

Japan manufacturing

Upturn in Japanese manufacturing signalled in advance by PMI data

The **Nomura/JMMA Manufacturing PMI hit a fourteen-month high** in June as both production and export orders posted their strongest increases since early 2008. Having posted a record low at the beginning of the year, the headline PMI has now risen for five consecutive months.

The improvement that has been signalled by the PMI so far this year has been subsequently reflected in official data¹. The Ministry of Economy Trade & Industry showed that manufacturing production rose 5.7% in May; the third successive monthly gain. Car production jumped 24.8% from a month ago, while electronic parts output was up 10.5%. Data also indicated that shipments increased 4.5% from the month before – the fastest monthly increase since 1992 – though were still down 30% on a year ago.

The PMI survey's Output Index suggests that the official manufacturing output data will continue to show improvements up to at least June. However, it is likely that growth will be sustained in the second half of 2009, due to a combination of improving demand conditions and low inventories. PMI data pointed to the largest fall in post-production inventories since April 2002 in June, while at the same time new orders fell at a much slower pace. Foreign orders even rose in June, with the New Export Orders Index hitting a seventeen-month peak (see chart 2). The resulting new orders-inventory ratio showed that the gap between demand and inventories opened up to the widest for just over three years, providing a strong indication of further output growth in the next few months.

However, while the latest data suggest that prospects for the world's second-largest economy appear brighter, there are considerable concerns as to whether the rebound in manufacturing output will be sustained in the second half of 2009 and into 2010. With unemployment

rising and retail sales declining, demand from domestic sources is likely to remain weak over the coming months. A promising sign in this respect from the PMI survey was a rise in the Employment Index to an eight-month high in June. However, the rise in the index merely points to a reduced rate of job losses, which was still historically steep in June. Weak domestic demand looks set to persist for some time to come.

Chart 1: Manufacturing Production

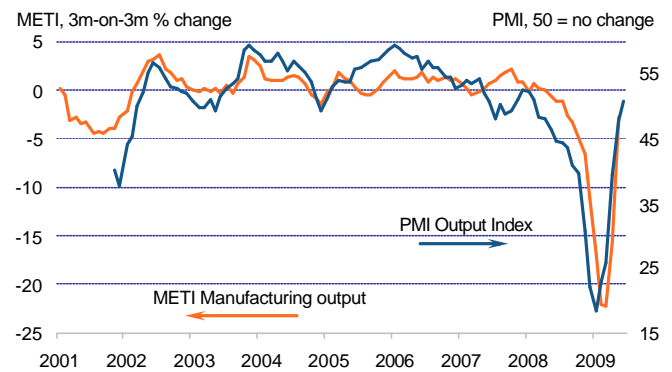
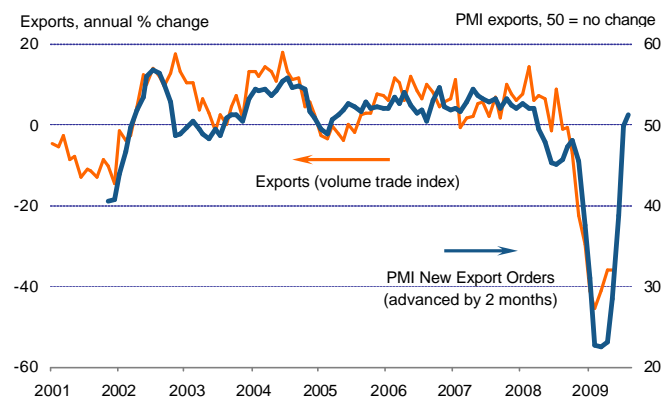
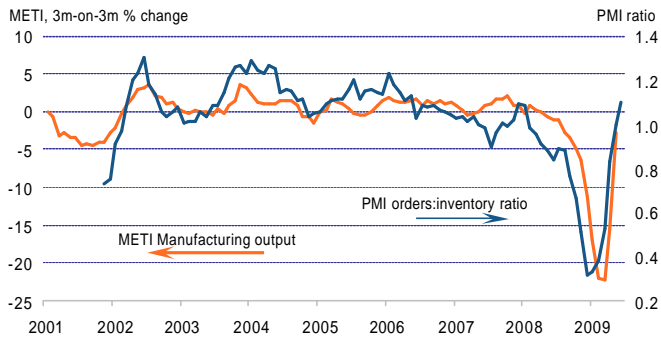


Chart 2: Exports



¹ The PMI has historically had an impressive track record against official output and shipments figures, displaying correlations of 0.86 and 0.84 respectively. Furthermore, PMI data are released a full month in advance of METI estimates, providing an early indication of the health of the manufacturing economy.

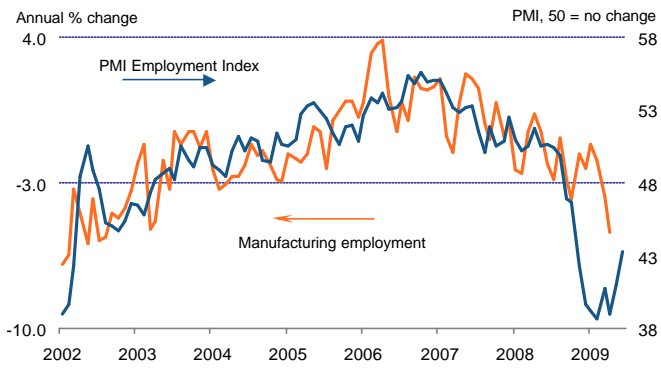
Chart 3: Orders: inventory ratio



Upcoming releases

The Japan Manufacturing PMI for the July survey period is released on 31 July, followed by the Japan Services PMI on 5 August. To find out how to receive data from the surveys or obtain copies of the reports, please contact economics@markit.com

Chart 4: Manufacturing employment



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