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au Jibun Bank Japan Manufacturing PMI®

Manufacturing conditions deteriorate at stronger rate in February

Key findings

Output and new orders fall more sharply

Strongest fall in employment in just over three years

Output prices rise at slowest rate since June 2021

February 2024 data were collected 12-22 February 2024.

Operating conditions in Japan's manufacturing sector continued to deteriorate in February. Both output and new orders fell at sharper rates, amid reports of deteriorating demand conditions in both domestic and international markets. Lower capacity requirements contributed to a second successive bout of job shedding, and one that was the most marked since January 2021. There was some positivity on the price front however, as input costs rose at a softer, yet still historically high, rate. This contributed to the slowest increase in factory gate charges since mid-2021.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell from 48.0 in January to 47.2 in February, indicative of a moderate deterioration in the health of the Japanese manufacturing sector. The contraction was the ninth in as many months and the strongest recorded since August 2020.

Output and new orders saw steeper contractions during February. Both have now fallen in each of the last nine months, with the latest declines the strongest reported for a year. Panellists often commented that sales demand was weak at home and overseas, while machinery shutdowns also hindered production. As such, the latest decrease in export sales extended the current sequence to two years and was the sharpest in 11 months. Mainland China was notably reported to be a key source of reduced international sales, although there was also weakness reported from the US and Europe.

Given the challenging market environment, manufacturers chose to reduce their employment levels for the second month in a row. While only modest, the rate of job shedding was the steepest seen since January 2021, as firms demonstrated a general reluctance to replace voluntary leavers. Weaker pressure on capacity also allowed firms to keep on top of their workloads, as evidenced by a further sharp fall in backlogs of work.

Japanese manufacturers also reacted to weaker operating

continued...

au Jibun Bank Japan Manufacturing PMI
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:

"February PMI data indicated another month of deteriorating operating conditions in the Japanese manufacturing sector. Depressed demand in domestic and international markets continued to weigh on sector performance, as both production and new orders fell at the strongest rate for a year."

"In response, firms opted to cut purchasing activity and employment, with the latter declining the most in just over three years."

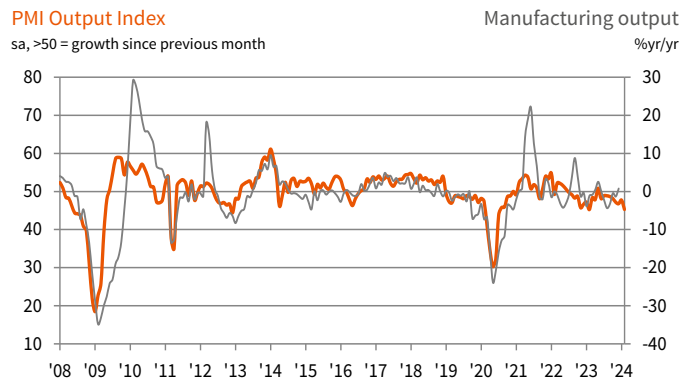
"Supply pressures were also evident, as delivery times reportedly lengthened to the greatest extent since February 2023. Anecdotal evidence suggest that logistical disruption caused by the situation in the Red Sea and the residual impacts of the Noto Peninsula earthquake weighed on suppliers."

"One positive takeaway from the February data came on the price front, as the rate of input price inflation eased to a seven-month low, though remained above the historical average. As a result, prices charged for Japanese manufactured goods were raised at the softest pace since mid-2021 amid reports that some firms had cut prices in an attempt to attract demand."

conditions by reducing purchasing activity sharply, extending the current sequence of depletion to 19 months. At the same time, firms opted to utilise existing holdings of inputs and finished items to complete and fulfil incoming orders as part of efforts to optimise current inventory levels. This came amid a sustained deterioration in vendor performance in February. Delivery times lengthened to the greatest extent for a year as a number of firms mentioned shipping delays as a result of disruption in the Red Sea and the impacts of the Noto earthquake.

Businesses continued to signal elevated price pressures during February, as manufacturers cited higher raw material, energy, labour, oil and transport costs. That said, the rate of input cost inflation eased to a seven-month low. Moreover, the rate of factory gate inflation eased on the month to reach the lowest since June 2021 as some firms mentioned that prices were limited in an attempt to stimulate sales.

Finally, confidence in the year-ahead outlook for output remained positive amid hopes that there would be a broad-based manufacturing and economic recovery. This in turn would stimulate demand and sales, most notably in the automotive, electronics and semiconductor sectors.



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.

February 2024 data were collected 12-22 February 2024.

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

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.

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