

Japan

Collapse in export demand fuels unprecedented drop in manufacturing output, adding to Japan's recession woes in January

Outlook for Japan's manufacturing sector looks bleak

PMI data for February, released 26 February, signalled that operating conditions in the Japanese manufacturing sector deteriorated further during the month. However, despite remaining steep, the rate of contraction eased slightly from a month earlier, suggesting that the sharp drop in manufacturing output registered by official data for January may represent the bottom in terms of the rate of decline. This does not indicate that Japan is on the road to recovery, but simply suggests that some respite in the accelerating rate of decline may have finally occurred.

Japan's manufacturing output plummeted in January, as export demand crumbled

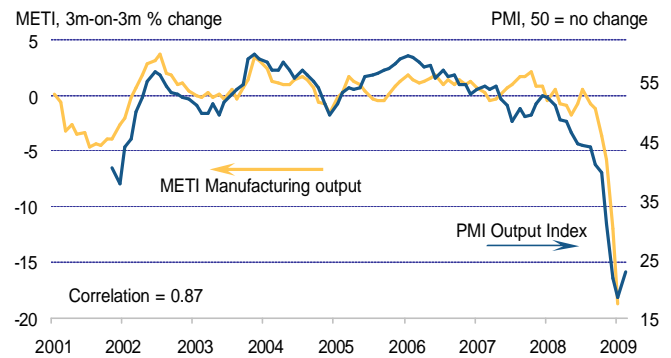
Official METI data released on 26 February showed that Japanese manufacturing output plummeted by 10% month-on-month in January, even worse than the record 9.8% drop registered in December. The dismal data followed figures released earlier in the week that revealed exports tumbled 45.7% from a year earlier. Furthermore, exports to the U.S. plunged an unprecedented 52.9 percent on a year ago, and shipments to Asia and Europe also posted record declines in January. The data suggest that the Japanese economy spiralled deeper into recession over the month, largely reflecting Japan's reliance on export orders and its considerable exposure to global economic headwinds. The strength of the yen also played a key role in suppressing export demand in January.

The output, new orders and export components of the Nomura/JMMA Japan Manufacturing PMI survey, compiled by Markit and released approximately one month in advance of official data, correctly anticipated the severe reduction in manufacturing output, shipments and export demand in January.

Firstly, the PMI Output Index has accurately tracked trends in official data since its inception in October 2001

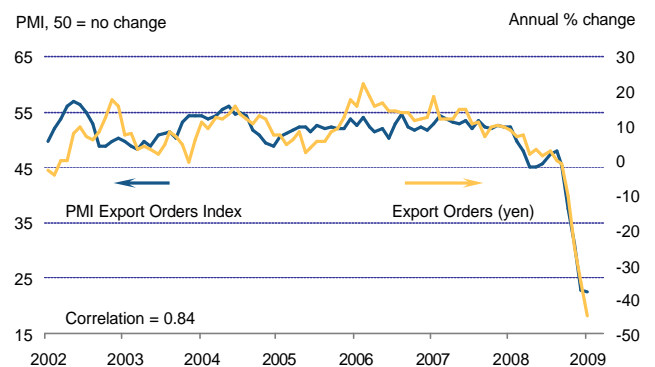
(see chart 1), with PMI data displaying a **0.87 correlation** against official METI estimates.

Chart 1: PMI Output Index vs. METI Output



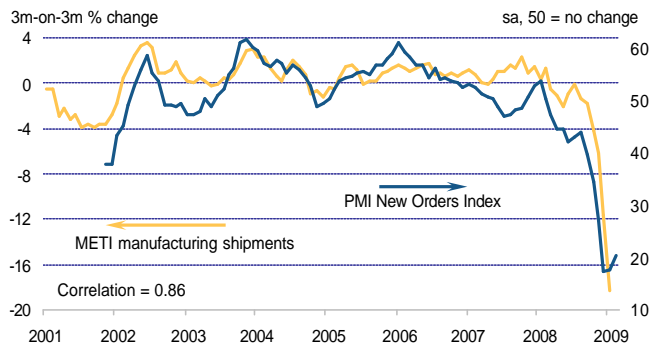
Secondly, the latest official export estimates were close to that signalled one month in advance by the PMI survey. Moreover, a **correlation of 0.84** suggests that PMI data has correctly mapped the tendency in official estimates of Japanese export volumes since the survey began (see chart 2).

Chart 2: PMI Export Index vs. Official Export Data



Finally, the PMI New Orders Index remained deeply entrenched in negative territory in January, dropping to its lowest level in the survey history. Since the series started in October 2001, the index has achieved a **correlation of 0.86** with 3m-on-3m % changes in official manufacturing shipments data.

Chart 3: PMI New Orders Index vs. METI Shipments Data



The next Nomura/JMMA Japan Manufacturing PMI is released on 31 March. To find out how to receive data from the surveys or obtain copies of the reports, please contact electronics@markit.com

Alex Hamilton

Economist

Markit

Tel: +44 1491 418 676

Email: alex.hamilton@markit.com

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