# Nikkei Japan Manufacturing PMI®

## Manufacturing sector growth remains robust

### Key points:

- Production increases at an accelerated rate
- Broad-based increase in new orders
- Cost burdens rise further

Data collected October 12-24

Operating conditions for Japanese manufacturers continued to improve during October, underpinned by solid expansions in output, new orders and employment. However, robust growth across the sector coincided with the lowest level of business confidence in 11 months.

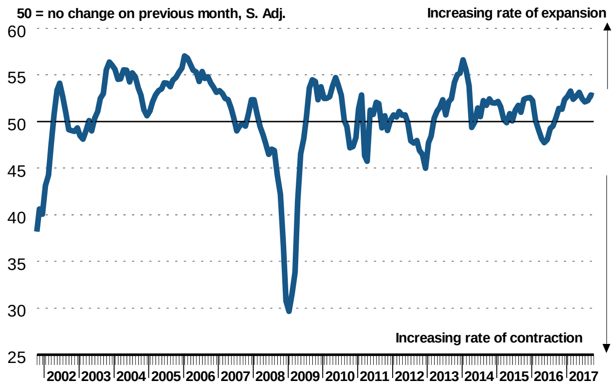
On the price front, input cost inflation ticked up fractionally, spurring on firms to increase output charges.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – edged fractionally down in October to 52.8, from 52.9 in September. Albeit lower, the index reading signalled another solid rate of sector expansion. Business conditions have improved in every month since September 2016.

Expansionary trends continued in output and new orders in October. Incoming new business grew solidly, albeit at a slightly slower pace than in September. Some panellists attributed the rise to new customer acquisitions. Furthermore, overseas demand increased amid reports of new business from China, Taiwan and South Korea. Consequently, firms boosted production to meet demand. Latest survey data marked a fifteenth successive month of higher output. Moreover, the rate growth was solid and the most marked since May.

Higher volumes of new work appeared to add to capacity pressures in the Japanese manufacturing sector. Backlogs of work accumulated at the quickest pace since February. That said, the rate of expansion in unfinished work was modest overall. Higher backlogs of work encouraged companies to enhance operating capacity by taking on additional staff. The rate of job creation picked up from September's ten-month low in line with production requirements.

**Nikkei Japan Manufacturing PMI**




*Sources: Nikkei, IHS Markit*

To accommodate for improving demand conditions, Japanese manufacturers increased buying activity in October. According to evidence provided by panellists, additional inputs were purchased due to higher inflows of new business. Input buying rose at the joint-quickest pace since April, on a par with that seen in May.

Pressure on supply chains continued to build, in part reflecting solid growth in demand across the manufacturing sector. As has been the case since May 2016, suppliers' delivery times lengthened in October. Furthermore, average lead times worsened to the greatest extent since May 2011. According to anecdotal evidence, prolonged delivery times prompted Japanese manufacturers to raise pre-production inventory levels. That said, input stocks were only accumulated at a marginal pace.

Meanwhile, input cost inflation quickened fractionally to a six-month high in October. Panellists generally linked this to higher raw material prices. As a result, companies raised output charges, with inflation accelerating to the joint-fastest since November 2014.

Lastly, firms remained firmly optimistic regarding future output expectations. That said, the level of positive sentiment weakened to the lowest since November 2016.

## Comment:

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

*"The headline PMI for October indicated slightly softer growth; however the underlying data remains fairly solid. Output picked up, growing at the quickest pace since May, while export orders from other Asian countries underpinned a firm rise in new business inflows.*

*"In turn, firms boosted demand for inputs in line with higher production requirements. As a result, supply chains were noticeably affected, with delivery times worsening to the greatest extent since May 2011.*

*"With cost burdens rising and demand conditions seemingly robust, Japanese manufacturers appeared to be more willing to raise prices charged. Output price inflation quickened to the joint-fastest pace since November 2014."*

-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.

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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