

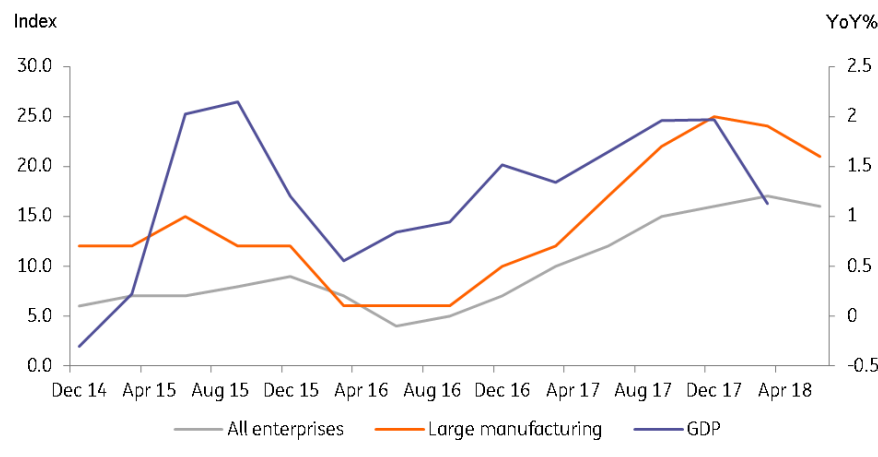
# Japan: Momentum slipping

Japan's activity indicators have slipped from 'good' to 'mediocre', but its unclear if this downtrend will continue



Source: istock

## Tankan and GDP

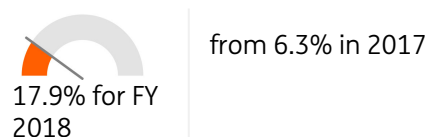


## Tankan survey and Japanese GDP

Japanese growth appears to have peaked in 1Q18, if the latest Tankan survey can be taken at face value, and unlike the official Japanese GDP data, it probably can. But although the headline index fell, and by more than had been expected, there are one or two reasons not to get too downbeat about the Japanese economy just yet.

For starters, the non-manufacturing surveys- and diffusion indices for smaller firms- were a lot less negative (indeed, sometimes actually rose) than the large manufacturing series. Though this might simply be a factor of timing. Large manufacturing firms are typically more export-oriented and so have probably been more rapidly affected by plunging sentiment about trade and export orders than their more domestically-oriented and smaller suppliers and service sector support firms. Should the global trading environment worsen further - and we expect it to do so - then it is probably only a matter of time before these other firms go the same way as their larger manufacturing counterparts.

### Investment intentions higher?



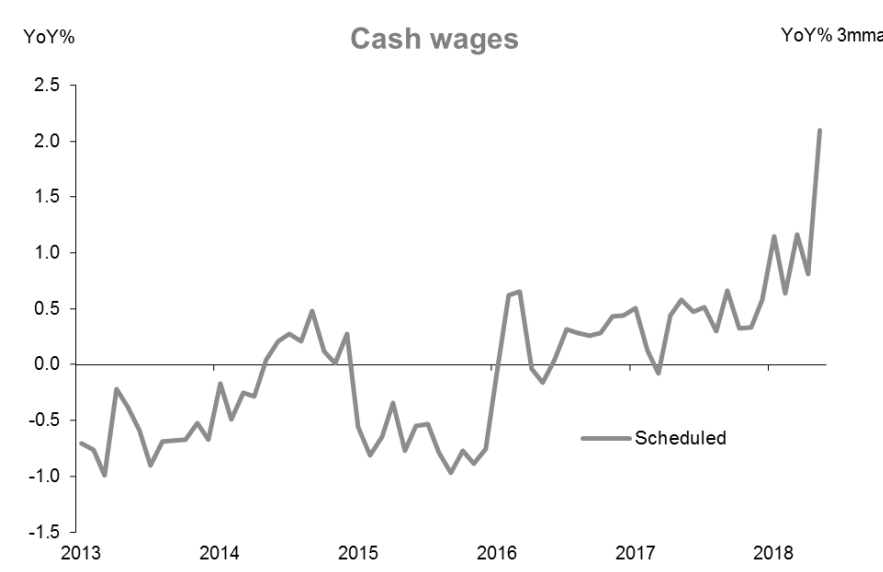
## But don't forget investment

Investment has really picked up the pace. And the thing about investment is that when it is growing, it usually does so far faster than the underlying pace of other GDP growth, lifting other sectors in its wake.

Admittedly, the profit outlook detailed in the latest Tankan survey wasn't too impressive, but that, in turn, may reflect some higher employment and even stronger wages growth. Scheduled cash earnings in April slid back to 0.9% year on year, but this looks like noise, and the recent sharp uptrend in wages growth still looks firmly in place.

So all things considered, the Japanese outlook remains reasonably good with stronger domestic demand helping to offset what looks like an unavoidable, but moderate slowdown in the manufacturing export sector.

## Scheduled cash earnings - they haven't done this for ages



Source: CEIC

## Bank of Japan still hamstrung by inappropriate inflation target

All this leaves the Bank of Japan (BoJ) wrestling with a policy target that it will never reach (2.0% inflation), and the latest tick higher by the Tokyo headline CPI index leaves it barely over a quarter (0.6%YoY) of the target.

The 10-year Japanese government bond (JGB) has seen its yield slide in recent weeks, now at just 0.033%. With little pressure for yields to do anything but decline, the BoJ has continued its policy of opportunistic skipping of scheduled bond purchases and flagrant backsliding compared to its targeted pace of asset accumulation. We can only expect this backsliding to continue or even increase as time goes on.

Meanwhile, the cover the BoJ has been waiting for from the European Central Bank (ECB) tapering its policy has not been forthcoming, as clever sleight of hand by the ECB has enabled it to move towards a taper, even the end of negative deposit rates, but in such a slow and disappointing fashion in terms of foreign exchange markets, that it has provided little if any diversion for the BoJ to undertake a similar directional move. This is unlikely to change in the current environment, and we have pushed back the timing of the BoJ's own end to negative rates until 2020.

ING global forecasts

	2017					2018F					2019F					2020F				
	FIRST QUARTER	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
<b>United States</b>																				
GDP (% QoQ, ann)	1.2	3.1	3.2	2.9	2.3	2.0	4.0	3.3	2.3	2.9	1.5	2.2	2.0	1.9	2.2	1.7	1.8	1.8	1.7	1.8
CPI headline (% YoY)	2.6	1.9	2.0	2.1	2.1	2.3	2.7	2.9	2.6	2.6	2.3	2.4	2.4	2.3	2.3	2.3	2.2	2.1	1.9	2.1
Federal Funds (% eop) <sup>1</sup>	0.75	1.00	1.00	1.25		1.50	1.75	2.00	2.25		2.50	2.50	2.75	2.75		3.00	3.25	3.25	3.00	
3-month interest rate (% eop)	1.15	1.30	1.33	1.56		2.30	2.35	2.62	2.84		3.04	2.99	3.27	3.30		3.55	3.72	3.54	3.46	
10-year interest rate (% eop)	2.40	2.30	2.30	2.40		3.00	3.00	3.00	3.20		3.30	3.20	3.20	3.20		3.20	3.10	3.00	2.90	
Fiscal balance (% of GDP)					-3.5					-4.0					-4.7					-5.0
Fiscal thrust (% of GDP)					0.0					1.4					0.8					0.4
Debt held by public (% of GDP)					76.1					77.3					79.8					83.0
<b>Eurozone</b>																				
GDP (% QoQ, ann)	2.7	3.0	2.9	2.8	2.4	1.5	1.5	1.7	1.6	2.0	1.7	1.6	1.6	1.7	1.7	1.7	1.6	1.2	0.9	1.6
CPI headline (% YoY)	1.5	1.3	1.5	1.4	1.4	1.3	1.7	2.0	1.6	1.7	1.4	1.6	1.6	1.7	1.6	1.7	1.7	1.7	1.7	1.7
Refi minimum bid rate (% eop)	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.25	0.25	0.25	0.50	0.50	0.50	0.50
3-month interest rate (% eop)	-0.33	-0.33	-0.33	-0.33		-0.33	-0.33	-0.33	-0.33		-0.25	-0.20	-0.10	0.10	0.10	0.15	0.30	0.40	0.50	0.50
10-year interest rate (% eop)	0.45	0.40	0.45	0.42		0.50	0.30	0.40	0.50		0.60	0.70	0.70	0.80	0.80	0.90	1.00	1.00	1.00	1.00
Fiscal balance (% of GDP)					-0.9					-0.9					-1.1					-1.0
Fiscal thrust (% of GDP)					0.2					0.2					0.3					0.1
Gross public debt/GDP (%)					89.2					87.7					86.1					85.1
<b>Japan</b>																				
GDP (% QoQ, ann)	1.9	2.3	1.6	1.3	1.7	-0.6	1.8	1.9	1.0	1.0	6.1	-7.8	1.2	1.4	0.7	1.1	1.1	1.1	1.1	0.6
CPI headline (% YoY)	0.2	0.4	0.6	0.6	0.5	1.3	0.7	1.0	0.6	0.9	0.6	2.2	2.2	2.3	1.8	2.3	1.0	1.0	1.0	1.0
Excess reserve rate (%)	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	-0.1	0.0		0.0	0.0	0.0	0.0	
3-month interest rate (% eop)	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00		0.00	0.00	0.05	0.1		0.1	0.1	0.1	0.1	
10-year interest rate (% eop)	0.10	0.10	0.10	0.10		0.10	0.10	0.10	0.10		0.1	0.1	0.1	0.1		0.2	0.2	0.2	0.3	
Fiscal balance (% of GDP)					-4.8					-4.1					-3.6					-3.0
Gross public debt/GDP (%)					221.0					223.0					224.0					226.0
<b>China</b>																				
GDP (% YoY)	6.9	6.9	6.8	6.8	6.9	6.8	6.7	6.7	6.8	6.8	6.7	6.7	6.6	6.6	6.7	6.6	6.5	6.5	6.4	6.5
CPI headline (% YoY)	1.4	1.4	1.6	1.8	1.6	2.5	2.0	2.0	2.1	2.2	1.9	1.9	1.9	2.0	1.9	2.0	1.9	1.8	1.7	2.0
PBOC 7-day reverse repo rate (% eop)	2.45	2.45	2.45	2.50		2.55	2.55	2.55	2.55	2.55	2.55	2.60	2.65	2.70	2.70	2.70	2.70	2.70	2.75	2.75
10-year T-bond yield (% eop)	3.29	3.57	3.61	3.90		3.75	3.54	3.50	3.40	3.40	3.30	3.20	3.10	3.00	3.00	3.00	2.95	2.95	2.90	2.90
Fiscal balance (% of GDP)					-3.7					-3.5					-3.5					-3.5
Public debt, inc local govt (% GDP)					50.0					85.0					100					100
<b>UK</b>																				
GDP (% QoQ, ann)	1.3	1.0	1.9	1.6	1.5	0.9	1.9	1.5	1.8		1.5	1.4	2.3	1.7		2.1	1.7	1.7	1.7	
CPI headline (% YoY)	2.1	2.7	2.8	3.0	2.7	2.7	2.5	2.5	2.3	2.5	2.2	2.1	1.9	2.0	2.0	2.1	2.2	2.2	2.1	2.2
BoE official bank rate (% eop)	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25	1.25	1.50	1.50	1.50
BoE Quantitative Easing (Ebn)	445	445	445	445		445	445	445	445	445	445	445	445	445	445	445	445	445	445	445
3-month interest rate (% eop)	0.35	0.35	0.35	0.52		0.60	0.80	0.80	0.80	0.80	0.85	1.05	1.05	1.05	1.05	1.30	1.35	1.60	1.65	1.65
10-year interest rate (% eop)	1.15	1.10	1.35	1.20		1.45	1.48	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.0	2.1	2.2	2.2	2.2	2.2
Fiscal balance (% of GDP)					-2.5					-1.8					-1.7					-1.4
Fiscal thrust (% of GDP)					-0.5					-0.4					-0.4					-0.3
Gross public debt/GDP (%)					87.0					86.5					86.0					85.5
<b>EUR/USD (eop)</b>																				
	1.08	1.12	1.20	1.20		1.25	1.17	1.17	1.23		1.25	1.30	1.33	1.35		1.36	1.37	1.38	1.40	
<b>USD/JPY (eop)</b>																				
	112	115	110	113		107	110	110	110		108	105	102	100		98.0	95.0	93.0	90.0	
<b>USD/CNY (eop)</b>																				
	6.89	6.78	6.65	6.51		6.28	6.67	6.80	7.00		7.00	6.80	6.60	6.50		6.5	6.4	6.4	6.3	
<b>EUR/GBP (eop)</b>																				
	0.87	0.88	0.94	0.89		0.88	0.88	0.88	0.86		0.83	0.82	0.81	0.80		0.8	0.8	0.8	0.8	
<b>Brent Crude (US\$/bbl, avg)</b>																				
	55	51	52	61	55	67	72	70	68	69	64	66	67	66	66	61.0	66.0	71.0	66.0	66.0

<sup>1</sup>Lower level of 25bp range; 3-month interest rate forecast based on interbank rates  
Source: ING forecasts

Source: ING Global Research

[Click here to download our global forecasts](#)

## Author

**Alissa Lefebvre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**

Senior European Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)



**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801  
[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**  
Senior Economist, Poland  
[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**  
Global Head of Macro  
[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**  
Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**  
Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**  
Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**  
Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**  
Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**  
Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**  
Chief Economist, LATAM  
+1 646 424 6464  
[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**  
Economist, Digital Finance  
+44 20 7767 5306  
[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)