

ECONOMIC PULSE

JAPAN: IS THE WORST STILL TO COME?

Given the obstacles piling up for the global economy, there was concern that the consensus forecast of a significantly weaker Tankan survey would end up being too optimistic. Upon its release, it turned out not to be the case, with some series below consensus and other slightly better. The overall conclusion is clear however: the report was indeed less positive than in the previous quarter. The diffusion index was 2 points lower than in Q4 2021, but there was a balance between the number of businesses considering the situation as favourable and those considering it as unfavourable (the survey was carried out between 24 February and 31 March and thus incorporated the impact of the war in Ukraine). Confidence in the manufacturing sector declined more than in services (down 4 points to 2 in manufacturing, down 2 points to 0 in services) owing to the steep deterioration in paper & pulp, chemicals and steelmaking industries.

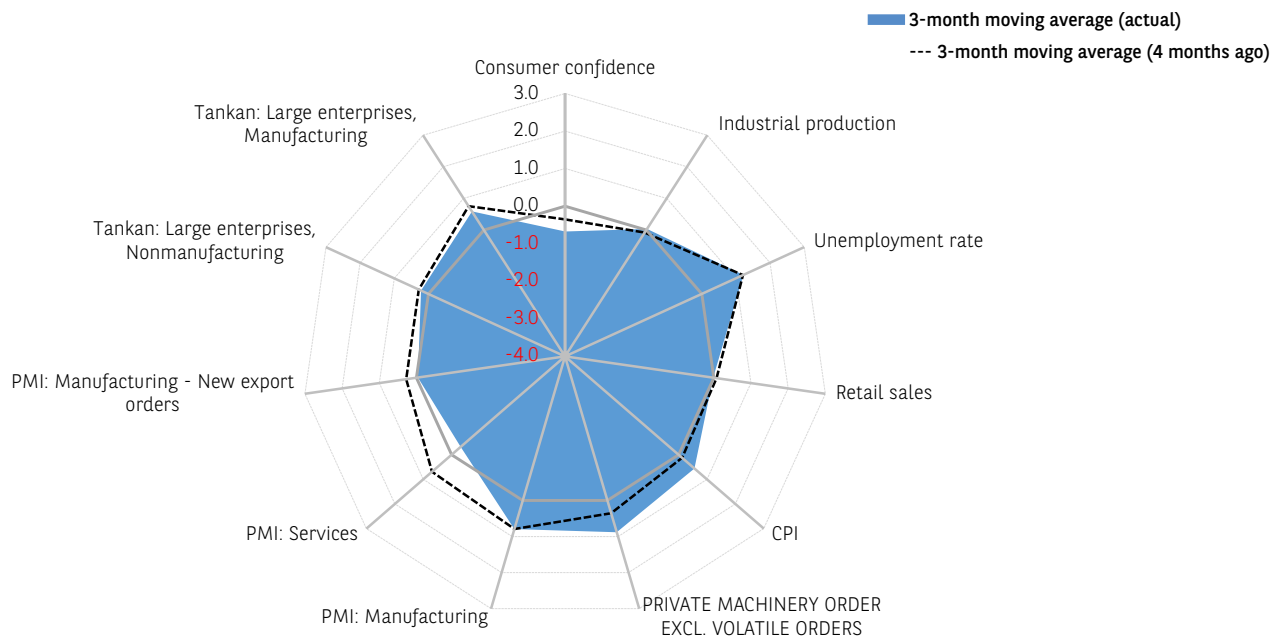
That said, the report contains some more worrying signals as regards to expectations for the upcoming quarter (Q2 2022). Forecasts have worsened markedly in the sectors most affected by the rise in commodity prices, or shortages of key inputs (iron & steel, lumber & wood products). Furthermore, businesses based their responses on a highly conservative exchange rate (close to 112 Y/\$ for this year), a long way from the current level at around 120 Y/\$. Although businesses still reported stable margins for this year compared with 2021, there is a strong likelihood these will be lowered in the next survey.

After experiencing a difficult winter due to a resurgence in Covid-19 infections, the Japanese economy faces the knock-on effects from the war in Ukraine, which will continue to build up. The shutdown of certain plants in China as a result of the upturn in Covid-19 cases is also disrupting production lines and the external demand registered by Japan's industries. The manufacturing PMI for new export orders dropped by over 4 points in March to its lowest level in 18 months. Even so, the overall manufacturing index bounced back from 52.7 to 54.1 led by the improvement in the production and domestic order indicators.

The rise in inflation (0.9% in February) is set to gain pace in April. The base effects linked to the fall in telephony prices in April 2021 will end, while the rise in energy prices will worsen. Japan's Prime Minister Fumio Kishida has announced that a package of measures to support households (whose confidence has been declining for three months) and businesses will be introduced by late April.

Guillaume Derrien

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.

