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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector remains under pressure as demand continues to drop

Key findings

Firms operate below full capacity due to slow-moving order books

Export demand declines as COVID-19 disruptions linger on

Business confidence rebounds into positive territory

Data were collected 12-23 June 2020.

Japan's manufacturing economy was faced with further challenges in June, according to the latest PMI survey, which showed sharp reductions in new orders, output and purchasing activity. Businesses that restarted their production lines reportedly operated well below capacity as economic conditions both domestically and globally remained fragile amid the ongoing coronavirus disease 2019 (COVID-19) pandemic.

That said, growing expectations of a recovery led business sentiment to jump back into positive territory for the first time since February.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – edged up slightly to 40.1 in June, from 38.4 in May. Despite increasing, the index remained noticeably below the 50.0 no-change mark and therefore indicated a further deterioration in the health of the goods-producing sector.

Latest data signalled a further marked decline in production volumes at Japanese manufacturers. Panel comments overwhelmingly linked the drop in output to the COVID-19 pandemic, with factories running low operating rates in response to disappointing sales. Almost half of the survey panel (48%) recorded lower production, compared to 13% that expanded output in June.

Order book volumes dropped markedly when compared to May. Although the deterioration softened, it remained steep overall. According to anecdotal reasons, low consumption, continued business disruption due to the COVID-19 shock and weak market conditions contributed to the decrease in workloads. Overseas sales followed a similar trend, declining at a weaker, but still steep rate during June. Market groups data pointed to an increase in export orders placed with consumer goods makers, while intermediate and capital goods producers recorded further drops. There were some mentions of an increase in demand from China.

Nonetheless, with broader demand conditions remaining fragile,

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"We're still awaiting signs of meaningful improvement in Japan's manufacturing sector, with the PMI for June failing to stage a substantial recovery despite the state of emergency ending and many key trading partners peeling back lockdown measures.

"The chance of a V-shape recovery in the manufacturing sector appears slim at this stage, which opens up the possibility of a two-speed economy if the domestic-focused service sector shows more signs of activity.

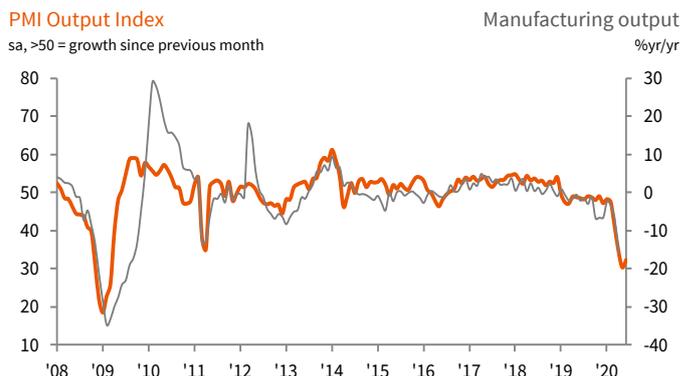
"It will be important to monitor the forward-looking components of the survey such as new orders and export sales, which are likely to drive the direction that operating rates take over the coming months. It will likely take a sustained pick-up in global demand conditions before factories start committing more resources into production volumes."

there were further signs of growing spare capacity at Japanese manufacturers. Backlogs of work declined at a steep rate which was similar to May's multi-year record. Lower output requirements led firms to reduce their purchasing activity at the second-strongest rate since March 2009 and employment levels fell at an accelerated rate.

Despite lower input buying and falling staffing levels, overall operating costs increased in June. Panel comments suggested that stock shortages at vendors exerted upward pressure on input prices. Against a backdrop of rising expenses, selling charges were reduced in June as businesses strived to stimulate sales.

Latest survey data pointed to a further lengthening in supplier delivery times as shipments continued to be disrupted, particularly at external vendors, by the global COVID-19 pandemic. That said, supplier performance deteriorated to a much softer degree than in May.

Lastly, business confidence moved into positive territory for the first time since February. The return to optimism was underpinned by expectations of a gradual recovery in the economy, enabling output to increase from present levels over the coming 12 months.



Sources: au Jibun Bank, IHS Markit, METI.

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Methodology

The au Jibun Bank Japan Manufacturing PMI® is compiled by IHS Markit 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.

June 2020 data were collected 12-23 June 2020.

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

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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