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au Jibun Bank Japan Manufacturing PMI®

Manufacturing output hit by biggest drop in new orders since December 2012

Key findings

Firms cut production as demand deteriorates markedly

Supply chains adversely impacted by COVID-19 outbreak

Output growth expectations weaken in February

According to latest survey data, Japan's manufacturing sector was hit by strong demand- and supply-side headwinds in February as production volumes were adversely affected by delayed input deliveries and reduced demand.

The impact of COVID-19 was most apparent in new order intakes, which firms indicated had partly fallen as a result of lower sales to China. Supplier delivery times also lengthened as some manufacturers were unable to source key raw materials due to the coronavirus outbreak. Firms were subsequently less optimistic than at the start of the year and cleared their inventories to keep a lid on costs. In a bid to drive their sales higher, output charges were cut.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – fell to 47.8 in February, down from 48.8 in January, its lowest mark since May 2016. Overall, the headline survey measure was indicative of a moderate but accelerated deterioration in manufacturing business conditions.

New orders placed with Japanese goods producers fell at the sharpest rate since December 2012 during the latest survey period. Accelerated drops in demand were seen across the three monitored market groups in February, with investment goods producers observing the strongest decline. According to panellists, subdued economic conditions weighed on sales performances.

The external environment remained unfavourable in February, as signalled by a fifteenth successive monthly decrease in new export orders. Anecdotal evidence partly linked lower overseas demand to the COVID-19 outbreak, which had reportedly dented the appetite for spending by clients in China. Consumer goods manufacturers recorded the fastest decline, while capital goods makers recorded the weakest.

Challenging demand conditions were exacerbated by supply-side issues in February. According to firms, the COVID-19 outbreak

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"Near-term prospects for Japan's industrial sector appear very bleak, according to the February Manufacturing PMI report.

"Weakness was driven by the demand-side in a broad-based fashion. Consumer, intermediate and capital goods producers recorded faster declines in demand and overall order books fell at the sharpest rate in over seven years. This certainly cannot be wholly attributed to the COVID-19 outbreak, so it appears that Japan's manufacturing recession goes much deeper, but lower sales in China during the month add further woes to an already-fragile external environment.

"Demand-side weakness was exacerbated by shipment delays and delivery cancellations. Some panellists reported that they were unable to source key raw materials from suppliers in China. Existing buffer stocks helped to offset some of the shortfall, but if supply chain disruptions carry on for an extended period then the risk to industrial output will be far greater.

"That said, the decline in manufacturing production was not as bad as some other countries in the Asia-Pacific region in February."

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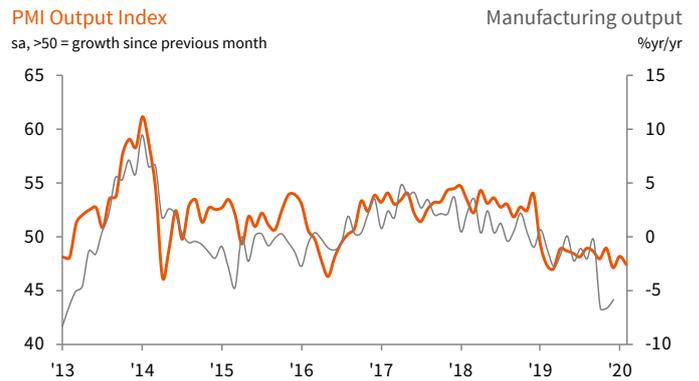
prevented the shipment of key raw materials from China. As a result, supplier lead times lengthened to the greatest extent in just over a year.

The combined impact of lower sales and input delivery delays contributed to a further decrease in production volumes in February. The pace rate of decline picked up and was one of the most pronounced across the current period of contraction which began at the start of 2019.

Japanese manufacturers still expect output to be higher in 12 months' time. Planned capacity improvements and a domestic economic recovery underpinned the positive outlook. That said, the degree of optimism eased from January's 18-month high.

Subdued demand led companies to allocate more resources to backlogs, which fell at the fastest rate in over seven years. Nonetheless, employment rose as additional workers were recruited to offset retirements and voluntary resignations.

Elsewhere, output prices were cut in a bid by firms to boost competitiveness. The scope for price discounting was helped by input cost inflation easing to a 39-month low.



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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.

February 2020 data were collected 12-21 February 2020.

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