

Nikkei Japan Manufacturing PMI[®]

Manufacturing sector growth eases further

Key points:

- Output and new order growth weakens
- Firms hire new staff amid capacity constraints
- Output prices rise at historically marked pace

Data collected March 12 - 22

The health of the Japanese manufacturing sector continued to improve during March, albeit to a softer extent. Nonetheless, expansionary trends were sustained in both output and new orders, encouraging firms to raise employment and input buying. Capacity pressures remained elevated, as firms noted higher levels of unfinished work and longer supplier lead times. Reports of supply shortages and strong input demand coincided with a stronger increase in average costs. In turn, firms raised output charges to a relatively sharp extent.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance – fell to 53.1 in March, from 54.1 in February to signal a solid, albeit weaker, improvement in operating conditions for Japanese manufacturers. That said, the headline PMI has recorded in expansionary territory for 19 successive months.

Japanese goods producers increased output for a twentieth successive month during March. Anecdotal evidence suggested that favourable order receipts had prompted them to increase production. That said, the rate of growth eased to an eight-month low. Similarly, new business expanded at a softer rate during the latest survey period. Nevertheless, the pace of growth was broadly in line with the average seen across the current 18-month sequence of rising demand. Firms attributed higher new orders to new customer wins and product launches. Sales to overseas clients also rose during March. Panellists noted Europe, China and South Korea as destinations for export orders.

As a result of increased incoming new business, capacity pressures were tested across the Japanese manufacturing sector. Backlogs of work rose, with production lines incapable of meeting demand requirements. Consequently, firms completed orders using their stocks of finished

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Sources: Nikkei, IHS Markit

goods. To help clear outstanding work, businesses recruited additional staff in March. That said, the rate of job creation slowed to a three-month low.

Survey data also signalled that the sustained upturn in demand had impacted supply chains. Average lead times for inputs lengthened markedly in March and to the sharpest extent since May 2011. This encouraged businesses to bolster their holdings of raw materials and semi-manufactured goods. Input stocks increased for a third successive month.

Operating expenses faced by Japanese manufacturers rose sharply during March. Higher prices for food, fuel and metals were reported by panellists. In an effort to guard against profit margin erosion, businesses raised selling prices. The rate of output price inflation accelerated to the second-fastest pace since October 2008.

Firms maintained a positive outlook regarding output over the forthcoming year. Survey respondents attributed their upbeat expectations to new marketing initiatives, Olympic Games-related opportunities and the development of new products.

Comment:

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

“Latest survey data presented a second successive decline in the Manufacturing PMI for Japan. That said, the overall picture remains upbeat. The reading of 53.1 still indicates a fairly solid pace of improvement in business conditions. Moreover, the average across Q1 is consistent with a robust growth rate and bodes well for official data.”

“On a further positive note, new orders have now expanded in each of the last 18 survey months. This sustained upturn in demand has appeared to impact supply chains, with delivery times slowing to the sharpest extent since the aftermath of the 2011 earthquake. This could create headwinds for the manufacturing economy if further capacity pressures begin to impact production capabilities.”

“Meanwhile, survey data signalled the second-fastest rate of output price inflation since October 2008, the sharpest being that seen in January. More aggressive pricing behaviour is an encouraging sign; however the uptick was spurred on primarily by intensified cost pressures, particularly from food and energy.”

-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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