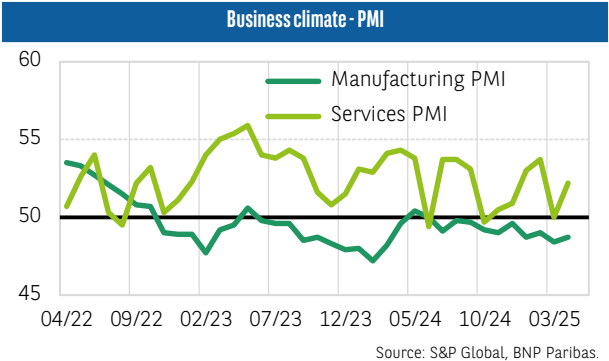
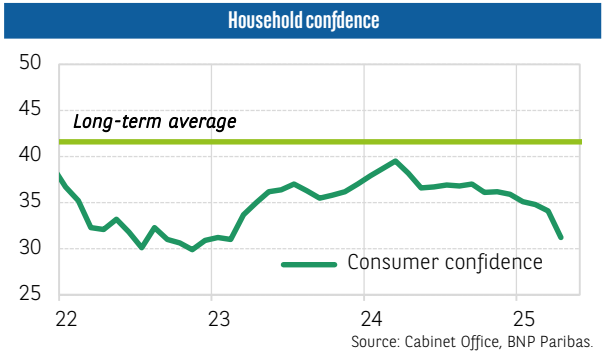


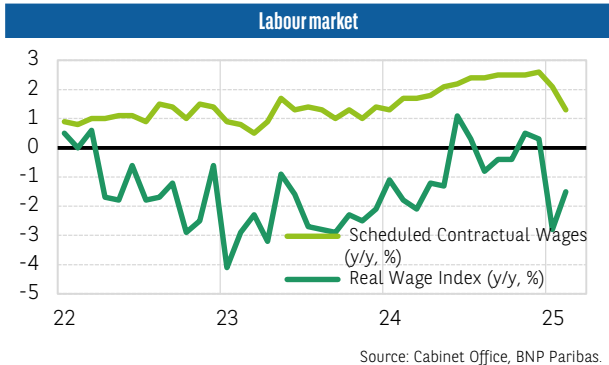
Japan: Rate Hikes Halted



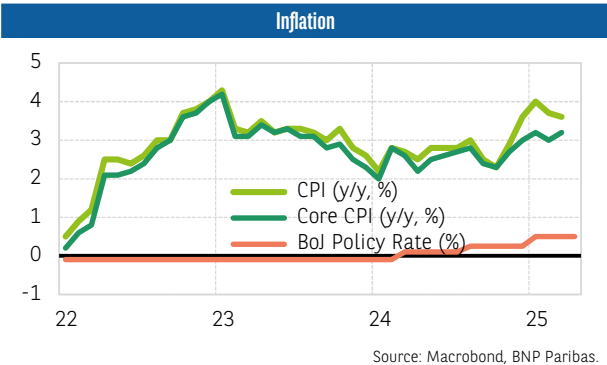
Services Driving Business Climate Up. Growth in activity resumed in April according to the Composite PMI (51.1, +2.2pp), supported by the Services PMI (52.2, +2.2pp). By contrast, the Manufacturing PMI remained in contraction territory (48.5, +0.1pp), penalized by the largest deterioration in new orders since February 2024.



Sustained Weakness in Consumer Confidence. Consumer confidence continued to decline in April (31.2, the lowest since February 2023). Sentiment about living standards was the main factor behind the decline, followed by concerns about employment.



Weaker Progress on Nominal Wages. Nominal wage growth (scheduled contractual) has slowed to +1.3% y/y in February 2025 - a one-year low. As a result, and due to renewed inflation, the real wage index (-1.5% y/y) remained negative. At the same time, the unemployment rate has fallen to 2.4%.



No More Rate Hikes Despite Inflation. Core inflation picked up in March (+3.2% y/y, +0.2pp), driven by rice prices (+80.9% y/y). Total inflation, at +3.6% y/y (-0.1pp), remained well above target. In April, the Bank of Japan decided to maintain the policy rate at +0.5%. The downside risks to activity arising from tariffs argue in favor of interrupting the already cautious rate hike cycle.

GDP growth q/q : actual, carry-over, forecasts										
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	0.0	-0.2	0.1	0.7	0.2

Source: Cabinet Office, BNP Paribas

Stalled Growth. According to our forecasts, Japanese growth was flat in Q1 2025, (after +0.6% q/q in Q4 2024). The outlook for growth in 2025 is downgraded. External factors, linked to disruptions in international trade, are adding to domestic problems, including inflation which is weighing on demand.

Anis Bensaidani (completed on May 2, 2025)