

WEEKLY ANALYSIS

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DOWNWARD REVISION OF THE ECONOMIC OUTLOOK FOR JAPAN IN 2022

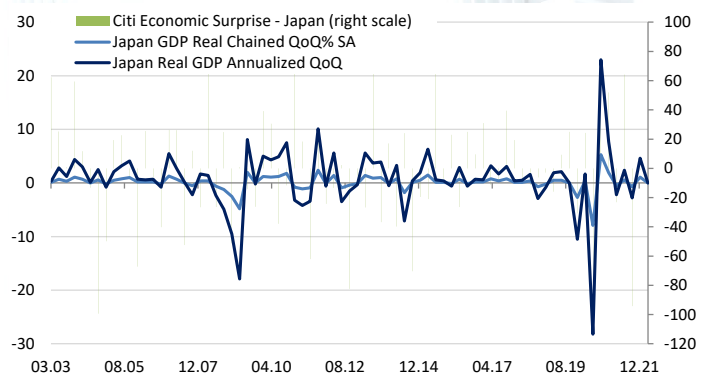
Disappointing economic recovery in 2021. Weak Q1 2022. Government stimulus package supports consumption. Difficult environment for exports. Contained inflation. Weak yen. Opportunities for the Nikkei.

Key Points



- Japanese GDP disappointed in Q4 2021
- Risk of GDP contraction in Q1
- Growth prospects overestimated in 2022
- Falling PMIs threaten industrial production
- Household consumption suffers a double whammy
- Trade deficit is narrowing in the short term
- Inflation remains limited despite rising commodity prices
- BOJ not ready to change policy
- Ten-year yields back in positive territory
- Yen nears target against the USD
- New opportunities for Nikkei stocks

Performance of the Japanese economy (GDP) in yen



Sources: Bloomberg, BBGI Group SA

Risk of GDP contraction in Q1 2022

Q1 of 2022 is unlikely to revive hopes of a solid Japanese economic recovery at the beginning of the year. A contraction in GDP is now possible, firstly because of the Omicron wave that hit Japan and that has certainly penalised consumption.

Rising commodity and energy prices in particular are also likely to affect Japan's economy, which is highly dependent on imports of crude oil and raw materials.

The explosion of crude oil prices due to the recent Russian-Ukrainian geopolitical crisis will necessarily have a strong impact on import and production costs in Japan. In this context, there is a significant risk that a rise in prices will have a further negative impact on household spending and consumption.

On another level, this crisis is expected to have a depressive effect on European GDPs and on consumer and business demand. A decrease in Japanese exports to Europe also seems likely.

The optimism displayed so far by the vast majority of economists about Japan's recovery in early 2022 should therefore be reviewed and tempered in the light of recent, clearly less favourable developments.

Japanese GDP disappointed in Q4 2021

Initial estimates of Japanese Q4 GDP growth of +5.4% have been revised to only +4.6%. Japan's economy was expected to recover more strongly from the contraction in Q3 thanks to an expected revival of the manufacturing sector and improved consumption dynamics. The Omicron variant was not expected to have a major impact given its relatively late emergence in the quarter. Nevertheless, GDP was less robust than expected, with consumption proving to be the strongest contributor to this positive development with an increase of +2.4% over the quarter, although the increase was not as strong as expected.

Over one year, Japan's GDP growth was +1.7%, a result that is far from sufficient to compensate for the -4.5% fall in GDP in 2020.

As a result, Japan is experiencing a weaker economic recovery than most other developed economies.

Its GDP is still significantly lower than before the pandemic. The weaker growth in private consumption and a decline in government spending are evidence of the diminishing momentum of the country's economy at the end of the year.