

# Japan

## Manufacturing starts fourth quarter on strong footing

- **Flash Manufacturing PMI hits nine-month high in October**
- **Order books boosted by export trade**
- **Employment situation improves markedly amid brighter outlook**

Japan's manufacturing economy showed further signs of pulling out of its recent malaise in October. Production, orders, exports and employment all picked up to signal the strongest improvement in business conditions seen since January.

The Nikkei flash Manufacturing PMI, a key barometer of the health of the goods-producing sector compiled by IHS Markit, rose for a fifth successive month, up from 50.4 in September to a nine-month high of 51.7 in October.

With manufacturing acting as an important bellwether of the overall economy (and as [an alternative gauge of economic growth](#) to the volatile, and at times potentially misleading, official GDP data), the upturn in the October PMI points to the economy gaining momentum in the fourth quarter after indicating two quarters of near-stagnation.

### Export-led upturn

Output rose sharply, growing at the fastest rate since December, fuelled by a return to growth of new orders after eight months of continual decline. The latest reading bodes well for the manufacturing economy in the fourth quarter, broadly consistent with production rising at a quarterly rate of 2.5%.

Improved export trade was a key driver of the upturn in demand, with the PMI's New Export Orders Index surging to a nine-month high, having recovered well after signalling a sharp downturn earlier in the year.

Part of this turnaround in production and demand is due to supply chains returning to normal since the earthquake-related disruptions earlier in the year, but companies have also reported an upturn in overseas orders, especially in Asia.

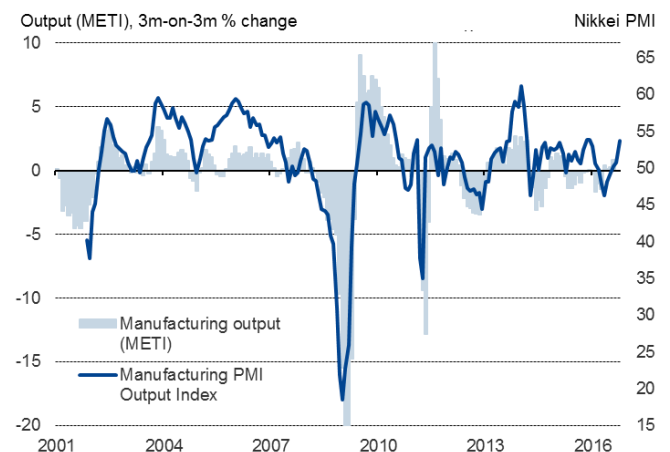
However, other firms noted that the strong yen continued to act as a dampener on export sales, and that domestic demand remained subdued.

### Hiring turn-around

The rise in export sales was nevertheless sufficiently strong to encourage firms to take on extra staff at the fastest rate for two-and-a-half years, suggesting that demand is expected to strengthen further in coming months.

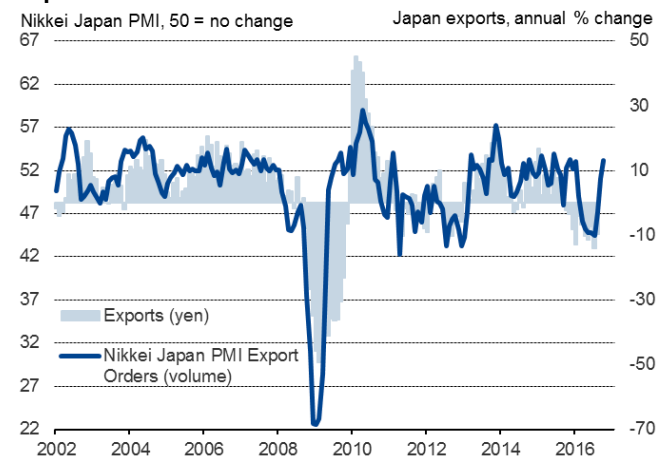
The step up in the rate of hiring adds to indications that the fourth quarter will see the best manufacturing growth of 2016.

### Manufacturing output\*

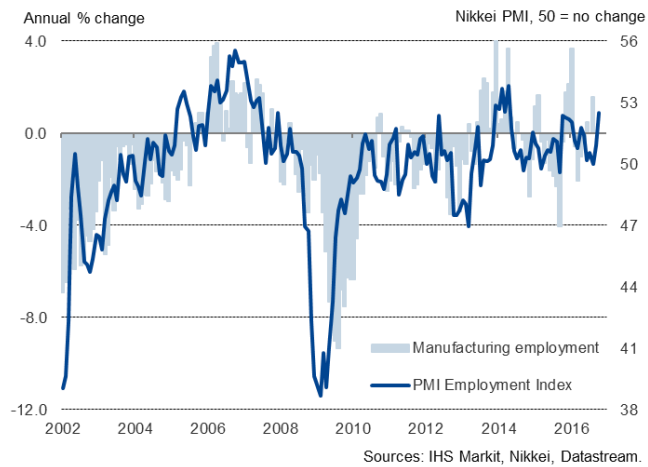


\* The Nikkei PMI Output Index exhibits an 81% correlation with the official measure of manufacturing output shown here, acting with a lead of one month.

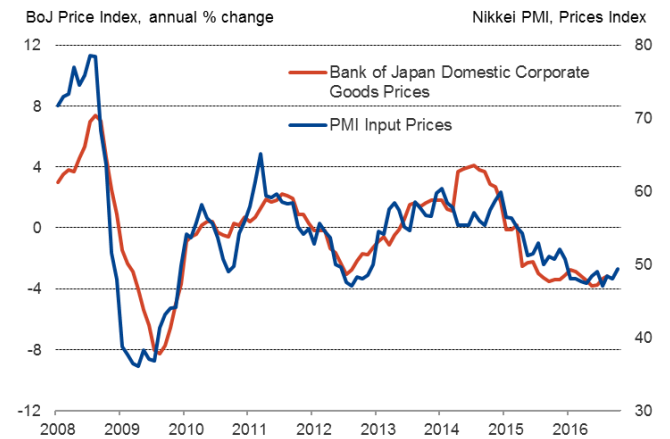
### Exports



## Manufacturing employment



## Prices



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