

ECONOMIC PULSE

JAPAN: UNDER PRESSURE BUT IMPROVED HOUSEHOLD CONFIDENCE PROVIDES SOME HOPE

The Japanese economy is in a particularly difficult position. Japanese GDP contracted for the third consecutive quarter in Q2 2020: falls of 1.8% in Q4 2019 (quarter-on-quarter) and 0.6% in Q1 2020 were followed by a record-breaking contraction of 7.9% in Q2 2020. As a result, real GDP fell back, temporarily at least, to its mid-2011 level

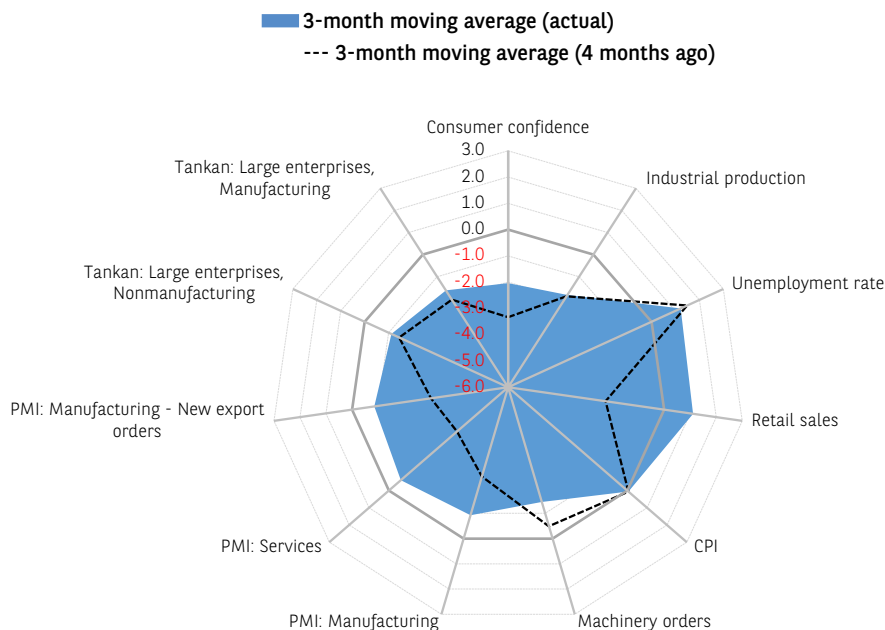
The bulk of the contraction in Q2 2020 was due to private consumption, which recorded a drop not seen since the 1980s (-8.2% q/q). Private consumption has since remained weak. Retail sales, which make up a major share of total household consumption, picked up strongly in August 2020 versus July but were still 1.9% below the number of August last year. A hopeful sign is the improvement in consumer confidence in September. Consumer confidence will remain a key factor in the economic recovery and will largely depend on trends in the labour market. The unemployment rate – structurally low in Japan – has been on a rising trend since the end of 2019 and reached 2.9% of the active population in July 2020, up from 2.6% in April and 2.2% in December

2019. Although this is still a low level, and below its long-term average, a prolonged deterioration of activity in Japan could worsen the conditions in the labour market, which would hit further consumer confidence.

As for companies, the signals from the Purchasing Managers Index (PMI) are also mixed. After the mechanical rally following the end of the lockdown, both the manufacturing and services PMI figures have stagnated. The manufacturing PMI was 47.3 in September (from a low of 38.4 in May). It has been below the 50-point threshold - separating expansion and contraction – since May 2019. Meanwhile, the services PMI was 45.6 in September, following a low of 21.5 in April. The index has been virtually unchanged since July. The economic improvement in Japan is thus very limited, and the loss of economic activity due to the Covid-19 could be long lasting.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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 -6 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.

