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au Jibun Bank Japan Manufacturing PMI[®]

Softer increase in manufacturing output in December

Key findings

Output and new orders increase at slower rates

Employment levels rise at fastest pace in nearly four years

Business optimism eases to four-month low

December 2021 data were collected 06-16 December 2021.

The Japanese manufacturing sector registered a solid, albeit slightly softer improvement in operating conditions at the end of 2021, according to December PMI[®] data. Firms reported slower expansions in both production and incoming business, though the rates of growth remained moderate overall and stronger than the average seen over the year as a whole. Notably, as demand conditions continued to improve, manufacturers reported the strongest rise in employment levels since April 2018. Yet, firms noted a softer degree of optimism as supply chain disruption and material shortages continued to hinder output and sales.

At 54.3 in December, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index[™] (PMI) – a composite single-figure indicator of manufacturing performance – dipped from 54.5 in November. This indicated a softer improvement in the health of the sector, but was well above the average seen in 2021 as a whole (52.7).

The lower reading of the headline index was partly the result of a softer rise in output levels. Production increased for the third consecutive month, though growth eased to a more moderate pace overall. Firms linked ongoing growth to a sustained rise in new orders, which was particularly evident in the automotive sector.

New orders also rose at a softer pace at the end of 2021. That said, the average rate of growth seen over the fourth quarter was the strongest final quarter performance seen since 2018. According to anecdotal evidence, client confidence was supported by the launch of new products as well as a steady recovery from the impacts of COVID-19. Concurrently, new export sales growth eased in December, amid a rise in COVID-19 cases in South Korea in particular.

More positively, employment rose for the ninth month running in December. The rate of job creation quickened from November and was the fastest recorded since April 2018. Firms noted that headcounts were increased in response to higher production requirements. Reflecting increased new orders, outstanding

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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:

"Latest PMI data pointed to a sustained expansion in the Japanese manufacturing sector at the end of 2021. Despite easing slightly from November, firms continued to note moderate growth in both production and new orders, with both measures reading above their respective annual averages in December."

"Domestic markets were buoyed by a gradual recovery from the COVID-19 pandemic however a sharp rise in cases, particularly in South Korea hindered international demand and continued to disrupt supply chains across the sector."

"Delivery delays and material shortages remained a dampener on production and sales, as manufacturers commented on sustained difficulty in sourcing and receiving inputs. Average lead times across the final quarter of 2021 deteriorated further compared to the previous quarter, and registered the worst quarterly performance since the survey began."

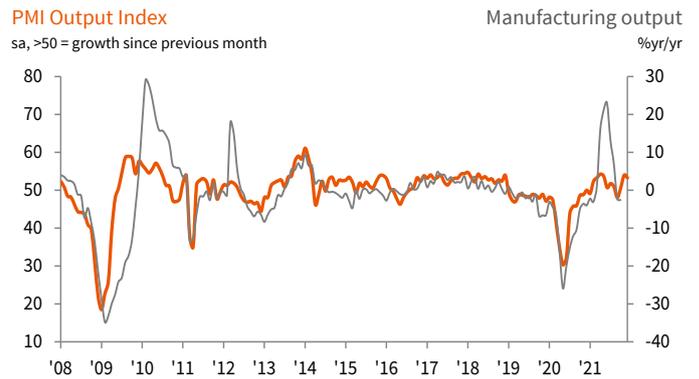
"Though still optimistic, Japanese goods producers were wary of the continued impact of the pandemic and supply chain disruption, which resulted in confidence dipping to the softest since August."

business rose at the fastest pace for eight months. Manufacturers also commented that a lack of raw materials had disrupted the ability to complete existing orders.

In response to ongoing supply chain disruption, buying activity rose at the sharpest pace since May at the end of 2021. Japanese manufacturers noted ongoing difficulties in sourcing and receiving inputs due to material shortages, while stronger demand placed additional strain on suppliers. Moreover, supplier delivery times lengthened to a greater degree in December, with average vendor performance over the fourth quarter the worst in the survey history. As a result, businesses aimed to build greater inventories of pre- and post-production goods.

December data signalled that rising raw material prices placed further pressure on average cost burdens at Japanese goods producers. Input prices rose for the nineteenth month running and, while the rate of inflation softened from November, it remained rapid overall. Output prices meanwhile increased for the thirteenth consecutive month, though the pace of inflation was the slowest since September.

Business confidence regarding activity over the coming year eased in December. The degree of positive sentiment was strong overall, yet was the weakest since August. Firms cited hopes that the end of the pandemic would trigger a broad-based recovery in demand.



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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.

December 2021 data were collected 06-16 December 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