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au Jibun Bank Japan Manufacturing PMI®

Manufacturing conditions improve at softer pace in September

Key findings

Renewed reductions in production and incoming business

Sharpest rise in cost burdens for 13 years amid supply chain disruption

Business confidence strengthens for first time in three months

September 2021 data were collected 13-23 September 2021.

Japanese manufacturing firms continued to indicate a softening improvement in operating conditions in September. Both output and new orders fell into contraction for the first time since the turn of the year, as pandemic restrictions and heightened supply chain disruption dampened activity in the manufacturing sector. Shortages of raw materials and delivery delays intensified price pressures, as input costs rose at the quickest rate since September 2008. Yet, businesses were increasingly optimistic that activity would rise over the coming year, with the level of positive sentiment strengthening for the first time since June.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance – eased from 52.7 in August to 51.5 in September, signalling a softer, more marginal improvement in the health of the sector. The latest increase marked the second successive slowdown in manufacturing performance, and was the lowest reading since February.

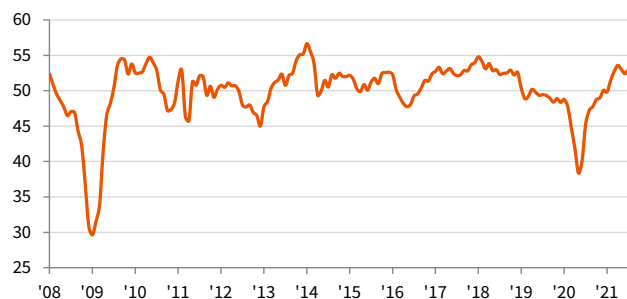
Latest data pointed to a renewed contraction in output. The decline was the first since January and was the sharpest recorded for a year. Lower production levels were often associated with rising COVID-19 cases, as well as sustained shortages of raw materials.

Similarly, new orders among Japanese manufacturers fell for the first time since December 2020. The pace of the decline was the quickest recorded for ten months, though was marginal overall. Respondents linked lower sales to weaker client confidence in the domestic market. On the other hand, foreign demand for Japanese manufactured goods reversed the decline reported in August to increase marginally in the latest survey period, with firms citing stronger demand in key markets, notably in China and the US.

Positively, the Japanese manufacturing sector continued to increase capacity in anticipation of an eventual recovery in demand. Workforce numbers were raised for the sixth successive month, with the rate of job creation the fastest since April 2019. Indications of greater pressure on capacity rose as backlogs of work

continued...

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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:

"September data indicated a softer improvement in the health of the Japanese manufacturing sector, as the latest Manufacturing PMI signalled that firms began to feel the impacts of the resurgence in COVID-19 cases related to the Delta variant and ongoing supply chain disruption."

"Japanese firms recorded renewed declines in both output and new orders, as businesses succumbed to disruption caused by strict pandemic restrictions and raw material shortages. Positively, external markets reversed the decline seen in August to return to expansion territory, although the rate of growth was only mild."

"Supply chain disruption continued to dampen activity and demand during September. Firms noted a sharp deterioration in vendor performance as supplier delivery times lengthened to the greatest extent since April 2011."

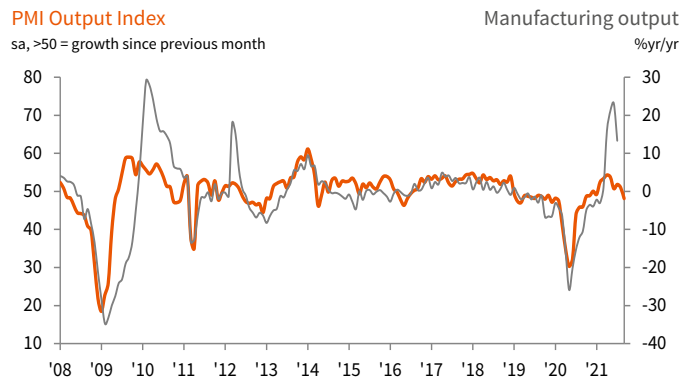
"Yet, Japanese goods producers were confident that these challenges would lift in the near term and noted stronger optimism regarding the year ahead outlook. Confidence was underpinned by hopes that the end of the pandemic would trigger a broad recovery in demand, and encourage a number of new product launches. IHS Markit estimates that industrial production will rise by 8.2% in 2021, though this will not fully recover the output lost to the pandemic last year."

increased for the seventh time in as many months, with the pace of accumulation the quickest for five months.

Japanese goods producers indicated a renewed contraction in purchasing activity, the first for seven months. The fall was moderate overall and often linked to unstable supply of inputs amid shortages of raw materials and delivery delays. Average vendor performance deteriorated markedly in the latest survey period, and to the greatest extent since April 2011 when supply chains were disrupted by the earthquake and tsunami. As a result, holdings of pre-production inputs were reduced for the first time since April as firms utilised safety stocks for production.

September data signalled further rises in average cost burdens among Japanese manufacturers. The pace of input cost inflation accelerated from August and reached the fastest pace for exactly 13 years. Respondents commonly attributed higher input costs to widespread rises in raw material and logistics prices. These were partially passed on to clients through higher factory gates charges, which rose at the sharpest rate since October 2008.

Looking ahead, business optimism at Japanese manufacturers rose for the first time since June, as firms continued to forecast a rise in output in the coming year. Manufacturers predicted that the end of the pandemic would trigger a general recovery in demand.



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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.

September 2021 data were collected 13-23 September 2021.

For further information on the PMI survey methodology, please contact 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