Markit Economic Research

22/04/2016

Japan

Flash PMI signals steepening manufacturing downturn as exports slump

- **Flash PMI hits lowest since January 2013 as output and order books deteriorate**
- **Export orders show biggest drop since 2012**
- **Input prices fall at fastest rate since 2009**
- **Declining backlogs of work and fewer input purchases point to further downturn in May**

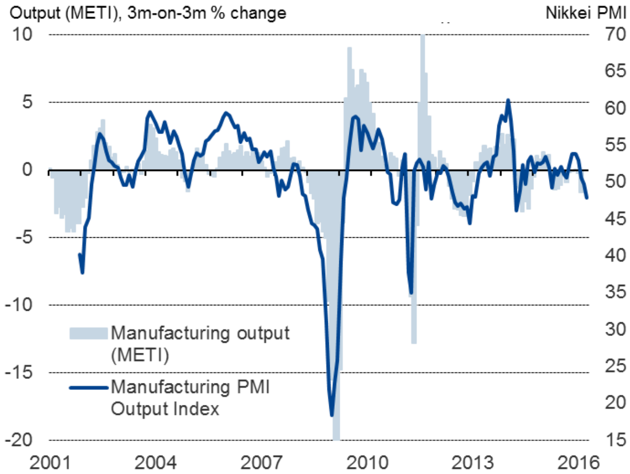
The downturn of Japan's manufacturing sector gathered speed in April. The Nikkei Flash Japan Manufacturing PMI fell from 49.1 in March to 48.0, its lowest since January 2013 and the second successive month for which the index has signalled a deterioration in the sector's overall health.

The data were collected over a period when Japan was hit by a series of earthquakes of a magnitude not seen since 2011. It is likely, therefore, that some of the weakness in the latest survey numbers reflects disruptions to manufacturing and supply chains due to the quakes. However, anecdotal evidence from survey respondents also indicated that weak global demand and the appreciation of the yen (up 10% against the US dollar since earlier in the year) were also significant contributory factors behind the downturn in April.

It should also be remembered that the headline PMI is a composite indicator derived from survey questions on output, new orders, employment, inventories and suppliers' delivery times. As such, the PMI gives a broad indication of the health of the manufacturing economy each month. However, the survey's sub-indices tell a more detailed story.

Here are five key charts from the sub-indices of the April flash PMI, which illustrate how a downturn in manufacturing production is being led by falling exports, and that deflationary pressures have hit the strongest since 2009. Other indices suggest that the slowdown has further to go as we move through the second quarter.

1. Production downturn accelerates



The Output Index (shown above, tracked against comparable official data) fell to its lowest since April 2014, signalling a second consecutive monthly decline in production. The recent deterioration in the index has accurately foretold a worsening in the official measure of manufacturing output, which has resumed a downward trend in recent months, having shown signs of stabilising late last year.

2. Exports fall at fastest rate since 2012

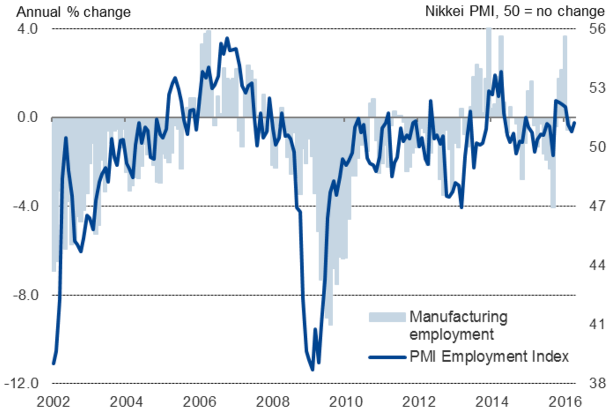
Sources: Markit, Nikkei., Datastream.

The survey showed export orders falling for a third straight month, with the rate of decline accelerating over this period to the fastest since December 2012. Companies commented that weak overseas demand had been exacerbated by the strengthening of the yen so far this year, up 10%

against the US dollar since early January and up 3.2% on average in April compared to March.

Overall new orders – including domestic and export orders – also dropped at the fastest rate since December 2012, down for a third successive month.

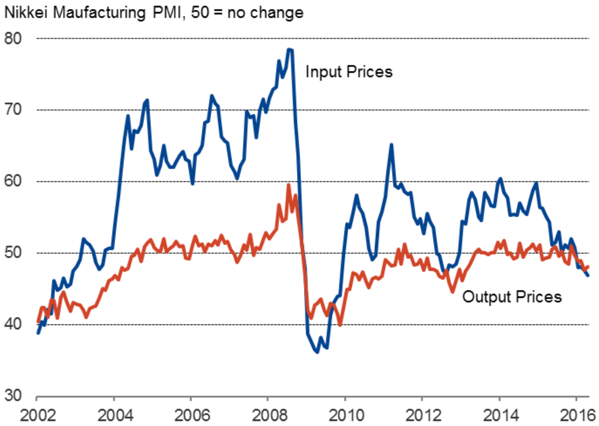
3. Hiring remains subdued



Sources: Markit, Nikkei., Datastream.

Factory headcounts rose during the month, but the increase was only modest and broadly consistent with the official measure of manufacturing employment falling slightly in year-on-year terms. Hiring has been weak in recent months as companies worry about excess capacity in the face of weak global demand and falling exports.

4. Deflationary pressures mount

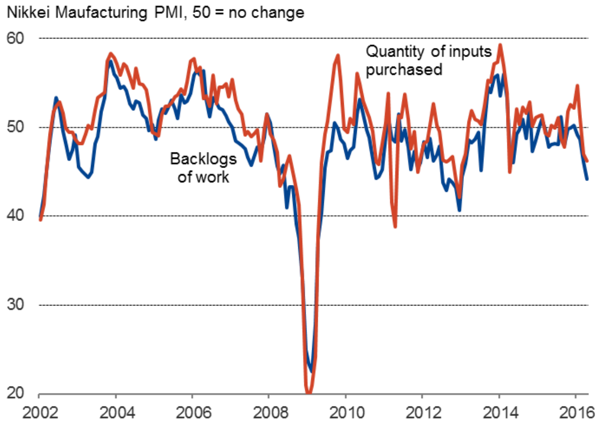


Sources: Markit, Nikkei.

Manufacturers' average input prices fell at the steepest rate since November 2009, down for a fourth successive month in April. The stronger yen was commonly cited as a key factor bringing down the cost of imported inputs, notably energy.

Lower costs fed through to another reduction in average prices charged by manufacturers for their goods, which fell for the seventh time in the past eight months, albeit to a lesser extent than in March.

5. Leading indicators bode ill for May



Sources: Markit, Nikkei.

Other indicators suggest that the downturn is likely to persist into May. The amount of goods that manufacturers bought for use in production showed the largest monthly fall for two years, and backlogs of work (the pipeline of orders not yet completed) fell to the greatest extent since December 2012.

Email economics@markit.com for access to the data.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

Click here for more PMI and economic commentary.

For further information, please visit www.markit.com