

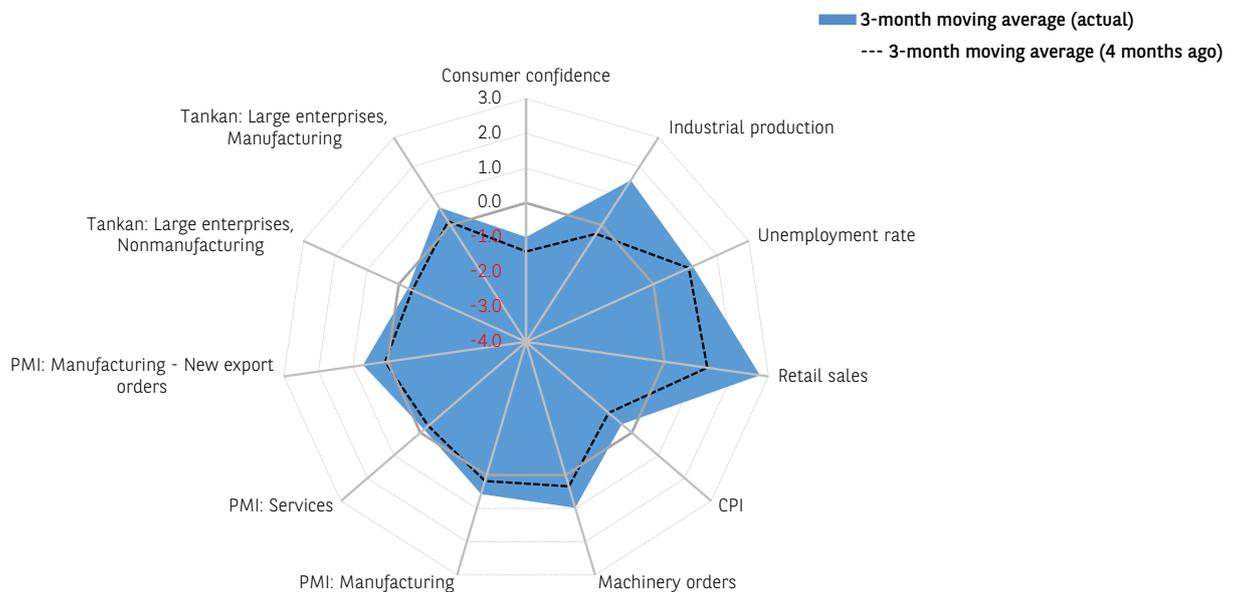
JAPAN: GOOD NEWS ON THE HEALTH FRONT SHOULD BOOST THE ECONOMIC RECOVERY

Japan has often been identified as failing to deploy vaccines but the rollout has significantly accelerated the process since May. Nearly 25% of the Japanese population have now received a first dose of the vaccine, up from only 2.4% at the beginning of May. This share is still low compared to other regions, like Europe (over 40%) and especially the United States (nearly 55%). At the same time, the number of new daily cases testing positive has been following a declining trend since mid-May. Given this better health situation, Prime Minister Suga confirmed the lifting of the state of emergency, in place since the end of April in Tokyo as well as in other parts of the country. The Japanese are nonetheless worried about the beginning of the Olympic Games on 23 July, which could lead to the strengthening of some health restrictions.

An accelerated vaccination campaign reduces uncertainty for economic agents – households and companies – and offers a brighter economic outlook. The Bank of Japan's Tankan index rose in Q2 2021 in both the manufacturing and non-manufacturing sectors. For large manufacturing companies, the upturn in the index that began in Q3 2020 was confirmed once again in Q2 2021 as it converges towards pre-pandemic levels and its long-term average. The Tankan index for non-manufacturing companies increased in Q2 2021, barely swinging into positive territory for the first time since early 2020, but it still falls short of the pre-pandemic level. There is still a long way to go before catching up the losses accumulated since the outbreak of the virus. The Purchasing Managers Index (PMI) shows a similar picture. Manufacturing PMI has improved in recent months and is now slightly above its long-term average. Manufacturing PMI declined to 51.5 in June from 53 the previous month. The services PMI is struggling to rise above the 50 threshold that separates economic expansion from contraction. A more clear-cut improvement in the services sector will depend on Japanese consumers' behaviour. The consumer confidence index has been trending upwards after bottoming out in April 2020. Although it has improved in recent months, it is still low compared to the long-term average. Retail sales, which have been very volatile since the beginning of the pandemic, have rebounded strongly since March 2021.

Louis Boisset

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.

