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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector stabilises at end of 2020

Key findings

Headline PMI rises to 50.0 in December

Output stabilises after 23 consecutive monthly falls

Employment rises for first time since February

December 2020 data were collected 4-16 December.

The Japanese manufacturing sector ended 2020 with operating conditions stabilising in December, marking the end of a 19-month sequence of decline. Following significant disruption caused by the coronavirus disease 2019 (COVID-19) pandemic earlier in the year, businesses reported production volumes were unchanged on the month for the first time in two years, which brought a halt to 23 consecutive monthly declines in output. Moreover, stable conditions encouraged Japanese manufacturers to increase hiring for the first time in ten months in December.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – rose from 49.0 in November to reach the 50.0 no-change threshold in December. This marked the highest reading of the PMI since April 2019 as the sector continued to gradually recover from dampened operating conditions exacerbated by the COVID-19 pandemic.

The improvement in the health of the Japanese manufacturing sector was supported by a stabilisation in output levels in December. Unchanged from the previous survey period, this brought an end to a 23-month sequence of declines dating back to January 2019. Where production increased, panel members attributed this to increased orders for manufactured goods. That said, firms also noted that a third wave of infections had weighed on production.

New orders meanwhile, were reduced to the least marked extent of the past two years. According to anecdotal evidence, confidence remained downbeat due to the lingering impacts of the pandemic, although there was evidence that conditions were improving, notably in the automotive sector.

Nonetheless, Japanese manufacturers were encouraged to take on additional staff as operating conditions stabilised. Employment levels increased for the first time since February, albeit at a fractional pace, as firms prepared production lines for increased output. That said, manufacturers continued to report retirements were commonplace

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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:

"Japanese manufacturers signalled a broad stabilisation in operating conditions at the end of a tumultuous year, as the headline PMI registered at the 50.0 no-change threshold in December. This pushed the PMI to the highest level since April 2018 and ended a sequence of 19 straight declines – the longest in the survey history."

"The overall health of the Japanese manufacturing sector was boosted by output levels steadying following nearly two years of consistent declines. Although new orders reduced in the latest survey period, the fall was the softest recorded in the current sequence dating back to January 2019."

"Buoyed by improved operating conditions, Japanese manufacturing firms increased employment levels for the first time since February, albeit only fractionally. Nevertheless, ongoing issues of an ageing population have continued to hold back Japanese manufacturing employment, as firms report continued to report retirements."

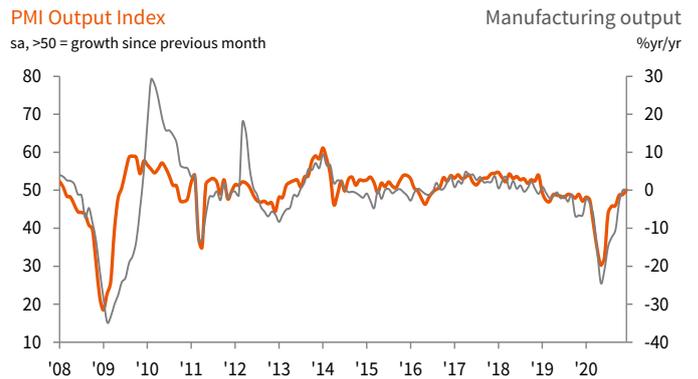
"Businesses reported a sustained increase in optimism, with a third of respondents predicting a rise in output over the coming 12 months. This is in line with the IHS Markit forecast for industrial production to grow 7.3% in 2021."

in the workforce. Furthermore, evidence of ongoing spare capacity remained among Japanese manufacturers, as the decline in backlogs of work was extended to two years.

There were further reports that rising raw material prices placed sustained pressure on average cost burdens across Japanese manufacturing firms in December. Input prices have now risen for seven months in a row, with the rate of inflation quickening to the fastest since January. Output prices meanwhile, increased for the second time in three months, albeit fractionally, as firms partially passed on higher input costs to clients.

Despite stabilising output and orders, buying activity fell again in December, extending the current sequence of decline to 24 months. Firms also cited ongoing supply chain disruption with a further lengthening in input delivery times. Furthermore, holdings of both pre- and post-production inventories were reduced further in the latest survey period.

Finally, business confidence regarding activity over the coming 12 months picked up in December. Robust positive sentiment was underpinned by hopes that the end to the pandemic and new product launches would stimulate demand throughout the coming year.



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.

December 2020 data were collected 4-16 December.

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