

WEEKLY ANALYSIS

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WEAKENING OUTLOOK FOR THE NIKKEI

Positive economic situation in Japan. Mixed leading indicators. Weak yen pushes inflation up. Monetary policy still expansionary. Interest-free bond yields. Weakening outlook for the Nikkei.

Key points



- Very positive revision of Japanese GDP in Q2 (+3.5%)
- Less favourable outlook for the current quarter
- Leading indicators still moderately optimistic
- Surprising increase in retail sales in a still sluggish consumer climate
- Trade deficit widens further
- Japanese inflation advances but remains subdued
- BoJ to change policy slowly
- Japanese bonds still offer no interest
- Target 150 for the yen/USD exchange rate?
- Weakening outlook for the Nikkei index

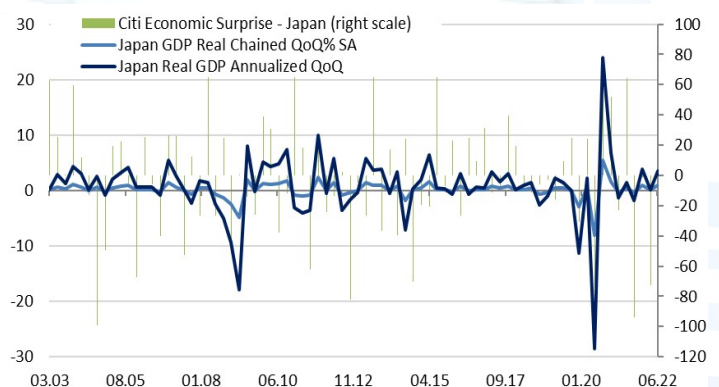
Less favourable outlook for the current quarter

The Japanese recovery in Q3 does indeed seem to be slowing down after the good result in Q2. The recovery in demand and consumption is not proceeding at the expected pace. The fall of the yen has had a significant impact on inflation and imported prices should also affect Japanese foreign trade and push the deficit to a high level again. The health situation and the continuing restrictions on an upsurge in Covid cases have dampened domestic demand. The easing of constraints in September should support a recovery in tourism and consumption, but these developments are likely to come a little late to really support Q3 growth. Nor should consumption be supported by the rather negative trend in household disposable income. The decline in spending already observed at the beginning of the quarter should thus continue at the end of the period. That said, the rather surprising evolution of industrial production in August (+2.7%) and a possible continuation in September would support a stronger than expected Q3 growth of +2% (annualised).

Very positive revision of Japanese GDP in Q2 (+3.5%)

Japan finally recorded adjusted annualised growth of +3.5% in the second quarter after an initial estimate of +2.2%. This important revision underlines the resilience of the Japanese economy in a difficult international context and a logically weak external demand. Japanese real GDP thus finally grew by +0.9% in Q2 (+0.6% in nominal terms, -0.3% deflator) thanks to a very good performance of investments (+2%) and private consumption (+1.2%). The contribution of exports was reduced (+0.1%), while inventories subtracted -0.3% from GDP growth. The Japanese economy thus largely surprised observers by recording a dynamic expectations (+2.9%). These positive developments have enabled it to return to its pre-pandemic level of production thanks to a clear recovery in business spending. It would appear that business confidence has improved and supported capital investment. However, we do not believe that this positive momentum can be maintained in the third quarter due to both weakening internal and external support factors. The weaker international environment in Q3 and the negative effects of the fall in the yen and the rise in inflation on household purchasing power should lead to a slowdown in activity.

Performance of the Japanese economy (GDP) in yen



Sources: Bloomberg, BBGI Group SA