au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector records stronger expansion in October

Key findings

Renewed rises in output and new orders

Input prices and output charges rise at quickest rate in over 13 years

Business optimism accelerates to series-record high

Comment

Commenting on the latest survey results, Usamah Bhatti, Economist at IHS Markit, said:

"October PMI data pointed to a stronger expansion in the Japanese manufacturing sector at the start of the fourth quarter. The rate of growth quickened from September amid renewed expansions in both production and new orders. Overall, the headline Manufacturing PMI was at its highest reading since April and the second-highest in the year to date.

"Manufacturers continued to note concern regarding significant supply chain disruption which dampened output and demand in the latest survey period. Moreover, material shortages and delivery delays induced sharp rises in input prices, as average cost burdens rose at the sharpest pace since August 2008. This contributed to higher charges for clients in attempts to cover margins, with factory gate inflation quickening to a 13-year high.

"That said, Japanese manufacturers commented that the degree of optimism regarding the outlook strengthened in October. Confidence about the outlook reached the highest level since the series began in July 2012, as hopes that the end of the pandemic would stimulate a broad market recovery gathered pace. This is broadly in line with the IHS Markit forecast for industrial production to grow 7.1% this year and 4.3% in 2022."
further in October. However, the pace of accumulation slowed to a three-month low and was only modest.

Japanese manufacturers indicated a rise in cost burdens for the seventeenth consecutive month in October. Moreover, the rate of input cost inflation accelerated from September to reach the fastest since August 2008. Rising input costs were widely attributed to higher raw material prices. Manufacturers sought to partially pass these higher cost burdens to customers through prices charged, which increased at the fastest pace in just over 13 years.

Buying activity rose for the seventh time in eight months in October, reversing September’s decline. Growth was modest overall and often attributed to firms purchasing additional raw materials to counteract delays and shortages. Such shortages of inputs remained significant in the latest survey period, and contributed the strongest deterioration in delivery times since April 2011. As a result of additional purchases, firms built up safety stocks of both inputs and finished items to protect against future disruption, with the respective seasonally adjusted indices rising to the highest levels in over seven and three years respectively.

Looking ahead, business confidence regarding output over the year ahead strengthened to the highest since the series began in July 2012. Expectations were underpinned by hopes that the end of the pandemic would support a broad-based market recovery.

Methodology
The au 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.

October 2021 data were collected 12-22 October 2021. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.