

Nikkei Japan Manufacturing PMI™

PMI hits seven-month high amid solid growth of new orders

Key points:

- Strongest improvement in operating conditions since January
- Growth of new orders accelerates, while output and employment also rise
- Input prices unchanged, ending 31-month period of inflation

Summary:

Latest survey data pointed to a stronger improvement in operating conditions at Japanese manufacturers. New order growth accelerated to a seven-month high, while both production and job creation also increased. In contrast, new export orders rose at a slower pace, with reports of reduced trade volumes with China dampening international demand. Meanwhile, prices charged rose at a slight rate, but input prices remained unchanged, having risen in the previous month.

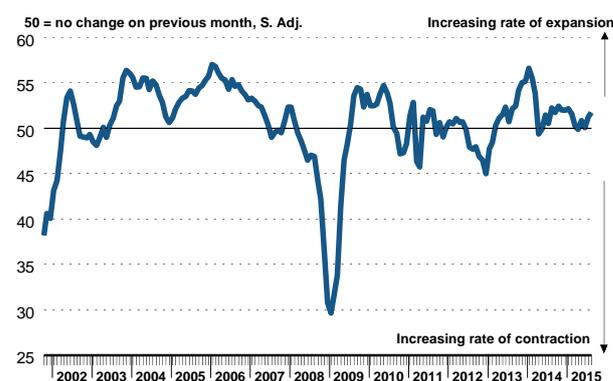
The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)™ is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions.

The headline PMI posted at 51.7 in August, up from 51.2 in July, thereby signalling a stronger rate of improvement in operating conditions in the Japanese manufacturing sector. Moreover, the latest reading was the second-highest of 2015 so far.

The overall improvement in the Japanese manufacturing sector was supported by a sharp increase in new orders, with growth accelerating to the fastest since January. According to respondents, successful gains in new clients and advertising campaigns had led to the latest expansion. All three sectors registered growth in new work, with investment goods producers reporting the sharpest increase.

Concurrently, production remained in growth territory for the fourth month in a row. That said, the rate of growth moderated from July's five-month high and was only modest overall.

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Sources: Nikkei, Markit

Resulting from expansions in both output and new orders, job creation was reported at Japanese manufacturers for the fifth successive survey period. Furthermore, the rate of staff hiring was little-changed from the seven-month high seen at the start of Q3. Similar to output, job creation was evident at all three market groups, with the strongest increase recorded in investment goods.

Meanwhile, volumes of post-production goods were depleted in August and at the fastest rate in more than four-and-a-half years. Panellists suggested that production was unable to keep up with incoming new orders, leading them to use up existing stocks.

On the price front, input prices were unchanged in August, marking the end of a 31-month period of inflation. Where upward cost pressures were reported, panellists blamed the depreciation of the yen, while other companies mentioned lower oil costs helping to reduce input prices. Reversing the decline seen in the prior month, charges rose in August, albeit at a marginal rate.

Comment:

Commenting on the Japanese Manufacturing PMI survey data, **Amy Brownbill**, economist at Markit, which compiles the survey, said:

“Operating conditions in the Japanese manufacturing sector improved noticeably in the latest survey period, with new order growth accelerating to a seven-month high. This was also supported by increases in both production and employment. In contrast, growth in new export orders slowed further and was only moderate overall. Falling trade volumes with China was reported by panellists to have led to weaker international demand.

“On the price front, input prices remained unchanged in August, signalling the end of a 31-month period of inflation. Charges rose, but at a marginal rate.”

-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.

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 Markit. Please contact economics@markit.com.

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