

# Japan

## Japanese recovery back on track after Q4 lull

PMI survey data indicate that Japan's manufacturing sector returned to growth at the start of 2011, raising hopes that economic growth will resume in the first quarter. The economy is expected to have slipped back into contraction in the final quarter of last year as government incentives, such as subsidies for new car purchases, were phased out. Any rebound in growth is widely expected to be export-led, though there are some encouraging signs that domestic consumption is stabilising, with PMI data having pointed to renewed growth of services activity in the final month of 2010.

### Growth dependent on exports

The latest PMI survey indicates that a rebound in manufacturing output growth in January, to a six-month high, was supported by renewed growth of overall new business and new export orders, with respondents to the latest survey citing China as a key source of new export business.

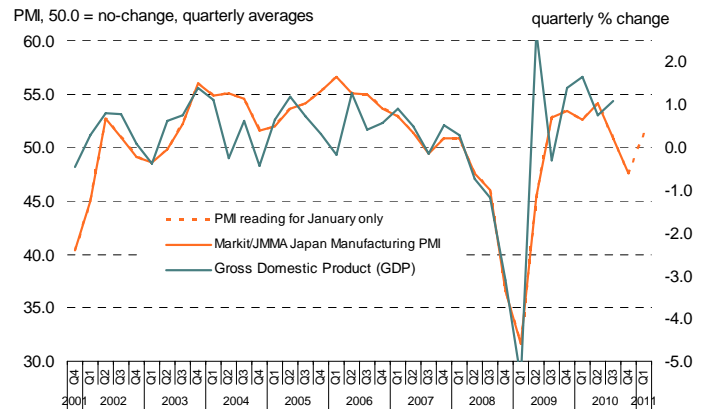
Official estimates have likewise shown that the pace of export order growth has started to improve, leading the Ministry of Economy, Trade & Industry (METI) to upgrade their production forecast for January.

Despite this export improvement, a major concern is that the pace of economic growth will be limited in 2011 as domestic demand remains firmly in the doldrums. Official estimates show that domestic consumption remained weak at the end of last year, with household spending and retail sales falling at stronger-than-expected rates. However, this in part reflected distortions resulting from the withdrawal of government incentive programs, and PMI figures provide an advanced indication that consumption has begun to pick up, with data signalling a return to growth of services activity in December (data for January are released on Wednesday).

### Labour market improves

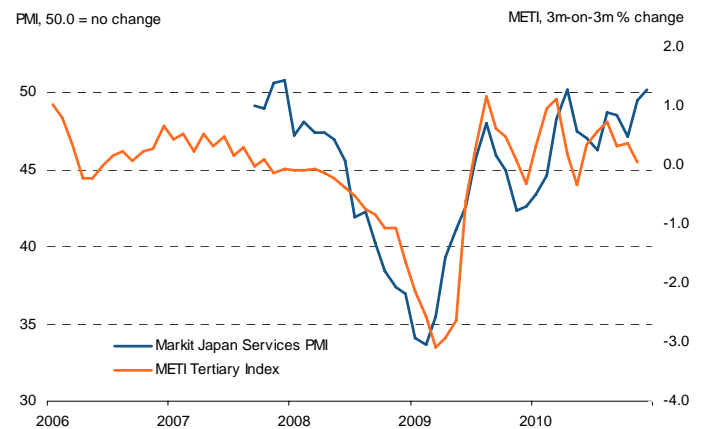
A factor behind the improvement in the December services PMI, and grounds for further hope of a recovery of domestic demand this year, is the labour market. A gradual improvement in job market

### Gross Domestic Product (GDP)



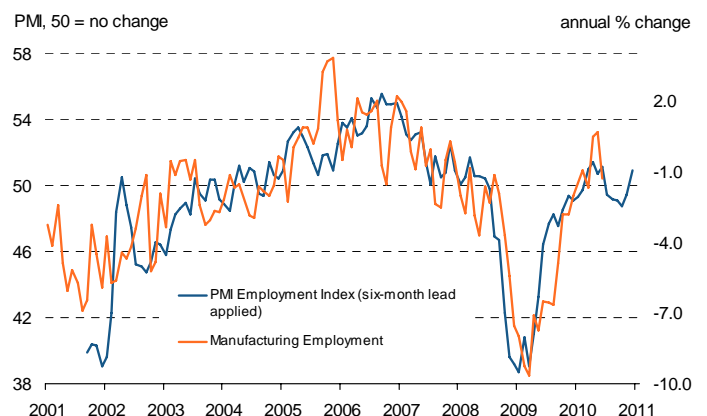
Sources: Markit, Cabinet Office.

### Services Activity



Sources: Markit, METI.

### Manufacturing Employment



Sources: Markit, Ministry of Internal Affairs & Communication.

conditions was signalled by January's PMI survey, with manufacturing employment rising for the first time in six months. This chimes with official estimates released Friday, which showed the unemployment rate dipping from 5.1% to 4.9% and the ratio of job offers to applicants holding steady at 0.57. A hope is that labour market stability will bode well for consumer confidence and household spending and, as a result, help to support domestic consumption in the coming months.

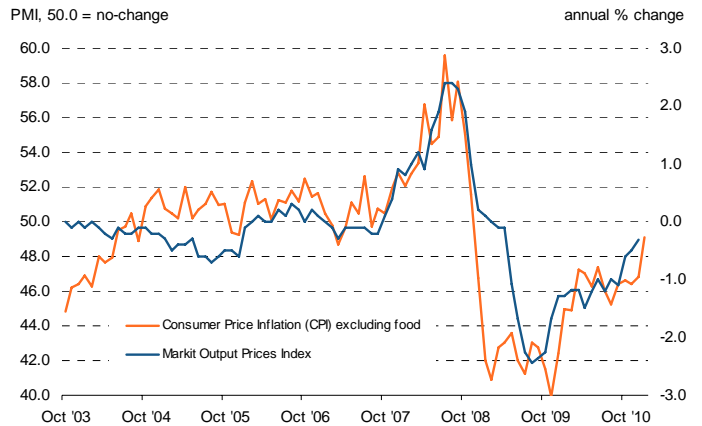
**Deflation eases, as cost inflation quickens**

Manufacturers responded to rising sales by raising their input buying for the first time in five months, according to January's PMI survey. Consequently, average supplier delivery times lengthened to the greatest extent since last August as stock shortages restricted supplier ability to meet increased demand for inputs. Supply chain bottlenecks, coupled with soaring global commodity prices, meant that cost inflation struck a nine-month high.

Manufacturers' selling prices continued to fall despite the upward cost pressures, as competition for new business remained strong. However, the latest PMI data indicated that the fall in factory gate charges was the weakest in the current 26-month period of decline, and suggests that deflationary pressures continued to moderate.

To find out how to receive PMI data, please contact [economic@markit.com](mailto:economic@markit.com)

**Consumer Price Inflation (CPI)**



Sources: Markit, Ministry of Internal Affairs & Communication.

**Chris Williamson**

Chief Economist

Markit

Tel: +44 20 7260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

**Alex Hamilton**

Economist

Markit

Tel: +44 1491 461 076

Email: [alex.hamilton@markit.com](mailto:alex.hamilton@markit.com)

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