

Japan

Economic growth disappoints in Q2, with further slowdown likely in Q3

- **Economy grows for third successive quarter, but pace of expansion slips**
- **Surveys point to further disappointing growth in third quarter**
- **Firms trim headcount and cut prices in July**

Economic growth disappointed in the second quarter. The government's [first estimate](#) of GDP showed the economy expanded 0.6% in the three months to June, growing for the third successive quarter, but at a slower rate than the 0.9% increase seen in the first quarter (equivalent to annualized rates of 2.6% and 3.8% respectively).

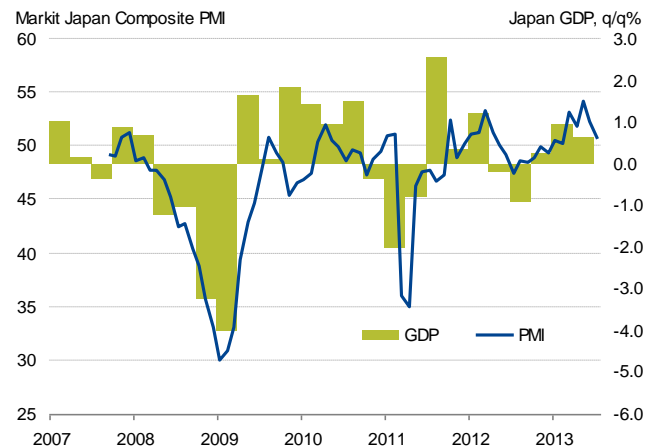
Private consumption rose 0.8%, a similar increase to that seen in the first quarter, and exports surged 3.0%, building on a 4.0% increase in the three months to March. The improvements reflect rising consumer confidence in the light of Japan's aggressive [stimulus package](#), as well as the steep depreciation of the yen which has accompanied the stimulus. However, capital expenditures fell 0.1%, down for the sixth successive quarter. Although only modest, and weaker than the previous quarter, the ongoing drop in investment indicates that companies remain reluctant to invest.

The slowdown comes as a surprise after PMI survey readings pointed to a [strengthening of growth in the second quarter](#). The first estimates of GDP are notorious for being heavily revised in future releases, suggesting there is scope for the second quarter estimate of 0.6% to be revised higher when new figures become available on 9 September, but there is little doubt that the Japanese recovery is fading.

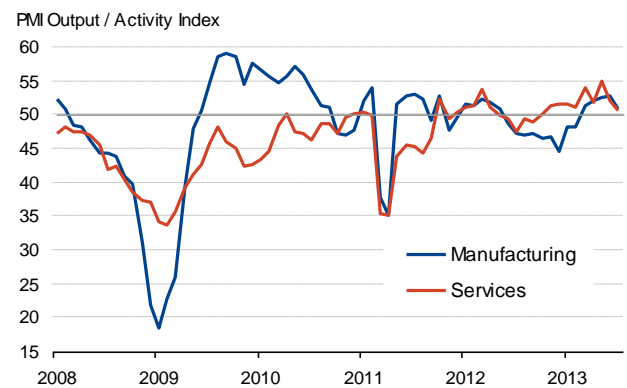
Surveys point to third quarter slowdown

Markit's composite PMI – encompassing both manufacturing and services – fell to just 50.7 in July, pointing to a near-stalling of the economy at the start of the third quarter. The weak reading sits in marked contrast to an all-time high of 54.1 seen in May. Both manufacturing and services saw robust second-quarter growth slow to near-stagnation in July.

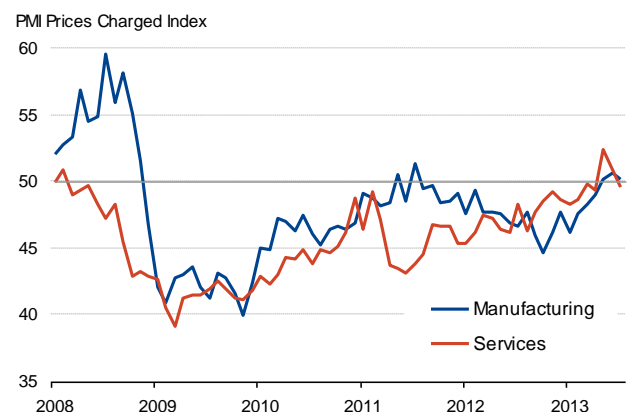
Economic growth



Manufacturing and services PMIs



Prices charged



The service sector even saw a marginal drop in inflows of new business – the first such decline since last September. [Manufacturers](#) meanwhile saw new orders rise at the slowest rate for four months, linked in turn to weaker growth of export sales.

Worryingly, PMI data also showed companies cutting headcount again, after two months of job creation, reflecting growing uncertainty about the economic outlook. The services PMI, for example, showed businesses are far less optimistic about the future than had been the case earlier in the year, when confidence had surged to post-crisis highs.

Prices charged for goods and services also fell slightly for the first time in three months as companies sought to boost sales via discounting, boding ill for the country’s fight against deflation.

Sales tax rise delay?

The surprise weakening of economic growth suggests that the impact of the government’s stimulus package has started to wane. It also raises doubts about whether the economy will be able to withstand a planned hike in the sales tax from 5% to 8% next April. Prime Minister Shinzo Abe has scope to delay the increase, but is under intense pressure to raise tax revenues to reduce the country’s debt, which topped the quadrillion yen mark for the first time ever in June.

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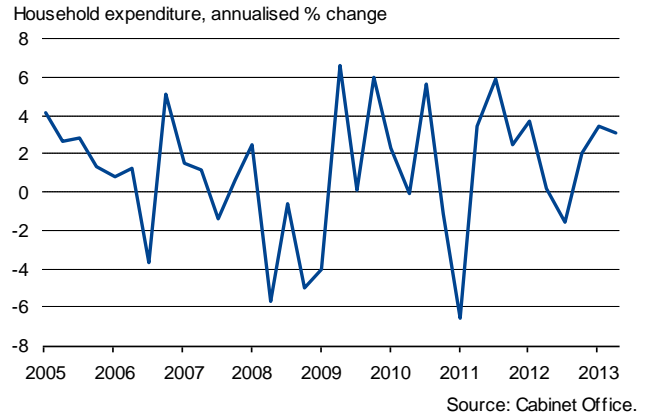
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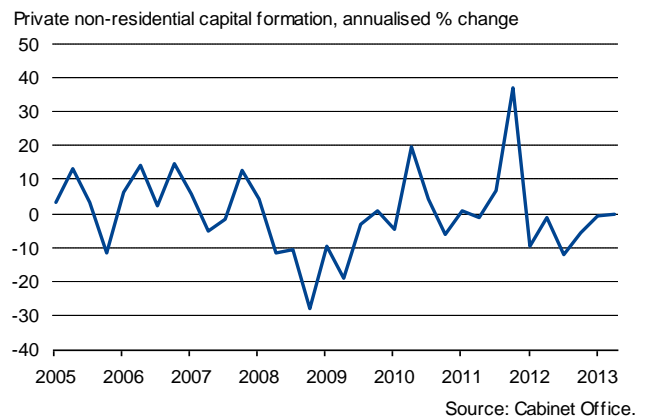
[Click here](#) for more PMI and economic commentary.

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Consumer spending



Business investment



Exports

