NIKKEI

PMI® By IHS Markit

News Release

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# Nikkei Japan Manufacturing PMI®

## Business conditions improve moderately in August

### Key points:

- Production rises amid faster new order growth
- Export orders fall for second time in three months
- Geopolitical risks weigh on business sentiment

Data collected August 13 - 23

At the midway point in the third quarter, survey data signalled a twenty-fourth successive monthly improvement in the health of the Japanese manufacturing sector. In line with stronger inflows of new work, firms raised production and employment. However, business sentiment dipped amid uncertainty arising from global geopolitics. Meanwhile, cost pressures were sustained in August, leading firms to increase selling prices at the sharpest rate in almost ten years.

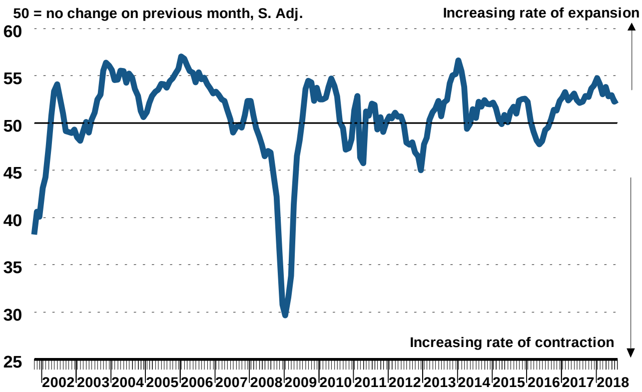
The headline **Nikkei Japan Manufacturing *Purchasing Managers' Index*™ *(PMI)*®** – a composite single-figure indicator of manufacturing performance – registered at 52.5 in August. This was compared to 52.3 in July, thereby indicating a stronger rate of improvement in operating conditions across the Japanese goods-producing sector. Latest data extended the current period of growth to two years; however, compared to rates of improvement observed during the first and second quarters, the latest PMI reading pointed to a relatively soft improvement.

Demand continued to increase during the latest survey period. Notably, for the first time since April, new orders increased at a faster pace. Panellists indicated that new client wins and product diversification had supported higher sales volumes. To accommodate for this, output was increased at a moderate and faster pace.

Survey data indicated new business was primarily sourced from domestic markets, as export orders declined. Some survey participants noted weaker sales to Chinese customers.

Greater order book volumes impacted production capabilities, with backlogs of work increasing in August for a twelfth successive month. That said, the rate of accumulation was only mild. To enhance capacity, firms hired extra staff, albeit to the joint-softest extent since November 2016. According to some companies, workforce numbers fell due to increasing retirements.

**Nikkei Japan Manufacturing PMI**




*Sources: Nikkei, IHS Markit*

Capacity pressures were also apparent across the supply chain. Input delivery times lengthened markedly in August. Vendor performance was reportedly affected by strong input demand and material shortages. Purchasing activity rose at the fastest pace in four months in August. However, stockpiling efforts were impacted by slower lead times, with pre-production inventories falling.

Increased shipping fees were reportedly one of several factors driving up operating expenses in August. Fuel, metals and labour were among the other inputs to have increased in cost. Overall, purchase prices rose sharply, with the rate of inflation remaining close to July's 88-month peak. Efforts to alleviate profit margin erosion were observed, as firms increased selling charges in August. In fact, the rate of increase was the steepest since October 2008.

Finally, future output expectations were positive, with new product launches, Olympic Games-related work and planned production capacity improvements underpinning confidence. However, the degree of optimism eased to a 21-month low amid geopolitical risk concerns.

## Comment:

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

*"Japan's goods-producing sector continued to record growth at the midway point in Q3, extending the current stretch of expansion to two years - the longest since the global financial crisis. Survey data signalled a moderate improvement in the health of the sector, supported by an accelerated influx of new orders.*

*"That said, survey data indicated the upturn in demand was domestic-led, with export sales falling over the month. Potential escalations in trade conflict also contributed to a softening of business confidence.*

*"Overall sector growth remained relatively weak compared to Q1 and Q2 averages. Sub-index data continues to point to delayed input delivery times. Meanwhile, the non-replacement of retiring staff contributed to a further slowing of job creation. With this in mind, production line capabilities could be restrained over the coming months if these trends continue, irrespective of demand pressures."*

-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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