

Nikkei Japan Manufacturing PMI®

Rising new export orders support ongoing solid growth during June

Key points:

- Sales to South East Asia support best gain in new exports since February
- PMI pulled lower by weaker rises in both output and new orders
- Increased global demand places pressure on supply chains for Japanese manufacturers

Data collected June 12-23

The performance of the Japanese manufacturing sector continued to improve during June, extending the current sequence of expansion to ten months. Growth was supported by ongoing gains in both production and new orders, although in both cases rates of expansion weakened.

Meanwhile, rising demand from South East Asia helped to support the fastest gain in new export business since February, whilst there was a noticeable lengthening in delivery times as higher global demand tested vendor capacity. Stronger demand and restricted supply underpinned another round of marked input price inflation.

The headline Japan Manufacturing *Purchasing Managers' Index™ (PMI)®* – a composite single-figure indicator of manufacturing performance – recorded 52.4 during June. That compared to 53.1 in May and, despite falling on the month, represented another solid rate of sector expansion. Operating conditions have improved continuously since September 2016.

Market group data indicated that the consumer goods sector comfortably enjoyed the strongest rates of growth in terms of both output and total new orders in June. Noticeably slower growth was seen amongst capital goods providers, marking a turnaround in the fortunes of that sector given its position of leading overall industry expansion during recent months.

Rising new orders and production requirements underpinned another round of employment growth during the latest survey period. Staffing levels in the sector have now risen for ten months in a row, with the latest round of growth solid and amongst the best seen over the last decade.

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Sources: Nikkei, IHS Markit

Expanded capacity helped companies keep on top of overall workloads, with latest data indicating only a marginal rise in backlogs of work outstanding.

Meanwhile, manufacturers raised their purchasing activity for an eighth consecutive month, largely in response to higher production requirements and new orders at their plants. There was evidence that purchases were, however, being delayed in transit, with average lead times lengthening to the greatest degree since March 2014. There were reports of insufficient vendor capacity and increased global demand (especially from China) straining supply chains.

On the price front, average input costs continued to increase in line with the trend since last November. There were reports from survey panellists of higher prices for a range of inputs, especially those related to metals. The rate of inflation was again marked, with prices reported to have risen across the manufacturing sector. Where possible, manufacturers chose to increase their own prices, with the modest rate of inflation matching April's near two-and-a-half year high.

Finally, companies retained a sense of optimism during the latest survey period, with over 29% of the survey panel indicating positive forecasts for growth in the coming 12 months. New product developments and launches, plus forecasts of strengthened market activity and demand, were widely reported to have supported confidence in June.

Comment:

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

“Although final PMI data for June confirmed that growth slowed, the sector continues to benefit from rising global demand, especially from South East Asia which was a key source of new order wins.

“The current broad-based strength of global growth is also having a noticeable impact on supply chains, with Japanese manufacturers suffering the greatest delays to their ordered inputs since early 2014.

“Price pressures subsequently remain elevated, and led to a rate of pass-through to clients that matched April’s near two-and-a-half year high.”

-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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