Japanese economic downturn worsens in April

Key findings

Flash Composite Output Index, Apr: 27.8 (Mar Final: 36.2)
Flash Services Business Activity Index, Apr: 22.8 (Mar Final: 33.8)
Flash Manufacturing Output Index, Apr: 37.8 (Mar Final: 41.1)

Today sees the latest release of the au Jibun Bank Flash Japan Composite PMI®. Published on a monthly basis approximately one week before final PMI data are released, this makes the PMI the earliest available indicator of private sector operating conditions in Japan. The estimate is typically based on approximately 85%-90% of total PMI survey responses each month and is designed to provide an accurate indication of final PMI data.

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

"PMI data for Japan tell us that the crippling economic impact from the global coronavirus pandemic intensified in April. Furthermore, the data show us the initial impact of Japan's lockdown. The survey was conducted between 7 and 21 April. The 7th was the day Prime Minister Abe announced a state of emergency in some parts of Japan, although this was upgraded to a nationwide state of emergency on the 16th and extended the lockdown to the whole country.

"The decline in combined output across both manufacturing and services was the strongest ever recorded by the survey in almost 13 years of data collection, surpassing declines seen during the global financial crisis and in the aftermath of the 2011 tsunami. Overall, GDP looks set to decline at an annual rate in excess of 10% in the second quarter. The current state of emergency will stay in place until 6 May, although given Japan's lagged response relative to other parts of the world, one would expect this to be extended, meaning the harsh economic effects are likely to drag out further."
au Jibun Bank Flash Japan Composite PMI®

The au Jibun Bank Japan Manufacturing PMI® is compiled by IHS Markit from survey responses from a panel of around 400 manufacturers. The headline figure is the Purchasing Managers’ Index (PMI), a composite single-figure indicator of manufacturing performance. 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.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers’ Index™ (PMI®) - which measures the overall health of the manufacturing sector - fell to 43.7 in April from 44.8 in March, signalling the sharpest deterioration in business conditions for goods producers since April 2009. The downturn in manufacturing output also gathered pace from March and was the strongest in nine years. Furthermore, intakes of new work continued to collapse, with survey data pointing to a substantial decline in demand. Panellists overwhelmingly attributed weakness to the global COVID-19 pandemic, which had caused factory shutdowns, delayed input deliveries and led to a plunge in sales.

au Jibun Bank Flash Japan Services PMI®

The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The headline figure is the Services Business Activity Index, which tracks changes in the volume of business activity compared with one month previously. A reading above 50 indicates an overall increase compared to the previous month, and below 50 an overall decrease.

Latest survey data signalled the sharpest contraction in service sector activity in Japan since records began in September 2007. The drop was unprecedented, outpacing the substantial declines seen during the global financial crisis and after the devastating tsunami in 2011. The headline Japan Services Business Activity Index slumped 11 points in April to 22.8, from 33.8 in March.
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Methodology

The au Jibun Bank Japan Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies and a panel of around 400 manufacturers. The service sectors covered include consumer (excluding retail, transport, information, communication, finance, insurance, real estate and business services. The panels are 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.

Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

The headline figure is the Composite Output Index. This index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Composite Output Index may be referred to as the ‘Composite PMI®’ but is not comparable with the headline manufacturing PMI figure.

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the ‘Services PMI®’ but is not comparable with the headline manufacturing PMI figure.

The headline manufacturing figure is the Purchasing Managers’ Index® (PMI), a composite single-figure indicator of manufacturing performance. 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.

Flash indices are released approximately one week before the ‘final’ indices. Flash indices are typically based on approximately 85%-90% of total PMI survey responses each month and are designed to provide an accurate indication of final indices.

Final 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.

April 2020 flash data were collected 7-23 April 2020. 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

The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan’s largest bank. As a “smartphone-centric bank”, au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au Jibun Bank provides unique services such as “Smartphone ATM”, a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and “AI Foreign Currency Forecast”, a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

As a member of the “au Financial Group”, au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the “Smart Money Concept” and enhance customer experience.

About IHS Markit

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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.

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