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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector business conditions stabilise in January

Key findings

Slowest reductions in output and new orders since October 2022

Supply chain disruptions least widespread for nearly two years

Prices charged inflation cools to its lowest for 16 months

January 2023 data were collected 12-24 January 2023.

Manufacturing production continued to decrease in January, but the rate of decline eased to its least marked for three months, according to the latest S&P Global PMI® data. Similarly, new orders decreased to a slightly lesser extent than at the end of 2022, while net job creation was maintained for the twenty-second successive month.

Input price inflation abated in January, with lower fuel costs helping to offset pressure on business expenses from higher raw material and energy bills. As a result, average prices charged by manufacturing firms increased at the slowest pace since September 2021.

At 48.9 in January, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – remained below the neutral 50.0 threshold for the third month running. However, the index was unchanged since December and thereby suggested an overall stabilisation of manufacturing sector business conditions. The main positive influences on the headline PMI came from slower cutbacks to production and a smaller decline in new orders.

January data pointed to only a modest reduction in output levels across the Japanese manufacturing sector, with the speed of decline the slowest since October 2022. Survey respondents noted that production schedules were curtailed due to weaker customer demand and more subdued underlying business conditions, especially across the electronics supply chain. At the same time, some firms commented on a boost from improved materials availability and efforts to replenish inventories.

A slowdown in export sales contributed to the overall decline in new order intakes during January. However, mirroring the trend for total new work, the rate of contraction was the least marked for three months. Manufacturers cited rising demand from clients in Europe, but there were again reports of falling sales to customers across Asia (especially Taiwan).

Weaker demand and fewer supply bottlenecks allowed manufacturers to focus on their backlogs of work in January. The latest survey pointed to a reduction in unfinished business for the fourth consecutive

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global.

Comment

Commenting on the latest survey results, Tim Moore, Economics Director at S&P Global Market Intelligence, said:

"Subdued global economic conditions continued to hold back customer demand across the Japanese manufacturing sector in January, but there were a number of positive signals from the latest PMI survey. The rates of decline for output and new orders were the smallest since last October, whilst marginal employment growth was maintained as manufacturers sought to boost capacity in line with long-term investment plans.

"Cautious purchasing and inventory strategies persisted at the start of 2023, with firms shifting focus from mitigating supply shortages to closer alignment with prevailing production schedules. The latest survey indicated that supplier delays were the least widespread for almost two years, despite ongoing challenges with the availability of critical electronics components.

"Hopes of a sustained improvement in supplier performance, alongside a reduced headwind from the pandemic, helped to support a further upturn in business confidence at the start of 2023. Around three times as many manufacturers expect a rise in production during the year ahead as those that forecast a decline. This lifted the overall degree of confidence to its second-highest since March 2022."

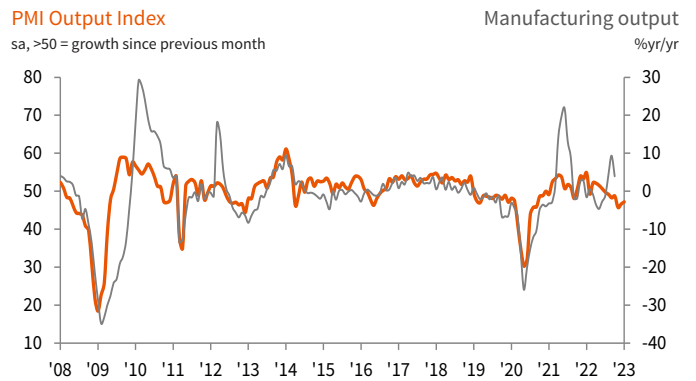
month.

Employment increased marginally in January, driven by long-term business investment and the need to boost capacity. The overall rate of expansion for payroll numbers was once again limited by non-replacement of retiring employees, according to survey respondents.

Japanese manufacturers indicated relatively cautious input buying and inventory strategies in January, largely due to subdued demand conditions. Latest data pointed to the fastest decline in purchasing activity since September 2020. Meanwhile, stocks of purchases rose only slightly and post-production inventories remained on a downward trend overall. More positively, delays among suppliers were the least widespread since February 2021. This was often linked to fewer transportation delays and improved overall materials availability, despite ongoing difficulties with supplies of critical electronics components.

Positivity regarding the outlook for international supply chain performance helped to lift business expectations in January. The degree of confidence regarding output in the next 12 months was the second-highest in ten months.

Finally, input cost inflation eased for the fourth month in a row, despite many reports citing higher prices for imported raw materials. This led to the slowest rise in factory gate charges since September 2021 as manufacturers sought to stimulate sales by limiting the pass through of higher costs to clients.



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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.

January 2023 data were collected 12-24 January 2023.

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.
ihsmarkit.com/products/pmi.html.