

# Asia

## Diverging trends in China and Japan

- **Export growth fastest for three years in Japan, contrasting with falling exports in China**
- **Orders:inventory ratio hits three-year high in Japan but falls in China**

PMI data reveal strongly divergent trends within manufacturing in Asia. While China's goods-producers suffer from falling export demand, Japan's manufacturing sector is enjoying the strongest growth of exports for three years. Resulting changes in inventory levels suggest China's manufacturers are likely cut production in coming months while Japan is set to continue to see strong output growth.

Markit's flash PMI data showed China's manufacturing sector contracted for the first time in seven months in May. Weaker foreign demand was a key factor behind an order book deterioration, with new export orders dropping for a second consecutive month.

The data raise concerns about the extent to which China's exporters may be losing out to Japan, where the PMI survey has shown that a sharp depreciation of the yen has boosted export growth to its highest for three years in recent months.

While Japan had risen to third place in the worldwide PMI export rankings in April, covering 25 countries, China slipped to twentieth place.

The weakness of demand has caught many Chinese producers by surprise, meaning stocks have risen. In contrast, the stronger than expected demand for Japanese goods has led to a marked drop in warehouse inventory levels of finished goods.

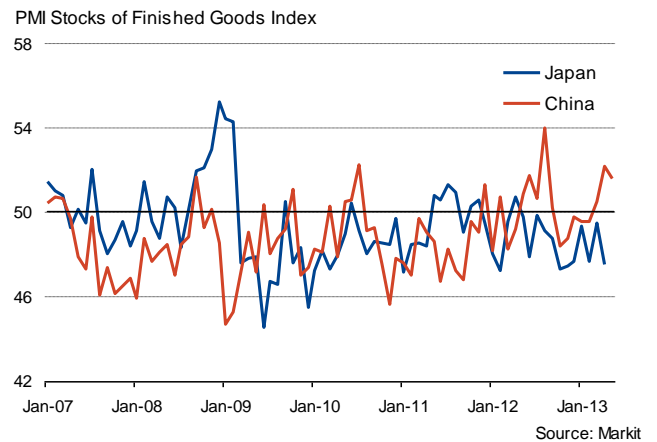
The combination of falling orders and rising inventories in China has pushed the orders-to-inventory ratio to its lowest since last September. This lower ratio suggests that manufacturers will cut production in June to bring output more into line with demand and prevent any further build-up of inventories.

However, the combination of rising orders and falling inventories in Japan has pushed the orders-to-inventory ratio to its highest for three years. Such a high ratio suggests that producers will be stepping up production to refill warehouses.

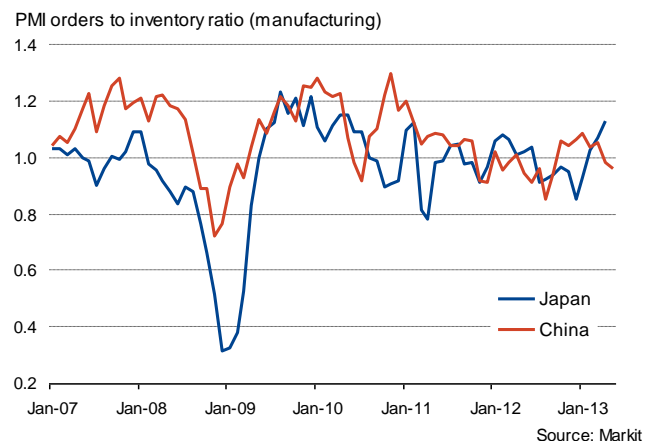
### PMI New Exports Orders



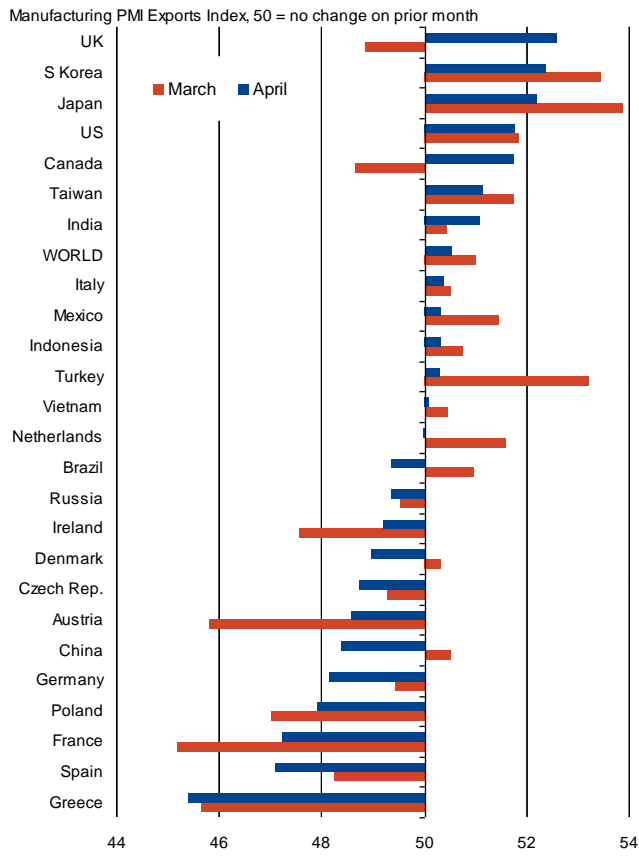
### PMI Finished Goods Inventories



### Orders:inventory Ratio



**PMI New Export Order Index ranking**



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