

Japan manufacturing

January PMI data point to unprecedented downturn in manufacturing

Key findings

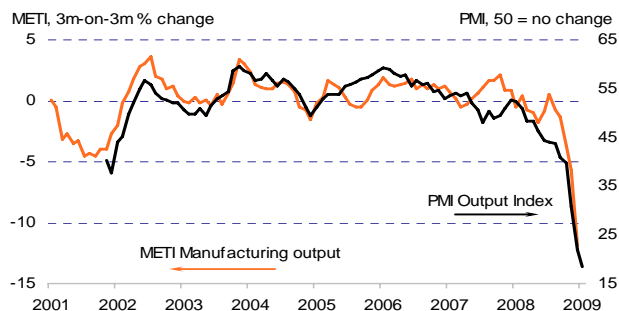
- **Japan's manufacturing output plunged 9.6% from a month earlier.**
- **PMI points to steep rise in unemployment.**
- **Deflation shows signs of returning.**

Manufacturing output plummeted at record pace in December

Official METI data for December indicated that Japan's manufacturing output tumbled 9.6% on November, and 20.6% on a year ago. The latest contraction was the steepest since February 1953, when comparable data first became available, and highlighted the severity of the economic downturn gripping Japan's economy.

After escaping the initial impact of the global financial crisis, Japan is accelerating deeper into recession. The severity of the downturn has been unexpected to a certain degree. However, the Nomura/JMMA Japan Manufacturing PMI – which has a correlation of 0.85 with official METI data – correctly anticipated the sharp decline. The Index dropped to a new survey low of 29.6 in January, from 30.8 in December, to signal the sharpest deterioration in manufacturing conditions since the series started in October 2001.

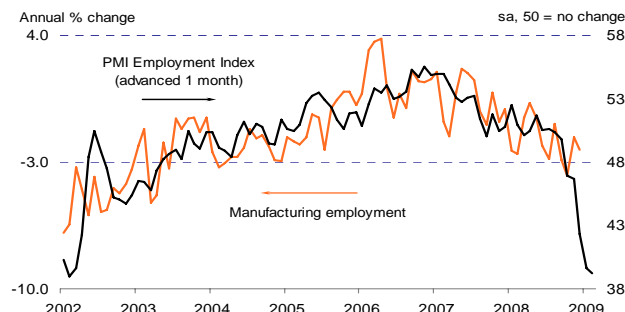
Output: correlation of 85%



Unemployment to start rising sharply

Meanwhile, according to the Ministry of Internal Affairs, Japan's unemployment rate jumped from 3.9% to 4.4% in December, the largest increase in almost forty-two years. Manufacturing is exhibiting a particularly marked downward trend in employment, with the PMI Manufacturing Employment Index, compiled by Markit, signalling a rapid reduction in employment in January (see below graph). With a correlation of 0.75 between official employment figures and PMI data, the PMI survey provides an accurate advance indication of labour market trends, and suggests that official unemployment data will start rising sharply.

Employment: correlation of 75%



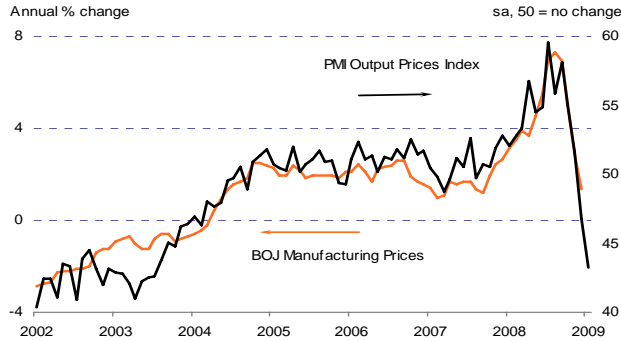
Deflation rears its head again

In tandem with the publication of official manufacturing data which confirmed the downbeat message of the recent PMI surveys, December's consumer price index (CPI) signalled that Japan is again on the brink of deflation, the phenomenon that crippled its economy for the best part of a decade. Soaring oil and food prices which temporarily masked Japan's deflationary woes are tumbling, reigniting deflationary fears. The CPI – excluding fresh food – was at 0.2% in December, from 1% in the previous month.

Deflationary pressure is particularly evident in Japan's manufacturing sector. The recent downward trend seen in the PMI survey manufacturing prices data has been confirmed by data published by the Bank of Japan,

suggesting that firms are reducing their output charges at an unprecedented pace.

Manufactured goods prices: correlation 95%



PMI is a timely and accurate indicator of actual economic tendencies

Released approximately one month in advance of and exhibiting strong correlations against official data, it is clear that the Japan Manufacturing PMI and its relevant sub-indices provide timely and accurate indicators of trends in actual economic activity.

Japan’s recession looks set to deepen over the months ahead, with unemployment, deflation and demand – both domestic and from abroad – set to pose major policy questions for the Japanese government in 2009.

The next Japan Manufacturing PMI is released on the 26th February. To find out how to receive data from the surveys, or to obtain copies of the reports please contact economics@markit.com

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