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au Jibun Bank Japan Manufacturing PMI®

Modest deterioration in Japanese manufacturing conditions in January

Key findings

Sustained falls in production and incoming new work

Backlogs decline at strongest rate since August 2020

Softest rise in output charges for 31 months

January 2024 data were collected 11-24 January 2024.

Business conditions across the Japanese manufacturing sector deteriorated at a modest rate in the start of 2024, one that was little-changed from that seen in December. Weakness was sustained across the two main components of the PMI, with continued falls in output and new orders, while employment and stocks of purchases also negatively impacted the headline reading. The weakness in new orders was of notable concern as the absence of incoming business led to the sharpest reduction in outstanding work in nearly three-and-a-half years. Manufacturers also faced a steep rise in price pressures in January, though this did not translate into a stronger rise in output charges, which rose at the slowest pace since June 2021.

At 48.0 in January, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose fractionally from 47.9 in December to signal a further modest deterioration in the health of the sector.

Total new work decreased for the eighth month running in the latest survey period, and at a sharp rate overall. Weak domestic and global economic conditions were cited as key headwinds to new order intakes. Lower export sales, especially in Mainland China and the wider Asia-Pacific region, also held back total new orders at the start of the year.

January data pointed to a sustained fall in output levels that was nonetheless the softest recorded for three months. The latest reduction was often attributed to subdued economic conditions and weak new order inflows.

Following the trend for new orders, backlogs fell for the sixteenth month in a row in January, with the rate of depletion the strongest since August 2020. Concurrently, manufacturers lowered employment levels for the third time in the past four months as manufacturers noted the non-replacement of voluntary leavers.

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global PMI.

Comment

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

"The latest au Jibun Bank PMI survey highlights a sustained downturn in manufacturing sector performance at the start of 2024. The headline reading was little-changed from that seen in December and indicative of a modest deterioration in the health of the sector.

"Depressed economic conditions at home and globally weighed heavily on the sector, as both output and new orders were scaled back further, with the decline in the latter remaining notably sharp.

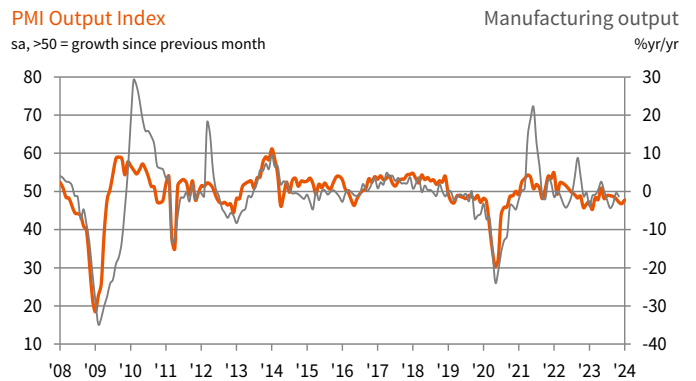
"Concerns remained over activity in upcoming months as well, with manufacturers signalling the sharpest depletion in outstanding business since August 2020. Normally a bellwether for near-term activity, the sharper reduction was often attributed to the absence of new orders, thus allowing firms to redirect capacity to complete backlogs.

"Japanese manufacturers faced additional pressures on the price and supply front. Cost burdens reportedly rose at a marked pace yet again amid high raw material, labour and fuel prices, while manufacturers signalled a steeper deterioration in supplier performance that was the worst for three months. Anecdotal evidence often pointed to delivery and logistical delays, with some firms noting the impact of the disruption in the Red Sea."

Latest data indicated a sharp decrease in purchasing activity. Volumes of input buying have fallen in each of the last 18 months, though the latest reduction eased slightly from the previous survey period. At the same time, stocks of purchases fell for the first time since last September, albeit only marginally. Firms noted that lower sales and destocking efforts led to lower instances of purchasing and stockpiling. Firms also mentioned a steeper deterioration in vendor performance in January, and one that was the most marked for three months.

Despite softer pressures on demand, input prices continued to rise at a robust rate in January. The latest rise in cost burdens was little-changed from December and often attributed to higher raw material, oil, fuel and labour costs, alongside a weaker yen that also pushed up international purchase prices. That said, manufacturers looked to absorb some of these costs as output charges rose at only a moderate pace that was the slowest since June 2021.

Looking ahead, confidence regarding the 12-month outlook for output remained robust at the start of the year. Optimism dipped slightly from December but remained well above the series average and was often attributed expected improvements in market demand, especially for semiconductors, while other firms looked forward to the mass production on newly-launched products.



Sources: au Jibun Bank, S&P Global PMI, METI via S&P Global Market Intelligence.

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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.

January 2024 data were collected 11-24 January 2024.

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