

ECONOMIC PULSE

JAPAN: RISING ENERGY PRICES ARE CLOUDING OUTLOOK

In the past few months, activity was hampered by the state of emergency in large parts of the country, which affected in particular the services sector. In addition, the manufacturing sector was confronted with supply disruptions, specifically in the car industry. Finally, the substantial base effects related to the pandemic make it difficult to interpret the year-on-year data. The chart suggests a deterioration in Q3, as the blue area (Q3 data) shrinks compared to the area delimited by the hyphenated line (Q2 data). However, the reality is a bit more nuanced.

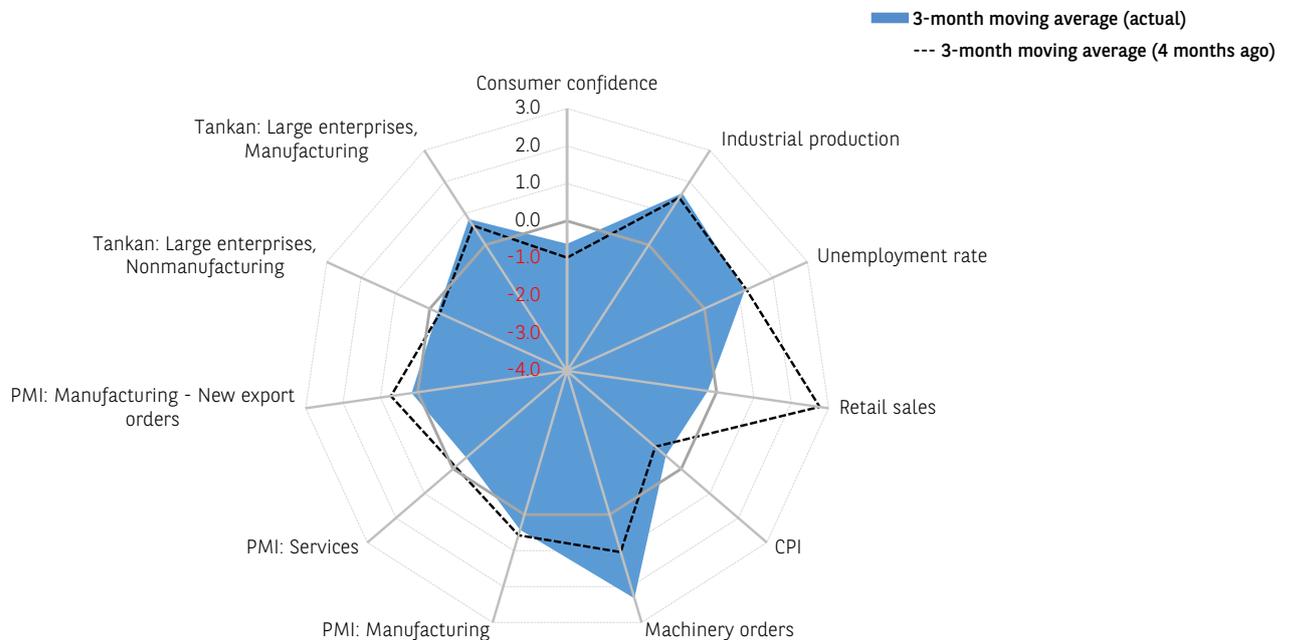
On average, the PMI data for manufacturing came in weaker in Q3. However, a problem with this survey is the sample size: only 400 manufacturers are interviewed each month. By contrast, the ten times larger Tankan survey reported an improvement in business conditions for large and medium-sized enterprises. Only small enterprises reported that conditions had become less favourable. In the non-manufacturing sector, business conditions hardly improved in Q3 according to the Tankan survey and even contracted further according to the PMI survey. This is related to the state of emergency, which was only completely lifted in early October.

Our chart shows a sharp deterioration in retail sales, which is largely due to important base effects and the lockdown restrictions. Nevertheless, consumer confidence is on a rising trend, as employment conditions are improving. According to the Tankan survey, a rising number of enterprises in all industries report staff shortages. The good employment outlook and the end of the state of emergency should boost retail sales in the coming months.

However, headwinds have appeared in the form of rising energy prices. In September, consumer prices in the Ku-area of Tokyo were 0.5% higher from a year earlier, largely driven by higher prices for fuel, light and water (+2.2% y/y and 1.4% m/m). As the country imports almost all of its energy needs, electricity prices could rise much more in the coming weeks. In mid-October, spot prices for peak hour delivery on the Japan Electric Power Exchange hit already a nine-month high. The surge in energy prices is likely to weigh on consumer spending and industrial activity.

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JAPAN: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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 +3. In the radar chart, the blue 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.