

A rocky start to the year

Japan's economic growth stalled significantly in January. Chinese New Year on 22 January likely contributed to the sharp drop in industrial production, which was down 5.3% m/m. However, the Ministry of Economy, Trade and Industry forecasts that it will automatically recover in February, rising 8% on January's figure. However, the economy's underlying dynamics are still fragile, with the manufacturing PMI falling further in February to 47.7, its lowest level since September 2020. We expect GDP to grow slightly during Q1, at a rate of 0.5% q/q.

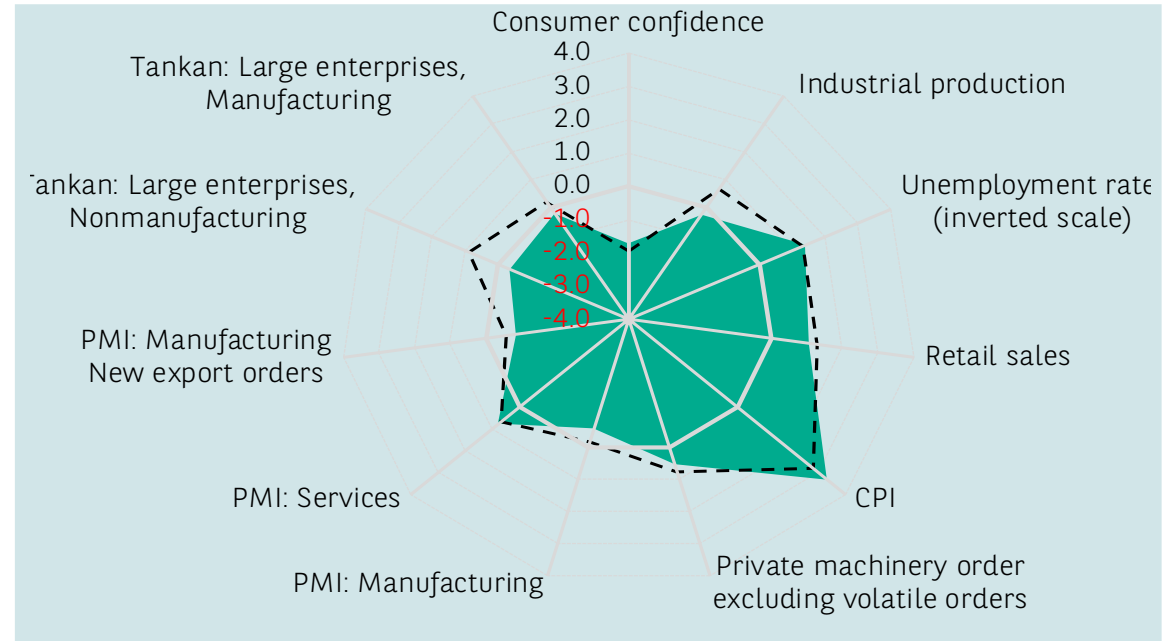
The Bank of Japan and the financial markets are keeping a close eye on inflation dynamics, just weeks before the first monetary policy meeting led by the Bank of Japan's new governor Kazuo Ueda on 27 and 28 April. The national measure of inflation is expected to fall back in February, thanks to the energy subsidies introduced by the government, which were first paid out this month. The Tokyo CPI, a key leading indicator of inflation, fell by one point in February (+3.4% y/y) due to a month-on-month drop in energy prices of almost 14%. However, other sources of inflation have continued to rise, particularly the Tokyo CPI for food, which was up 7.4% y/y in February.

Household inflation expectations have sharply worsened in recent months, alongside the rise in inflation. The Cabinet Office survey found that two-thirds of the households surveyed now expect inflation to be above 5% in a year's time, by far the highest number of respondents since this measurement was first included in the survey in 2004.

Japan will once again display one of the most sluggish post-pandemic recoveries out of all the G8 economies in 2023. If our growth forecast of 1.2% for 2023 proves correct, its GDP would only just return to its 2019 level.

Guillaume Derrien (article completed on 21 March 2023)

Japan: 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 -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	0.1	0.5	0.4	0.3	1	1.2	0.8

Source: Refinitiv, BNP Paribas



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