

ECONOMIC PULSE

JAPAN: A SHARP ECONOMIC SLOWDOWN EXPECTED IN Q4

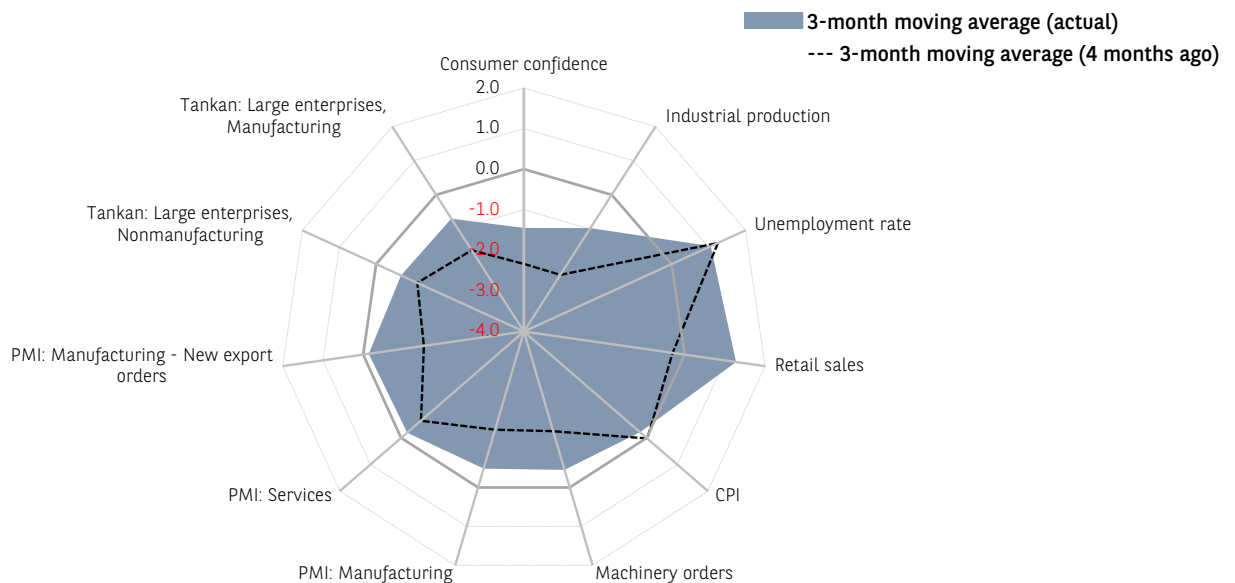
Compared to the US or European economies, Japan has been so far relatively unscathed by the Covid-19 pandemic. The country's public health measures have been less strict than those implemented elsewhere. A resurgence in infections in Japan and its main trading partners hitting demand would result in a marked deceleration in economic activity in Q4 2020.

Over recent months the economic situation has improved, but overall economic activity was still below its pre-crisis level. On the industrial side, production contracted further in October 2020 (the most recent available figure) on a year-on-year basis, albeit by much less than in previous months (-3%, after -9.8% in September and -14.2% in August). Meanwhile, Purchasing Managers Index (PMI) for the manufacturing sector, an advance indicator of economic activity, continued its gradual recovery in December (at 49.7) but remained slightly below the threshold of 50 that separates expansion from recession, and below its long-term average. The Bank of Japan's Tankan index for Q4 2020 sends a comparable message. The manufacturing sector benefitted in particular from a return to growth in Japan's trading partners, especially China, but is now suffering from the tightening of health measures in many parts of the world.

After a slow recovery over the past few months, the services PMI experienced a timid fall in December to reach only 47.2, a low level compared to its long-term average. This is in contrast with the normalisation of the consumer confidence indicator, which has been on a rising trend since its low point in April 2020. However, consumer confidence has not regained its pre-crisis level, and stabilised somewhat in November (to 33.7, compared to 38.4 in February). Meanwhile, retail sales experienced a significant increase in October (6.4% year-on-year) – the first gain since February – but could now stall. Uncertainties remain regarding the health crisis and the situation in the labour market, given the decreasing trend followed by wages and the rising trend in unemployment since the beginning of 2020. This could persist in the coming months, as companies concentrate first on restoring margins. Against this background, prices fell in October, dropping 0.4% year-on-year. Given this, the Bank of Japan has launched an overall review of its monetary policy.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar and surprise charts are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -4 and 2 in almost all cases. 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 signals an improvement. In the right pane, the surprise is an actual outcome that differs from the market forecast (Bloomberg).

