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au Jibun Bank Japan Manufacturing PMI®

Sustained contraction in Japan's manufacturing sector

Key findings

Output and new orders fall at stronger rates

Output price inflation eases to softest since July 2021

Business confidence remains elevated

November 2023 data were collected 09-23 November 2023.

Overall business conditions among Japanese manufacturers deteriorated for the sixth successive month in November amid stronger reductions in both output and new orders. Firms commonly associated the declines to weak customer demand in domestic and international markets, as well as a lack of new product launches. At the same time, manufacturers signalled that output price inflation trended downwards at the midpoint of the final quarter, with the latest increase in operating expenses the slowest since July 2021. Despite sustained weakness in the headline reading, businesses remained confident that new product launches and a broad-based domestic and global economic recovery would allow production levels to increase over the coming 12 months.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell from 48.7 in October to 48.3 November to signal a deterioration in the overall health of the Japanese manufacturing sector. While only modest, the reduction was the strongest seen since February.

Contributing to the sub-50.0 PMI reading was a further contraction in output levels, and one that was the strongest seen in nine months. The downturn reportedly reflected production adjustments in response to weaker demand and a lack of new product launches.

There was also a sustained contraction in new orders midway through the final quarter of 2023. The rate of decline sharpened from October amid cooling demand in both domestic and international markets. As such, foreign sales of Japanese manufactured goods reduced for the twenty-first month in a row. Moreover, the rate of reduction was the strongest recorded since June.

Mirroring demand developments, firms reduced input purchases in November, extending the current contractionary sequence to 16 months. The rate of decrease was sharp and the steepest since February. Latest data also provided evidence of stockpiling.

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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 performance of the Japanese manufacturing sector remained downbeat midway through the final quarter of 2023. The headline PMI slipped deeper into contraction territory, largely due to quicker deteriorations in output and new order inflows. As a result, the PMI was at its lowest since February. Panel members often commented on weak customer demand in both domestic and international markets."

"Inflationary pressures remained elevated in the latest survey period, as signalled by a further marked rise in input costs. That said, the rate of inflation eased to a three-month low. Moreover, selling price inflation edged down to the lowest since July 2021."

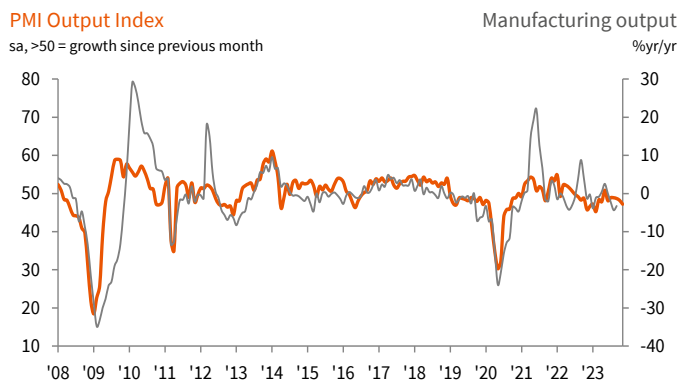
"Despite the weaknesses displayed in the components of the headline PMI, manufacturers remained optimistic that muted demand and production conditions would lift over the coming year. The degree of positive sentiment was robust overall, as firms cited hopes of a broad-based boost to domestic and international demand following new product launches, most notably in the semiconductor sector."

Holdings of both pre- and post-production inventories rose in November amid reports that subdued conditions often left inputs unused and finished items unsold. There were some mentions of protecting against delivery delays, as average lead times lengthened for the fourth month in a row.

On the prices front, cost pressures remained historically elevated in the latest survey period. Input prices rose at a marked pace that was nonetheless the softest since August. Average cost burdens were driven up by higher raw material prices and unfavourable exchange rate trends. Charged price inflation eased for the first time in three months to reach the lowest since July 2021.

Weak customer demand allowed firms to work through existing orders, as signalled by a stronger fall in backlogs of work. Moreover, the rate of depletion was the strongest since March. Firms often indicated they had enough capacity to work through outstanding business. In fact, manufacturers lowered employment levels for the second month in a row, as firms opted to not replace voluntary leavers.

Business sentiment remained elevated in November, and was marked overall. Firms centred output hopes on a sustained improvement in demand amid new product launches and a global economic recovery, with particular emphasis on the semiconductor sector.



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.

November 2023 data were collected 09-23 November 2023.

For further information on the PMI survey methodology, please contact economics@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi.