

Japan

Flash Japan manufacturing PMI signals export weakness and a fall in optimism

- Flash manufacturing PMI improves in August
- Exports falls, so does optimism
- Rising price pressures amid supply shortages

The August flash PMI data indicated that Japan's manufacturing sector continued to expand midway through the third quarter. However, the survey also brought further signs of shrinking overseas demand and sharply higher input prices.

Softer third quarter

The **Nikkei Japan Manufacturing PMI™** rose to 52.5 from 52.3 in July, according to the preliminary flash reading. This took the third quarter average so far to 52.4, though still the weakest for a year.

Despite stronger growth of both output and new orders, the outlook appeared to have darkened. Factory job creation and business confidence were the weakest since late-2016, while export performance deteriorated.

Exports decline and prices rise

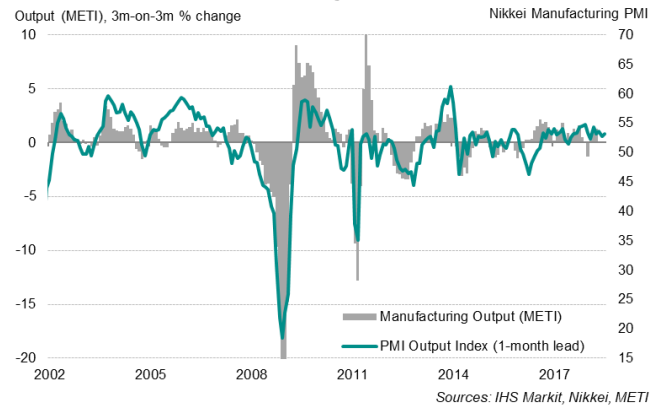
Export orders fell for the second time in three months in August, and have failed to show any growth since May. While rising export flows had powered the economic expansion since the final quarter of 2016, export growth has tapered off dramatically since peaking at the start of this year. The recent export trend has been the worst for two years. With the Japanese economy heavily reliant on trade as a growth driver, the recent fall in exports raises concerns for future growth.

While exports have fallen, prices have risen. August saw the steepest rise in input prices since the 2011 earthquakes, which has in turn pushed firms to raise charges for manufactured goods by the greatest extent for nearly a decade.

What's more, supply chain delays remained severe amid rising shortages of key inputs, suggesting further price increases are on the horizon.

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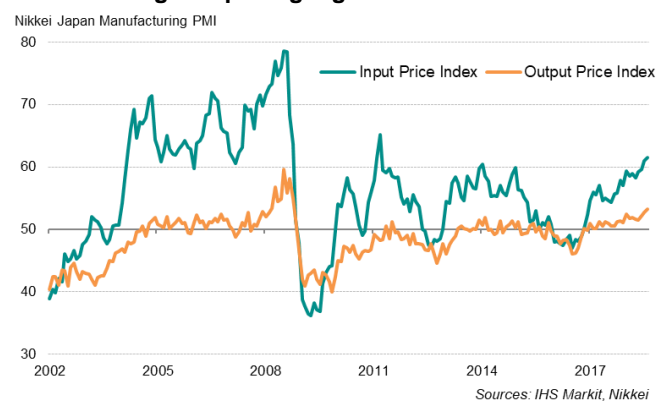
Japan PMI and manufacturing output



Exports



Manufacturing PMI price gauges



In normal circumstances, such inflationary pressure is welcome by policymakers. However, recent price rises have less to do with strong domestic demand but more to do with supply-related and external factors, such as higher global commodity prices, notably for oil and steel.

Reduced optimism

Although future expectations remained positive, the level of business optimism fell to the lowest for nearly two years, partially reflecting concerns relating to rising trade frictions. Other reasons included input shortages and a wane in Olympics-related demand.

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