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au Jibun Bank Japan Manufacturing PMI®

New manufacturing orders fall at sharpest rate in two years in September

Key findings

High inflation and subdued global market conditions weigh on order books

Output falls at sharpest pace in a year; input buying reduced

Weak yen drives inflationary pressures higher

September 2022 data were collected 12-23 September 2022.

The Japanese manufacturing sector came under further pressures in September as downturns in output and new orders accelerated. Demand for Japanese goods fell at the quickest pace in two years as high inflation and weakening economic conditions at key trading partners curbed client spending. Manufacturers subsequently reduced their purchases of inputs in response, although high international market prices, partly due to weakness in the yen, caused some companies to step up cost-cutting efforts. Indeed, both input price and output charge inflation quickened over the month.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – fell to 50.8 in September, from 51.5 in August. Overall, this signalled a further slowdown in the sector, with the headline index at its lowest level since January 2021.

A significant drag on the sector came on the demand side in September as new orders fell at the sharpest pace in two years. According to panellists, high prices and weak market conditions caused clients to rein in their spending. Weaker demand from international markets was evidenced by a further reduction in new export orders. New business from customers in China, South Korea, Europe and the US reportedly dropped.

Subsequently, Japanese manufacturers cut their production volumes at the end of the third quarter for the third successive month. The decrease was the fastest in a year, but modest overall.

Nevertheless, Japanese manufacturers raised their workforce numbers in September. The rate of job creation also quickened to a seven-month high, with companies acting to raise their capacities to accommodate for greater output levels. Consistent with this was a strongly positive business outlook in September, with the level of optimism recording above its long-run average. Positive expectations were reflective of a sentiment shift towards the pandemic, with companies expecting fewer disruptions over the coming year. Other firms were hopeful of improved raw material availability.

That said, the latest survey data showed a second successive

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

Commenting on the latest survey results, Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"Weakness in Japan's manufacturing sector persisted in September and even turned worse. New orders fell at their sharpest rate in two years – high inflation is eroding client purchasing power, while slowing global economic growth is hurting exports."

"Weakness in the yen is doing little to bolster export demand either and instead is pushing imported inflation up drastically and drove domestic price pressures up even further. Overall input costs rose at one of the sharpest rates on record in September."

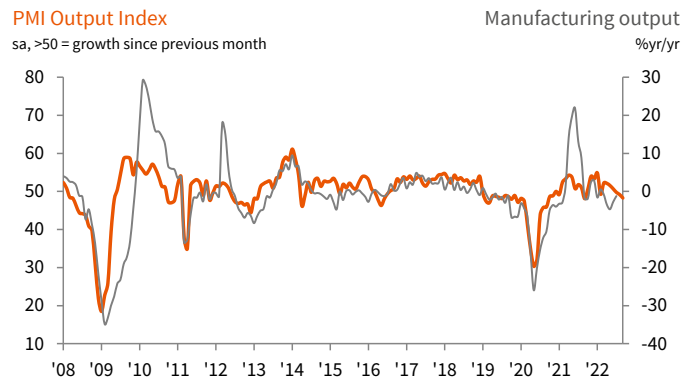
"Forward-looking indicators from the survey suggest that the downward trend in output looks set to persist in the fourth quarter. New orders fell at a far stronger pace than output, implying further weakness in production on the horizon. Increases in inventories, which according to panellists was due to poor sales performances, also highlights how weak underlying demand conditions are for Japanese goods."

reduction in purchasing activity in volume terms. The decline was the fastest in a year as high prices for raw materials, particularly those that were imported, caused some firms to reduce buying activity. Others downwardly adjusted spending in line with lower order book volumes.

Nevertheless, stocks of inputs rose at a near survey-record rate in September. Some companies had purposely built up excessive inventories of certain items in anticipation of price increases. Unused inputs were also a factor driving up stocks, reflecting lower production volumes.

Meanwhile, inflationary pressures accelerated at the end of the third quarter. The rate of input price inflation edged higher amid multiple sources of cost pressure. Transportation and energy expenses were reported to have risen, while weakness in the yen had increased the cost of imported items.

In response, output charges were increased more aggressively as Japanese manufacturers endeavoured to protect their margins. The rate of increase accelerated from August's five-month low and was among the steepest on record.



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.

September 2022 data were collected 12-23 September 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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