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au Jibun Bank Japan Manufacturing PMI®

Renewed contraction in Japan's manufacturing sector

Key findings

Renewed decline in output amid solid reduction in new orders

Strongest fall in backlogs for four months

Input prices rise to greatest extent since April 2023

Overall business conditions among Japanese manufacturers deteriorated for the first time in three months at the start of the third quarter of 2024, with the rate of decline modest overall. There was a renewed contraction in production levels in July, while new order volumes decreased at the strongest rate since March amid subdued demand in both domestic and international markets. At the same time, firms were able to work through their outstanding business to a greater extent in response to the weaker demand environment. The rate of depletion was sharp and the most marked for four months. On the price front, Japanese manufacturers recorded a stronger rate of input price inflation, with cost burdens rising at the steepest rate since April 2023. Firms continued to mention that higher raw material, labour, oil and logistics prices placed additional strain on operating expenses.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell from the neutral 50.0 mark in June to 49.1 in July to signal a deterioration in the health of the sector for the first time since April. The reduction was modest, yet the strongest seen for four months.

There was a sustained contraction in new orders at the start of the third quarter of 2024. The pace of decline quickened from June, and was the sharpest for four months. According to panellists, demand from both domestic and international markets was subdued. As such, the current sequences of decline in both total new orders and new export business extended to 14 and 29 months respectively.

Also contributing to the sub-50.0 PMI reading was a renewed contraction in output levels in July. The downturn reportedly reflected production adjustments in response to weaker demand, though was only fractional overall.

Muted customer demand allowed firms to work through existing orders, as signalled by a stronger fall in backlogs of work. Moreover,

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sa, >50 = improvement since previous month



Sources: au Jibun Bank, S&P Global PMI.
Data were collected 11-24 July 2024.

Comment

Commenting on the latest survey results, Usamah Bhatti at S&P Global Market Intelligence, said:

"The performance of the Japanese manufacturing sector was downbeat at the start of the third quarter of 2024. The headline PMI fell back into contraction territory for the first time in three months as a stronger reduction in new orders contributed to a renewed fall in production levels.

"Meanwhile inflationary pressures remained marked in the latest survey period, as the rate of input price inflation strengthened to the highest in 15 months. Despite this, firms opted to raise their selling prices at a softer rate in order to maintain market competitiveness.

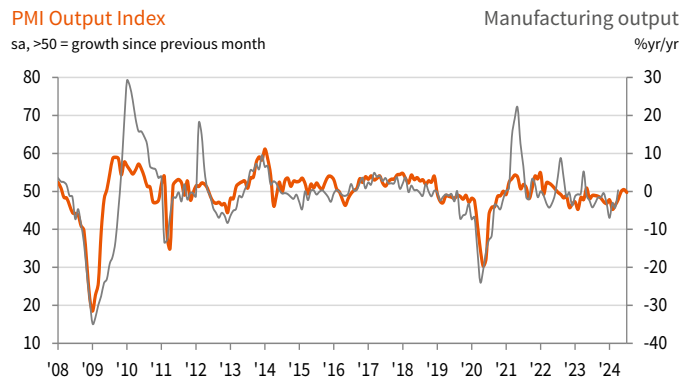
"The near-term outlook appears muted as the lack of new order inflows allowed firms to continually clear outstanding business. The rate of depletion was the strongest since March, and solid overall. That said, firms were optimistic that this period would pass over the coming year and business expansion and new product plans would coincide with a broad-based economic and demand recovery."

the rate of depletion was the fastest since March and sharp overall. Firms often indicated they kept on top of capacity requirements to complete outstanding business, as indicated by a fifth consecutive increase in employment levels.

On the prices front, input cost pressures intensified in the latest survey period. Average cost burdens rose at a marked rate that was the strongest since April 2023. Higher operating expenses were often attributed to increased labour, logistics, oil and raw material prices. Output price inflation meanwhile remained steep but eased to a four-month low as firms attempted to remain competitive.

Mirroring demand developments, firms reduced input purchases in July, extending the current contractionary sequence to two years. The latest decrease was solid, and the steepest since March. Latest data also pointed to efforts to wind down stocks as holdings of pre-production inventories fell for the first time in three months. There were also mentions that delivery delays and material shortages had played a part in a renewed lengthening of suppliers' delivery times.

Business sentiment remained elevated in July and was marked overall. Firms often centred hopes on a broad domestic and global demand recovery, which in turn would stimulate new client wins and boost business expansion plans.



Sources: au Jibun Bank, S&P Global PMI, METI via S&P Global Market Intelligence.

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Methodology

The au Jibun Bank Japan Manufacturing PMI® is compiled by S&P Global 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.

Data were collected 11-24 July 2024.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

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.

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