

# Nikkei Japan Manufacturing PMI<sup>®</sup>

## Manufacturing sector ends Q4 with solid improvement

### Key points:

- Output growth gathers further momentum
- New orders increase at sharper rate
- Business confidence weakens

Data collected December 5 - 14

Japanese manufacturers marked the final month of 2017 with the greatest improvement in operating conditions since February 2014. Output growth quickened for the fifth successive month amid a broad-based rise in new orders. In turn, backlogs of work were accumulated, spurring on firms to hire additional staff.

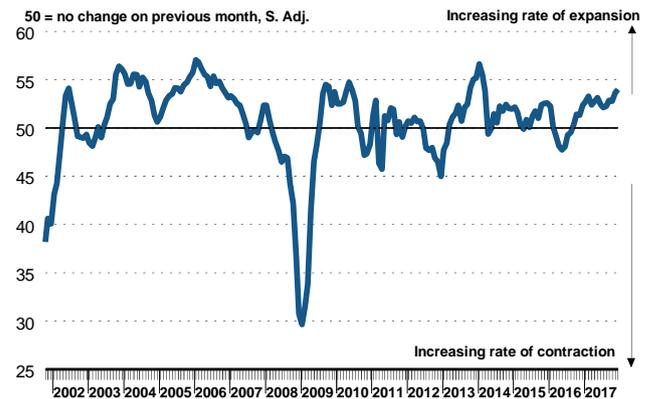
To the downside, business confidence dipped marginally to a 13-month low as some firms raised concerns over the ageing population.

The headline Nikkei Japan Manufacturing Purchasing Managers' Index™ (PMI)<sup>®</sup> – a composite single-figure indicator of manufacturing performance – posted 54.0 in December, up from 53.6 in November. This indicated a strong improvement in business conditions across the Japanese manufacturing sector. In fact, the headline figure rose to a 46-month high.

Incoming new business placed with Japanese manufacturers increased markedly in December. Order book volumes expanded at the joint-sharpest rate since January 2014, on a par with February of that year. Firms reported new contract wins from both domestic and overseas markets. Consequently, new export orders rose at an accelerated pace amid reports of greater demand from China and Taiwan. Furthermore, greater inflows of new work underpinned the strongest rate of output growth in 46 months.

Subsequently, stronger demand intensified capacity pressures across the Japanese manufacturing sector. Backlogs of work were accumulated moderately and for a fourth successive month. In turn, firms opted to use inventories of finished goods to ease the burden on the production line. The rate of depletion was modest having quickened from the previous month. Accordingly, firms boosted employment in order to enhance production capabilities. That said, the rate of job creation eased to a modest pace following November's six-month high.

Nikkei Japan Manufacturing PMI



Sources: Nikkei, IHS Markit

Robust demand conditions prompted businesses to raise purchasing activity. In fact, input buying increased at the fastest rate in almost two years. As a result, pressure on supply chains rose. Vendor performance deteriorated to a greater extent as panellists indicated that stronger demand had resulted in material shortages. In turn, this encouraged businesses to use pre-production inventories. Input stocks were depleted at the quickest rate in 12 months.

On the price front, operating expenses increased sharply. The weakness of the yen along with higher oil and metal prices were frequently mentioned by survey respondents. In turn, this provoked firms to raise output charges. Selling prices were increased for the twelfth month in a row, marking the longest run of inflation since the period ending November 2008.

Meanwhile, although firms were optimistic overall, the degree of confidence weakened to the lowest since November 2016. Positive expectations were attributed to forecasts of stronger demand. However, some firms linked their pessimism to the ageing population.

## Comment:

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

*“The Japanese manufacturing sector concluded Q4 with the highest PMI reading since February 2014. Output growth accelerated for a fifth month in succession, while new business opportunities, both domestic and foreign, rose sharply.*

*“Firms took advantage of the robust demand backdrop and raised selling prices for a twelfth month in a row, extending the current run of inflation to the longest seen since a 15-month stint ending in November 2008. This will provide encouragement that the aggressive monetary easing Bank of Japan policymakers have pursued is being effectively transmitted into the economy.*

*“That said, although firms retained a positive outlook over the forthcoming 12 months, the degree of optimism eased to a 13-month low amid concerns regarding the ageing population.”*

-Ends-

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## For further information, please contact:

### IHS Markit (About PMI and its comment)

Joe Hayes, Economist  
Telephone +44 1491 461 006  
Email: [joseph.hayes@ihsmarkit.com](mailto:joseph.hayes@ihsmarkit.com)

Jerrine Chia, Marketing and Communications  
Telephone +65 6922 4239  
E-mail: [jerrine.chia@ihsmarkit.com](mailto:jerrine.chia@ihsmarkit.com)

Bernard Aw, Principal Economist  
Telephone +65 6922 4226  
E-mail: [bernard.aw@ihsmarkit.com](mailto:bernard.aw@ihsmarkit.com)

### Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office  
Atsushi Kubota, Manager, Public Relations Office  
Telephone +81 3 6256 7115  
Email [koho@nex.nikkei.co.jp](mailto:koho@nex.nikkei.co.jp)

## 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](mailto:economics@ihsmarkit.com).

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