

Japan

Japan Industrial Production plummeted at fastest rate since data collection began in February 1953.

Key findings

- **Japan's industrial production plunged 8.1% in November.**
- **Japanese shipments dropped 8.4%.**
- **PMI predicted downward trend in both shipments and industrial production.**

Industrial production fell by its biggest margin ever in November

Official METI data for November, signalled that Japanese industrial production plummeted by 8.1% from October, and 16.2% on an annual basis. The severe contraction was the sharpest since data collection began over fifty years ago and provided further strong evidence to suggest that the Japanese economy is heading deeper into recession. The monthly drop in production was almost double the previous record of 4.3% seen in January 2002.

Data also signalled that Japanese shipments fell 8.4% from October and 17% year-on-year. This, alongside the sharp fall in industrial production, led the METI to downgrade its production assessment to "rapidly declining" in November.

PMI anticipated strong downturn

While economists had expected a considerable drop in industrial production (the consensus forecast of economists polled by Reuters was for a drop of 6.6%), the severity of the 8.1% decline was unexpected. However, the Japanese PMI Output Index, compiled by Markit, correctly predicted the rapid contraction. The November index – published well in advance of official data on 28 November – fell from 39.7 in October to 30.9, a drop of 8.8 points, to signal that production at

Japanese manufacturers declined at the fastest rate since the inception of the series in October 2001 (see chart 1).

PMI Data for November also signalled that volumes of incoming new orders received by Japanese manufacturers contracted at a series-record pace (see chart 2).

Both charts below illustrate the relationship between Official Data and Markit PMI Data. It is clear that the PMI has tracked the underlying trend in both Japanese shipments and industrial production. Furthermore, PMI data is released approximately a month earlier than official METI data, suggesting that the PMI is both an accurate and timely indicator of industrial output and shipments.

Chart 1: PMI Output Index vs. METI Industrial Production Data

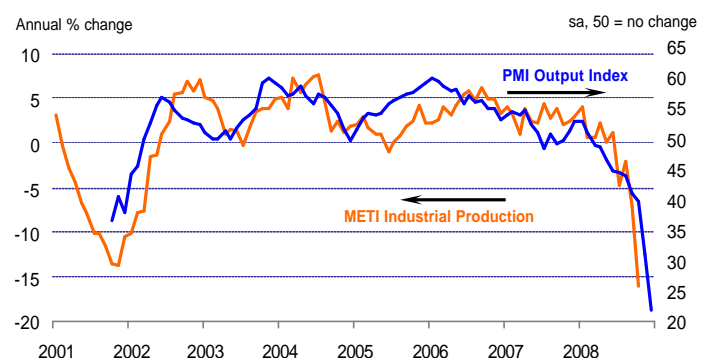
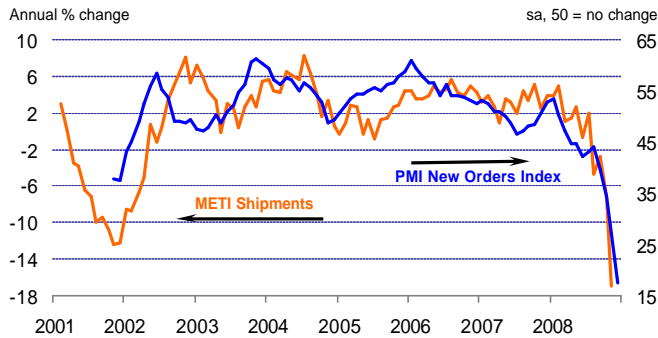


Chart 2: PMI New Orders Index vs. METI Shipments Data



Production set to decline further

The PMI has so far indicated the pace of contraction remaining strong in the forthcoming months, painting a grim outlook for the Japanese economy moving into 2009.

The Japan Manufacturing PMI is released on the 30th January 2009. To find out how to receive data from the surveys, or obtain copies of the reports please contact economics@markit.com

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