

## Japan's economy shows solid signs of recovery

Today's monthly activity data is positive with both industrial production and retail sales improving, suggesting that the moderate economic recovery will continue this quarter – posing an upside risk to the current quarter's GDP



Industrial production rose unexpectedly in July by 1.0% month-on-month

# 1.0%

## Industrial Production

%MoM, sa

Higher than expected

### Industrial production and retail sales improved in July

Industrial production rose unexpectedly by 1.0% month-on-month, seasonally-adjusted (vs -0.5% market consensus), following a 9.2% surge in June. Output forecasts for August and September also improved suggesting that solid production is likely to continue this quarter. By industry, automobile production and shipments improved. Keeping up with the production setbacks will

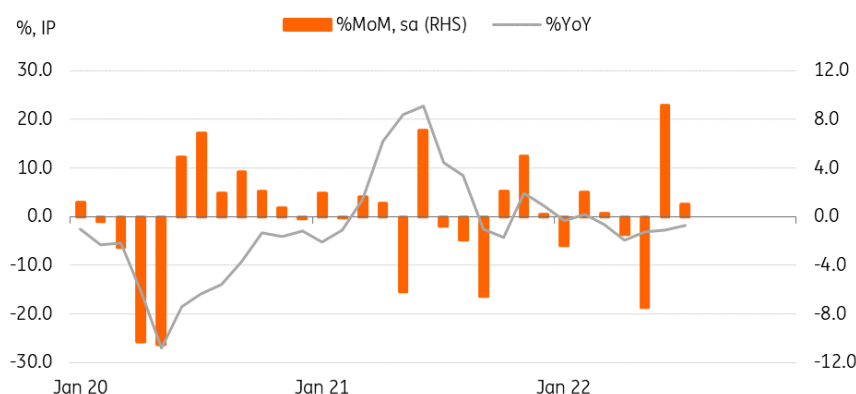
normalise in a few months, but the solid gain for two consecutive months shows that the global supply bottleneck is fading and pent-up demand remains strong. Meanwhile, weak production of electronic components and devices suggests that global semiconductors are entering a downcycle for the second half of this year.

Meanwhile, retail sales edged up 0.8% in July (vs -1.4% in June), which was also better than the market consensus of 0.3%. Household consumption remained strong despite the resurgence of Covid cases and high inflation. General merchandise and apparel fell, but more importantly, motor vehicles continued to rise firmly by 4.4% (vs 5.2% in June) for the second month in a row.

Separately, the consumer confidence index rose to 32.5 in August (vs 30.2 in July). Consumers showed a positive outlook as overall livelihood, income growth, employment, and willingness to buy durable goods advanced for the first time in three months.

Today's reports signal that the Japanese economy continues to recover, mostly due to catch-up production gaps and the reopening effect.

## Industrial production rose in July for the second month in a row



Source: CEIC

## Outlook for 3Q GDP and Bank of Japan policy

The recent data releases from Japan are positive. Labour market conditions appear to have tightened while the growth outlook for the current quarter is also promising as monthly activity data and survey data have improved more than expected. Currently, we expect third-quarter GDP to grow 0.3% quarter-on-quarter sa (vs 0.5% in 2Q22), but an upside revision is on the way after confirming PMI and core machinery orders in two weeks. As for inflation, if the Japanese yen continues to weaken, hitting the 140 handle, then inflation could climb up to 3.0% year-on-year by year-end.

We believe the recent positive outcomes are not good enough for the Bank of Japan to change its policy stance yet as it believes the recovery is still very fragile. On the other hand, Governor Haruhiko Kuroda pledged over the weekend to maintain the easing policy to support growth. Thus, we expect the Bank of Japan to stay pat at its September meeting.

## 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).