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au Jibun Bank Japan Manufacturing PMI[®]

Manufacturing downturn gathers pace in May

Key findings

Production falls at sharper rate as COVID-19 disruption continues

New orders plummet to an extent not seen since global financial crisis

Suppliers' delivery times lengthen sharply once again

Data were collected 12-21 May 2020.

According to the latest PMI survey, the manufacturing downturn in Japan accelerated midway through the second quarter as the global coronavirus disease 2019 (COVID-19) pandemic significantly reduced workloads, limited production capacity and heavily disrupted supply chains.

Spare capacity continued to rise substantially, although employment levels approached stabilisation following April's sharp reduction.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)[®] – a composite single-figure indicator of manufacturing performance – recorded below the neutral 50.0 mark yet again in May, falling for a fourth successive month to signal a sharper rate of deterioration in the health of the sector than in April. At 38.4, the headline figure slumped from 41.9 in the previous month to its lowest since March 2009.

May survey data revealed a severe and accelerated drop in manufacturing production which was the strongest since March 2009. Approximately 55% of companies recorded lower output volumes when compared to April, which anecdotal evidence suggests was due to production suspensions and sinking demand conditions. Some firms managed to remain operational, but at a capacity that was significantly below potential.

New orders placed with Japanese goods producers fell at the fastest rate since February 2009, with the respective index now down by 22 points since the start of the year. The rapid deterioration in demand during May was overwhelmingly linked to the COVID-19 pandemic, which had drastically reduced clients' requirements and led some to cancel orders.

Demand from international markets also slumped at a substantial pace during May. Around 46% of panel members registered a decline in exports when compared to April, while only 7% reported an increase.

With workloads falling at an accelerated pace, latest survey

continued...

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"While Japan has lifted the state of emergency across most parts of the country, making way for a restart of its economy, latest survey data indicated that the manufacturing sector downturn is playing catch-up."

"May survey data revealed that production volumes are falling at an even faster rate than in April. Anecdotal evidence tells us that this is the result of collapsing demand, which according to the PMI, fell at the sharpest rate since the global financial crisis. Exports also fell drastically, highlighting the extreme challenges that global manufacturers will be faced with in the coming months as countries emerge from lockdown."

"While easing lockdown measures will be positive for the economic environment, it is clear that dislocations will remain, which will continue to hinder supply chains, impact global trade and make operating conditions challenging for manufacturers."

"Until we see a sustained improvement in demand, manufacturing conditions are likely to remain fragile."

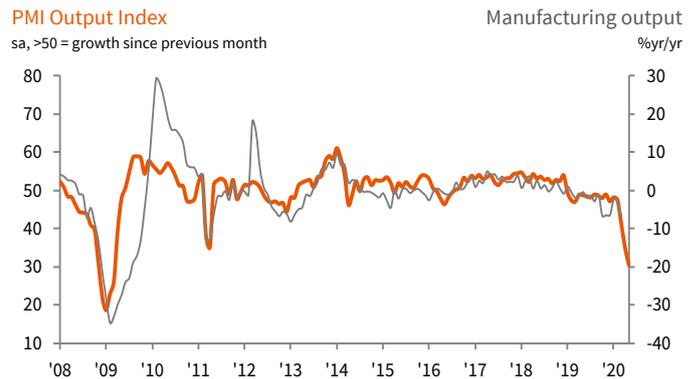
data pointed to a sharper rise in spare capacity across Japan's manufacturing sector. Backlogs of work fell at the strongest rate since March 2009 amid collapsing order book volumes and cancellations by clients.

Despite this, employment only fell marginally compared to the previous month. This contrasted with April, where jobs were cut to the greatest extent since mid-2009. The large majority of firms (88%) reported unchanged workforce numbers in May.

Disruptions relating to the coronavirus pandemic continued to adversely impact supplier performance in May. Input lead times lengthened sharply, which firms attributed to transportation issues, labour shortages at vendors and suspended production lines across the supply chain.

Elsewhere, latest survey data showed a third successive monthly decline in operating costs. Panellists attributed this to lower prices for certain raw materials, particularly oil. Consequently, firms reduced their output charges.

Looking ahead, firms remained pessimistic towards the outlook for output. Many firms attributed their negativity to fears of a protracted global economic downturn.



Sources: au Jibun Bank, IHS Markit, METI.

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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.

May 2020 data were collected 12-21 May 2020.

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

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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