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au Jibun Bank Japan Manufacturing PMI[®]

Manufacturing conditions improve at softest pace for three months

Key findings

Softer expansions in production and incoming new business

Supply chain disruption encourages firms to bolster safety stocks

Input prices rise at fourth-fastest pace in survey history

May 2022 data were collected 12-24 May 2022.

Japanese manufacturers indicated that operating conditions improved at a solid, albeit softer rate in May. Both output and new orders rose at slower rates midway through the second quarter, with rates of growth easing to the weakest in the respective three- and eight-month sequences of expansion. The slowdown in demand was coupled with reports of increased supply chain pressures, as delivery delays and material shortages added further upward pressure on costs. Manufacturers signalled that input prices had risen at the quickest rate for nearly 14 years, and the fourth-sharpest pace in the survey history. Firms also noted that sustained disruption had encouraged them to boost safety stocks, with holdings of raw materials increasing at the second-strongest rate since the series began.

The headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index*[™] (PMI) – a composite single-figure indicator of manufacturing performance – dipped slightly from 53.5 in April to 53.3 in May, signalling a solid albeit softer improvement in the health of the sector. Moreover, the increase marked the softest improvement in manufacturing conditions since February.

Latest data pointed to a mild expansion in output. While growth was recorded for the third month in a row, the rate of increase was the slowest in this sequence. Higher production levels were often associated with rising new orders, although some firms noted that higher prices and material shortages had dampened growth.

Similarly, new orders among Japanese manufacturers rose at slower rate. The pace of expansion was only marginal and the softest recorded in the current eight-month sequence of growth. Higher sales were linked to improved client confidence domestically, while the rise in COVID-19 cases in China in particular had dampened international sales. As such, new export orders declined for the third successive month and at the sharpest pace since July 2020.

Japanese goods producers indicated a further rise in purchasing activity in May, the eighth in as many months. The rate of growth eased from that seen in April amid difficulties sourcing and receiving

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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:

"Japanese manufacturers noted a softer improvement in the health of the sector for the second successive month in May. While pointing to a solid improvement overall, the latest Manufacturing PMI was the lowest recorded since February. Both output and new orders rose at softer rates, with the latter rising at the weakest pace for eight months amid sustained supply chain disruption and raw material price hikes.

"Disruptions were exacerbated by renewed lockdown restrictions across China, and contributed to a further sharp lengthening of suppliers' delivery times. The deterioration in vendor performance was the joint-quickest since last October and robust overall. Firms cited difficulties in sourcing and receiving raw materials as a key factor behind a steep expansion in safety stocks, with manufacturers indicating the second-fastest rise in pre-production inventories in the survey history.

"Material shortages and logistical issues were also partly behind a sustained surge in costs. Average input prices rose at a substantial rate that was the fourth-highest on record. Firms widely attributed the rise to higher material and fuel costs, especially for oil and semiconductors.

"Confidence regarding the year-ahead outlook strengthened however, underpinned by hopes that an end to the pandemic and Russia-Ukraine conflict would induce a broad recovery in demand and supply chains. This is in line with an estimated 2.9% increase in industrial production in 2022."

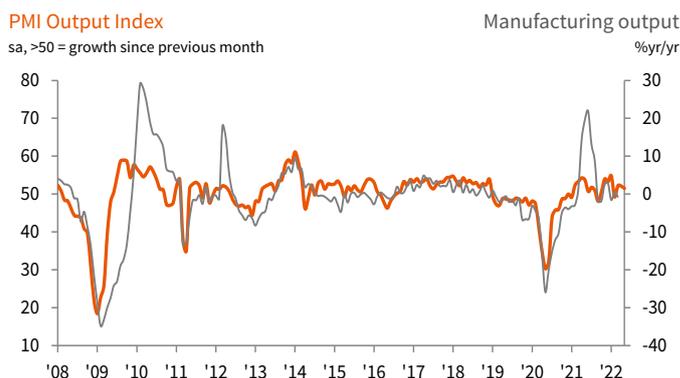
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inputs amid delivery delays and material shortages. In fact, average lead times lengthened at the joint-strongest rate for seven months. In an effort to protect against delays, manufacturers sought to build safety stocks, with inventories of raw materials and semi-finished goods rising at the second-fastest pace on record.

May data signalled further rises in average cost burdens among Japanese manufacturers. The rate of input price inflation was substantial and the fourth-quickest in the survey history. Firms continued to partially pass on costs to clients to protect margins, as output prices rose at a further marked rate. That said, the rate of inflation slowed for the first time in three months.

There were indications of greater pressure on production capacity during May, as the rate of backlog accumulation accelerated to the strongest since April 2021. Japanese manufacturers looked to increase capacity in response. Workforce numbers were raised for the fourteenth month running, with the rate of job creation quickening from the previous survey period.

Looking ahead, business optimism at Japanese manufacturers strengthened midway through the second quarter as firms continued to forecast a rise in output in the coming year. Manufacturers predicted that the impacts of the pandemic and Russia-Ukraine war would dissipate and drive a strong recovery in demand and supply chains.



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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 2022 data were collected 12-24 May 2022.

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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