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Jibun Bank Japan Manufacturing PMI®

Manufacturing weakness persists into 2020

Key findings

Output and new orders record further declines

Export demand dips, but downturn shows signs of easing

Business confidence hits highest level since August 2018

There was little respite for Japanese manufacturers at the start of the new decade, with latest PMI data signalling another challenging month as demand conditions remain fragile. Output was reduced for a thirteenth month running, with sub-sector data revealing that the capital goods segment was a particular source of weakness. Export orders also fell in January, although the rate of decline eased notably.

Meanwhile, there were signs of inflationary pressures picking up and business confidence strengthened to a 17-month high.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – recorded 48.8 in January. This was a slight increase from December's 48.4, but indicated a further deterioration in business conditions facing Japanese goods producers. The headline index has recorded below the crucial 50.0 mark in every month since last May, with the latest reading coming in slightly below the average across this period (49.0).

Japanese manufacturers reduced output in January for a thirteenth month running. Sub-sector data revealed that cutbacks were broad-based across consumer, intermediate and investment goods makers, although the decline was particularly severe for the latter. Unfavourable demand conditions was the main factor causing production to fall, according to panel comments.

As has been the case since the start of last year, total order book volumes contracted. While the decrease was the softest in four months, it was stronger than seen on average across the current sequence of falling sales. Some firms attributed lower workloads to caution among existing clients, who reportedly trimmed their demand. Orders from overseas also fell amid reports of weak global trade conditions. That said, export orders fell only marginally and at the weakest pace since the downward trend started at the end of 2018.

Jibun Bank Japan Manufacturing PMI
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:

"Manufacturing PMI data for Japan are still portraying a struggling industry, causing firms to cut back production for another month due to subdued demand and global uncertainties.

"Scratching beneath the surface and we find that the capital goods sector was a particular straggler, with data here showing sharp and accelerated reductions in production and new orders. Falling demand for capital goods does not bode well for the global economic outlook, nor for Japanese exports.

"That said, business optimism showed real signs of promise for 2020, with new product launches and expectations of greater global demand helping to lift sentiment to a near one-and-a-half year high. Manufacturers of intermediate goods, which include electronic components, reported a particularly sharp rise in optimism, serving as an early signal of the positive impact receding global trade frictions will have on the industrial economy."

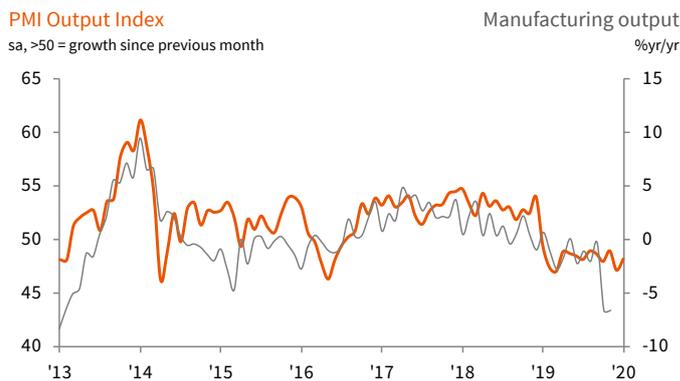
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Japanese manufacturers demonstrated a desire to keep stock levels lean in January as both pre- and post-production inventories declined. In both cases, however, rates of depletion eased. Purchasing activity also decreased during the latest survey period amid weak demand.

Latest survey data showed a further easing of capacity pressures in January. Backlogs of work fell solidly, albeit at the slowest rate for five months. Despite this, Japanese goods producers increased their workforce numbers. The rate of employment growth gathered pace and was above the historical trend.

Elsewhere, both survey measures of prices moved in an upward direction during January. Input price inflation quickened to a six-month high amid reports of higher raw material costs and unfavourable exchange rate movements. Firms responded by raising their output prices for the first time since last May, although the rate of increase was only slight.

Lastly, there was a notable improvement in business sentiment during January. Upbeat demand forecasts, particularly for electronics and related products, helped push output expectations up to their highest level in 17 months.



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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.

January 2020 data were collected 13-24 January 2020.

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](https://www.ihsmarkit.com/products/pmi.html).