

Japan

Japanese manufacturers report renewed decline in output

- **Sharpest drop in output and new work since earthquake-related falls in April**
- **Japan's export climate deteriorates for first time since May 2009**
- **Factory operations and supply chains disrupted by floods in Thailand**

Japan's manufacturing sector slid back into contraction in November, with operating conditions deteriorating at the sharpest rate since the earthquake-related fall in April. This was signalled by a drop in the seasonally adjusted Markit/JMMA *Purchasing Managers' Index™* (PMI™) from 50.6 to 49.1 in November.

However, the drop in the PMI – a composite index based on five survey sub-indices, including lagging indicators relating to employment, inventories and delivery times – masked more worrying, steeper declines in manufacturing output and new orders. New business fell for the third month running, with the rate of decline gathering pace and encouraging manufacturers to cut production at the fastest rate since April.

The Output index fell five points – a decline which has only been exceeded over the 10-year history of the survey in the months following March's earthquake and the collapse of Lehman Brothers.

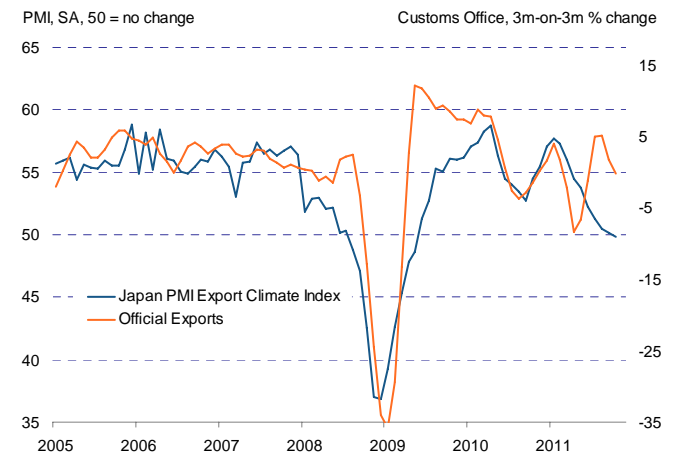
Export climate deteriorating

The drop in demand reported by Japanese manufacturers was at least in part caused by lower export sales as the international economic environment continued to deteriorate. November data showed new export orders falling at a solid rate, with companies attributing the deterioration to weak demand from emerging Asia (with China mentioned in particular) and persistent yen strength.

Official data, published by Japan's Customs Office, showed growth of new export orders rebounding in the aftermath of March's earthquake and tsunami.

However, the PMI survey data suggested that this upturn masked an underlying trend of external demand weakness, which is now being borne out in the official statistics – a stronger-than-expected 3.6% annual decline in export volumes was recorded during October. This trend was signalled in advance by the **PMI Export Climate Index**¹, which has fallen in each month since the start of the year, and dipped below the 50.0 no-change mark in October, signalling a deterioration in the export climate facing manufacturers for the first time in almost two-and-a-half years (data for November are not yet available).

PMI Export Climate Index



Sources: Markit, JMMA, Customs Office.

Supply chain pressures grow due to Thailand flood crisis

A greater incidence of delivery delays was one of the factors preventing the headline PMI reading from falling further in November. Longer lead times are normally associated with better operating conditions, with vendors struggling to meet agreed delivery schedules in the face of rising demand for inputs. However, the November PMI data showed that the latest deterioration in average vendor performance, which was the sharpest since the earthquake-related

¹ The Exporters' PMI is calculated by weighting together national PMI data on output trends from PMI surveys for manufacturing, services and construction. All data are seasonally adjusted. Weights are derived from government statistics relating to the relative importance of individual trading partners' contributions to the external trade of a specific country.

disruption in May, primarily reflected the impact of widespread flooding in Thailand, a nation which Japan has become increasingly reliant on for intermediate goods used in the production of manufactured products. Without the flood-related change in suppliers' delivery times, the headline PMI would have fallen further in November.

To find out how to receive PMI data, please contact economics@markit.com. For extra insight into the PMIs follow us on Twitter <http://twitter.com/MarkitEconomics>

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