

# ECONOMIC PULSE

## JAPAN: BETTER SIGNS FOR THE SUMMER

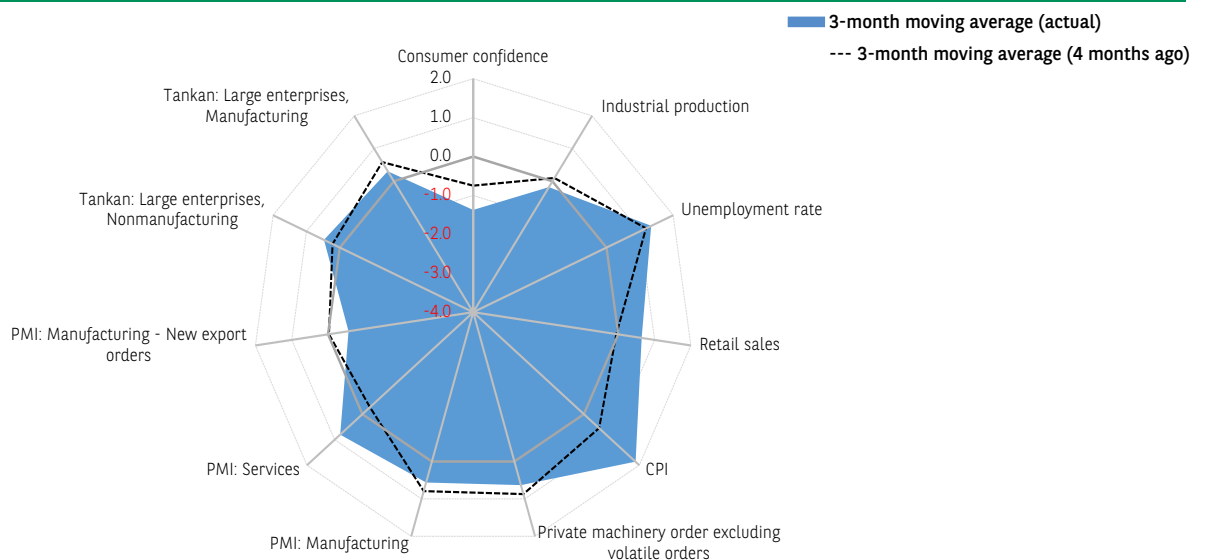
The latest results from the Tankan survey show a fragile but stable outlook for Japanese industry (the balance moved from 2 to 1), whilst confidence in the service sector improved (the balance rose from -2 to 4). The total balance of opinion improved from 0 to 2. Amongst large companies, the improvement in confidence was the biggest in personal services (up 32 points to 18) and hotels and restaurants (up 25 points to -31), even though confidence in the latter remains very low. Conversely, the sectors suffering the biggest falls were lumber and wood products (down 20 points to 0) and iron & steel (down 16 to -6). The expected fall in profits over fiscal year 2022 (April 2022 to March 2023) has been revised down from -8.7% to -3.6%, due in particular to the improved outlook for the second half of the year. Companies continue to report difficulties in hiring, with the corresponding index stable at -24. Meanwhile, companies have significantly downgraded their expected exchange rate for fiscal year 2022, which was expected given the highly conservative figure reported in the March survey (now JPY/USD119, from JPY/USD111.9).

With a substantial fall in industrial production in May (-7.2% m/m), Japanese industry, and particularly the automotive sector (-8.0% m/m) has suffered from the disruption in China caused by lockdown measures in the country. These restrictions have now been relaxed and this should lead to a significant rebound in Japanese activity over the summer. According to the Ministry of Economy, Trade and Industry (METI), Japanese companies are expecting industrial production to rise by 12.0% m/m in June and 2.5% m/m in July. The PMI figures for the sector also remain relatively positive, given the challenging international context: the manufacturing index nevertheless slipped from 53.3 to 52.7 in June, whilst the composite index (industry and services) rose from 52.3 to 53.2.

Inflation remains under control. It stabilised at 0.8% y/y in May, whilst the Tokyo leading indicator for June slipped back slightly from 2.4% to 2.3%. This said, the underlying year-on-year figure (excluding energy and perishable food) for Tokyo has moved above 1% for the first time since March 2016. The unemployment rate edged up from 2.5% to 2.6% in May and is now 0.4 of a point above its level at end-2019. However, part of this increase was the result of a rise in the activity rate (15 years and above), which, at 62.7%, is at its highest level for 21 years. New job openings continued to rise, although they remained substantially below the pre-Covid level (880,820 in May 2022, compared to 956,727 in December 2019).

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### JAPAN: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

