

Japan: Inflation expected to weigh on growth

A stronger business climate. In February, the services PMI improved for the fourth month in a row, hitting 53.7 (+0.7 pp - the highest since August 2024). The manufacturing PMI remained in contraction territory, but gained 0.3 pp, taking it to 49.0. Consequently, the composite PMI reached 52.0 (+0.9 pp).

Households worried about the impact of inflation. Household confidence fell for the third month in a row in February, hitting 35.0 (-1.4 pt in 3 months), the lowest level since March 2023. Households were worried about the impact of inflation on their standard of living and more cautious about buying durable goods.

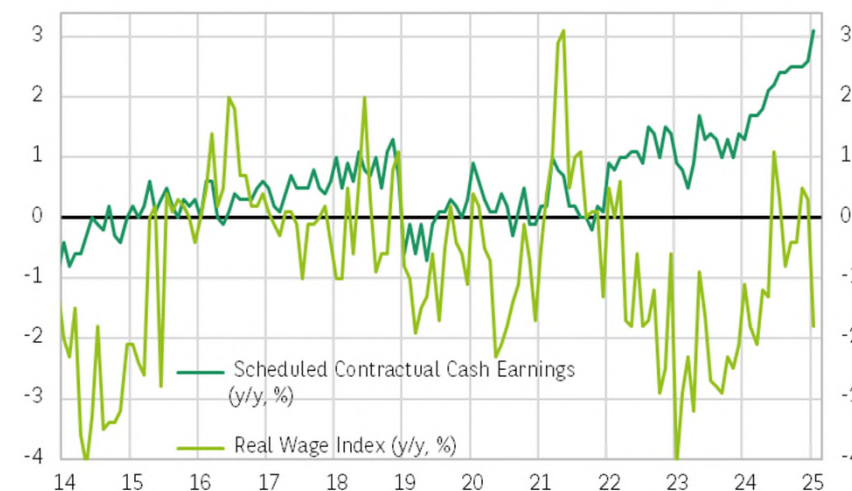
Fall in real wages. The upward trend in nominal wages continued in January, with contractual wages scheduled to rise by 3.2% y/y, a record since 1992. However, the real wages index fell sharply to -1.8% y/y in January (-2.1 pp), its lowest level since March 2024. At the same time, the unemployment rate was stable at 2.5%.

Inflation is accelerating. Inflation hit 4% y/y in January, compared with 2.3% y/y in October. Food inflation (+21.9% y/y in January, including +70.9% y/y for rice) and energy inflation (+10.8% y/y) have been exacerbating the budgetary constraints of Japanese households. Core inflation was also accelerating (excluding unprocessed food but including fuel, +3.2% y/y, +0.9 pp in 3 months), but "core core" inflation (+2.5% y/y, +0.2 pp in 3 months) was more stable. The environment is generally favourable to tightening, but the Bank of Japan is likely to keep its key rate stable (at 0.5%) in March.

Return to weak growth in Q1 after the upturn in Q4. GDP growth accelerated significantly in Q4 2024, to +0.7% q/q (+0.3 pp), a result linked in particular to a fall in imports. In addition, private consumption lost momentum (+0.1% q/q, -0.6 pp). The resurgence of inflation is expected to affect growth in Q1 (+0.1% q/q according to our forecasts).

Anis Bensaidani, article completed on 14/03/2025

Japan: Real Wages Aren't Keeping Up



Source: Japanese Ministry of Labour, BNP Paribas

GDP GROWTH (q/q) : observed, carry-over, forecast

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
-0.5	0.8	0.4	0.6	0.8	0.0	0.1	0.1	0.1	1.0	0.2

Source: Refinitiv, BNP Paribas