News Release

au Jibun Bank

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au Jibun Bank Japan Manufacturing PMI®

Renewed deterioration in manufacturing operating conditions in June

Key findings

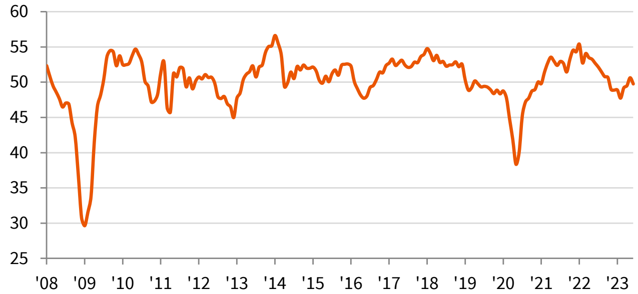
Both output and new orders scaled back

Strongest improvement in supplier performance since March 2016

Input prices rise at slowest pace for 28 months

au Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global PMI.

June 2023 data were collected 12-23 June 2023.

The Japanese manufacturing sector registered a renewed downturn in operating conditions at the e”d of the second quarter of 2023, according to June data. The headline figure was pushed back into contraction territory following declines in both output and new orders. Despite the two largest components of the headline figure falling, there were some notable improvements across the Japanese manufacturing sector. First, average lead times shortened for the second successive month, and to the greatest extent in over seven years as firms signalled improvements amid weaker demand for materials. Improved supply chains and material availability also lifted price pressures as manufacturers signalled the softest rise in input prices since February 2021. That said, the increase in expenses remained strong and above the series average.

At 49.8 in June, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – dipped from 50.6 in May, indicating a fractional deterioration in the health of the sector.

Production levels fell for the eleventh time in the past year during June, commonly associated with falling new orders and a lack of suitable staff. The rate of decline was only modest, however.

New orders also fell back into contraction during June, albeit only fractionally. Panel members often mentioned a lull in demand for manufactured goods, notably for semiconductors and electronics. This extended to export orders, which fell for the sixteenth successive month in June and at the fastest pace since February amid weak demand from mainland China especially.

In response to weaker operating conditions, buying activity fell for the eleventh month in a row at the end of the second quarter amid production cutbacks at Japanese manufacturers. That said, the reduction was the joint-softest recorded this year. Firms noted that vendor performance had continued to improve, as suppliers' delivery times shortened to the greatest degree since March 2016. Firms looked to hold on to inventories of both pre-production goods

continued...

Comment

Commenting on the latest survey results, Usamah Bhatti at S&P Global Market Intelligence, said:

"Latest data pointed to a fractional deterioration in the Japanese manufacturing sector at the midpoint of 2023. Both new orders and production levels, which make up 55% of the headline PMI figure, fell back into contraction territory. Weak demand for goods, especially semiconductors, alongside labour suitability issues weighed on sales and output volumes.

"The weakened demand and output conditions had a two-fold benefit in the latest data. Pressure on supply chains eased further in June, with average lead times shortening for the second successive month. Though marginal, the degree to which delivery times quickened was the best in over seven years. This also helped ease inflationary pressures, pushing the Input Prices Index to a 28-month low. That said, prices remained historically elevated, with many panel members citing high raw material, energy and labour costs as key drivers behind sustained increases in average operating expenses."

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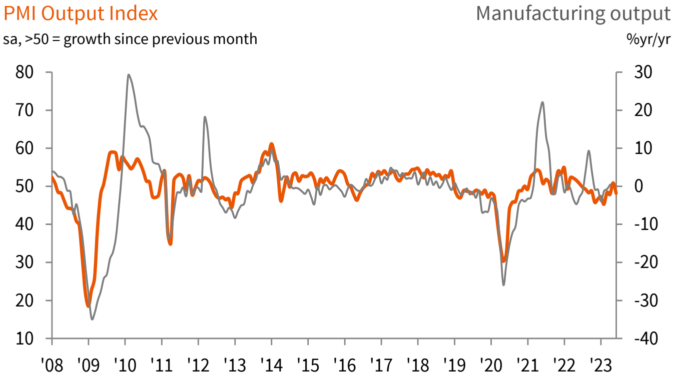
and finished items, in order to prepare for the eventual recovery in demand.

June data signalled that high raw material, energy and labour costs placed sustained pressure on average operating expenses at Japanese goods producers as input costs rose for the thirty-seventh month running. While marked, the rate of inflation slowed from May and was the softest recorded since February 2021. This translated to output charges, which rose at a sharp pace that was nonetheless the slowest for 21 months.

Manufacturers also commented that a lack of demand had enabled firms to work through and complete existing orders, as evidenced by a sustained fall in outstanding business. The pace of reduction was little-changed from May and moderate overall. At the same time, firms raised employment levels at the second-fastest pace in the year to date. Anecdotal evidence suggested that a number of temporary and part-time workers were taken on in June.

Business confidence regarding activity over the coming year strengthened in the latest survey period, pushing the overall degree of positive sentiment to the strongest since October 2021. Firms cited hopes that sales would be boosted by a broad-based economic recovery and the dissipation of the impacts of the conflict in Ukraine as well as semiconductor market improvements.



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.

June 2023 data were collected 12-23 June 2023.

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

The au Jibun Bank Japan PMI is sponsored by au Jibun Bank Corporation

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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.

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