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au Jibun Bank Japan Manufacturing PMI®

Softer deterioration in Japanese manufacturing conditions

Key findings

New order volumes show further signs of stabilising

Strongest rise in output charges for five months

Input delivery times lengthen only slightly

April 2023 data were collected 12-21 April 2023.

The downturn in the Japanese manufacturing sector softened at the start of the second quarter of 2023. Weak domestic and global economic trends reportedly led to sustained contractions in production and order books. That said, the latter fell at the slowest rate for nine months. Businesses also signalled that supply chains continued on their path to recovery, as average lead times lengthened by the smallest degree in the current 39-month sequence of deterioration. Concurrently, input costs rose at the slowest pace since August 2021. That said, input price inflation was still historically elevated, and contributed to a steeper rate of charge inflation that was the strongest since last October.

The headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – rose from 49.2 in March to 49.5 in April to indicate a sixth successive deterioration in the health of the Japanese manufacturing sector. The latest reading was only mild and the softest reduction in the sequence.

The improvement in the reading came from a slower reduction in total new order inflows. Firms registered a tenth consecutive reduction, but the rate of contraction was the softest since last November. Weak economic conditions domestically and globally reportedly weighed on demand and client confidence, though some firms mentioned that inbound demand had stabilised somewhat. As such, the rate of reduction in foreign demand for Japanese manufactured goods eased to the slowest for six months.

Despite this, production levels at Japanese goods producers in April decreased at a moderate pace that was nonetheless sharper than that recorded in March.

As new orders remained in contraction territory, Japanese manufacturers allocated resources to complete outstanding business, as indicated by a seventh successive reduction in backlogs of work. Moreover, firms also took the opportunity to continue building up their workforces in preparation for an eventual demand recovery. Employment levels rose for the twenty-fifth month in a row and at the strongest pace since last October.

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

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

"April PMI data saw the Japanese manufacturing sector remain in contraction territory at the start of the second quarter of 2023. However, the rate of deterioration eased to the softest in the current six-month sequence, owing mainly to the slowest reduction in new order inflows since last July."

"Firms also commented that supply chains had continued on the path to normalisation, with companies signalling the softest lengthening in delivery times in the current 39-month sequence. Firms often attributed this to the weaknesses in demand, however, which had reduced pressure on material availability. Moreover, the weakness in demand contributed to an accelerated decline in output volumes."

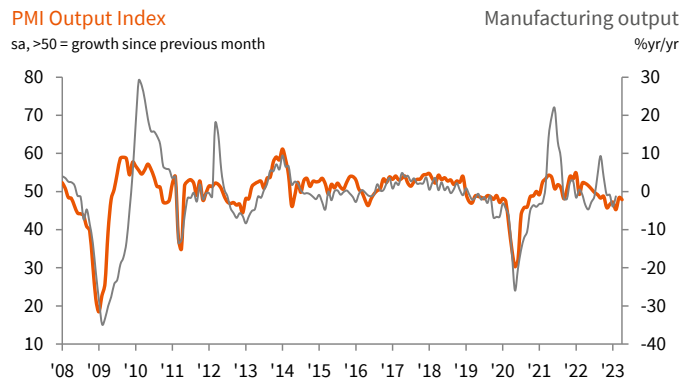
"There was also a mixed picture on the prices front. Overall inflationary pressures remained historically elevated, however manufacturers signalled that input prices rose at the softest pace since August 2021. However, firms sought to protect profit margins so increasingly passed higher cost burdens to customers. As a result, the rate of charge inflation accelerated to a five-month high."

There was evidence to suggest that supply pressures eased further in at the start of the second quarter of the year. Vendor performance deteriorated to the smallest extent in the current sequence which began in February 2020 as improved material availability in the wake of weakened demand allowed for a near-stabilisation in supply chains.

Manufacturers commented that inflationary pressures remained historically sharp. Average cost burdens faced by manufacturing firms increased amid ongoing reports of input shortages and exchange rate weakness. That said, the rate of input price inflation was the slowest since August 2021. Firms sought to protect profits, however, and increasingly passed rising costs to clients through higher selling prices. As a result, output charges were raised at the strongest rate for five months.

April data was indicative of a sustained trimming of input buying at Japanese manufacturing firms. The decline was solid overall and quickened from the previous survey month, reflecting the sharper downturn in output. Nevertheless, holdings of both pre- and post-production inventories accumulated in April, albeit only modestly.

The year-ahead outlook for output remained positive during April. Firms were hopeful of a strong market recovery which would encourage new product launches and demand improvements. Business confidence was robust overall, and little-changed from March's 14-month high.



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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.

April 2023 data were collected 12-21 April 2023.

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

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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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