

Flash Note  
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## Japan - The State of the Nation.

### A quick assessment

- **PM Abe calls snap election:** Prime Minister Shinzo Abe announced his intention to dissolve the lower house at 28-Sep, setting up an election in October.
  - **Abe leads the polls.**
    - A [Nikkei/TV Tokyo](#) survey showed the Liberal Democratic Party was support by 44% of respondents, while 8% backed the main opposition Democratic Party, and 20% were undecided.
    - [Kyodo](#)'s poll indicated approval ratings of 27.0% for the LDP, 8.0% for the Democrats, and 42.2% undecided. According to the survey, 64.3% of respondents opposed an early dissolution of the lower house, with 23.7% in favor. Candidates rallying for Tokyo Governor Yuriko Koike attracted 6.6% support in the electoral ballot.
    - The approval rating for the Abe Cabinet was 50%, up 4-ppt from last month and continues to recover from a low of 39% in July as a scandal involving schools took a toll.
    - On Abe's plan to use some of the proceeds of a consumption tax hike to 10% scheduled for October 2019 for child-rearing and education, 59% of respondents agreed and 31% were against.
- **Fiscal profligacy continues:** Earlier in the day, Abe instructed cabinet ministers at a meeting of the Council on Fiscal and Economic Policy to prepare a ¥2T (\$18B) stimulus package for the end of the year. **Economists and business leaders are dubious over Abe fiscal plans.** Economists and business leaders expressed concern that the government will blow a hole in the budget with higher spending. They questioned Abe's commitment to fiscal discipline, given he

did not announce any measures on how it could be achieved, while there were doubts about whether the policies would stimulate growth.

- **Central bank:** Many members expressed the view that it was appropriate for the Bank to maintain the current policy framework and remained committed to easing as long as necessary until core CPI inflation was stable above 2%. According to the minutes, discussions generally maintained the view that momentum toward achieving the 2% price stability target was being maintained.
- **Economy:**
  - (+) September BoJ Tankan consensus: The consensus forecast for the BoJ Tankan business sentiment index for large manufacturers at 18 in September, up 1 point from June. That would be the fourth straight quarterly improvement and the strongest reading since December 2007. For large non-manufacturers, the average forecast was 23 in September, unchanged from June. The outlook for December is seen slipping to 16 for manufacturers and 20 for non-manufacturers. Large firms are expected to revise up their FY17 fixed investment plans to 8.3%, slightly up from the 8.0% seen in the June survey.
  - (+) September flash manufacturing PMI 52.6 vs 52.2 in prior month
  - (-) July leading economic index 105.2 vs 105.7 in prior month
  - (-) Coincident economic indicator index 115.7 vs 116.8 in prior month
- **Outlook:** Japan's Cabinet Office left its FY17 GDP growth forecast unchanged at 1.5%. FY18 growth is estimated at 1.4%.
- **Geopolitics:** Abe, Trump agrees to put maximum pressure on North Korea. Abe told reporters that the two presidents' reaffirmed Japan and the US are 100% on the same page and will do their utmost to pressure North Korea to give up its nuclear and missile ambitions.

Best regards,

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