

Japan

Manufacturers report upturn fuelled by exports, plus rising price pressures

- **PMI survey signals growth for third month running in November, though pace weakens**
- **Export-led upturn offsets weak domestic demand**
- **Employment edges higher**
- **Input prices rise for first time this year**

Japan's manufacturing economy showed signs of further export-led growth in November, with inflationary pressures also picking up.

The flash Nikkei Manufacturing PMI, compiled by Markit, edged lower from 51.4 in October to 51.1 in November, but that was still the second-best reading seen since January. The PMI has now been above 50, indicating an expansion on the prior month, for three consecutive months.

Output and new order growth slowed in November, but in both cases the expansions were the second-best recorded over the past ten months. Similarly, the employment index pulled back from the 30-month high reached in October but still signalled a welcome modest net increase in factory headcounts.

Export-fuelled growth

Key to the expansion has been an improvement in export performance. The survey's index of new export orders signalled an increase in overseas sales volumes for a third successive month in November, halting a seven-month spell of continual decline.

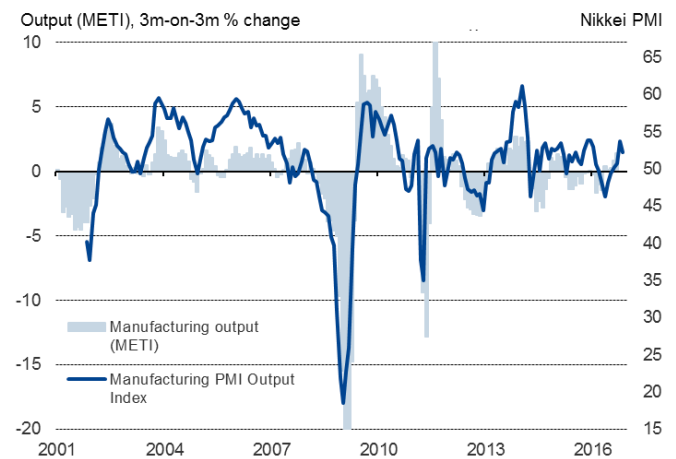
The upturn in overseas sales reflected a combination of factors, including the recent weakening of the yen against the US dollar, reviving demand in many export markets, as well as supply chains returning to normal after earthquakes earlier in the year.

Domestic demand remained disappointingly weak, however, meaning the overall order books rise was in fact only very modest.

The survey data therefore suggest that modest growth in the manufacturing sector, fuelled by exports, is likely to help boost the economy in the fourth quarter.

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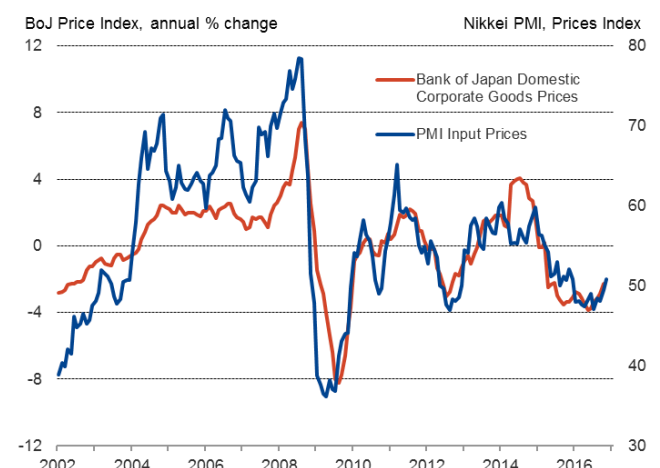
Manufacturing output



Exports



Prices



Cost increase

For a government battling against deflation, the survey also brought good news on the prices front. Manufacturing input costs rose, albeit only moderately, for the first time since December 2015, driven higher by rising import costs associated with the yen's recent depreciation, as well as firmer prices for many commodities.

While average selling prices were unchanged in November, the steadying was a welcome contrast to the deterioration in factory gate prices seen over the prior 11 months.

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