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au Jibun Bank Japan Manufacturing PMI®

Softer contraction in Japan's manufacturing sector

Key findings

Output and new orders contract at slowest paces for five months

Input price inflation eases to softest since August 2021

Post-production inventories rise at strongest rate in over 14 years

March 2023 data were collected 10-24 March 2023.

Overall business conditions among Japanese manufacturers deteriorated for the fifth consecutive month in March amid sustained reductions in both output and new orders. That said, both segments saw the softest contractions since last October. Firms commonly associated the declines to weak demand in both domestic and international markets, however manufacturers often noted that production lines were maintained by creating inventory and stocking finished items. As a result, holdings of post-production stocks rose at their steepest pace since February 2009. At the same time, Japanese manufacturing firms continued to note that cost burdens remained historically elevated, yet eased to the softest for 19 months.

The headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – rose from 47.7 in February to 49.2 in March to signal a softer deterioration in the overall health of the Japanese manufacturing sector. The negative reading was only mild, and the softest in the current five-month sequence.

Contributing to the sub-50.0 PMI reading was a further contraction in output levels, albeit one that was the softest for five months. The downturn was only modest and reportedly the result of weak customer demand.

Reflective of trends in production levels was a sustained contraction in order books. While solid, the decline was the slowest since last October however amid cooling demand in both domestic and international markets. As such, foreign demand for Japanese manufactured goods reduced for the thirteenth month in a row. Panel members often linked the contraction to easing overseas client confidence.

Mirroring demand, firms reduced input purchases for the eighth time in as many months at the end of the first quarter. That said, there was stronger evidence of stockpiling as pre-production inventories expanded at the fastest rate since November's recent peak. This ran concurrently to the slightest deterioration in supplier performance in the current sequence that began in February 2020. Companies commonly associated the relative improvement in supply chains to lower production and demand.

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

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

"The health of the Japanese manufacturing sector showed signs of improvement at the end of the first quarter of 2023. While the headline PMI reading remained below 50.0 to mark a fifth consecutive contraction, the decline signalled was the softest in this sequence. Both output and new orders fell at the softest rates for five months, though the latter still saw a solid reduction, with panel members signalling subdued market demand in both domestic and international markets.

"There were indications that the lack of new incoming business had contributed to firms preparing for an eventual rise in demand, as backlogs of work fell at a sharp pace for the sixth successive month. Moreover, there were reports that manufacturers were increasingly stockpiling finished goods, as the holdings of post-production inventories rose at the steepest rate since February 2009.

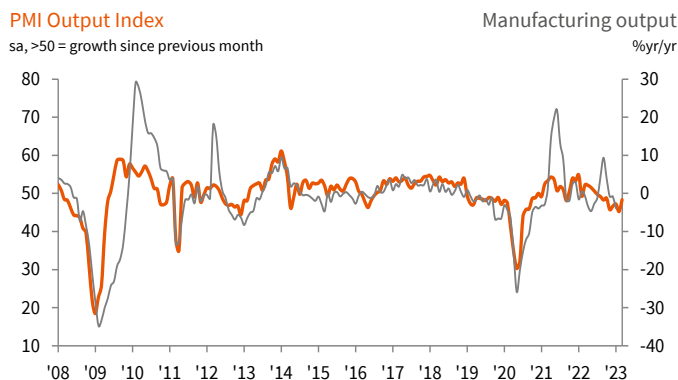
"Meanwhile, there were further tentative signs that inflationary pressures were easing in March, as signalled by the slowest rate of input cost inflation since August 2021. That said, selling price inflation remained sharp, and accelerated for the second month running as Japanese goods producers partially passed higher cost burdens on to clients."

The lull in demand allowed firms to continue to work through existing orders and build stocks of finished goods. Levels of outstanding business were depleted at a further sharp pace while post-production inventories rose at the sharpest pace for over 14 years.

Despite the falls registered in output and new orders, March data was indicative of a further increase in staffing levels at Japanese manufacturers, extending the sequence of job creation to two years. That said, the rate of expansion eased to the slowest since April 2021 and was only marginal overall.

On a prices front, cost pressures eased further in the latest survey period, but remained historically elevated. Input cost inflation was robust but dipped to the lowest since August 2021. Higher prices for raw materials, labour and transport along with sustained weakness in the yen were cited as the key factors contributing to the latest increase in average cost burdens. Meanwhile, charged prices inflation accelerated for the second successive month as firms partially passed higher cost burdens to clients. As such, the rate of selling price inflation was the steepest since December.

Finally, business sentiment strengthened in March, with the overall degree of optimism reaching the highest since last October. Firms centred hopes on a sustained improvement from the COVID-19 pandemic which would aid new product launches and a broad domestic and global demand recovery.



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

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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.

March 2023 data were collected 10-24 March 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.