

Japan service sector and GDP

New PMI survey points to broad-based deepening of recession in January.

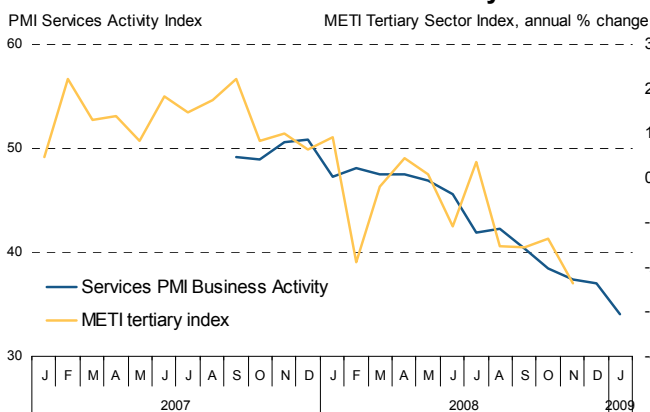
Service sector contracted sharply, but less so than manufacturing

The new Services PMI for Japan, compiled by Markit on behalf of Nomura and published for the first time on the 4th February, showed the country's downturn deepening at the start of 2009.

The index, first compiled in September 2007, has correctly anticipated the trend in official tertiary sector data since its inception (see chart 1). Importantly, the PMI data are available two months ahead of official METI estimates.

According to the latest official data, Japan's tertiary sector contracted by 2.4% on a year ago in November – the fastest rate of decline since March 1998. PMI data suggest that the rate of contraction gathered pace in December and January, as demand for services from both consumers and businesses continued to collapse.

Chart 1: PMI Services Business Activity



Although contracting at a steep rate, the service sector remained somewhat more resilient than manufacturing in January (see chart 2). The Nomura/JMMA Manufacturing PMI survey indicated that the goods producing sector contracted at a series record rate in January, in excess of the 22.5% annual decline indicated by official METI data for December, with plummeting export sales leading the sector's decline. With both manufacturing and service sectors reducing employment at sharp rates in January, consumer

confidence – and therefore household spending on both goods and services – looks set to deteriorate further moving into Q1, dragging Japan's economy deeper into recession.

Chart 2: Japan Manufacturing & Services PMIs

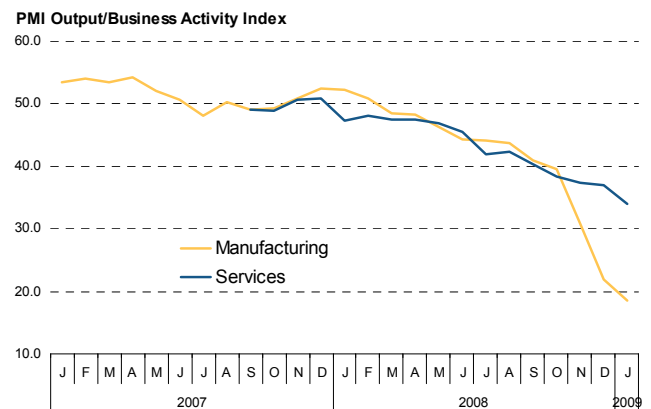
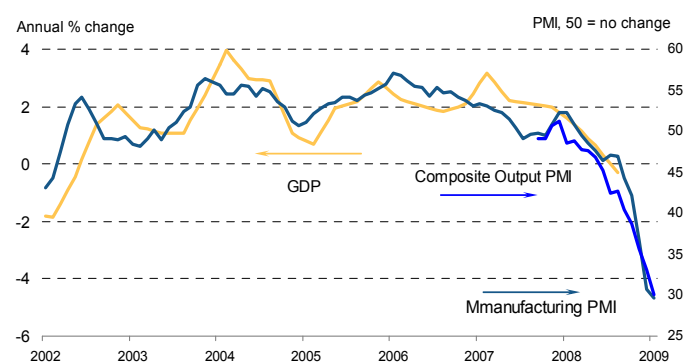


Chart 3: Japan Manufacturing & Composite PMIs



PMI is an accurate indicator of actual trends in GDP

Manufacturing PMI data have acted as a very reliable guide to trends in Japanese GDP estimates since the survey began in October 2001 (see chart 3). Despite this, experience in other countries suggests that it is more informative to use a combination of Manufacturing and Services PMI data to track GDP. However, the limited historical run of data for the Services PMI makes it difficult to draw firm conclusions about comparable GDP growth rates. Although this is the case, the PMI data

support the view that GDP probably contracted by around 3.0% in Q4 – in line with a Reuter’s poll of economists – the steepest rate of decline since 1974. Furthermore, unless the data turn up in February and March, Q1 could be worse still. However, with signs of an upturn in PMI data for the US, China and UK in January (see charts 4 & 5), there exists some hope that Japan could follow suit, and that Q4 will represent the low point for Japan.

The next Japan Manufacturing PMI is released on the 26th February, followed by the Japan Services PMI on the 4th March. To find out how to receive data from the surveys, or to obtain copies of the reports please contact economics@markit.com

Chart 4: PMI Services Business Activity Index

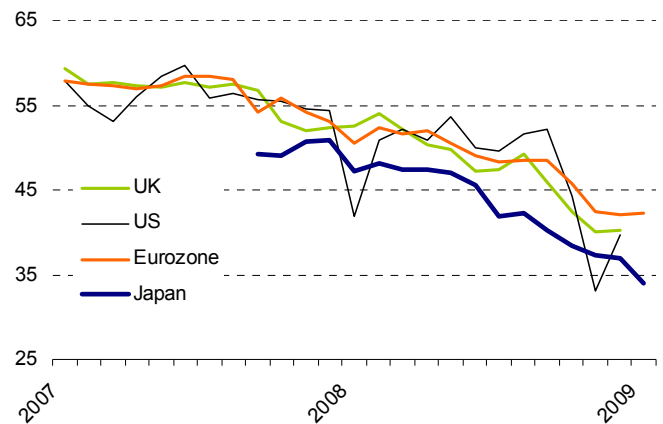
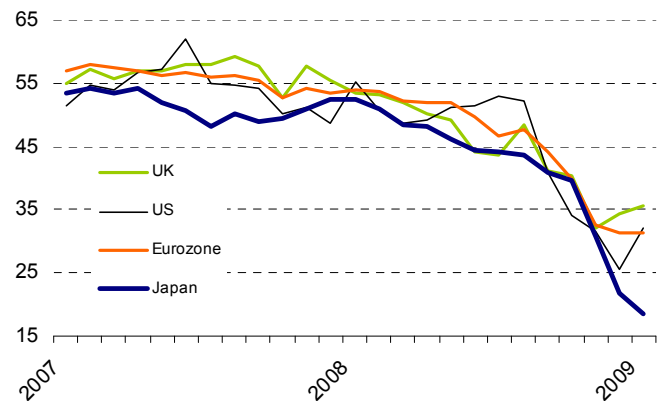


Chart 5: PMI Manufacturing Output Index



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