

Japan

Recession revised away as economy grows in third quarter

- **GDP revised to show growth rather than contraction in third quarter**
- **Nominal GDP posts largest annual rise for five years**
- **Revisions bring official data more into line with upbeat PMI business surveys**

Japan's recent recession has been revised away after new data show the economy to have grown in the third quarter.

The revision confirms [our assertion from 16th November](#) that "Headline data showing Japan to have fallen back into recession in the third quarter give a misleading view of the health of the economy".

Return to growth

Gross domestic product is now estimated to have risen 0.3% in the three months to September, according to the latest official data, rather than having contracted 0.2% for a second successive quarter, as the initial GDP estimate had indicated. Two consecutive quarterly declines in GDP is the commonly used definition of recession.

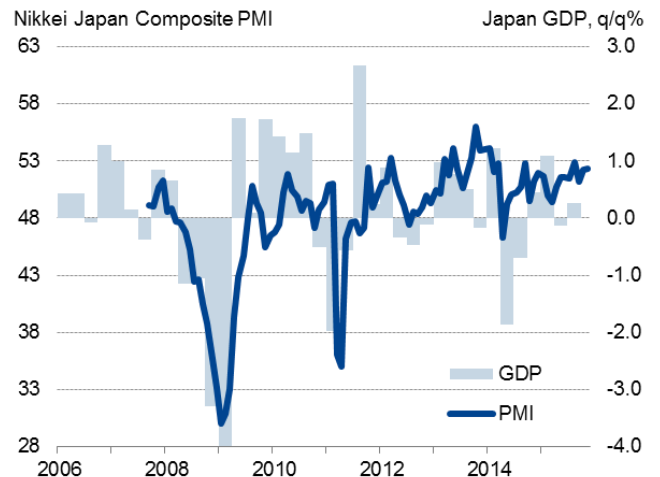
The revised data showed that, excluding changes in inventories, the economy grew 0.4%. Total investment expenditure fell just 0.6% compared to an earlier estimated 3.0% slump, while consumption rose 0.3%.

If inflation is excluded, nominal GDP growth was revised up from a 3.1% annual rate to 3.5%, its highest for five years.

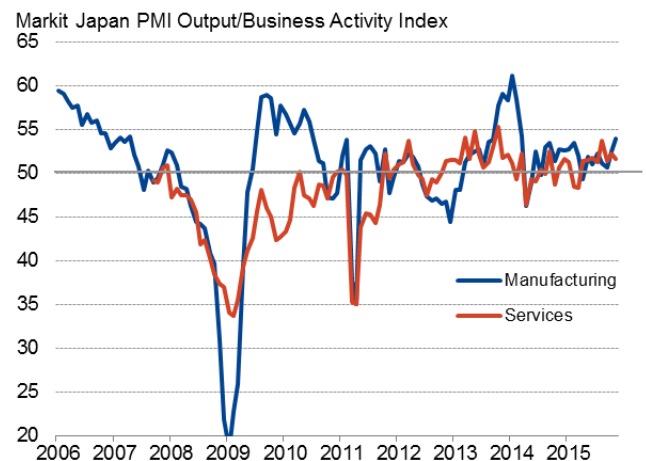
The revisions bring the official data more into line with the Nikkei PMI business surveys, compiled by Markit, which have shown an underlying trend of economic growth gathering pace in recent months. A further solid expansion signalled up to November suggests GDP will rise again in the closing quarter of the year.

The November surveys showed steady growth of service sector activity being accompanied by an acceleration of manufacturing output, which posted the largest gain for 20 months. Goods producers benefitted in particular from an upturn in export sales, in turn attributable to the yen's depreciation.

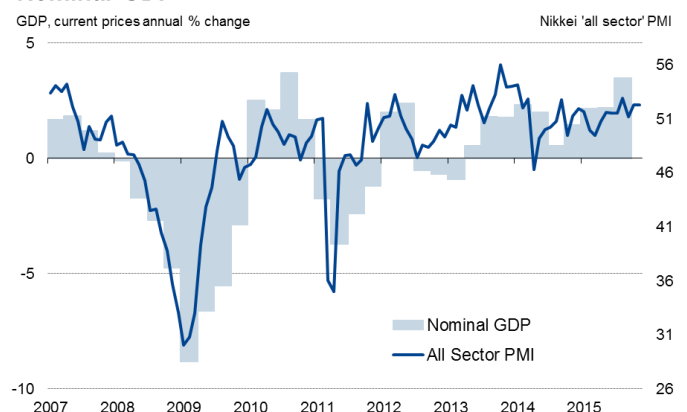
Economic growth and the Nikkei PMI



Manufacturing and services



Nominal GDP



Correlations

The PMI surveys appear to be more closely correlated with nominal GDP than inflation-adjusted 'real' GDP, pointing to the possibility of potential errors in the calculation of deflators. Since 2007, the weighted output index derived from the manufacturing and services PMI surveys has exhibited a correlation of 73% against the annual rate of change in nominal GDP, rising to 79% with the PMI acting with a lead of three months. A correlation of 68% is observed when compared to real GDP.

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

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