

Japan GDP

Japan's economy shrank at the fastest pace in over three decades in Q4

- Q4 GDP contracted by 3.3% on a quarterly basis.
- The PMI anticipated the extent of the downturn in Japan's GDP.

Sharp drop in Q4 GDP signposted by the PMI survey

Official data released on 16 February by Japan's Cabinet Office indicated that Q4 GDP dropped by 3.3% from the third quarter, and 12.7% on an annualised basis. The latter figure was worse than the median forecast of an 11.7% annualised GDP fall in a poll conducted by Reuter's. The double-digit contraction marked the third successive quarterly shrinkage of the Japanese economy, and was the steepest fall since a 13.1% annualised drop in the January – March quarter of 1974.

The Nomura/JMMA Japan Manufacturing PMI, compiled by Markit and released on a monthly basis, correctly predicted the sharp Q4 contraction. October's PMI recorded a level below the neutral threshold of 50.0 for the eighth successive month, while PMI data for November and December signalled that operating conditions deteriorated at unprecedented rates. The PMI has tracked the underlying trend in Japanese GDP since its inception in October 2001, whilst also providing a less volatile measure of economic growth compared to official GDP figures (see chart 1).

Chart 2 illustrates the relative performance of Japan's manufacturing and services sectors. PMI data indicate that the manufacturing sector led the sharp downturn in Q4 GDP, primarily reflecting a collapse in export demand – official data signalled that exports plunged 35% year-on-year in December – and steep a reduction in industrial production. Meanwhile, service sector business activity also fell at a sharp pace, but newly released PMI data suggested that the rate of decline was slower than in manufacturing.

PMI signals deepening recession heading into 2009

The grim GDP figures highlight the severity of Japan's recession. Moreover, PMI data indicated that the pace of contraction remained considerable in January, suggesting that it is highly likely that Japan's economy will continue to shrink at a considerable pace during the first quarter of 2009.

Chart 1: Quarterly GDP growth

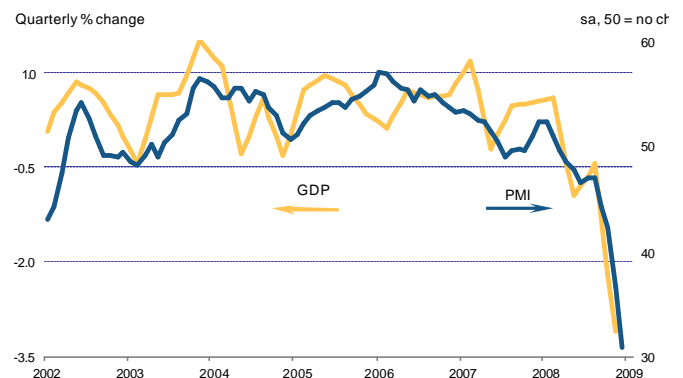
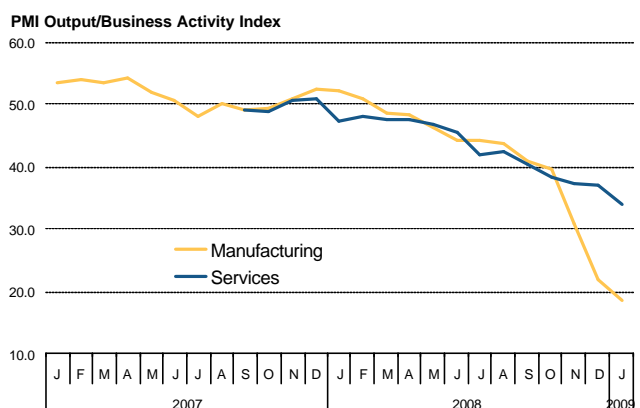


Chart 2: Japan Manufacturing & Services PMI



The Japan Manufacturing PMI is released on the 26 February, followed by the Japan Services PMI on the 3 March. To find out how to receive data from the surveys or obtain copies of the reports, please contact economics@markit.com

Chris Williamson

Chief Economist

Markit

Tel: +44 20 7260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

Alex Hamilton

Economist

Markit

Tel: +44 1491 418 676

Email: alex.hamilton@markit.com

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