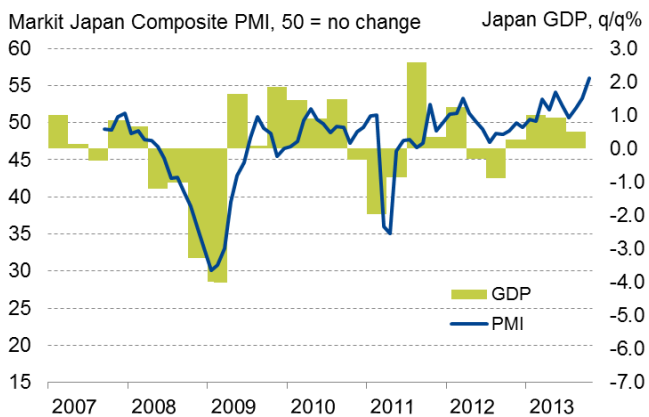


# Japan

## Longest run of GDP expansion in three years

- GDP grows for fourth straight quarter but rate of expansion slows
- Record PMIs suggest initial estimate could be revised higher and point to further growth in Q4

### Japan PMI and GDP

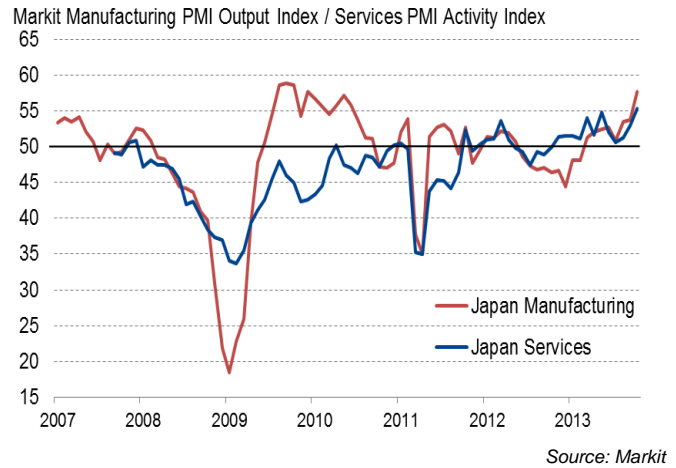


Japan's GDP rose for the fourth consecutive quarter at a rate of +0.5% in Q3, signalling the longest run of growth for three years. Whilst the expansion was weaker than those seen in the first and second quarters of 2013, the pace remains robust, above consensus, and subject to potential upward revision according to survey data.

Recent PMI survey data painted an even more positive picture of the Japanese economy in the third quarter than the official data, signalling further expansions in both the manufacturing and service sectors. Moreover, the surveys have since indicated that production growth at goods producers was the sharpest recorded for almost three-and-a-half years in October, whilst business activity at service providers expanded at fastest pace in over six years of data collection.

A concern is that the upturn is all-too dependent on government spending. State expenditure has been highlighted by PMI panellists across the private sector as a key driver behind both expansion in new orders and business activity. Combined with the Japanese government's expansionary monetary policy, 'Abenomics' appears to continue to have a positive impact on Japan's growth trajectory.

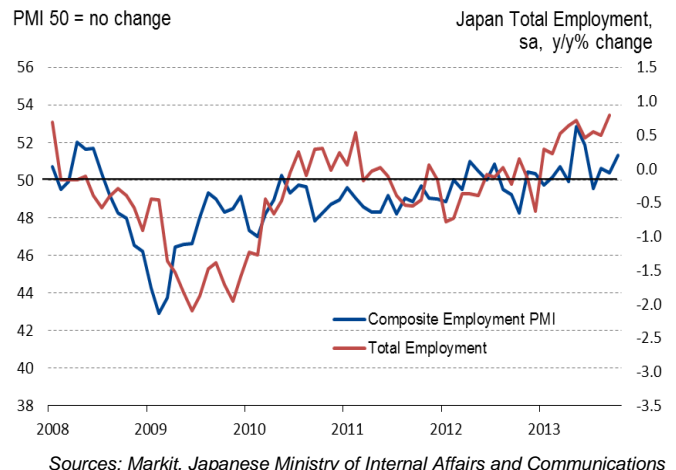
### Manufacturing Service Sector Output PMIs



### Manufacturing Output



### Employment

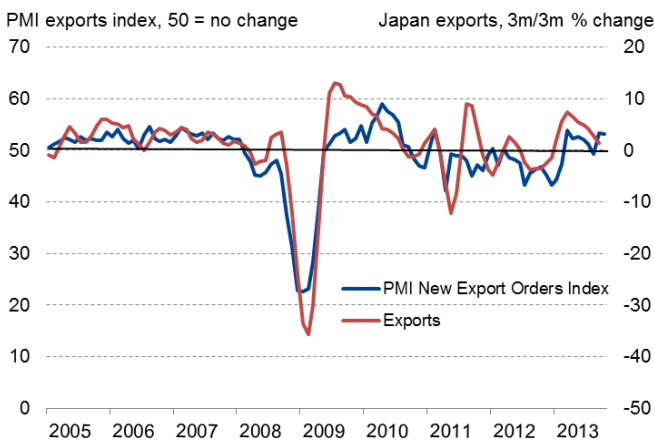


## Bank of Japan raises 2014 growth forecast but still sees slowdown

The most recent 'Outlook for Economic Activity and Prices' report stated that the majority of policy board members at the Bank of Japan expect +1.5% growth in real GDP over the 2014 fiscal year, which is up from their projection of +1.3% in July. On the other hand, estimates for the current fiscal year were revised down fractionally to +2.7%, from +2.8% in July. The anticipated slowdown in growth in 2014 was attributed in the majority to the scheduled tax hikes next April and October, as well as an expectation of continued economic difficulties in emerging markets.

Looking at the finer details, the report forecasts increases in both exports and industrial production over the coming six months. The latest PMI data supported this projection, indicating a sharp expansion in both output and new export orders at Japanese manufacturers at the start of the fourth quarter. Service providers fared similarly well according to the latest October survey data, as business activity grew at the sharpest pace in over six years of data collection (though nevertheless failed to surpass the rate recorded by manufacturers).

### Exports



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