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Jibun Bank Japan Manufacturing PMI®

PMI falls to 40-month low amid strong deterioration in demand

Key findings

Japanese manufacturers under pressure amid weaker demand

Production falls for tenth month in a row

Firms reduce output charges in bid to stimulate sales

Japan's manufacturing economy sank deeper into contraction during October, according to the latest PMI survey. The stronger deterioration reflected a further weakening in demand conditions, with new orders falling at the sharpest pace since May 2016. Production was subsequently cut, as were inventory levels and purchasing volumes. Output charges were also discounted as firms sought to attract greater demand.

That said, employment growth picked up to a six-month high, input cost inflation remained relatively subdued, and business confidence edged up slightly.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – fell to 48.4 in October, from 48.9 in September, its lowest mark in nearly three-and-a-half years and indicative of a stronger downturn in Japan's goods-producing economy.

The sharper deterioration in business conditions was driven by a steeper drop in demand. Latest survey data pointed to a marked decline in new orders placed at Japanese manufacturers. According to anecdotal evidence, the month-on-month fall in sales was partly reflective of the end of last-minute purchases before the consumption tax hike, which took effect in October.

That said, underlying demand from both domestic and external markets reportedly remained unfavourable. Total new orders fell at the fastest rate since May 2016, while new export business also declined for an eleventh successive month.

With inflows of new work decreasing, Japanese manufacturers cut production during October. Overall, the reduction was the strongest for seven months and broad-based across each of the three market groups. Capital goods producers observed the fastest cutback, followed by intermediate and then consumer goods makers. Panellists attributed lower output volumes to the typhoon, as well

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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:

"Worrying signs for Japanese manufacturers appeared at the start of the fourth quarter, with PMI data showing conditions deteriorating at the sharpest rate for almost three-and-a-half years.

"Even more concerning was the fact that new orders, a key forward-looking component of the survey, was the primary reason underpinning this marked decline.

"Japanese goods producers reported the sharpest fall in demand since May 2016, with sector data showing the accelerated drop was broad-based across consumer, intermediate and investment goods.

"Although the impact of the typhoon will have temporarily interrupted factory operations in October, panellists reported unfavourable underlying conditions across both domestic and external markets. As such, downside risks to Japan's manufacturing economy are clearly excessive. With weak regional growth across Asia and signs of fragility within the domestic economy, it is difficult to see any respite coming in the near-term."

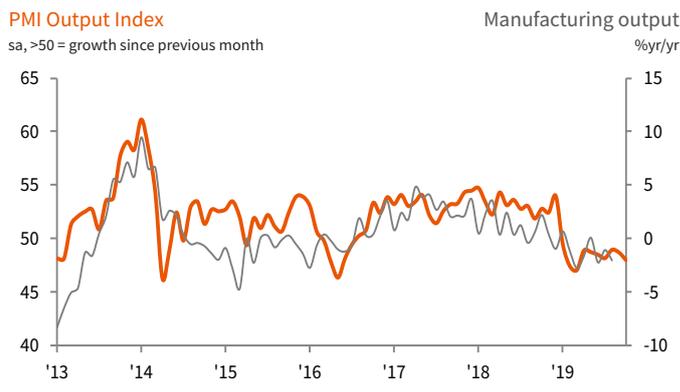
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as spillover effects from trade frictions with the US and China.

In line with falling order book volumes, Japanese manufacturers trimmed their purchasing activity during October to the quickest extent in three months. A reluctance to hold items in stocks was also signalled by simultaneous draw-downs to pre- and post-production inventories during the latest survey period. In fact, rates of depletion in both cases accelerated during the month, with stocks of finished goods falling at the fastest rate since survey data were first collected 18 years ago.

Capacity pressures subsided during the latest survey period, as evidenced by a decline in backlogs of work at Japanese goods producers. Nevertheless, employment levels increased at the fastest pace in six months. Job creation was broad-based across all three manufacturing sub-categories.

On the price front, input price inflation held close to that recorded in September, which was the weakest for almost three years. Yen appreciation and drops in some raw material prices curbed cost pressures, according to some firms. In order to boost demand, firms took advantage of the low cost inflation environment and discounted charges.



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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.

October 2019 data were collected 11-24 October 2019.

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.