

## Japan: Not as good as it looks

With the Fed looking more dovish, the Bank of Japan will be looking anxiously at the USD/JPY rate and wishing it had some effective tools left in its monetary arsenal. Unfortunately, it has none



Source: Shutterstock

### No consumption tax hike leads to more stable growth and inflation forecasts

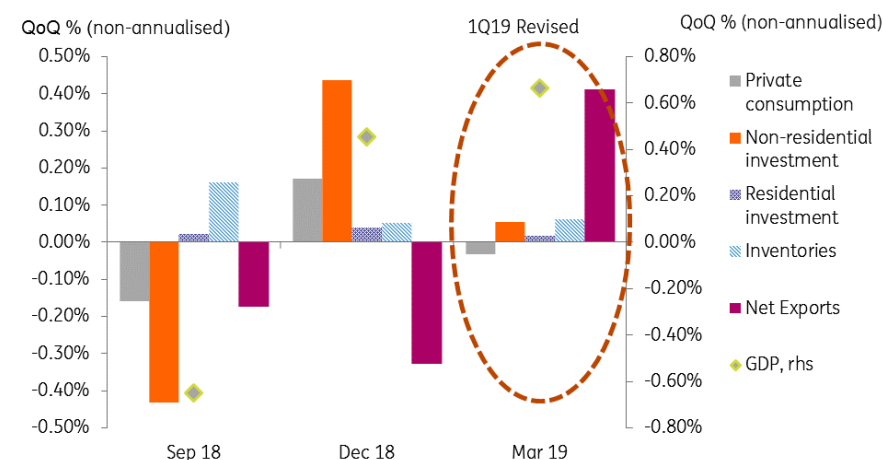
A few months ago, we took the gamble of removing the scheduled October consumption tax hike from our forecast numbers. The effect of this was to smooth both the inflation figures (we no longer have a 12-month bump from 4Q19 to 3Q20), and also the GDP figures (we no longer have the front loading and subsequent consumption and investment lacuna).

All of this is fairly cosmetic, and has very little bearing on overall annual GDP figures, though removing the tax hike does remove the temporary lift that inflation would otherwise get, and makes it harder to see by just how much the Bank of Japan is missing its 2% underlying inflation target.

The revised 1Q19 GDP figure of 2.2% is being touted as the final nail in the coffin for those like us who speculated on a third delay to the scheduled tax hike. But this contrasts with the other message of this release. Namely: outside of some very modest business investment figures, which show few signs of remaining positive in the coming quarters, much of the 2.2% annualised GDP growth came from a rogue net export figure which had imports falling far more sharply than

exports, and which in all likelihood, also presages a sizeable inventory drawdown in the quarters ahead.

## Contribution to GDP (QoQ%)



Source: CEIC, ING

## Softer data means no rush to re-insert consumption tax hike into the mix

So although we concede that we may have to put the consumption tax hike back into the numbers, we won't rush this decision. Indeed, Japan's data remains moribund. Household spending started 2Q19 much softer than it ended 1Q19, which may also reflect the plunge in labour cash earnings, now running at a negative year on year rate.

---

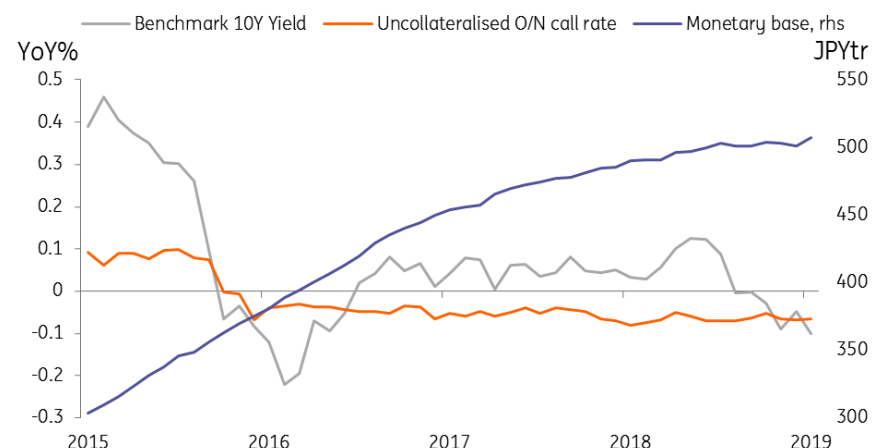
*Although we concede, we may have to put the consumption tax hike back into the numbers, we won't rush this decision*

---

On the trade side, Japan is still running a marginal deficit, but there doesn't seem to be any noticeable improvement from 1Q19, so the likelihood this delivers any boost to 2Q19 GDP growth looks small. Indeed, unwinding the big boost in 1Q19 seems far more likely with the trade war showing no signs of easing and the technology slump still in full swing.

Furthermore, both construction orders and housing starts registered large declines in April and will have their work cut out to claw their way back to positive growth by the end of the quarter.

## The BoJ's policy options – none are easy



Source: CEIC, ING

### If the Fed cuts rates, the Bank of Japan might well follow suit

For its part, Japan's central bank is still talking up their potential firepower should renewed stimulus be needed, though Governor Haruhiko Kuroda also stresses the need to be wary of the unintended consequences of further easing. Kuroda notes that policy rates could be lowered still further (currently -0.1%), the target for 10-year bond yields could also be lowered, the monetary base could be expanded, or asset purchases could be boosted (which is almost the same as saying the monetary base could be expanded, so really three, not four options).

If the Federal Reserve cuts rates in the coming months, as markets seem to increasingly believe, then depending on how the Japanese yen responds, we might well see the Japanese central bank respond with some additional easing of their own. Though each of the measures outlined above comes with its own particular set of problems, and none are guaranteed to offset a generalised spell of USD weakness completely, should this follow a Fed rate cut.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.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 <http://www.ing.com>.