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Jibun Bank Japan Manufacturing PMI®

Manufacturing conditions remain under pressure in July

Key findings

Firms reduce output for seventh successive month

Weak domestic and foreign demand persists

Output prices cut as firms look to stimulate sales

Manufacturers in Japan continued to face a challenging business environment in July, according to latest PMI data. Soft demand conditions were a key drag on the sector, with inflows of new work from domestic and external clients falling amid slower global economic growth. Subdued business confidence also persisted into July, with firms discounting charges and reducing input purchasing.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – recorded 49.4 in July, a fractional increase from June (49.3), signalling a third successive monthly deterioration in the manufacturing business environment.

Keeping the PMI at a subdued level was weak new orders and output data. Manufacturing sales in Japan declined in July, as has been the case in every month of 2019 so far. According to market grouping splits, capital goods producers noted the sharpest reduction in new business. Panellists indicated that softer growth in both domestic and foreign markets had impacted demand. Latest survey data pointed to a moderate decline in new export orders, reflecting lower sales to key trading partners such as China. There were also some reports that weakness in the automobile industry had affected overseas demand.

Consequently, output was reduced in July as a challenging global economic backdrop led firms to scale back production. Again, investment goods makers recorded the largest fall in output. Nonetheless, firms were able to use existing stocks of manufactured goods to meet outstanding orders. Backlogs of work and post-production inventories were simultaneously depleted in July.

Looking ahead, manufacturers maintained a subdued outlook for production volumes over the coming 12 months. Spillover effects from the US-China trade conflict, as well as potential escalations of tensions with South Korea reportedly dented optimism. Concerns that weak domestic and global growth would continue to restrict sales was also mentioned.

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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:

"Latest manufacturing PMI data did little to suggest that the worst has passed for the global goods-producing sector. Japanese manufacturers cut output for the seventh consecutive month amid soft demand from domestic and overseas clients.

"While slowing global growth in key export markets such as China and spillover effects from global trade spats remain a principal concern to companies, the risk now of Japan-South Korea relations deteriorating further merely adds to the already-strong headwinds.

"Forward-looking survey indicators suggest that manufacturers in Japan are set for another difficult quarter, as firms scaled down stocks and input purchasing to keep a lid on costs.

"Furthermore, more signs that the manufacturing downturn has now become deeply rooted was apparent in prices data, as output charges were reduced at the fastest pace in nearly three years amid increasing efforts to stimulate sluggish demand."

Indeed, weak demand and forecasts of a continued soft patch led firms to discount selling prices. Output charges fell at the fastest pace in nearly three years, despite a further increase in operating costs. That said, the rate of input price inflation was the weakest since December 2016.

The slower increase in cost burdens partly reflected softer demand for inputs. Purchasing activity at Japanese manufacturers declined at the sharpest rate since mid-2016 during the latest survey period. Lower output requirements also prompted firms to pare back their buying levels, subsequently leading stocks of purchases to decline as part of efforts to keep inventories lean and contain costs.

Reduced appetite for raw materials and other inputs reportedly led suppliers to reduce the frequency of shipments, contributing to a further month-on-month deterioration in vendor performance.

Nevertheless, employment levels in Japan's manufacturing sector were raised at the start of the third quarter, as has been the case for nearly three years. The rate of job creation was the fastest for three months.



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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.

July 2019 data were collected 12-24 July 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.