

UK in recession; Japan loses third-largest economy title

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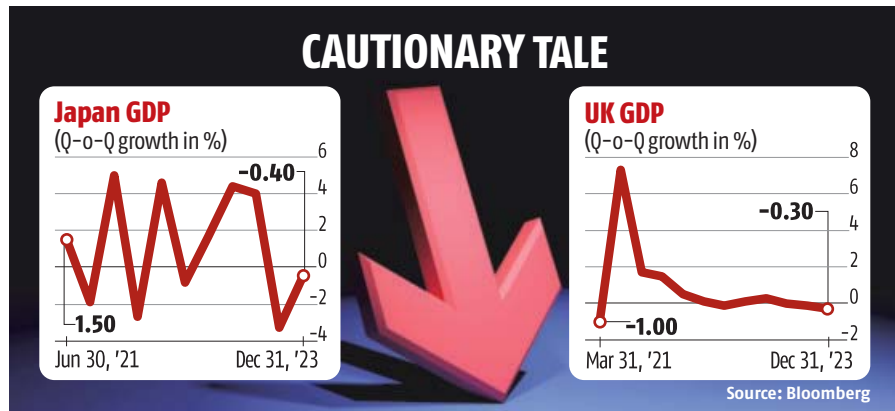
Japan's economy unexpectedly contracted for a second quarter at the end of 2023, slipping into recession and clouding the Bank of Japan's path toward ending the negative rate policy.

Gross domestic product shrank at an annualised pace of 0.4 per cent in the final three months of last year, following a revised 3.3 per cent contraction in the previous quarter, the Cabinet Office reported Thursday. Economists had expected the economy to expand by 1.1 per cent.

The data also confirmed that Japan's economy slipped to fourth-largest in the world in dollar terms last year. Germany is now the world's third-largest economy.

The weaker-than-expected result will complicate the BOJ's case to conduct the first rate hike in Japan since 2007, a step most economists surveyed last month predicted the bank will take by April.

The BOJ's policy board has



recently ramped up discussions surrounding an exit from the subzero rate policy and sought to assure markets that a rate hike wouldn't signal a sharp shift in policy.

Governor Kazuo Ueda told parliament last week that financial conditions in Japan will remain accommodative for the time being even after the end of the negative interest rate, echoing one of his deputies, Shinichi Uchida.

However, the Nikkei share average rallied to its highest level in 34 years on

Thursday, as chip-related shares tracked overnight gains in Wall Street peers.

The benchmark stock index now sits just 800 points, or about 2 per cent, below its all-time high in 1989 that marked the peak of Japan's so-called "bubble conomy".

UK economy shrinks

Meanwhile, the UK slipped into a mild recession in the second half of 2023, showing Prime Minister Rishi Sunak has failed to meet his pledge to grow the economy.

Gross domestic product fell 0.3 per cent in the fourth quarter, more than the 0.1 per cent drop economists forecast, Office for National Statistics figures released Thursday show. That followed an unrevised 0.1 per cent decline in the previous three months, meeting economists' technical definition of a recession, or two consecutive quarters of contraction.

While the economy still grew 0.1 per cent across the year as a whole, it was the slowest annual expansion the UK

had seen since 2009, excluding the first year of the pandemic. The UK economy last posted a quarter of growth in the first three months of last year.

UK bonds climbed for a second day, with 10-year yields coming off a two-month high close to 4.2 per cent to fall below 4 per cent for the first time in a week. Money markets boosted bets on the scope for monetary-policy easing this year, fully pricing three quarter-point cuts and a 10 per cent chance of a fourth, while the first reduction is expected by August. The pound slipped as much as 0.2 per cent against the dollar at \$1.2542.

Sunak made growing the economy one of five key pledges after taking office in 2022, along with cutting debt, halving inflation, reducing health services waiting lists and stopping boat migration across the English Channel.

So far, he can only claim victory on his pledge to slow down price growth, something that the bank has far more influence over than the government.

German economy likely to contract for a second year

Germany's DIHK chambers of industry and commerce warned on Thursday that Europe's biggest economy will shrink by 0.5 per cent this year, in a second year of recession and its worst downturn in two decades.

A DIHK poll of more than 27,000 companies showed that of those surveyed, 35 per cent expect business to deteriorate in the next 12 months with only 14 per cent expecting an improvement, as high energy prices, bureaucracy, a skilled workers shortage and weak domestic demand weigh on economic output.

"The bad mood among companies is becoming more entrenched," said the DIHK in Berlin on Thursday, adding that it would be only the second time in Germany's post-war history where the economy contracted for two years in row.

REUTERS



US Jan retail sales fall; weekly jobless claims decline

US retail sales fell more than expected in January, pulled down by declines in receipts at auto dealerships and gasoline service stations.

Retail sales dropped 0.8 per cent last month, the Commerce Department's Census Bureau said on Thursday, also likely weighed down by winter storms. Data for December was revised lower to show sales rising 0.4 per cent instead of 0.6 per cent as previously reported.

A report from the Labor Department showed initial claims for state unemployment benefits fell 8,000 to a seasonally adjusted 212,000 for the week ended February 10.

Claims are bouncing around low levels despite a recent rush of high-profile layoffs. Economists had forecast 220,000 claims for the latest week. With the labor market still tight, some of the laid off workers could be landing new jobs easily.

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