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au Jibun Bank Japan Manufacturing PMI®

Manufacturing output returns to growth in May

Key findings

Renewed rises in production and incoming new work

Business optimism reaches highest since January 2022

Supplier performance stabilises in May

May 2023 data were collected 12-23 May 2023.

Business conditions improved across the Japanese manufacturing sector during May, driven by marginal rises in output and new order volumes. The latest survey also highlighted greater confidence regarding the year ahead outlook, with optimism picking up to its highest since the start of 2022.

Supplier performance stabilised in May, with average lead times shortening for the first time since January 2020. Manufacturers typically commented on improved materials availability, although there were again reports citing shortages of semiconductors for industrial use.

At 50.6 in May, up from 49.5 in April, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – registered above the neutral 50.0 value for the first time since October 2022. The latest reading was broadly in line with the long-run series average (50.7) and signalled a modest overall improvement in operating conditions.

May data pointed to a rise in output levels for the first time since June 2022 and, although only marginal, the rate of expansion was the fastest for one year. Renewed growth of manufacturing production was attributed to improving domestic economic conditions and a subsequent turnaround in client spending.

Total new work increased at the fastest pace since April 2022, albeit only marginally overall. Greater business and consumer confidence had helped to lift overall customer demand, according to survey respondents. That said, a number of firms noted that overstocked clients had acted as a headwind to new business growth in May. Lower export sales, especially to China, also held back total new order growth during the latest survey period.

Employment numbers increased only slightly in May, with the rate of job creation the slowest in the current 26-month sequence of growth. Staff hiring was linked to rising production requirements, but many manufacturers also commented on the non-replacement of retiring staff. Adding to signs that goods producers had sufficient capacity to

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

Commenting on the latest survey results, Tim Moore, Economics Director at S&P Global Market Intelligence, said:

"The latest au Jibun Bank PMI survey highlights a decisive turnaround in manufacturing sector performance during May and brings to an end a six-month period of weakening business conditions.

"A recovery in economic conditions at home helped to lift client spending, which offset another month of subdued demand in key export markets. Moreover, the rebound in total new orders was achieved against a backdrop of customer destocking as global supply chains normalise and less cautious inventory strategies take hold.

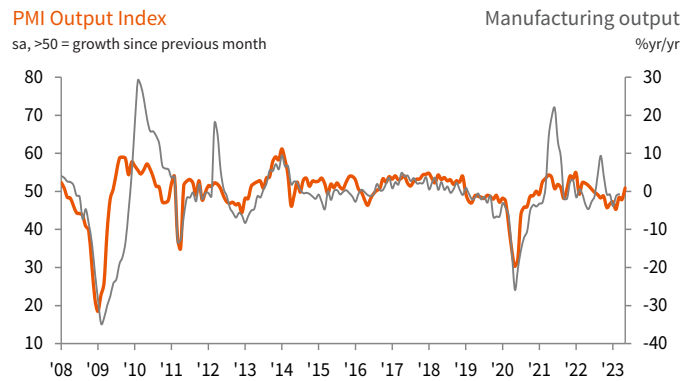
"Supplier performance improved for the first time since January 2020, which helped to boost business confidence and bring down purchase price inflation across the Japanese manufacturing sector in May. The latest overall rise in input prices was the weakest for just over two years. Hopes of a reduced squeeze on operating margins, alongside rising confidence regarding the broader economic outlook, underpinned the strongest output growth expectations among manufacturing firms since the start of 2022."

meet rising new orders, the latest survey indicated that backlogs of work decreased for the eighth month in a row.

Despite higher levels of new work, latest data indicated another solid decrease in purchasing activity. Volumes of input buying have fallen in each month since August 2022. Stocks of purchases nonetheless increased at the fastest pace for six months, reflecting efforts to build safety stocks and improved supply conditions. The seasonally adjusted Suppliers' Delivery Times Index registered above the crucial 50.0 no-change value for the first time in over three years in May.

An improved balance between demand and supply helped to moderate overall input price inflation across the manufacturing sector. The latest rise in average cost burdens was the slowest since April 2021. Efforts to pass on higher raw material prices, energy bills and staff wages meanwhile led to another robust rise in output charges during May, but the rate of inflation eased to a three-month low.

Finally, more than four times as many manufacturers (34%) expect an increase in production volumes over the year ahead as those that forecast a decline (8%). The resulting index pointed to the highest level of optimism since January 2022. Survey respondents often cited the improving outlook for materials availability, alongside hopes of a further rebound in domestic economic conditions and an end to customer destocking.



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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.

May 2023 data were collected 12-23 May 2023.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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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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.
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