

Embargoed until 0930 JST (0030 UTC) 6 January 2020

Jibun Bank Japan Manufacturing PMI®

Japanese manufacturing sector ends 2019 stuck in a downturn

Key findings

Production cut at strongest rate since March

Weak domestic and external conditions weigh on demand

Output charges reduced as firms try to stimulate sales

Japanese manufacturers ended 2019 on a disappointing note, with the headline PMI signalling a faster deterioration in the health of the manufacturing sector during December. Output volumes fell at the fastest rate since March amid a further decline in new orders. Weakness also remained apparent on the export front, while output prices were discounted as part of measures to entice sales.

Nevertheless, some positives emerged as employment continued to increase and optimism towards future output levels strengthened.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – fell to 48.4 in December, from 48.9 in November, indicating an eighth consecutive deterioration in business conditions across the Japanese manufacturing sector. Furthermore, the rate of decline was the joint-sharpest for three-and-a-half years, on a par with that seen in October, and rounding off the worst quarterly performance since the second quarter of 2016.

A major headwind for the manufacturing sector in December was output, which was reduced at the second-fastest rate in over three-and-a-half years, only narrowly beaten by March's decline. Sub-sector data indicated that investment goods producers registered the strongest fall, followed by consumer and intermediate goods. According to panel members, unfavourable demand conditions and economic fragility had prompted production cutbacks.

Latest survey data highlighted falling new orders for the twelfth month running. Although the drop in sales slowed, it was solid overall. Weaker demand was attributed to a challenging environment in the manufacturing sector, leading clients to place fewer orders. The soft patch in international markets also persisted into December, as evidence by a further reduction in new export sales. Global trade conflicts and lower demand from China were mentioned by firms.

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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:

"Japan's manufacturing sector has ended 2019 where it started, stuck in contraction with little hope of an imminent turnaround. Taking all fourth quarter survey data as one, the manufacturing economy has endured its worst performance in over three years, with momentum clearly to the downside heading into 2020."

"Looking at the sub-sector data, the capital goods market appears to be suffering the most and has subsequently contributed to the stronger decline in the goods-producing economy. That said, survey data highlighted that weak demand remains an industry-wide problem, impacting output volumes and causing firms to cut their prices in hopes of turning the tide."

"Overall, the manufacturing sector appears set to negatively contribute to GDP in the fourth quarter and, if considered in tandem with the December flash services PMI figures, the chance of an economic contraction in the fourth quarter looks strong."

An absence of order book growth meant extra resources were available to tackle backlogs of work. Concurrently, stocks of finished goods were depleted for the sixth month in succession amid reports of increased shipments.

Stocks of purchases were also trimmed in December, with firms reporting cost-cutting efforts and reduced purchasing activity. Input buying was tapered in line with lower operational requirements, according to anecdotal evidence. Overall, the rate of decline in quantities of purchases was the joint-quickest since June 2016, on a par with that seen in July.

On the price front, there was further discounting by Japanese manufacturers in December as firms sought to stimulate demand. Output charges were reduced slightly and for the seventh month in a row. This was despite input costs rising at the fastest rate since August.

Lastly, there were a couple of positives signals from the latest survey. Japanese manufacturing employment continued to grow in December amid expectations of higher production volumes. Optimism towards output strengthened to an eight-month high as some firms anticipate a recovery in the industrial sector in 2020. However, confidence remained weak relative to the series average.



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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.

December 2019 data were collected 05-16 December 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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).