

Japanese businesses positive despite US trade uncertainty, supporting BoJ's rate hike cycle

Japanese businesses, large and small, remained positive overall despite trade war uncertainties. Manufacturers maintained a positive view, as evidenced by the manufacturing PMI moving into expansion for the first time in 12 months



12 Tankan large manufacturing outlook
(vs 12 in March)

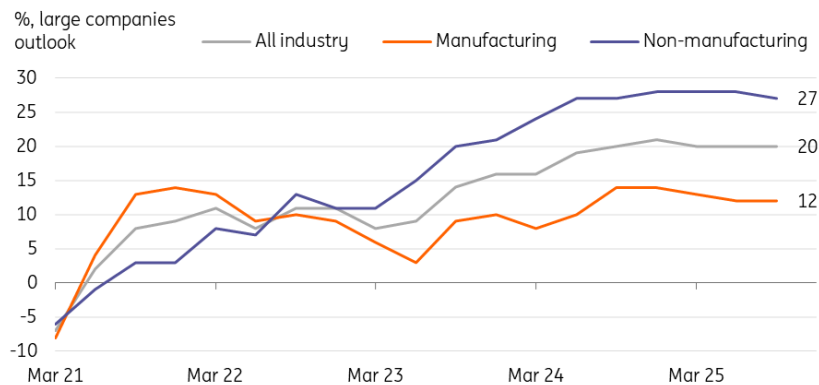
Higher than expected

Manufacturers have a positive outlook

The overall results for Japanese manufacturers exceeded market expectations. The Tankan large manufacturer index increased to 13 in June (vs 12 in March, 10 market consensus), while the

outlook index remained at 12 (vs 9 market consensus). The manufacturing purchasing managers' index (PMI) also rebounded to 50.1, a bit lower than the flash print of 50.4, though. This marks the first expansionary result in 12 months. Output rose meaningfully, suggesting a rebound in manufacturing activity in the second quarter. Yet, new orders fell. So, the recovery remains quite vulnerable.

Outlook remains stable despite US trade uncertainty

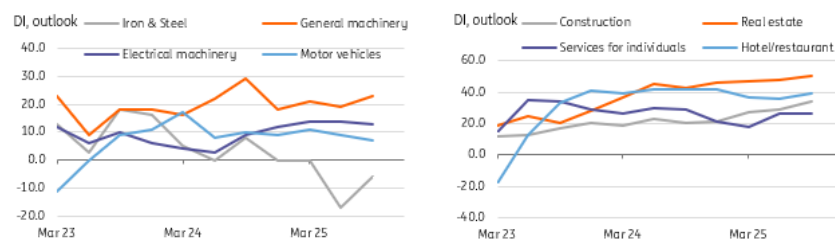


Source: CEIC

Non-manufacturers expect some moderation in the coming months

The large non-manufacturers index edged down to 34 (vs 35 in March, 34 market consensus) but still remained near historical highs. Yet the outlook index unexpectedly edged down to 27 (vs 28 in March, 29 market consensus). Given Japan's high dependency on domestic demand for economic growth, any rebound may be a bit smaller scale than we expected.

US tariffs hit manufacturing outlook for steel and autos, but overall sentiment positive



Source: CEIC

Businesses expect inflation to rise above 2% for a while

Also noteworthy, businesses anticipate an inflation rate of 2.3% for output prices over the next year, with prices expected to continue accelerating over the next five years. This projection will be carefully monitored by the Bank of Japan to ensure that the sustainable 2% inflation target remains achievable.

BoJ watch

The BoJ is expected to increase rates this year, but this will likely occur after a US-Japan trade agreement is signed. Despite resilient businesses and rising inflation, the BoJ may avoid raising rates anytime soon. Therefore, a 25 bp hike is anticipated in October. If a trade agreement is reached earlier than expected, and with more favourable terms, the hike could come sooner in September.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@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.