

# Disappointing data signals drop in growth ahead for Japan

Japan's industrial production rebounded mostly driven by solid auto outputs, but not strongly enough to cancel out the declines in the previous two months. GDP is likely to post a contraction in the third quarter as a result



While a contraction can be expected for third-quarter GDP, the current quarter should bounce back thanks to resilience in auto manufacturing and an influx of foreign tourists supporting service activity

0.2%

Industrial production

% MoM sa

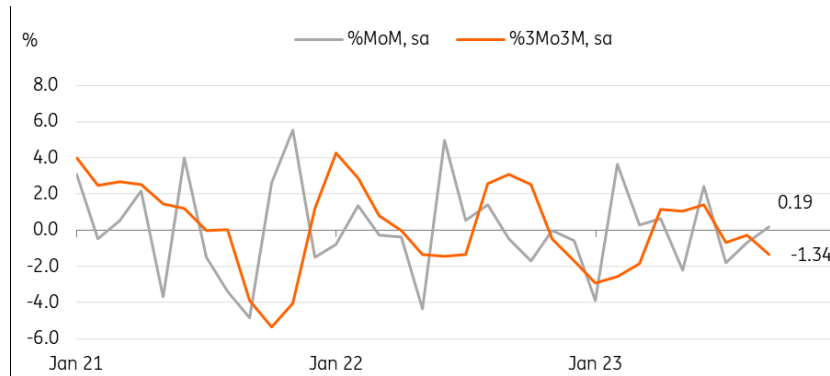
Lower than expected

## IP rebounds in September after two months of decline, but misses market expectations

Manufacturing output was surprisingly weak in Japan, with a mere 0.2% month-on-month sa rise in September after declines in the two previous months. Auto production led the rebound by improving global supply chains. We think strong auto sector performance will last for the time

being, given the very tight global inventory conditions. But, with US sales expected to slow in the coming months, we may begin to see some cooldown of auto production from early next year. The survey of manufacturers showed that October production will likely rise 1.1%, and we think the recovery in manufacturing will strengthen entering the fourth quarter.

## IP contracted in the 3Q23

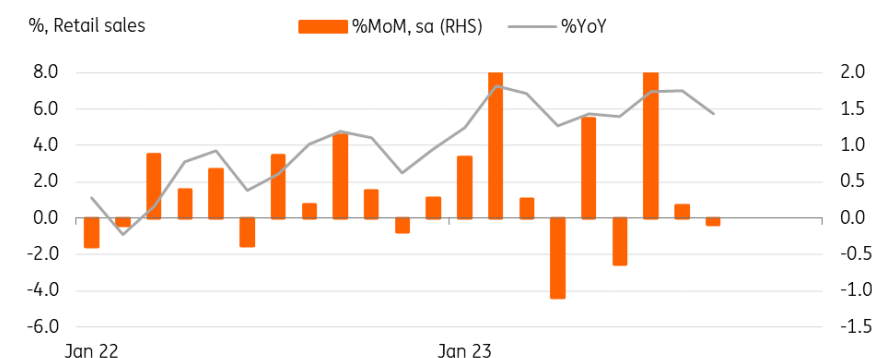


Source: CEIC

## Retails sales dropped -0.1% MoM sa in September (vs revised 0.2% in August, market consensus)

Retail sales unexpectedly posted a loss for the first time in two months. Household machines (4.1%) gained for the third straight month, but other major outcomes were pretty weak. Motor vehicles (-0.8%), apparel (-7.2%), and general merchandise (-0.8%) all fell. We believe that this month's dip is still temporary, as the labour market continues with the same trend. But, as price tags have risen more rapidly than wage increases for an extended time, the downside risk of slowing household consumption is growing.

## Retail sales held up relatively well probably due to tight labour condition



Source: CEIC

2.6%

Unemployment rate, sa

The jobs-to-application ratio at 1.29

As expected

## Labour market remained tight

Separately, jobs market data showed some improvement in September. The jobless rate edged down to 2.6% (vs 2.7% in August, market consensus 2.6%) and labour participation rate rose to 63.3% (vs 63.1% in August). In addition, the jobs to applications ratio was unchanged at 1.29 after trending down from the beginning of the year, and there are still more jobs unfilled in the market. We believe that a tight jobs market will likely support wage growth and consumption to some extent. The service sector will continue to lead the job markets on the back of solid tourism.

## GDP outlook

As September IP and retail sales were softer than expected, we think that third-quarter GDP will be likely to post a small contraction. Manufacturing IP contracted -1.34% quarter-on-quarter sa in the third quarter (vs 1.4% in the second quarter), which should be the main drag for the growth. Retail sales improved in the same period with a 2.3% gain, but are estimated not to have caught up with high inflation.

We believe that a sharp correction in manufacturing will be the main reason for the contraction, and we have revised down our third-quarter GDP estimates from 0.0% QoQ sa to -0.2%. However, the current quarter growth should bounce back as resilience in auto manufacturing continues and an influx of foreign tourists supports service activity.

## Author

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto: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](http://www.ing.com).