

## Japan: Not bad enough

The end of 2Q19 delivered a disappointing assessment for Japan in the form of the June Tankan survey. But whilst it fell more than expected, it might just not be 'bad enough' to postpone the October consumption tax hike



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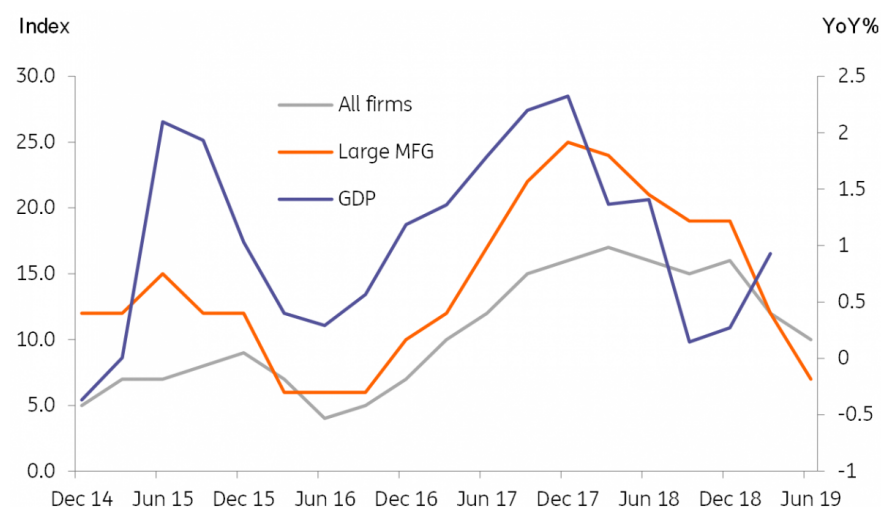
### 2Q Tankan disappointment

The Tankan survey, undertaken each quarter by the Bank of Japan, gives a good snapshot of the economy together with forward indicators that are both more timely, and in the past at least, more “accurate” than the GDP figures, which were, and at times still are, dominated by erratic stimulus packages or one-off spikes and troughs in volatile elements like inventories and trade.

The Tankan headline large firm manufacturing index fell more than expected (to 7 from 12) which puts it only just above the 2016 trough. To put that into perspective though, this index fell to -58 during the global financial crisis, so manufacturing is softening, not collapsing.

The forward-looking “outlook” series for the manufacturing industry also dimmed, which is not surprising given the issues facing Japan and the rest of Asia - Trade war, tech slump and slowing global trade.

## Tankan shows manufacturing slowing, not collapsing



Source: CEIC, ING

## Data might not be 'bad enough' to postpone the October consumption tax hike...

But while the direction of the Tankan was down, the speed of decline is not particularly alarming. 2Q19 GDP may well show a decline in both quarter-on-quarter and annual growth – but this looked likely anyway after the improbable bounce in 1Q19.

But the main reason for opening this Japan report with a detailed description of the Tankan is not to predict GDP, but because the Tankan was possibly the only bit of economic data remaining, that, if sufficiently bad, might encourage a postponement of the October consumption tax hike.

This hike, which has already been delayed twice, will raise the consumption tax by two percentage points, adds a bit more than a percentage point to headline inflation (for 12 months) and will result in the usual front loading and then collapse in spending that has accompanied similar tax hikes.

We had removed the tax hike from our forecasts many months ago as we felt the data was insufficiently supportive to allow it to go ahead. Right now, this decision does not look as if it was correct. And the figures will need amending at some point before long. We are allowing the latest figures time to percolate through senior politicians before formalising that change.

## ...although the July election remains a threat to it

The only other potential impediment to the consumption tax hike now is July elections. The 21 July election takes half of the Upper House members back to the polls. We don't envisage a major upset. The ruling LDP plus Komeito coalition partners currently hold 150 of the 245 seats in the Upper House. Retaining a majority looks relatively likely, though the coalition remains 13 seats short of a two-thirds majority to make major constitutional changes. And that probably will not change.

Nevertheless, a bad election outcome, even if not one changing the majority within the Upper House, might still cause a rethink on policies, and the consumption tax could yet be a victim of this.

## Nothing new from the BoJ, but the money base is growing

There are no new developments on the Bank of Japan, though it is worth noting that the monetary base, which had basically ceased to grow from the end of 2018, has picked up recently. There has been no announcement to accompany this, but it matches the steep decline in 10Y JGB yields over the same time period, and could be a deliberate, if covert policy measure aimed at preventing JPY appreciation against the growing likelihood of US Fed easing. More likely though, the fall in JGB yields is just a reflection of what is happening in US Treasury markets.

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