Private sector downturn extends into September

Key findings

Flash Composite Output Index, Sep: 45.5 (Aug Final: 45.2)
Flash Services Business Activity Index, Sep: 45.6 (Aug Final: 45.0)
Flash Manufacturing Output Index, Sep: 45.2 (Aug Final: 45.8)

Today sees the latest release of the au Jibun Bank Flash Japan Composite PMI®. Published on a monthly basis approximately one week before final PMI data are released, this makes the PMI the earliest available indicator of private sector operating conditions in Japan. The estimate is typically based on approximately 85%-90% of total PMI survey responses each month and is designed to provide an accurate indication of final PMI data.

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

“Flash PMI survey data indicated a further decline in Japanese private sector output during September, setting the scene for further economic weakness in the third quarter. Other survey indicators pointed to a challenging recovery in the coming months. New order inflows continued to fall in September, reflecting subdued demand. This contributed to further evidence of spare operating capacity.

“That said, the picture of the economy remained much improved when compared to the height of the pandemic during the second quarter. The survey also revealed some positive signs. Firstly, employment moved closer to stabilisation, with only a marginal drop in workforce numbers that was the weakest in the current sequence of job shedding. Secondly, business sentiment improved to the strongest since the start of the year, with manufacturing firms particularly optimistic about the year-ahead outlook.”
au Jibun Bank Flash Japan Composite PMI®

The au Jibun Bank Japan Composite PMI® is compiled by IHS Markit from survey responses from a panel of around 400 manufacturers. The headline figure is the Purchasing Managers’ Index (PMI), a composite single-figure indicator of manufacturing performance. 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.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers’ Index® (PMI®) - which measures the overall health of the manufacturing sector – edged up from 47.2 in August to 47.3, signalling a further solid deterioration in the health of the manufacturing sector. Production and new orders fell markedly again. That said, the rate of job shedding was the softest for four months and only marginal while business confidence rose to the strongest for just over two years.

au Jibun Bank Flash Japan Services PMI®

The au Jibun Bank Japan Services PMI® is compiled by IHS Markit from survey responses from a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The headline figure is the Services Business Activity Index, which tracks changes in the volume of business activity compared with one month previously. A reading above 50 indicates an overall increase compared to the previous month, and below 50 an overall decrease.

The au Jibun Bank Flash Japan Services Business Activity Index rose from 45.0 in August to 45.6 in September, but nevertheless indicated a further sharp decline in output across the service sector. New business inflows shrank solidly again, led by weakening external demand. The amount of incomplete work fell further which, in turn, weighed on hiring. Service sector employment contracted for a seventh straight month.
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Methodology
The au Jibun Bank Japan Composite PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies and a panel of around 400 manufacturers. The service sectors covered include consumer (excluding retail, transport, information, communication, finance, insurance, real estate and business services). The panels are 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.
Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.
The headline figure is the Composite Output Index, This index is a weighted average of the Manufacturing Output Index and the Services Activity Index. The Composite Output Index may be referred to as the ‘Composite PMI®’ but is not comparable with the headline manufacturing PMI figure.
The headline services figure is the Services Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the ‘Services PMI®’ but is not comparable with the headline manufacturing PMI figure.
The headline manufacturing figure is the Purchasing Managers’ Index (PMI®), a composite single-figure indicator of manufacturing performance. 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.
Flash indices are released approximately one week before the final indices. Flash indices are typically based on approximately 95%–90% of total PMI survey responses each month and are designed to provide an accurate indication of final indices.
Final 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.
September 2020 flash data were collected 11-21 September 2020. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

The au Jibun Bank Japan PMI® is sponsored by au Jibun Bank Corporation
The au Jibun Bank is an internet retail bank established in 2008 by joint investment of KDDI - a major telecommunication service provider - and MUFG Bank - Japan’s largest bank - As a “smartphone-centric bank”, au Jibun Bank focuses on providing high-quality financial services via smartphones.
The au Jibun Bank provides unique services such as “Smartphone ATM”, a service allowing to deposit and withdraw money from teller machine without cash card by just scanning a QR code shown on the smartphone app, and “AI Foreign Currency Forecast”, a foreign currency trading support tool that predict the rise of foreign exchange rate based on past trend deep learned by an AI (artificial intelligence).
As a member of the “au Financial Group”, au Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the “Smart Money Concept” and enhance customer experience.

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

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