

Japan: Mixed messages

In Japan, the macro picture paints a bit of a muddy picture. Both investment and net trade don't really help us much with the outlook for the rest of the year, and we aren't particularly sure whether the anticipated 1Q19 GDP (around 1%) would be a good or bad result



No questions answered

From a purely macro perspective, the last month has answered no questions about the trajectory of Japan's economy. Indeed, to the contrary, the picture is less clear than it has been for some time.

We are approaching the release of 1Q19 GDP data, which means that we have near-complete, and semi-complete high-frequency data for most of the subcomponents of GDP, as well as for inflation. The story is as follows:

1Q19 GDP may not look too bad at first glance; we are looking for something around 1.1% at a seasonally adjusted annualised rate. That would follow a 1.9% rate in 4Q18, so looks decent, albeit perhaps indicative of a slight moderation in pace.

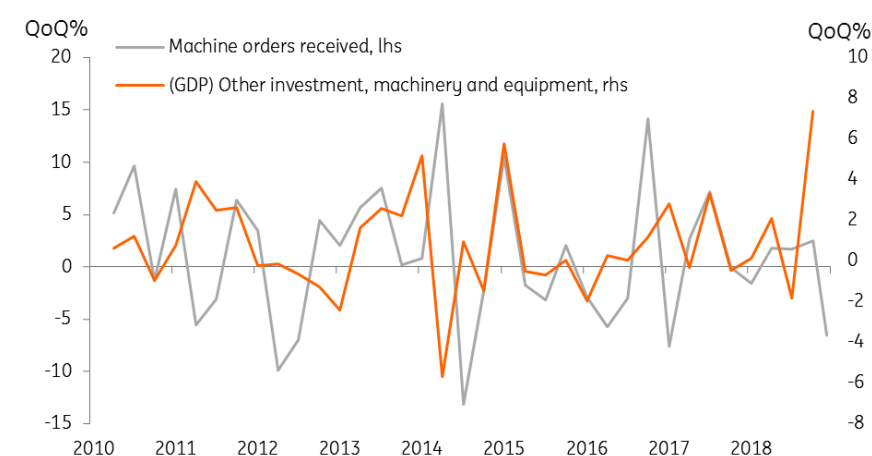
But Japanese GDP can't really be taken so literally, and is also prone to huge revisions, so aside from saying it is likely to be slower in 1Q19 than 4Q18, we can't confidently say much more at this stage.

Many mixed signals

Within this total are some real “head-scratchers”. For example, private consumer spending looks as if it could register a healthy 2% pace. But cash earnings, which had been providing some lift to the household sector, have recently crashed to low sub-1% levels, and this does not look sustainable.

On the investment side, residential investment seems to be undergoing something of a boom, prompting questions about the Bank of Japan’s purchasing of real estate investment trusts (JREITS). Business investment in plant, machinery and non-residential construction looks terrible in contrast, so the net investment picture will be determined by a largely unforecastable horse race between these two components.

Business investment (in GDP) and machine orders



Source: CEIC, ING

Don't expect any big economic rebound

Net trade is another source of considerable uncertainty. We know that exports have been badly hit by the slowdown in global trade, the US-China trade war and the global tech slump, not to mention the slump in the auto sector. What we can't say with any precision is how this plays off against what also looks to have been a very weak quarter for imports, and whether this has led to a surge in inventories, or has been accompanied by destocking from previous inventory accumulation. We have opted for the latter, but inventories are often calculated residually by statistical agencies, so we have no confidence that this will actually turn out as forecast.

Exports are very weak, but net trade is harder to call, or how this impacts inventories

Putting this all together, it is very hard to characterise whether 1.1% is a good or a bad result for Japan, even if this is close to the figure that eventually gets published. It certainly doesn't set the economy up for a big rebound in 2Q19, but it isn't particularly worrying either.

Inflation did nudge a little higher in March, though this coincided with a further tweak to Bank of Japan (BoJ) forward guidance that to paraphrase, guarantees no tightening of policy until at least Spring 2020, and probably not then either. This, according to BoJ was to offset misperceptions about their intentions. We don't believe there were any. But in any case, it won't help the BoJ achieve their inflation target, and even they seem to have given up on it if recent economic projections are to be taken at face value.

This article forms part of our Monthly Economic Update which you can find [here](#)

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