Japan

Manufacturers report record rise in production

- **Manufacturing PMI highest for nearly eight years as output growth hits record peak**

- **Employment trending higher with job creation at strongest pace for six and a half years**

- **Factory gate inflationary pressures muted**

The Markit/JMMA PMI signalled a survey-record increase in manufacturing output in January, with higher production fueled by the largest monthly surge in new orders for eight years. With employment also rising strongly, the headline PMI (a composite index based on five survey variables) rose to 56.6, its highest since February 2006.

The PMI has signalled a marked turnaround in the manufacturing economy over the past year. At the end of 2012, the survey recorded one of the steepest falls in production seen in the survey history, with the exceptions of the 2008-9 financial crisis and the 2011 tsunami. Since late 2012, the manufacturing sector has staged a strong recovery, with the PMI signalling the return of output growth in March of last year. The pace then steadily picked up such that January saw the largest monthly rise seen since data were first collected in 2001.

The manufacturing recovery has corresponded with aggressive stimulus from the Japanese government and central bank, dubbed 'Abenomics'. This has included a planned doubling of the country's monetary base, increased government infrastructure spending and a pledge to deal with some of the structural issues that have constrained the Japanese economy.

A major consequence of the policies has been a sharp decline in the yen which, although strengthening in recent weeks, has depreciated 25% against the US dollar over the past year, making exports more competitively priced and raising the cost of imports. Exports have rallied strongly as a result, up 17% on a year ago in December with the PMI signalling a further month-on-month increase in January (albeit the smallest rise seen for five months).
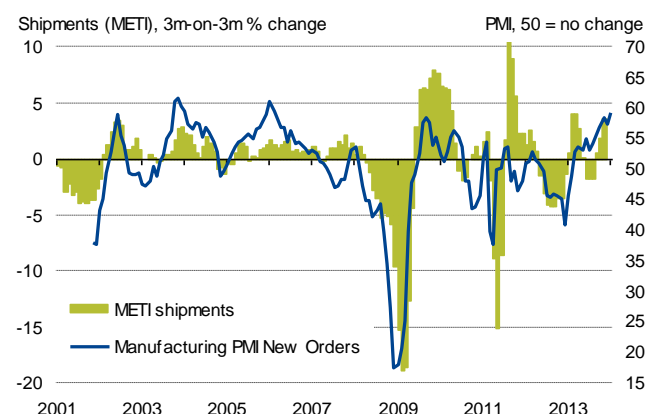
Manufacturing output

Goods exports

Sources: Markit, Ministry of Finance.
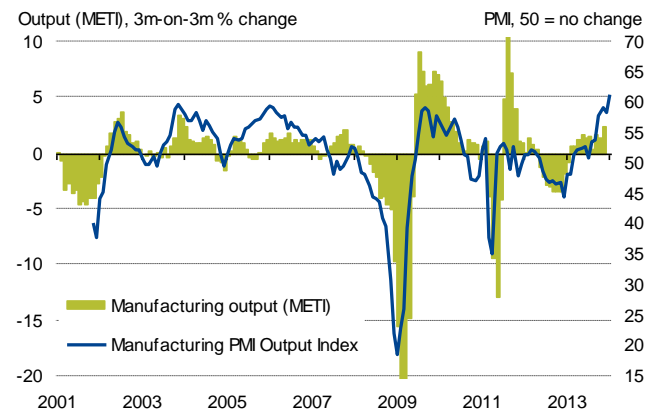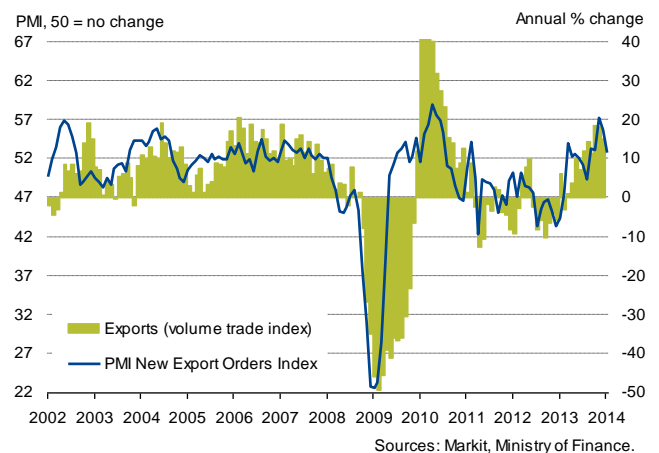
New orders and goods shipments

Despite some easing in export growth in January, growth of overall inflows of new orders hit the highest since February 2006. Data form the Ministry of Economics, Trade and Industry (METI) showed goods shipments rising 3.6% in the three months to November, a rate of increase that the PMI signals will have accelerated further into the new year.

The improvement in demand has encouraged firms to boost production, which the survey suggests is now growing at a quarterly rate of approximately 5% – a rate that is rarely exceeded in Japan.

Increasing numbers of firms have also taking on more staff in recent months. Although the PMI survey's Employment Index dipped very slightly in January, over the past three months the survey has signalled the strongest jobs growth for six and a half years.

Inflationary pressures still muted

The hope is that a tightening labour market will drive up wages, which will in turn help sustain a moderate rate of consumer price inflation in Japan. The government's target is 2%. The rate rose to 1.6% in November, its highest for five years, but the increase can be largely linked to higher import costs, especially energy, the impact of which could soon fall out of the year-on-year inflation calculations.

Manufacturers' input prices rose in January at the fastest rate since early-2011, and selling prices edged higher for a second successive month, but the rate of increase in the latter remained only modest, suggesting that, other than rising import costs, inflationary pressures remain relatively subdued.
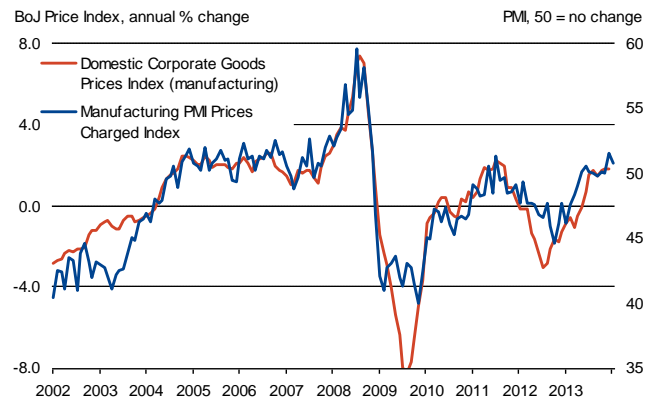
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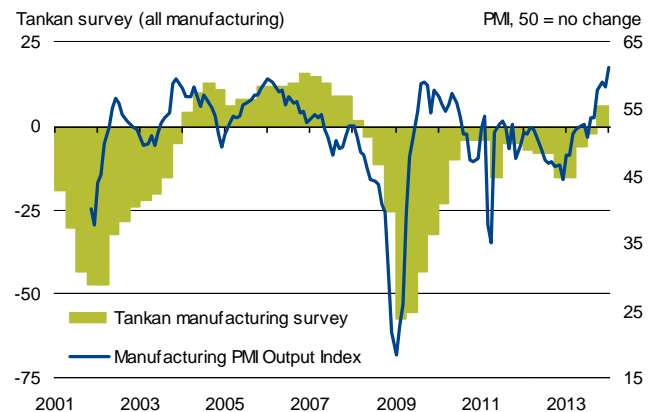For further information, please visit www.markit.com

Manufacturing jobs
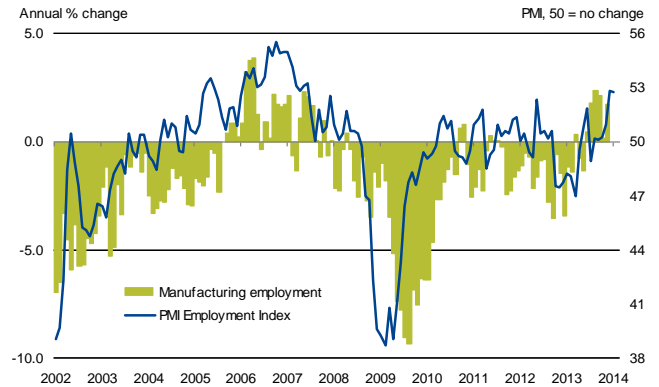
Producer price inflation

PMI and Bank of Japan Tankan surveys

Exchange rate