

# Nikkei Japan Manufacturing PMI™

## Manufacturing upturn quickens amid faster increases in output and new business

### Key points:

- Manufacturing PMI hits 35-month high of 53.3 in February
- New business, production and job growth all strengthen
- Backlogs of work accumulate for first time since December 2015

Data collected February 09 - 21

Japan's manufacturing upturn gained further momentum in February after a sharper uptick in new orders encouraged firms to raise both output and hiring. Moreover, the rise in new work led to the first accumulation of unfinished business for 14 months, while firms also increased input buying in order to support greater production demands. Consequently, business optimism was the second-strongest recorded since the future output series started in mid-2012.

The headline Japan Manufacturing *Purchasing Managers' Index™ (PMI)™* – a composite single-figure indicator of manufacturing performance – rose from 52.7 in the opening month of 2017 to hit a 35-month high of 53.3 in February. The improvement in the health of the sector was reflected in all five PMI sub-components.

February survey data pointed to the fastest increase in new business wins for 14 months. In fact, the rate of growth strengthened for the fourth month straight and continued to outstrip the historical average. The rise in total new work was broad-based, as new export orders also grew and at the quickest extent for 38 months.

Amid reports of stronger demand, Japan's goods producers raised output further in February. The latest increase extended the current sequence of growth which started in August 2016, and was the sharpest for 35 months.

Job creation was evident in Japan's manufacturing sector in February. Moreover, firms added to their workforce numbers at the quickest extent since April 2014, with panel members citing greater production requirements.

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Sources: Nikkei, IHS Markit

Meanwhile, manufacturing companies recorded the first accumulation of backlogs of work for 14 months and at a pace which was strong in the context of historical data.

In line with the trend for output, Japanese goods producers increased their purchasing activity at a pace broadly similar with January's one-year high. Anecdotal evidence suggested the increase reflected an uptick in output in the sector.

Post-production inventories rose for the second month in a row at Japanese manufacturers in February. That said, the rate of increase was only slight. Stocks of raw materials and semi-finished goods also increased, albeit at a relatively subdued rate.

Japanese manufacturers signalled the quickest rise in average cost burdens for two years during February, with panel members linking this to higher prices for machinery, iron, zinc, oil, steel and copper. However, output charges remained broadly unchanged during the month.

Business confidence amongst Japan's manufacturers was the second-strongest recorded in the 56-month series history in February. New factory openings and forecasted increases in new business led goods producers to feel more optimistic towards their 12-month outlook on growth.

Finally, average lead times faced by Japanese manufacturers lengthened further in February. However, the rate of increase was only moderate.

## Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Samuel Agass**, economist at IHS Markit, which compiles the survey, said:

*“The health of Japan’s manufacturing sector improved at a pace not seen in nearly three years during February, with all five PMI sub-components improving since January. Growth was underpinned by a broad-based uptick in new orders, subsequently leading to the first accumulation in outstanding business for 14 months. Moreover, amid stronger demand conditions, firms raised their production and employment at the quickest rates for 35 and 34 months respectively*

*“With Japanese goods producers showing intent to support this current upturn, the sector looks likely to continue to grow at a robust pace over the next few months. This was also reflected in the index measuring business confidence, which reached its second-highest level during its four-and-a-half-year series history in February.”*

-Ends-

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**Notes to Editors:**

The Nikkei Japan Manufacturing *PMI*<sup>™</sup> 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*<sup>™</sup> 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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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