

# Weekly Analysis

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## THE FALL IN THE YEN WILL PUSH THE BOJ INTO ACTION

Japan is in recession. GDP may improve in Q3. Export rebound. Temporary upturn in inflation. Household confidence at half-mast. Yen at lowest level since 1986. Outlook for Nikkei still positive.

### Key points

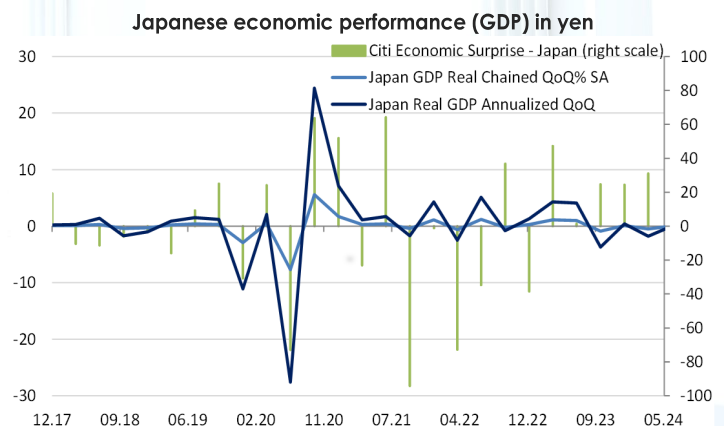


- Further contraction of the Japanese economy
- Improvement possible in Q3
- Further hesitation in leading indicators
- Household consumption remains subdued
- Falling yen boosts imported inflation
- BoJ prepares to raise rates to defend the yen
- Bond market still unattractive
- 38-year low for the yen against the US dollar
- Nikkei to break 40,000 barrier again

### Further contraction of the Japanese economy

Our forecast of negative GDP growth in Japan is now becoming clearer in light of the Q1 2024 GDP results and recent developments in Q2. Based on preliminary figures for Q1 2024, Japan's economy contracted by -0.5%. 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 -0.5% over three months implies an annualized contraction of -1.8%. This result is well below consensus expectations, which forecast a contraction limited to -1.2%. Private consumption was again very disappointing (-0.7%), weighing on the performance of the Japanese economy with a fourth consecutive quarter of decline. Businesses also reduced their spending (-0.4%). The slight increase in inventories (+0.3%) made a positive contribution to GDP, while net exports (-0.4%) were more of a drag on growth. Weak consumption remains one of Japan's most glaring problems, and a real source of concern. Economic momentum is now largely dependent on public spending. Japan still seems to be

in deep trouble since the summer of 2023, and has been unable to emerge from this slowdown phase, which is now becoming more and more pronounced, to the point of finally plunging the country's economy into recession. Japan's underperformance in recent quarters has also had a damaging impact on its positioning among the world's economies. As a result of the fall in Japanese GDP, the country has been relegated to fourth place, supplanted by the German economy, which has now overtaken Japan's and moved into 3rd position. The fall in the yen/USD exchange rate of -6% in Q2 brings its devaluation to around -14% by 2024. The yen's depreciation has had no major effect on the country's exports, suggesting that global demand is still particularly anemic and therefore logically not stimulated by the yen's fall.



### Improvement possible in Q3

Japan's GDP remains more dependent than ever on international demand, while domestic consumption continues to struggle. The economy is undermined by sluggish household consumption and exports that are totally dependent on international trends. Household consumption remains negatively affected by resilient inflation, which is unlikely to fall rapidly in the current climate. The fall in the yen increases the risk of imported inflation, posing a problem for the central bank, which cannot effectively combat rising inflation by tightening its monetary policy, at the risk of plunging the economy further into recession.