NIKKEI

PMI® By IHS Markit

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Nikkei Japan Manufacturing PMI®

Manufacturing sector improves at sharpest rate for 44 months

Key points:

- Production rises at quickest rate since February 2014
- Broad-based increase in new orders
- Input price inflation edges higher

Data collected November 13-23

Growth in the Japanese manufacturing sector gathered momentum in the latest survey period. New business expanded at the fastest rate since March 2014, while rising demand from China supported a nine-month high in export growth. In turn, firms raised production to the greatest extent in 45 months.

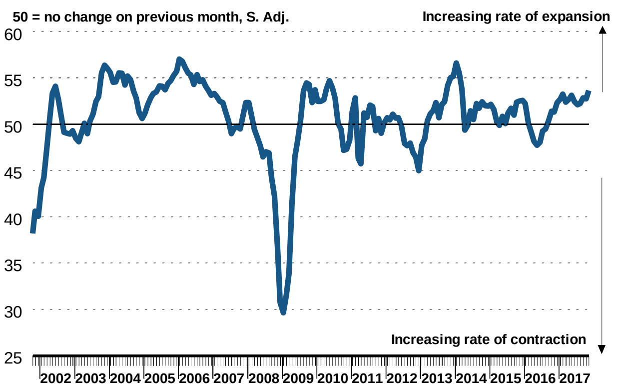
Meanwhile, deteriorating delivery times and robust demand conditions intensified capacity pressures. In line with greater production requirements, firms boosted employment. On the price front, input costs continued to rise at a far steeper rate than output prices.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – increased in November to 53.6, from 52.8 in October. This signalled the strongest improvement in manufacturing sector conditions since March 2014.

New orders placed with Japanese manufacturers increased at the most marked pace for 44 months in November. According to anecdotal evidence, new business inflows were underpinned by demand from overseas. In turn, new export orders rose at the quickest pace since February. Stronger demand prompted businesses to raise production. In fact, output growth accelerated for the fourth month in succession to a 45-month high.

However, panellists indicated that greater incoming new orders resulted in higher volumes of unfinished work. Backlogs of work were accumulated at the fastest rate since March 2014. Other survey respondents indicated that outstanding business was a consequence of delayed suppliers' delivery times. Pressure on supply chains continued to rise in the latest survey period. Average lead times deteriorated for a nineteenth consecutive month, albeit to the weakest extent since August.

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

To fulfil incoming new orders, firms used inventories of finished goods. The rate of depletion quickened to the joint-fastest since December 2016, on a par with July.

In line with greater demand, Japanese manufacturers enhanced operating capacity by taking on more staff. The rate of job creation was solid and quickened to a six-month high. Panel members suggested that employment was expanded to cater for the influx in new business.

Japanese manufacturers increased average prices charged in November amid stronger sales. The rate of inflation accelerated slightly for the third consecutive month in line with increased costs of production. Raw material price hikes were widely reported by companies surveyed in November. Input price inflation quickened from October to a 35-month high.

Nonetheless, companies were not deterred by rising input prices, boosting purchasing activity in line with greater output requirements. Japanese manufacturers also had to deplete pre-production inventories for use in production.

Lastly, business optimism strengthened during November. New product launches and forecasts of higher new orders were cited as reasons to be confident.

Comment:

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

"The upturn in the Japanese manufacturing sector gathered momentum in November. Demand from overseas underpinned a 44-month high in new business growth. Consequently, production was boosted to the greatest extent since February 2014.

"Stronger sales also spurred on firms to raise output prices. Though inflation was modest, Bank of Japan policymakers will be encouraged given it has now quickened in each of the last three months. Nonetheless, rising raw material prices and yen weakness continue to weigh on profit margins, with cost pressures rising at the fastest rate since December 2014.

"With rising orders testing operating capacity across the sector, firms raised employment. New business inflows also appeared to lift confidence following October's 11-month low."

-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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