

Japan

Flash PMI rounds off best quarter for Japanese manufacturing since 2014

- Flash Manufacturing PMI dips to 53.2 in March...
- ... but Q1 average PMI is highest in four years
- Prices charged rise amid supply shortages

The March flash PMI rounded off the best quarter for the Japanese manufacturing economy since early-2014. However, a dip in the index suggested the sector may have lost some momentum as it heads into the second quarter, and stretched supply chains could limit future growth.

The manufacturing upturn also continued to be accompanied by sharp rises in input costs, which in turn triggered factories to raise selling prices at the second-fastest rate in nearly ten years.

Best quarter since 2014

The **Nikkei Japan Manufacturing PMI™** slipped to 53.2 in March, down from 54.1 in February and its lowest reading for five months, according to the preliminary 'flash' reading. The headline PMI is a composite indicator designed to provide a single-figure snapshot of manufacturing sector performance.

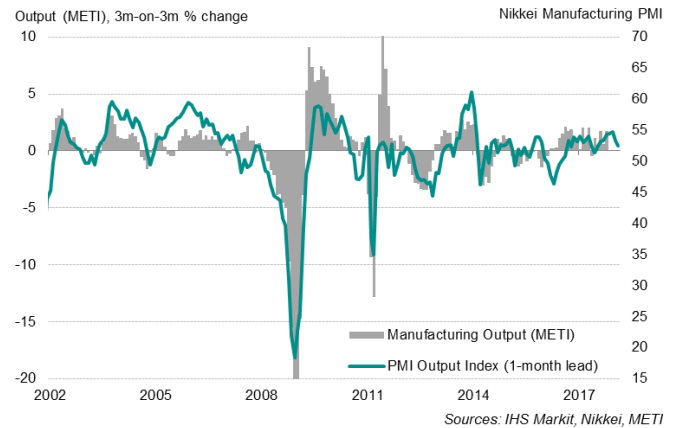
Despite the drop, the latest reading took the average PMI for the first quarter to 54.0, the highest in four years. This suggests that the manufacturing sector has made a solid contribution to overall economic growth in the opening quarter of 2018.

Other survey indicators point to further growth in the sector in coming months. New business inflows and jobs increased at solid rates, albeit slower than in February in both cases. Business expectations of the outlook in the year ahead meanwhile remained upbeat.

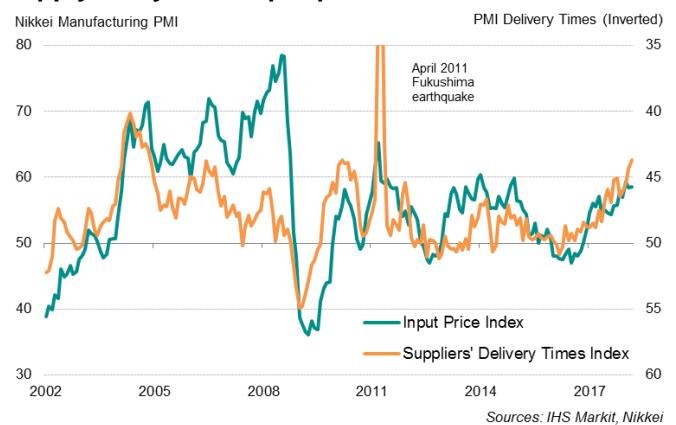
Slower export growth and stronger yen

One area of concern is the extent to which weaker export demand could dampen manufacturing growth. Foreign demand for Japanese manufactured goods has been a key driver for manufacturing activity, but growth of new export orders have slowed to the weakest in five months during March.

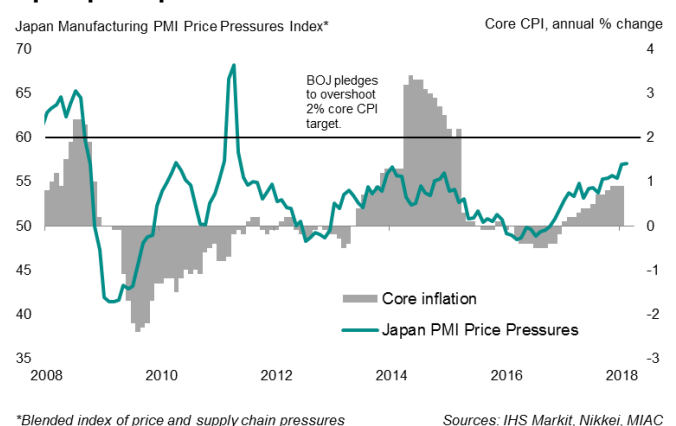
Japan PMI and manufacturing output



Supply delays and input prices



Japan price pressures



Continued...

The recent appreciation in the yen was cited as a reason for slower export growth. The Japanese yen has risen around 6% against the US dollar since the start of the year, strengthening 1.7% in the first three weeks of March.

Supply chain constraints worsen

The survey data also showed further pressure on already-stretched supply chains at the end of the first quarter, extending the current period of delivery delays to nearly two years.

Longer average lead times in part reflected the recovery in the manufacturing sector since late-2016, but were also a symptom of global shortages of certain raw materials, such as steel, plastics and paper.

March in fact saw the greatest deterioration of vendor performance since the 2011 earthquakes. Anecdotal evidence pointed to increased demand and difficulties in sourcing electronic components such as integrated circuits, semiconductors and chip capacitors. There were also reports of supply shortages for other key inputs including various types of steel and silicone. The severe delays in delivery of such key inputs could clearly adversely affect future production capabilities.

Rising costs

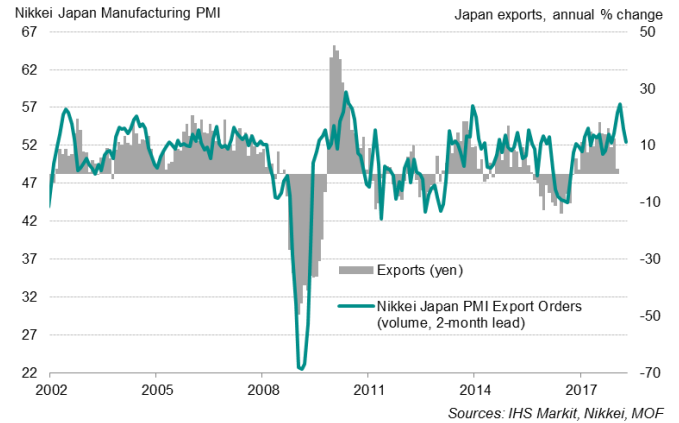
Supply shortages are being commonly associated with higher input costs, as demand exceeds supply. March data showed input cost inflation running at the second highest in the past three years. Firms mentioned increased costs for a host of input materials, including fuel, cotton, timber, rubber, plastics, chemicals and industrial metals.

The need for firms to pass higher costs on to customers saw a further rise in selling prices, which showed the second-largest monthly increase since October 2008.

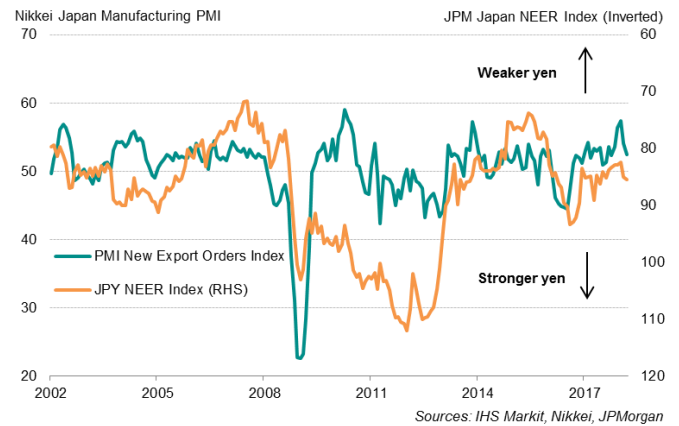
Bank of Japan

In the minutes of the March policy meeting, the Bank of Japan expressed concerns that a prolonged period of a stronger yen will dampen export growth and delay the achieving of the 2% inflation target. Even as the economy continues to show signs of strength, the stubbornly low consumer price inflation will likely temper expectations, at least for the time being, of the central bank considering a tightening of monetary policy.

Japan good exports



Japan PMI exports and yen



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