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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

October 2021 data were collected 12-22 October 2021.

Businesses in the Japanese manufacturing sector signalled a further improvement in operating conditions in October. Renewed rises in both production and new order inflows contributed to a stronger overall rise in conditions as restrictions related to COVID-19 were eased further. That said, ongoing material shortages and delivery delays placed continued strain on manufacturers, resulting in an intensification of input price pressures not exceeded since August 2008. Nonetheless, firms remained strongly optimistic that production would rise over the coming 12 months, with the level of positive sentiment the highest on record.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index[™] (PMI) – a composite single-figure indicator of manufacturing performance – rose from 51.5 in September to 53.2 in October. This indicated a ninth consecutive monthly improvement in the health of the sector, with the pace of expansion the quickest since April.

The improved headline index was partly due to a return to growth in output. Production volumes reversed the fall from the previous period, though the increase was only marginal overall. Firms cited that output was boosted by the lifting of COVID-19 restrictions, although growth continued to be hampered by ongoing raw material shortages.

Similarly, new orders returned to expansion territory in October following a reduction in September. The pace of growth was marginal however, and weaker than the average seen in the year to date. Higher sales were commonly linked to an increase in client demand as infection rates slowed, though this was dampened by sustained supply chain delays. New export sales also increased in October, with growth easing to a fractional pace.

At the same time, employment levels continued to increase in October, and at a slightly faster pace than that seen in the previous month. As a result, the rate of job creation was the strongest since April 2019, as firms noted higher capacity requirements as demand rose. In line with higher new orders, outstanding business rose

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

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."

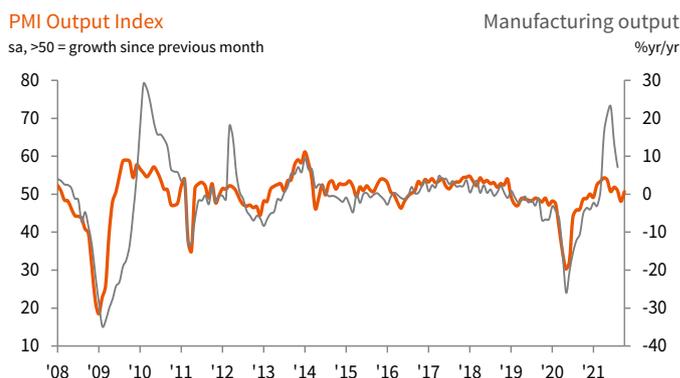
"That said, Japanese manufacturers commented that the degree of optimism regarding the outlook strengthened in October. Confidence about the outlook reached the highest level since the series began in July 2012, as hopes that the end of the pandemic would stimulate a broad market recovery gathered pace. 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.



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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.

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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.

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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