

## Japan: retail sales rise while consumer sentiment weakens

We expect a consumption-led recovery in the second quarter, but weak consumer sentiment poses a risk to consumption in the second half of the year



**3.6%** Retail sales %YoY

Lower than expected

### Retail sales continue to grow but at a slower pace

Japan's retail sales in May rose 3.6% YoY, slightly missing the market consensus of 4.0%, but the previous month's data was revised up to 3.1% (vs 2.9% preliminary).

On a seasonally-adjusted month-on-month basis, retail sales gained 0.6% MoM sa in June (vs 1.0% in May). The "Golden Week" holiday season may have boosted household consumption as travel-related sales such as apparel and fuel were particularly strong. However, durable goods sales

dropped for the second month in a row, and the contraction in motor vehicles even intensified from -4.6% in May to -7.4% in June. We think that overall consumer spending is making progress and expect second-quarter GDP to rebound after a 0.5%q/q saar contraction in the first quarter, but it is questionable whether the strong rebound will be sustained for the rest of the year.

## The consumer confidence index slid to 32.1 in June, more than offsetting the previous two months' gain

Although all four sub-components declined, a willingness to buy durable goods fell the most by 2.6pt, suggesting that durable goods sales are likely to remain soft in the coming months.

## However, an accommodative macro policy environment will support the economy

In Japan, unlike other major developed market countries, both monetary and fiscal policies remain supportive of growth. The Bank of Japan is highly likely to keep its ultra-low policy stance through the end of the year, and the government's series of subsidy programmes will soon boost domestic consumption and partially offset the negative impact of a weak yen and rising prices. Measures such as a nationwide travel voucher programme in July, 38.4 yen/liter of gasoline subsidy (starting from tomorrow), and cash transfers for low-income households are expected to aid households in the pandemic recovery.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

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

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