Nikkei Japan Manufacturing PMI™

Manufacturing growth improves to highest level since February

Key points:

- Both output and new orders rise at stronger rates
- Optimism regarding future output retained
- Input price inflation eases to four-month low

Data collected May 12-23

Operating conditions in Japan's manufacturing sector improved to the greatest extent for three months during May, underpinned by faster rises in volumes of output and new orders. Faced with rising production requirements, companies also took on extra staff as business optimism remained high.

Purchasing activity also increased, placing pressure on vendors amid reports of stock shortages. Input costs also continued to rise, albeit to a lesser degree, while output charges were increased only marginally.

The headline Japan Manufacturing *Purchasing Managers' Index™ (PMI)™* – a composite single-figure indicator of manufacturing performance – recorded a level of 53.1 in May. That was up from April's 52.7 and above the 50.0 no-change mark for a ninth successive month. The rate of growth was the sharpest for three months and only fractionally lower than February's near three-year high.

The general improvement in operating conditions was closely linked to accelerated rises in both manufacturing output and new orders. Production has now increased for ten months in succession, while new orders rose for the eighth successive survey period. In both instances, rates of expansion were the best since February with companies commenting that growth was underpinned by firmer demand from both at home and abroad. New export orders rose at a solid pace that was only marginally down since April.

In line with recent trends, the fastest increases in output and total new orders were again found in the capital goods sector. This category also registered the strongest growth in employment over the month. Latest data showed that overall staffing levels continued to rise, meaning growth has now been recorded continuously since last September.

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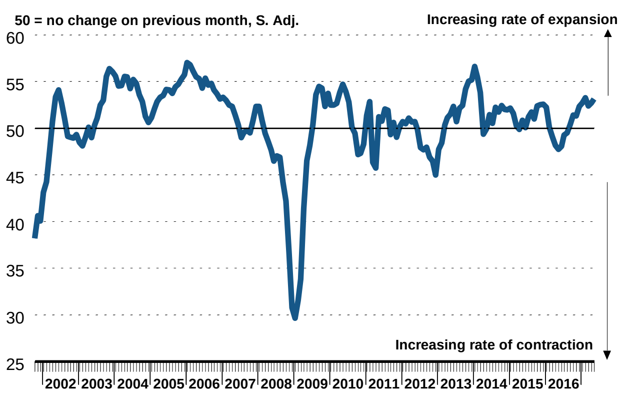

Sources: Nikkei, IHS Markit

Panellists commented that jobs were being added in line with rising production requirements.

Higher output also meant that purchasing activity continued to rise, which also helped to bolster input inventories. The rate of expansion was the highest in 16 months as some companies prepared for higher orders and output in the coming months. May's survey showed that manufacturers retained a high degree of confidence regarding future output, with nearly 30% of respondents forecasting growth from present levels. Positive forecasts for demand and preparations for the 2020 Olympics Games are expected to bolster activity.

Meanwhile, input costs continued to rise in May, albeit to a lesser extent than in April when inflation reached a 28-month peak. Where input prices increased, inflation was linked to higher prices for metals, especially aluminium and steel. Intermediate and investment goods producers recorded particularly noticeable rises in input costs.

Despite ongoing inflation of input prices, companies recorded only a slight increase in their own output charges. Nonetheless, inflation of output charges has now been recorded for five months in succession, the longest such run since a similar sequence ended in January 2015.

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Paul Smith,** senior economist at IHS Markit, which compiles the survey, said**:**

"Following the slightly underwhelming 'flash' PMI data, the final figures showed a broadly sideways movement in growth during May. Consistent with an underlying rise of around 2%, the industrial sector is subsequently set to make a positive contribution to national output for Q2.

"As clients continue to demand high-value investment products, detailed data showed that the capital goods sector remained a key driver of growth, registering the strongest rises in output, new orders and employment over the month."

-Ends-

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Notes to Editors:

The Nikkei Japan Manufacturing *PMI*™ 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*™ 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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