earthquakes that occurred back in April as still weighing on manufacturing output.”

“Japanese goods producers also reduced their rate of hiring to the weakest rate in the current nine-month sequence of employment growth, suggesting confidence in the outlook of the economy is relatively subdued”.

-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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Purchasing Managers' Index[™] (*PMI*[™]) surveys are now available for over 30 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

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