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au Jibun Bank Japan Manufacturing PMI®

Further expansion in manufacturing in March

Key findings

Faster increases in output and new orders

Employment levels stabilise

Businesses remain optimistic regarding future output

March 2021 data were collected 12-24 March.

Japanese manufacturers signalled a second successive improvement in operating conditions in March. Survey respondents registered quicker expansions in production and new order volumes, with the fastest growth rates in 27 and 35 months respectively. At the same time, businesses reported that employment had stabilised for the first time in three months as manufacturers required additional capacity in order to meet rising order volumes. As a result, firms in the Japanese manufacturing sector remained optimistic of a rise in output over the coming 12 months.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – rose from 51.4 in February to 52.7 in March. This signalled the strongest improvement in the health of the sector since October 2018, reflecting a sustained recovery from the impact of the coronavirus disease 2019 (COVID-19) pandemic.

The improvement in operating conditions was partly due to a second successive rise in production volumes in March. Output levels rose at a quicker pace than the previous survey period, with the latest increase the fastest since December 2018. Firms often attributed this to improved orders in key manufacturing industries in Japan, notably automotive and semiconductors.

Similarly, Japanese manufacturers indicated further expansion in new order inflows in the latest survey period. This extended the current sequence of growth to three months, with the rise in March the sharpest registered since April 2018. Businesses reported that client demand had continued to recover as the impact of the pandemic began to dissipate, both domestically and in international markets. That said, new export orders increased only marginally, with anecdotal evidence suggesting that external demand was concentrated in key Asian economies including China.

As additional pressure built on capacity among Japanese manufacturers, employment levels stabilised for the first time in three months in March. The seasonally adjusted Employment Index

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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:

"The Japanese manufacturing sector continued to gather some positive momentum at the end of the first quarter of 2021, as March PMI data pointed to a second successive improvement in operating conditions. Moreover, the pace of the expansion quickened and was moderate overall, as firms recorded stronger growth in output and new orders.

"Employment levels also returned to stabilisation in March, with manufacturers taking on additional capacity to fulfil increasing orders. However, this was offset by a significant number of voluntary retirements.

"Beyond the immediate future, Japanese manufacturers were confident that output would continue to rise over the coming 12 months, as expectations for growth remained at a high level. Firms cited hopes that a successful vaccination rollout which began in March would help to bring a quicker end to the pandemic and allow for a broad-based recovery in demand.

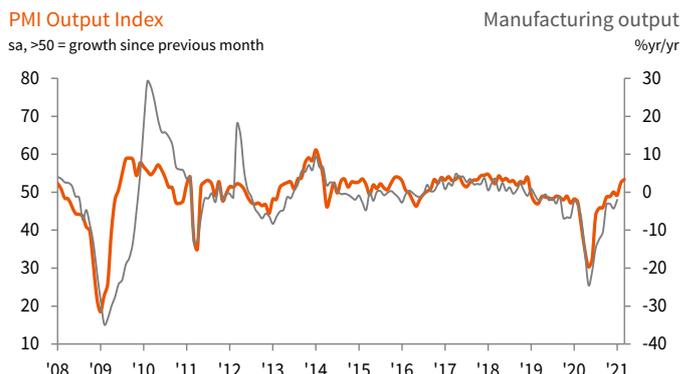
"Currently, IHS Markit estimates that industrial production in Japan will grow 7.7% in 2021, yet this does not fully recover the output lost in 2020."

registered at the neutral 50.0 threshold as firms required additional staff to fulfil orders. However, this was partially offset by an ongoing number of voluntary retirements. Moreover, backlogs of work increased for the first time in 27 months, in line with rising demand, providing further evidence of pressure on existing capacity during March.

Input cost inflation strengthened further in March. The pace of inflation was robust overall and the strongest since November 2018. Manufacturers widely linked a rise in average input prices with higher raw material costs. Concurrently, average prices charged for Japanese manufactured goods rose at the quickest pace since April 2019, as firms sought to partially pass through increased input costs to customers.

Supply chain disruption continued to build during March with average lead times lengthening to the most marked extent since May 2020. Delays in receiving shipments led Japanese manufacturers to increase purchasing activity for the first time since December 2018. At the same time firms continued to draw down existing stocks of 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 that a successful vaccine rollout would trigger a broad economic recovery.



Sources: au Jibun Bank, IHS Markit, METI.

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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.

March 2021 data were collected 12-24 March.

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