

Japan: More than just noise

Japan's economic scorecard has been better of late, which should provide comfort to the embattled prime minister



Source: shutterstock

Is the Japanese economy really 'booming'?

Since last month, Japan has produced some surprisingly strong GDP data – the strongest in the G7 in 2Q17, some OK-looking inflation numbers, decent looking trade figures and housing construction, but some disappointing spending and cash earnings figures.

Given his poor approval ratings, the prime minister, Shinzo Abe, will take comfort in a macro backdrop that, according to some measures, is doing very well.

PM Abe will take comfort in a macro backdrop that on some metrics is booming.

But the reality is that the 2Q17 GDP figures are likely in large part to reflect poor seasonal adjustment, with a 3Q payback a strong likelihood.

Even so, the genuine underlying trend for Japan is probably better than many think. Weak spending data this month looks to us to be just the usual noise that besets these numbers; likewise for labour cash earnings, where scheduled earnings look to be trending slowly higher. In due course, this ought to lift spending, though it might take a bit of time before consumers start to change their behaviour to match their earnings.

The inflation question

The inflation figures too could be worth watching in the months ahead. We focus on the Tokyo series for these, which lead the national figures by a month, and have been trending higher for some months now. The national series has so far been a bit more resistant to rise, but we believe we could see even these prices edge slowly higher in the months ahead. And this could deliver a mild virtuous circle of higher spending and sustained modest positive price movements.

So in contrast to BoJ Governor Kuroda, who opined at the Jackson hole convention that Japan's economic strength was likely to be short-lived, thus suggesting policy on hold for the foreseeable future, we do see some signs of a better underlying trend, even if the near-run dataflow will likely be dominated by statistical payback.

Tax and spending

One side effect of the economic data running a bit better than anticipated, is that this is encouraging lawmakers to brush off their twice-shelved plans to raise the consumption tax. This is now scheduled to rise by October 2019.

But despite the somewhat better underlying outlook, we remain sceptical of such plans to reduce spending power for Japanese households, and also of plans to balance the primary deficit and reduce the gross public debt to GDP ratio. We have not included any consumption tax hike effect in our 2019 inflation forecasts. More likely, the next budget will expand spending, with government construction spending on childcare facilities at the forefront to help enable more women to return to the labour market after childbirth. Greater defence spending is likely to run into less opposition given the recent missile launches by North Korea, and China's increasing military presence in the region.

10%

Consumption tax by October 2019

Scheduled increase

In conclusion

With his political support weakened, and likely to remain soft, PM Abe will find it difficult to pass laws to tax consumers more in 2019. Indeed, with Lower House elections due in Japan on or before December 2018, there is no guarantee that the LDP will be in power by October 2019, or that even if it is, that Abe will continue to be PM. Despite the LDP's vice-like hold on power in recent decades, Japanese voters too seem to be embracing the idea that there could be a realistic alternative political choice.

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