

## A rebound to be put into perspective

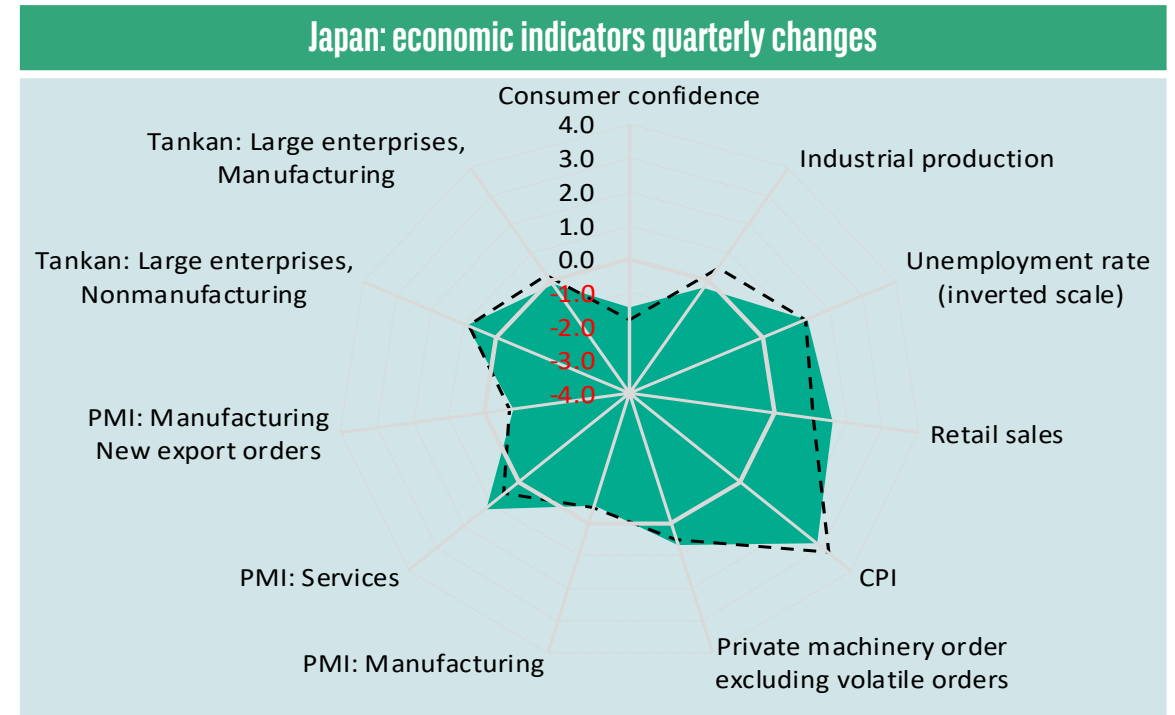
A rebound in Japanese activity is expected in the first quarter of 2023, linked to the improvement in business and household confidence surveys. The composite PMI returned above the expansion threshold in January and continued its moderate improvement, reaching 52.9 in March. Household confidence – at its highest for a year – also recovered slightly in March, but it is still very low. The upturn in GDP growth, which we expect to reach 0.5% q/q in Q1 2023, follows two disappointing quarters. Its extent should therefore be put into perspective.

As expected, industrial production rebounded in February (+4.5% m/m), after a sharp contraction in January (-5.3% m/m) linked to the Chinese New Year. Despite this, the three-month moving average slipped again, and has now fallen below its long-term level. New industrial orders were also at their lowest level since May 2021 in February. The removal of health restrictions in China (at the very end of 2022) has offered offers opportunities for Japanese companies in 2023, but the effects have so far been unnoticeable. The latest Tankan survey (March 2023) suggests that activity levels will remain sluggish in the coming months: the general diffusion index is up just one point, from 1 to 2.

The Japanese economy is obviously not spared from the energy shock and its consequences on companies' financial situations are becoming increasingly palpable. The number of bankruptcies jumped by 40% in March to the highest level since June 2015. The number of bankruptcies is still a long way off those recorded during the 2008 crisis and especially during the "lost decade" of the 1990s. Nevertheless, this is the beginning of a reversal and its developments over the coming months will need to be closely scrutinised.

Headline inflation fell sharply in February (-1.1 points to 3.3% y/y) thanks to the beginning of government energy subsidies. This is also pushing down the inflation measure followed by the Bank of Japan (CPI excluding perishable foods). The year-on-year figure for the latter fell from 4.2% y/y in January to 3.1% y/y in February. However, the Tokyo's CPI indicates that a further rise in core inflation is to be expected in March.

Guillaume Derrien (article completed on 18/04/2023)



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 -4 and +4. 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.

### Japan: GDP growth

Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.2	-0.3	0.0	0.2	0.5	0.4	0.3	1.0	1.2	0.8

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 - International 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) lucas.ple@bnpparibas.com

## CONTACT MEDIA

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

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