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au Jibun Bank Japan Manufacturing PMI®

Manufacturing conditions continue to deteriorate in October

Key findings

Output down to greater degree as sales fall again

First decline in employment since early-2021

Confidence remains high that growth will return in 2024

October 2023 data were collected 12-24 October 2023.

Operating conditions in Japan's manufacturing sector continued to deteriorate in October. Both output and new orders fell again, amid reports of deteriorating demand conditions across both home and international markets. Marginal jobs cuts were signalled as a result, whilst firms cut purchasing activity amid concerns over excess inventory at their plants. On the price front, input costs continued to rise at an elevated pace, whilst output charges increased at an unchanged, and marked, rate. Confidence in the future remained above its historical average, however. There are hopes amongst panellists that the current downward trend in market demand will soon come to an end.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – was little-changed in October but remained marooned below the crucial 50.0 no-change mark for a fifth successive month. After accounting for seasonal factors, the index recorded 48.7, up from 48.5 and a reading indicative of a modest deterioration in operating conditions.

Output and new orders remained on downward trajectories during October. Both have now fallen for five months in a row since some marginal growth was registered in May. Panellists commented that sales demand was weak regardless of whether it emanated from domestic or international markets. Indeed, new export orders declined for a fifth successive month in October, and at a solid rate that was the steepest since June. High prices were in some cases reported to have weighed on sales. China was notably reported to be a key source of reduced international sales, although Europe and the US were also mentioned.

Given the challenging market environment, manufacturers understandably chose to cut their purchasing activity and, for the first time since February 2021, employment. Some panellists signalled a desire to optimise current input inventory although,

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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:

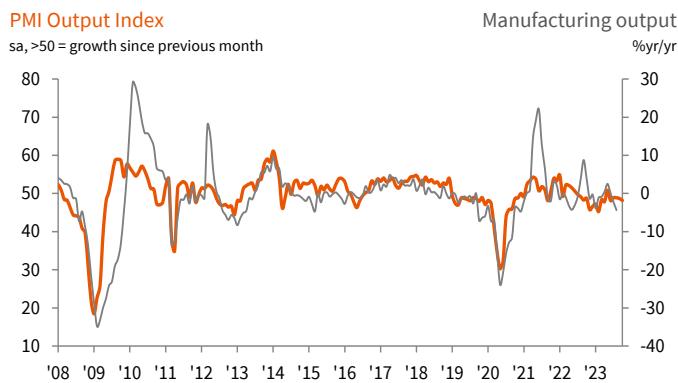
“Another month of deteriorating operating conditions was signalled by the PMI during October, as depressed industrial demand both at home and abroad weighed on sector performance. Companies continued to batten down the hatches by cutting purchasing, not replacing leavers and focusing on smart inventory management to minimise any unnecessary plant costs. Still, inflationary pressures remained somewhat sticky, with costs again rising quite steeply and charges up to a marked degree.

“There are hopes however that the current market downturn is finding a bottom. Firms are widely anticipating some growth and improvement in 2024, with the inventory cycle expected to turn after a prolonged period of destocking, and demand from key Japanese industrial sectors forecast to rise over the coming 12 months.”

given unexpectedly weak sales volumes, stocks of purchases rose marginally on the month. And with output falling at a slower pace than new orders, firms were able to keep on top of their overall workloads as evidenced by a drop in backlogs of work for the thirteenth month in a row. This was despite a general reluctance to replace any leavers, which contributed to a marginal drop in employment.

Meanwhile, firms continue to report some modest delays in the delivery of inputs to their plants, and this helped to explain in part why input price inflation remained elevated during October. According to the latest anecdotal evidence, a wide plethora of inputs increased in cost, including steel, energy, wood, food and semiconductors. Firms sought to pass on higher costs again to their clients, and subsequently increased their own charges in October.

Finally, looking ahead to the coming year there are hopes that product markets will slowly improve and that the recent downward trend in demand will soon bottom out. Key sectors like autos and electronics are seen as having a better year in 2024, and some firms expect the recent period of destocking seen across industries to end. Nonetheless, firms themselves continued to focus on optimising their warehouse inventories: stocks of finished goods were cut by Japanese manufacturers to the greatest degree for over two-and-a-half years in October.



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.

October 2023 data were collected 12-24 October 2023.

For further information on the PMI survey methodology, please contact economics@spglobal.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. www.spglobal.com/marketintelligence/en/mi/products/pmi