Markit Economic Research

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Japan

Flash manufacturing PMI signals falling exports, employment and prices

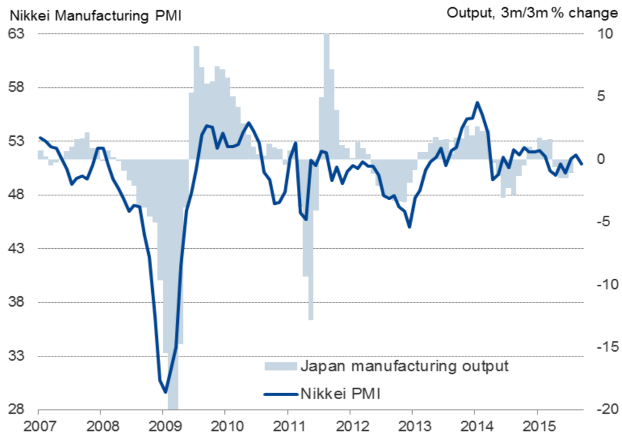
- **Nikkei flash manufacturing PMI hits three-month low of 50.9**
- **Largest drop in export orders for 2½ years**
- **Selling prices fall at fastest rate for 2½ years**
- **Employment dips for first time in six months**

A renewed weakening of growth in the manufacturing economy adds to Japan's woes, as evidence mounts that the various stimulus measures introduced under the umbrella of 'Abenomics' are failing to engender a sustainable economic upturn.

The weak survey headline data and sub-indices highlighted a near-stagnation of the goods-producing sector as exports suffered the sharpest decline for two-and-a-half years, prompting firms to start cutting capacity and headcounts. A combination of weaker growth and falling output prices suggests that the authorities will need to dig deeper to boost demand and reignite inflation.

Here are five key charts from the September flash PMI survey:

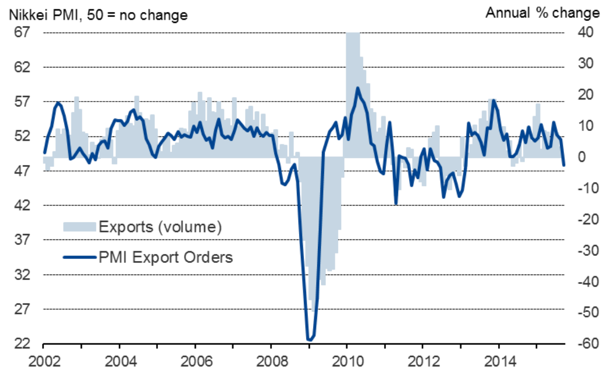
1. Manufacturing close to stagnation



Sources: Markit, Nikkei, METI.

The Nikkei Manufacturing PMI fell from 51.7 in August to 50.9, according to the preliminary 'flash' reading for September. The decline is a set-back after the index had hit a seven-month peak in August, suggesting that the goods-producing sector almost stagnated at the end of the third quarter.

2. Largest drop in export orders for 2½ years

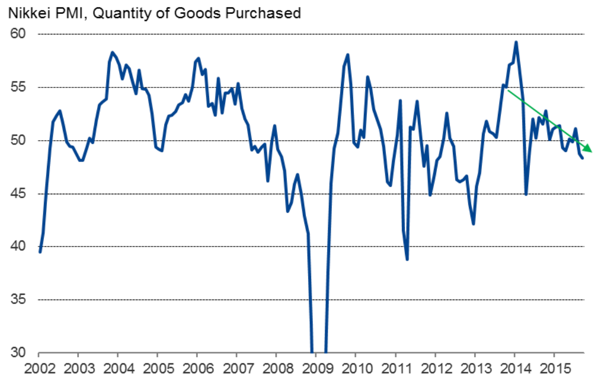


Sources: Markit, Nikkei, Ministry of Finance.

Goods export orders fell for the first time since June of last year, suffering the largest monthly decline since February 2013. Falling orders were blamed on weak demand in key overseas markets, especially in Asia (and China in particular), as well as the appreciation of the yen. Although the yen continues to trade against the US dollar at levels not seen since 2007, the currency has appreciated 2.5% on average in September compared to the Greenback.

Fortunately, rising domestic demand helped drive a third successive monthly improvement in overall new order volumes, but the downturn in exports meant the rate of increase slowed.

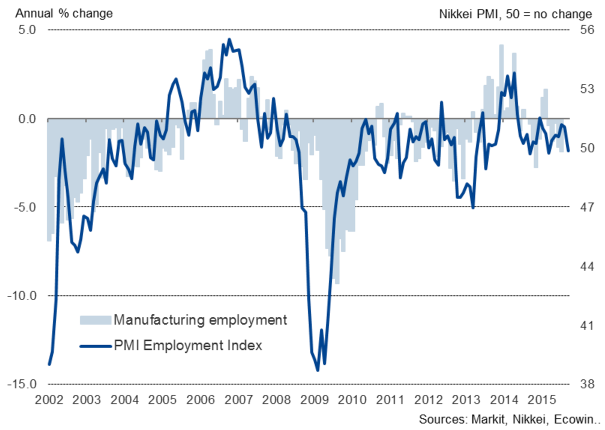
3. Falling backlogs of work and purchasing activity point to future capacity cuts



Sources: Markit, Nikkei.

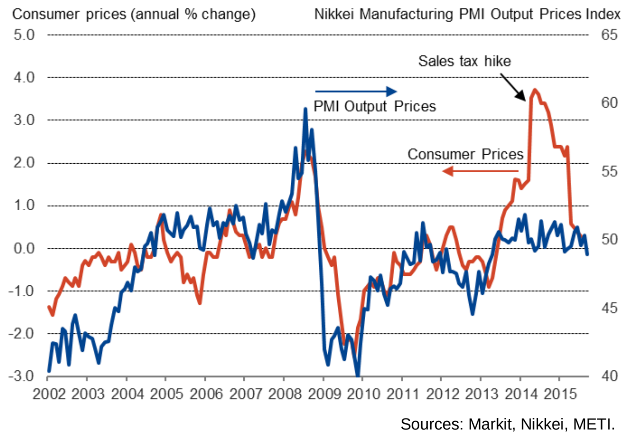
Backlogs of work meanwhile showed the largest decline for ten months, highlighting a dwindling pipeline of orders for manufacturers to rely on to support future production. If new order growth continues to wane, the decline in backlogs of work usually results in manufacturers cutting production and staffing levels. Similarly, the amount of goods bought by manufacturers for use in production showed the steepest decline since April of last year, pointing to lower future production requirements.

4. Employment falls for first time in six months



Although only marginal, a drop in factory headcounts for the first time in six months presents a disappointing picture of manufacturers already seeking to reduce capacity in the face of weakening demand. It was only the third such monthly fall seen over the past two years.

5. Inflation turns to deflation



For a government striving to boost inflation, the fact that manufacturers' cut their selling prices to the greatest extent for two-and-a-half years delivers a final blow. Input prices barely rose, having stabilised in recent months compared to the steep increases seen earlier in the year, which had largely been driven by the weakened yen pushing up import prices.

The lack of input cost inflation and a drop in selling prices suggest that the industrial sector will exert further downward pressure on consumer price inflation, the annual rate of which had already slipped to a mere 0.2% in July, its lowest for just over two years.

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