

Japan

Private sector continues strong growth in December

- **PMI indicates private sector business activity growth rate unchanged from November**
- **Manufacturing PMI hits 7-and-a-half year high**

Japan's economy continued to grow at a strong pace in December, though the pace of expansion remained below October's record high. The latest PMI data showed business activity at private sector firms grew in every month of 2013, representing the longest continuous expansion since composite data were first available in September 2007.

The Composite PMI Business Activity Index was unchanged from November, posting a reading of 54.0 again. This was nonetheless one of the highest readings in the series history, signalling a further solid expansion in the Japanese private sector. The data suggest that fourth quarter GDP estimates will rise from the +0.5% [preliminary estimate](#) for the third quarter.

The survey also revealed that private sector employment grew for the fifth consecutive month. Although the rate of job creation eased marginally from November, the sustained employment growth contrasts with the falling staffing numbers seen throughout much of the survey history.

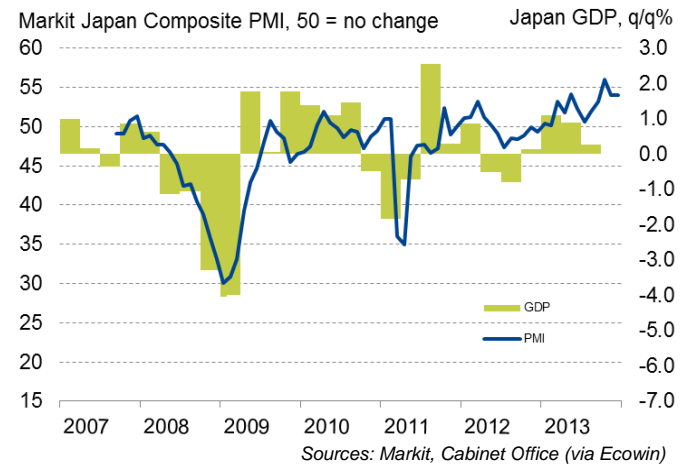
New order growth also weakened fractionally in December, though remained strong relative to the historical series average.

Highest Manufacturing PMI since July 2006

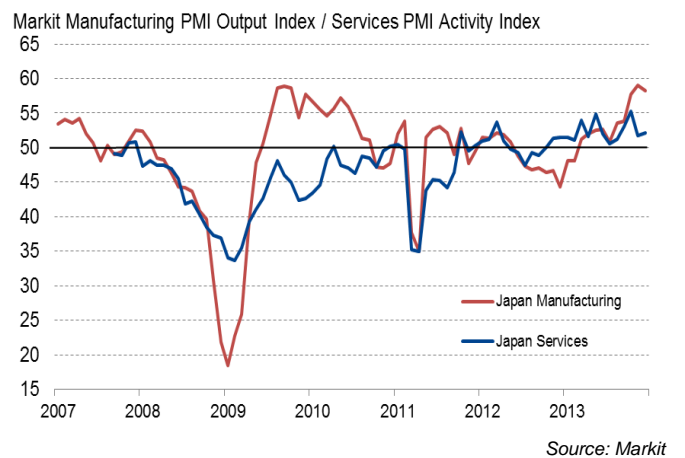
Whilst growth at service sector firms increased marginally, manufacturers saw a substantially sharper expansion in December. The seasonally adjusted Markit/JMMA Japan Manufacturing PMI™ rose to 55.2, signalling the largest monthly improvement in operating conditions in the sector since July 2006. Moreover, the business activity growth recorded by manufacturers was faster than that registered by service providers for the seventh consecutive month.

The divergence between the two sectors was evident across the indices, as manufacturers saw consistently higher growth than service providers in output, new

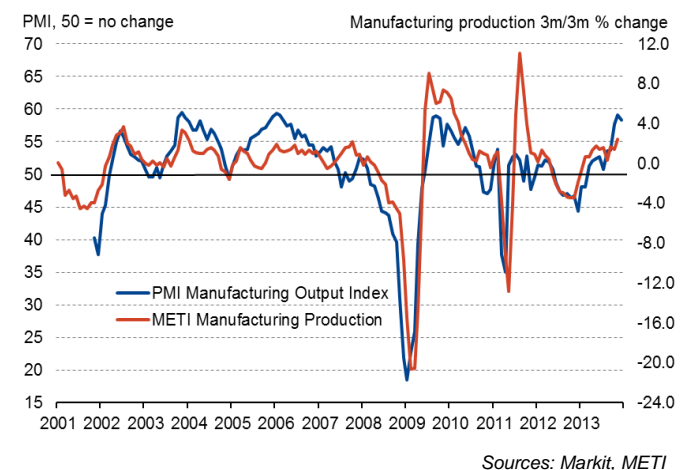
Markit/JMMA Japan Composite PMI and GDP



PMI Business Activity Indicators



Manufacturing Output



orders and employment. This pattern was further illustrated as goods producers registered the sharpest expansion of work in hand since April 2006, whereas service providers recorded a marginal decline.

The divergent trends between manufacturing and services can be explained to some extent by goods producers benefiting from rising exports, while service providers are being hampered by weaker domestic demand.

Sharp export growth as yen falls further

Exports



Sources: Markit, Cabinet Office (via Ecwin).

New export orders at Japanese manufacturers rose for the fourth consecutive month in December, though the rate of growth eased slightly from November's 42-month high. A number of panellists attributed the latest growth to an improvement in business conditions in Hong Kong and an expansion of demand in Myanmar, Thailand and North America.

Exports were likely bolstered by the weak Yen, which fell to a 5-year low against the US Dollar in December. The consistent depreciation of the yen throughout 2013, arguably the most successful arrow of Abenomics to date, was the result of expansive monetary policy designed to escape over a decade-and-a-half of deflation.

However, whilst a weaker yen aids exports, it poses a risk to domestic demand by increasing the cost of imported energy. Following the recent decommissioning of Japan's nuclear power stations, the country is currently highly dependent on foreign energy and as such more vulnerable to currency fluctuations.

Combined with the impact of April's sales tax hike, the resulting higher imported energy costs may dampen domestic demand, causing service providers to struggle to maintain their recent growth. Moreover, as service providers account for over two thirds of the Japanese

economy, the strong performance of the manufacturing sector may be insufficient to sustain the recent economic growth.

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