

# WEEKLY ANALYSIS

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## NIKKEI TACKLES ITS ALL-TIME 1989 RECORD

Japan is in recession. Another difficult start to 2024. Inflation finally falls. No solution for the Japanese currency. Monetary policy will remain accommodative. The Nikkei attacks the all-time record set in 1989.

### Key points



- Q4 GDP confirms our forecast of a moderate recession in Japan at the end of 2023
- Outlook for Q1 2024 remains weak
- Further decline in leading indicators
- Contraction in real household income
- Inflation falls sharply despite yen weakness
- BoJ monetary policy still accommodative
- Yen bond market unattractive
- No solution for the Japanese currency?
- Nikkei approaches all-time high of 40,000

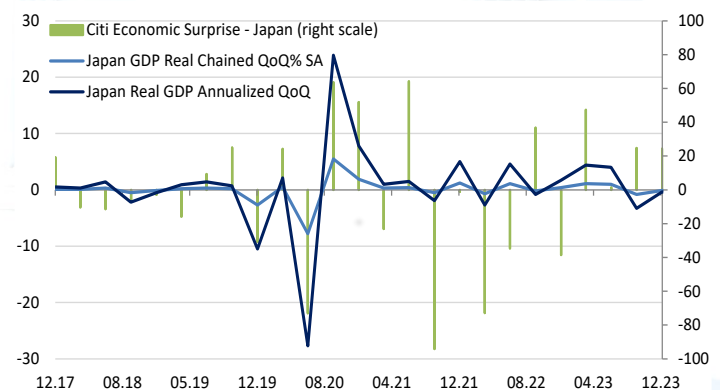
### Q4 GDP confirms our forecast of a moderate recession in Japan at the end of 2023

Our forecast of negative year-end GDP growth in Japan appears to have materialized, given the preliminary figures published for the final quarter of 2023. We were expecting the negative trend of the previous quarter to continue, due in particular to persistently weak international demand and sluggish domestic consumption. The published figure of -0.1% for Q4 and -0.4% annualized is not in itself dramatic, but it keeps Japan in a phase of economic decline after a particularly negative 3rd quarter (-3.3%). The consensus of forecasters was once again taken aback by this result, which fell well short of expectations for growth of +1.1%, while only one economist out of thirty-four had also predicted a possible recession.

Private consumption was disappointing, weighing on the performance of the Japanese economy with a non-annualized decline of -0.2%, even though the previous quarter had been revised downwards by -0.3%. Capital goods investment also stalled, slipping by -0.1%

following a -0.6% revision for the previous quarter. The slight +0.2% rise in exports does not seem to be a source of satisfaction, due to a positive one-off effect linked to better service exports, in connection with exceptional royalties over the quarter. The effective contribution of inventories appears to have been null over the period. Japan thus recorded its second consecutive quarter of negative growth at the end of the year, plunging the economy into a technical recession. Japan's under-performance in recent quarters has also had a damaging impact on its position among the world's economies, since the fall in Japanese GDP has relegated it to fourth place, supplanted by the German economy, which has now overtaken Japan's and moved up to 3rd place.

Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA

### Outlook for Q1 2024 remains weak

Japan's GDP remains more dependent than ever on international demand, while domestic consumption is still struggling to recover. The economy is undermined by sluggish household consumption and exports that are totally dependent on international trends. Household consumption continues to be negatively affected by inflation, which is still resilient and unlikely to fall rapidly in the specific Japanese context, where the yen is still devaluing strongly, and cannot be curbed by action on the part of the BoJ in the current recessionary climate.