

Japan

Record private sector activity growth signals strong start to fourth quarter

- **Service sector business activity expands at fastest pace on record**
- **Solid manufacturing export order growth continues**

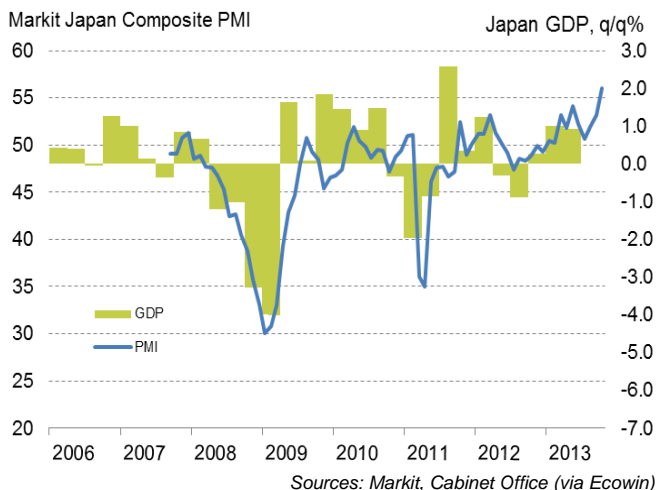
The latest PMI data indicated that private sector business activity expanded at the sharpest pace in over six years of data collection in October. New order growth also accelerated across the private sector and at the fastest rate since May.

Business activity expanded for a tenth successive month, according to Markit's October PMI surveys. The Composite PMI Output Index rose from 53.2 in September, to a record high of 56.0, signalling a very strong start to the final quarter of 2013.

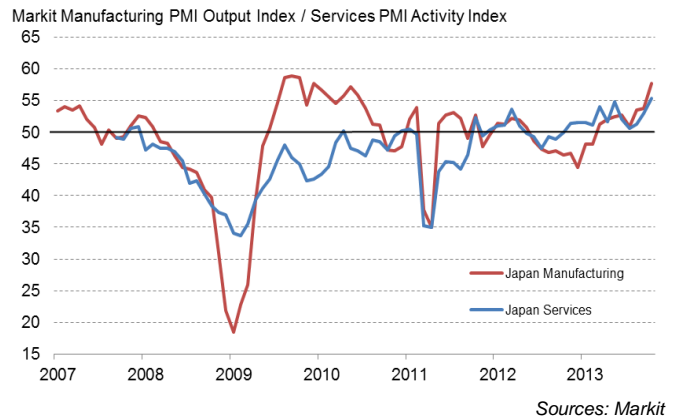
[Manufacturing](#) output growth surged higher, hitting the highest since December 2009, while service sector business activity also accelerated markedly, growing at a rate not previously seen since data collection began in September 2007.

The data therefore suggest that the Japanese economy picked up further momentum at the start of the fourth quarter, building on a strong gain in the third quarter. The surveys suggest that third quarter GDP estimates (due 14 November) will likely show a modest acceleration of growth from the 0.9% quarterly rate of expansion seen in the second quarter.

Markit/JMMA Japan 'all-sector' PMI and GDP



PMI Business Activity Indicators



Second successive month of solid export order growth

New export orders at Japanese goods producers continued to grow at a solid pace in October, suggesting Japan is seeing one of the strongest periods of export growth since early-2010. This is likely a partial consequence of the continued weakness of the yen following Prime Minister Abe's policy of monetary easing.

Measured overall, manufacturing new orders (including exports) showed the largest monthly gain since October 2009. New business in the service sector grew at a more modest pace, hinting at slightly weaker domestic demand growth.

Exports



The rise in export orders is reassuring given the recent challenges Japanese exporters have faced. Although a weak yen has greatly boosted firms' price competitiveness, since the Fukushima incident, many countries have banned agricultural and fishing imports from affected areas of Japan. In particular South Korea and China, previously two of the biggest importers of Japanese agricultural and fish products, have implemented extensive bans.

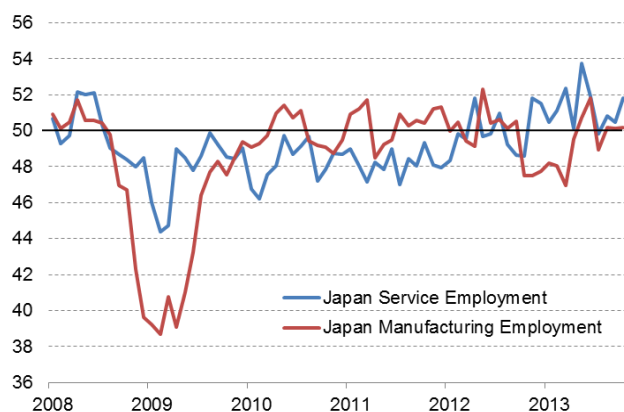
If interdicts are lifted, as requested by Abe at the recent summit of ASEAN country leaders, then it would boost both export volumes and Japanese exporter's confidence. Additionally, Japan is trying to get its cuisine protected as intangible cultural heritage by UNESCO and this too would provide a boost to manufacturers of goods related to agriculture and fishing.

Disappointing employment trend

Service sector staffing levels recovered growth momentum in October, but manufacturing payroll numbers virtually stagnated for the third month running. The relative size of the service industry compared to the manufacturing sector meant private sector employment rose at a solid pace in October.

Employment

PMI Employment Indices



Sources: Markit

There are numerous possible causes behind recent weak employment growth, from structural problems such as the stringent regulation limiting businesses' abilities to hire and fire staff, to a lack of confidence with regard to activity in the coming months. If the [sales tax hike](#) scheduled for next April is behind the current rising demand, then companies may be waiting to test the sustainability of the expansion before committing to recruiting additional employees. See [this](#) recent commentary note for more detail.

8.2 million missing employees

There is a structural issue which is particularly anomalous in a developed country such as Japan, and that is the very low female participation in the labour force. In 2010, Goldman Sachs [estimated](#) that if women matched the participation rates of men in Japan, an additional 8.2 million workers would be added to the labour force. In addition, last month the IMF released [research](#) estimating that if female labour force participation equalled that of men's it would add 9% to GDP.

Whilst Prime Minister Abe and his cabinet members have frequently referenced 'Womonomics' in speeches and addresses since his election a year ago, very little concrete policy has been announced. This is all the more pertinent because unless manufacturing employment rises in the near future, it is difficult to see how the steep output growth rate recorded in October can be sustained.

With Japan's highly restrictive immigration policies and exceptionally low birth rate, increasing employment opportunities for women thus represents one of the only viable options for increasing the labour force. This seems a clear example of the need for the structural reforms of Abe's third arrow to ensure a sustainable recovery.

Claudia Tillbrooke

Economist

Markit

Tel: +44 1491 461039

Email: Claudia.Tillbrooke@markit.com

For further information, please visit www.markit.com