

Weekly Analysis

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FRAGILE RECOVERY IN JAPANESE GROWTH

Return to GDP growth. Fragile positive momentum. Moderate consumer confidence. Inflation still too high. Sustainable rebound of the yen? Lower tensions for BoJ. No interest in bonds. Nikkei at 40,000?

Key points



- Japanese growth resumes at a moderate pace
- Continued momentum towards the end of the year
- Leading indicators remain subdued
- Consumer momentum still fragile
- Can the yen's +15% rise reduce inflation?
- Pressure eases a little for the BoJ
- Bond market still unattractive
- Can the yen continue to rise?
- Nikkei back to 40,000 level

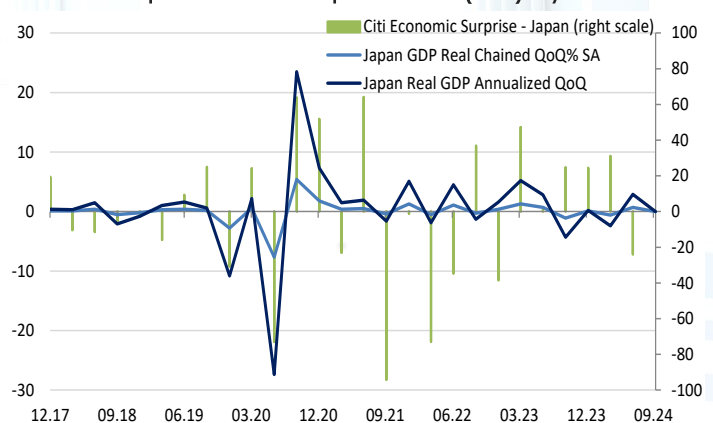
Japanese growth resumes at a moderate pace

After a Q1 contraction of -0.5%, which brought the year-on-year rate of decline to -1.8%, the Japanese economy seemed unlikely to recover in Q2, despite a further fall in the yen. Private consumption, which had been very disappointing at the start of the year, finally picked up and partly underpinned the economic recovery observed in Q2. Japanese real GDP surprised many observers with a quarterly increase of +0.7%, or +2.9% annualized, in stark contrast to the negative result recorded at the start of the year. Private consumption picked up again, rising by +0.9% this quarter, after four negative quarters. On the corporate side, investments have picked up, making a positive contribution to the overall result with an increase of +0.8%. The negative contribution of inventories (-0.1%) was not major, as was that of exports, which also contracted slightly (-0.1%). It is interesting to note this rise in spending by companies, who now seem a little more confident about increasing their production capacity. This trend in Japan may suggest a positive impact from a certain recovery in demand for

semi-conductors and the automotive sector. As far as household consumption is concerned, we are probably finally witnessing the positive effects of the wage increases agreed during the wage negotiations at the start of 2024, which have gone some way to offsetting the unfortunately still excessive trend in consumer prices in Japan.

In nominal terms, Japan's GDP grew by +1.8% over the quarter, reaching for the first time the 600,000 billion yen (approx. \$4,200 billion) threshold set by the Japanese political authorities ten years ago. It remains to be seen whether this change in consumer attitude will be sustainable, as households are facing significant inflation for the first time in Japan's modern history. A revival in external demand is also essential if the situation in the manufacturing sector is to improve and export momentum to pick up. This last point is currently being called into question by the slowdown in the Chinese and US economies.

Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA

Continued momentum towards the end of the year

Japanese GDP remains more than ever over-dependent on international demand, which remained weak in August, slowing year-on-year export growth. Indeed, Japanese exports suffered another setback recently, recording a decline in growth from +10% at the end of July to just +5.6%.