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au Jibun Bank Japan Manufacturing PMI®

Manufacturing PMI reaches highest level since August 2019

Key findings

Operating conditions deteriorate only slightly in November

Softer falls in both output and new orders

Businesses remain optimistic regarding future output

November 2020 data were collected 12-23 November.

The Japanese manufacturing sector moved closer towards stabilisation in November, according to latest PMI® data. The higher headline PMI reading was supported by softer falls in output and new orders, which both declined at only mild rates. Despite the coronavirus disease 2019 (COVID-19) pandemic continuing to disrupt business operations and demand conditions, Japanese manufacturers remained optimistic that production will rise over the coming 12 months.

The headline au Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI) – a composite single-figure indicator of manufacturing performance - rose slightly from 48.7 in October to 49.0 in November. The latest reading was the highest since August 2019, and signalled only a marginal deterioration in overall conditions, as the sector continued to take tentative steps towards more stable operating conditions.

The slight improvement in the headline index was supported by softer contractions in production and new orders. Output declined at the slowest pace since November 2019 and only modestly overall. Nonetheless, manufacturing firms continued to cite weak client demand as a result of the pandemic as the main factor weighing on production.

Similarly, new orders fell to the least marked extent since May 2019. Lower sales were often attributed to difficult trading conditions as a result of a surge in COVID-19 infections, which had dampened business and client confidence in both domestic and overseas markets. New export sales meanwhile declined after a slight increase in October, as key external markets including Europe imposed more restrictions to halt the spread of the virus.

At the same time, employment levels continued to decrease in November, although at a slightly softer pace compared to October. Firms often cited a lack of demand due to the pandemic as the main driver of job shedding, as well as the non-replacement of voluntary leavers. In line with a lack of new orders, outstanding business fell

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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 edge towards more stable operating conditions in November. The headline PMI was pushed to its highest reading for 15 months in the latest survey period, following softer falls in both production and new orders.

"Yet, concern remains that weaknesses caused by the COVID-19 pandemic persisted as both output and new orders both fell for the twenty-third month in a row. Furthermore, infection rates have surged in both domestic and international markets which resulted in a renewed fall in export orders, which dampened confidence further

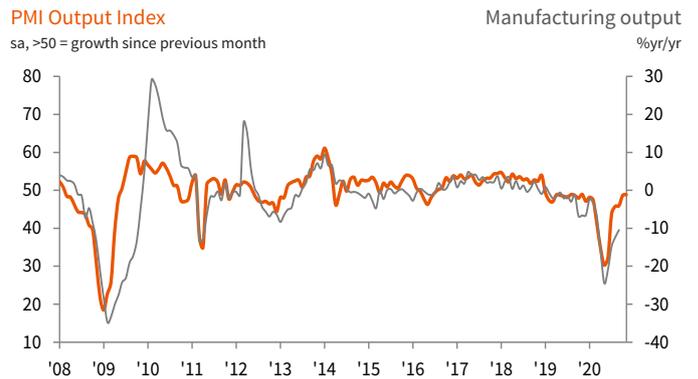
"However, Japanese manufacturers continue to report a positive outlook beyond the immediate concerns surrounding the sector. Around 33% of survey respondents foresee a rise in output over the coming year amid hopes that the pandemic dissipates and a robust economic recovery. Currently, IHS Markit expects industrial production to grow 7.3% in 2021 although this is from a lower base and does not fully recover the output lost to the pandemic."

further in November. While strong overall, the pace of decline was the softest for ten months.

Japanese manufacturers signalled a rise in operating expenses for the sixth consecutive month in the latest survey period. However, the rate of input cost inflation slowed from October and was modest overall. Meanwhile, increased price competition due to the pandemic led to a renewed drop in prices charged in November, following an increase in the previous period.

Amid further falls in new orders and output, buying activity declined again in November, extending the current sequence of decline to 23 months. Manufacturing firms also noted difficulties in sourcing raw materials due to the pandemic, which led to a further deterioration in suppliers' delivery times. As demand remained depressed, Japanese manufacturing firms indicated that stocks of both pre-production inventories and finished goods were depleted again.

Looking forward, business confidence regarding output over the year ahead remained positive, with expectations underpinned by hopes of an end to the pandemic and a recovery in both domestic and external 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.

November 2020 data were collected 12-23 November.

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