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## au Jibun Bank Japan Manufacturing PMI®

### Demand weakness drives further downturn in Japan's manufacturing sector

#### Key findings

Strong reductions in output volumes and order books

Input buying cut at strongest rate since September 2020

Supply pressures the least widespread since February 2021

December 2022 data were collected 6-16 December 2022.

The Japanese manufacturing sector downturn worsened in the final month of the year, according to latest S&P Global PMI® data. Weak global economic trends reportedly led to sustained contractions in production and order books. Firms subsequently cut input buying at a marked rate while optimism wavered to the greatest extent since May.

A slightly more positive development came from a further easing in cost and supply pressures. December data was indicative of the softest deterioration in vendor performance since February 2021. Concurrently, input costs and selling prices rose at the slowest paces in 15 and nine months, respectively.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance - dropped to 48.9 in December, down from 49.0 in November to indicate a second consecutive deterioration in the overall health of the Japanese manufacturing sector. The latest reading remained mild overall but was the lowest since October 2020.

The greatest influence on decline in the headline PMI number came from its largest component, new orders. Firms registered a reduction in order book volumes that was strong overall and faster than rates recorded over much of the past two-and-a-half years. Weak underlying demand conditions, on both a domestic and global scale, reportedly drove the latest contraction. Similarly, new export orders fell for the tenth month in a row. It is, however, worth noting that the rates of decline signalled by each index were slightly softer than those recorded in November.

In line with the picture for demand, production levels at Japanese good producers decreased in December. The reduction, though slower than November's 27-month record, was solid overall.

With output volumes falling at a slower pace than new orders, firms were able to focus on completing outstanding orders, as signalled by a third consecutive depletion in backlogged work.

December data was indicative of a sustained trimming of input buying at Japanese manufacturing firms. The decline was the strongest since September 2020 and was reportedly reflective of muted 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, Laura Denman, Economist at S&P Global Market Intelligence, said:

*“December PMI data saw the Japanese manufacturing sector slip further into contraction territory in the final month of 2022. The downturn was largely centred around the current demand environment which is weak both internationally and domestically. Order book volumes contracted solidly and faster than paces recorded over much of the past two-and-a-half years while new export orders decreased for the tenth month in a row. Firms reportedly mirrored the picture for demand in their production volumes, as indicated by a solid reduction in output in December.*

*“At the same time, forward looking indicators are increasingly painting a gloomier picture for Japan's manufacturing sector in the future. Companies have cut back input buying sharply, and business sentiment waned to a seven-month low.*

*“That said, there were some more encouraging aspects within the latest survey data. There were further signs of improvement on supply and cost pressures. Vendor performance deteriorated at the softest rate since February 2021 while input cost and charged price inflation dipped to 15- and nine- month lows, respectively.”*

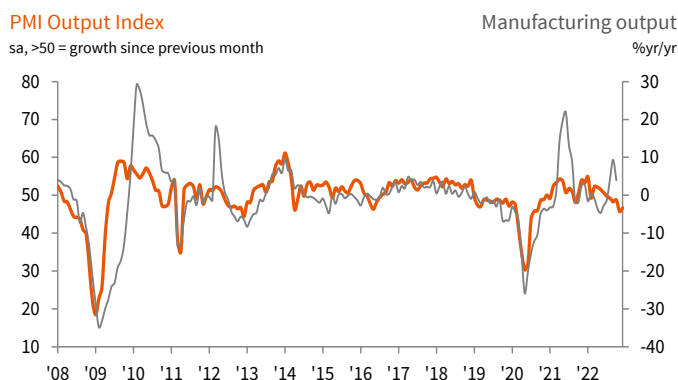
conditions. Nevertheless, holdings of raw materials and semi-finished goods accumulated in December, albeit only marginally. Post-production inventories, meanwhile, remained broadly unchanged from November.

Japanese manufacturers continued to add to their payrolls in the final month of the year, with employment rising for the twenty-first consecutive month. That said, the rate of job creation was only slight amid reports of retiring employees.

There was evidence to suggest that supply pressures eased further in the final month of the year. Vendor performance deteriorated to the smallest extent since February 2021.

Elsewhere, inflationary pressures remained historically sharp. Average cost burdens faced by manufacturing firms increased in December amid ongoing reports of input shortages and exchange rate weakness. In a bid to protect profits, firms continued to partly transfer higher costs onto their clients in the form of higher selling prices. Rates of inflation, however, eased to 15- and nine-month lows, respectively.

Finally, the year-ahead outlook on output remained positive in the final month of the year. Firms were hopeful for a general market recovery in the new year. That said, the degree of confidence was the weakest in seven months amid ongoing concerns surrounding further price hikes and exchange rate weakness.



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.

December 2022 data were collected 6-16 December 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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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).