

Japan: Abe's gamble

Japan's PM Abe has gambled that a snap election will return him as PM, and give him the mandate to push through his policy agenda



Source: shutterstock

Why did PM Abe call the snap election?

Prompting the snap election was a sense that PM Abe had benefited from a recovery in public opinion, following North Korea's recent display of belligerence. He is also no doubt aware that the opposition party, the Democratic Party of Japan (DPJ), is in deep disarray.

Recent Japanese data has also been strong. Abe will claim credit for this, though Japan's strength is mirrored elsewhere in the region, and Japan seems to be riding on the crest of global demand for Asian goods, including its own. Japan's GDP is strong (for Japan) and unemployment is very low. Even the inflation rate seems to be slowly heading higher, it remains well below what we see as the BoJ's utterly non-credible 2.0% target.

A controversial policy move

If he wins the election, Abe has pledged to raise the consumption tax rate by 2ppt to 10% (not an obvious vote winner) in 2019. Instead of using the proceeds of the tax hike to work down Japan's deficits, as previously promised, Abe has promised to spend the money on enhancing education,

especially pre-school care for would-be returning mothers.

Japan's weak potential growth is a function of a shrinking labour force.

As a policy move, this makes some sense. Japan's weak potential growth is a function of a shrinking labour force. Japan's female participation rates are lower than they could be, though on an international context, Japan compares favourably with some of the bigger European countries on this metric.

From a macro perspective, such policies will provide a boost to potential output, but probably a very small one. The construction of facilities to provide these services will, however, deliver a bigger short-term bounce.

Even so, it is difficult to see a rise in the consumption tax being neutral with respect to the economy, and at best, we envisage the re-distributed revenues and ensuing activity dampening the hit to demand.

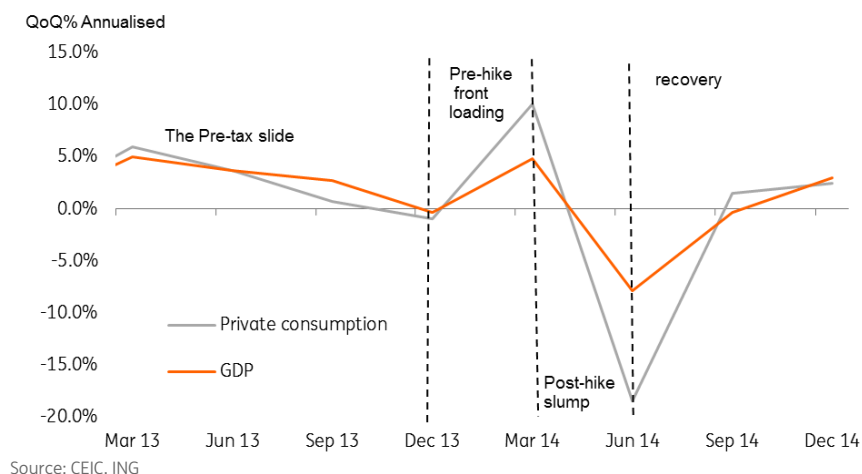
10% Pledged consumption tax
up by 2pp

Will it actually happen and what could the consequences be?

Having been through these tax hikes before, there is a well-worn path for forecasting the outcome, which entails a pre-April 2019 spike in consumer spending and construction to front-run the tax hike (anything from new homes to toilet rolls will be pre-stocked), followed by a slump, and a slow grind back to previous growth rates.

Abe has pulled back from implementing tax hikes before, and it is possible he does so again. He has built in an opt-out into his pledge, saying that the tax hike will go ahead unless it is likely to weaken the economy. And there remains considerable scepticism in the region about a 2019 tax hike. But with growth currently strong, we are now formally incorporating the consumption tax hike and spending pledges into our growth and inflation numbers.

The 2014 consumption tax hike



A win for Abe?

Despite no coherent opposition, this election is still a gamble for Abe. As we wrote two months ago, a new political order is shaping up in Japan, resulting in the sweeping Tokyo election victory for Mayor Juriko Koike. Her Tokyo movement is now trying to join forces with the disbanded DPJ to form a national “Party of Hope”, to challenge Abe.

In four years' time, the Party of Hope will likely give the LDP a run for its money.

With the election on 22 October, we think her chances are slim, even though there are some parallels between what she is trying to do, and Emmanuel Macron’s “En Marche” victory, and also between Abe’s gamble, and the failed gamble of UK PM May earlier this year. Moreover, in terms of policies, there is very little to separate Koike from Abe on policy grounds. This is more about personalities, and so far, Koike is about the only personality in her fledgling party. In four years’ time, the Party of Hope will likely give the LDP a run for its money. But they face a very difficult task at this election.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee
zoltan.homolya@ing.com

Amrita Naik Nimbalkar
Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebvre
Economist
alissa.lefebvre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Deputy Global Head of Editorial and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporate Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Chief Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com