

ECONOMIC PULSE

JAPAN: A TIMID TURNAROUND

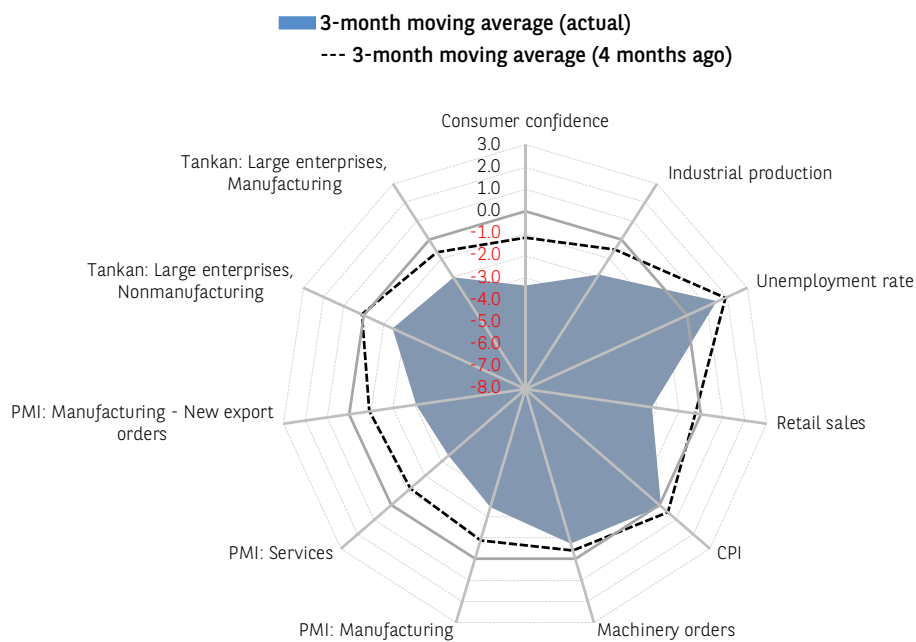
Like most economies, Japan was hard hit by the Covid-19 crisis in the first half of 2020. The rebound of the Japanese economy will depend notably on an upturn in private consumption, which has been in a slump since year-end 2019. Retail sales plunged sharply again in May, for the third consecutive month. Sales were down 12.3% year-on-year (y/y), after declining 13.9% in April and 4.7% in March.

These dynamics must be seen in the light of the severe erosion of household confidence over the past three months. After hitting an all-time low of 21.6 in April, confidence picked up slightly in May and June (to 24 and 28.4, respectively) but is still holding at low levels. In this respect, the recent increase in the unemployment rate is bound to be a new source of concern. Structurally low, Japan's unemployment rate rose to 2.9% of the active population in May, from 2.4% in January. Inflation has also dipped, and core inflation even slipped into negative territory in April and May (-0.2% y/y).

Looking at the Purchasing Managers Index (PMI), the picture is not any brighter. After plummeting in April, the services PMI picked up in May and especially in June. Yet it is still below 50, the threshold that separates expansion from contraction, and activity is faltering. In the manufacturing sector, the rebound is still timid. The same observations can be gleaned from the Bank of Japan's quarterly Tankan indicator, which has deteriorated sharply. Since the beginning of the year, the downturn has been brutal in both the manufacturing sector (the sentiment of major companies was minus 34 in Q2 2020 after minus 8 in Q1 2020) and in non-manufacturing (minus 17 in Q2 2020 after plus 8 in Q1 2020).

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 +2. 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.

