

Japan

Weak industrial production data leave Japan struggling to avoid recession

- Industry to drag on third quarter GDP
- Substantial rebound from second quarter GDP contraction failing to materialise

Japan is struggling to gain any meaningful traction in economic growth following the consumption-tax induced downturn of the economy in the second quarter, when gross domestic product fell by 1.7%.

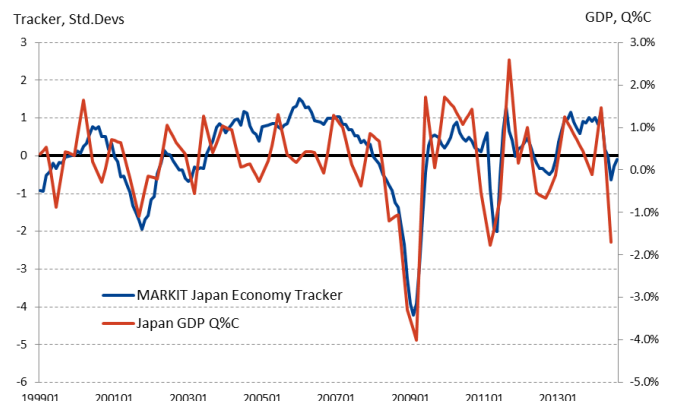
A downward revision to industrial production (IP) data for August, which took the monthly fall down to -1.9% (from an original estimate of -1.5%) leaves the sector needing an improbably large rebound in September if it is not to prove a drag on overall output in Q3. Even a September monthly rise of 3% would leave production 1.9% lower than Q2, leaving the economy largely reliant on the service sector to avoid a further contraction of GDP in the third quarter, which would constitute a technical recession.

Fortunately, both the Markit Japan Services PMI and Economy Watchers' Survey have pointed to a strengthening of underlying conditions in the service sector, and retail sales are so far heading to be up on Q2, but growth rates remain modest at best.

That's left our economy tracker for Japan struggling to indicate any meaningful rebound in activity through Q3.

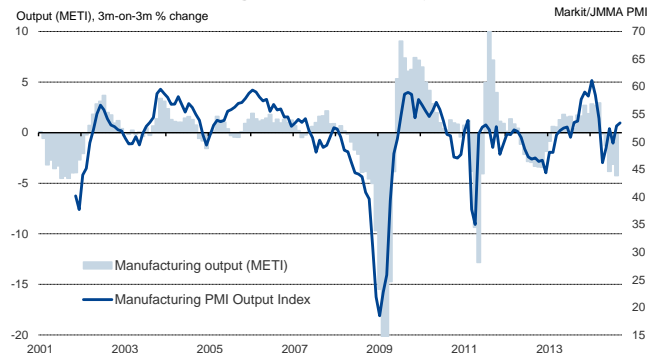
While the model points to a 0.4%-0.5% quarterly increase in GDP, the official data for September will be an important determinant in whether this forecast is changed. We look to the various business surveys released later in October and early November to also provide a steer on the underlying economic performance at the start of Q4.

Japan GDP



Sources: Markit, Ecwin.

Japan manufacturing PMI and factory output



Sources: Markit, JMMA, Cabinet Office.

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