JAPAN

Salaries finally increase

The Japanese economy continued its post-pandemic recovery in May and June, although this remains fragile. According to the final estimate for May, industrial production contracted by 2.2% m/m but increased by 4.2% year-on-year. At the same time, activity in the tertiary sector grew by 1.2% m/m and 1.8% y/y. The latest PMI survey also indicates that economic activity expanded in June (composite index in expansion at 52). Nevertheless, a distinction must be made between the manufacturing sector index, which fell back into the contraction zone (49.8), and the services index, which continued to grow (54), although at a slower pace than in May.

Consumer confidence improved again in June thanks to better job prospects and wage growth. Nevertheless, household consumer spending fell by 1.1% m/m in May compared to the previous month, bringing the year-on-year decline to 4%. The deterioration is particularly marked in transport and communication services (-11.2% y/y) and in household goods (-9.2% y/y).

Inflation continued to rise in May and now seems to drive wages in its wake. Core inflation, excluding fresh food and energy, rose 4.3% y/y. Some components, such as household capital goods (+9.6% y/y) and clothing (+3.9% y/y) reached levels not seen since the mid-70s. Service inflation (+1.7% y/y) is approaching the target of 2%. However, the Bank of Japan (BoJ) will expect inflation to remain around the 2% target for a long time before restricting its monetary policy, in particular by raising the intervention ceiling on 10-year sovereign rates.

Wage and productivity growth will play an important role in the BoJ's decision, as Kazuo Ueda recalled at the Sintra Forum at the end of June. Wages increased by 2.5% y/y in May (including bonuses) according to the Ministry of Labour's preliminary estimate. However, productivity is not yet entirely positive, at +0.32% y/y in services, and -0.5% y/y in the manufacturing sector. The central bank will therefore closely monitor changes in productivity in order to calibrate its future decisions.

Economic growth will remain relatively sustained in 2023 (+1.5% y/y) and 2024 (+1.0% y/y). The Japanese economy will be impacted by inflation and the global economic slowdown, but it should benefit from catch-up effects linked to its late post-pandemic reopening and the weakness of the yen, which will allow Japanese exporting companies to boost their profits repatriated from abroad.

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Japan: economic indicators monthly changes

	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23
PMI: Manufacturing	0.5	0.4	0.2	0.2	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1	0.1	0.0
PMI: Services	0.1	-0.1	0.4	0.6	0.1	0.2	0.5	0.8	1.0	1.1	1.2	0.8
PMI Manufacturing New export orders	-0.2	-0.5	-0.5	-0.5	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5	-0.6	-0.9
PMI Manufacturing -Employment	0.6	0.3	1.1	0.5	0.4	0.3	0.3	0.3	0.2	0.5	0.1	0.7
Consumer confidence	-1.9	-1.5	-1.8	-1.8	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9	-0.7	-0.7
Industrial production	-0.1	0.4	1.0	0.4	-0.2	-0.1	-0.4	-0.2	-0.1	0.0	0.3	
Private machinery order excluding volatile orders	1.3	0.8	0.5	0.8	0.2	0.2	1.1	0.6	0.2	0.8	0.0	
Retail sales	0.6	1.2	1.4	1.3	0.6	1.1	1.5	2.2	2.1	1.4	1.6	
Exports	0.9	1.2	1.4	1.4	1.0	0.4	-0.1	0.0	-0.1	-0.1	-0.5	
CPI	2.3	2.6	2.6	3.1	3.2	3.3	3.4	2.5	2.4	2.6	2.3	
Core CPI	1.3	1.7	2.0	2.7	3.0	3.1	3.3	3.4	3.6	3.8	3.8	
Unemployment rate	1.3	1.4	1.3	1.3	1.4	1.4	1.5	1.2	1.0	1.2	1.2	
Employment	-0.5	-0.2	0.3	0.6	0.2	-0.2	0.4	-0.2	-0.1	-0.2	-0.1	
Wage	1.4	1.7	1.9	1.6	1.9	1.6	1.0	0.9	0.7	0.9	1.7	

-3	-2	-1	0	1	2	3

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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.4	-0.4	0.1	0.7	0.9	0.5	0.3	1.0	1.5	1

Source: Refinitiv, BNP Paribas