

# Weekly Analysis

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## THE PERSPECTIVES ARE DETERIORATING FOR THE NIKKEI

Possible recession in the 4th quarter. Rebound in inflation linked to the fall in the currency. Contraction in real household income. Monetary policy still expansionary. Yen's decline falters. Less positive conditions for the Nikkei.

### Key points



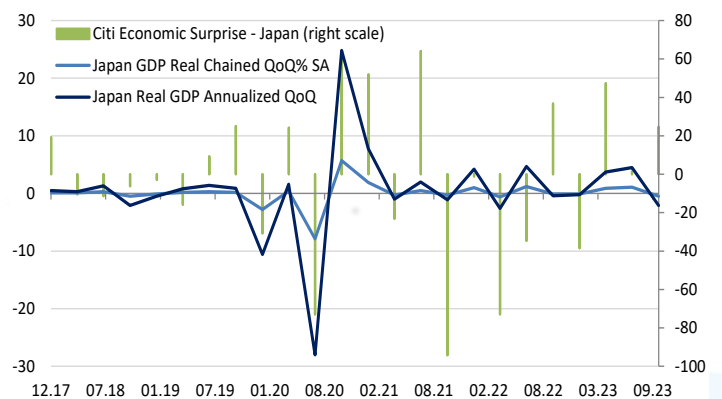
- A much more dramatic 3rd quarter than expected
- Possible recession at the end of the year in Japan
- Significant deterioration in leading indicators
- Persistent contraction in real household income
- Further decline in foreign trade
- Temporary rebound in inflation?
- BOJ monetary policy still accommodative
- Yen yields still unattractive
- Interest rate differentials still unfavourable to the yen
- Satisfactory growth in listed company profits

### A much more dramatic 3rd quarter than expected

A few months ago, we wrote that the astonishing growth in Japanese GDP in the 2nd quarter was unlikely to continue into the middle of the year. The particularly uncertain leading indicators for the 3rd quarter suggested that a slowdown in consumption and exports could have a very significant impact on Japan's economic performance during the summer. After a seasonally adjusted Japanese GDP result for Q2, showing quarterly growth of +1.1% for a revised annualised increase in GDP of annualised GDP growth of +4.5%, the figure published for Q3 came as a partially expected shock. Indeed, the -2.1% fall in annualised quarterly GDP completely reverses the start of the previous positive trend by being much more negative than the moderate fall of -0.4% expected by the consensus. Over the quarter, almost all components made a negative contribution. Private consumption was barely stable over the quarter, while business investment fell by -0.6%, following a -1% decline in the previous quarter. As for net exports, the negative impact of -0.1% was partly due to higher imports over the period. Inventories also contracted slightly, suggesting a certain return

to normal after the rebuilding of stocks following the problems encountered by supply chains during the pandemic. The actual contribution from inventories is estimated at -0.6%. The world's third largest economy eventually succumbed to the Japan's main trading partners. While the international context seems to be clearly pointing towards a slowdown in activity in the United States, Europe and China, Japan's trade balance is being affected by weak exports and a sharp rise in imports. Our forecast of +1% for the year as a whole has therefore been lowered to +0.9%, both because of this more negative than expected 3rd quarter, and because of the lowering of our outlook for the final quarter of 2023, when global demand will be weaker.

### Performance of the Japanese economic (GDP) in yen



Sources: Bloomberg, BBGI Group SA

### Possible recession at the end of the year in Japan

With just a few months to go before the end of the year, Japanese GDP remains more dependent than ever on international demand, while domestic consumption is still struggling to revive. The economy is weakened by sluggish household consumption and exports that are totally dependent on the international trends. It will be difficult for the land of the rising sun to end the year with an acceleration in economic momentum. In the absence of a revival in external demand, Japan's economic situation will therefore require further support.