

Japan

Manufacturing orders rise at fastest rate for three years, prices also rise

- **PMI hits highest since February 2011 as order books surge**
- **Export upturn contrasts with deepening downturn in China**
- **Manufacturers' selling prices show second-highest rise since late-2008**

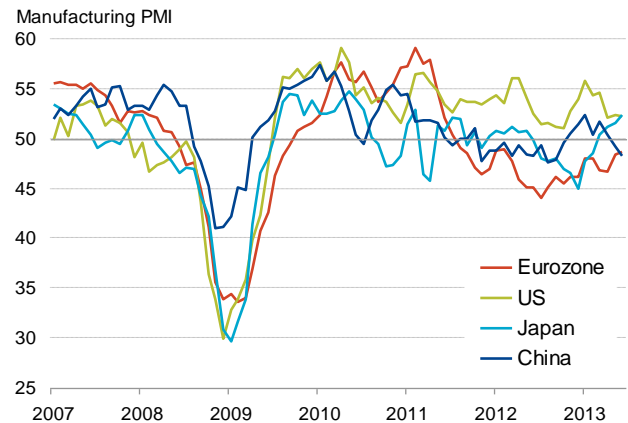
The Markit/JMMA Manufacturing PMI rose in June to its highest since February 2011, pointing to ongoing robust growth of the Japanese goods-producing sector. The PMI rose from 51.5 to 52.3, posting above the no-change level of 50 for the fourth successive month, contrasting with deteriorating business conditions in the prior nine months.

The upturn pushes the Japanese PMI higher than the other main economies for which PMI data are available so far for June. Flash PMI data for the US put the index at 52.2, edging down from 52.3 in May but still signalling reasonably robust growth. The flash PMI for the Eurozone, on the other hand, signalled ongoing recession at 48.7, albeit with activity contracting at the weakest rate for 16 months and raising hopes of a return to growth in the second half of the year. The PMI for China meanwhile fell further into contraction territory, down to a nine-month low of 48.3.

It is perhaps the different trajectories of the manufacturing economies of Japan and China that is the most interesting. The divergence can be explained to a large extent by export sales: while China's exports fell at the fastest rate since March 2009, dropping for the third month running according to June's flash PMI data, Japan's exports rose for the fourth month in a row, albeit with the rate of growth dipping slightly on May but remaining at a level roughly consistent with double-digit annual growth of export volumes.

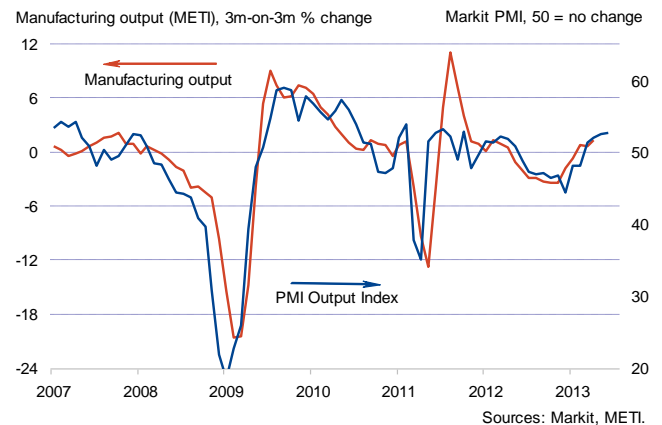
The data therefore add weight to the view that Japan's recent currency depreciation, with the yen around 25% weaker on average in June compared to late last year, has benefitted the country's exporters. The flash PMI data also suggest that some of these gains have come at last to some degree at the expense of China.

Manufacturing PMIs in June*



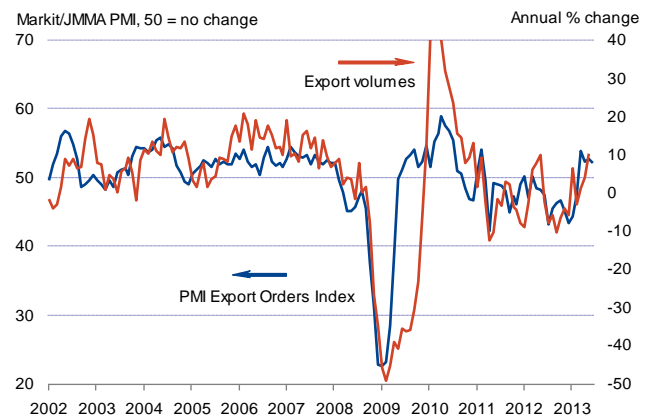
* US, Eurozone and China PMIs are flash numbers.

Economic growth



Sources: Markit, METI.

Exports



Sources: Markit, Ministry of Finance.

Orders rise at fastest rate for three years

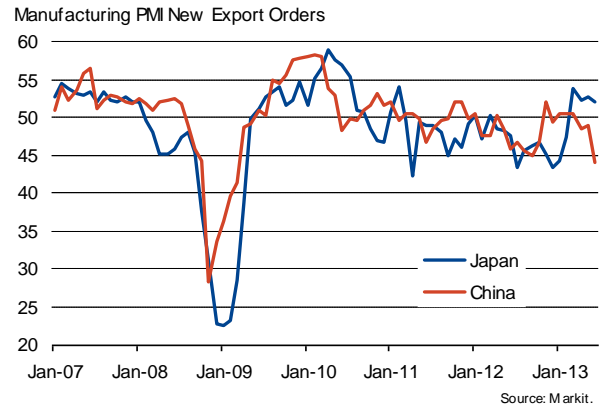
An encouraging sign, however, is that the economic stimulus that has been put in place in Japan, which has caused the steep currency depreciation, also appears to be lifting domestic demand. Overall new orders rose at the fastest rate for three years in June, up for the fourth successive month and rising at a faster pace than export orders. Stronger domestic demand in Japan should eventually help drive stronger global trade and boost worldwide economic growth.

Prices on the rise

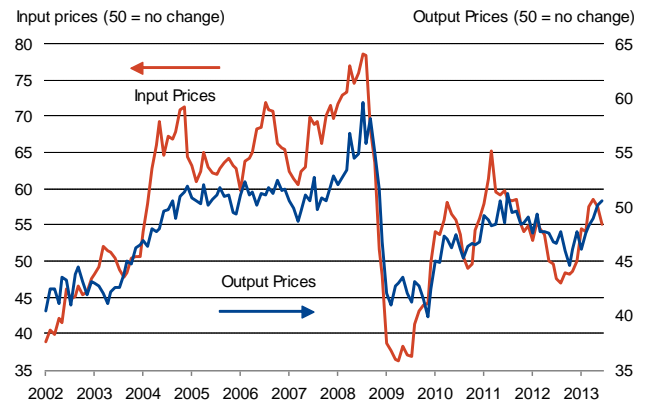
Also encouraging is an upturn in prices charged by manufacturers. The purpose of Japan's current stimulus package is to eradicate the deflation that has plagued the country, with the government seeking to push inflation up to 2% in two years.

June's PMI survey showed manufacturers' output prices rising marginally for a second successive month. Although only modest, the increase represents a big contrast to the steep and more-or-less continual price falls that have been witnessed since the financial crisis struck. The latest increase was the second highest seen since November 2008. The increase in manufacturers' prices bodes well for a feed through to consumer prices, which continued to fall at an annual rate of 0.7% in April.

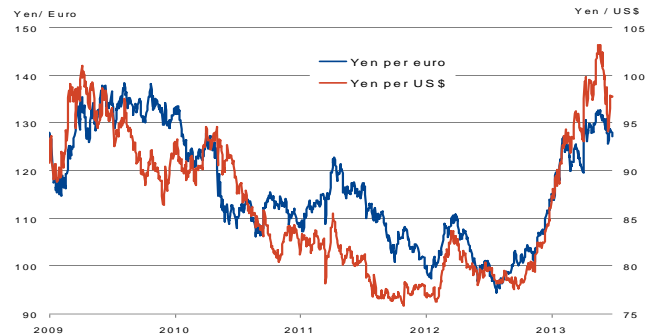
New export orders



Manufacturing prices in Japan



Weaker yen



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