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## au Jibun Bank Japan Manufacturing PMI®

### Further falls in manufacturing output and new orders in August

#### Key findings

Sharpest reduction in new orders since October 2020

Backlogs of work decrease for the first time in 18 months

Slowest rise in input prices for eight months

August 2022 data were collected 12-23 August 2022.

The Japanese manufacturing sector registered a slower improvement in operating conditions midway through the third quarter of 2022, according to August data. However, the headline figure masked weaknesses in two key components that make up the reading, as both output and new orders fell for the second successive month. Moreover, the rates of decline quickened from July, with the contraction in new orders the sharpest recorded in nearly two years. In a further sign that near-term activity will remain depressed, the level of outstanding business fell for the first time in one-and-a-half years amid the lack of incoming orders. That said, a benefit from weakened demand conditions was that pressure on supply chains eased, leading to the lowest instances of delivery delays since July 2021 and the softest rise in input prices since last December.

At 51.5 in August, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – dipped from 52.1 in July, indicating a softer improvement in the health of the sector that was the joint-weakest since February 2021.

The lower reading of the headline index was partly the result of a sharper decrease in new orders. Sales fell for the second month running, and at the sharpest rate since October 2020. Firms commented that orders were dampened by a rise in COVID-19 cases, as well as weaker domestic and global economic conditions. Export orders also fell at a steeper rate that was the fastest for three months amid weaker demand across the Asia-Pacific region, most notably in China and South Korea.

Production levels fell for the second successive month in August. While only marginal, the rate of decline was the strongest recorded since last September. Firms linked the contraction to falling new orders and weak demand, along with sustained raw material shortages.

Manufacturers also commented that a lack of demand had enabled firms to work through and complete existing orders, as evidenced by a renewed fall in outstanding business. At the same time, firms increased employment levels for the seventeenth month running, though the rate of job creation was the weakest since April 2021 amid

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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:

*"Latest PMI data pointed to deteriorating current activity in the Japanese manufacturing sector midway through the third quarter of 2022. Both new orders and production levels, which make up 55% of the headline PMI figure, fell at the quicker rates as weak domestic demand and a downturn in global economic conditions hindered sales and output. The PMI was held above 50.0 mainly due to lengthening supply chains and strong inventory growth."*

*"The dip is likely to continue in the near term, as the absence of new orders amid dampening client confidence lifted capacity pressure on manufacturers and led to a renewed reduction in outstanding business that was the first in one-and-a-half years."*

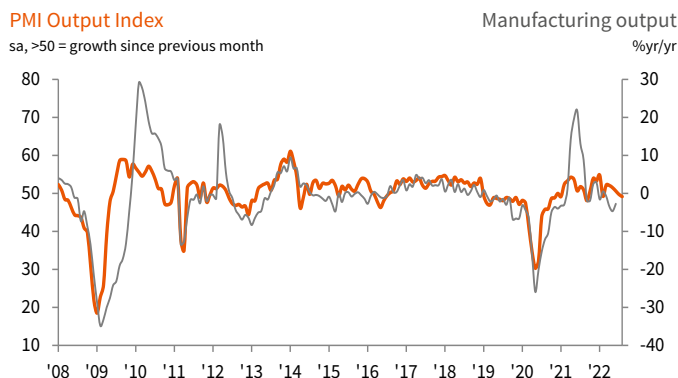
*"A benefit that has come from softer demand conditions is that pressure on supply chains has been given the opportunity to ease. The instance of delivery delays was at the lowest level since July 2021, yet was still robust overall. Nonetheless, this helped to ease inflationary pressures in the sector, with input prices rising at the slowest pace for eight months as manufacturers commonly noted a reduction in international oil prices."*

an increased number of voluntary leavers.

August data signalled that high raw material prices placed sustained pressure on average cost burdens at Japanese goods producers as input prices rose for the twenty-seventh month running. That said, the rate of inflation slowed from July and was the softest recorded since last December. In line with this trend the rate of output price inflation also eased, to a five-month low. Firms often commented that lower raw material costs, notably for oil, had been passed on to customers.

In response to weaker operating conditions, buying activity fell for the first time in 11 months midway through the third quarter amid production cutbacks at Japanese manufacturers. Firms also noted ongoing difficulties in sourcing and receiving inputs had softened slightly, as supplier delivery times lengthened to the smallest degree for just over a year. As a result of lower production requirements and sales, businesses chose to build inventories of both pre- and post-production inventories.

Business confidence regarding activity over the coming year was unchanged from July in the latest survey period, meaning the overall degree of positive sentiment remained strong overall. Firms cited hopes that the end of global price and supply issues would encourage new product launches and boost output. However, there was growing concern about the strength of current demand.



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.

August 2022 data were collected 12-23 August 2022.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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The au Jibun Bank provides unique services such as "Smartphone ATM", a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and "AI Foreign Currency Forecast", a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

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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### 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. [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).