au Jibun Bank

au Jibun Bank Japan Manufacturing PMI®

Renewed contraction in manufacturing in January

Key findings

PMI below 50.0 on lower output and employment

New orders stabilise following two-year decline

Businesses remain optimistic regarding output

au Jibun Bank Japan Manufacturing PMI
sa, >50 = improvement since previous month

Sources: au Jibun Bank, IHS Markit.

January 2021 data were collected 12-22 January.

The latest PMI® data pointed to a renewed deterioration in operating conditions across the Japanese manufacturing sector in January. Survey respondents registered a fall in output in the latest survey period, following a broad stabilisation seen in December, as rising coronavirus disease 2019 (COVID-19) cases had a renewed impact on the economy. That said, Japanese manufacturers reported a stable trend in new business inflows for the first time in over two years, as some businesses anticipated a recovery in demand in 2021. As a result, firms in the Japanese manufacturing sector remained optimistic of a rise in output over the coming year.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance - slipped from 50.0 in December to 49.8 in January, signalling a renewed contraction in the sector. That said, the overall pace of contraction was only fractional, reflecting an improving trend in new business.

The deterioration in the health of the sector was partly due to a renewed fall in output volumes in January. After remaining broadly unchanged in December, output fell at a marginal pace in the latest survey period. Production has not registered outright growth since December 2018, a sequence of 25 months. Where production fell, firms often attributed this to rising COVID-19 infections and the implementation of new restrictions under a new state of emergency.

Positively, Japanese manufacturers indicated a stable level of new orders for the first time in over two years in January. The expansion ended a sequence of 24 consecutive declines, as businesses reported demand was starting to recover amid the launch of new products. That said, some firms noted that the COVID-19 pandemic had dampened client confidence at the start of 2021. At the same time, goods producers recorded a third consecutive decline in export demand, and one that was quicker than that seen in December.

Employment levels at Japanese manufacturing firms returned to contraction in January after a stable trend in December. Moreover,

Comment

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

"The Japanese manufacturing sector slipped back into contraction territory at the start of the year, as the headline PMI fell slightly below the neutral 50.0 threshold in January as a rise in COVID-19 infections and issuance of a state of emergency dampened operating conditions. Despite broad stabilisation in December, the decline in January meant that the sector has not registered growth since April 2019.

"Japanese manufacturers indicated a renewed fall in output levels in the latest survey period, after steadying in December. Moreover, firms were further discouraged to replace voluntary leavers in the sector as staffing levels reduced in January, reversing the fractional expansion in December.
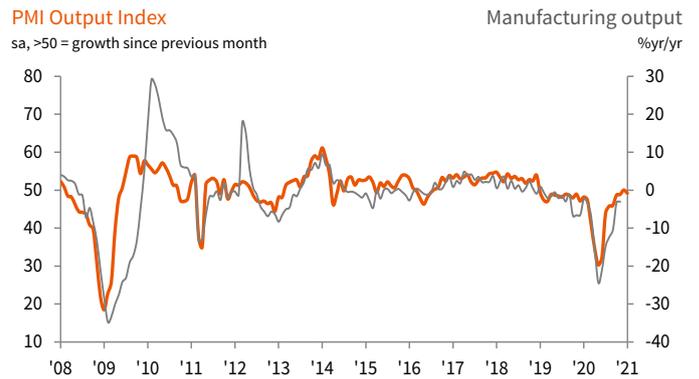
"Nonetheless, the short-term prospects for the Japanese manufacturing sector appear to be turning a corner, with firms reporting a stable level of new orders. Businesses were also optimistic that the pandemic would subside over the coming year, triggering a wider economic recovery in Japan which would boost output levels. IHS Markit estimates industrial production will grow 7.1% in 2021, although this is from a lower base and does not fully recover the output lost in 2020."

PMI®
By IHS Markit

the rate of job shedding was the fastest seen since August. Anecdotal evidence suggested that the non-replacement of voluntary leavers was widespread in the sector, although some firms commented that pressures from the pandemic had led to reduced staffing levels to save costs. A lack of pressure on capacity was apparent, as backlogs of work fell for the twenty-fifth month in a row.

Input cost inflation strengthened further in January. The pace of inflation was solid overall and was the strongest since May 2019. Manufacturers often linked a rise in average cost burdens with higher raw material and logistics costs. Concurrently, average output charges rose at a quicker pace in January, as firms sought to partially pass on some of the increases in input costs to clients.

Supply chain disruptions continued to build during January with average lead times lengthening to the most marked degree since last June. Restrictions to curb rising COVID-19 infections domestically and abroad had continued to delay receipt of inputs, therefore firms utilised existing stocks of both pre- and post-production inventories to fulfil orders.

Looking forward, business confidence regarding output over the year ahead remained positive, with sentiment underpinned by hopes of an end to the pandemic to trigger a wider economic recovery.

PMI Output Index
sa, >50 = growth since previous month

Manufacturing output
%yr/yr

Sources: au Jibun Bank, IHS Markit, METI.

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