JAPAN

Labour shortages are weighing on activity

Japanese economic surveys are sending out mixed signals. On the positive side, the business condition index from the Tankan survey improved from 8 in Q2 to 10 in Q3, driven by services: business confidence in the sector was the highest since 1991. The PMI for services is also proving resilient. Although down 0.5 points in September, it remains in expansionary territory at 53.8. Conversely, the manufacturing PMI fell further into the contraction zone for the fourth consecutive month (-1 point to 48.5). As a result, the composite PMI dipped to 52.1 in September. The Economy Watchers Survey dropped from 3.7 points to 49.9 points in September.

Japanese inflation fell slightly to 3.2% y/y in August (compared to 3.3% in the previous month). Food products remain the main contributor to price rises (+8.8% y/y for a contribution of 2.3 pp to headline inflation). Conversely, energy deflation is intensifying (-9.8% y/y), subtracting, as a result, nearly 1 pp from headline inflation. Core inflation, excluding fresh food and energy, continues to rise, up from 4.6% y/y to 4.7% y/y. However, pressure on production prices is easing. The PPI index slowed by 1.3 pp to 2% y/y in September, suggesting a stabilisation or even a drop in consumer price inflation in the coming months. This signal is in line with the fall in inflation in the Tokyo region to under 3% in September. However, the yen's historic depreciation continues, and the exchange rate with the US dollar is now close to USD/JPY 150, which is likely to fuel more imported inflation.

The historic labour shortage represents a further challenge. The employment diffusion index from the Tankan survey dropped to -33 in Q3 and could reach -37 in Q4 according to the latest forecasts. If this were to happen, this would be the lowest level seen since 1991. At 2.7% in September, the unemployment rate remained stable and 0.5 pp above the 2.2% low posted in December 2019. Despite the tight labour market, nominal wages are still not rising, and real wages remain in negative territory, at -2.5% y/y in August. This is impacting household confidence, as well as household consumption, which fell year-on-year in August for the 6th consecutive month (-3.4% y/y), according to the monthly survey by the Ministry of Labour.

Against this backdrop, we anticipate a slowdown in activity in Q3 (growth of 0.1% q/q after reaching 1.0% on average per quarter in H1), before a slight recovery in Q4 (0.3% q/q). However, favourable carry-over effect in 2022 should keep growth at a relatively high level of 2.0% y/y for 2023 as a whole.

Guillaume Derrien (completed on 16 October 2023)

Japan: economic indicators monthly changes

	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23
PMI: Manufacturing	0.2	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-0.1	-0.4
PMI: Services	0.6	0.1	0.2	0.5	0.8	1.0	1.1	1.2	0.8	0.8	0.9	0.8
PMI Manufacturing New export orders	-0.5	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5	-0.6	-0.9	-0.5	-0.3	-0.4
PMI Manufacturing -Employment	0.5	0.4	0.3	0.3	0.3	0.2	0.5	0.1	0.4	0.4	0.0	0.1
Consumer confidence	-1.8	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9	-0.7	-0.7	-0.5	-0.7	-0.9
Industrial production	0.4	-0.2	-0.1	-0.4	-0.2	-0.1	0.0	0.3	0.0	-0.3	-0.5	
Private machinery order excluding volatile orders	0.8	0.2	0.2	1.1	0.6	0.2	0.8	0.0	0.3	0.2	0.1	
Retail sales	1.3	0.6	1.0	1.4	2.2	2.0	1.4	1.6	1.6	2.0	2.0	
Exports	1.4	1.0	0.4	-0.1	0.0	-0.1	-0.2	-0.5	-0.3	-0.3	-0.5	
CPI	3.1	3.1	3.2	3.4	2.5	2.4	2.6	2.3	2.4	2.3	2.2	
Core CPI	2.7	3.0	3.1	3.2	3.4	3.5	3.8	3.8	3.7	3.6	3.5	
Unemployment rate	1.3	1.4	1.4	1.5	1.2	1.0	1.2	1.2	1.3	1.1	1.1	
Employment	0.6	0.2	-0.2	0.4	-0.2	-0.1	-0.2	-0.1	0.1	-0.1	0.0	
Wage	1.6	1.8	1.6	1.0	0.9	0.7	0.9	1.6	1.4	1.3	1.5	

-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)		
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	0.2	0.1	0.3	1.0	2.0	1

Source: Refinitiv, BNP Paribas

BNP PARIBAS ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head - United States	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, Southern Europe, Japan, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com