

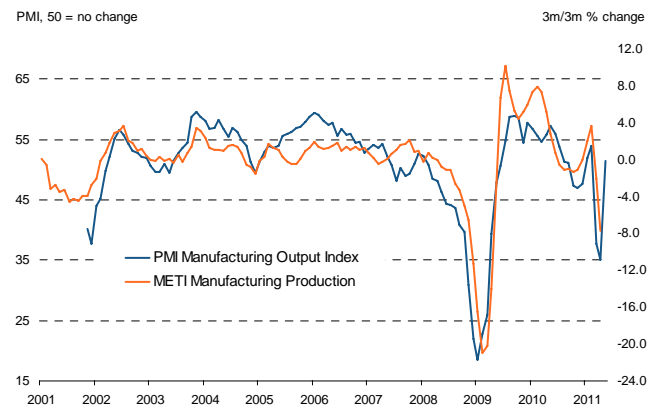
Japan

Manufacturing recovery on track as supply chain pressures ease

Manufacturing PMI™ rises above 50.0 to indicate return to growth in May

PMI™ survey data pointed to a welcome rebound in Japanese manufacturing activity during May, with the survey's Output Index soaring 17 points to signal growth for the first time in three months. The index had slumped sharply in March before dipping to a 25-month low in April. Official data subsequently showed a record fall in manufacturing production in March.

Manufacturing Production



Sources: Markit, METI.

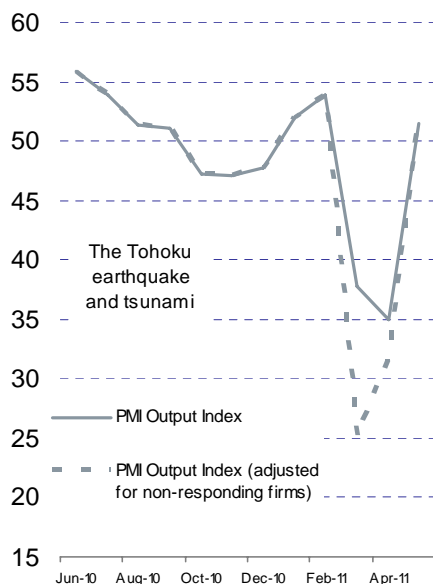
The record rise in the index was far greater than the recoveries seen after the collapse of Lehman Brothers and the terrorist attacks of September 11.

Supply chain pressures ease

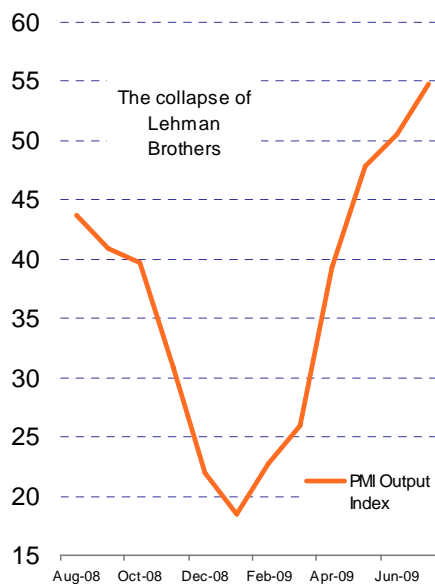
The rapid rebound reflects the unique supply side nature of the downturn, namely the disruption caused by the earthquake and tsunami of March 11. A key indicator of the supply side pressures, the PMI™ Suppliers' Delivery Times Index, had dropped to a series-record low in April, as manufacturers were unable to source inputs following the natural disaster, leading to widespread factory shutdowns across the country. Manufacturers of electronics and automobiles were particularly hard hit. However, a sharp easing in supply chain pressures has enabled many firms to restart production lines, with the proportion of respondents reporting slower delivery times falling from 55% in April to 24% in May. Production growth was centred on the intermediate goods producing sector during May, consisting of firms that supply manufactured inputs such as electronic components to other companies.

Past economic recoveries in Japan

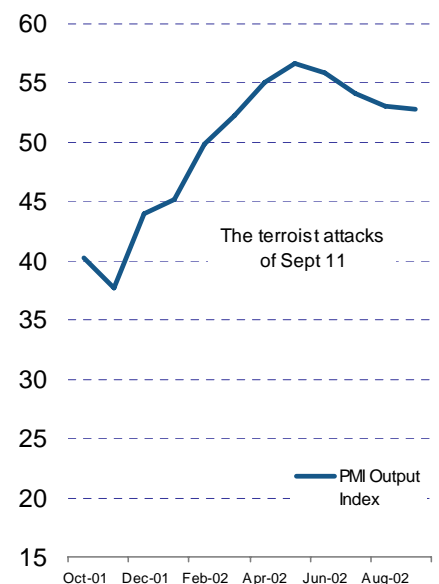
PMI, 50.0 = no change



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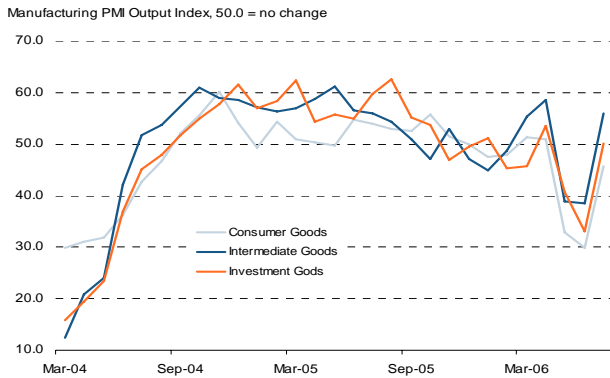


PMI, 50.0 = no change



Source: Markit.

Manufacturing Output by Market Group

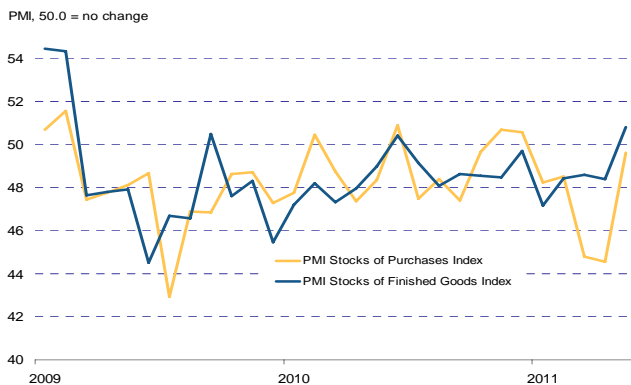


Source: Markit.

Manufacturers look to boost inventories

Production was also boosted by firms building up their stocks of finished goods, which rose for the first time in 11 months during May. However, this was not all good news in terms of the outlook for the economy. Anecdotal evidence provided by the survey panel suggested that stockpiling in part reflected expectations of summer power outages, which should dampen economic growth.

PMI Inventories

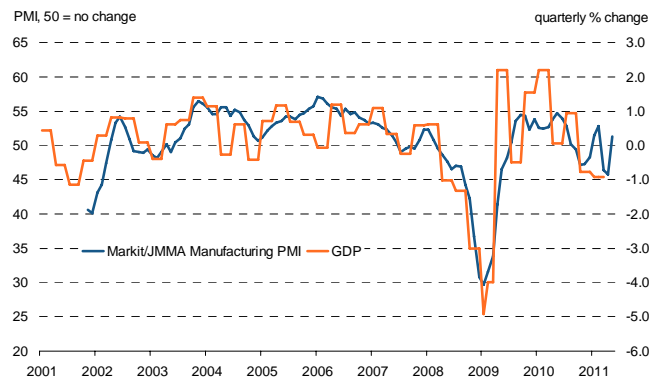


Source: Markit.

GDP decline

The v-shaped nature of the manufacturing PMI™ data and the replenishment of inventories will raise hopes that a widely anticipated decline in Q2 GDP will not be as severe as many analysts fear. However, the risks remain that – having slipped back into recession in Q1 – the downturn will extend into the second quarter before reconstruction helps drive a recovery in the second half of the year. Much will depend on the performance of the service sector (the Activity Index from the Services PMI™ hit a near-record low in April), and how the diminished energy supply constrains growth in the summer months. The Japanese economy also faces a potential slowing in key export markets, with recent survey evidence indicating slowdowns in economic growth in China, the United States and Europe.

Economic growth



Sources: Markit, Cabinet Office.

To find out how to receive PMI™ data, please contact economics@markit.com

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