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au Jibun Bank Japan Manufacturing PMI[®]

Sustained contraction in Japan's manufacturing sector

Key findings

Output and new orders fall concurrently for second month running

Input price inflation eases to softest since February 2021

Business confidence remains elevated

July 2023 data were collected 12-24 July 2023.

Overall business conditions among Japanese manufacturers deteriorated marginally for the second successive month in July amid sustained modest reductions in both output and new orders. Firms commonly associated the declines to weak customer demand for manufactured goods in both domestic and international markets. At the same time, manufacturers signalled that input price inflation continued to trend downwards at the start of the third quarter, with the latest increase in operating expenses the slowest in close to two-and-a-half years and broadly in line with the long-run series average. Businesses also remained optimistic that cost pressures and muted demand conditions would recede and allow for a broad-based boost in output and demand 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 slightly from 49.8 in June to 49.6 in July. That signalled marginal deterioration in the overall health of the Japanese manufacturing sector.

Contributing to the sub-50.0 PMI reading in July was a further contraction in output levels, albeit one that eased from June and was only modest. The downturn reportedly reflected production adjustments in response to weaker demand. Indeed, there was also a sustained contraction in new order volumes at the start of the second half of 2023. The rate of decline sharpened from June, amid cooling demand in both domestic and international markets. As such, foreign sales of Japanese manufactured goods reduced for the seventeenth month in a row. That said, the rate of reduction was the softest recorded for nine months.

Mirroring demand developments, firms reduced input purchases in July, extending the current contractionary sequence to one year. While modest, the rate of decrease was the slowest since October 2022. Concurrently, latest data provided further evidence of stockpiling. Holdings of both pre- and post-production inventories

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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 at the start of the second half of 2023. The headline PMI slipped slightly further into contraction territory, largely because of a quicker deterioration in new order inflows, although the decline in production was also sustained. Panel members often commented on weak customer demand in both domestic and international markets."

"There were sustained signs that inflationary pressures were easing in July, as signalled by the slowest rate of input cost inflation since February 2021 to a reading that was broadly similar to the long-run series average. That said, selling price inflation was unchanged from the previous survey period and sharp overall as Japanese goods producers partially passed higher cost burdens on to clients."

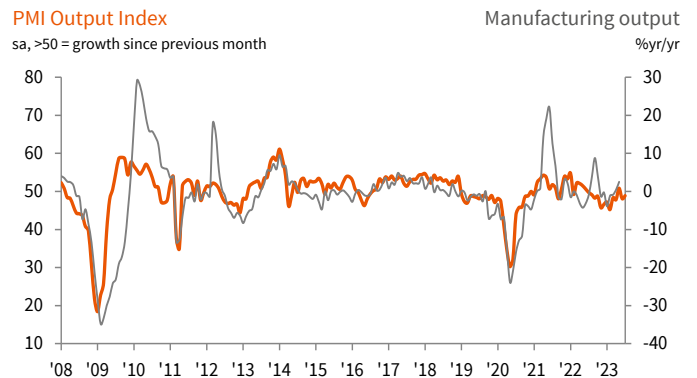
"Manufacturers were also optimistic that muted demand and production conditions would lift over the course of the coming year. The degree of positive sentiment was robust overall and the second-highest recorded in 18 months, as firms cited hopes of a broad-based boost to domestic and international demand following new product launches and the continued dissipation of COVID-19 and inflation related influences."

rose in July amid reports that subdued conditions often left inputs unused and finished items unsold. Companies also attributed the lull in demand to a further shortening in average lead times.

On the prices front, cost pressures eased further in the latest survey period. Input prices rose at the slowest pace since February 2021 and in line with the long-run series average. Overall, average cost burdens rose due to higher raw material, logistic and labour costs, as well as weakness in the yen. Charged price inflation was unchanged from June's 21-month low meanwhile, but remained steep overall.

Weaker customer demand also allowed firms to continue to work through existing orders, as signalled by a tenth consecutive fall in backlogs of work. That said, the rate of depletion was the softest since last October. Firms often indicated they had sufficient capacity to work through outstanding business, but still looked to take on additional staff ahead of an expected eventual return to growth. As such, employment levels were raised for the twenty-eighth consecutive month.

Finally, business sentiment remained elevated in July, with the overall degree of optimism at the second-highest level in the past year-and-a-half. Firms centred output hopes on a sustained improvement of demand, in turn reflective of new product launches and the dissipating impact of COVID-19 and inflationary pressures.



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

Contact

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

Usamah Bhatti
 Economist
 S&P Global Market Intelligence
 T: +44-1344-328-370
usamah.bhatti@spglobal.com

SungHa Park
 Corporate Communications
 S&P Global
 T: +82 2 6001 3128
sungha.park@spglobal.com

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.

July 2023 data were collected 12-24 July 2023.

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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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.