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au Jibun Bank Japan Manufacturing PMI®

Manufacturing PMI reaches seven-month high

Key findings

Headline PMI rises to 47.7 in September

Slower falls in output and new orders

Business expectations continue to recover

September 2020 data were collected 12-23 September.

September data indicated that the Japanese manufacturing sector moved another step closer to stabilisation, helped by the slowest fall in new orders since January. At the same time, hopes of a longer-term recovery in production volumes strengthened, with growth expectations for the year ahead rising to the highest since May 2018.

At 47.7 in September, up from 47.2 in August, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – rose for the fourth month in a row following the low point seen in May (38.4). The latest reading was the highest since February, albeit still below the neutral 50.0 value.

Supporting the rise in the PMI during September, latest data indicated the weakest decline in production volumes for seven months. Manufacturers reporting a drop in output mostly commented on project cancellations and subdued demand levels due to the coronavirus disease 2019 (COVID-19) pandemic. However, the latest decrease in production was modest in comparison to the rate of contraction seen during the second quarter of the year.

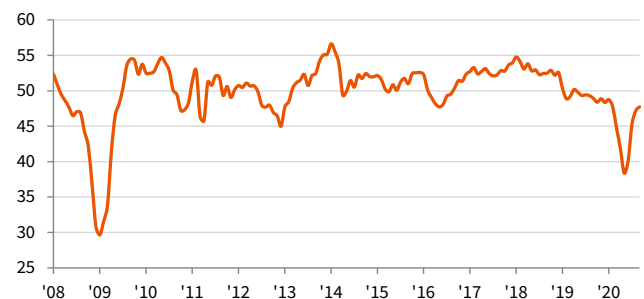
New orders fell to the least marked extent since January, which highlighted a turnaround from the severe downward trend seen in the earlier stages of the pandemic. Some manufacturers commented on a boost from rising demand from clients in China and South East Asia, which partly offset weakness in other major overseas markets. Total new export sales fell again in September, but at the slowest pace for eight months.

Employment remained relatively stable across the manufacturing sector, with this index only fractionally below the 50.0 no-change threshold. Where a decrease in payrolls was reported, survey respondents mostly cited the non-replacement of retired staff. However, backlogs fell at a sharp rate, which suggested a lack of pressure on production capacity.

Supply chain disruptions showed signs of easing in September, with

continued...

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Tim Moore, Economics Director at IHS Markit, said:

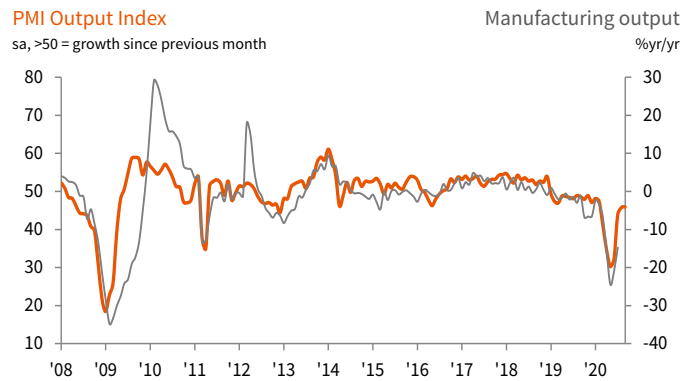
"Subdued business conditions persisted across the Japanese manufacturing sector in September, but there were signs that the downturn has lost intensity. The latest declines in output and new orders were the slowest since the first quarter of 2020 and much softer than seen earlier in the pandemic. Some manufacturers noted that a turnaround in export sales to clients elsewhere in Asia had helped to offset some of the demand weakness across Europe and the United States.

"The most encouraging aspect of the latest survey was a sustained rebound in business optimism from the low point seen during April. More than twice as many manufacturers plan to boost production in the next 12 months as those that forecast a decline, which pushed the survey measure of business expectations to its highest since May 2018."

lead times lengthening to the least marked degree in the current eight-month sequence of longer delivery times. Improvements in transport availability and fewer delays at international borders allowed manufacturers to boost shipments of finished goods in September. This resulted in the fastest drop in post-production inventories for seven months.

There were again reports that rising transport costs and increased raw material prices had pushed up average cost burdens across the manufacturing sector. Input prices have now risen for four months running, although the rate of inflation remained only marginal in September. Margins were also under pressure, as suggested by another slight reduction in average prices charged by manufacturing companies.

Manufacturers in Japan are increasingly confident that production volumes will expand during the next 12 months. More than twice as many survey respondents (37%) expect a rise in their output levels as those that anticipate a reduction (18%). The resulting index signalled the strongest business expectations since May 2018, which was mainly linked to hopes that the global economic impact of the pandemic will fade in the next 12 months.



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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.

September 2020 data were collected 12-23 September.

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. ihsmarkit.com/products/pmi.html