

Japan GDP

Japanese PMI signals deepening recession in Q4

- **Q3 GDP contraction signposted by PMI.**
- **October PMI consistent with 0.9% year-on-year drop in GDP.**

Japanese GDP contracted by 0.1% in Q3 on a quarterly basis, surprising economists whose average forecast was for an increase of 0.1%. The Q3 decline followed a 0.9% drop in GDP in Q2, meaning Japan is now technically in recession.

The Nomura/JMMA Purchasing Managers' Index (PMI), compiled by Markit, correctly anticipated the Q3 contraction. The PMI for September, published 30 September, recorded a level below the neutral threshold of 50.0 for the seventh consecutive month. The PMI then fell to a near seven-year low in October, suggesting that worse is to come in Q4 as the recession deepens. The PMI has tracked a steadily deteriorating climate throughout 2008 so far, which contrasts with a more volatile picture of economic growth as depicted by the official quarterly rate of change in GDP (see chart 1).

The smoother trend of economic growth presented by the Japan Manufacturing PMI compared to official quarterly growth figures is also evident in many other countries. Typically, comparing the PMI against the annual rate of change is more straightforward, as the year-on-year measure of GDP is less volatile. Here, the Japan Manufacturing PMI exhibits a correlation of 0.86 against GDP, acting with a lead of three months (see chart 2). The latest regression analysis of the PMI against the annual rate of change in GDP shows that the October reading is consistent with GDP falling 0.9% on a year ago which, if repeated across Q4, would see the worst quarter since the start of 2002.

Chart 1: Quarterly GDP growth

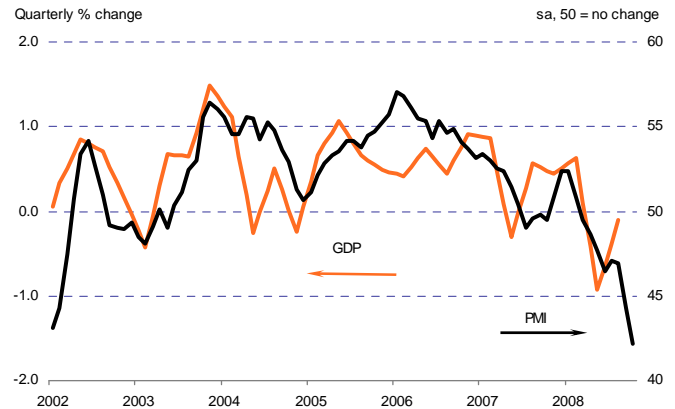
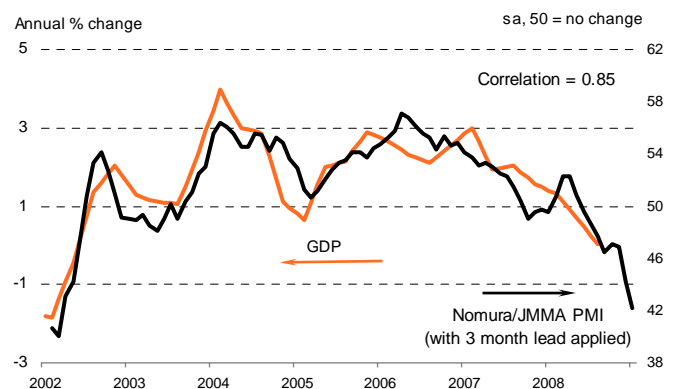


Chart 2: Annual GDP growth



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For further information, please visit www.markit.com