

Nikkei Japan Manufacturing PMI[®]

Employment growth hits 11-year high

Key points:

- Headline PMI signals solid improvement
- Employment rises at sharpest pace in 11 years
- Output price inflation remains relatively marked

Data collected February 12 - 21

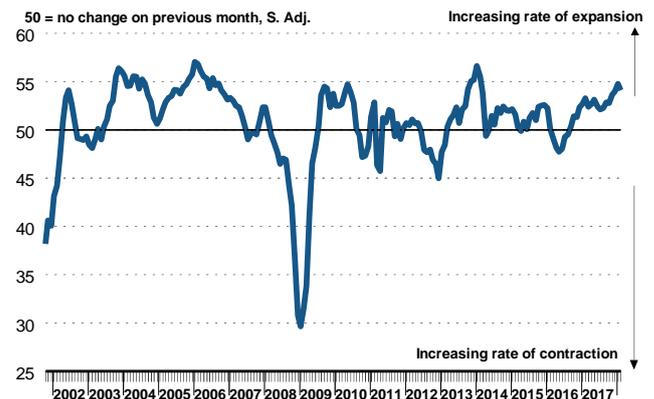
The health of the Japanese manufacturing sector continued to improve during February, sustaining an upward trend that has been apparent for the past 18 months. A broad-based rise in new orders underpinned a solid upturn in production and an 11-year high in the rate of job creation. However, firms noted difficulties in acquiring additional raw materials due to shortages and delayed deliveries. In turn, backlogs of work increased, prompting firms to use inventories to meet demand. Input costs rose sharply in February, encouraging firms to raise selling charges to a relatively marked extent.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance – edged slightly lower to 54.1 in February, from 54.8 in January. This was consistent with a solid, albeit weaker, rate of improvement in business conditions for Japanese manufacturers.

Output continued along an expansionary path during February, however the rate of growth slowed for the first time since July 2017 to a four-month low. Nonetheless, firms increased production during February in line with greater new business inflows. New order growth was strong overall, despite easing. Similarly, new business from abroad rose to a weaker extent following January's 92-month high. China and the US were cited as sources of foreign demand.

With the upturns in output and new orders continuing, firms enhanced operating capacities by taking on more staff in February. In fact, the rate of job creation accelerated to an 11-year high. Firms noted that forecasts of further output growth had encouraged them to increase employment. That said, higher staff levels did not prevent backlogs of work from rising. Anecdotal evidence suggested that greater volumes of new business and delayed deliveries from suppliers had been contributing factors. Average lead times lengthened markedly in February and to the sharpest extent in 81 months,

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Sources: Nikkei, IHS Markit

signalling intensified pressures on supply chains. Robust demand conditions also forced firms to use post-production inventories to fulfil incoming orders.

Amid difficulties in obtaining inputs from suppliers, firms raised their stocks of purchases. The rate of accumulation quickened marginally to the joint-fastest pace in 25 months, on a par with May 2017.

On the price front, input costs increased sharply and for a sixteenth consecutive month. Higher prices for oil-related products were widely reported by panellists. That said, the rate of inflation softened on that seen in January. Consequently, firms raised selling prices in an effort to pass part of the higher cost burden onto their customers. The rate of output price inflation, albeit weaker, remained relatively strong.

Manufacturers retained an optimistic outlook towards output over the coming 12 months. Expectations of a stronger Japanese economy, Olympic-Games related demand and new client wins were all 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 trend of building momentum in the Japanese manufacturing sector came to an end in the latest PMI survey period. Output growth slowed for the first time since July 2017, while both domestic and foreign demand rose to lesser extents. Nonetheless, sentiment in the sector remained upbeat, as firms hired additional staff at the quickest rate in 11 years amid expectations that the Japanese economy would continue along an expansionary path.

“The PMI Output Prices Index, despite falling, signalled a relatively sharp rate of inflation during February. A combination of supply-side pressures, particularly raw material shortages and prolonged delivery times, and strong demand supported firms to raise factory gate charges.

“That said, the marked year-to-date appreciation of the yen could provide downward cost pressures for manufacturers, opening the door for disinflation to creep in to consumer prices, particularly if demand pressures ease further.”

-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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