

# WEEKLY ANALYSIS

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## NIKKEI AT ITS HIGHEST IN 33 YEARS

0.7% acceleration in Japanese GDP. Household confidence remains hesitant. Trade deficit down 66%. Inflation falls to +3.2%. Expansive monetary policy. Nikkei at 33-year high.

### Key points



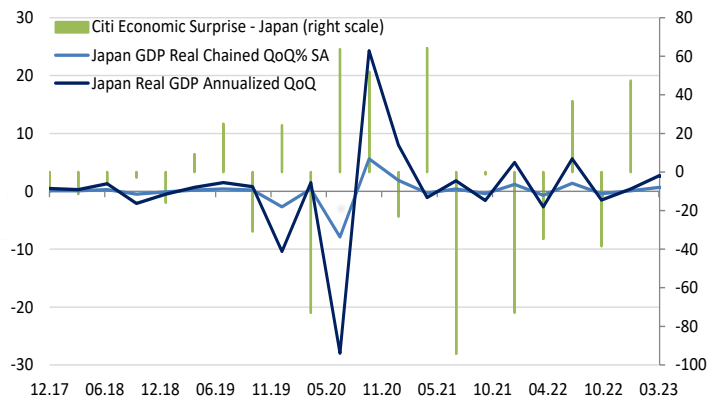
- Japanese economy recovers strongly in Q1, growing more strongly than expected (+0.7%)
- Slower growth in Q2
- Slightly more encouraging leading indicators
- Slight improvement in consumer confidence
- Trade deficit decreases by -66%
- Japanese inflation confirms its downward trend
- BoJ monetary policy to remain highly expansive
- Yen yields still unattractive
- Yen yield spreads still unfavorable
- Nikkei at 33-year high

### Japanese economy recovers strongly in Q1, growing more strongly than expected (+0.7%)

The stagnation of Japanese GDP in Q4 2022 had enabled the Japanese economy to avoid a technical recession, despite starting the year with a rather hesitant and uninspiring outlook. Economists' forecasts called for a very moderate recovery at the start of the year, but this was largely outweighed by a much stronger than expected economic recovery. The seasonally-adjusted Japanese GDP result after a first revision showed quarterly growth of +0.7% for an annualized GDP increase of +2.7%, well above the expected +1% increase for the year as a whole. The strengthening of completed investments by businesses suggested that business sentiment remained resilient despite concerns about a slowdown in the global economy. Conversely, rising inventories supported growth, but perhaps suggest that demand is not keeping pace with production, a potential source of concern for the future. Consumer spending unfortunately turned out to be a little weaker than initially estimated. This stronger-than-expected growth is accompanied by a +0.4% rise in inventories, which are close to their highest levels in more than three decades. The world's third-largest economy is thus catching up with the already more positive trend in the

US and Chinese economies, following the government's decision to end its health restrictions. This GDP result significantly reduces fears that a slowdown in the global economy will weigh more heavily on household and business sentiment in Japan. That said, Japan's real GDP remains below pre-pandemic levels. Private consumption and business spending are still below their previous levels. Private consumption advanced by only +0.5%, while capital expenditure rose by +1.4%. Despite the surprising momentum of the 1st quarter, GDP growth is likely to weaken over the following months, without calling into question the forecast of +1% growth for the year as a whole.

### Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA

### Slower growth in Q2

Growth is likely to continue at a reduced pace in Q2, due in particular to the expected weakness in consumption and wages. The increase in inventories suggests that companies are replenishing their stocks as supplies of spare parts increase, particularly in the automotive sector and especially for electronic chips. Household consumption could, however, contribute to the resilience of economic growth in Q2, particularly in view of the expected further decline in inflation.