

Weak Japan manufacturing PMI clouds stronger outlook

Positive sentiment on the Japanese economy has come in for some re-assessment following a further decline in the manufacturing PMI for May.



Source: iStock

52.0

May manufacturing PMI

(Previously 52.7)

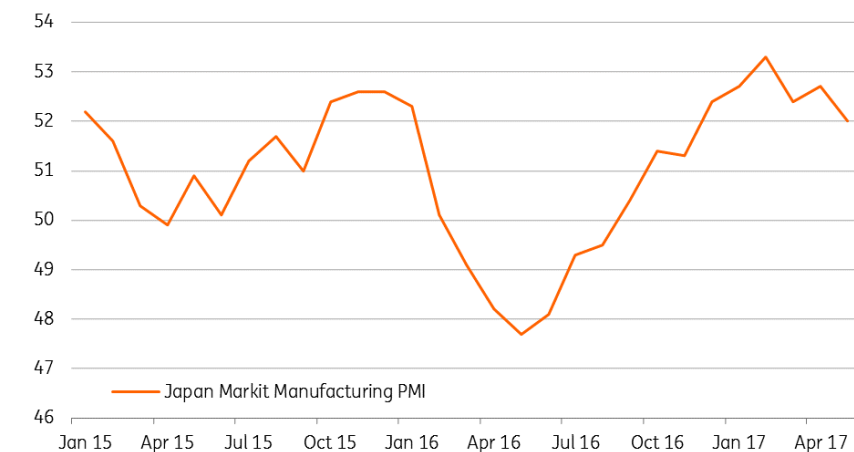
Worse than expected

It's a six month low, but we wouldn't get too alarmed yet.

This is fairly noisy data, and the index still remains comfortably above the 50 boom / bust threshold, with the latest reading within (though at the lower end of) the range that is has fluctuated between since last November.

Weak investment figures in the latest GDP data are likely to be more reflective of the manufacturing sector than services, and weaker new orders data in this latest may hint at some further manufacturing weakness to come.

Japan manufacturing declines in May



Source: Macrobond

But Japan’s economy is less tied to the manufacturing cycle than it once was. And despite an April dip, the service sector PMI is still trending higher.

Even then, these PMI surveys have a very spotty record of tracking broader economic activity trends. GDP tracks neither series well (unless inverted). And on past records, GDP has further to pick up in the short to medium term.

The bottom line

With the picture on Japanese activity at best mixed – we see no change in BoJ policy for the foreseeable future. And for this to change, we will not only need activity indicators to strengthen more consistently, but core inflation to stop trending ever deeper into negative territory.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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