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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector moves closer to stabilisation in October

Key findings

Output and new orders both fall at softer rates

Export orders increase for first time since November 2018

Business optimism reaches highest since July 2017

October 2020 data were collected 12-23 October.

The latest PMI® data pointed to a further move towards more stable operating conditions across the Japanese manufacturing sector in October. Panel members reported further, albeit softer, falls in output and new orders, with companies continuing to report an overall negative impact of the coronavirus disease 2019 (COVID-19) pandemic on production and client demand. Meanwhile foreign demand for Japanese goods rose for the first time in close to two years as external markets gradually recovered. Firms in the manufacturing sector were increasingly optimistic of a rise in output over the coming year, as many expected the pandemic to end and to return to pre-crisis demand conditions.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance - improved to 48.7 in October from 47.7 in September. Although signalling a further deterioration in the overall health of the sector, the rate of contraction was the softest since January and only mild. The latest figure also represents a far slower deterioration in operating conditions compared to those seen at the height of the pandemic in the second quarter.

The higher headline index reading was supported by softer falls in output and new work. The latest contraction in production was the slowest since November 2019 and mild. This nonetheless extended the current sequence of decline to 22 months, with companies attributing recent weaknesses to the pandemic.

Similarly, subdued trading conditions continued to weigh on overall new business for Japanese manufacturing firms, as new orders remained in contraction territory. That said, the pace of decline eased to its softest since July 2019 and was only modest. New export orders meanwhile recorded an expansion for the first time in close to two years in October, as manufacturers pointed to improving demand in external markets, particularly within the Asia-Pacific region.

However, the rate of job cuts quickened in October, following a near-stabilisation in the workforce in September. Firms commonly cited

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"October PMI data pointed to a further easing in the downturn across the Japanese manufacturing sector, as firms reported slower falls in output and new orders. Japanese manufacturers will be particularly buoyed by the return to growth in export orders, as demand across key overseas markets such as China picked up."

"The sector reported a weakening employment trend in October, however, as staff numbers fell at a faster pace compared to September. Although ongoing issues surrounding an ageing population have held back the Japanese labour market, recent contractions in staffing levels have been exacerbated by the COVID-19 pandemic, as voluntary leavers have not been replaced."

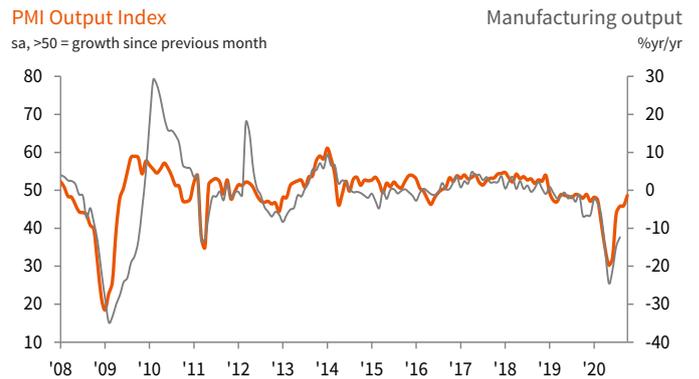
"An encouraging finding in October was the sustained improvement in business optimism. Approximately 38% of Japanese manufacturers surveyed foresee an increase in output over the coming 12 months, strengthening the index to its highest reading in over three years."

a lack of demand due to COVID-19 as a key driver of job cuts. Spare capacity remained within Japanese manufacturers, as backlogs of work fell for the twenty-second month running, albeit at the softest pace since January.

In response to falling output and orders, purchasing activity declined further in October. Despite a softer fall compared to September, the pace of contraction was solid overall. Japanese manufacturers also noted difficulties in sourcing raw materials and inputs due to longer supplier delivery times. Furthermore, holdings of both raw materials and finished goods decreased further in October.

Input cost inflation strengthened in October and, though modest overall, was the strongest since January. Firms often linked a rise in average cost burdens with higher raw material and transportation costs. Average output charges meanwhile rose for the first time since January, as firms partially passed on some of the increases in input costs to customers.

Business confidence regarding activity over the next 12 months improved again in October. Expectations for output were at their highest since July 2017, reflecting hopes of a return to pre-crisis demand conditions once the virus subsides.



Contact

au Jibun Bank
Grp-S-I-Room@jibunbank.co.jp

Usamah Bhatti
Economist
IHS Markit
T: +44 1344 328 370
usamah.bhatti@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

Methodology

The au Jibun Bank Japan Manufacturing PMI® is compiled by IHS Markit 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.

October 2020 data were collected 12-23 October.

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

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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