

ECONOMIC PULSE

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JAPAN : IMPROVEMENT IN MANUFACTURING, WORRIES PERSIST IN SERVICES

The slow rollout of the vaccination programme in Japan can be explained by the fact that the country suffered less than others during the pandemic, and thus adopted lighter restrictions than elsewhere. The slow progress in vaccination has not prevented an improvement in business leaders' confidence.

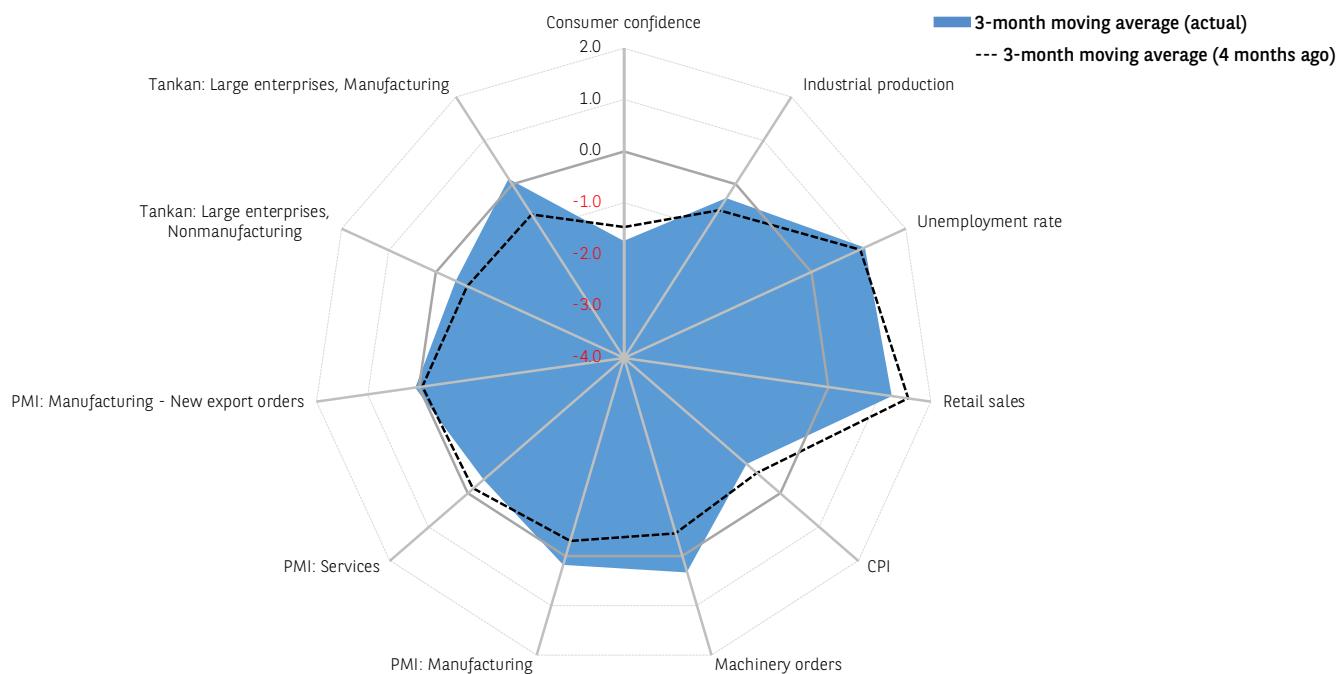
As in Europe, this observation is particularly true in the manufacturing sector, which has been hit less hard by health measures than the services sector. According to the Bank of Japan's Tankan survey, major Japanese companies are regaining confidence and the index for these firms returned to positive territory in Q1 2021 for the first time since Q3 2019. It reached +5 (the percentage gap between companies believing conditions are favourable and those believing the opposite), from -10 in Q4 2020 and -34 at the peak of the crisis last year. In recent months, Japanese industrial companies have benefited from renewed demand from China – one of the most important trading partner – as well as from the US. Japanese exporters are likely to continue to take advantage of the improvement in the Chinese economy and the massive stimulus package launched in the US. For non-manufacturing companies, there has also been a marked improvement since the end of 2020, although the Tankan index remains negative and below its long-term average.

Confidence is particularly weak in the "hotels and restaurants" sector, which continue to suffer from the absence of foreign tourism. The recent decision not to open up the country to international visitors during the Tokyo Olympics this summer is a fresh blow. Companies in the sectors affected will therefore need to rely on domestic demand.

On this point, the rebound in Japanese consumer confidence in February 2021 (to 33.8, from 29.6 in January) is good news but still needs to be confirmed. This indicator remains low relative to its long-term average. The composite Purchasing Managers Indices (PMI) for the manufacturing and services sectors send similar messages. The manufacturing PMI has improved over the past three months, rising above its long-term average and reaching 52.7 in March 2021. The services PMI, meanwhile, is struggling to recover and remains below the threshold of 50 that separates expansion from recession. It was virtually flat, at just 46.5, in March. One thing is certain: the Bank of Japan will do everything to avoid tightening financing conditions, against a background of persistently very weak inflation.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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.



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