

# Japan

## PMI surveys signal strongest expansion for nearly 3½ years in second quarter

- Japan Composite PMI Output Index eases from near 3½-year high...
- ... but average Q2 PMI is the best since Q1 2014
- Best jobs growth in nearly a decade

June saw a further rise in Japanese business activity that rounded off the strongest quarter of economic growth for nearly three-and-a-half years, according to Nikkei PMI survey data. However, there were signs of slower growth in the manufacturing sector, pointing to a weakening of the upturn seen in the sector earlier in the year.

The headline **Nikkei Japan Composite PMI Output Index** waned from a near three-and-a-half-year high of 53.4 in May to 52.9. This was driven by a slowing in the manufacturing sector. While the June survey showed services business activity rising at the steepest rate for nearly two years, manufacturing output growth eased to a nine-month low. Nevertheless, expansions in both sectors remained solid, indicating on-going broad-based economic growth.

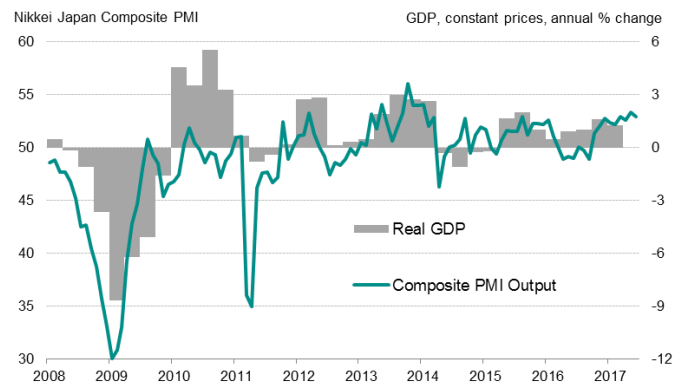
Furthermore, the average PMI reading for the second quarter (53.0) was above that seen in the first three months of the year (52.5) and was the highest since the opening quarter of 2014, suggesting a modest strengthening of economic growth in the second quarter.

### Jobs boom

New business continued to expand at a robust pace while business confidence about the year ahead remained elevated. Higher sales and greater optimism also encouraged firms to expand capacity to meet rising demand. Jobs growth in June was the fastest for nearly a decade.

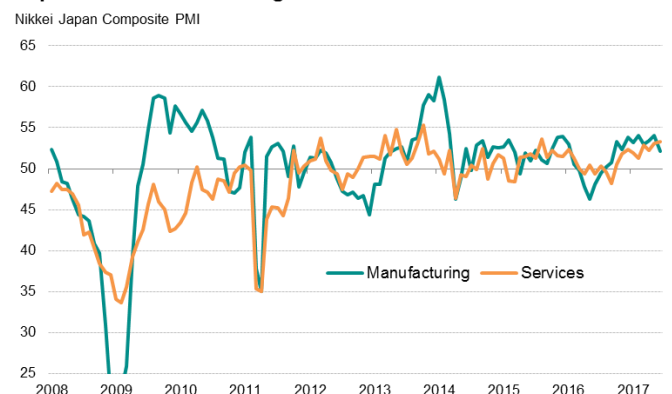
Growth in service sector hiring picked up, thanks mainly to strengthening business activity. Meanwhile Japanese manufacturers kept the pace of hiring similar

Japan PMI and economic growth



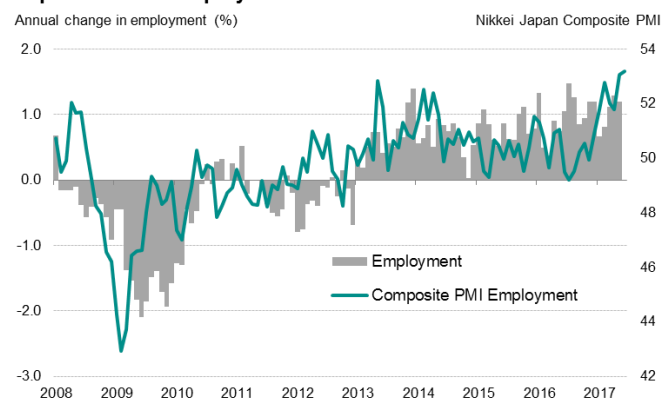
Sources: IHS Markit, Nikkei, Japan Cabinet Office

Japan PMI: manufacturing and service sectors



Sources: IHS Markit, Nikkei

Japan PMI and employment



Sources: IHS Markit, Nikkei, MIAC

to recent months, suggesting that factories expect the recent slowing of production growth to be short-lived.

Solid employment growth is welcome news for the Bank of Japan, especially if intensifying competition for labour starts to feed through to higher wage growth, which in turn, should help drive up inflation.

### **Bright outlook**

Forward-looking indicators in the PMI surveys suggest that the current upturn is expected to retain its momentum in coming months. Growth in new business continued to run well above the survey's historical average despite softening slightly from May. Rising business confidence and increasing backlogs also bode well for the near-term outlook.

### **Rising margin pressures**

A note of caution came from signs of increasing pressure on profit margins. Average cost burdens faced by Japanese firms increased at the quickest pace in four months but output prices grew at the same degree as seen in May and remained well below the rate of cost inflation. If this continues, future hiring plans and wage growth could be affected.

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