

Japan

Production growth hits 46-month high in October, building on September's expansion

- Official data confirms industrial production up in September, following slight decline in August
- Domestic demand boosted temporarily by forthcoming sales tax hike
- PMI data suggest recovery remains strong

The latest PMI data indicated that Japan's manufacturing upturn moved up a gear in October. Output grew at the fastest rate since December 2009, new orders rose at the sharpest rate in four years and backlogs grew solidly again.

The upbeat PMI data follow the latest official data, which painted a reassuring picture of Japanese manufacturers' performance at the end of the third quarter. Manufacturing output grew by 1.5% in September, up some 4.8% on a year ago to register the fastest annual growth rate for 16 months.

Domestic demand drives output growth

The growth in production was driven in part by an expansion in domestic demand, especially from consumers. This was signalled by both the PMI's New Orders Index, which has posted above the export orders component in each of the past seven months, and official data (released on Tuesday), which showed real consumption expenditure in September to have risen 3.7% from the previous year.

PMI survey respondents attributed the recent expansion in consumer demand at least partially to purchases being brought forward ahead of next year's sales tax hike. In October, panellists reported that their output growth was partially derived from customers' desire to secure shipments prior to the sales tax hike next April.

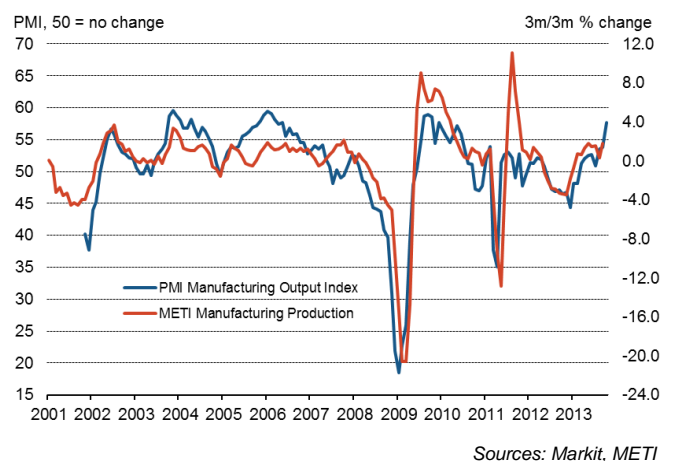
Employment has failed to respond to strengthening demand and has remained broadly unchanged throughout August, September and October. Without a corresponding rise in employment soon, and as backlogs of work build, responding to rising demand may become a problem for Japanese manufacturers.

The absence of recruitment may betray a lack of confidence with regard to coming months. If the coming sales tax hike is behind the current expansion of demand, then it is but temporary and firms may be waiting to see the outcome of the rise before committing to recruiting additional employees.

GDP and the PMI



Manufacturing PMI and Official manufacturing production



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