

## Japan Watch

# Chartbook #83: Bottoming sentiment bodes well for future spending

December 2023 consumer spending data was consistent with the picture of slowing consumption momentum that began late last summer. That said, consumer sentiment is showing clear signs of bottoming, thanks to the peaking out of inflation. However, we see few catalysts for an immediate acceleration in household spending, which we expect to lack direction at least until the FY24 Shunto spring labor negotiations drive a pickup in wages.

## Consumer sentiment rebounding with inflation past peak

Soft data confirm that consumer and corporate sentiment is improving. The Consumer Confidence Index (released 5 January) picked up for a third straight month in December; while overall level of confidence is still subdued, the Index is now back to its recent (pre-summer 2023) peak (Chart 3). By category, households' view on "overall livelihood," which is inversely correlated with perceived inflation, rose for the third month running, driving the improvement in headline consumer confidence (Chart 4).

The services PMI (released 5 January) also rebounded slightly in December (Chart 2), while the current conditions DI in the December Economy Watchers Survey (12 January) rose above the 50 threshold for the first time in four months (Chart 5, Chart 6). Relatively upbeat year-end sales drove broad-based improvement in sentiment across the services, retail, and corporate sectors.

With the surge in imported inflation, particularly for food, now clearly past the peak (see [December CPI: Lull to continue; adjusting our forecasts](#), 9 January) and the media increasingly focusing on wage hikes ahead of the FY24 Shunto round (see [Wages update: Momentum building further for FY24 Shunto](#), 10 January), we think indicators of sentiment are gradually pulling out of their protracted slump.

## Hard data: Generally flat

However, it will likely take time for a recovery in spending to show up in the hard data, and we think December spending was broadly in line with trends through November. Credit card transaction data show that a slight recovery in restaurant spending was offset by a slowdown in accommodation and transportation, resulting in broadly flat headline service spending (Chart 7-Chart 12). Service spending continues to recover in the 20-39 age group but remains subdued for over-65s, dragging down the headline figure (Chart 13).

## Inbound tourism: Volatile uptrend continues

On the inbound spending front, foreign visitor numbers rose again in December, and the uptrend continues despite some month-to-month volatility (Chart 15). Visitors from South Korea, Southeast Asia, and the US continue to drive spending, with all up 20-60% versus 2019 (pre-pandemic) levels. However, the number of visitors from mainland China, remains low, at 40% of 2019 levels, though it has been picking up gradually (Chart 16).

(continued overleaf)

15 January 2024

Economics  
Japan

**Takayasu Kudo**  
Japan and Asia Economist  
BofAS Japan  
+81 3 6225 8592  
[takayasu.kudo@bofa.com](mailto:takayasu.kudo@bofa.com)

**Izumi Devalier**  
Japan and Asia Economist  
BofAS Japan  
+81 3 6225 6257  
[izumi.devalier@bofa.com](mailto:izumi.devalier@bofa.com)

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PMI: Purchasing Manager's Index

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The recovery in inbound tourism is benefiting some Japanese retailers, and according to December data released by the five major department stores on 4 January, four of the five posted record duty-free sales for the month.

## Domestic spending in a holding pattern until the spring

As noted, domestic spending remained flat in December, but the recent rebound in sentiment should support a future rebound. However, we see few catalysts for an immediate bounce in spending, which we expect to lack direction in the near term.

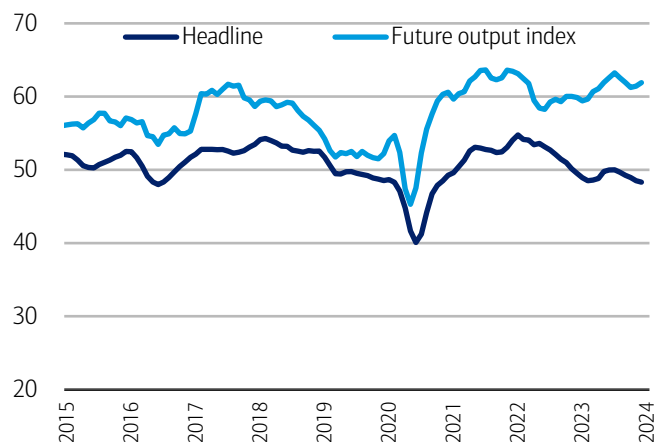
We think the Noto Peninsula earthquake in early January will have little overall impact on the Japanese economy, but expect it to act as a marginal drag on consumer spending.

Our next focus points are the FY24 Shunto round and improvements in real household income and sentiment in response to wage hikes. We think it will take until at least April for the impact of these factors to feed through to spending.

## Soft data

**Chart 1: Japan manufacturing Purchasing Manager's Index (PMI)**

Sentiment data showing some signs of bottoming-out

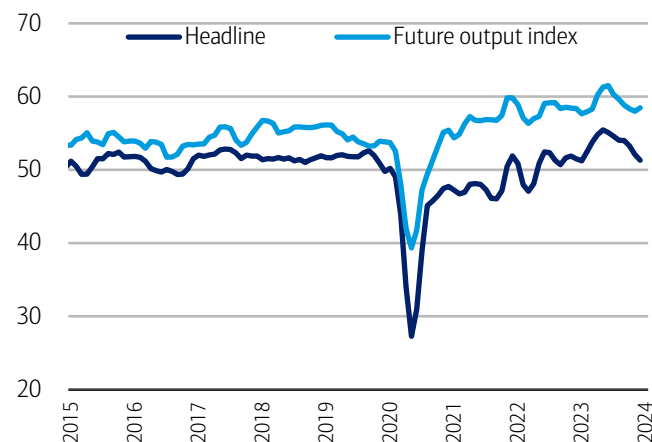


Source: BofA Global Research, IHS Markit \*Latest data point: December 2023

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**Chart 2: Japan service PMI (3mma)**

Sentiment data showing some signs of bottoming-out



Source: BofA Global Research, IHS Markit \*Latest data point: December 2023

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**Chart 3: Consumer confidence (SA, 3mma)**

Sentiment data showing some signs of bottoming-out

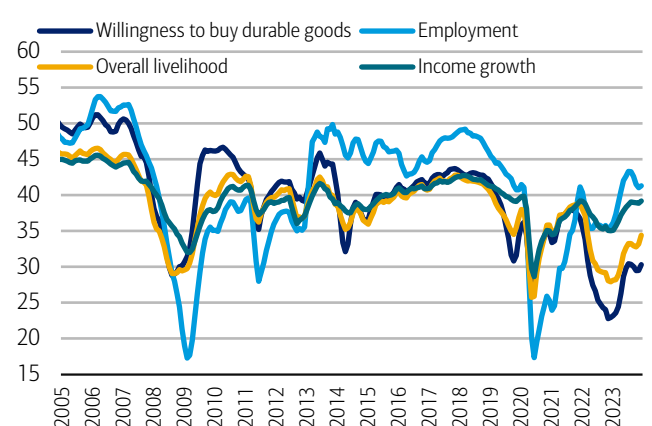


Source: BofA Global Research, Cabinet Office \*Latest data point: December 2023

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**Chart 4: Subcategories of Consumer Confidence Index (SA)**

Sentiment data showing some signs of bottoming-out

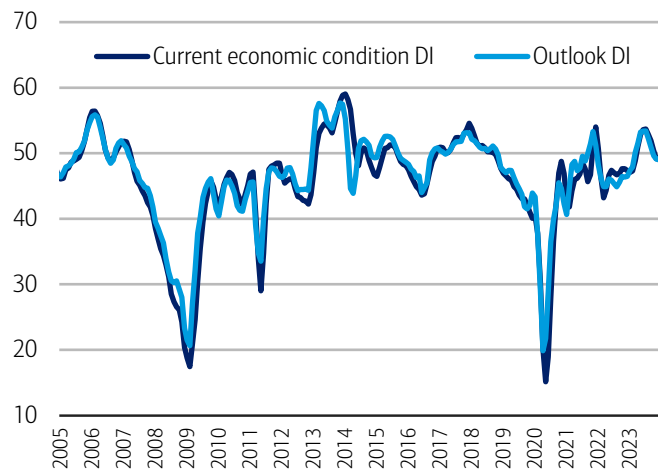


Source: BofA Global Research, Cabinet Office \*Latest data point: December 2023, Data until June 2012 is on the old survey method.

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**Chart 5: Ecowatchers survey - corporate activity (3mma)**

Sentiment data showing some signs of bottoming-out

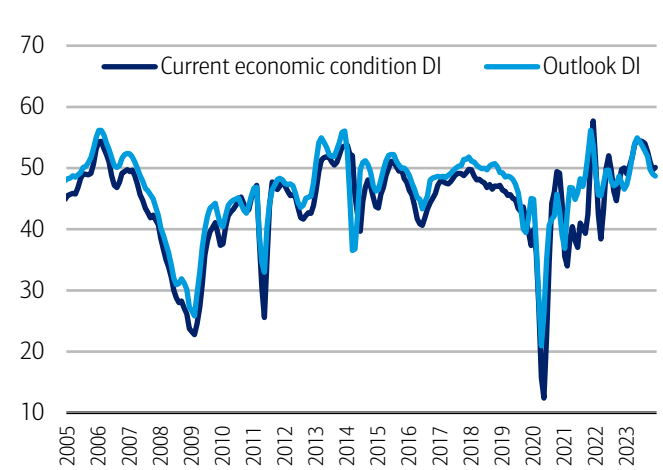


Source: BofA Global Research, Cabinet Office \*Latest data point: December 2023

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**Chart 6: Ecowatchers survey - household activity (3mma)**

Sentiment data showing some signs of bottoming-out



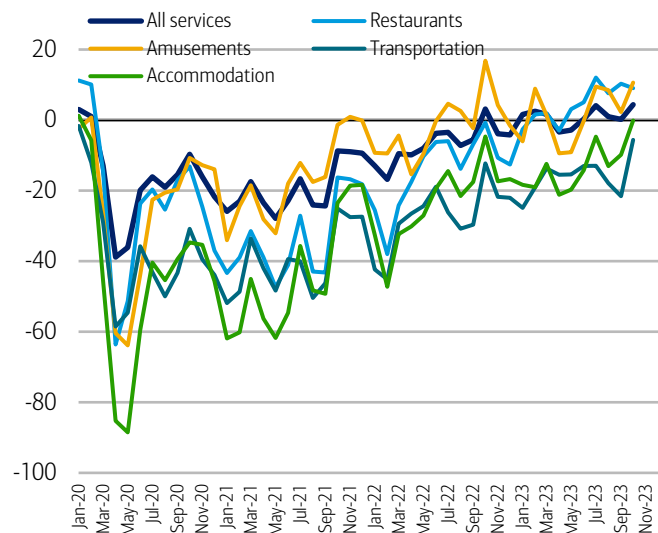
Source: BofA Global Research, Cabinet Office \*Latest data point: December 2023

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## Hard data

**Chart 7: Trends in service consumption (vs pre-COVID-19, %)**

Generally flat for service spending



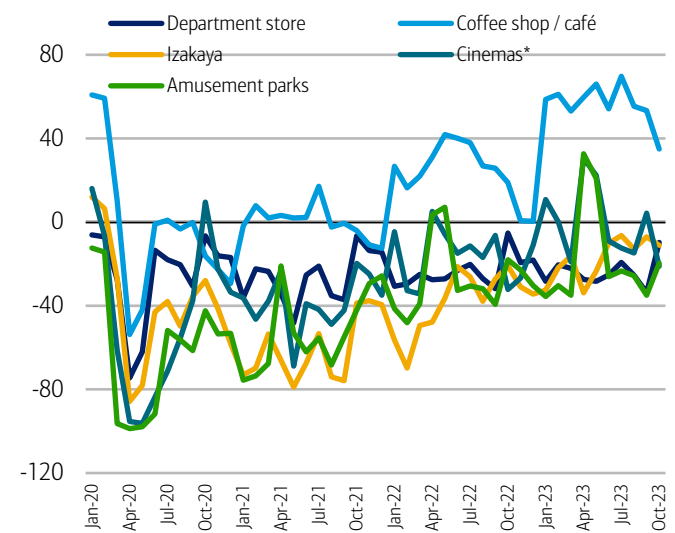
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

\*Same period from Jan 2019 to Dec 2019. JCB renewed data at 2021 November. Refer to below URL for details. <https://nowcast.co.jp/news/20211111/> (Japanese only)

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**Chart 8: Trends in service consumption (vs pre-COVID-19, %)**

Generally flat for service spending



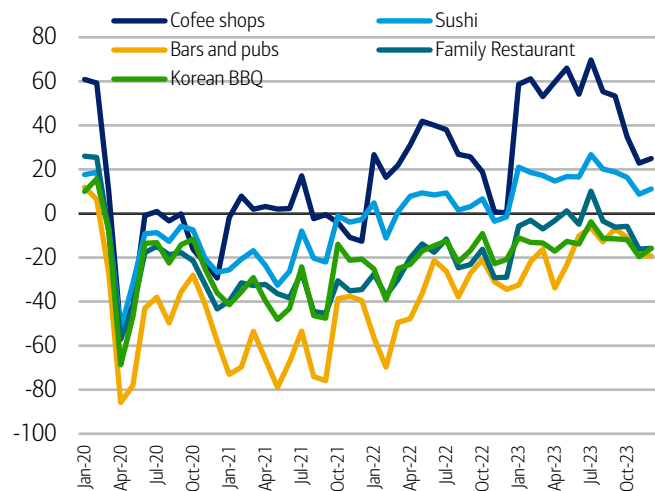
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

\*Same period from Jan 2019 to Dec 2019. JCB renewed data at 2021 November. Refer to below URL for details. <https://nowcast.co.jp/news/20211111/> (Japanese only)

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### Chart 9: Food services: Trends in service consumption (vs pre-COVID-19, %)

Generally flat for service spending



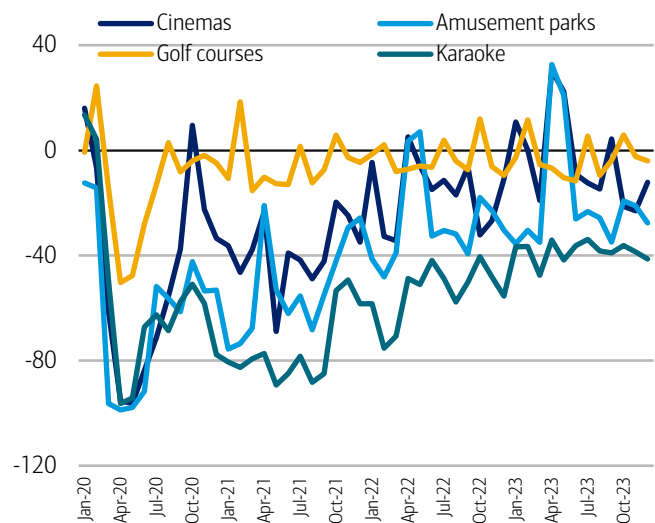
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

\*Same period from Jan 2019 to Dec 2019. JCB renewed data at 2021 November. Refer to below URL for details. <https://nowcast.co.jp/news/20211111/> (Japanese only)

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### Chart 11: Amusement: Trends in service consumption (vs pre-COVID-19, %)

Generally flat for service spending



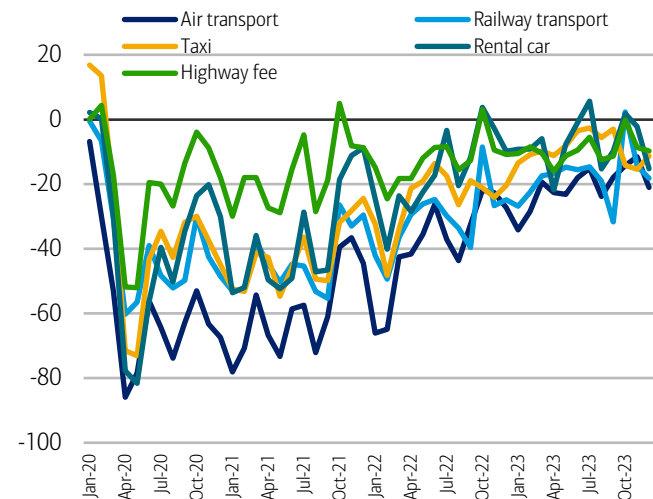
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

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### Chart 10: Transport: Trends in service consumption (vs pre-COVID-19, %)

Generally flat for service spending



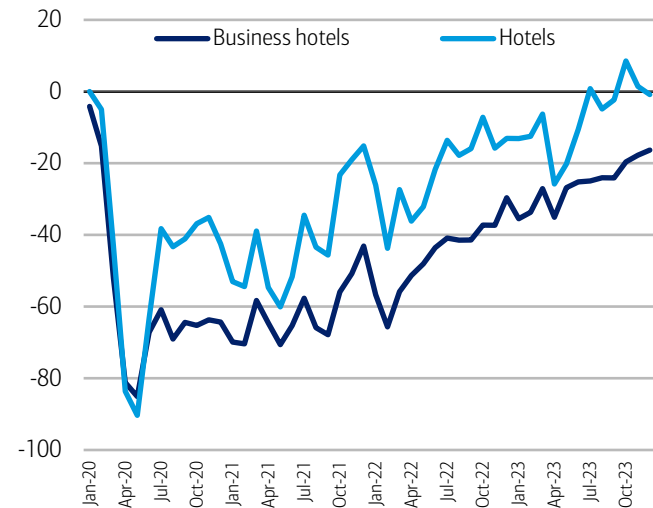
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### Chart 12: Accommodations: Trends in service consumption (vs pre-COVID-19, %)

Generally flat for service spending



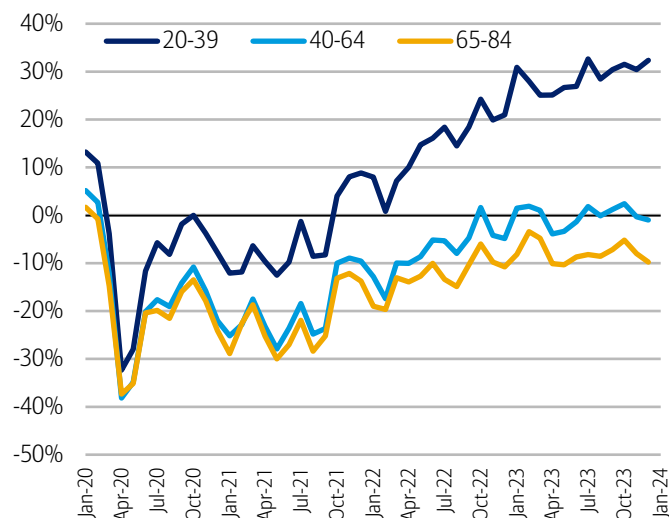
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

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### Chart 13: Trends in service consumption by age group (vs pre-COVID-19, %)

Seniors' spending has been slow to recover as the economy reopens



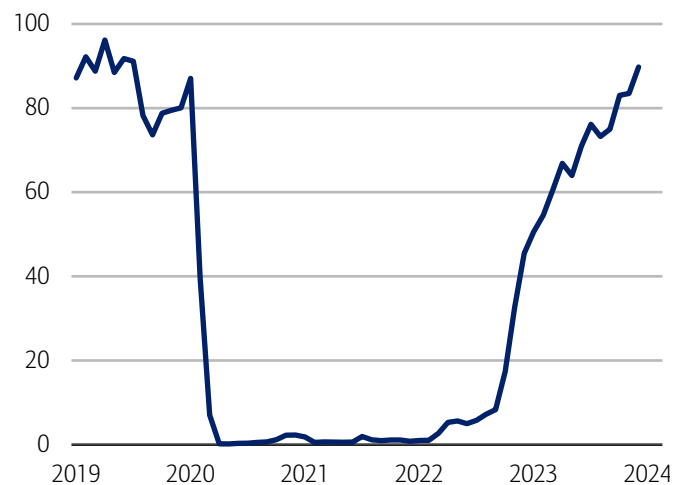
Source: BofA Global Research, JCB/Nowcast "JCB Consumption Now"

\*Same period from Jan 2019 to Dec 2019. JCB renewed data at 2021 November. Refer to below URL for details. <https://nowcast.co.jp/news/20211111/> (Japanese only)

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### Chart 15: Monthly number of foreign visitors (mn)

The number of foreign visitors to Japan remain rising

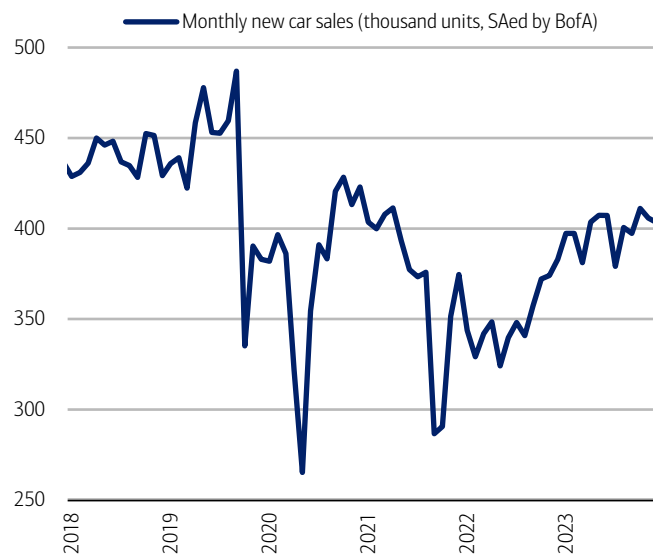


Source: BofA Global Research, Immigration Services Agency of Japan

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### Chart 14: New car sales (SAed by BofA)

New car sales remain well below pre-pandemic level

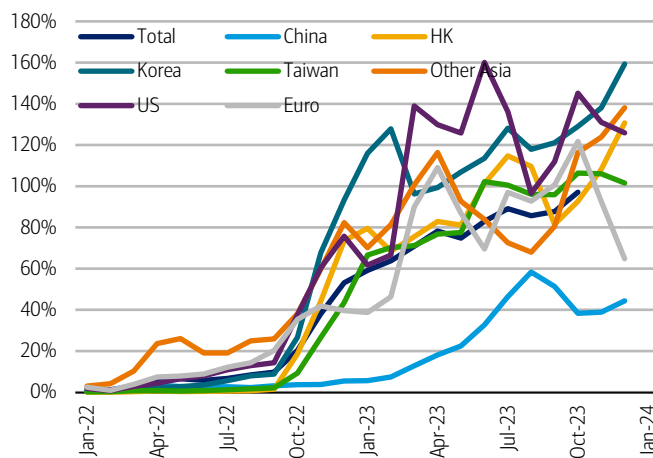


Source: BofA Global Research, Japan Automobile Dealers Association, Japan Mini Vehicle Association

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### Chart 16: Foreign visitor arrivals by nationality (per day, thousand)

The drop in mainland Chinese visitors easily offset by an increase in travelers from South Korea and Southeast Asia



Source: BofA Global Research, Immigration Services Agency of Japan

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