

## Japan

### PMI heralds return to growth of manufacturing as sales tax impact wanes

- **Manufacturing PMI™ back above 50 for first time since March**
- **Domestic demand revives, but exports fall for third month running**
- **Employment falls for first time in almost a year as firms worry about growth momentum**

Japan's economy is showing signs of bouncing back after being hit by the April 1st sales tax rise. The flash Markit/JMMA manufacturing PMI rose back above the 50 'no change' level in June for the first time since March.

However, the survey also provided some indications that companies remain concerned about the underlying momentum in the economy, most notably by cutting employment for the first time in almost a year. The survey also suggests that, although domestic demand is showing signs of reviving, exports continue to act as a drag on the economy. Pricing power also remains weak.

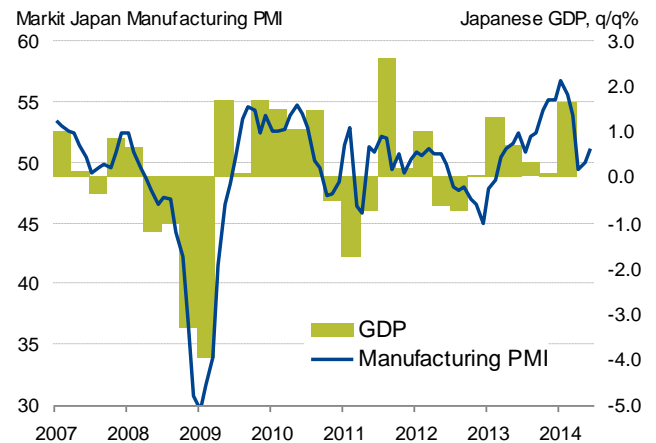
#### Brief downturn after sales tax hike

At 51.1 in June, up from 49.9 in May, the PMI signalled a return to growth after indicating that manufacturing had contracted in April and May; declines which companies had attributed to the hiking of the country's sales tax from 5% to 8% on 1st April.

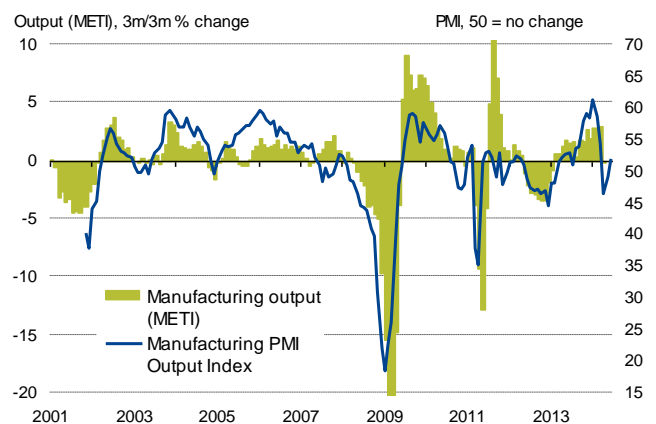
The average PMI reading for the second quarter as a whole came in at 50.1, suggesting the sector managed to avoid a quarterly contraction despite the tax hike. The relative resilience of the PMI in the second quarter is all the more impressive as the first quarter had seen the highest quarterly PMI average for eight years, in part due to companies and households bringing forward purchases before the tax rise.

The manufacturing survey therefore suggests that the economy may have merely slowed sharply in the second quarter after the 1.6% growth surge seen in the first quarter, confounding widespread expectations that the country will have slipped back into contraction.

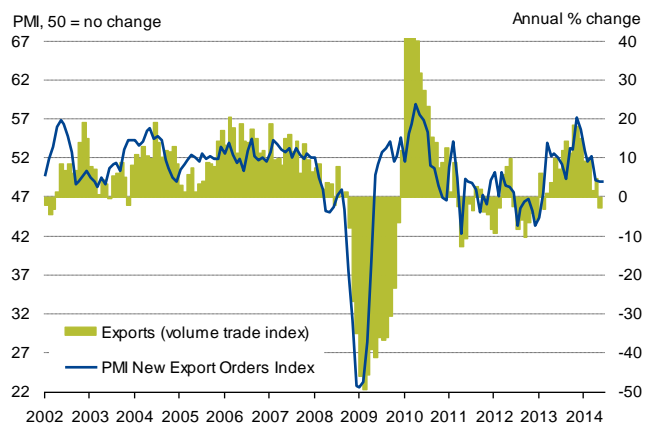
#### Economic growth and the manufacturing PMI



#### Manufacturing production



#### Exports



Sources: Markit, Ministry of Finance.

## Trade drag via ongoing fall in exports

In the detail of the June flash PMI results, manufacturing output and new orders both rose for the first time since March, the latter driven mainly by a revival in demand from domestic customers.

However, not all of the survey detail was encouraging in relation to the ongoing health of the sector. New export orders fell for a third successive month, albeit dropping once again at only a modest pace. The downturn in overseas sales nevertheless sits in marked contrast to the near-continual increase seen over the year to March and suggests trade may act as a drag on the economy in the second quarter.

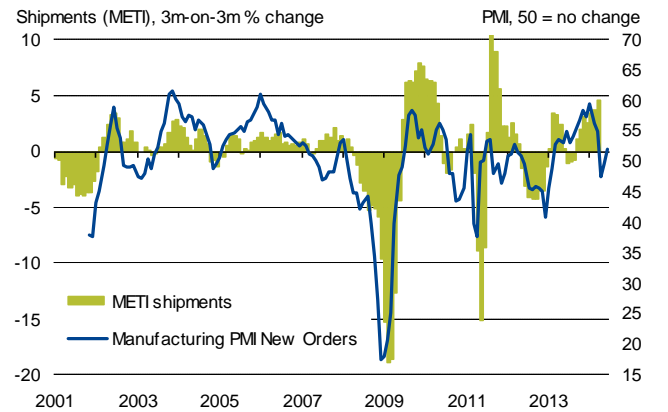
Despite the increased inflows of new work in June, backlogs also continued to fall, down for a third month running, albeit showing the smallest decline over this period.

Worries about the overall health of the order book pipeline prompted firms to cut headcounts marginally on average for the first time since last July. In contrast, manufacturing employment had been growing at the fastest rate for seven years in April.

## Goods prices fall

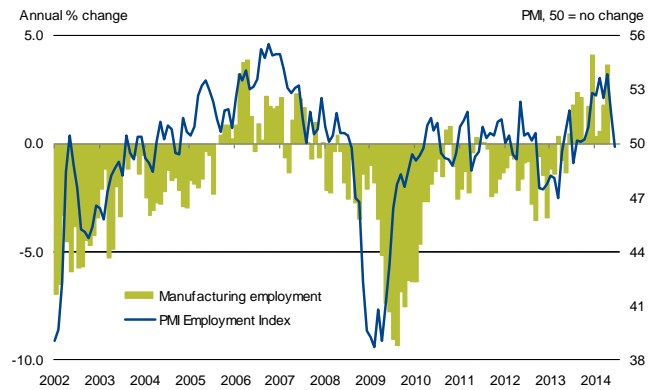
In a further indication that demand remains relatively weak, prices charged by manufacturers for their goods fell slightly again June, having dropped marginally in three of the past four months. Lower prices in part reflected an easing in input price inflation. Prices paid for inputs rose at the slowest rate since last July.

## Order books

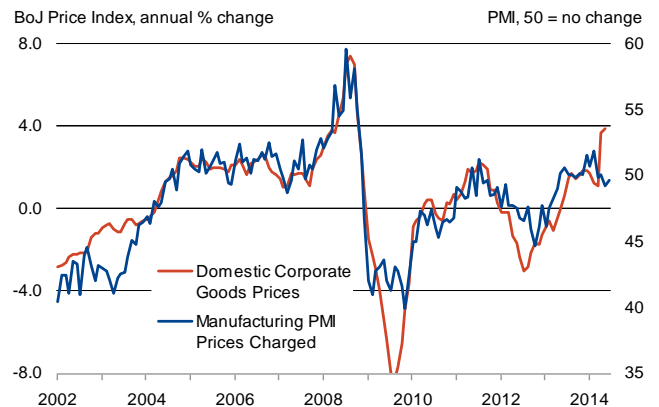


Sources: Markit, NBS (via Ecowin).

## Manufacturing employment



## Corporate goods prices



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