

JAPAN: ECONOMIC CLIMATE DETERIORATES DESPITE MASSIVE STIMULUS PROGRAMME

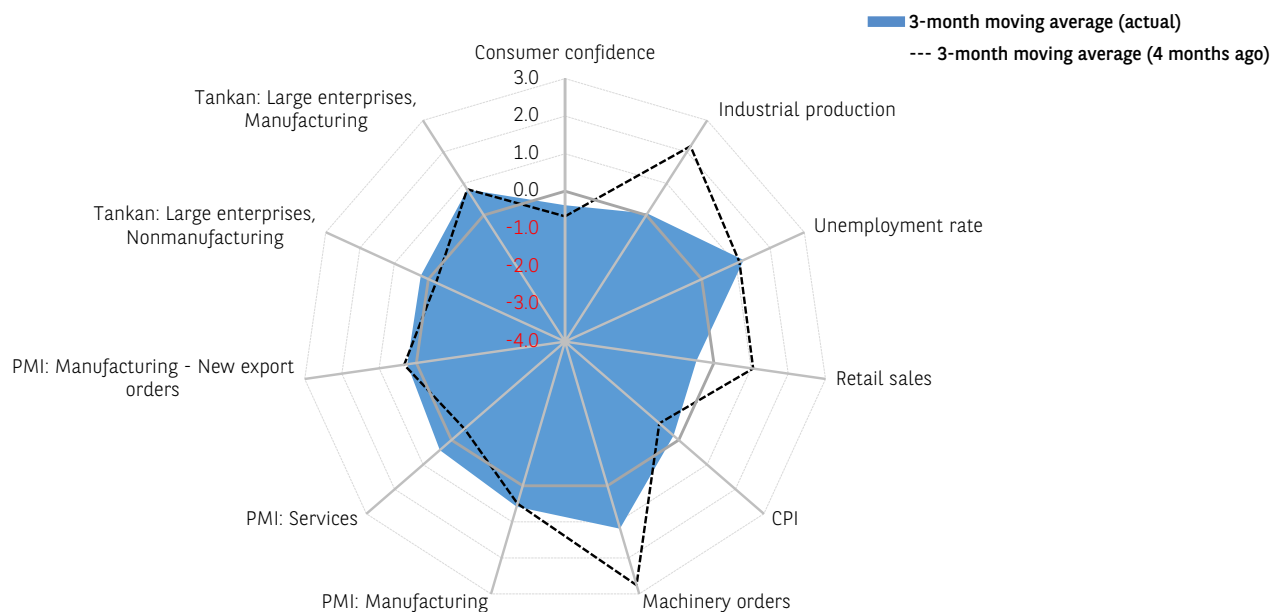
The Japanese economy revived in the fourth quarter after the state of emergency related to the Covid-19 infections was lifted in all prefectures in October. In particular, sentiment in the services sector has clearly improved. The quarterly Tankan survey showed that actual business conditions in the non-manufacturing sector gained 7 points in December compared with three months earlier. Moreover, consumer confidence improved in October and November to levels seen before the outbreak of the pandemic, although remaining low relative to its long-term average. By contrast, the gains in the manufacturing sector were minimal, as activity continues to be affected by supply disruptions and rising production costs that are reducing profit margins. Industrial production growth actually slowed in the three months to October compared to the preceding three-month period.

However, our Pulse is pointing to deteriorating conditions, as the blue area of the spider chart – the economic situation in the past three months – is clearly shrinking compared to the situation in the preceding three months – the area within the dashed line. The December Tankan also shows that business expectations are worsening. First, businesses are concerned about the Omicron variant. As the vaccination programme progresses, its impact is probably less than the Delta variant. Second, the losses in the terms of trade due to the rise in energy prices continue to weigh on profits and purchasing power. Third, ongoing supply chain disruptions are expected to weigh on manufacturing activity for most of 2022. Finally, businesses are uncertain about the policies of the Kishida government, which has abandoned the business reform policies of the Abe era. The employers' organisation Keidanren has given a lukewarm welcome to the new programme "new form of capitalism".

Recently, the Japanese government unveiled a massive stimulus package amounting to some JPY55.7tn or 10% of GDP, of which JPY36 tn for FY2021. However, the largely debt-financed programme is short on details. The package includes very sizeable handouts to families with children, which may help the ruling coalition at next summer's upper house election. The government might remain in campaign mode as local government elections are on the calendar for spring 2023.

Raymond Van Der Putten

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 +3. 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.

