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# Japan | Economic and Financial Market Outlook

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APR. 2024

**Daiwa**  
Asset Management



### Economy

#### Revision to positive GDP growth lacks strength

According to the second preliminary report for the October-December GDP, the real GDP growth rate increased by +0.4% (YoY) from the initial report of -0.4%, avoiding two consecutive quarters of negative growth. While capital investment significantly contributed to the upward revision, personal consumption decreased slightly for the third consecutive quarter. The contribution of foreign demand is +0.6% pt, but there are special factors that may cause a reactionary decline in the January-March period. It seems not optimistic due to the Noto Peninsula earthquake and the suspension of production at Daihatsu Daihatsu.

#### Personal consumption is sluggish due to high prices

The January Total Consumption Trend Index (CTI Macro) (seasonally adjusted value), which estimates GDP's personal consumption based on household surveys, commercial activity statistics, and the third tertiary industry activity index, decreased for the third consecutive month by nominal -0.1% and real -0.2% compared to the previous month. Households are becoming more defensive of their lifestyles, and consumption is sluggish due to a series of price hikes as a result of raw material price hikes and a weakening Yen. Although there are signs of a pause in the current price hikes, the softness of the situation is likely to continue for the time being.

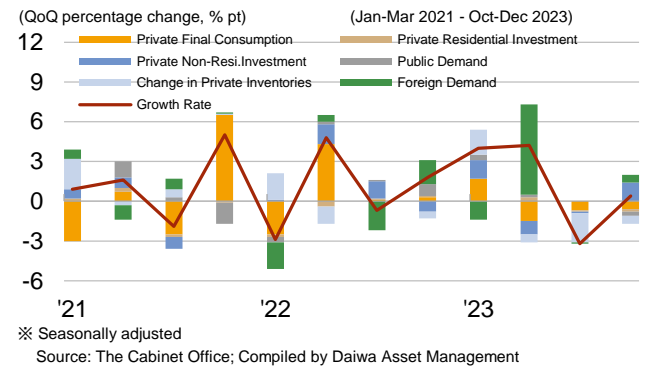
#### Consumer price growth is slowing

There are signs of a slight pause in the current price hikes. The CPI, calculated by subtracting the percentage of falling items from the percentage of rising items, has been on a downtrend since peaking at 79.7% ppt in September last year. The mode, which is the value that appears most frequently in the year-on-year change in prices by item, also peaked at 3.0% in August last year and has been on a downtrend, with a view to falling below 2%. The rise in commodity prices has slowed, and there are signs of a lull in cost-push inflation.

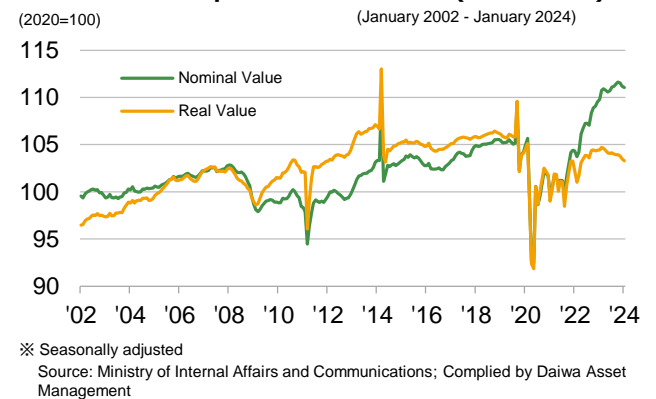
#### Spring Struggle Wage Hike Rate Highest in 33 Years

The tally of the first round of responses to the spring labor offensive compiled by RENGO showed that the average rate of wage increase was 5.28%, up 1.48% ppt from the same point in the previous year, and in comparison with the final tally in the past, the rate exceeded 5% for the first time in 33 years. However, compared to last year's wage increase rate of 3.58%, the year-on-year increase in 23-year predetermined salaries was only 1.2%. The increase in the percentage of non-regular employees and the low rate of wage increases at companies without unions may be the reasons for this increase.

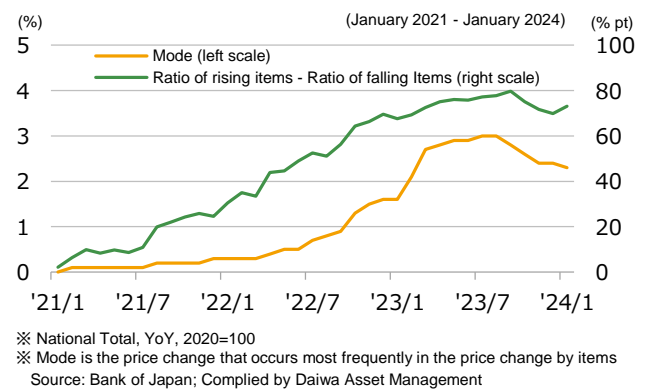
#### Real GDP Growth Rate and Contribution by Demand Item



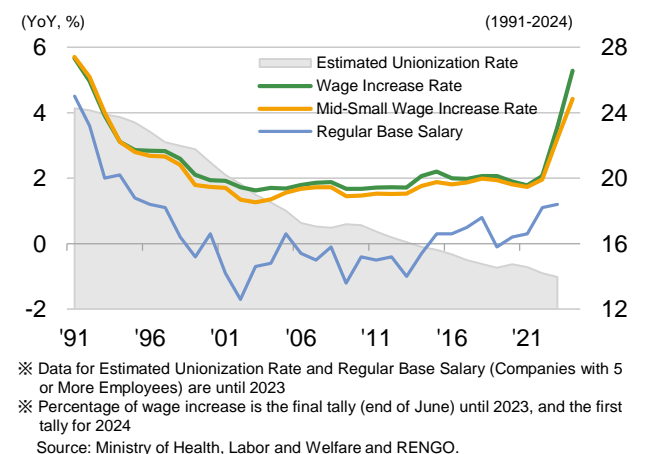
#### Total Consumption Trend Index (CTI Macro)



#### Trend Movement in Consumer Prices



#### Wage Increase Rate · Regular Base Salary · Estimated Unionization Rate





### Equity

#### Share price has surged but does not seem overvalued.

Despite the rapid increase in stock prices, there is not much of a sense of overvaluation, as the estimated PER of TOPIX is around 16 times. In addition, the estimated EPS (earnings per share) is on an increasing trend, and the high EPS growth rate of Japanese companies stands out even on a global scale. Furthermore, the TSE's market structure reforms and other factors have made companies more shareholder-oriented, and foreign investors' appetite for investing in Japanese stocks remains strong, which means that slightly higher valuations can be tolerated.

#### Will the lifting of negative interest rates be a turning point?

The previous two BOJ rate hikes were implemented after the US rate hike was halted and the US economy subsequently began to deteriorate. The situation is similar this time. During the previous two rate hikes, financial institutions and companies were vulnerable, and although corporate earnings remains strong this time, there is no robustness in the domestic economy, and a significant portion of the positive performance is attributable to the depreciation of the Yen. There is also a risk of economic slowdown due to the lapse of the massive global fiscal policy effects at the time of the COVID-19 and interest rate hikes in the US and Europe. Therefore, we need to monitor the situation closely.

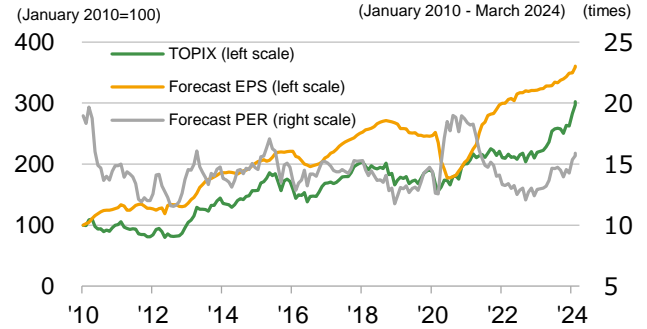
#### Banking stocks still lagging

After the introduction of negative interest rates in February 2016 and YCC in September 2016, banks' earnings deteriorated significantly due to lower long-term interest rates, and their stock prices were inferior to TOPIX for a long period of time. After YCC's guidance range was expanded in Dec. 2022, long-term interest rates rose, banks' earnings improved significantly, and their stock prices became superior to TOPIX. The stock price is likely to run out of material once the negative interest rate is lifted, but further earnings growth is expected and the trend of eliminating the lagging trend may continue.

#### Wait-and-see mood ahead of US presidential election?

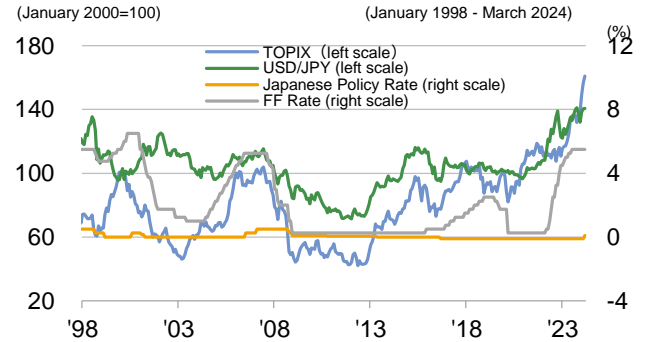
The stock price trends following the inauguration of President Biden bear a strong resemblance to the past cycle of the US presidential election, which takes place once every four years. If past cycles are followed, Japanese stocks are likely to shift to a wait-and-see mood in presidential election years, starting around the end of spring until the presidential election. However, regardless of who becomes president, we expect a continuation of strict policies toward China and a shift of funds away from China. In addition, Japanese stocks are expected to move steadily due to the strengthening of shareholder returns and expectations of deflationary escape.

#### TOPIX and EPS/PER



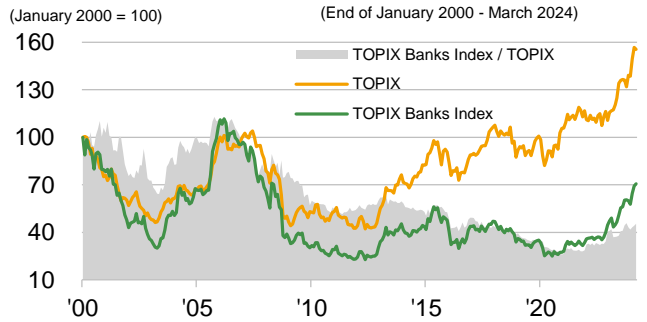
※ Closing prices at the end of each month. The value for March 2024 is as of 18<sup>th</sup> Source: Bloomberg; Compiled by Daiwa Asset Management

#### US and Japanese Policy Rates and Stock Prices



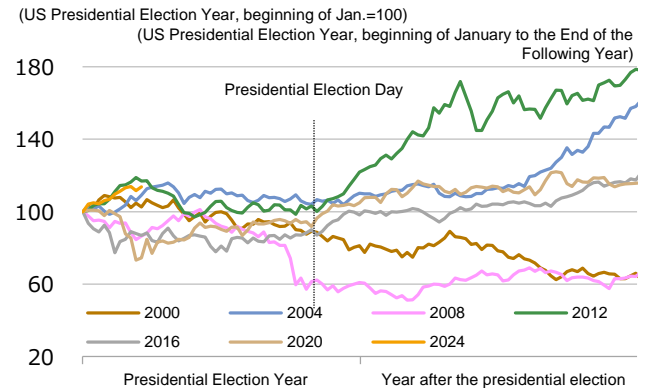
※ Closing prices at the end of each month. The value for March 2024 is as of 18<sup>th</sup> Source: Bloomberg and BIS; Compiled by Daiwa Asset Management

#### TOPIX Banks Index and TOPIX



※ Closing prices at the end of each month. The value for March 2024 is as of 18<sup>th</sup> Source: Bloomberg; Compiled by Daiwa Asset Management

#### US Presidential Election Year-to-Date Stock Price Trends (TOPIX)



※ Closing prices at the end of each week, the value for 2024 is as of Mar.15<sup>th</sup> Source: Bloomberg; Compiled by Daiwa Asset Management

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