News Release

Embargoed until 0930 JST (0030 UTC) 1 March 2023

au Jibun Bank Japan Manufacturing PMI®

Further falls in manufacturing output and new orders in February

Key findings

Sharpest reductions in output and new orders since July 2020

Backlogs of work decrease at quickest pace for 29 months

Slowest rise in input prices for a year-and-a-half

au Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month

Sources: au Jibun Bank, S&P Global.

February 2023 data were collected 10-21 February 2023.

The Japanese manufacturing sector registered a sharper downturn in operating conditions midway through the first quarter of 2023, according to February data. The headline figure was driven lower by steeper reductions in output and new orders, both of which fell at the strongest rates for just over two-and-a-half years. In a further sign of depressed activity in the near term, the level of outstanding business fell at the sharpest rate since September 2020 amid the lack of incoming orders. That said, a benefit of weakened demand conditions was that pressure on supply chains eased, leading to the lowest instances of delivery delays for two years and the softest rise in input prices for 18 months.

At 47.7 in February, the headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance – dipped from 48.9 in January, indicating the sharpest deterioration in the health of the sector since September 2020.

The lower reading of the headline index was partly the result of a sharper decrease in new orders. Sales fell for the eighth month running, and at the fastest pace since July 2020. Firms commented that orders were dampened by weaknesses in domestic and global economic conditions. Export orders also fell at a steeper rate that was the fastest for 31 months, and meant that foreign demand for Japanese manufactured goods had fallen consistently for a year.

Production levels fell for the eighth consecutive month in February. The rate of decline was sharp overall and, like new orders, the fastest since July 2020. Firms linked the contraction to falling new orders and weak demand.

Manufacturers also commented that a lack of demand had enabled firms to work through and complete existing orders, as evidenced by a sustained fall in outstanding business. The reduction was the strongest seen since September 2020 and provided signals that activity over the coming months is likely to remain subdued. At the same time, firms increased employment levels for the twenty-third month running, though the rate of job creation was the weakest for six months. Panellists often reported that they were taking on additional

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Comment

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

"Latest data pointed to continually deteriorating activity in the Japanese manufacturing sector midway through the first quarter of 2023. Both new orders and production levels, which make up 55% of the headline PMI figure, fell at the fastest pace since July 2020 as weak domestic demand and a global economic slowdown hindered sales and output volumes.

"Moreover, the dip is likely to be sustained in the near-term as the absence of new orders amid dampened client confidence lifted capacity pressure on manufacturers further and led to the sharpest reduction in outstanding business in nearly two-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 supplier delivery delays was at the lowest level since February 2021 and well above the troughs seen throughout last year. While this helped to ease inflationary pressures (index at 18-month low), input prices remained historically elevated, with many panel members citing high raw material prices as the key driver behind sustained increases in average operating expenses."

staff in preparation for an eventual recovery in demand.

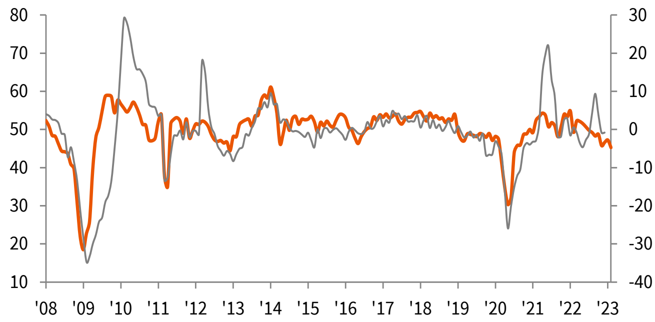
February data signalled that high raw material prices placed sustained pressure on average cost burdens at Japanese goods producers as input costs rose for the thirty-third month running. That said, the rate of inflation slowed from January and was the softest recorded since August 2021. Concurrently, firms looked to increasingly pass higher costs to customers, as the rate of factory gate inflation accelerated for the first time in four months.

In response to weaker operating conditions, buying activity fell for the seventh successive month midway through the first quarter amid production cutbacks at Japanese manufacturers. Firms however noted that difficulties in sourcing and receiving raw materials had softened further, as suppliers' delivery times lengthened to the smallest degree for two years. In order to prepare for the eventual recovery, firms looked to hold higher inventories of pre-production goods, whilst winding down holdings of finished items by using them to fulfil existing sales.

Business confidence regarding activity over the coming year was broadly similar to that seen in January in the latest survey period, meaning the overall degree of positive sentiment remained robust overall. Firms cited hopes that a global and domestic economic recovery would encourage new product launches and boost output and order books.

PMI Output Index
sa, >50 = growth since previous month

Manufacturing output
%yr/yr



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.

February 2023 data were collected 10-21 February 2023.

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

The au Jibun Bank Japan PMI is sponsored by au Jibun Bank Corporation

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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.