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Jibun Bank Japan Manufacturing PMI®

Sharper fall in exports drives further manufacturing deterioration

Key findings

Solid decline in new orders leads to further output cutbacks

Economic weakness across Asia hits exports in November

Selling charges decreased for sixth month running

The Japanese manufacturing sector remained stuck in a downturn midway through the fourth quarter as falling order book volumes led to an eleventh successive month-on-month fall in production. Weakness was particularly apparent in overseas markets, with export demand deteriorating at the fastest pace in five months.

Firms took action and discounted their output prices, taking advantage of slower input cost inflation. The only real positive from the survey came on the jobs front, with manufacturing employment rising at an accelerated pace.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – remained below the 50.0 no-change mark in November for a seventh straight month, posting 48.9 (48.4; October), to signal a continuation of the downturn in Japan's manufacturing sector. Economic decline was apparent in the investment and intermediate goods sub-categories, while consumer goods makers observed a marginal improvement from October.

Latest survey data pointed to lower output volumes across the Japanese manufacturing sector. Although the decrease was softer than in October, it was broadly equal to the average seen across the current 11-month contraction period. Weak demand was the key factor driving production cutbacks, according to panel member comments.

New orders remained in contraction during the latest survey period. The decrease was the second-fastest since mid-2016, outpaced only by that seen in the previous month. Furthermore, the sub-sector split showed that weaker demand was broad-based during November. Anecdotal evidence indicated that underlying demand conditions had deteriorated further, while numerous firms mentioned weakness had stemmed from foreign sources, particularly China. New export orders dropped for the twelfth time in as many months during November, with the increase gathering

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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 remains firmly stuck in contraction, with the same issues which have plagued the industrial world once again hitting firms where it hurts. In particular, export orders dropped at the fastest rate since mid-year amid reports of demand weakness at key trade destinations, namely China.

"At the sub-sectors, it was intermediate and investment goods which were the primary sources of economic decline, whereas consumer goods makers observed improvements in business conditions.

"Signs of how deeply-rooted this manufacturing downturn in Japan has become were seen in other survey data. Price discounting has been a trend in each of the past six months, highlighting that firms are now actively trying to tackle the sluggish demand conditions. Inventories of inputs also fell at a sharp rate, suggesting that firms are not expecting output requirements to rise anytime soon."

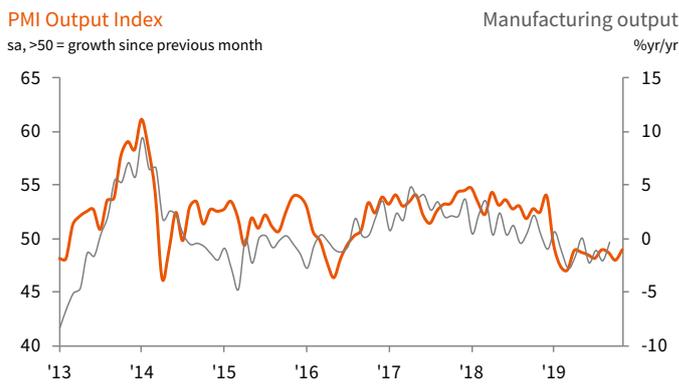
pace to be the strongest since June.

Reduced output requirements led to the tapering of purchasing activity in Japan's manufacturing sector during the latest survey period. Firms instead opted to run down existing stocks of inputs in order to contain costs. Pre-production inventories fell at the fastest rate in almost three years.

More positively, latest survey data indicated further gains on the employment front in Japan's manufacturing sector. The rate of job creation quickened from October and was the most marked since April. Panellists mentioned that new trainees were recruited to replace those that were retiring. The combined effect of greater workforce numbers and lower incoming new order volumes led to the fastest rate of depletion in backlogs since December 2012.

Meanwhile, prices data showed a softening of the rate of input cost inflation during November. Panellists indicated that weak demand had led some suppliers to reduce their prices. Sluggish demand also induced firms to discount their charges to try and boost sales.

Finally, business confidence remained subdued, with external and domestic economic headwinds expected to impede growth opportunities in the year ahead.



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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.

November 2019 data were collected 12-22 November 2019.

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

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Jibun Bank provides unique services such as "Smartphone ATM", a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and "AI Foreign Currency Forecast", a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).

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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.