ECONOMIC PULSE

## JAPAN: CONSUMER CONFIDENCE PLUNGES, THE TANKAN EDGES HIGHER

Confidence amongst Japanese consumers fell sharply this autumn, reflecting the difficulties they are experiencing in the face of inflation rising to its highest level for more than thirty years (3.8% y/y in October). According to the Cabinet Office, consumer confidence has fallen back to its level from the summer of 2020, when the pandemic was in full swing. Meanwhile, the Tankan survey for the fourth quarter of 2022 surprised on the upside: the overall balance climbed from 3 to 6, whilst the forecast contained in the previous survey was for a one-point fall. The index has now returned to pre-Covid levels, illustrating the economy's slow and difficult recovery from the pandemic. The PMI survey for December was hardly more optimistic: the composite index rose from 48.9 to 50, taking it just into expansionary territory. Moreover, the new export orders component dipped by 1 point to 48.9.

Looking in detail at the Tankan survey, the balance of opinion has improved in manufacturing (up 2 points to 2), driven by steel (up 8 points) and textiles (up 5 points). However, the energy crisis continues to hit the chemicals and paper industries (which both saw 4-point falls). There was a bigger improvement in services (up 5 points to 10), thanks to a rebound in restaurants and accommodation (up 27 points) that can be partly attributed to the ending of Covid restrictions in mid-October. The balance of opinion on employment fell by 3 points, reflecting the continued strong pressure on recruitment (a negative balance indicates that more companies are experiencing a deficit of labour than a surplus). This is no surprise: at 2.6% in October, the unemployment rate remains at an historically low level for the country. Prior to 2016, this rate had not fallen below 3% for more than twenty years.

With regards to external balances, the trade balance improved, after an almost uninterrupted deterioration since early 2020. The deficit shrank again in November, from JPY2,207 billion to JPY1,732 billion. This improvement in the goods balance mainly reflected volume effects; last month saw a bigger fall in real imports (-6.6% m/m) than in exports (-0.1% m/m).

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JAPAN: QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)
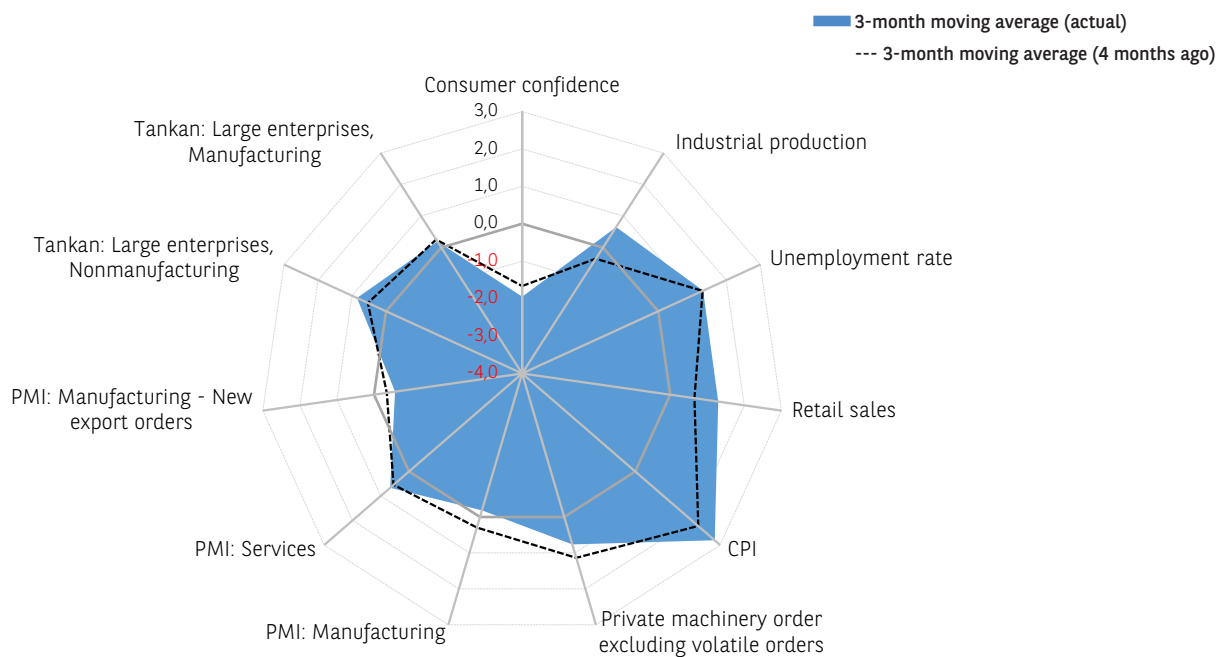
SOURCE: REFINITIV, BNP PARIBAS

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.

BNP PARIBAS

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