

# Nikkei Japan Manufacturing PMI<sup>®</sup>

## Manufacturers signal strongest rate of output growth since February 2014

### Key points:

- Broad-based increase in new orders
- Output prices rise amid intensified cost pressures
- Business confidence strengthens

Data collected January 12 - 24

The Japanese manufacturing sector gained further momentum at the start of 2018. Output and new order growth rates accelerated, while businesses raised employment amid rising backlogs of work. Robust demand also encouraged firms to pass on part of the sharp rise in cost burdens to customers.

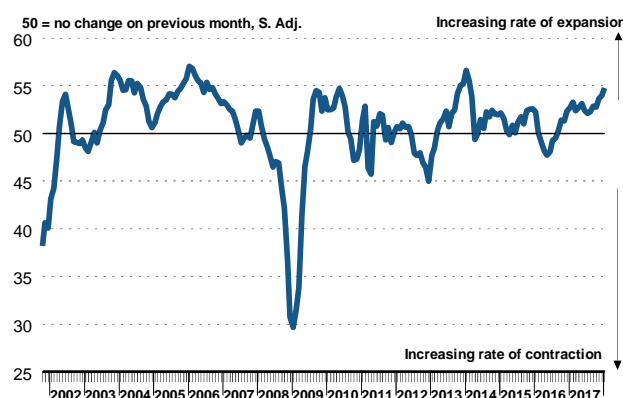
In line with stronger business confidence, firms increased input buying and were less cautious over inventory levels.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI)<sup>®</sup> – a composite single-figure indicator of manufacturing performance – increased to 54.8 in January, up from 54.0 in December. The headline PMI has risen for three successive months and the latest reading signalled the sharpest improvement in the health of the Japanese manufacturing sector since February 2014.

Panelists reported a favourable receipt of new orders during January due to new product launches and strong demand from existing customers. New order growth quickened for a third month in succession to a four-year high. Similarly, new business from abroad increased at a faster pace, recording the quickest rate of growth since May 2010. Firms attributed the rise to stronger demand from China, Korea and Taiwan. Subsequently, firms increased output for the eighteenth consecutive month and at the sharpest rate in 47 months.

Operating capacities were tested as a result of greater sales. Backlogs of work were accumulated for a fifth month running in January, albeit at a fractionally slower pace. Anecdotal evidence suggested that panellists anticipate the upward trend in order book volumes to continue. Growth in new orders also fuelled a rise in business optimism. The level of positive sentiment regarding future output strengthened to a four-month high. Consequently, manufacturers hired additional staff in preparation of greater production requirements.

### Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

The rate of job creation accelerated to the joint-fastest since April 2014, on a par with February 2017.

In line with forecasts of greater new order intakes, Japanese manufacturers increased purchasing activity. Input buying increased to the joint-strongest extent since February 2014. Confident that output growth would be sustained, Japanese manufacturers were less cautious regarding inventory levels. Input stocks increased for the first time since October last year. Reports from panel members suggested that higher demand for inputs had led to a deterioration of vendor performance. Suppliers' delivery times lengthened markedly in January, and for a twenty-first successive month.

On the price front, purchase costs increased during the latest survey period, maintaining an inflationary run that started in November 2016. Firms noted that the higher oil price was a key source of cost pressures. In turn, output charges were raised to partly offset the squeeze on profit margins. Output price inflation accelerated to the sharpest extent since October 2008.

## Comment:

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

*“Headline PMI data for January signalled further positivity for the Japanese manufacturing sector. New business opportunities increased at the sharpest rate in four years, supporting the quickest rise in output since February 2014.*

*“Businesses appeared to derive confidence from the robust economic backdrop that official data has depicted, with optimism strengthening to a four-month high. In turn, this supported an accelerated rate of job creation.*

*“Amid rising global commodity prices, input costs increased sharply. In response, manufacturers raised selling prices to the greatest extent since October 2008. Sustained output price inflation observed recently in the PMI suggests firms are becoming more confident in the purchasing power of their customers. With a tightening labour market, firms should raise wages to support consumption and in turn, generate domestic inflationary pressures. That said, rising raw material prices could risk the extent to which labour costs can be increased without harming profit margins.”*

-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](mailto:economics@ihsmarkit.com).

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