

Inflation sets in and weighs on domestic demand

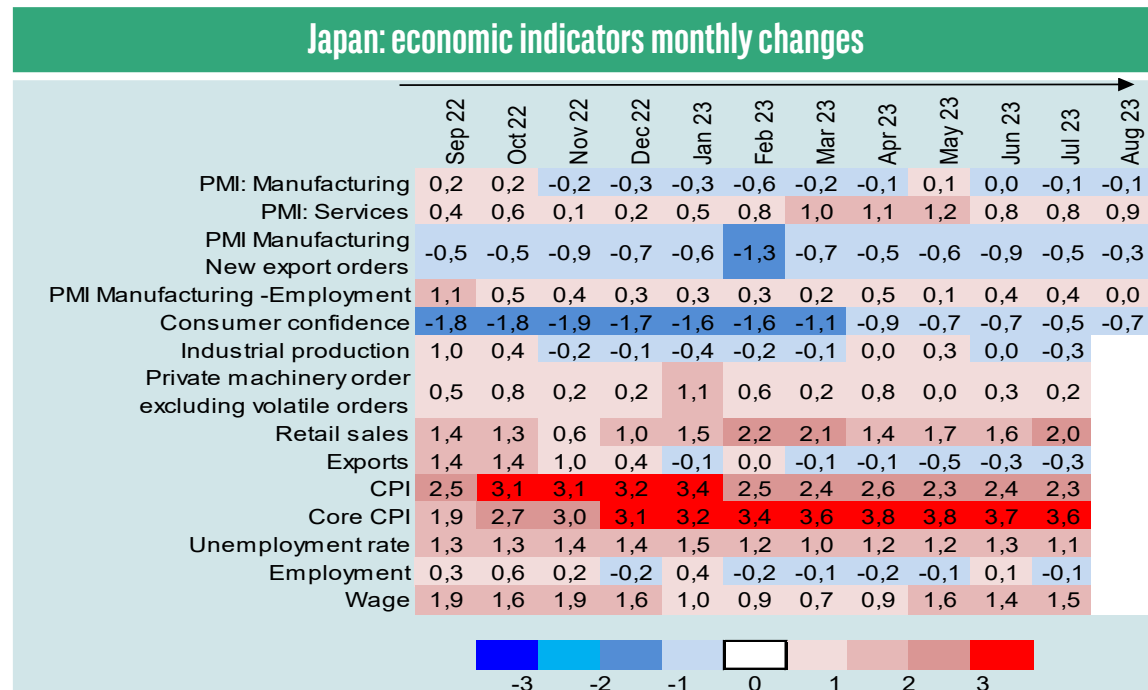
Japanese economic surveys remain positive overall, despite contrasting results for August: the composite PMI was up 0.4 points to 52.6, while the Economy Watchers Survey fell by 0.8 points, returning to its June level of 53.6. However, the trend between manufacturing and non-manufacturing sectors has been marked for several months by significant disparity between indicators: the manufacturing PMI remained in contraction territory in August (49.6 for the second consecutive month), a negative signal confirming the drop in industrial production of -2.3% y/y in July. Conversely, the services PMI rose in August to 54.3, compared to 53.8 in July.

Household confidence deteriorated in August after several months of improvement. This follows a contraction in private consumption, which cut 0.4 percentage points from real GDP in Q2. Wage increases have picked up slightly in recent months, but have still not caught up with inflation, pushing down real wages.

Although inflation slowed – as a result of the negative contribution of energy prices – it remained high for the country (3.3% y/y in July, *see the heatmap*). Core inflation (excluding fresh food and energy) is even higher, reaching 4.3% y/y in July and remaining above 4% since April. Rising food prices (including fresh products) contributed disproportionately to Japanese inflation (2.3 percentage points). In view of these figures and the significant decline in the yen since July, maintaining the expansionary monetary policy is looking increasingly difficult for the Bank of Japan. Nevertheless, we are not expecting to see the end of the yield curve control policy until next spring.

Japanese growth is expected to reach a relatively high rate in 2023 (+2.0%), thanks to a very favourable carry-over effect in Q2, which will disguise a much less dynamic second half of the year. In fact, the Japanese economy is expected to suffer from the negative effects of persistent labour shortages (Tankan employment survey index at -20 in manufacturing and -40 in non-manufacturing in Q2) and the Chinese economic slowdown. Our growth forecast for Q3 is only +0.1% q/q, a deceleration which is also the consequence of a better-than-expected Q2 (+1.2% q/q).

Guillaume Derrien with Nassim Khelifi, intern (completed on 20 September 2023)



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)			
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
-0,3	0,1	0,8	1,2	1,9	0,1	0,3	1,0	2,0	1

Source: Refinitiv, BNP Paribas



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