

Japan's growth prospects remain positive, at least in the short term

Today's numerous data releases, from inflation to labour to business surveys, suggest a positive outlook for Japan in the near term. The overall picture is still mixed and the figures aren't good enough to change the central bank's current stance

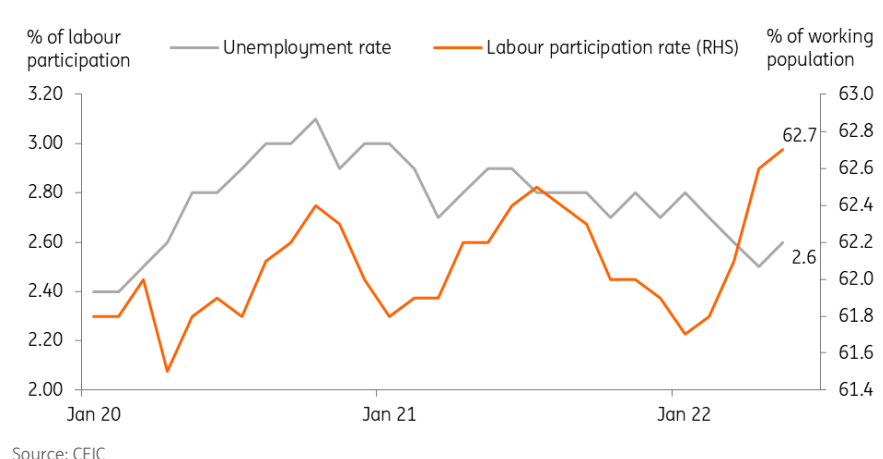


The short-term growth outlook appears to be improving in Japan

Overall labour market conditions improved in May

Japan's jobless rate unexpectedly rose to 2.6% in May (vs 2.5% market consensus), but that's the first rise in four months. However, the labour participation rate hit an all-time high at 62.7% and the jobs-to-application ratio improved for three consecutive months, which indicates labour tightening going ahead. Although no signs of wage growth have been detected yet, the reopening of the economy and the better Covid situation have improved overall labour market conditions.

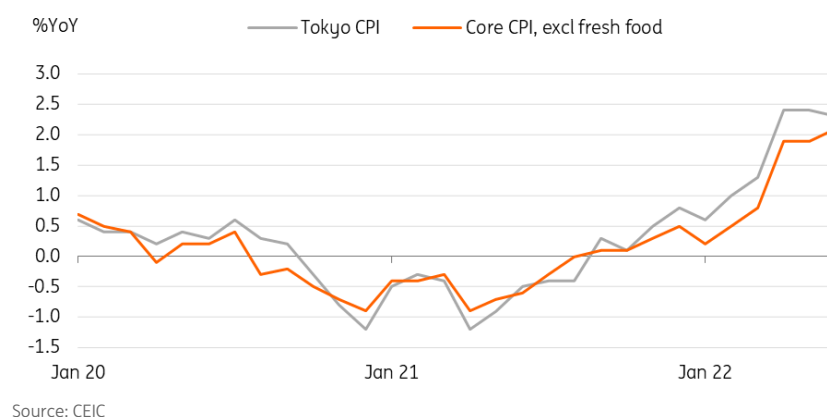
Labour markets are on a recovery path



Inflation stabilises on the back of government energy subsidies

Tokyo CPI decelerate to 2.3%YoY in June (vs. 2.5% market consensus) from 2.4% in May, but core CPI, excluding fresh food, rose 2.1% YoY in June (vs 1.9% in May). Energy prices remained high at 21.7% but a bit down from the previous month's 22.3%. We think government subsidies curbed additional price gains in gasoline and diesel. But, manufactured food prices are scheduled to rise in the coming months, thus near-term CPI will stay above 2% for a while.

Tokyo CPI stayed above 2.0%



Headwinds for manufacturers, services more positive in the near future

The Tankan survey results were a bit disappointing as the outcomes missed the market consensus. However, large companies hold more optimistic views on the future outlook, certainly for non-manufacturing companies. The survey's large non-manufacturing outlook rose to 13 (vs 7 in the first quarter) while the manufacturing outlook made a mere 1 point rise to 10 (vs 9 in the first quarter).

Another manufacturing survey, the Jibun Bank PMI, fell to 52.7 in June (vs 53.3 in May), recording the lowest since February 2022. Headline PMI stayed above the neutral level, but growth

momentum declined slightly, in line with the results of the Tankan survey.

We believe the post-Covid reopening, and government stimulus will be the most beneficial to local service providers while unfavourable external conditions should put more pressure on manufacturing companies.

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