

Japan

Japan: 4Q22 GDP rebounded, but less than expected

We expect the modest recovery to continue this year, but it is questionable whether it is going to be strong enough for the Bank of Japan to make progress in normalization as rapidly as expected by the market



0.2% 4Q22 GDP

(%QoQ sa)

Lower than expected

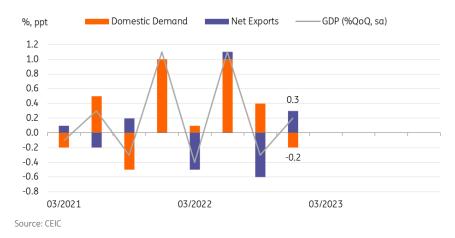
Disappointing 4Q22 GDP, but the recovery will continue in the current quarter

Today's data was on the soft side because not only was the quarterly growth rate weaker than the market consensus of 0.5% but the previous quarter's growth rate was downgraded to -0.3% (vs -0.2% initial estimate).

For the domestic demand components, private consumption (0.5%) led the growth. But both residential (-0.1%) and non-residential investment (-0.5%) fell, partially offsetting this. We believe that the government's travel subsidy program has boosted service sector activity, and the government's energy subsidy program is also expected to help ease the burden on households to some extent. Consequently, we believe that private consumption will remain the main source of growth in the current quarter, though its momentum may weaken. For investment, higher JGB yields may be a negative factor. But the reopening of China and stronger-than-expected US and EU economies could offset this. That said, monthly data from business surveys and core machinery orders still suggest a bleak outlook for investment this quarter. Taken together, we expect investment to remain weak but rebound meaningfully in 2H23. In the case of inventories, they actually dragged down growth by 0.5pp in 4Q22, but this probably suggests restocking in the quarters ahead.

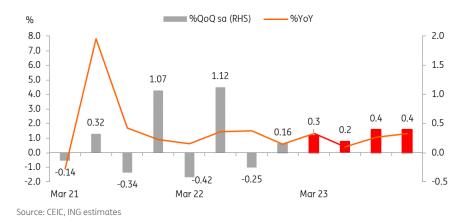
For the external components, exports rose 1.4% but imports dropped 0.4%, resulting in a contribution to growth from net exports of 0.3pp. A stronger yen and weaker commodity prices worked in favour of improving net export contributions. Also, the sharp increase in foreign tourists was another reason for the improvement. We think that the reopening of borders will likely further support growth in the current quarter along with China's reopening. In summary, we believe that GDP in the first quarter will accelerate modestly boosted by tourism related service activity and inventory restocking.

4QGDP growth was mainly driven by external demand components



BoJ watch

Today's weaker-than-expected growth data will give the Bank of Japan more reasons for caution. In particular, soft investment will be a concern. That is why we believe that the incoming new governor will find it difficult to start any normalization very soon and instead, will take time to analyze inflation and wage growth trends first. Eventually, however, we expect the new Governor to undertake a policy review and take a small step towards normalization.



GDP forecast : expect a modest recovery throughout the year

Author

Min Joo Kang Senior Economist, South Korea and Japan min.joo.kang@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 www.ing.com.