

Japan's data surprises on the upside

Stronger-than-expected industrial production and solid labour market data suggest Japan's economy continued to recover in the current quarter. A further easing of border restrictions and resumption of domestic travel aid programmes will support next quarter's growth as well. Thus, we upgrade 2022 GDP growth to 1.6% YoY from 1.2% previously



Source: Shutterstock

2.7%

Industrial Production

% MoM, sa

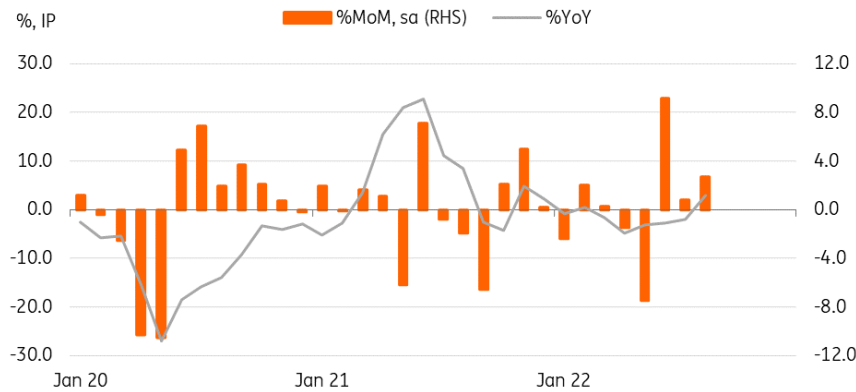
Higher than expected

Industrial production recorded a third monthly gain in August

Industrial production in August rose 2.7% month-on-month seasonally-adjusted (vs 0.8% in July), beating the market consensus of 0.2%. In three-month sequential terms, IP rebounded quite sharply by 4.6% from -2.7% in June, suggesting that quarterly manufacturing growth in GDP is

highly likely to turn positive. Machinery (3.5%) and iron/steel (3.6%) were the main factors behind the strong monthly gain while automobiles (-4.0%) and petrochemicals (-2.4%) dropped. Electronic parts and devices, meanwhile, recorded a second monthly decline (-6.3%), which was also shown in today's Korean IP data, thus the regional weakness in the IT sector adds to concerns about weak global demand in the coming months.

Japan IP recorded a third monthly gain in August



Source: CEIC

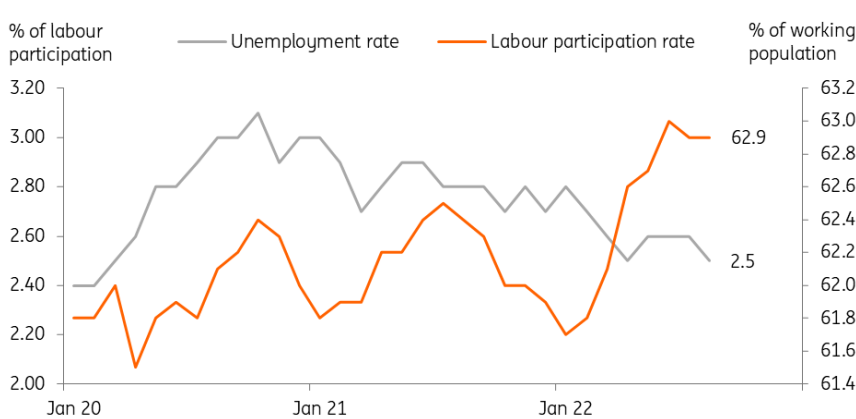
Retail sales increased 1.4% MoM sa in August

In a separate data release, retail sales rose firmly, by 1.4% MoM sa in August (vs 0.8% in July), beating the market consensus of 0.2% as well. With easing mobility rules, summer holiday-related spending appears to have increased. This encouraged further consumption during the current quarter despite higher inflation and weak JPY conditions.

Labour conditions continued to tighten

The jobless rate edged down to 2.5% in August after having stayed at 2.6%. This was in line with the market consensus. The labour participation rate was unchanged at 62.9%. In addition, the job-to-application ratio improved to 1.32 (vs 1.29 in July).

Labour conditions improved in August



Source: CEIC

The growth outlook and the Bank of Japan policy reaction

Given stronger than expected industrial production and retail sales, we have upgraded third and fourth quarter GDP to 0.5% quarter-on-quarter sa and 0.4%, respectively. We believe that easing Covid restrictions will boost service activity and service jobs for a while, which will be the main driver behind the fourth quarter growth. Also, given the weak Japanese yen, incoming travel demand could work favourably for the nation's economy if border restrictions are lifted.

The latest data releases from Japan point to a solid recovery in the near future and are a positive sign for the wage growth that the Bank of Japan is seeking. Japan is reopening its economy at a slower pace than other Asian countries and the reopening effects are just kicking in, which should be the main driver for the positive outlook for the second half of the year. However, as the headwinds of the global recession grow, the BoJ will take its time to determine whether Japan can still deliver solid outcomes in a sustainable way.

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 <http://www.ing.com>.