

inflation rises, growth resists

Real GDP growth rose in the last two quarters in Japan, but is still slightly below 2019 levels. However, a slowdown in activity is expected from Q2 and until the end of 2023.

After a slower progression, the rise in inflation in Japan is now on par with the evolution in other developed economies. Headline inflation, although falling in recent months, rebounded in April, from 3.3% year-on-year to 3.5%. The core measure (excluding energy and fresh food) exceeded 4% (4.2%) for the first time in more than 40 years. The core indicator for Tokyo, which is one month ahead of the national index, also rose at an unprecedented rate in May (4.0%). The crossing of the two curves (headline inflation falling below core inflation), since February, should accentuate over the coming months. Furthermore, the new phase of depreciation of the yen since the beginning of the year will increase inflationary pressures at the margins, particularly on durable goods.

However, unlike other major developed economies, Japan is not facing an interest rate shock, with the Bank of Japan having maintained an ultra-accommodative monetary policy so far. The average interest rate for new loans reached 0.69% in April according to the Bank of Japan, and bank loans are still growing at a sustained pace (+3.8% year-on-year in May¹).

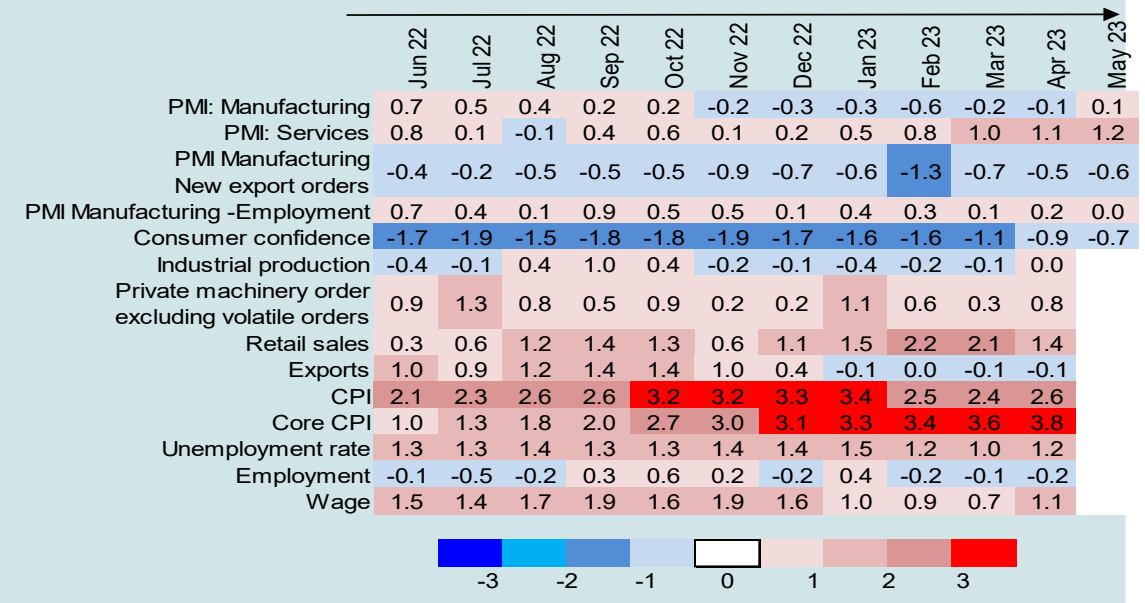
Cyclical indicators thus remain positive. The composite PMI index rose 1.4 points to 54.3 in May, its highest level since October 2013. The dynamism of services activity is strengthening: the PMI index rose 0.5 points to 55.9, a record since 2007 (start of current statistics). The manufacturing index points to less dynamism but moved back into expansionary territory in May at 50.6. The increase in retail sales – which, on a three-month average basis reached its highest level since 1997 in April 2023 – also indicates that household goods consumption started Q2 on a solid footing.

Household confidence has been on the rise since the beginning of the year, supported by a recovery of all survey sub-components (“overall livelihoods”, “employment”, “income growth”, “willingness to buy durable goods”).

Guillaume Derrien and Louis Morillon (intern). Article completed on 20 June 2023.

¹ Excluding loans from Shinkin banks (regional cooperative banks).

Japan: economic indicators monthly changes



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

