

The upturn in growth is fuelling inflation

Japanese growth picked up again during Q1 2023, posting an increase of +0.4% q/q. However, this upturn needs to be put into perspective, as it follows two disappointing quarters (-0.2% q/q in Q3 2022 and 0.0% q/q in Q4 2022). As a result, Japanese GDP is still at the same level as in Q2 2022. Manufacturing output contracted by 1.8% in the first quarter of 2023 compared with the previous quarter, while the business activity index in the tertiary sector slipped 1% over the same period. This gap between industry and services is expected to persist judging by the PMI indices: in May, the manufacturing indicator rose just above the expansion threshold, standing at 50.8 compared to 49.5 in April, while the services indicator hit a new high at 56.3, up from 55.4 in the previous month.

Household consumption grew by 0.6% q/q during Q1 2023, buoyed by spending on services (contributing 0.5 points to GDP) and on durable goods (contribution of 0.5 points). By contrast, real household income is still falling (-1.3% q/q), pulled down by rising inflation.

The Bank of Japan's (BoJ) main inflation measure, the CPI excluding fresh food products, increased again in April (+3.4% year-on-year). The narrower underlying measure, the CPI excluding food products and energy, has risen at a pace not seen since the 1980s (+4.1% year-on-year in April). Inflation continues to spread and affect all goods and services, with almost 50% of them registering a price increase of over 2% year-on-year in April. In addition, inflation expectations rose in the first quarter: according to the Tankan survey, almost 30% of Japanese companies are now expecting inflation of more than 2% over the five-year horizon, compared to 25% one year ago and 15% three years ago. These figures, as well as the trends in alternative inflation measures tracked by the BoJ, suggest that price increases may be more persistent than expected.

Despite these challenges, Japan is expected to record higher growth than most G7 economies this year. We currently estimate that real GDP will grow at 1.1% in 2023. As a matter of fact, we expect growth in activity to accelerate during the second quarter (+0.5% q/q), before the effects of inflation and the global economic slowdown start to take its toll more significantly (+0.3% q/q in Q3 and +0.1% q/q in Q4).

Guillaume Derrien and Louis Morillon (intern). Article completed on 24 May 2023.

Japan: economic indicators monthly changes

	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23
PMI: Manufacturing	0.8	0.7	0.5	0.4	0.2	0.2	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1
PMI: Services	0.5	0.8	0.1	-0.1	0.4	0.6	0.1	0.2	0.5	0.8	1.0	1.1
PMI Manufacturing New export orders	-0.7	-0.4	-0.2	-0.5	-0.5	-0.5	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5
PMI Manufacturing -Employment	0.7	0.7	0.4	0.1	0.9	0.5	0.5	0.1	0.4	0.3	0.1	0.2
Consumer confidence	-1.4	-1.7	-1.9	-1.5	-1.8	-1.8	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9
Industrial production	-0.5	-0.3	-0.1	0.5	1.1	0.4	-0.1	-0.1	-0.5	-0.2	-0.1	
Private machinery order excluding volatile orders	0.9	0.9	1.3	0.8	0.5	0.9	0.2	0.2	1.1	0.6	0.3	
Retail sales	1.0	0.3	0.6	1.2	1.4	1.3	0.6	1.1	1.5	2.2	2.1	
Exports	1.0	1.0	0.9	1.2	1.5	1.4	1.0	0.4	-0.1	0.0	-0.1	
CPI	2.2	2.1	2.3	2.6	2.6	3.2	3.2	3.3	3.4	2.5	2.4	2.6
Core CPI	0.9	1.0	1.3	1.8	2.0	2.7	3.0	3.1	3.3	3.4	3.6	3.8
Unemployment rate	1.3	1.3	1.3	1.4	1.3	1.3	1.4	1.4	1.5	1.2	1.0	
Employment	0.0	0.0	-0.5	-0.2	0.4	0.6	0.2	-0.2	0.4	-0.2	-0.1	
Wage	1.6	1.5	1.4	1.7	1.9	1.6	1.9	1.6	1.0	0.9	0.7	

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
1.2	-0.3	-0.0	0.4	0.5	0.5	0.3	1.0	1.1	0.8

Source: Refinitiv, BNP Paribas



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