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# Jibun Bank Japan Manufacturing PMI®

## PMI finishes third quarter at a seven-month low

### Key findings

Output reduced as deterioration in demand extends into September

Firms link export weakness to lower sales to China, US and Europe

Business expectations remain historically subdued

Japan's manufacturing sector remained under pressure at the end of the third quarter as firms cut production amid sustained weakness in demand. A sharper drop in output was accompanied by quicker declines in new orders and purchasing activity, while inventories were also reduced. Selling charges were discounted to encourage sales, but global trade frictions and concern towards domestic economic health led to a subdued business outlook.

On a more positive note, input price inflation slowed to a near three-year low, while firms continued to hire additional staff.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – fell to 48.9 in September, down from 49.3 in August, its lowest mark since February. Overall, the PMI signalled a modest, but sharper deterioration in the health of Japan's manufacturing sector.

The main pull factors on the manufacturing economy were output and new orders, as both declined in September at accelerated rates. Panellists indicated that underlying demand conditions had weakened, reflecting fewer sales from both domestic and foreign markets.

Latest survey data showed a tenth successive monthly drop in new export business. Order book volumes from China, the US and Europe, key markets for Japanese manufacturers, reportedly declined in September. Sluggish sales culminated in further production cutbacks, with output falling for a ninth consecutive month.

As has been the case in each month of 2019 so far, Japanese manufacturers tapered their purchasing of inputs in September. In line with lower buying volumes, pre-production stocks fell and to the quickest degree in eight months. A reluctance to maintain inventories was also seen with regard to finished goods, which were depleted at the fastest pace in nearly a decade. Some panellists

*continued...*

Jibun Bank Japan Manufacturing PMI  
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:

*"PMI data suggest that the Japanese manufacturing sector ended the third quarter on a negative footing, with the headline index at its lowest mark since February.*

*"Crucially, the stronger deterioration comes ahead of the consumption tax hike, and suggests that manufacturing and exports are both likely to have been drags on third quarter GDP.*

*"Japan continues to suffer from the trade-led global growth slowdown. While new product launches, particularly in the tech and capital goods space, provide some mild reason for optimism, concern of trade frictions being drawn out further are underpinning a cautious approach.*

*"Strength in the trade-weighted yen so far this year has also meant that the currency has not been able to mitigate the impact of the global trade slowdown. To that end, the service sector's ability to weather the sales tax hike in the fourth quarter will be crucial to keeping the economy afloat into the year-end."*

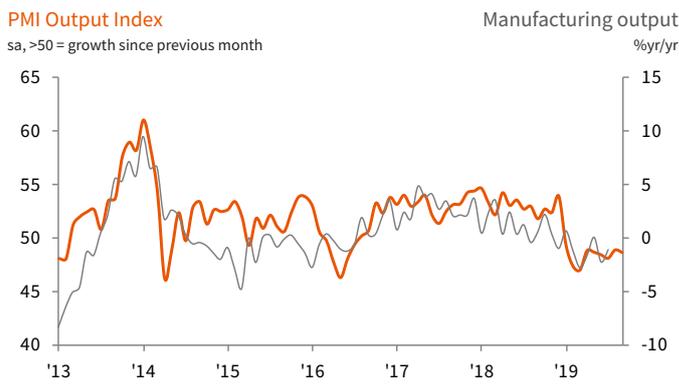
reportedly used these stocks to meet orders in advance of the sales tax hike.

Meanwhile, the Future Output Index – the only sentiment-based gauge of the survey – showed a subdued outlook towards the coming 12 months. Survey comments suggested that global trade frictions and fears of a domestic economic slowdown adversely impacted confidence.

Nonetheless, Japanese manufacturers continued to hire additional staff in September, with upcoming new product launches creating a need for new workers. That said, the rate of job creation slowed and was mild overall. Employment growth was restricted by lower inflows of new work and the retirement of ageing employees.

Elsewhere, reduced demand for Japanese goods led companies to focus on clearing their outstanding stocks of incomplete work. Backlogs declined markedly in September and to a faster extent than in August. Similarly, the diminished appetite for purchases among Japanese manufacturers contributed to a broad stabilisation of supplier delivery times.

Lastly, survey data showed a slower rate of input cost inflation. The increase in operating expenses was the weakest for almost three years. Selling prices were reduced for a fourth month in succession.



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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.

September 2019 data were collected 12-23 September 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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).

As a member of the "au Financial Group", 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.

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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](http://ihsmarkit.com/products/pmi.html).