

Asia

Japan bucks Asia downturn trend

- **Japan's manufacturing sector grows as rest of Asia sees first contraction since October**
- **Rising input prices in Japan contrast with steep fall elsewhere across the region**

PMI data reveal increasingly divergent trends across manufacturing in Asia during May, with Japan enjoying the strongest growth for almost two years while the rest of the region sees manufacturing conditions deteriorate for the first time since last October.

Japan's manufacturers saw an improvement in business conditions for the third month running in May. The PMI hit a 21-month high as the country's goods producers reported further growth of output, order book inflows and exports.

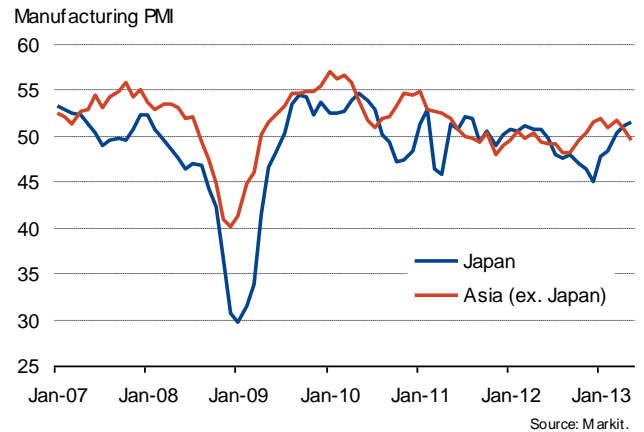
However, while Japan's PMI rose from 51.1 to 51.5, the PMI for Asia excluding Japan fell from 50.8 to 49.6, indicating that business conditions across the rest of the region deteriorated, albeit only modestly, for the first time in seven months.

The worst performance was seen in Taiwan, where the PMI slumped from 50.7 to 47.1, its lowest since last September and signalling the first deterioration in business conditions since November. The PMI also fell below 50.0 in China, down from 50.4 to 49.2, its lowest since September and signalling the first downturn in business conditions since October.

PMIs also fell elsewhere across the region. At 50.1, India's manufacturing PMI signalled a near-stagnation of the sector, registering the worst performance since March 2009. The PMI for Vietnam fell from 51.0 to 48.8, indicating the first deterioration in business conditions since February. In South Korea, the PMI fell to a three-month low of 51.1, registering only very modest growth. The Indonesian PMI meanwhile fell from 51.7 to 51.6, likewise signalling only very weak growth.

Japan's better export performance can be linked in part at least to the 20% depreciation of the yen against major currencies. While Japanese manufacturing exports rose for the third month running in May, exports from China fell for a second successive month

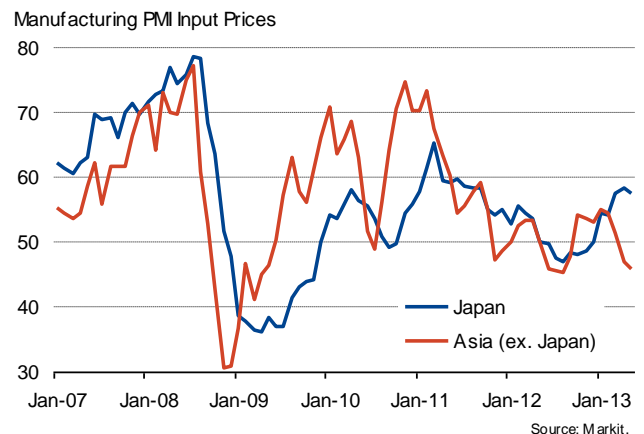
Manufacturing business conditions (PMI)



Exports



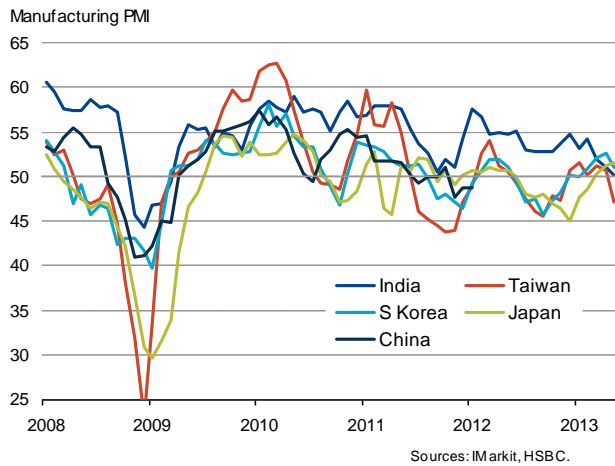
Input prices



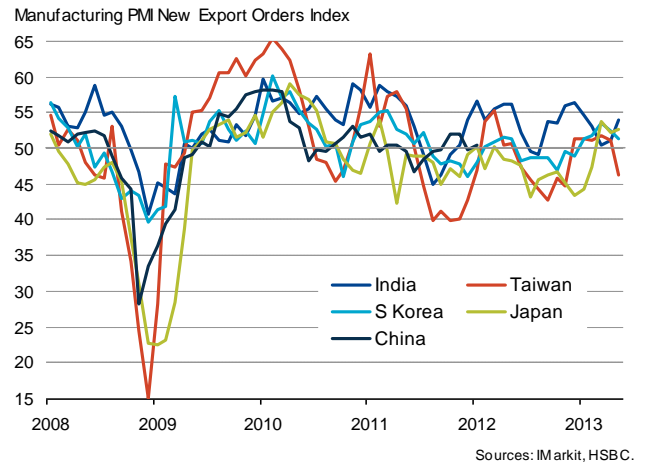
and dropped for the first time since last November in Taiwan. Growth of South Korean exports slowed, though picked up in India, Indonesia and Vietnam.

The flipside of the yen's depreciation is that imports have become more expensive, driving up manufacturers' costs. The PMI survey showed input costs rising sharply throughout the year so far in Japan, contrasting with a marked fall for a second successive month in May across the rest of the region.

Manufacturing PMI



Exports



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