

# Monthly Report of Prospects for Japan's Economy

June 2017

Macro Economic Research Centre  
Economics Department



The Japan Research Institute, Limited

<http://www.jri.co.jp/english/periodical/>

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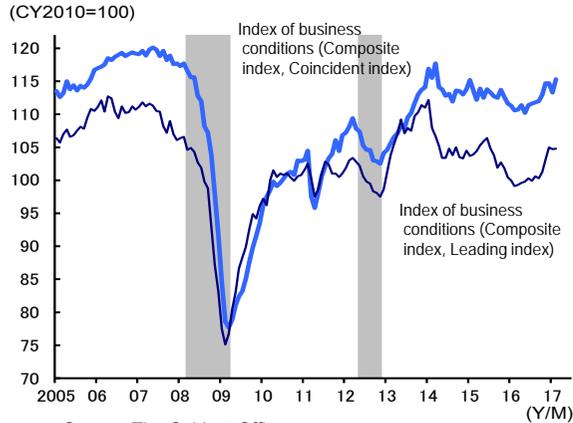
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# The general situation of Japan's economy – Economic activity continues its mild recovery trend

**Figure 1-1 Economic Activity**

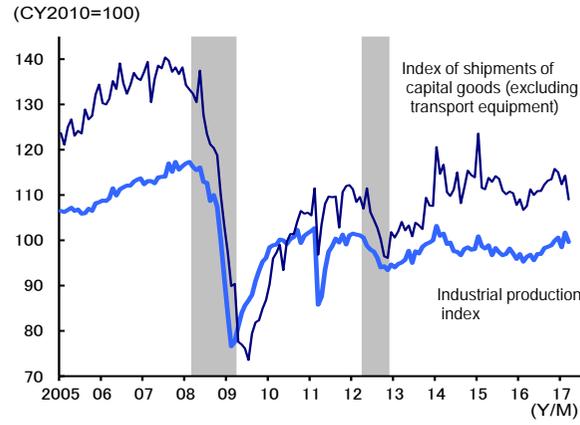
The coincident index rose to its highest level since March 2014, due to an increase in shipments of durable consumer goods and producer goods.



Source: The Cabinet Office.

**Figure 1-2 The Corporate Sector**

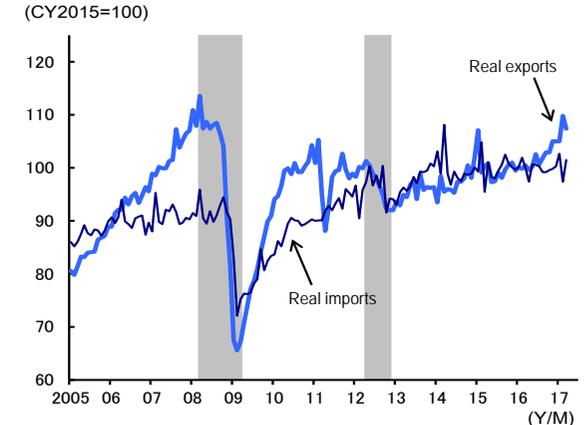
The production index continues its rising trend on the whole, although it declined in March.



Source: The Ministry of Economy, Trade and Industry.

**Figure 1-3 Overseas Demand**

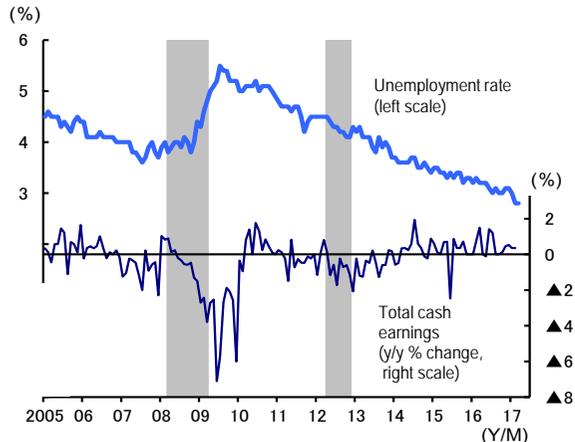
Exports to China and other Asian countries fell, although their level was high. Imports rose for the first time in 2 months.



Source: The Bank of Japan.

**Figure 1-4 Employment and Income**

The unemployment rate is at its lowest level since June 1994. As for total cash earnings, regular-time pay continues its mild year-on-year increasing trend.

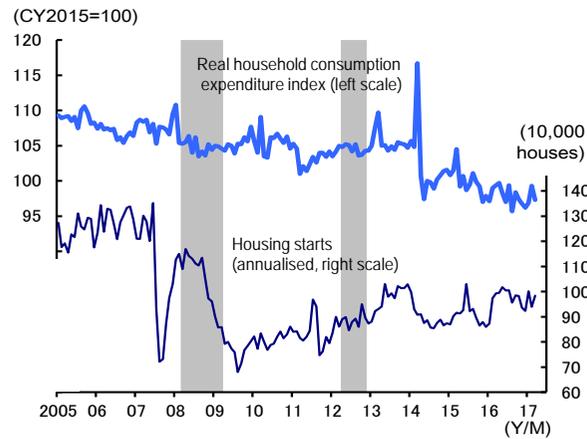


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labour and Welfare.

\* The shaded area indicates the phase of recession.

**Figure 1-5 The Household Sector**

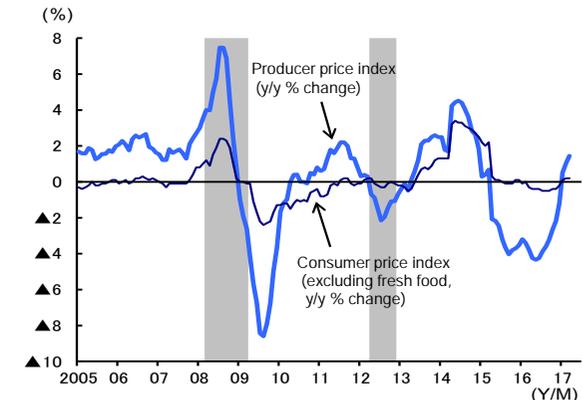
Household consumption expenditure was sluggish, partly due to food price rises. Housing starts were firm, led by those of houses for rent.



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Land, Infrastructure and Transport.

**Figure 1-6 Prices**

Both producer prices and core consumer prices continue to increase year-on-year (slightly in the latter), reflecting a pickup in the crude oil price.



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications, The Bank of Japan.

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# Corporate activities continue to pick up, as private consumption still lacks momentum

## ◆ Economic activity has picked up mildly

Japan's economic activity continues to be on a recovery trend. This is shown also in the national accounts. Namely, Japan's real GDP in the January-March period this year grew by 2.2 per cent on an annualised quarter-on-quarter change basis (the first preliminary estimates), a positive growth for the fifth successive quarter.

## ◆ Production activity in enterprises continues to pick up

Looking at monthly statistics, in the corporate sector, the industrial production index increased in Q1 by 0.1 per cent from Q4 last year. This was a rise for 5 quarters in a row, which suggests that the increasing trend has been kept. The production forecast index also exhibits a considerable 8.9 per cent rise in April from March. Against the background of solid exports, industries such as general or industrial machinery and electronic parts and devices seem to plan to increase their production by a two-digit number of per cent.

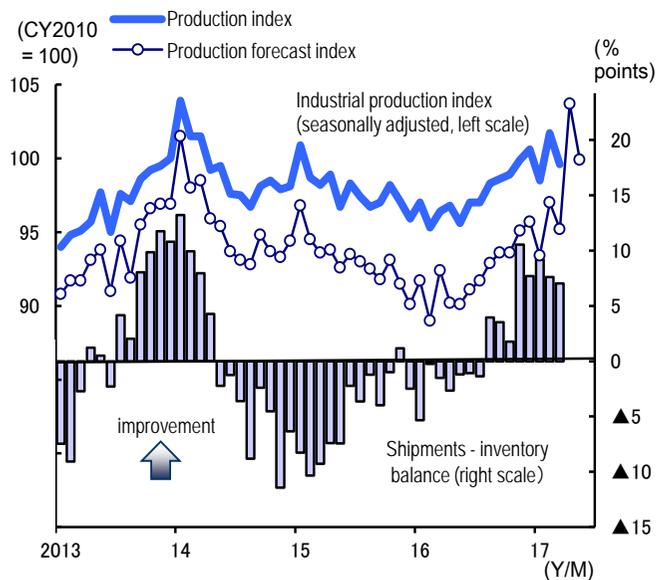
With respect to overseas demand, exports of electronic parts such as semiconductors and parts for automobiles to China and other Asian countries climbed, bolstering total production activity.

## ◆ The household sector has still seesawed

In the household sector, despite favourable employment and income environments, the improvement in private consumption expenditure has lacked momentum. As for income, regular-time pay rose year-on-year for 8 months running. Regarding employment, the number of employees continues to increase reflecting labour shortages. Also, the unemployment rate is at the lowest level in 22 years.

However, real household expenditure declined by 2.6 per cent in March. In addition to restrained purchase of fresh food due to the price rise, sales of clothing, which is a major selling item in department stores, were sluggish in March, affected by lower temperatures than usual.

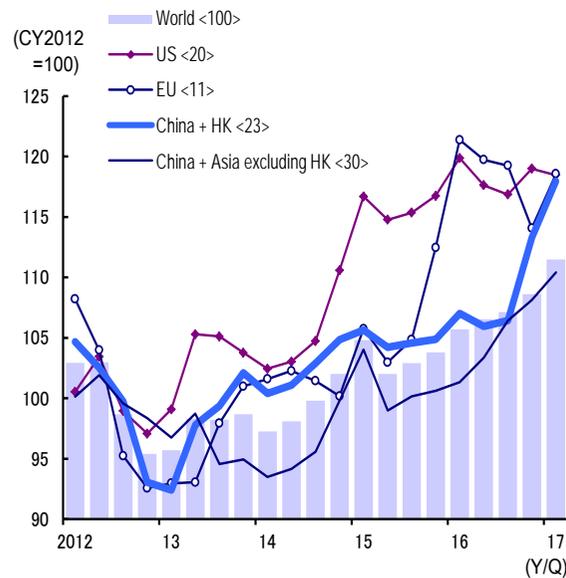
Figure 2-1 Industrial Production Index and Shipments - Inventory Balance



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Economy, Trade and Industry.

Note: Shipments - inventory balance =  $\frac{\text{y/y \% change in shipments} - \text{y/y \% change in inventory}}$

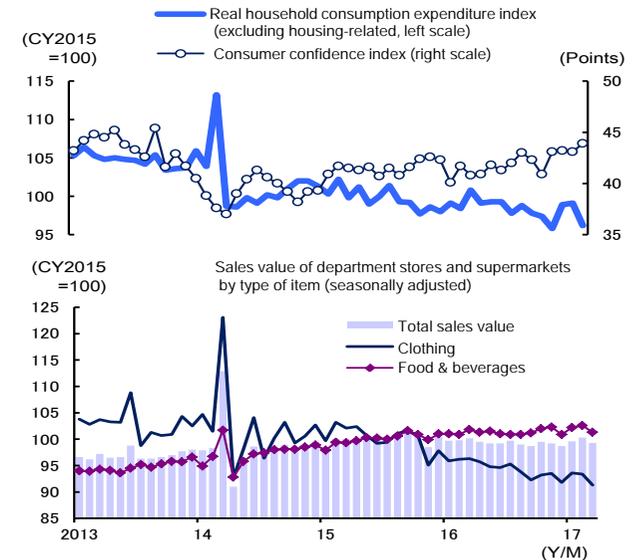
Figure 2-2 Real Exports by Destination <seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan.

Note: Figures in the angle brackets show the shares in FY2016.

Figure 2-3 Private Consumption-related Indicators <seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications, The Ministry of Economy, Trade and Industry.

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# Exports have picked up moderately, yet environments for overseas demand remain uncertain

## ◆ Inbound demand from foreign tourists to Japan has picked up

Looking at overseas demand, inbound demand has picked up. The total value spent in Japan by foreign tourists in the January-March period was 968 billion yen, up 4.0 per cent on a year earlier. Also, the value spent in Japan per tourist has narrowed its year-on-year decline, owing to the weak yen after November last year.

Looking ahead, taking into account factors such as 1) income among people in Asian emerging countries goes on increasing, and 2) necessary environments for the rising number of foreign tourists including accommodations are likely to improve further in Japan, inbound demand per se will likely stay firm.

## ◆ The pace of pickup in Japan's exports of goods will likely remain mild for the time being

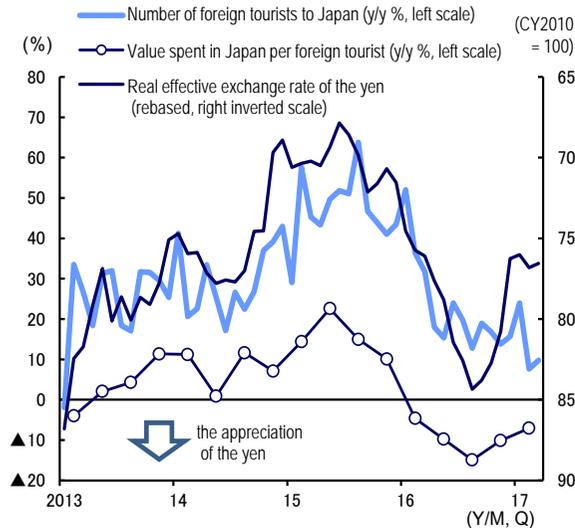
Then, looking at overseas demand more widely by goods, it is notable that exports of electronic parts and devices have increased considerably since the second half of last year. This reflects the fact that global ICT demand has expanded more rapidly

than previously expected. The trend is against the background of the surge in demand for smartphones with higher performances including high speed communication especially in emerging countries.

Viewed by region, the increase in exports has been led by China and other Asian emerging countries where their economies have been boosted by the effects of economic policies. Judging also from the fact that business sentiment in Europe is firm, Japan's exports of goods will likely continue to pick up for the time being.

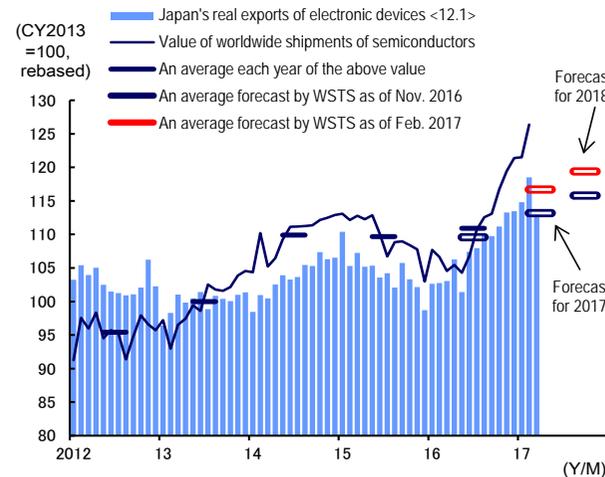
Nonetheless, it is predicted that the pace of the pickup will remain mild. This tendency is due to the fact that more Japanese enterprises have become to meet the increased overseas demand for their products by expanding production in their overseas facilities, as the shift of production facilities to overseas sites has advanced. In addition, it is worrisome that business sentiment in the US could get worse due to the uncertainties surrounding the capability of pro-growth policy implementation of the Trump administration.

Figure 3-1 Value Spent in Japan per Foreign Tourist <year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of The Japan Tourism Agency, The Bank of Japan.

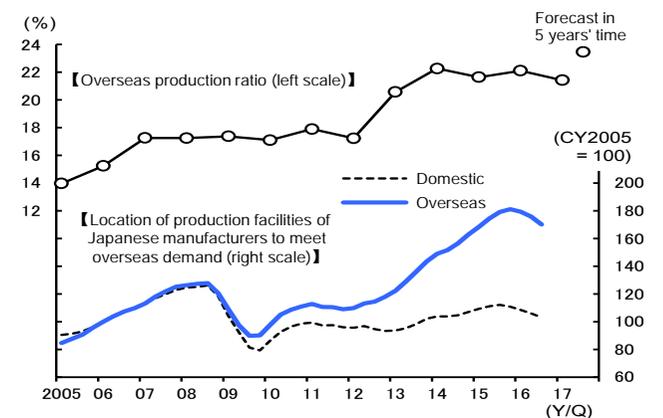
Figure 3-2 Value of Worldwide Shipments of Semiconductors and Japan's Real Exports of Electronic Devices



Source: The Japan Research Institute, Ltd. based on the data of World Semiconductor Trade Statistics (WSTS), Semiconductor Industry Association (SIA), The Ministry of Finance of Japan, The Bank of Japan.

Note: The figure in the angle bracket shows the share in the total nominal exports in FY2016.

Figure 3-3 Location of Production Facilities of Japanese Manufacturers to Meet Overseas Demand



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Economy, Trade and Industry, The Ministry of Finance.

Note: The rebased index of domestic production is for nominal exports of goods, and that of overseas production is for sales value (Japan excluded) of overseas facilities. Both are 4-quarter moving averages.

# Corporate profits and business fixed investment will likely remain firm

## ◆ Corporate profits have shown firmness

As for the corporate sector, sales value has bottomed out owing mainly to a pickup in exports. Current profits have kept a near record level on a quarterly basis. This is due to the increase in sales, the reduction in variable costs, the swelling in profits stemming from the depreciation of the yen, and so on, although the rise in personnel expenses has pushed down the total.

As private consumption expenditure continues to be stagnant, strong growth in sales values is unlikely to be expected. However, profitability such as shown in the ratio of current profits to sales has remained at its high level. Judging also from the situation where the yen has weakened of late to a level more than had been assumed by Japanese enterprises, corporate profits will likely remain firm.

## ◆ Employment, income, and business investment will likely pick up mildly

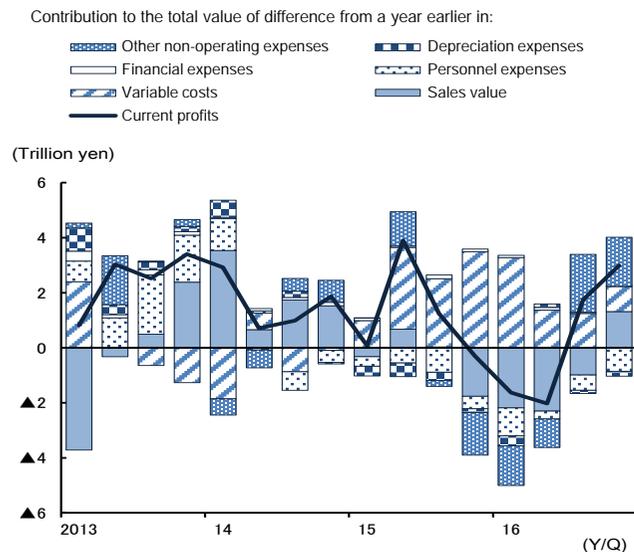
The situation continues where a sense of shortage of workers is felt strongly. Also, labour's relative share in total value added is at a historically low level. Thus,

employment and income environments will continue to improve for the time being.

As for business fixed investment, a cautious attitude of enterprises still remains, as shown in the fact that the ratio of value of business fixed investment to cash flow continues to be low. Yet, business fixed investment has increased mildly, reflecting the improvement in corporate profits and business activity at home and abroad.

Viewed by type, some types of business fixed investment will likely continue to support the mild increasing trend on the whole. These types are 1) investment for maintenance and replacement against the background of a rise in superannuated plants and equipment, 2) investment for rationalisation and savings reflecting the situation of shortage of workers, and 3) construction investment in facilities for nonmanufacturers such as accommodations. On the other hand, business fixed investment for capacity expansion is likely to stagnate, amid the unfavourable situation where the capacity utilisation rate has yet to rise and economic growth expectations of enterprises continue to be sluggish.

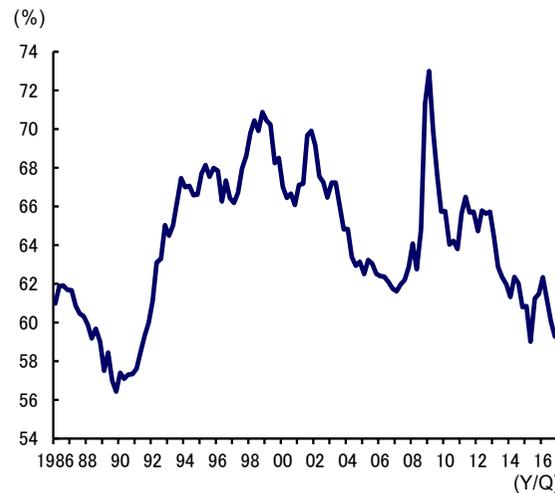
Figure 4-1 Contributions of Factors to the Total Value of Difference from A Year Earlier in Current Profits



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.

Note: All industries except for financial institutions.

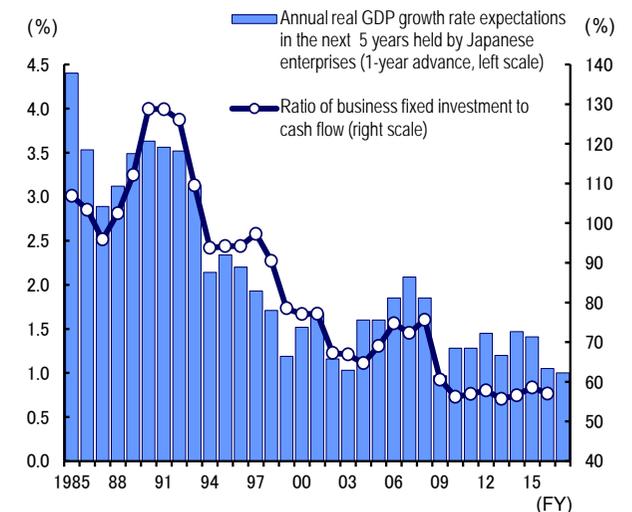
Figure 4-2 Labour's Relative Share in Total Value Added <seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.

Note: 1. All industries excluding financial institutions.  
2. Labour's relative share = personnel expenses / total value added

Figure 4-3 Economic Growth Expectations and Ratio of Business Fixed Investment to Cash Flow



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Finance.

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# The pace of recovery in private consumption is likely to stay slow, as disposable income stagnates

## ◆ Private consumption expenditure shows signs of recovery

Private consumption expenditure is estimated to have been on a mild recovery trend. Signs of pickup have been seen in the expenditures on durable consumer goods such as automobiles and household appliances, and services for eating out or the like. Consumer sentiment has also improved, against the background of a decelerating pace of rise in fresh food after early this year. Employment environments continue to be favourable.

However, enterprises seem to be still cautious about raising wages. Also, the increase in payments of such items as social insurance premiums has weighed on disposable income.

Further, it is highly likely that the heightened sense of self-protection in consumers against future increases in these payments has also pressed down on current private consumption expenditure. This is shown in the fact that the average propensity to consume in households with younger household heads, who have strong anxiety about their future, has a visible declining trend.

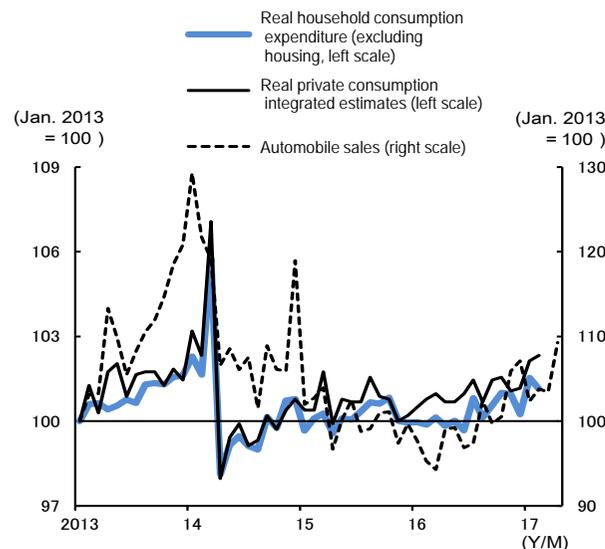
## ◆ Slow pace of recovery in private consumption will likely continue

Looking ahead, the improvement in employment environments will likely continue, reflecting labour shortages. Yet, the acceleration in the pace of wage rises cannot be counted on. Amid heightened uncertainties as to overseas economies and so on, the number of enterprises where wage rises resulting from the wage negotiations this spring were held at almost the same as last year appears to have increased.

Also, elements such as the growing burden of social insurance premiums, and the decreasing number of self-employed business owners affected severely by the declining population, will continue to be weighing factors on disposable income (on an aggregate basis in the latter). Therefore, the pace of improvement in household income environments is likely to stay slow.

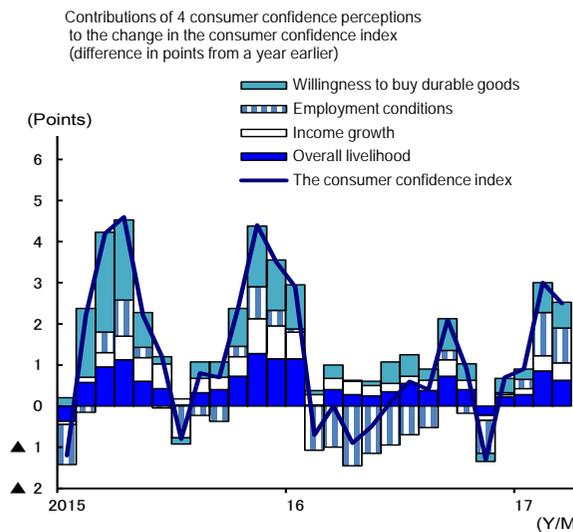
Furthermore, the year-on-year change rate in consumer prices has already turned positive, albeit slightly, reflecting the rise in energy prices and the depreciation of the yen after last November. Accordingly, downward pressure on the real purchasing power in households will strengthen. As the improvement in real income is very slow to materialise, the pace of pickup in private consumption expenditure is highly likely to remain slow.

Figure 5-1 Private Consumption Expenditure-related Indicators <re-based>



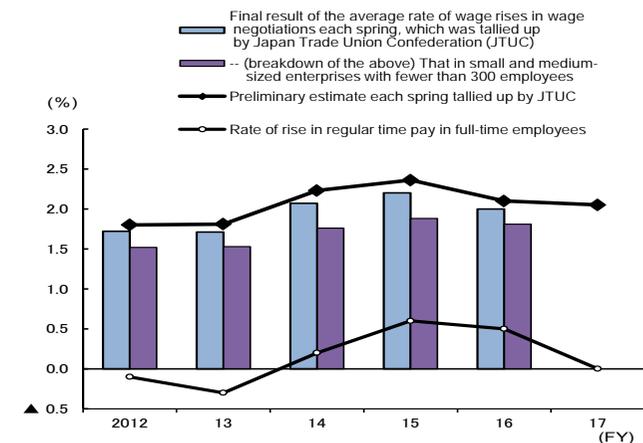
Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications, Japan Automobile Dealers Association.

Figure 5-2 Change in Consumer Sentiment by Consumer Confidence Perception



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office.

Figure 5-3 Results in Spring Wage Negotiations and Regular Time Pay <year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of Japan Trade Union Confederation, The Ministry of Health, Labour and Welfare.

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## Prospects for Japan's economy - Projected real GDP change; 1.6% in FY2017 and 1.1% in FY2018

◆ Japan's economic activity will likely continue its recovery trend, against the background of an expansion in overseas economies and firm domestic demand

(1) Japan's real GDP in the January-March period this year grew by 2.2 per cent on an annualised quarter-on-quarter change basis (national accounts, the first preliminary estimates), a positive growth for the fifth successive quarter.

Boosting factors by demand item are 1) an increase in exports, led by those of electronic parts and devices to Asia, 2) an upswing in private consumption expenditure, due to the improvement in consumer sentiment and the petering out of unfavourable weather conditions which had been seen in the previous quarter, 3) the fading away of negative contribution of private inventory changes to the total growth rate, which had accompanied the advance in inventory adjustment. Thus, there is no alteration in the JRI view that Japan's economic activity continues to be on a recovery trend.

(2) Looking ahead, it is predicted that the economy will continue its recovery trend.

Although uncertainties surrounding the overseas political and economic situation remain, the following is likely to play a bolstering role for the economy. These are 1) an increase in industrial production in order to build up a necessary level of inventory again, 2) a rise in exports reflecting an expansion in worldwide demand for ICT (information and communication technologies) and the recovery in business fixed investment overseas, 3) buoyant domestic construction investment in nonmanufacturing such as redevelopment projects in the metropolitan areas, and 4) continued improvement in employment and income environments against the background of labour shortages.

In addition, a pickup in public investment stemming from the implementation of the economic measures of the government will likely boost economic activity especially in the first half of this fiscal year. Accordingly, it is projected that real GDP in FY2017 will grow by 1.6 per cent, a relatively high growth rate.

(3) With respect to economic activity in FY2018, it is predicted that the trend of recovery will be sustained. This is because domestic demand will likely be firm against the background of an increase in demand for construction relating to the 2020 Tokyo Olympic and Paralympic Games. Also, Japan's exports will likely be supported by an acceleration in the pace of overseas economic growth, mainly led by the solid US economy.

However, unfavourable factors are also likely to be seen, such as 1) the boosting effect from the implementation of the economic measures of the government will fizzle out, and 2) a strong expansion in private consumption expenditure is unlikely to be counted on, taking into consideration weighing factors such as a rise in social insurance premiums and an increase in the number of pensioner households. Therefore, it is projected that the rate of annual growth in real GDP will decelerate to 1.1 per cent in FY2018.

◆ The year-on-year change rate in the core CPI will likely be on a gradual rising trend

(4) It is predicted that the pace of a year-on-year increase in the core CPI, which excludes fresh food, will accelerate gradually due to a pickup in the price of natural resources and the effect of the depreciation of the yen. It is analysed that the annual change rate of the core CPI in FY2017 (0.7 per cent) will be pushed up by an upswing in energy prices and the weaker yen by 0.1 percentage points and 0.2 percentage points, respectively.

Nonetheless, the rate of increase in the core CPI will likely be below the year-on-year 2 per cent target set by the BoJ through FY2018, taking into account the prediction that domestic economic activity and the tempo of wage rises will likely continue to lack strong enough momentum.

Figure 7 Projections for GDP Growth and Main Indicators of Japan ( as of May 18, 2017 )

	(seasonally adjusted, annualised % changes from the previous quarter)										(% changes from the previous fiscal year)			
	CY2016	CY2017					CY2018				CY2019	FY2016	FY2017	FY2018
	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Actual)	(Projection)	(Projection)	
	(Actual)	(Actual)	(Projection)	(Actual)	(Projection)	(Projection)								
Real GDP	1.4	2.2	2.2	1.2	1.0	0.9	1.1	1.3	1.3	1.2	1.3	1.6	1.1	
Private Consumption Expenditure	0.2	1.4	0.5	0.7	0.8	0.8	0.7	0.7	0.8	0.8	0.6	0.8	0.8	
Housing Investment	1.4	3.0	▲ 1.8	▲ 2.7	▲ 2.4	0.3	0.5	0.6	0.8	1.0	6.5	0.1	▲ 0.0	
Business Fixed Investment	7.6	0.9	2.6	2.7	2.9	2.9	3.0	3.0	2.9	2.9	2.3	2.7	2.9	
Private Inventories (percentage points contribution)	(▲ 0.9)	( 0.4)	( 0.4)	(▲ 0.2)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.3)	(▲ 0.1)	(▲ 0.0)	
Government Consumption Expenditure	0.3	0.6	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.2	0.6	0.9	1.2	
Public Investment	▲ 11.4	▲ 0.3	17.9	8.6	▲ 2.7	▲ 4.9	▲ 2.0	1.6	0.7	▲ 1.2	▲ 3.2	3.5	▲ 1.0	
Net Exports (percentage points contribution)	( 1.5)	( 0.6)	( 0.2)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.8)	( 0.5)	( 0.1)	
Exports of Goods and Services	14.1	8.9	4.2	3.0	2.6	2.6	2.7	2.8	2.8	2.8	3.1	5.9	2.7	
Imports of Goods and Services	5.3	5.5	3.0	2.4	2.2	2.1	2.1	2.2	2.2	2.1	▲ 1.4	3.2	2.2	
(Ref.) Domestic Private Demand (percentage points contribution)	( 0.4)	( 1.5)	( 1.0)	( 0.5)	( 0.8)	( 0.9)	( 0.9)	( 0.9)	( 0.9)	( 0.9)	( 0.6)	( 0.8)	( 0.9)	
(Ref.) Public Demand (percentage points contribution)	(▲ 0.5)	( 0.1)	( 1.0)	( 0.6)	( 0.1)	(▲ 0.0)	( 0.1)	( 0.3)	( 0.3)	( 0.2)	(▲ 0.0)	( 0.3)	( 0.2)	

	(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)		
	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Actual)	(Projection)	(Projection)
Nominal GDP	1.6	0.8	1.2	1.6	1.5	1.9	1.5	1.6	1.7	1.9	1.2	1.6	1.7
GDP deflator	▲ 0.0	▲ 0.8	▲ 0.6	▲ 0.1	▲ 0.1	0.7	0.4	0.5	0.5	0.6	▲ 0.2	▲ 0.0	0.5
Consumer Price Index (excluding fresh food)	▲ 0.3	0.2	0.4	0.8	0.9	0.9	1.0	1.0	1.1	1.1	▲ 0.2	0.7	1.1
Unemployment Rate (%)	3.0	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.6	2.6	3.0	2.8	2.7
Exchange Rates (JY/US\$)	109	114	112	114	115	116	116	116	116	116	108	114	116
Import Price of Crude Oil (US\$/barrel)	46	55	55	57	59	60	61	62	63	64	47	58	63

Source: The Cabinet Office; The Ministry of Internal Affairs and Communications; The Ministry of Economy, Trade and Industry; The Ministry of Finance.

The projection figures are based on those of The Japan Research Institute, Ltd.

Note : "▲" indicates minus.