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au Jibun Bank Japan Manufacturing PMI®

Manufacturing production falls at slowest pace since February

Key findings

Downturn in output eases sharply in comparison to second quarter of 2020

New orders decline to the smallest extent in five months

Business expectations continue to rebound from April's low point

Data were collected 13-24 July 2020.

July data provided some encouraging signs of a turnaround across the Japanese manufacturing sector, with output and incoming new work both falling at much slower rates than those seen throughout the second quarter of the year.

Goods producers continued to report a severely negative impact on customer demand from the coronavirus disease 2019 (COVID-19) pandemic and worsening global economic conditions. However, some manufacturing firms noted a gradual increase in production schedules since the state of emergency was lifted at home and key export destinations began to emerge from lockdown measures.

At 45.2 in July, the headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance – was up from 40.1 in June and the highest since February. The latest reading was below the neutral 50.0 value, but notably stronger than the eleven-year low seen in April (38.4). The main factors contributing to the improved PMI number in July were much softer rates of contraction for output and new orders.

Manufacturing production volumes dropped at the slowest pace for five months in July. Around 28% of the survey panel reported lower output, while only 21% signalled an expansion. Where growth was reported, survey respondents often cited a boost from the lifting of the state of emergency. Some firms noted a rise in factory production as automotive plants began to reopen around the world.

New orders fell to the smallest degree since February, helped by a gradual easing of the downturn in export sales across the manufacturing sector. Nonetheless, survey respondents noted that fragile global economic conditions continued to weigh on order books in July.

Subdued demand conditions resulted in another steep fall in purchasing activity and tighter inventory policies among Japanese goods producers. The latest survey indicated lower stocks of finished

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Tim Moore, Director at IHS Markit, said:

"Japan's manufacturing sector remained severely impacted by the COVID-19 pandemic and subsequent downturn in worldwide economic conditions. However, the headline PMI recovered some of the ground lost in the second quarter, helped by the smallest declines in output and new orders for five months during July.

"Manufacturers that reported a turnaround in production schedules typically cited a boost from easing emergency measures at home, alongside signs of recovery across the automotive supply chain and the restart of economic activity in key export destinations.

"Looking at output trends by market group, consumer goods fared better than the rest of the manufacturing sector. Production of consumer goods was close to stabilisation in July, despite a headwind from weaker orders from abroad.

"Capital goods was the worst-performing segment for export sales, highlighting that reduced global investment spending and constrained trade flows are holding back the Japanese manufacturing sector."

goods as well as reduced pre-production inventories.

Supply chain pressures continued to ease in comparison those seen in the second quarter of 2020. Where longer lead times were reported, manufacturers often commented on pandemic-related disruptions among overseas suppliers.

In some cases, constrained transport capacity and international supply chain disruptions resulted in higher raw material costs. However, latest data indicated that the rate of input price inflation eased from June's five-month high. Japanese manufacturers indicated that their own factory gate charges stabilised in July, following an extended period of price discounting.

Manufacturing companies remained cautious about their employment levels in July. Total staffing numbers fell for the fifth month running as firms opted to delay replacing retired staff and those leaving for other personal reasons.

Looking ahead, around one-third of the survey panel (34%) expect an increase in production during the next 12 months, while only 21% foresee a decline. This signalled the strongest degree of business optimism since January, although survey respondents noted that the outlook remained highly contingent on worldwide responses to the COVID-19 pandemic.



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.

July 2020 data were collected 13-24 July 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