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Jibun Bank Japan Manufacturing PMI®

Deterioration in manufacturing conditions among the strongest in over three years

Key findings

Sluggish demand conditions persist in August

Output continues to decline; business confidence subdued

Firms reduce output charges to stimulate sales

According to August survey data, Japan's manufacturing sector remained stuck in a downturn, with key barometers of business health such as output and new orders both declining. Sluggish demand continued as conditions in domestic and overseas markets remained challenging, while firms trimmed their purchases of inputs amid a subdued outlook for the coming 12 months. Efforts to stimulate sales were seen as firms reduced output prices.

Employment was the only positive indicator in August, with jobs growth continuing at a historically solid rate.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – was little-changed from July, recording 49.3 (49.4 previously). This was consistent with a contraction in the manufacturing economy and was among the strongest declines seen across the past three years.

Continuing the trend which has been apparent since the turn of the year, new business placed with Japanese manufacturers fell in August. The reduction gathered pace since July and was the fastest in five months. Slower demand was attributed to tougher conditions in both domestic and overseas markets. Panellists also mentioned China as a particular source of weakness, with survey data showing reduced inflows of new export orders.

Global growth stutters and sluggish demand led to a further cutback in production volumes in Japan. August's fall in output was the eighth in as many months, although the pace of decrease was the weakest since January. By market sector, consumer goods producers recorded growth, although this was cancelled out by decreases at investment and intermediate goods manufacturers.

Looking ahead, firms reported a subdued outlook towards production over the forthcoming 12 months. The end of Olympic Games-related work, as well as the planned consumption tax hike later this year are both expected to adversely impact output volumes, according to panellists.

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sa, >50 = improvement since previous month



Sources: Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"Japanese goods producers continued to signal difficult conditions during August, reflecting the broader regional tone within the APAC manufacturing economy. The headline index was among the lowest seen across the past three years.

The sector was plagued by production cutbacks and flagging demand, which have been the trends so far in 2019. Softer growth across Asia, particularly in China, was reported to have dented export opportunities.

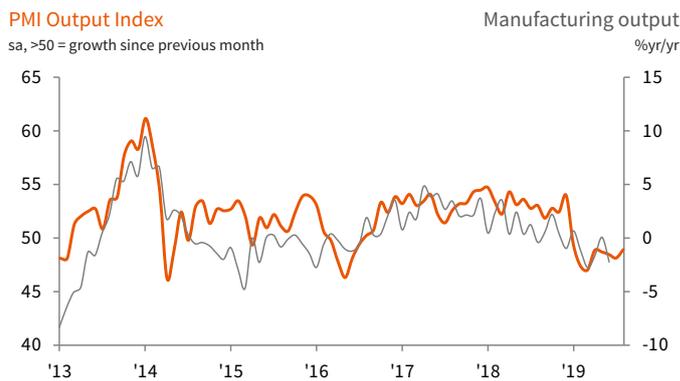
"Meanwhile, the escalation of tensions with Korea merely adds extra downside risk to an already fragile environment. August data showed a ninth straight month-on-month fall in export sales, while the domestic market was similarly weak. As such, firms were wary towards the manufacturing sector outlook, cautious of the role the consumption tax hike will play, in addition to the drop-off of Olympic Games-related demand ahead of Tokyo 2020.

"With external and domestic headwinds aplenty, it is difficult to envisage any near-term improvements in Japan's manufacturing sector."

Challenging conditions also led companies to reduce purchasing activity in August, although supplier delivery times continued to lengthen despite a diminished appetite for inputs. Japanese manufacturers also looked to keep stock levels lean, with both pre- and post-production inventories being depleted during the latest survey period.

Elsewhere, there were signs of a softening inflation environment in August, with input costs rising at the slowest rate since December 2016. Reports suggested that some suppliers had offered discounts, however this failed to offset higher transport costs and increased prices for other raw materials. Nonetheless, Japanese manufacturers reduced their output charges in an attempt to stimulate sales, marking a third successive reduction in selling prices.

Finally, the isolated positive from August's survey data was on the jobs front, with manufacturing employment sustaining its expansionary trend. Although the increase in staffing levels was modest, it was stronger than recorded on average across the series history.



Contact

Jibun Bank
Grp-S-M-IT@jibunbank.co.jp

Joe Hayes
Economist
IHS Markit
T: +44 1491 461 006
joseph.hayes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

Methodology

The Jibun Bank Japan Manufacturing PMI® is compiled by IHS Markit 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.

August 2019 data were collected 12-22 August 2019.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.