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au Jibun Bank Japan Manufacturing PMI®

Manufacturing sector moves closer to stabilisation in August

Key findings

Slowest falls in output and new orders since early-2020

Export sales decline at weakest rate for seven months

Modest drop in employment

Data were collected 12-21 August 2020.

Latest PMI data showed that the manufacturing downturn in Japan continued to ease in August. Companies reported the softest falls in output and total new orders since February and January, respectively.

The ongoing coronavirus disease 2019 (COVID-19) pandemic and subsequent drop in global demand and disruption to supply chains continued to impact the overall performance of Japanese manufacturers in August. However, an easing of COVID-19 related restrictions worldwide and reports of some firms returning to more normal business operations meant that key metrics such as output, new orders, employment and buying activity all fell at slower rates.

The headline au Jibun Bank Japan Manufacturing *Purchasing Managers' Index™ (PMI)®* – a composite single-figure indicator of manufacturing performance – picked up from 45.2 in July to 47.2 in August. Although pointing to a solid decline in the health of the sector, the latest PMI figure was the highest since February. The index has now risen for the past three months, with the latest reading much higher than May's 11-year low of 38.4, to signal that conditions had continued to move closer to stabilisation.

Supporting the higher PMI reading were softer falls in both production and new business in August. Although solid, the latest drop in output was the least marked since February, while total orders declined at the weakest rate since January. Meanwhile, new work from overseas fell at the slowest rate for seven months. According to panel members, an easing of COVID-19 related restrictions worldwide had helped to ease rates of reduction for output and sales. That said, there were still widespread reports that the pandemic continued to weigh heavily on work schedules and demand conditions, both at home and abroad.

Although employment fell further, the rate of job shedding eased to its weakest for three months in August, with payrolls falling modestly overall. At the same time, signs of excess capacity persisted, as highlighted by a further steep decline in backlogs of work.

In line with the trend for output, purchasing activity fell at a weaker,

continued...

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, IHS Markit.

Comment

Commenting on the latest survey results, Annabel Fiddes, Economics Associate Director at IHS Markit, said:

"The latest PMI data show that Japan's manufacturing sector moved closer to stabilisation in August, as firms signalled weaker drops in output and orders."

"The easing of restrictions related to COVID-19 around the world helped to soften falls in key metrics such as production and new work. However, the pandemic continued to limit the performance of the sector, according to panellists, with companies still trimming their inventories and staffing levels as firms wait for demand conditions to revive."

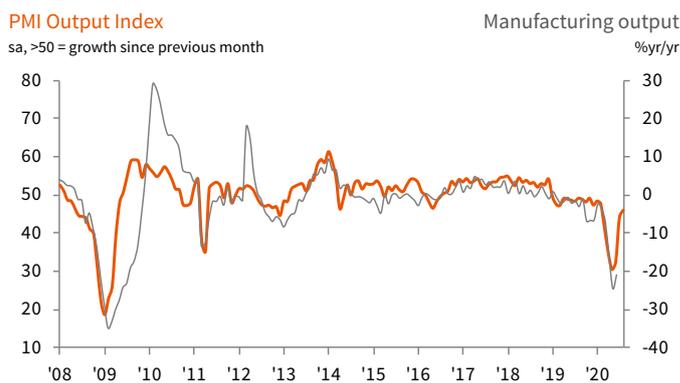
"It is hoped that as economies around the world reopen and business operations normalise, this will feed through to firmer customer demand and a recovery of Japanese manufacturing activity in the months ahead."

but still sharp, rate in August. Although demand for inputs remained muted, the time taken for purchased items to be delivered to manufacturers lengthened again. Panellists often mentioned that the pandemic had continued to adversely impact supply chains.

Inventories of purchased items fell only slightly after a solid drop in July. Holdings of finished items meanwhile declined markedly amid efforts to streamline stocks as demand conditions remained relatively subdued.

After stabilising in July, prices charged by Japanese manufacturers fell slightly in August due to efforts to stimulate sales. In contrast, input costs rose modestly as companies widely commented on higher raw material prices.

Encouragingly, business confidence picked up further from April's record low, and was the highest since before the pandemic in January. Optimism was linked to hopes that the pandemic will end and market conditions will recover. However, a number of firms expressed concerns over how long the recovery would take.



Contact

au Jibun Bank
Grp-S-I-Room@jibunbank.co.jp

Annabel Fiddes
Economics Associate Director
IHS Markit
T: +44 1491 461 010
annabel.fiddes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

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.

August 2020 data were collected 12-21 August 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