

Japan

Japan slashes GDP estimate for Q3

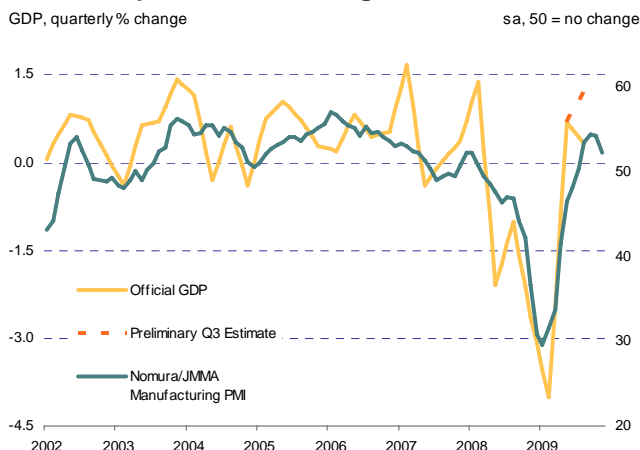
- Q3 GDP growth revised down to 0.3%.
- PMI data provided clue that the initial estimate was overstated.
- Deflation clouds outlook.

Official data released on 8 December showed that Japan's economy expanded at a much slower rate than preliminary estimates for Q3 had suggested, raising concerns that the world's second-largest economy is struggling to emerge from its deepest recession in modern history.

Revised figures showed that corporate investment fell by 2.8% in Q3 rather than rising 1.6% as previously reported. Fresh numbers also revealed heightened deflationary pressures, with the GDP deflator dropping 0.5% on the quarter rather than rising 0.2%, as first thought. As a result, Japan's economy expanded just 0.3% on the quarter, sharply down from the original estimate of 1.2% and weaker than the consensus forecast of 0.7% growth.

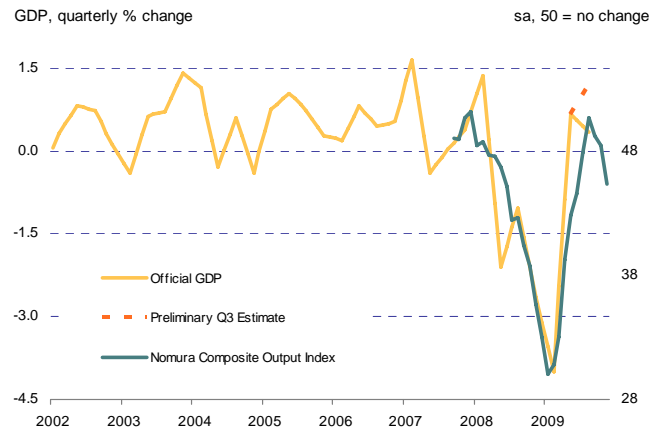
However, Japan Manufacturing PMI data (compiled by Markit for Nomura and JMMA) had signalled that the initial GDP estimate was far too optimistic, with the manufacturing PMI consistent with Q3 GDP growth of just 0.5%.

Chart 1: Japan Manufacturing PMI and GDP



Sources: Markit, Cabinet Office.

Chart 2: Japan Composite PMI and GDP



Sources: Markit, Cabinet Office.

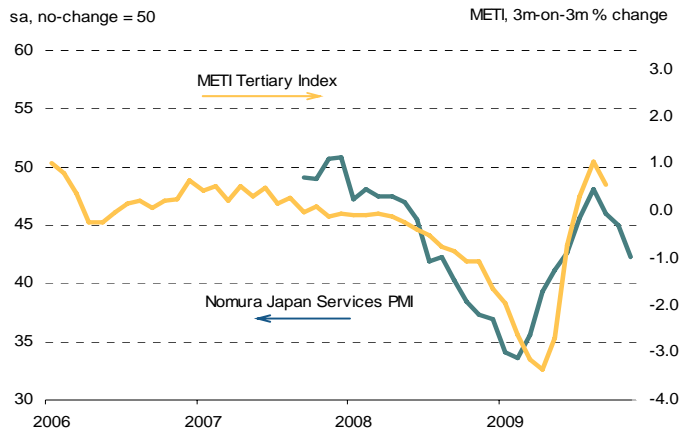
PMI figures have a good track record against official GDP data. Since the start of the series in November 2001, the headline Nomura/JMMA Manufacturing PMI has displayed a **correlation of 0.82** against both quarterly and annual rates of change in GDP. Although the PMI composite output measure for Japan has a relatively short series history, data also display a close relationship with GDP figures – achieving a **correlation of 0.86**.

November data suggest Japan's fledgling recovery will weaken in Q4

So far, PMI data for Q4 have signalled that the recovery in the Japanese manufacturing sector has lost momentum, with the output measure for November falling to its lowest in five months. What's more, the strength of the yen continues to hamper exporters, as indicated by a drop in the New Export Orders Index to a six-month low.

PMI data also suggest that the rate of contraction of the service sector will have accelerated in Q4, with the headline Nomura PMI Business Activity Index falling for the third successive month in November. This chimes with the official METI tertiary sector data, and suggests that demand from domestic sources remains fragile as the impact of fiscal stimulus measures continue to fade.

Chart 3: Japan Services PMI



Sources: Markit, METI.

Outlook uncertain as deflationary pressures mount

The Q3 revision comes a day after the newly-elected government announced further stimulus measures aimed at preventing a double-dip recession. Nonetheless, Japan's economic recovery looks set to lose steam, with many commentators forecasting weak growth in 2010.

The extent of the Q3 revision has also led the Japanese government to reconsider its method of calculating GDP.

Upcoming releases

The next Nomura/JMMA Japan Manufacturing PMI is released on the 29th December 2009, followed by Nomura Services & Composite PMI figures on the 5th January. To find out how to receive data from the surveys, or obtain copies of the reports please contact economics@markit.com

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