News Release

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au Jibun Bank Japan Manufacturing PMI®

Manufacturing PMI slips to ten-month low in July

Key findings

Renewed reductions in output and new orders

Softest rise in outstanding business for 17 months amid weaker demand

Rising prices and delivery delays lead to accelerated stock building

July 2022 data were collected 12-22 July 2022.

Japanese manufacturers signalled a slower improvement in operating conditions in July, with the headline PMI falling to its lowest level for ten months. Both output and new orders fell into contraction territory for the first time in five and ten months respectively, with the reduction in new orders the strongest recorded since November 2020. However, companies continued to add to their staffing levels, which combined with muted sales led to a notably weaker rise in outstanding business. Price and supply issues remained widespread at the start of the third quarter, which contributed to accelerated stock building of both pre- and post-production inventories, with the former rising at the second-fastest pace in the survey history.

The headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index™ (PMI)* – a composite single-figure indicator of manufacturing performance - fell from 52.7 in June to 52.1 in July. This signalled an eighteenth consecutive monthly improvement in the health of the sector, albeit one that was the weakest since September 2021. The above 50.0 PMI reading was supported by increased employment, stocks of purchases and a deterioration in supplier performance, as fresh falls in output and new work weighed on the headline index.

There were renewed declines in both production and new order volumes at the start of the third quarter. Firms often attributed this to rising inflationary pressures and raw material shortages, which led to both output and demand falling for the first time in five and ten months, respectively.

At the same time, new export sales continued to fall in July, extending the current sequence of decline to five months. That said, the latest contraction was the softest in the current sequence and only modest. Foreign sales were reportedly hindered by weakened demand in key export markets across the Asia-Pacific region, particularly China and South Korea.

Input cost inflation accelerated at the start of the second half of 2022, with the rate of increase rapid overall and the sixth-quickest in the survey history. Manufactures widely linked higher input prices to sharply rising raw material costs, particularly for imported goods

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au Jibun Bank Japan Manufacturing PMI

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:

"The Japanese manufacturing sector saw a modest improvement in operating conditions at the start of the second half of the year, however the headline PMI masked some worrying trends when looking at the underlying sub-indices, which add downside risks for the sector. New order inflows fell for the first time in ten months and at the fastest pace since November 2020, which contributed to a renewed contraction in production levels - the first since February.

"Weaker demand conditions also contributed to reduced pressure on operating capacity. Backlogs of work increased at the softest rate in 17 months, which hints at a further weakening of output over the coming months.

"Anecdotal evidence also pointed to an acceleration in stock building activity among Japanese goods producers. Firms often cited that rising prices and delivery delays had led to greater purchasing activity and holdings of raw materials and other inputs, while delays meant that manufacturers held on to finished items until logistical capacity improved.

"Beyond the immediate future, firms remained confident about the year-ahead outlook for output, though the degree of optimism was little-changed from June. That said, increased downside risks from price and supply pressures remain apparent. S&P Global estimates that industrial production will rise only 0.2% in 2022, meaning that output lost to the pandemic is unlikely to be recovered until the start of 2024."

amid a severely weakened yen. Concurrently, average prices charged for Japanese manufactured goods rose at a marked, albeit softer pace as firms sought to pass increased cost burdens on to clients.

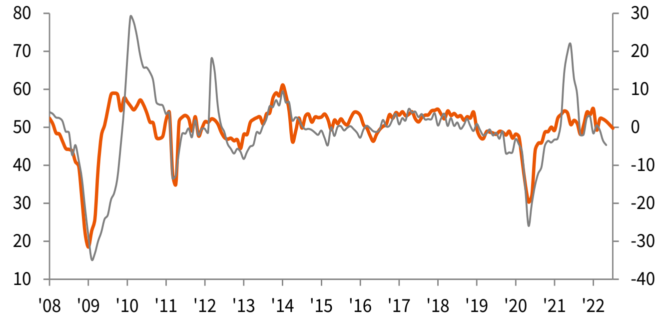
Inflationary pressures and supply chain disruption continued to constrain manufacturing activity in July. While the lengthening in average lead times was the least substantial for nearly a year, the rate of deterioration remained marked overall. Delays in receiving shipments led manufacturers to increase purchasing activity in a bid to build safety stocks, which contributed to the second-strongest rise in stocks of purchases on record. At the same time, firms sought to build holdings of finished items to protect against further price rises, with post-production inventories increasing at the quickest pace since February 2009.

Reduced pressure on capacity due to lower intakes of new orders enabled some manufacturers to work through unfinished business in a timelier manner. Notably, the rate of backlog accumulation was the softest seen in the current 17-month sequence. Employment levels meanwhile expanded at the slowest pace since April.

Looking forward, business confidence regarding output over the year ahead remained positive, with sentiment underpinned by hopes that price, supply and exchange rate pressures would ease, and enable a broad recovery in demand and production levels.

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.

July 2022 data were collected 12-22 July 2022.

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

The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan's largest bank –. As a "smartphone-centric bank", au Jibun Bank focuses on providing high-quality financial services via smartphones.

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.