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au Jibun Bank Japan Manufacturing PMI®

Stronger expansion in manufacturing in November

Key findings

Output and new orders rise at faster rates

Sharp rise in cost burdens amid sustained supply chain disruption

Businesses report strong optimism regarding future output

November 2021 data were collected 12-23 November 2021.

Japanese manufacturers signalled a quicker improvement in operating conditions in November, as respondents registered the fastest expansions in production and new order volumes for seven months. At the same time, however, firms continued to report significant supply chain disruption had intensified price pressures midway through the fourth quarter, with manufacturers commenting that material shortages and delivery delays in receiving inputs had contributed to the sharpest rise in cost burdens in over 13 years. That said, Japanese manufacturers remained strongly optimistic regarding the year-ahead outlook for output.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – rose from 53.2 in October to 54.5 in November. This signalled the strongest improvement in the health of the sector since January 2018, and the tenth consecutive month of overall growth.

The improvement in operating conditions stemmed from a second successive rise in production volumes in November, and at the fastest pace since April. Firms often attributed this to improved orders, particularly in the production of inputs and intermediate goods. That said, growth was held back slightly by reports of difficulties in sourcing and receiving raw materials.

Japanese goods producers signalled a further expansion in new order inflows in November. This was the second instance of growth in as many months and the sharpest recorded for seven months. Businesses reported that client demand had continued to recover as sales were boosted by increased investment into development of new products. New export orders growth hit a five-month high with anecdotal evidence pointing to concentrated growth in South East Asia.

Additional pressure on capacity led to Japanese manufacturers expanding employment levels for the eighth month running. The rate of job creation edged up slightly to reach the fastest since April 2019. Backlogs of work also continued to increase, providing

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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 see an improvement in operating conditions midway through the fourth quarter of 2021, as November PMI data pointed to the quickest improvement in the health of the sector since January 2018. The pace of expansion quickened as firms recorded stronger growth in both output and new orders.

"That said, anecdotal evidence indicated supply chain disruption continued to hinder activity within the sector. Firms recorded a sustained and marked deterioration in lead times in November. Moreover, material shortages and logistical disruptions contributed to a rapid rise in average cost burdens, as input prices rose at the fastest pace since August 2008.

"Beyond the immediate future, Japanese manufacturers remained confident that output would rise over the coming 12 months. Firms were hopeful that an end to the COVID-19 pandemic would accelerate the launch and mass production of new products, amid a broad-based boost to demand in both domestic and international markets. This is in line with the IHS Markit forecast of a 5.3% rise in industrial production in 2022."

further evidence of pressure on existing capacity in November. That said, the rate of accumulation was the softest since July.

Input cost inflation strengthened further in November. The pace of inflation was rapid overall and the strongest since August 2008. Manufacturers widely linked a rise in average input prices with higher raw material costs. Concurrently, average prices charged for Japanese manufactured goods rose at a steep pace as firms sought to pass through increased cost burdens to clients. The rate of factory gate inflation eased, but was nonetheless the second-highest in over 13 years.

Supply chain disruption continued to disrupt manufacturing activity during November, with average lead times lengthening at a marked pace yet again. Delays in receiving shipments led manufacturers to increase purchasing activity at the quickest pace for six months in a bid to build safety stocks as demand recovered. As a result, stocks of purchases increased at the strongest pace since March 2014, while holdings of finished items rose at the sharpest rate for just over seven years.

Looking forward, business confidence regarding output over the year ahead remained positive with sentiment underpinned by hopes that an end to the COVID-19 pandemic was in sight, which built anticipation that growing domestic and external demand would support the launch and production of new products.



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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.

November 2021 data were collected 12-23 November 2021.

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

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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