

Article | 29 July 2022

JAPAN

# Japan: monthly activity data suggests GDP will rebound in the second quarter

Monthly activity data for June came as a surprise to the market. Better-than-expected industrial production supports a rebound in manufacturing production, while an unexpected decline in retail sales suggests a limited recovery in private consumption, seemingly hurt by high inflation and a resurgence of Covid-19 cases



**8.9%** Industrial production  
%MoM, sa

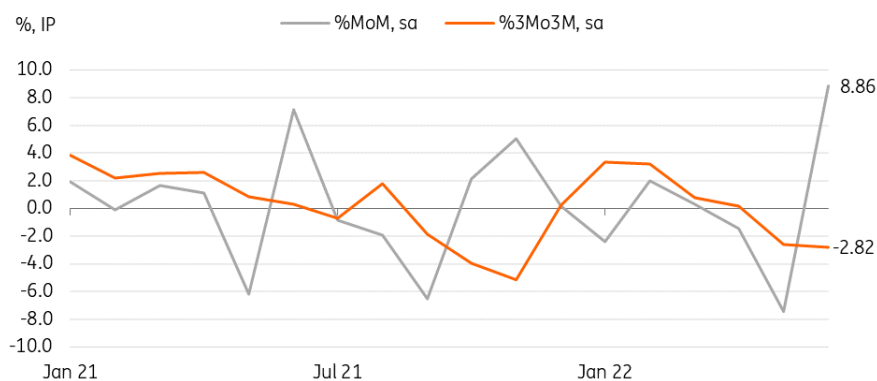
Higher than expected

## Industrial production surges in June

Industrial production (IP) surged 8.9% month-on-month, seasonally-adjusted in June, posting the largest monthly gain in data series history. The stronger-than-expected IP (vs 4.2% market consensus) was mainly due to China's relaxation of lockdown measures. The main export items such as motor vehicles (14.0%), electrical machinery (7.5%), and electronic parts and

devices (11.4%) all firmly rose. Global demand and production are clearly slowing down, particularly in the US and EU, but production in Japan has not fully normalised yet and its catch-up recovery momentum will likely hold if the global supply bottleneck continues to improve.

### IP hit a historic high in June thanks to China's lifting of lockdown measures

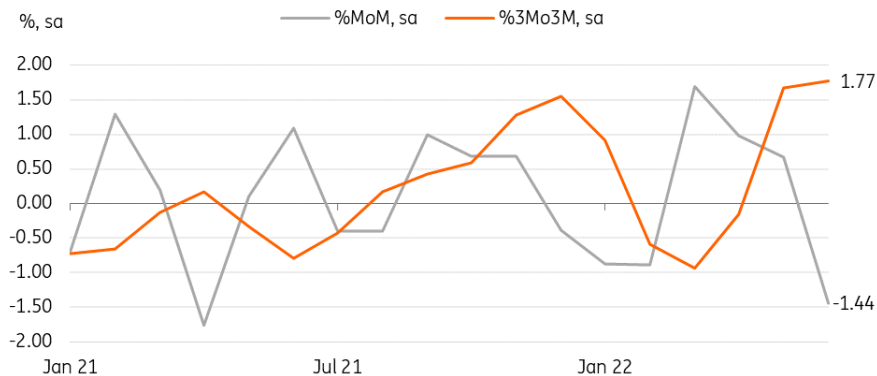


Source: CEIC

### However, retail sales dropped unexpectedly in June

Retail sales declined by -1.4% MoM sa in June (vs 0.2% market consensus), the first drop in four months. Food and apparel sales fell by -0.8% and -6.0% respectively while automobile sales rebounded by 4.0%. A resurgence of Covid-19 cases in Japan has curbed household consumption, even as the auto sector's supply bottleneck has improved. Despite the sudden monthly decline, sequential growth in three-month over three-month terms still accelerated compared to March, so private consumption should lead the growth in the second quarter. However, growing inflationary pressures and concerns about Covid will weigh on household consumption over the next few months.

## Retail sales weakened due to a pick up in Covid cases



Source: CEIC

## Labour market conditions tightened

The jobless rate in June was unchanged at 2.6% (vs 2.5% market consensus) while the job-to-application ratio edged up to 1.27 in June (vs 1.25 market consensus), indicating that overall labour conditions remain healthy. But, we do not see signs of meaningful wage growth yet and the recent Covid spike may have some negative impact on the labour market in the coming months.

## Labour market continues to tighten in June



Source: CEIC

## Inflation rises mainly due to high commodity prices, but not enough to trigger the Bank of Japan to move

Tokyo CPI accelerated to 2.5% year-on-year in July (vs 2.3% in June), higher than the market consensus of 2.4%, mostly driven by a hike in utility prices. The monthly gain sped up 0.3%MoM sa (vs 0.1% in June) with goods and services up by 0.6% and 0.2% respectively.

Inflation will likely stay above the Bank of Japan's target for a while, but cost-push-driven inflation will not change the firm stance of the Bank of Japan's easing policy.

### Revising up the second quarter GDP forecast

Based on the recent data releases, we revise up the second quarter GDP from 0.3% quarter-on-quarter sa to 0.6%, maintaining our view that the economy made a moderate recovery in the second quarter following the first quarter's contraction of -0.1%.

#### Author

##### Min Joo Kang

Senior Economist, South Korea and Japan

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

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).