

Nikkei Japan Manufacturing PMI[®]

Manufacturing sector continues to expand solidly

Key points:

- Production and new orders increase at accelerated rates
- Employment growth weakest since November 2016
- Cost pressures intensify

Data collected September 12-22

Latest data indicated further improvements in the Japanese manufacturing sector. Output, order book volumes and foreign demand all increased solidly following modest expansions in August. Employment expanded for the thirteenth month in a row, albeit at the weakest pace since last November. Input price pressures continued to rise, although the rate of inflation facing producers was not met with equal hikes in charges to customers. Output prices picked up only marginally in September.

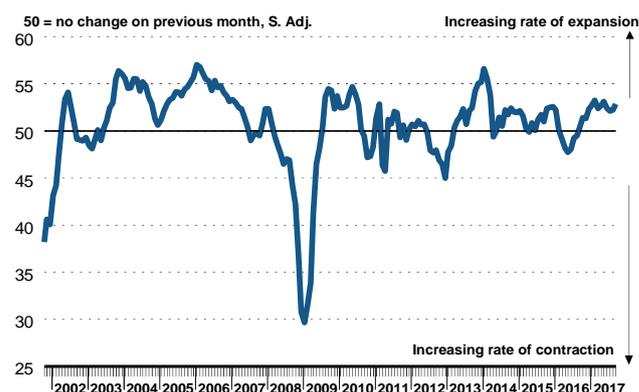
The headline Japan Manufacturing *Purchasing Managers' Index*[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance – was at a four-month high of 52.9 in September, rising from 52.2 in August and signalling a robust improvement in the health of the manufacturing sector.

Stronger upturns in output and new orders supported the improved headline figure, with production and new order growth reaching four-month highs in September. Firms suggested that incoming new business was spurred on by demand for new products. There was similar evidence of strong demand from abroad, with new export orders rising to the greatest extent seen in seven months. Anecdotal evidence pointed to business influxes from the United States and Asian countries.

Production growth and order inflows triggered Japanese manufacturing firms to boost purchasing activity, with close to one-in-five survey respondents reporting higher input acquisitions. September's upturn was the strongest since May.

Solid improvements in buying activity appeared to increase pressures on supply chains, as vendor delivery times worsened at the strongest rate since May 2011.

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Sources: Nikkei, IHS Markit

Higher input buying fed through to a rise in stocks of purchases in September, following a decrease in the previous month. That said, the rate of accumulation was marginal.

Manufacturing employment increased for the thirteenth successive month. However, payroll numbers grew at the weakest rate since November 2016. Weak employment growth coincided with growing levels of outstanding business. The rate of backlog accumulation was, however, only fractional as close to three-quarters of respondents signalled no change in work-in-hand.

Price pressures showed no signs of easing in September. In fact, cost burdens edged up further, with the rate of inflation reaching a five-month high. Price hikes in metals and petroleum-related products were widely reported by panellists. However, only part of higher cost burdens were passed through to clients, as indicated by a marginal increase in output prices.

Lastly, businesses remained upbeat towards growth prospects in September. A number of survey respondents indicated that Olympic Games-related demand and new customers could boost output over the next 12 months. Notably, the level of positive sentiment strengthened since August.

Comment:

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

“September data signalled further improvement to the Japanese manufacturing sector, led by strong increases in output and new orders. Stronger international client demand provided a key source of growth, as shown by export sales expanding at the quickest pace in seven months. At the same time, higher demand for inputs has hampered supplier performance, with delivery times deteriorating at the fastest rate since May 2011.”

“Employment growth weakened in comparison to prior months; however this follows modest pressure on capacity, as signalled by broadly stagnant levels of backlogs of work.”

“Data suggest hikes in raw material prices are driving up cost burdens, however this is yet to impact output prices which rose only slightly.”

-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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