

# Monthly Report of Prospects for Japan's Economy

## February 2022

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

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

**This report is the revised English version of the January 2022 issue of the original Japanese version.**

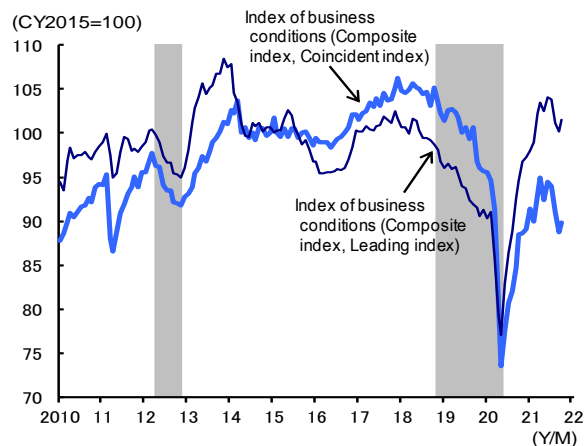
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# The General Situation – There Have Been Signs of Economic Recovery

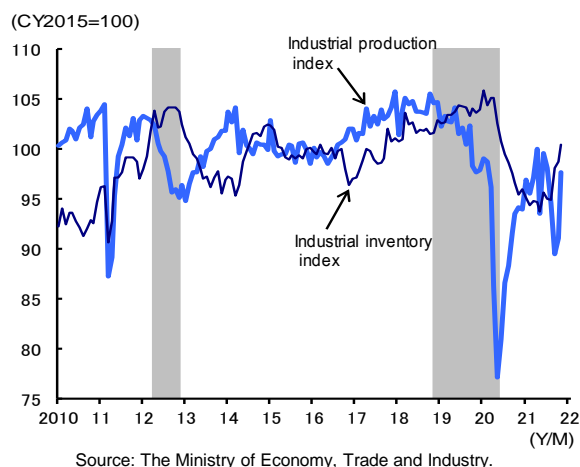
**Figure 1-1 Economic Activity**

The declining trend in both the CI coincident index and the CI leading index has halted.



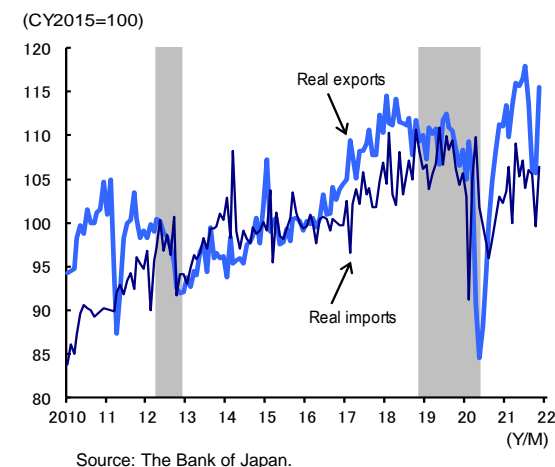
**Figure 1-2 The Corporate Sector**

Industrial production rapidly recovered on the back of the easing of supply constraints.



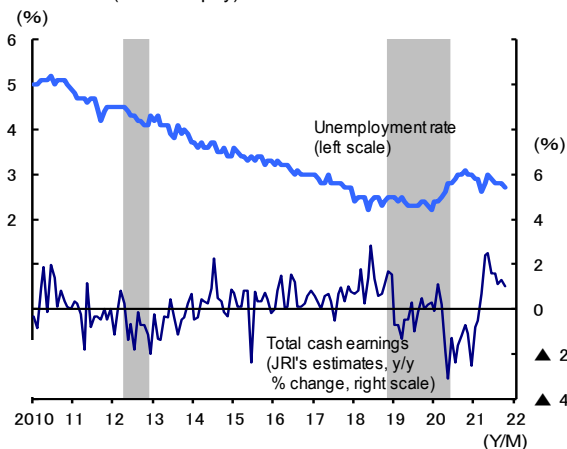
**Figure 1-3 Overseas Demand**

Exports increased mainly for automobiles. Imports also expanded as production activities picked up.



**Figure 1-4 Employment and Income**

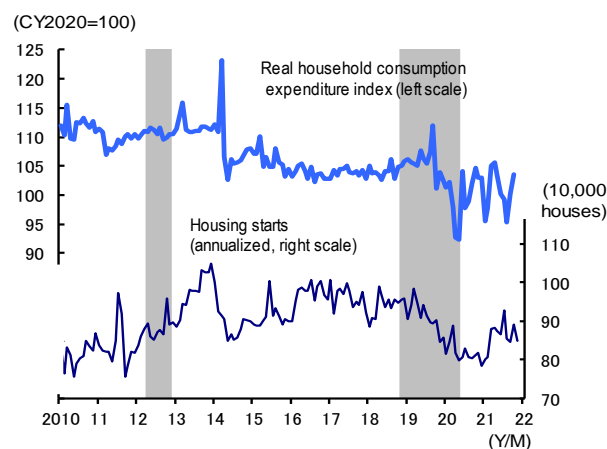
The unemployment rate remained at around 3%. Nominal wages increased, mainly for non-scheduled salaries (overtime pay).



\* The shaded area indicates the recession phase.

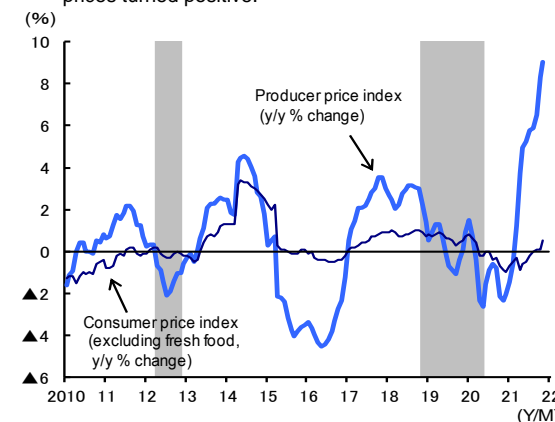
**Figure 1-5 The Household Sector**

Real consumption picked up as activity restrictions were eased. The number of housing starts remained at around 900,000.



**Figure 1-6 Prices**

Producer prices saw their highest growth since December 1980. Year-on-year changes in consumer prices turned positive.



# Amid the Recovery of Production and Consumption, Business Sentiment Has Been Improving

## ◆ Business Sentiment Continued to Improve

According to the Bank of Japan's December 2021 Tankan Survey, the DI for the business conditions of large corporations was +14, up for six consecutive quarters. As for the break down, the DI for manufacturers was +18, unchanged from the previous survey but remaining at a high level. Despite the soaring resource prices, business sentiment seems to have been underpinned by strong overseas demand and the easing of supply restraints.

Meanwhile, the DI for nonmanufacturers was +9, recovering to its highest level since the December 2019 survey. Amid the recovery in service consumption due to the easing of activity restrictions, the DI for the business conditions of accommodation and food services as well as personal services rose significantly.

## ◆ Production Activities Are Picking up Rapidly

The Industrial Production Index for November 2021 rose substantially, up 7.0%

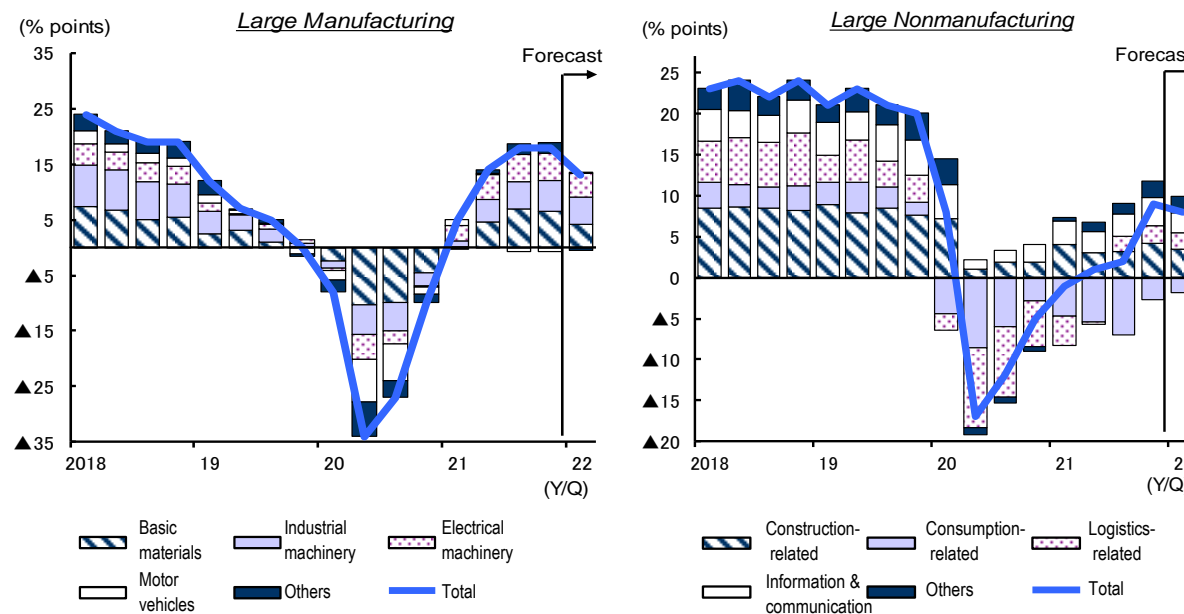
from the previous month. As for future production plans, production is expected to increase by 1.6% month-over-month in December 2021 and by 5.0% in January 2022, with the prospect that the production activities of manufacturers will continue to pick up going forward. However, it must be noted that production plans may be revised downward, as the supply shortage of components and raw materials has not been completely resolved.

## ◆ Consumption Activities Have Also Picked up

Japan's Real Consumption Activity Index (travel balance adjusted) for October 2021 increased by 4.3% from the previous month, up for the second consecutive month. Due to the lifting of the state of emergency declaration at the end of September, service consumption, such as eating out and travel, has picked up, recovering to its highest level since December 2020.

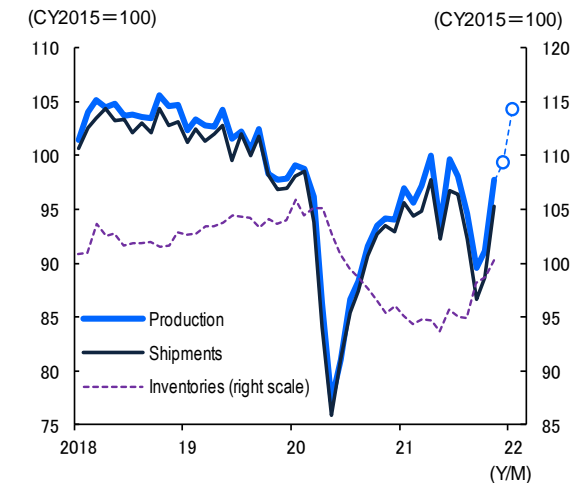
Figure 2-1 Contributions to the Business Conditions Diffusion Index by Industry

<diffusion index of "favorable" minus "unfavorable," and percentage point contribution to total DI points>



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan, "The Tankan December 2021 Survey".

Figure 2-2 Industrial Production Index <seasonally adjusted>



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

Note: The latest two figures in the industrial production index are forecasts for December 2021 and January 2022 based on the production forecast index.

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The Japan Research Institute, Limited

# Exports of Goods Have Picked up

## ◆ Exports of Transportation Machinery Recovered

Goods exports in November 2021 increased for the second consecutive month, recovering 60% of the decline since the summer. By item, shipments of transportation machinery surged on the back of an increase in automobile production as the shortage of components was gradually resolved. In addition, shipments of capital goods and electronic components and devices, which had been sluggish since spring, increased once again.

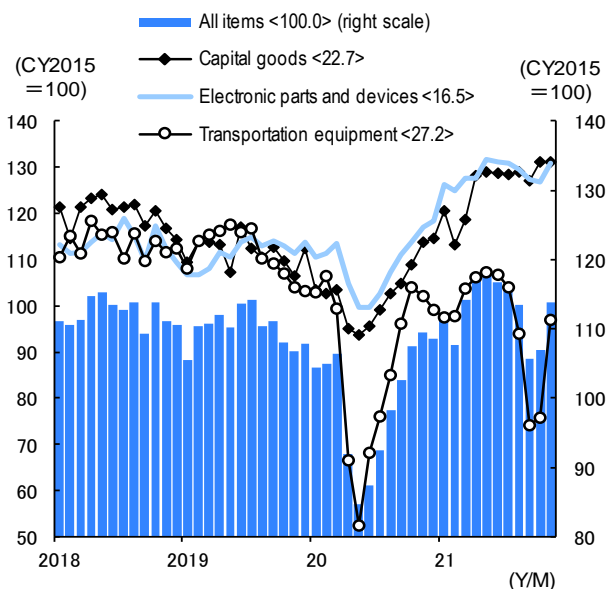
As for future prospects, exports are expected to continue to increase on the back of demand expansion in line with the recovery of the global economy, in addition to the easing of supply constraints. According to the Bank of Japan's December 2021 Tankan Survey, the future outlook of overseas supply and demand condition DI for the products of large manufacturers is significantly positive (excess demand), mainly for production machinery and electric machinery, which indicates that overseas

demand will continue to improve. However, there is a risk that overseas demand will decline if a trend toward greater restrictions on economic activity expands globally due to the outbreak of the Omicron variant of COVID-19.

## ◆ Demand Related to Inbound Tourism Has Remained Virtually Nonexistent

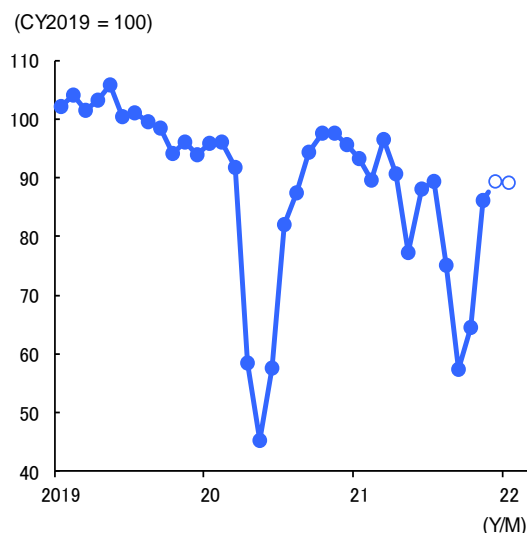
The number of tourists who visited Japan in November 2021 fell 99.2% compared to the same month in 2019, remaining at a significantly lower level than before the pandemic. In the wake of the global outbreak of the Omicron variant, the Japanese government strengthened its border restrictions by banning the new entry of foreign nationals into Japan. Amid concerns about the respread of COVID-19 triggered by the introduction of the virus from overseas, it will likely take time to ease the border restrictions for international tourists, and thus, demand related to inbound tourism is expected to remain virtually zero for the foreseeable future.

Figure 3-1 Real Exports by Item  
<seasonally adjusted>



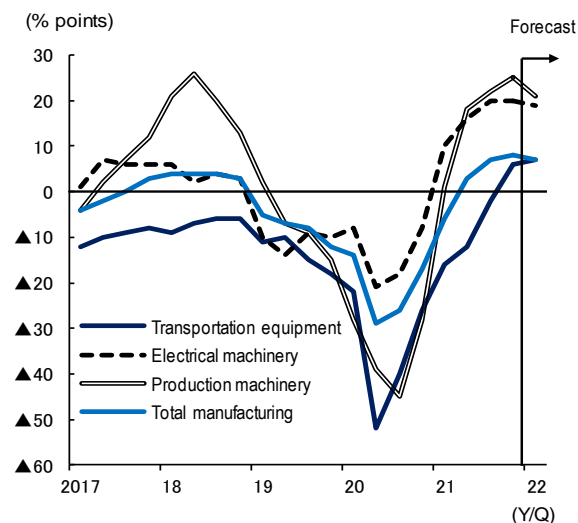
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.  
Note: Figures in the angled brackets show the shares in total nominal exports in CY2020.

Figure 3-2 Industrial Production Index for Transportation Equipment  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Economy, Trade and Industry.  
Note: Figures are based on the production forecast index. The latest two figures are JRI estimates based on METI's method.

Figure 3-3 DI for Overseas Supply and Demand Conditions for Products  
<large enterprises>



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan.  
Note: The latest figures are forecasts based on December 2021 Tankan Survey.

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## Both Corporate Earnings and Business Fixed Investment Are Expected to Pick up

### ◆ Corporate Earnings Were Sluggish

According to the Financial Statements Statistics of Corporations by Industry, in the July-September 2021 quarter, current profits for the manufacturing industry as a whole decreased by 8.2% quarter on quarter, down for the first time in five quarters. By industry, profits of transportation machinery makers dropped considerably on the back of the decline in sales due to supply constraints. Meanwhile, current profits for the nonmanufacturing industry decreased by 6.8% quarter on quarter, down for the second consecutive quarter. As the extension of the state of emergency declaration continued to exert downward pressure, the accommodation, living-related services, and entertainment industries continued to post losses.

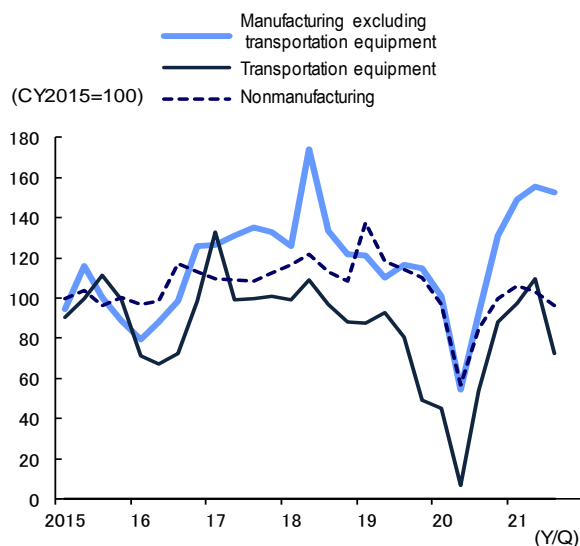
After the October-December 2021 quarter, the profit environment for both manufacturing and nonmanufacturing industries is expected to improve on the back of the alleviation of supply shortages for components and raw materials and the recovery of personal consumption in line with the easing of activity restrictions. However, there is a possibility that soaring raw materials prices, which have been a

factor behind increasing costs for companies, will be prolonged. Therefore, the risk of negative impact on earnings mainly for downstream industries that cannot easily take cost pass-through measures remains.

### ◆ Capital Investment Is Expected to Recover in the Future

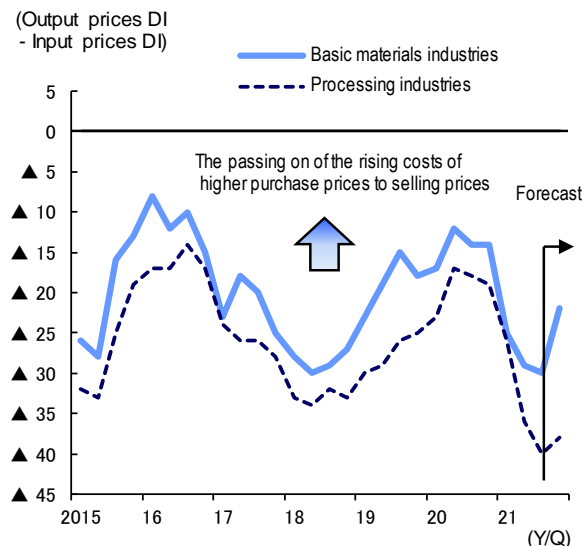
Capital expenditures for the July-September 2021 quarter decreased by 2.6% from the previous quarter on an industry-wide basis, down for the first time in three quarters. Amid the resurgence of COVID-19 and the prolonged state of emergency declaration, it appears that companies have postponed their investments on a temporary basis. Nonetheless, corporate investment appetite for digitization and other measures remains strong, and it is clear from the fixed investment plan in the Bank of Japan's December 2021 Tankan Survey that large enterprises are maintaining their aggressive investment stance. If the number of new COVID-19 cases remains low, capital investment will likely return to an increasing trend in the future.

Figure 4-1 Current Profits of Japanese Corporations by Type  
<seasonally adjusted>



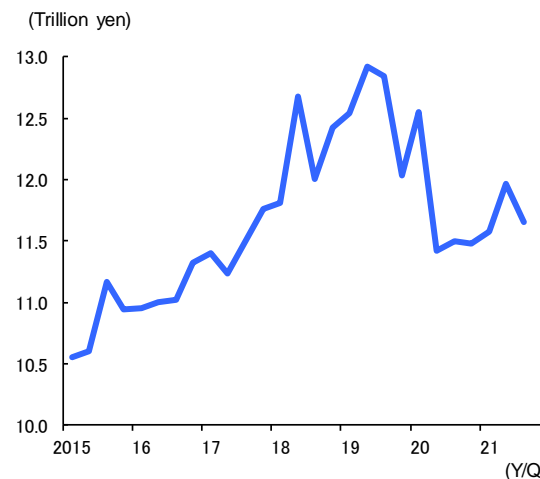
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

Figure 4-2 Current Situation of Passing on of Costs of Higher Purchase Prices  
<manufacturing Industry>



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

Figure 4-3 Business Fixed Investment of Japanese Corporations  
<all industries, seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

# The Recovery in Employment and Income Conditions Is Expected to Remain Moderate

## ◆ The Pace of Employment Improvement Has Been Slow

The unemployment rate in November 2021 was 2.8%, down 0.1 percentage points from the previous month. While the number of workers remains flat from the previous month, the move to resume job-hunting activities pushed up the unemployment rate. Looking at the general job placement situation, while the number of active job openings has been on a rising trend, the increase is not large enough to put a significant dent in the number of applicants.

As for future prospects, the employment situation is expected to improve on the back of the recovery in private consumption among other factors. However, amid lingering concerns over a resurgence of COVID-19, the increase in working hours will be mainly for existing workers for the time being. As a result, the pace of improvement in the employment environment will likely remain moderate.

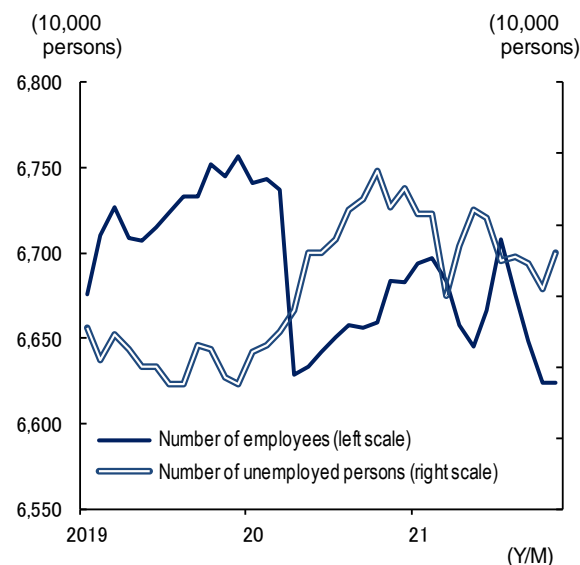
Although the special provisions for employment adjustment subsidies will be gradually reduced from January 2022, the upper limit of the subsidies will be slightly reduced, and the negative impact on employment is expected to be limited.

## ◆ The Lower Rate of Part-time Workers Boosted Average Wages

Total cash earnings (on the basis of common business establishments) in October 2021 rose 1.0% from the same month in the previous year, continuing to record a high growth rate seen in recent years. However, the increase in average wages was attributable primarily to a decrease in the number of part-time workers paid low wages, indicating that the environment surrounding wages remains severe.

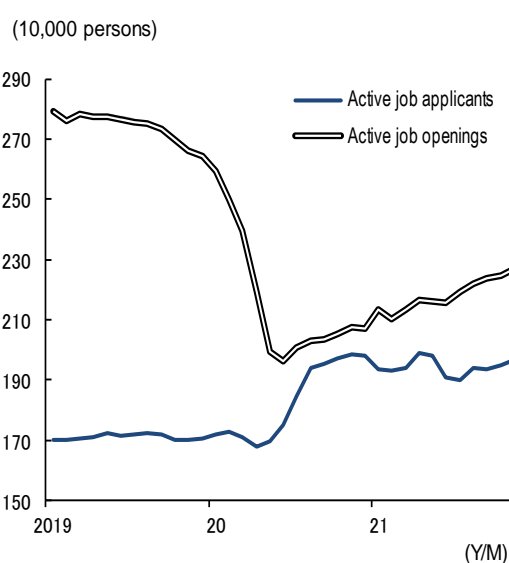
As for future prospects, it is predicted that there will be downward pressure on average wages, as the number of part-time workers will increase amid the gradual normalization of consumption activities.

Figure 5-1 Number of Employees and Number of Unemployed Persons  
<seasonally adjusted>



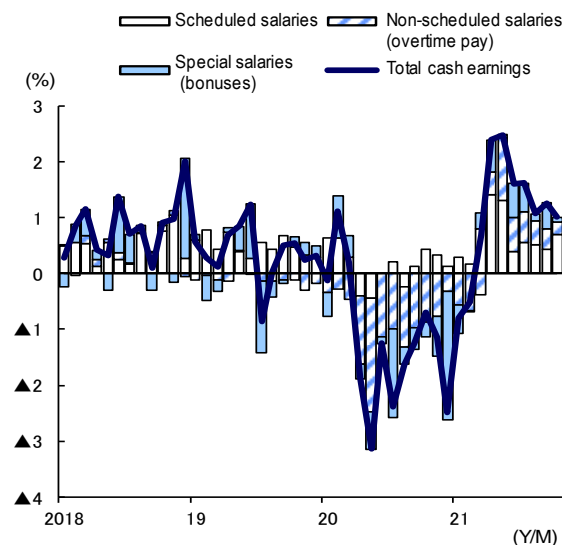
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 5-2 Active Job Openings and Active Job Applicants  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Health, Labor and Welfare.

Figure 5-3 Contributions to Change Rate of Nominal Wages  
<year-on-year % change>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Health, Labor and Welfare.

Note: On the basis of common business establishments.

# Personal Consumption Is Expected to Visibly Recover in Line with the Easing of Activity Restrictions

## ◆ There Have Been Signs of Recovery, mainly in Service Consumption

Since the state of emergency was lifted at the end of September 2021, the number of people visiting retail and entertainment facilities has been on a rising trend. In addition, as the number of COVID-19 cases remains at a low level, national and regional governments have gradually eased activity restrictions, and there have been signs of recovery in service consumption, which had been sluggish.

As for goods consumption, automobile sales, which had stagnated since the beginning of autumn, are also picking up on the back of the easing of supply constraints.

## ◆ Personal Consumption Could Increase by 16 Trillion Yen

The outlook for personal consumption will depend largely on the COVID-19 situation, and the spread of the Omicron variant may weigh on consumption recovery through the deterioration of consumer sentiment and an increasing tendency to

refrain from going out.

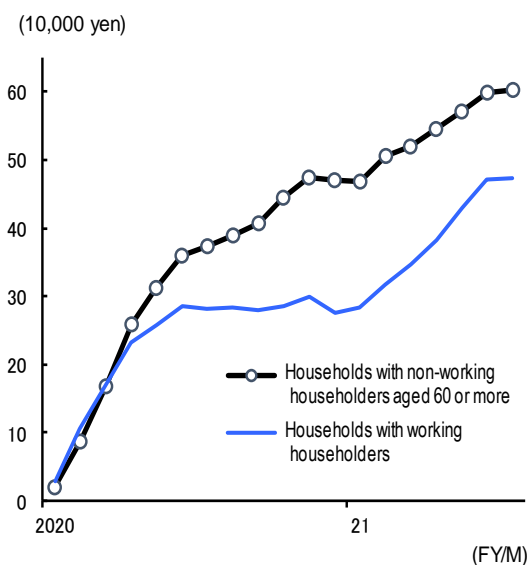
However, consumption activity is expected to continue to normalize if the strengthening of activity restrictions can be avoided through rollout of the third COVID vaccine dose, expansion of medical systems, and commercialization of oral anti-COVID-19 drugs. As there will be less pent-up demand related to service consumption with limited capacity to rapidly expand supply, it is difficult to expect that consumption will increase to the level where the excess savings that accumulated due to the COVID-19 pandemic (over 400,000 yen on average for working households and slightly less than 600,000 yen for retired households) will be used up in a short period of time. Despite the foregoing, it is estimated that personal consumption will increase by 16 trillion yen (6%) if consumption normalizes and the propensity to consume returns to pre-pandemic levels.

Figure 6-1 Service Consumption Based on Credit Card Settlements <compared to the same month in 2018>



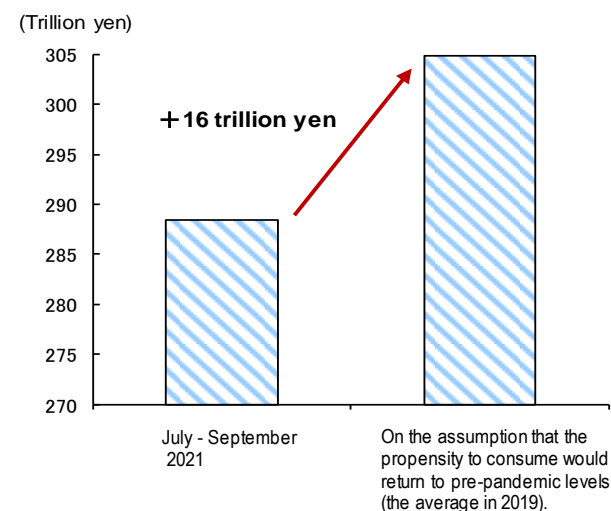
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption NOW, Google.

Figure 6-2 COVID-19 Related Savings per Household by Type



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.  
Note: Households with 2 or more household members.

Figure 6-3 Room for Personal Consumption to Expand due to Rise in the Propensity to Consume



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

Note: Nominal value of private consumption expenditure on an annualized, seasonally adjusted basis.

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# Topic: Improving the Terms of Trade is Essential to Raising Real Wages

## ◆ Terms of Trade Are Deteriorating Due to Soaring Resource Prices

Since the middle of 2020, the terms of trade, which represents the ratio of import prices to export prices, have deteriorated significantly. As background for this, it is possible to point out the sharp rise in resource prices, particularly for crude oil. Japan depends on imports for most of its energy resources, and soaring resource prices are directly linked to worsening terms of trade through the rise in import prices.

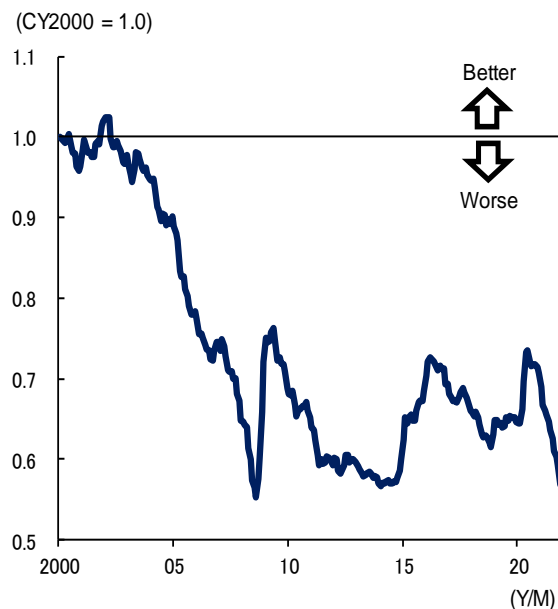
## ◆ Deterioration in Terms of Trade Has Depressed Real Wages

Deterioration in terms of trade means a decrease in the amount of imported goods that can be purchased with the income earned in the country, or in other words, a decrease in purchasing power, which is a factor in the decline in real wages from the perspective of the household sector. Breaking down the changes in real wages since

the 2000s into factors, the positive contribution from increasing labor productivity is offset by the negative contribution from deteriorating terms of trade.

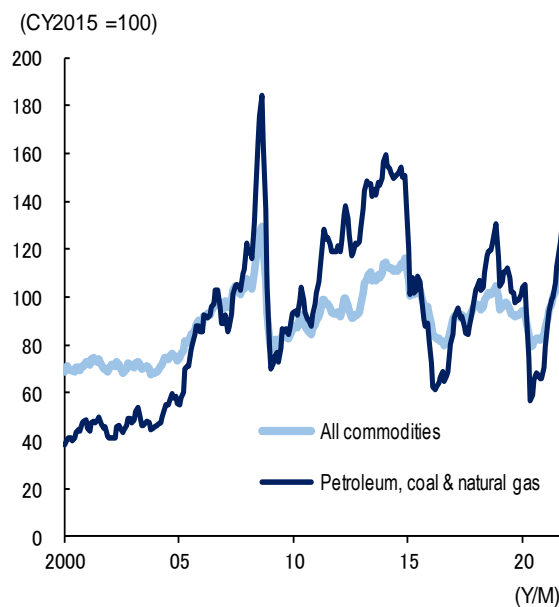
The Kishida administration has set a goal of "a virtuous cycle of growth and distribution," and is aiming to raise wages by taking advantage of companies' internal reserves through tax reforms and other measures. However, in order to realize a sustainable rise in real wages, it is mandatory to improve the terms of trade as well. In Japan, high dependence on thermal power generation is one of the factors that make the terms of trade more likely to deteriorate in the face of rising resource prices. Therefore, in order to raise real wages, it is essential to change the country's energy structure, such as promoting renewable energy.

Figure 7-1 Terms of Trade



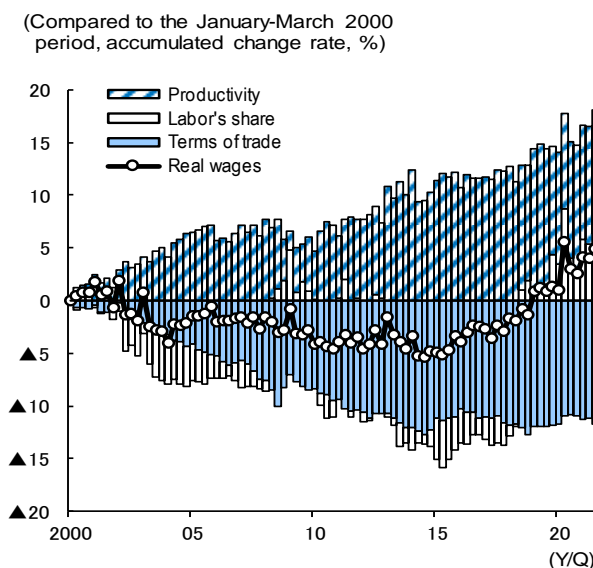
Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan.  
Note: On a Japanese Yen basis.

Figure 7-2 Import Price Index



Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan.  
Note: On a Japanese Yen basis.

Figure 7-3 Contributions to Accumulated Change Rate of Real Wages per Person and per Hour



Source: The Japan Research Institute, Ltd. based on data of The Cabinet Office, The Ministry of Health, Labor and Welfare, The Ministry of Internal Affairs and Communications.  
Note: The latest figures are JRI's forecasts.

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## Prospects for Japan's Economy - Projected Real GDP Change; 2.9% for FY2021 and 3.2% for FY2022

### ◆ Japan's GDP will Recover to the Pre-COVID-19 Peak in the July-September 2022 Period

#### (1) High Positive Growth Is Expected in the Second Half of FY2021

Looking ahead, high growth is expected to continue for the foreseeable future on the back of a pickup in automobile production and a recovery in service consumption. The real GDP growth rate for the October-December 2021 period and the January-March 2022 period is forecast to be around the +7% level on an annualized quarter-on-quarter basis.

However, it will be difficult for Japan's real GDP to recover to its pre-COVID-19 peak (April-June 2019 period) by the end of FY2021 because soaring resource prices will weigh on economic recovery and the demand creation effect of economic measures is expected to be limited. As a risk scenario, if the number of new COVID-19 cases and the number of patients with serious illness increase more than expected as a result of the Omicron wave, and restrictions on activities are tightened once again, the economy may suffer a setback.

After the beginning of FY2022, it is anticipated that the pace of economic recovery will return to a cruising speed as the recovery in automobile production runs its course and consumer spending mostly normalizes. As a result, quarterly growth is expected to slow significantly.

#### (2) The Growth Rate for FY2021 Will Be +2.9%

Japan's growth rate forecast for FY2021 and FY2022 is +2.9% and +3.2%, respectively. After recording high positive growth for two consecutive years, backed by the recovery in economic activity from the COVID 19 pandemic, the growth rate for FY2023 is expected to be +1.1%, indicating that the pace of growth will slow significantly as economic activity normalizes. It is forecast that Japan's real GDP will recover to the pre-COVID-19 peak in the July-September 2022 period.

### ◆ Consumer Prices Rose for the Third Consecutive Month

(3) In November 2021, core CPI increased 0.5% year on year, up for the third consecutive month, due mainly to the rise in energy prices. On the other hand, the CPI excluding fresh food and energy (core core CPI) decreased 0.6% year on year, remaining in negative territory. While education and entertainment services, including accommodation fees, contributed to boost core core CPI as a result of the reaction to the previous year's "Go To" campaigns, lower mobile phone charges put significant downward pressure on the overall CPI.

Despite concerns over inflation against the backdrop of soaring resource prices, companies remain cautious about passing on cost increases, and the increase in product prices is expected to be limited to select items such as energy and food. Consequently, core CPI is expected to hover around the 0% level.

Figure 9 Projections for GDP Growth and Main Indicators of Japan ( as of January 4, 2022 )

	(seasonally adjusted, annualized % changes from the previous quarter)											(% changes from the previous fiscal year)		
	CY2021		CY2022				CY2023				CY2024	FY2021	FY2022	FY2023
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3			
	(Actual)	(Projection)	(Projection)				(Projection)				(Projection)	(Projection)	(Projection)	(Projection)
Real GDP	▲ 3.6	7.5	7.3	3.3	0.8	1.2	1.2	1.1	1.1	0.9	0.9	2.9	3.2	1.1
Private Consumption Expenditure	▲ 5.1	11.9	6.5	3.6	0.7	1.2	1.2	1.0	1.0	0.8	0.8	2.9	3.5	1.0
Housing Investment	▲ 6.2	5.9	6.4	3.2	0.2	0.2	0.0	0.6	0.6	0.8	0.8	0.4	2.4	0.5
Business Fixed Investment	▲ 8.8	7.9	9.9	4.4	4.0	2.8	2.8	2.6	2.6	2.4	2.4	2.7	4.6	2.7
Private Inventories (percentage points contribution)	( 0.4)	( 0.0)	( 0.6)	( 0.1)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.2)	( 0.0)
Government Consumption Expenditure	4.1	0.0	2.8	0.8	▲ 0.4	0.2	0.2	0.2	0.2	0.2	0.2	2.1	0.9	0.2
Public Investment	▲ 7.8	3.5	6.6	0.8	▲ 3.4	▲ 0.9	0.0	0.3	0.4	0.8	0.4	▲ 3.8	0.5	0.0
Net Exports (percentage points contribution)	( 0.1)	(▲ 0.4)	( 0.3)	( 0.1)	( 0.0)	( 0.0)	( 0.1)	( 0.0)	( 0.0)	(▲ 0.0)	(▲ 0.0)	( 0.7)	( 0.1)	( 0.0)
Exports of Goods and Services	▲ 3.5	2.8	10.5	4.4	4.0	3.6	3.6	3.0	3.0	2.6	2.6	12.1	4.6	3.2
Imports of Goods and Services	▲ 4.1	4.9	8.2	3.6	3.6	3.2	3.2	2.7	2.7	2.6	2.6	7.5	4.1	2.9
(Ref.) Domestic Private Demand (percentage points contribution)	(▲ 4.1)	( 7.9)	( 6.0)	( 2.9)	( 1.0)	( 1.1)	( 1.1)	( 1.0)	( 1.0)	( 0.9)	( 0.9)	( 2.0)	( 2.9)	( 1.0)
(Ref.) Public Demand (percentage points contribution)	( 0.4)	( 0.2)	( 1.0)	( 0.2)	(▲ 0.3)	(▲ 0.0)	( 0.0)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.2)	( 0.2)	( 0.0)

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	▲ 0.0	▲ 0.1	2.8	3.5	5.1	3.7	2.2	1.5	1.7	1.4	1.4	2.1	3.6	1.5
GDP deflator	▲ 1.2	▲ 0.7	▲ 0.3	▲ 0.0	0.4	0.6	0.5	0.4	0.5	0.4	0.4	▲ 0.8	0.4	0.4
Consumer Price Index (excluding fresh food)	▲ 0.0	0.4	▲ 0.0	0.8	0.9	0.8	0.9	0.8	0.6	0.7	0.7	▲ 0.1	0.8	0.7
Unemployment Rate (%)	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.7	2.5	2.3
Exchange Rates (JY/US\$)	110	114	114	115	115	116	117	117	116	116	116	112	116	116
Import Price of Crude Oil (US\$/barrel)	73	80	77	76	76	73	71	70	70	70	70	74	74	70

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.