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au Jibun Bank Japan Manufacturing PMI®

Downturn in Japanese manufacturing sector intensifies

Key findings

Sharper falls in production and new orders

Acceleration in input price inflation

Confidence up to five-month high

December 2023 data were collected 06-15 December 2023.

Japan's manufacturing sector economy continued to contract during December, and to the greatest degree since last February. Output and new orders both declined at faster rates amid reports of client uncertainty in both domestic and overseas product markets. Input price inflation remained elevated, picking up to a three-month high though output prices rose at a slower pace. Confidence in the future picked up on hopes of new product launches and an improvement in product demand.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – remained stuck below the crucial 50.0 no-change mark for a seventh successive month in December. Moreover, falling to 47.9, from 48.3 in November, the index indicated an accelerated rate of contraction that was the sharpest since February 2023.

Firms again reported concurrent declines in production and new orders. The fall in new work was especially marked, with panellists noting ongoing market uncertainty at home and abroad. Electronics demand was reported to be especially weak, and some panellists noted a lack of investment activity. Demand was down from key export markets like China, Europe and North America, and this was reflected in the steepest reduction in new export sales for six months.

Against the backdrop of falling sales and demand, manufacturers cut their purchasing activity for a seventeenth successive month and to the greatest degree in just under three-and-a-half years. Companies signalled that a lack of new orders and production requirements had discouraged the purchasing of new inputs. A focus on inventory utilisation was also reported by some firms, although this did not prevent a third successive marginal monthly increase in stocks of purchases.

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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, Paul Smith at S&P Global Market Intelligence, said:

“Japan’s manufacturing economy experienced a steeper downturn during December as market uncertainty weighed on new orders, which subsequently led to another decline in output. Demand was reported to be lower from key export clients based in China, Europe and North America, and from important sectors like electronics. Some firms noted a lack of investment activity.

“Cost pressures nonetheless increased, with input price inflation rising to a three-month high amid reports of higher raw material costs, especially for imported goods. However, firms were a little more circumspect in passing these higher costs through to clients, with competitive pressures weighing on their pricing power.

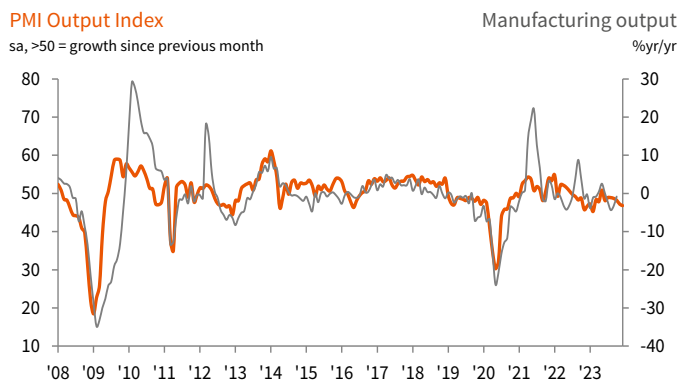
“Looking to the coming year, firms are confident that client destocking will soon end and that new product launches will help to support an upturn in production during 2024.”

Reduced demand for inputs did not feed through to lower prices in December. On the contrary, Japanese manufacturers experienced a marked and accelerated increase in input costs, with inflation rising to a three-month high amid reports of higher raw material prices. Some panellists noted that yen depreciation had raised the price of imported goods.

Firms sought to pass on their higher input costs to clients in December, and this was reflected in another rise in output charges. However, competitive pressures meant that inflation was minimised and the lowest recorded by the survey for just under two-and-a-half years.

Confidence in the future remained positive in December. Panellists are hopeful that market demand will improve, especially for electronics goods. New product launches are scheduled, and the recent trend of client destocking is expected to be completed. Overall, sentiment improved to a five-month high.

Finally, staffing levels were little-changed at year end, rising only marginally since November. Some firms noted filling long-held vacancies, but others reported not replacing leavers. Capacity overall remained sufficiently high to ensure that backlogs of work were cut steeply and at the sharpest pace since February 2023.



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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 2023 data were collected 06-15 December 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.