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## au Jibun Bank Japan Manufacturing PMI®

### Renewed contraction in Japan's manufacturing sector

#### Key findings

Output and new orders both contract at the fastest pace since August 2020

Selling price inflation remains among the strongest on record

Backlogged work falls at the quickest pace since October 2020

November 2022 data were collected 11-23 November 2022.

For the first time since January 2021, overall business conditions in Japan's manufacturing sector deteriorated in November amid strong drops in output and new orders, according to latest S&P Global PMI® data. Negative demand trends subsequently led firms to downwardly revise levels of buying activity and also focus on working through backlogged work: the rates of decline signalled by each index dipped to 26- and 25-month lows, respectively. Despite easing from October, cost pressures remained severe in November, as indicated by a rate of selling price inflation that was among the strongest on record. Overall business sentiment, meanwhile, remained positive but weakened from October amid ongoing concerns surrounding future price hikes and global economic conditions.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – fell to 49.0 in November, down from 50.7 in October to signal a renewed deterioration in the overall health of Japan's manufacturing sector. Despite being only mild, the latest negative reading was the first in 22 months and was the joint-lowest since October 2020.

Contributing to the sub-50.0 PMI reading was a sharper contraction in output levels at Japanese manufacturing companies. The downturn was the strongest since August 2020 and reportedly resulted from weak customer demand.

Reflective of the trends in output was a further contraction in order books. The decline was the fastest since August 2020 amid reports of cooling market demand and ongoing price pressures. Foreign demand also declined and at a pace that was the sharpest since July 2020. Panel members suggested that overseas clients were looking to downwardly adjust inventory levels.

To mirror demand, firms reduced input buying at the fastest pace since September 2020. Contrastingly, pre-production inventories continued to expand and at a rate which was among the sharpest on record. Anecdotal evidence suggested that firms were strategically acquiring parts that were considered hard to obtain.

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

#### Comment

Commenting on the latest survey results, Laura Denman, Economist at S&P Global Market Intelligence, said:

*"The economic landscape of Japan's manufacturing sector worsened midway through the final quarter of 2022, according to latest S&P Global PMI data. The headline PMI reading slipped below the neutral 50.0 threshold for the first time since January 2021 and was accompanied by strong reductions in output and new orders. Cooling market conditions, sustained cost pressures and weak underlying demand, both domestically and internationally, were reportedly pivotal factors contributing to the declines.*

*"Meanwhile, there were tentative signs that inflationary pressure was easing in November, as signalled by the slowest rate of input cost inflation since September 2021. That said, selling price inflation remained among the sharpest on record to indicate that price pressures are likely to remain in the coming months and contribute to low levels of demand. Concerns surrounding price pressures also dampened business sentiment which did weaken slightly from October. That said, the degree of confidence remained above its historical average amid hopes for a sustained improvement on COVID-19 conditions and successful product launches."*

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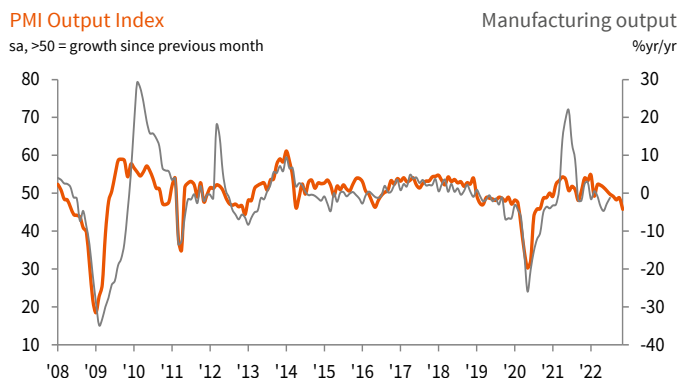
Meanwhile, the current lull in demand allowed firms to focus on working through backlogged work and building-up stocks of finished goods. Levels of outstanding business depleted at the quickest pace since October 2020 while post-production inventories accumulated for the sixth in as many months.

In spite of the falls registered in output and orders, November data was indicative of a twentieth successive month whereby staffing levels at Japanese manufacturing firms increased. That said, the rate of job creation eased to a three-month low amid frequent reports of retiring employees.

As has been the case since February 2020, supplier performance deteriorated in November. Material shortages, specifically for semiconductors, were reportedly the pivotal driver of the latest deterioration.

Turning to prices, cost pressures eased slightly in November but remained historically sharp. Input cost inflation was marked but dipped to a 14-month low. Currency weakness and inflation across a broad range of inputs were named as the key factors contributing to the latest round of input cost inflation. Meanwhile, charged prices continued to rise at a rate among the sharpest on record as firms reportedly continued to partly shift cost burdens onto their clients in the form of higher selling prices.

Finally, business sentiment remained optimistic in November but weakened from October.



Sources: au Jibun Bank, S&P Global, METI.

## Contact

au Jibun Bank  
[Grp-S-I-Room@jibunbank.co.jp](mailto:Grp-S-I-Room@jibunbank.co.jp)

Laura Denman  
 Economist  
 S&P Global Market Intelligence  
 T: +44-134-432-7221  
[laura.denman@spglobal.com](mailto:laura.denman@spglobal.com)

SungHa Park  
 Corporate Communications  
 S&P Global  
 T: +82 2 6001 3128  
[sungha.park@spglobal.com](mailto:sungha.park@spglobal.com)

### Methodology

The au Jibun Bank Japan Manufacturing PMI® is compiled by S&P Global from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

November 2022 data were collected 11-23 November 2022.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan's largest bank –. As a "smartphone-centric bank", au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au Jibun Bank provides unique services such as "Smartphone ATM", a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and "AI Foreign Currency Forecast", a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

As a member of the "au Financial Group", au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the "Smart Money Concept" and enhance customer experience.

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### About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).