

A difficult Q3, but a more positive outlook

The revision of Japanese growth figures was unfavourable, resulting in a greater decline in GDP in Q3 than initially estimated (-0.7% q/q versus -0.5% q/q). The downward adjustment is largely due to greater destocking: the negative contribution was increased from -0.3 percentage points (pp) to -0.5 pp. Other significant revisions came from residential investment (from -0.1% q/q to -0.5% q/q), private consumption (0.0% q/q to -0.2% q/q) and public investment (-0.5% q/q to -0.8% q/q). Low household consumption can be explained by the contraction of real wages for the 19th consecutive month in year-on-year terms (-2.3% y/y in October). Overall, private demand reduced quarterly growth by 0.6 pp in Q3.

However, despite major recruitment difficulties, the outlook for companies remains positive. A rebound in activity is expected from Q4 onwards (we forecast growth of +0.4% q/q). The Tankan business condition index rose by 3 points in Q4 to +13, a level last seen in 2018. This result is better than expected: last quarter's forecasts had predicted a two-point drop to 8. Another positive development is that sales and profit forecasts for the 2023 financial year (April 2023-March 2024) have been significantly increased. The picture is particularly positive for companies in the non-manufacturing sector, with a business condition index of 18, a figure not seen since 1991, while the manufacturing sector is showing a more mixed picture with an index of 5, but with a stronger increase (+5 points compared to Q3). This difference in momentum between the two sectors is also visible in the December PMI surveys: the manufacturing index fell by 0.6 points to 47.7, while the services index rose by 1.2 points to 52.0. The composite index gained 0.8 points to 50.4.

Leading inflation indicators are falling as the year comes to a close. Consumer price inflation in the Tokyo region slowed from 3.2% y/y in October to 2.6% in November, because of stronger disinflation on food products (from 8.7% y/y in October to 6.9% in November). The annual variation in producer prices fell to 0.3% y/y in November compared to 1% in October. These figures suggest a drop in the national measurement of inflation (3.3% y/y in October).

In our view, the statements made by the members of the Bank of Japan open up the possibility that monetary policy will begin to be normalised at the meeting on 22 and 23 January 2024, which could put an end to the negative interest rate policy. However, the uncertain global economic environment and the still sluggish wage growth in Japan could force the BoJ to be more patient.

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Japan: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
PMI: Manufacturing	-0,3	-0,3	-0,6	-0,2	-0,1	0,1	0,0	-0,1	-0,1	-0,4	-0,3	-0,4
PMI: Services	0,2	0,5	0,8	1,0	1,1	1,2	0,8	0,8	0,9	0,8	0,3	0,2
PMI Manufacturing New export orders	-0,7	-0,6	-1,3	-0,7	-0,5	-0,6	-0,9	-0,5	-0,3	-0,4	-0,6	-0,6
PMI Manufacturing -Employment	0,3	0,3	0,3	0,2	0,5	0,1	0,4	0,4	0,0	0,1	-0,3	-0,1
Consumer confidence	-1,7	-1,6	-1,6	-1,1	-0,9	-0,7	-0,7	-0,5	-0,7	-0,9	-0,8	-0,7
Industrial production	-0,1	-0,4	-0,2	-0,1	0,0	0,3	0,0	-0,3	-0,5	-0,4	-0,1	
Private machinery order excluding volatile orders	0,2	1,1	0,6	0,2	0,8	0,0	0,3	0,2	0,1	0,2	0,3	
Retail sales	1,0	1,4	2,2	2,0	1,4	1,6	1,6	2,0	2,0	1,7	1,0	
Exports	0,4	-0,1	0,0	-0,1	-0,2	-0,5	-0,3	-0,3	-0,5	-0,1	-0,2	
CPI	3,2	3,4	2,5	2,4	2,6	2,3	2,3	2,3	2,2	2,0	2,2	
Core CPI	3,1	3,2	3,3	3,5	3,8	3,7	3,7	3,6	3,5	3,4	3,1	
Unemployment rate	1,3	1,4	1,2	1,0	1,2	1,2	1,3	1,1	1,1	1,2	1,3	
Employment	-0,2	0,4	-0,2	-0,1	-0,2	-0,1	0,1	-0,1	0,0	0,0	-0,1	
Wage	1,6	1,0	0,9	0,7	0,9	1,6	1,4	1,3	1,2	0,9	1,3	

* 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)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025	
0,3	1,2	0,9	-0,7	0,4	0,4	0,2	0,9	2,1	0,8	0,9	

Source: Refinitiv, BNP Paribas

