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au Jibun Bank Japan Manufacturing PMI®

New orders and output decline further in October

Key findings

Rates of contraction ease since September

Inflationary pressures remain severe

Businesses remain optimistic with sentiment at nine-month high

October 2022 data were collected 12-24 October 2022.

The Japanese manufacturing sector continued to register falling new orders and output in October, according to the latest S&P Global PMI® data. The rates of decline eased since September, however, and employment continued to rise. With demand contracting, Japanese good producers reduced levels of buying activity and slowed the accumulation of stocks. Meanwhile, overall business sentiment improved to the highest since January despite further marked inflationary pressures.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance - fell to 50.7 in October, down from 50.8 in September signalling a weak overall improvement in the health of Japan's manufacturing sector. The latest headline figure was the lowest reading for 21 months.

The positive PMI reading in October masked a further contraction in Japanese manufacturers' production volumes. The latest downturn in output was the fourth in as many months and reportedly stemmed from weak demand conditions.

In line with the picture for output, order book volumes decreased for the fourth month running in October. Anecdotal evidence suggested that cooling markets and weak underlying demand primarily drove the decline with some panel members specifically mentioning that stagnation across the automobiles and semiconductors industries.

Demand was also weak on an international level, as signalled by an eighth consecutive monthly fall in new export orders. Sluggish economic conditions in some of Japan's key export markets reportedly drove the latest downturn. Despite this, Japanese manufacturing firms increased their workforce levels in October, though at a softer rate than in September.

The current lack of demand enabled firms to work through levels of outstanding work and build up stocks of finished goods. Following a month of no change, the backlogs of work Index declined in October, albeit marginally. Meanwhile, Japanese manufacturing firms also signalled growth in post-production inventories for the fifth

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

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

“The latest survey data signalled that Japan’s manufacturing sector lost further momentum in October. Sluggish markets and weaker demand conditions, on both a domestic and international level, became a recurring trend throughout the report and were seemingly the driving forces behind the slower sector performance. Anecdotal evidence suggested that worsening conditions in China and South Korea were specifically detrimental to Japan’s exports this month.

“Meanwhile, inflationary pressures remained severe in October. Japanese manufacturing firms increased their selling prices more aggressively, as signalled by a near-record rate of output cost inflation. Given the current conditions in some of Japan’s key export markets, and with inflationary pressures displaying limited signs of easing, demand is likely to remain subdued in the coming months.

“Despite this, firms seem unfazed by the challenges that the sector is currently facing remaining optimistic towards their 12-month outlook on growth in October. In fact, the degree of confidence accelerated from September and reached a nine-month high.”

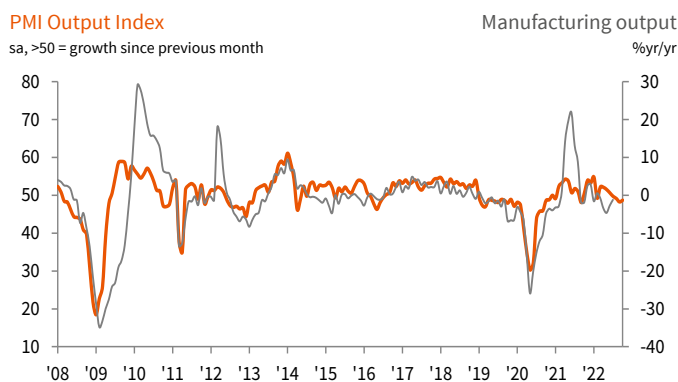
consecutive month.

The latest survey data showed a third monthly reduction in buying activity as firms downwardly adjusted their spending in line with current demand trends. That said, the rate of decline was the softest in the current sequence with some firms reportedly increasing input buying ahead of anticipated price increases. For similar reasons, Japanese manufacturers also expanded pre-production inventories.

Japanese goods producers continued to cite difficulties in sourcing raw materials, as signalled by a further deterioration in vendor performance. The rate of deterioration was, however, the softest since May 2021.

In terms of prices, inflationary pressures remained severe. Though easing from September, input price inflation remained well above the historical average amid rising costs across a broad range of inputs. Japanese manufacturing firms increased their selling prices to reflect the increasing cost burdens. In fact, the rate of output price inflation accelerated from September and was among the sharpest on record. The current weakness of the Japanese yen also reportedly contributed to current inflationary pressures.

Despite this, Japanese manufacturing companies remained firmly optimistic in October. The degree of confidence rose to a nine-month high amid hopes for stronger demand, supply pressure improvements, and a sustained COVID-19 recovery.



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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.

October 2022 data were collected 12-24 October 2022.

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

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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.
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