NIKKEI

PMI® By IHS Markit

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Nikkei Japan Manufacturing PMI®

Solid manufacturing sector growth recorded in April

Key points:

- Output growth quickens to three-month high
- Employment rises amid improving demand
- Business confidence strengthens

Data collected April 12 - 23

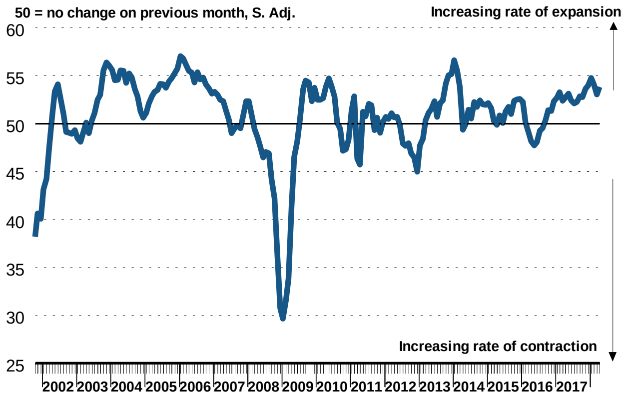
Japan's manufacturing sector expanded at a quickened pace during April amid improved growth rates in output and new orders. With robust demand exerting pressure on the production line, firms enhanced operating capacities by raising employment. Nonetheless, greater staff levels did not prevent backlogs of work from increasing. On the price front, inflation rates for both input costs and output charges softened.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – posted 53.8 in April, up from 53.1 in March to signal a solid improvement in operating conditions for Japanese manufacturers. For the first time since January, the headline PMI figure increased and thereby signalled a stronger rate of growth in the sector.

A twenty-first consecutive month of rising production in the Japanese manufacturing sector was recorded in April. The rate of growth in output was solid overall and the fastest since January. According to anecdotal evidence, production line activity was raised in line with greater sales and rising backlogs of work. The gain in new business was equally solid and faster than the previous survey period. Panellists attributed the improvement in demand to new product launches. That said, sales to overseas clients increased at a markedly slower rate during April. The rate of new export order growth was marginal overall and the weakest observed across the current 20-month expansionary sequence.

In keeping with the favourable demand environment, Japanese manufacturers bolstered production line capabilities by recruiting additional staff during April. The current stint of employment growth extends back to September 2016. Despite larger workforces, outstanding business increased and to a greater extent. Although the accumulation of backlogs was only moderately sized, it was the joint-largest in five months (on a par with December 2017). To alleviate capacity pressures, stocks of finished goods were used to fulfil incoming orders. Post-production inventories have decreased in each of the past seven survey periods.

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

Greater workloads also encouraged firms to increase input buying during April. In fact, the rate of expansion in purchasing activity quickened from March's eight-month low. That said, average lead times for the delivery of inputs slowed markedly amid reports of material shortages. To guard against further supply chain troubles, firms raised pre-production inventories.

Input prices continued to inflate sharply, with panellists reporting higher food, fuel and metal costs. To counteract this, output prices were increased, albeit to the softest extent in three months.

Lastly, businesses remained strongly positive towards output prospects in April. In fact, the degree of confidence strengthened for the first time since the start of the year amid forecasts of a sustained upturn in demand.

Comment:

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

"April data pointed to a renewed acceleration in Japanese manufacturing sector growth. New order inflows rose at a solid and faster clip, prompting firms to recruit new staff and expand production.

"However, the new export orders index sub-component fell noticeably, albeit still remaining in expansionary territory, to signal only a marginal pace of growth. Consequently, the uptick in total new orders is indicative of more robust demand conditions domestically. Although this will be unreservedly welcomed by policymakers, weak export sales will be a concern and may be a sign of things to come amid the recent strength of the yen.

"There was also evidence of downward inflationary pressures, with both input costs and output prices rising to softer extents. Nonetheless, selling charge inflation remained close to the multi-year highs observed in recent months."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)
Joe Hayes, Economist
Telephone +44 1491 461 006
Email: joseph.hayes@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail: jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65 6922 4226
E-mail: bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

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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