

Japan

September PMI surveys signal weaker growth and renewed drop in prices

- **Nikkei PMI surveys signal weakest growth for five months**
- **Selling prices fall for first time in almost two years**
- **Employment rises only marginally**

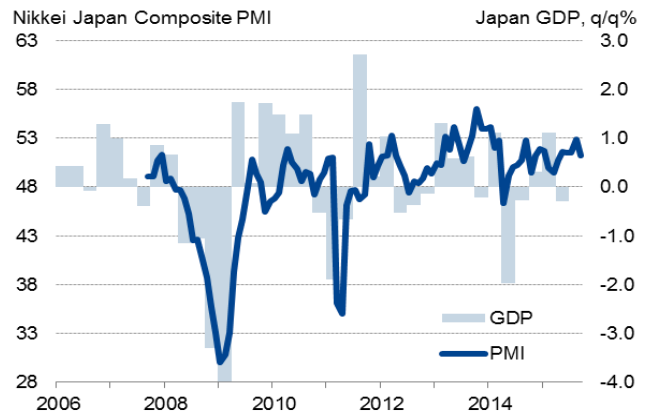
The Nikkei PMI surveys, compiled by Markit, signalled the weakest expansion of business activity for five months in September as growth slowed in both manufacturing and services.

The surveys nevertheless point to the economy having grown in the third quarter, sustaining a similar modest pace of growth to that seen in the second quarter. As such, the surveys paint a brighter picture of the economy than official data, which indicated a downturn in the second quarter and extended industrial production weakness in the third quarter. However, the survey's sub-indices send downbeat signals for the fourth quarter: growth of new orders slowed, exports of goods fell at the steepest rate for just over 2½ years, backlogs of work were unchanged, employment barely rose and average prices charged fell for the first time in almost two years.

The lack of positive growth momentum and job creation, alongside the renewed downturn in prices, adds to the likelihood of the Japanese government seeking new ways to stimulate the economy. Prime Minister Shinzo Abe has set a target of raising GDP by 22%, albeit with no timeframe attached to the goal. With survey data weakening and official data signalling a possible return to recession, expectations are building that the authorities will unveil new fiscal and monetary stimulus plans.

Here are three key charts from the September surveys:

1. Economy losing momentum

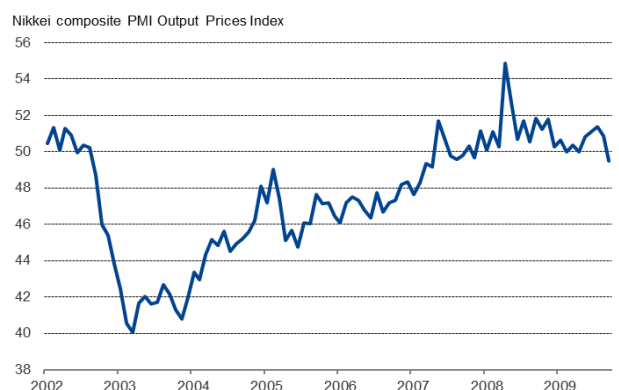


Sources: Markit, Nikkei, METI.

The composite Nikkei PMI fell from 52.9 in August to a five-month low of 51.2 in September. The survey provides an alternative guide to the Japanese economy compared to the volatile, often revised and often mistrusted official GDP data. Rather than contracting 0.3% in the second quarter, the PMI survey indicates that the economy grew at a modest rate of approximately 0.4%, a pace of expansion which persisted into the third quarter (the composite PMI averaged 51.3 in the second quarter and 51.9 in the third quarter).

However, the September fall in the PMI, as well as a slowdown in growth of new orders to a three-month low, suggests that the economy is losing momentum again as it moves into the fourth quarter.

2. Prices fall for first time in almost two years

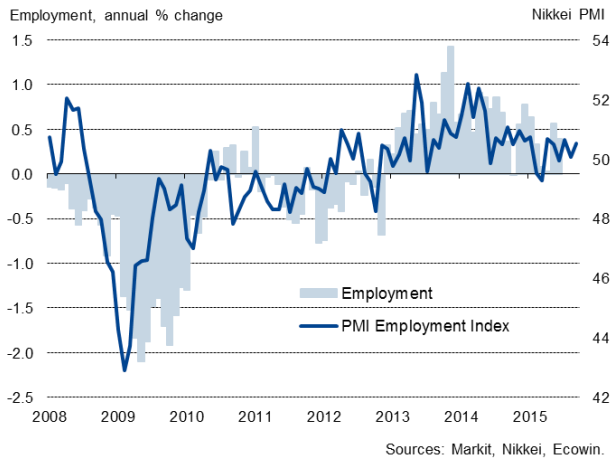


Sources: Markit, Nikkei

Average prices charged for goods and services fell in September for the first time since November 2013. The decline was due to a combination of falling global commodity prices as well as a lack of pricing power amid weak demand from customers. Prices levied for services fell for the first time since January 2014, while factory gate prices declined for the second time in the past three months as manufacturers cut their selling prices to the greatest extent for two-and-a-half years.

The downturn in the survey price gauges point to further downward pressure on consumer price inflation, the annual rate of which is already down to 0.2% according to July data, its lowest for just over two years.

3. Employment



Employment rose for the fifth time in the past six months, with the rate of job creation picking up marginally but remaining weak. A net loss of jobs reported in the manufacturing sector was offset by the largest (though still only modest) rise in service sector jobs for ten months.

The survey data therefore point to further sluggish employment growth at best after official data showed employment up just 0.4% on a year ago in July.

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