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au Jibun Bank Japan Manufacturing PMI®

Manufacturing conditions deteriorate at sharper rate in September

Key findings

Faster falls in production and incoming new work

Backlogs decline at strongest rate since April

Input price inflation quickens to four-month high

September 2023 data were collected 12-22 September 2023.

Business conditions across the Japanese manufacturing sector deteriorated at a stronger rate at the end of the third quarter of 2023. The latest data indicated weakness across the two main components of the PMI, with sharper falls in output and new orders, while employment, stocks of purchases and suppliers' delivery times were broadly neutral. The weakness in new orders was of notable concern, as the absence of incoming business led to a sharper reduction in outstanding work, indicative of weakness in the manufacturing sector over the near term. Manufacturers also faced a steep rise in price pressures in September, as the rate of input price inflation quickened to the highest since May.

At 48.5 in September, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – fell from 49.6 in August to signal the steepest deterioration in the health of the sector since February. Moreover, the average reading in the third quarter was 49.3, down from 50.0 in the second quarter, and indicative of muted conditions in the sector.

Total new work decreased for the fourth month running in the latest survey period, and at the sharpest rate for seven months. Weak domestic and global economic conditions were cited as key headwinds to new order inflows, while some firms also cited the impact of destocking. Lower export sales, especially in Mainland China, also held back total new orders in September.

September data pointed to a sustained fall in output levels that was the fastest since June. The rate of decline was modest, and often attributed to subdued economic conditions and weak new order inflows.

Following the trend for new orders, backlogs of work fell for the twelfth month in a row in September, with the rate of depletion the strongest since April. Concurrently, manufacturers raised employment levels only fractionally as the filling of existing

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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:

"The latest au Jibun Bank PMI survey highlights a sustained downturn in manufacturing sector performance at the end of the third quarter. The headline reading was the weakest since February and pointed to a modest downturn in the health of the sector."

"Depressed economic conditions domestically and globally weighed heavily on the sector, as both output and new orders were scaled back further. The decline in the latter was notably sharp, and the strongest seen for seven months."

"Concerns remained over activity in the coming months as well, with manufacturers signalling the sharpest depletion in outstanding business for five months. Normally a bellwether for near-term activity, the sharper reduction was often attributed to the absence of new orders, thus firms redirected capacity to complete backlogs."

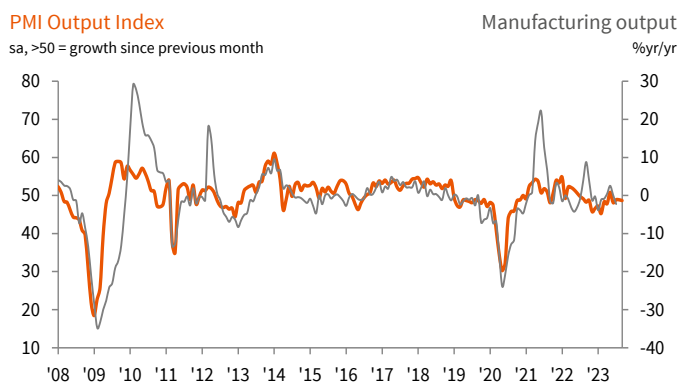
"Japanese manufacturers faced additional price pressures according to the latest data, as the rate of input price inflation accelerated for the second month running to a four-month high. There were often reports that higher raw material, oil, freight and energy prices had placed additional strain on firms, and that this was compounded by sustained weakness of the yen which pushed up prices for inputs from abroad."

vacancies was offset by a number of voluntary resignations, particularly retiring staff members.

Latest data indicated a sharp decrease in purchasing activity. Volumes of input buying have fallen in each of the last 14 months, with the latest reduction the steepest since February. At the same time, stocks of purchases fell for the first time in two years, albeit only fractionally. Firms noted that lower sales and destocking efforts led to lower instances of purchases and stockpiling. Firms also mentioned that average vendor performance deteriorated slightly in September, the second in as many months.

Despite softer pressures on demand, overall input price inflation quickened for the second successive month in September. The latest rise in cost burdens was marked and the strongest seen since May. Firms often noted higher raw material, energy, freight and oil prices, alongside a weaker yen had pushed up purchase prices. Manufacturers looked to partially pass higher cost burdens to clients, as output charges rose at a further solid pace.

Looking ahead, confidence regarding the 12-month outlook for output remained robust at the end of the third quarter. Optimism strengthened from August and was often attributed to expected improvements in market demand and capacity, particularly from increased employment and expanded facilities.



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.

September 2023 data were collected 12-22 September 2023.

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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