

## Household consumption has still no traction

The preliminary GDP estimate for Q3 shows a contraction of -0.5% q/q, while the most recent economic surveys have confirmed the slowdown in activity. The composite PMI fell 1.6 points in October, but remained in expansionary territory, standing at 50.5. This deterioration is due to the decline in the services PMI, which was down by 2.2 points (51.6 compared to 53.8 in September). The manufacturing PMI stabilised in contraction zone at 48.7.

Although household confidence improved slightly in October (+0.5 points according to the Cabinet Office's index), consumer spending is still very weak. Consumer expenditures fell for the seventh consecutive month in September to -2.8% y/y, according to the monthly survey by the Japan Statistics Bureau. Private demand subtracted 0.4 pp from quarterly growth in Q3, due to a large destocking in particular. This weak domestic demand has also been caused by a limited pass-through of corporate profits to wages, despite the very low unemployment rate of 2.6% in September. Indeed, real wages were down 2.4% y/y in September. In response to the loss of household purchasing power, the Japanese government announced a new budget package worth more than USD 112 billion. It includes income tax cuts and the extension of energy subsidies until the spring.

Inflation has continued to recede since reaching a peak in June. It stood at 3.0% y/y in September, compared to 3.3% three months before. However, the Bank of Japan, which was anticipating a larger decrease, revised its forecasts upwards for 2023 (from 2.5% to 2.8%) and 2024 (from 1.9% to 2.8%). At the same time, BoJ governor Kazuo Ueda announced that the Yield Curve Control policy will be conducted with greater flexibility<sup>1</sup>. This decision resulted in a further depreciation of the yen against the US dollar, with the USD/JPY exchange rate exceeding the symbolic threshold of 150, before dipping back under this level again from mid-November.

Against this backdrop, we are expecting an upturn in activity in Q4 2023 (with growth of 0.4% q/q), supporting a high growth rate of 1.8% for 2023 as a whole, thanks also to the very favourable carry-over effect from the first half of 2023.

<sup>1</sup> The limit 1% for 10-year yields on government bonds is no longer seen as a fixed upper bound and is now seen as a reference, which was previously set at 0.5%.

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## Japan: economic indicators monthly changes\*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
PMI: Manufacturing	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-0.1	-0.4	-0.3
PMI: Services	0.1	0.2	0.5	0.8	1.0	1.1	1.2	0.8	0.8	0.9	0.8	0.3
PMI Manufacturing New export orders	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5	-0.6	-0.9	-0.5	-0.3	-0.4	-0.6
PMI Manufacturing -Employment	0.4	0.3	0.3	0.3	0.2	0.5	0.1	0.4	0.4	0.0	0.1	-0.3
Consumer confidence	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9	-0.7	-0.7	-0.5	-0.7	-0.9	-0.8
Industrial production	-0.2	-0.1	-0.4	-0.2	-0.1	0.0	0.3	0.0	-0.3	-0.5	-0.4	
Private machinery order excluding volatile orders	0.2	0.2	1.1	0.6	0.2	0.8	0.0	0.2	0.1	0.1	0.2	
Retail sales	0.6	1.0	1.4	2.2	2.0	1.4	1.6	1.6	2.0	2.0	1.7	
Exports	1.0	0.4	-0.1	0.0	-0.1	-0.2	-0.5	-0.3	-0.3	-0.5	-0.1	
CPI	3.1	3.2	3.4	2.5	2.4	2.6	2.3	2.4	2.3	2.2	2.0	
Core CPI	2.9	3.1	3.2	3.3	3.5	3.8	3.8	3.7	3.6	3.5	3.4	
Unemployment rate	1.4	1.3	1.5	1.2	1.0	1.2	1.2	1.3	1.1	1.1	1.2	
Employment	0.2	-0.2	0.4	-0.2	-0.1	-0.2	-0.1	0.1	-0.1	0.0	0.0	
Wage	1.9	1.6	1.0	0.9	0.7	0.9	1.6	1.4	1.3	1.3	0.9	

\* The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value. Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

## GDP growth

	Actual			Carry-over	Forecast		Annual forecasts (y/y)		
	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024
	-0.1	0.9	1.1	-0.5	0.2	0.4	0.9	1.8	1

Source: Refinitiv, BNP Paribas

