

Nikkei Japan Manufacturing PMI®

Slower improvements in output and demand drag PMI lower

Key points:

- New orders rise at joint-weakest rate in just over two years
- Production growth moderates
- Business confidence drops for sixth month running

Data collected November 12 - 23

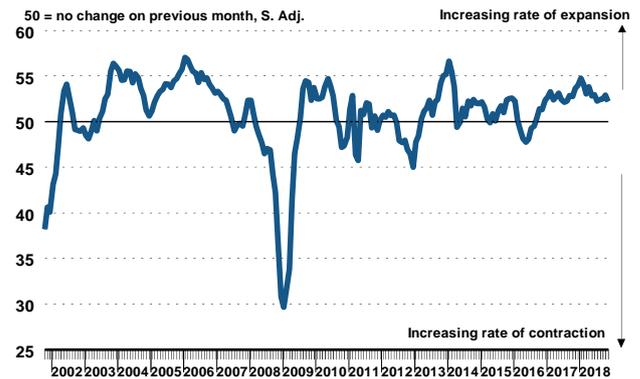
November survey data revealed that Japan's manufacturing sector continued to expand, albeit to the weakest extent since August 2017. Weighing on the overall rate of improvement were slower rises in production and new orders. Export orders also increased at a weaker rate amid reports of softer demand from China and Europe. Meanwhile, firms were less upbeat towards future output than in October, with confidence falling to a two-year low. Nonetheless, additional staff were hired, while input buying grew at an accelerated pace.

The headline **Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)®** – a composite single-figure indicator of manufacturing performance – fell from 52.9 in October to 52.2 in November, therefore pointing to a slower rate of improvement in business conditions. The latest reading for the headline index was the lowest since August 2017.

Overall, growth in the sector was sustained, as has been seen since September 2016. However, the PMI was in part pulled lower by a softening in demand conditions. New order growth eased in November to a mild pace that was the joint-weakest in just over two years. A slower rise in sales to clients in foreign markets was also recorded. While inflows of new work from abroad were supported by other Asian markets such as South Korea and Taiwan, weaker demand from China and Europe limited the expansion. As a result, production growth moderated in November.

Outstanding business was accumulated to a lesser degree as a consequence of weaker growth in workloads. However, Japanese manufacturers continued to hire additional staff at a relatively solid pace. According to anecdotal evidence, employment was raised as part of efforts to improve production capabilities. Over twice as many

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Sources: Nikkei, IHS Markit

panellists reported growth in payroll numbers as those indicating cutbacks.

On the supply side, evidence of further prolonging of input delivery times remained, with vendor performance deteriorating to a strong degree. Shortages of both stocks and labour were reportedly exacerbated by increased input demand. Survey data signalled an accelerated pace of input buying in November as firms sought to limit the impact of future raw material price rises and further supplier delays.

Panellists mentioned a number of inputs to be sources of cost pressures during November, including fuel, steel, paper, chemicals and food. Labour costs also edged up, contributing to a sharp rate of input price inflation that was close to October's 91-month peak. As a response, output charges were lifted, extending the current bout of inflation to almost two years. That said, the increase was slightly softer than seen in the previous month.

The outlook towards future output remained positive in November, but in line with slower growth momentum, confidence eased. Optimism has now softened for six successive months, with the level of positive sentiment at a two-year low. Some firms raised concerns towards expected order book volumes.

Continued...

Comment:

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

“The fall in Japan’s manufacturing PMI tells us that October’s bounce-back was indeed a transitory jump back to normality following weather-related disruptions in September. The underlying picture remains subdued, with momentum tilting towards a slowdown. New orders rose at just a slight pace as goods producers raised concerns about the demand environment. Subdued sales performances reflected fragile conditions both domestically and abroad. According to firms, weak demand from China and parts of Europe hampered export growth.

“As such, expectations for future growth were reduced, with business confidence towards the year-ahead sliding for a sixth straight month to the lowest in two years.”

-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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