

# Japan

## Record GDP drop re-affirms severity of Japan's recession

- **Japan's economy shrank 4% q/q in Q1.**
- **PMI data suggest that the contraction likely marks the bottom.**

Official data released on 20 May by Japan's Cabinet Office showed that GDP fell by 4.0% from the fourth quarter, and at an annualised rate of 15.2%. This was slightly better than expected, with a poll conducted by Reuters forecasting a 4.2% q/q drop in Q1. The severe contraction marked the fourth successive quarterly shrinkage of the Japanese economy, and was the steepest in modern history.

The acceleration in the rate of GDP decline in Q1 was signalled in advance by the PMI, which averaged its lowest ever reading over the first quarter. PMI data have accurately tracked the underlying trend in official GDP figures since the start of the series in October 2001, displaying **correlations of 0.85 and 0.91** with quarterly and annual growth estimates respectively.

More recent PMI data suggest that the recession may have passed its worst point, and that the pace of contraction will moderate significantly in the current quarter (see charts 1 & 2). Both the Output and New Orders components of the Nomura/JMMA Japan Manufacturing PMI posted the greatest monthly gains since the survey began. Furthermore, the New Export Orders Index rose to a seven-month high in April.

Chart 3 illustrates the relative performance of Japan's manufacturing and services sectors. PMI data indicate that the downturn in economic activity seen over the first quarter has primarily centred on the manufacturing sector. This comes as no surprise, as export demand has collapsed due to a severe reduction in global demand. However, latest findings from the PMI survey suggest that the contraction in manufacturing has eased considerably and is now at a similar rate to that observed in the service sector. This provides further evidence to suggest that the intense phase of contraction may have passed.

Chart 1: Annual GDP growth

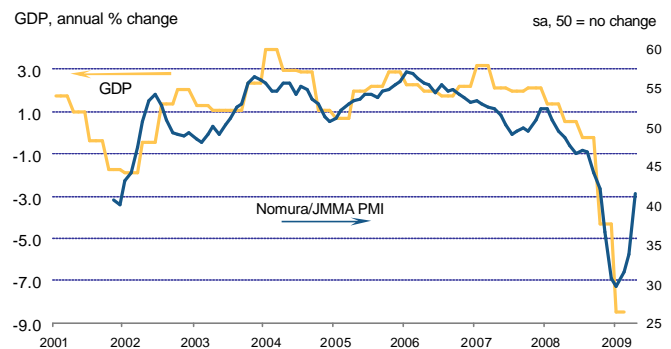


Chart 2: Quarterly GDP Growth

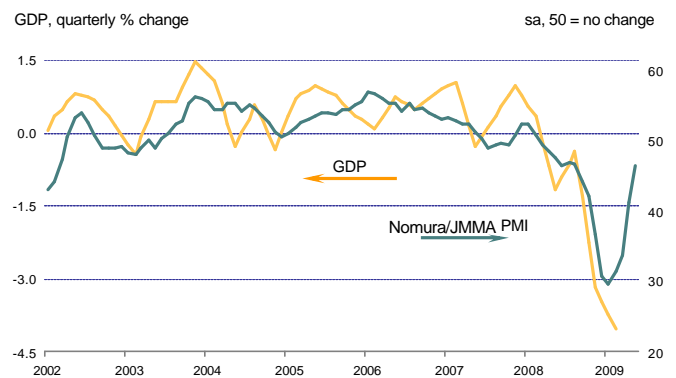
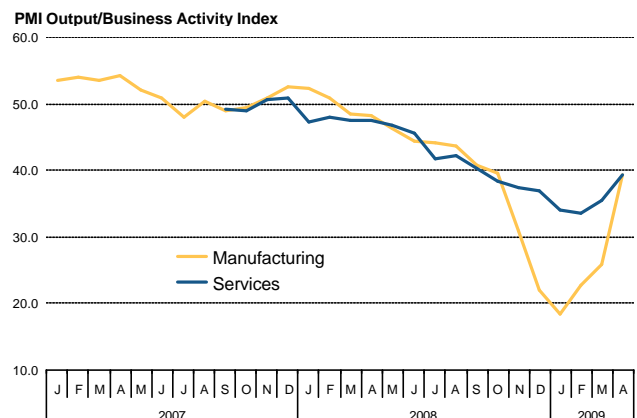


Chart 3: Japan Manufacturing & Services PMI



## Upcoming releases

The Japan Manufacturing PMI is released on 29 May, followed by the Japan Services PMI on 3 June. To find out how to receive data from the surveys or obtain copies of the reports, please contact [economics@markit.com](mailto:economics@markit.com)

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