

Nikkei Japan Manufacturing PMI®

Manufacturing sector continues to expand at robust pace

Key points:

- Output growth sustained amid solid demand pressures
- Input delivery times continue to lengthen sharply
- Business confidence drops further

Data collected September 12 - 21

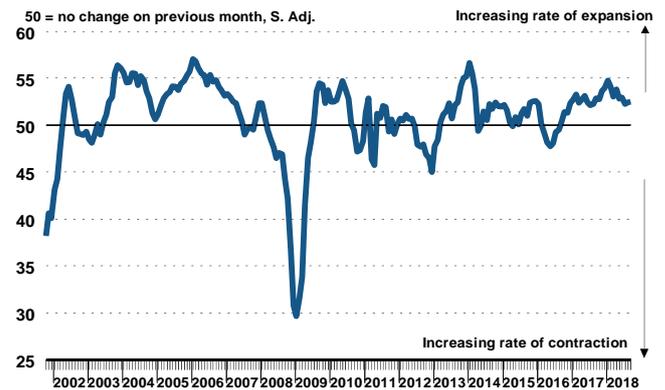
Japan's manufacturing economy continued along an expansionary path in September, with output, demand and employment all rising. That said, production growth dipped to a 14-month low, and although total new business growth accelerated, manufacturers faced a further month of declining export sales. The slower rise in output contributed to a stronger accumulation in backlogs of work, while slower input delivery times also weighed on operating capacities. Looking ahead, firms were upbeat, but the level of positive sentiment was the weakest for nearly two years.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – concluded the third quarter by posting 52.5 in September. This was unchanged from August and signalled a relatively robust rate of improvement in the health of the goods-producing sector. That said, the average PMI reading for Q3 (52.4) was notably weaker than those seen during the first and second quarters of 2018.

Supporting the business environment in September was a further rise in sales. Indeed, new orders have now increased in each month for the past two years. That said, the pace of expansion remained weaker than the average seen across the current upturn. Meanwhile, manufacturers observed a further monthly decline in new export business. Demand conditions were robust enough to warrant greater production levels, but the rate of increase in output slowed to a 14-month low and was only modest overall.

Despite softer production growth, anecdotal evidence suggested that firms are anticipating order book volumes to expand further. As such, manufacturing sector employment rose during September as firms sought to boost capacities. The rate of job creation accelerated, but was among the

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Sources: Nikkei, IHS Markit

weakest seen during the current 25-month stretch of recruitment. Input purchases were also raised by Japanese manufacturers in September, albeit to the weakest extent since November 2016.

Continued growth of input buying, in conjunction with raw material shortages, reportedly weighed on the ability of vendors to fulfil deliveries in a timely manner. Average lead times lengthened to a historically sharp extent in September. Panellists also indicated that deteriorating vendor performance had contributed to a rise in outstanding work. The rate of backlog accumulation quickened to a three-month high during the latest survey period.

Increased raw material prices, particularly for oil and metals, yen weakness as well as higher labour and shipping expenses resulted in sharp cost inflation in September. Output prices were increased as part of efforts to offset greater cost burdens. Although the rate of inflation eased, it remained close to August's near-decade high.

Casting their focus to the forthcoming year, Japanese goods producers signalled an optimistic outlook for production levels. That said, the degree of confidence fell for the fourth successive month to the lowest since November 2016.

Continued...

Comment:

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

“Growth in the Japanese manufacturing sector was sustained in September, rounding off a fairly robust quarter of expansion. That said, the average PMI reading for Q3 was notably weaker than those for the first and second quarters of 2018, suggesting weaker momentum.”

“Slowing input delivery times reportedly weighed on output capabilities in September, creating backlogs and pushing up shipping costs. Although job creation accelerated, output growth eased, suggesting that supply chain pressures are impacting production line efficiency.”

“Although firms remained optimistic overall that output levels would be higher in a year’s time, the degree of confidence dipped to a 22-month low, with some panellists raising concern towards the demand outlook.”

-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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