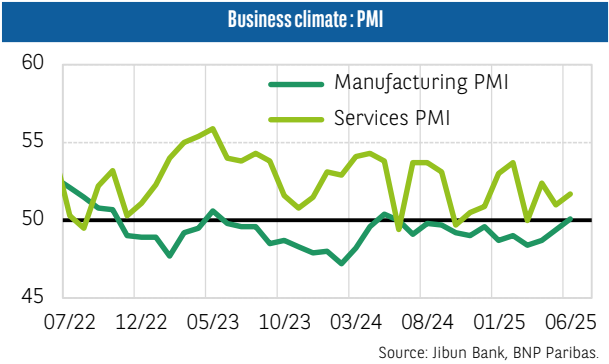
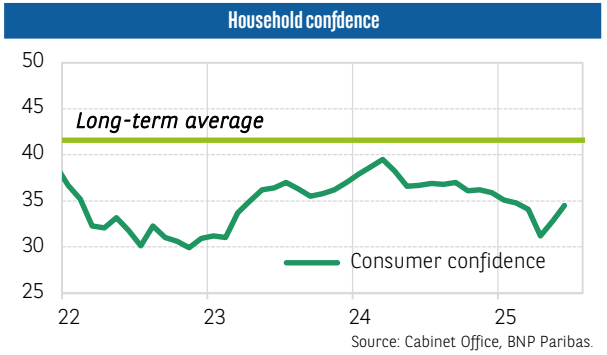


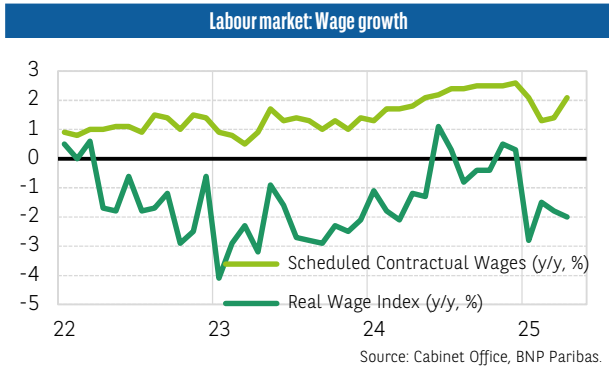
Japan: Improvement in the Business Climate



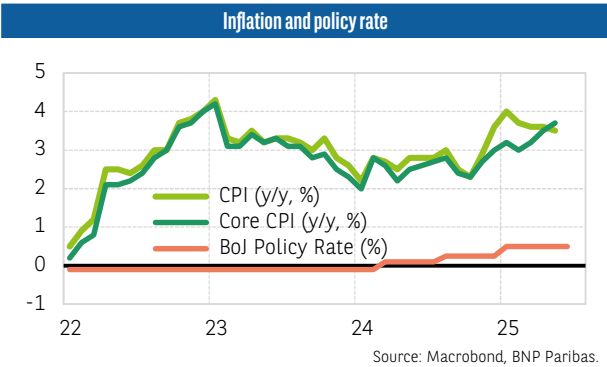
Favourable developments for the business climate. The manufacturing PMI stood at 50.1 in June (+0.7 pp, the first expansion posted since May 2024) thanks to growth in output (51.2, +2.5 pp). The services sector also improved (51.7, +0.7 pp). In Q2, the Tankan business conditions survey remained stable overall (15) for both the manufacturing (7) and non-manufacturing (21) sectors, despite the issue of US tariffs.



Improving household confidence. The Cabinet Office survey reported an improvement in confidence, which reached 34.5 (+1.7 points) in June, its highest level since February. The increase was widespread across all sub-components but was largest in the willingness to buy durable goods (+2.8 points), which remains low in absolute terms, nevertheless. Households remained positive about income growth and employment.



A peak in labour market participation. Contractual scheduled earnings accelerated markedly in April, to +2.1% y/y (+0.7 pp). At the same time, real wages remained in negative territory (-2.0% y/y, -0.2 pp). The unemployment rate remained stable (2.5%), while the participation rate reached a record high since 1997, at 64.0% (+0.3 pp).



The BoJ acts on bond market pressures. Faced with an upward outlook for inflation and a downward outlook for economic activity, the Bank of Japan (BoJ) decided at its June meeting to keep its key policy rate unchanged at +0.5%. At the same time, it announced a slowdown in quantitative tightening from Q2 2025 (the reduction in JGB purchases will be halved). In May, core inflation reached a two-year high of +3.7% y/y (+0.2 pp).

GDP growth q/q: actual, carry-over, forecasts										
Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
-0.3	1.0	0.2	0.6	0.8	-0.0	0.1	-0.1	0.2	0.7	0.4

Source: Cabinet Office, BNP Paribas

Sustained sluggish growth. The most recent estimate for Q1 signalled a very slight contraction (0% q/q, -0.2% annualised). This stagnation is expected to continue in Q2 against a backdrop of domestic demand hampered by rising inflation.

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