News Release

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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector records softer expansion in June

Key findings

Output and new orders both rise at softest rates for five months

Input prices rise at fastest pace in over ten years

Strongest degree of optimism on record

June 2021 data were collected 11-23 June.

Businesses in the Japanese manufacturing sector signalled a further improvement in operating conditions at the end of the second quarter. That said, the rate of growth eased as expansions in both production and new order inflows slowed to the softest for five months in June as COVID-19 restrictions and supply chain pressures disrupted activity. Ongoing delivery delays placed strain on manufacturers, resulting in an intensification of input price pressures not exceeded since March 2011. Nonetheless, firms remained strongly optimistic that production would rise over the coming 12 months, with the level of positive sentiment the highest on record.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance - dipped from 53.0 in May to 52.4 in June. This indicated a fifth consecutive monthly improvement in the health of the sector, though the pace of the expansion was the softest since February.

The lower reading of the headline index partly due to a softer rise in output. Production volumes increased at the softest rate in the current five-month sequence in June, and only marginally overall. Firms cited a favourable receipt of orders had boosted production, although growth was hampered by ongoing COVID-19 restrictions and notable raw material shortages.

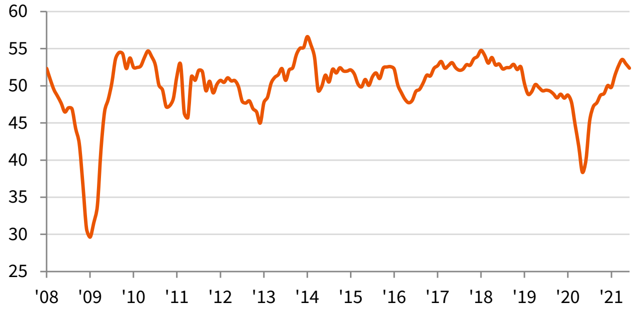
Similarly, new orders expanded at a slower pace in the latest survey period. The pace of growth eased from May and was the softest since January. Higher sales were commonly linked to an increase in client demand, though supply chain delays had dampened overall growth. Moreover, new export sales increased at the softest pace since March, however the rate of increase remained moderate overall.

At the same time, employment levels continued to increase in June, and at a slightly faster pace than that seen in the previous month. As a result, the rate of job creation was the strongest since January 2020, as firms noted higher capacity requirements as demand continued to rise. In line with the trend in new orders, outstanding business rose further in June. The pace of expansion picked up from the previous

continued...

au Jibun Bank Japan Manufacturing PMI

sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

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

"June PMI data pointed to a sustained expansion in the Japanese manufacturing sector at the end of the second quarter. That said, the rate of growth eased from May amid softer expansions in both production and new orders. Overall, the headline Manufacturing PMI was at its lowest reading since February.

"Manufacturers continued to note concern regarding ongoing supply chain disruption, which has induced sharp rises in the price of raw materials amid severe shortages. Cost burdens faced by businesses rose at the sharpest pace since March 2011, which has partially translated to higher charges for clients to cover margins.

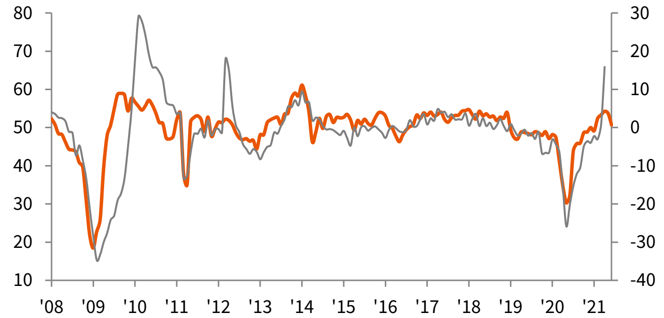
"That said, Japanese manufacturers commented that the degree of optimism regarding the outlook for output over the coming 12 months strengthened in June. Confidence about the outlook reached the highest level since the series began in July 2012, as hopes of an end to the pandemic gathered pace. This is broadly in line with the IHS Markit forecast for industrial production to grow 8.8% in 2021, though this does not fully recoup losses from the pandemic."

survey period and was modest overall.

Japanese manufacturers indicated a rise in cost burdens for the thirteenth consecutive month at the end of the second quarter. Moreover, the rate of input price inflation accelerated from May and was the fastest registered since March 2011. Rising input costs were commonly attributed to higher raw material prices. Manufacturers also sought to partially pass through higher cost burdens to clients through prices charged in June, which increased at the fastest pace since March.

Buying activity rose for the fourth time in as many months in June. Growth eased from the previous month though remained solid overall. Manufacturers in Japan noted substantial difficulties in sourcing raw materials due to reports of significant shortages, which also contributed to the strongest deterioration in delivery times since April 2020. Firms opted to increase stocks of raw materials for a second successive month, though this was dampened by a lack of available materials. At the same time, manufacturers drew from existing holdings of finished goods to fulfil orders.

Looking ahead, business confidence regarding output over the year ahead strengthened to the highest since the series began in July 2012. Expectations were underpinned by hopes that an end to the pandemic would stimulate a demand and support a broad market recovery.



Sources: au Jibun Bank, IHS Markit, METI.

Contact

au Jibun Bank
Grp-S-I-Room@jibunbank.co.jp

Usamah Bhatti
Economist
IHS Markit
T: +44 1344 328 370
usamah.bhatti@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44 207 260 2234
joanna.vickers@ihsmarkit.com

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.

June 2021 data were collected 11-23 June.

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

The au Jibun Bank Japan PMI is sponsored by au Jibun Bank Corporation

The au Jibun Bank is an internet retail bank established in 2008 by a joint investment of KDDI – a major telecommunication service provider – and MUFG Bank – Japan's largest bank –. As a "smartphone-centric bank", au Jibun Bank focuses on providing high-quality financial services via smartphones.

The au 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).

As a member of the "au Financial Group", au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the "Smart Money Concept" and enhance customer experience.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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.