

Embargoed until 0930 JST (0030 UTC) 2 August 2021

## au Jibun Bank Japan Manufacturing PMI®

### Stronger expansion in manufacturing in July

#### Key findings

Output and new orders rise at faster rates

Sharp rise in cost burdens amid supply chain disruption

Businesses report softer optimism regarding future output

July 2021 data were collected 12-23 July.

Japanese manufacturers signalled a quicker improvement in operating conditions in July, as respondents registered faster expansions in production and new order volumes. At the same time, businesses continued to report significant supply chain disruption had dampened demand somewhat, with manufacturers commenting that raw material shortages and delays in receiving inputs had contributed to the sharpest rise in cost burdens for nearly 13 years. As a result, firms in the Japanese manufacturing sector signalled softer optimism 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 52.4 in June to 53.0 in July. This signalled the joint-strongest improvement in the health of the sector since April, reflecting a sustained recovery from the impact of the COVID-19 pandemic.

The improvement in operating conditions stemmed from a sixth successive rise in production volumes in July, and at a quicker pace than the previous survey period. Firms often attributed this to improved orders in key manufacturing industries in Japan, notably automotive and semiconductors. The rate of production growth was modest overall, however, constrained by reports of difficulties in sourcing and receiving raw materials.

Japanese manufacturers signalled a further expansion in new order inflows in the latest survey period. This extended the current sequence of growth to seven months, with the rise in July was the sharpest registered for three months. Businesses reported that client demand had continued to recover as sales were boosted by strong demand in key manufacturing sectors. That said, new export orders increased at a softer pace, with anecdotal evidence suggesting that external demand was concentrated in key Asian economies including Taiwan and Mainland China.

Additional pressure on capacity led to Japanese manufacturers expanding employment levels for the fourth month running. The rate of job creation remained only marginal, however, little-changed

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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 at the start of the third quarter of 2021, as July PMI data pointed to a quicker improvement in the health of the sector. Moreover, the pace of expansion quickened as firms recorded stronger growth in both output and new orders."*

*"That said, supply chain disruption continued to impact activity within the sector, with firms recording the second-greatest deterioration in lead times in over a decade. Material shortages and logistical disruption contributed to a rapid rise in average cost burdens, as input prices rose at the fastest pace since September 2008."*

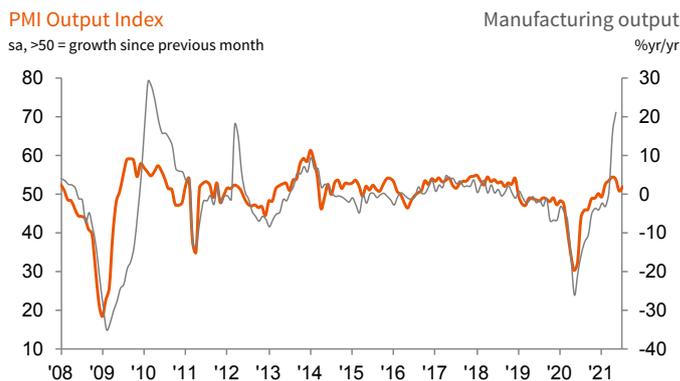
*"Beyond the immediate future, Japanese manufacturers remained confident that output would rise over the coming 12 months, although sentiment was at its lowest for three months. Firms were hopeful that a successful vaccine programme would help to end the pandemic and reduce pressure on supply chains, boosting demand across the manufacturing sector."*

compared with the second quarter trend . Backlogs of work also continued to increase, providing further evidence of pressure on existing capacity during July.

Input cost inflation strengthened further in July. The pace of inflation was robust overall and the strongest since September 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 the quickest pace since November 2018 as firms sought to pass through increased input costs to customers.

Supply chain disruption continued to hinder manufacturing activity during July with average lead times lengthening to the most marked extent since April 2020 and the second-greatest in over a decade. Delays in receiving shipments led manufacturers to increase purchasing activity for the fifth month in a row in a bid to build safety stocks of inputs. That said, stocks of purchases increased at the softest pace in the current three-month sequence of expansion as firms drew down existing holdings to fulfil orders.

Looking forward, business confidence regarding output over the year ahead remained positive with sentiment underpinned by hopes that an accelerating vaccine rollout would trigger a broad-based recovery in manufacturing, as well as ease pressure on supply chains.



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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 2021 data were collected 12-23 July.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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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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### 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](https://ihsmarkit.com/products/pmi.html)