

Sharp rise in inflation expectations

Surveys of Japanese services companies (Services PMI, Economy Watchers Survey) offer little visibility, having fluctuated up and down for several months. Manufacturing sector indices show a clearer trend, with gradual deterioration in activity despite the significant reduction in tensions in production chains closely linked to Japanese manufacturers. The manufacturing PMI remained below the expansion threshold in January at 48.9, having been in near constant decline for the last 10 months.

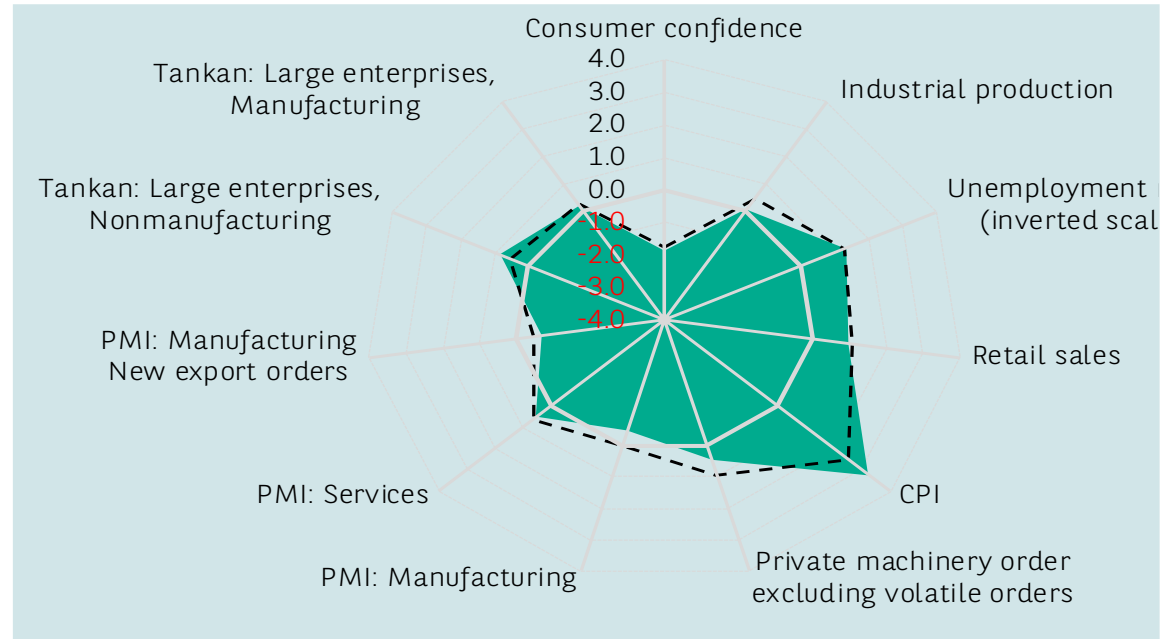
Consumer confidence and behaviours are adjusting to increasingly unfavourable inflation prospects. According to the Cabinet Office survey, in January, more than six in 10 households expected inflation of 5% or more within the next year. This compares with just three in 10 before the start of the war in Ukraine and fewer than two in 10 before the health crisis. Intentions to buy consumer durables, which reached a low in November, have only risen very slightly since then. This perfectly reflects the changes being made in consumer spending as a result of reduced buying power.

Inflation shows no signs of subsiding over the winter. The consumer price index rose more rapidly in December, reaching the 4% y/y mark, while the prices tracked by the Bank of Japan (CPI excluding perishable foods) increased further, at 4.1% y/y. Soaring food prices, up 6.9% y/y, which account for one quarter of household spend basket, are by far the biggest contributor to inflation (1.8 percentage points in December). While the decline in the yen tailed off, higher energy costs – with are still rising sharply in January, as producer prices in the sector increased by 49.7% y/y – continued to exert considerable price pressure.

The unemployment rate remained stable at a very low level of 2.5% in December. However, the job market has not recovered fully from the Covid-19 shock, with new job openings and the employment level still lower than at the end of 2019. Against this backdrop, growth should remain slightly positive over the next few quarters.

Guillaume Derrien

Economic indicators quarterly changes



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the green area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

GDP growth

Actual		Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)			
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
1.1	-0.3	0.2	0.4	0.7	0.4	0.3	1.1	1.1	1.1	0.5

Source: Refinitiv, BNP Paribas



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