

# Weekly Analysis

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## ATTRACTIVE PROFITS FOR NIKKEI STOCKS

Surprising export-led GDP growth. Inflation still in decline. Reduced trade deficit. Expansive monetary policy. Yen's decline falters. Attractive profits for Nikkei companies.

### Key points



- Japanese economy surprises with +1.2% growth in Q2 and positive outlook once again
- Positive trend for the 2nd half
- Leading indicators still very uncertain
- Fall in real household income
- External account deficit narrowing
- Inflation continues its downward trend
- End of negative key rates for the BoJ?
- Yen yields still unattractive
- Interest rate differentials still unfavorable to the yen
- Satisfactory growth in listed company profits

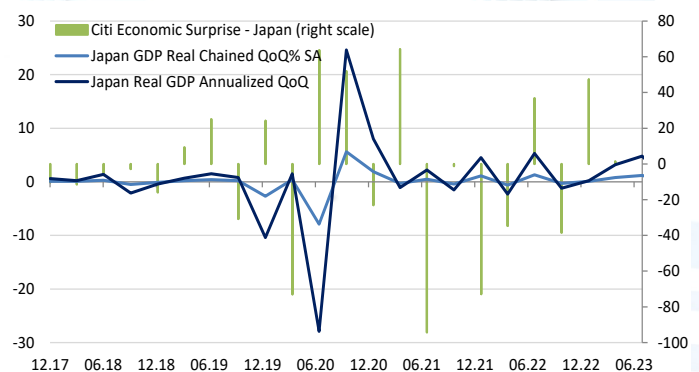
The GDP revision suggests slightly weaker growth than initially estimated, due in particular to still cautious household behavior and weaker consumption. Wage growth proved insufficient to sustain domestic demand, with real income growth reduced by -2.5%. We also note that the bulk of GDP growth was attributable to a marked recovery in exports, indicating a relatively high level of dependence on trends in international demand.

The world's third-largest economy thus continued to surprise with its resilience in Q2, at a time when the international context seems to be clearly pointing towards a slowdown in activity in the USA, Europe and China. The surprising momentum of Q1 thus continued into Q2. Our forecast of +1% growth for the year as a whole is thus bolstered by a buoyant first half, which could nevertheless weaken in the second half of the year should global demand prove weaker.

### Japanese economy surprises with +1.2% growth in Q2 and a positive outlook once again

After a clear rebound in economic activity in Japan in Q1 (+0.7%), which followed a stagnation in Japanese GDP in Q4 2022, Q2 confirms the resumption of growth in Japan and removes the spectre of a recession often evoked at the start of the year by the majority of economists. They were expecting at best a very moderate recovery at the start of the year, and clearly appear to have been overly pessimistic in the light of 1st half results that were well above expectations. The seasonally-adjusted Japanese GDP result for Q2, after an initial revision, showed quarterly growth of +1.2% for an annualized GDP increase of +4.8%. This rate of growth is already well above the consensus forecast of +1% for the year as a whole. The export sector (+1.8%) played a major role in driving GDP growth over the period, while private consumption (-0.6%) posted a sharp decline. Business spending also made a negative contribution (-1%), as did the inventories component, which had an impact of -0.2%.

Performance of the Japanese economic (GDP) in yen



Source: Bloomberg, BBGI Group SA

### Positive trend for the 2nd half

The Japanese economy is now back above its pre-pandemic level, but private consumption is still lower than it was at that time, and even weaker in real terms than its 2014 level, underlining the fragility of an export-led recovery.