

# Monthly Report of Prospects for Japan's Economy

## April 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 March 2022 issue of the original Japanese version.**

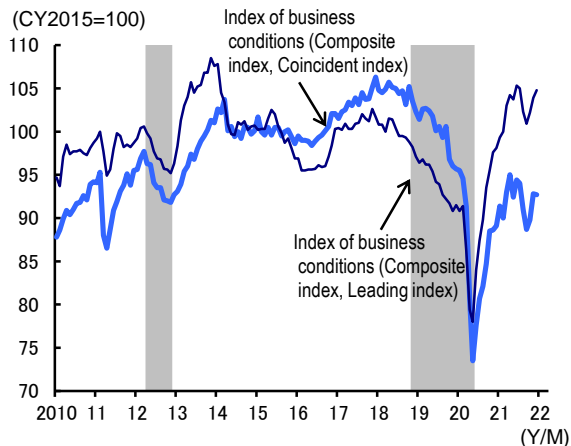
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# The General Situation – Japan's Economy Has Declined Slightly Since the Beginning of 2022

Figure 1-1 Economic Activity

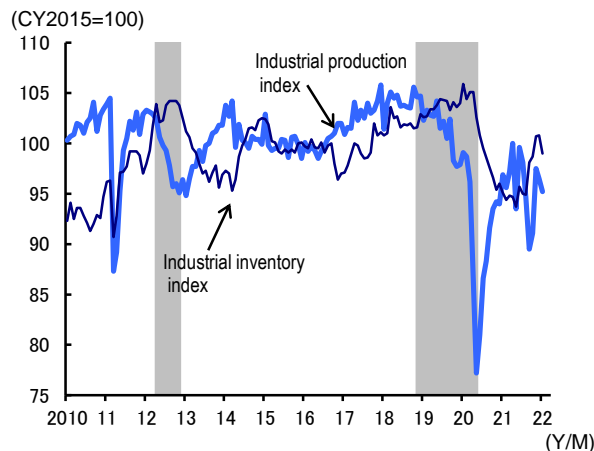
While the CI coincident index remained flat, the CI leading index rose.



Source: The Cabinet Office.

Figure 1-2 The Corporate Sector

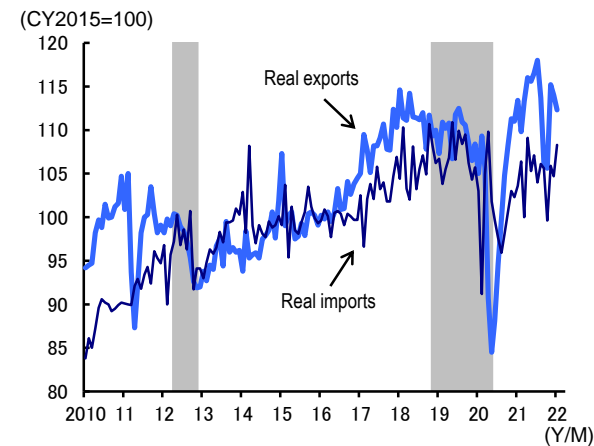
Industrial production declined mainly in the automobile industry as well as the steel and non-ferrous metal industry.



Source: The Ministry of Economy, Trade and Industry.

Figure 1-3 Overseas Demand

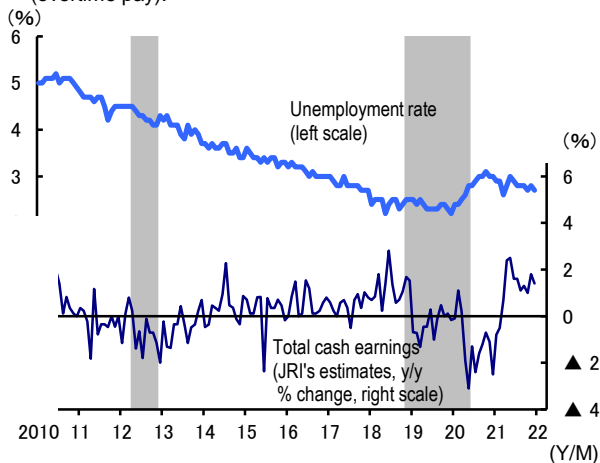
Exports to the United States and Asia decreased. Imports saw signs of recovery.



Source: The Bank of Japan.

Figure 1-4 Employment and Income

The unemployment rate remained at 2% in the latter half. Nominal wages increased, mainly for non-scheduled salaries (overtime pay).

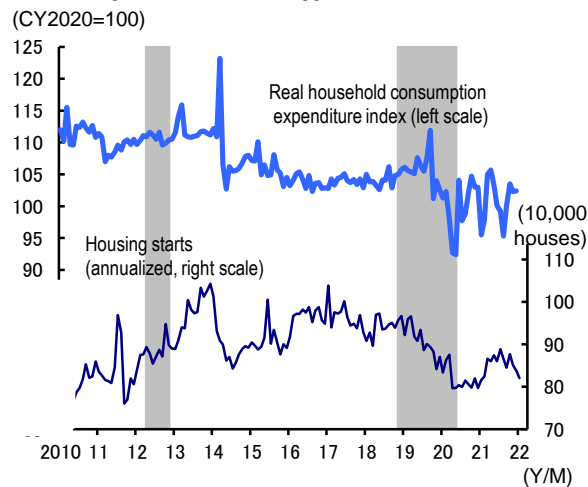


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare.

\* The shaded area indicates the recession phase.

Figure 1-5 The Household Sector

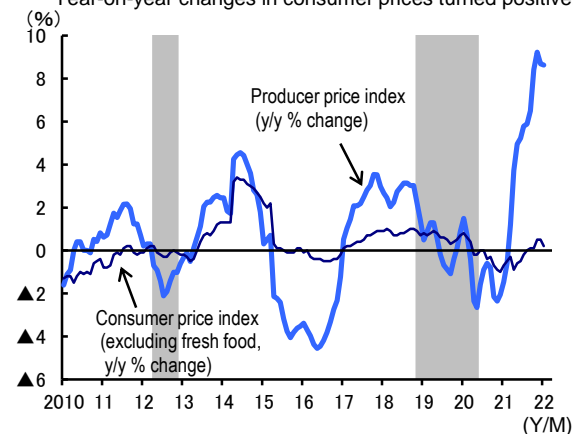
Real consumption saw some ups and downs. Housing starts remained sluggish.



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

Figure 1-6 Prices

Producer prices saw their highest growth, mainly for petroleum products. Year-on-year changes in consumer prices turned positive.



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

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# Production and Exports Have Declined Since the Beginning of 2022, While Private Consumption Saw Some Ups and Downs

## ◆ The October-December 2021 Period Saw Positive Growth

Japan's real GDP (1st preliminary report) for the October-December 2021 period increased by 5.4% on an annualized quarter-on-quarter basis, reporting growth for the first time in two quarters. This indicates that Japan's economy rebounded toward the end of 2021. Looking at the breakdown, private consumption surged by 11.2% on an annualized quarter-on-quarter basis on the back of the recovery in service consumption following the lifting of the state of emergency declaration.

## ◆ Production and Exports Remained Sluggish

The Industrial Production Index for January 2022 declined 1.3% from the previous month, down for the second consecutive month. The Export Volume Index also saw a decline for two consecutive months due to sluggish production activities. By industry, production and exports of transportation machinery significantly decreased

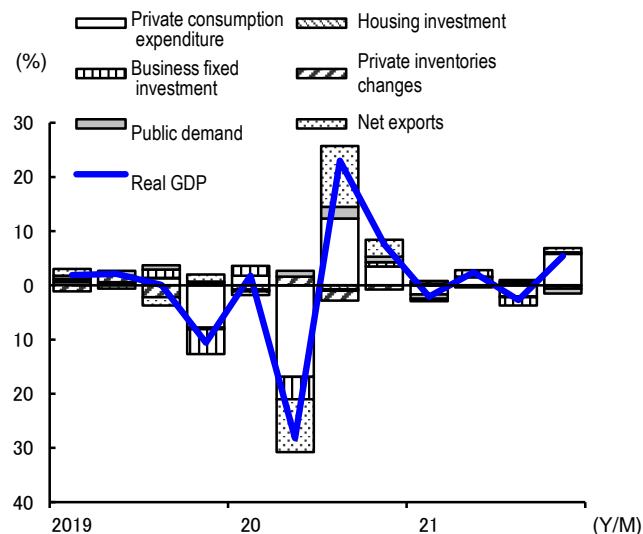
against the backdrop of the suspension of plant operations as the number of Omicron cases increased.

Despite the foregoing, negative impact on production activities has gradually been easing. Production plans for February and March 2022 are expected to increase compared to those for January 2022. While the plans could be revised downward, production and exports are anticipated to improve going forward.

## ◆ Private Consumption Saw Some Ups and Downs

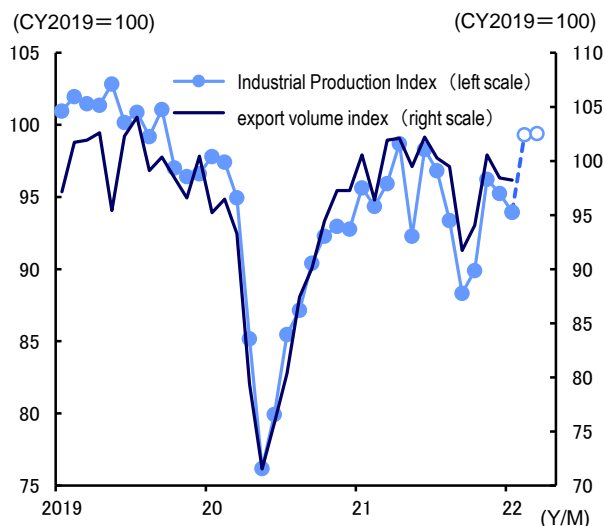
The recovery of personal consumption stalled as Japan's Real Consumption Activity Index (travel balance adjusted) for December 2021 remained flat from the previous month. In addition, consumption activities, related mainly to services, remained sluggish due to the spread of the Omicron variant since the beginning of the new year. The Consumer Confidence Index for January and February 2022 declined from the previous month for two consecutive months.

Figure 2-1 Real GDP Change Rate by Demand Item  
<the first preliminary estimates, on an annualized  
q/q change basis, seasonally adjusted>



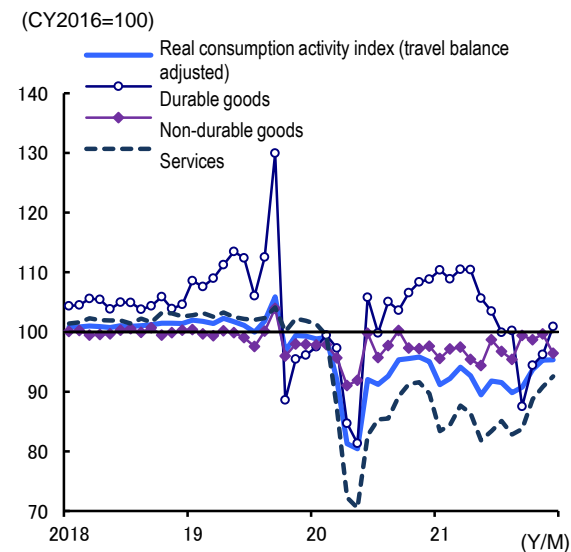
Source: The Japan Research Institute, Ltd. based on data of The of the Cabinet Office.

Figure 2-2 Industrial Production and Export  
Volume <seasonally adjusted>



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

Figure 2-3 Real Consumption Activity Index  
<seasonally adjusted>



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

# Exports of Goods Saw a Decline

## ◆ Exports of Transportation Machinery Decreased Again

Goods exports for January 2022 decreased 2.1% from the previous month. By item, exports of transportation machinery decreased again against the backdrop of the decline in production by domestic automobile manufacturers due to a rise in the number of workers who were forced to isolate at home, reflecting soaring Omicron cases and close contacts.

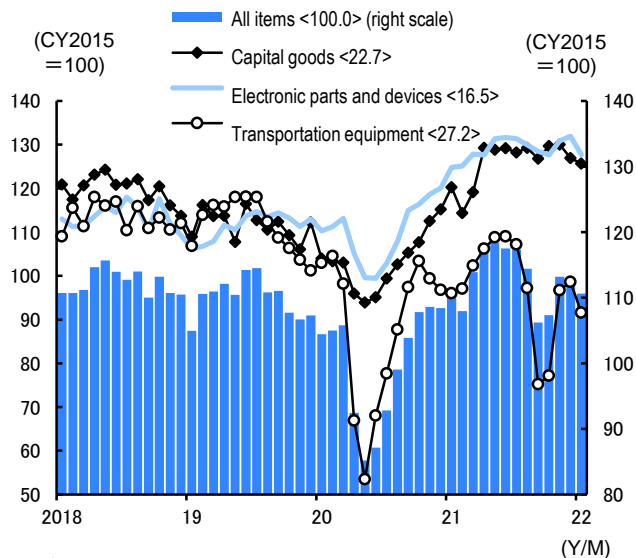
As for future prospects, there have been signs that the Omicron wave is peaking in many countries around the world. Demand for electronic parts and devices and capital goods is expected to increase in the future on the back of a rise in consumption opportunities and the improvement in sentiment for capital investment by local companies. In addition, the negative impact of the Omicron wave on production activities has been gradually easing in Japan, and exports of transportation machinery will likely start increasing once again. Meanwhile, although the Russian economy is expected to deteriorate significantly due to the impact of

sanctions imposed after the invasion of Ukraine, the share of Japan's exports to Russia is small at 1%, so the direct negative impact from a macro perspective will likely be limited.

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

The number of tourists who visited Japan in January 2022 fell 99.5% compared to the same month in 2019, remaining at a significantly lower level than before the pandemic. The Japanese government relaxed its border restrictions that had banned the new entry of foreign nationals into Japan in principle, and permitted the entry of short-term visitors for business purposes as well as foreign students and technical intern trainees from March 2022. However, 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.

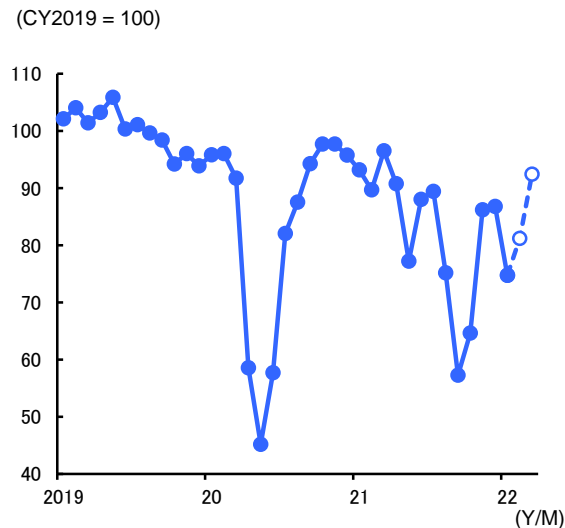
Figure 3-1 Real Exports by Item  
<seasonally adjusted>



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.

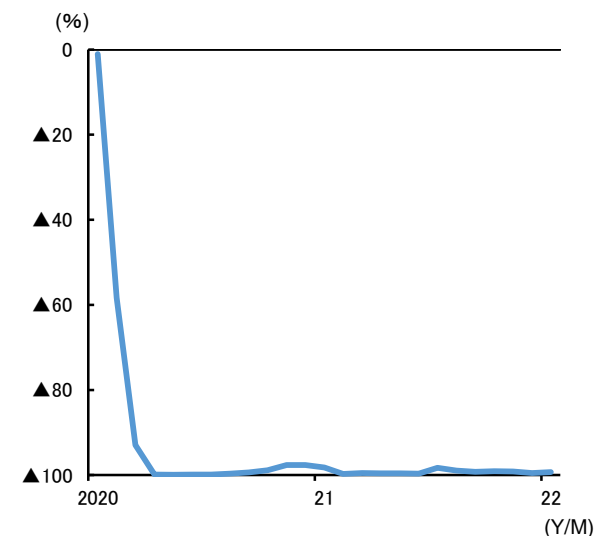
Figure 3-2 Industrial Production Index for Transportation Equipment  
<seasonally adjusted>



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 Number of Foreign Visitors to Japan  
<compared to the same month in 2019>



Source: The Japan Research Institute, Ltd. based on data of the Japanese National Tourism Organization

# Corporate Earnings Are Expected to Decrease, While Business Fixed Investment Will Likely Pick up

## ◆ Corporate Earnings Increased Toward the End of 2021

According to the Financial Statements Statistics of Corporations by Industry, current profits on an industry-wide basis for the October-December 2021 quarter rose 17.4% from the previous quarter, recording a significant increase in profits. This was attributable to a 5.1% increase in sales from the previous quarter on the back of the alleviation of supply shortages and the lifting of the state of emergency declaration.

Looking ahead, the pace of increase in current profits is expected to slow significantly. Currently, rising pressure on primary commodity prices, especially crude oil, is mounting in the wake of Russia's invasion of Ukraine. This will likely become a source of pressure on earnings, particularly for processing companies in the manufacturing industry that cannot easily pass on cost increases. Furthermore, in the non-manufacturing sector, earnings in the accommodation and lifestyle-related services industries will inevitably decline due to the outbreak of the Omicron variant.

## ◆ Capital Investment is Expected to Rebound

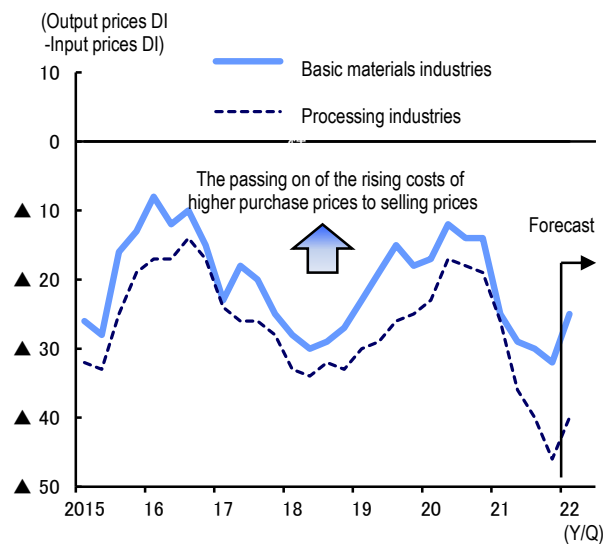
Business fixed investment for the October-December 2021 period increased for the first time in two quarters both in the manufacturing industry (up 3.5% quarter on quarter) and the non-manufacturing industry (up 3.3% quarter on quarter). Companies are gradually resuming their delayed capital investment on the back of the recovery in overseas economies and the lifting of the state of emergency declaration. Machinery orders and construction work orders, which are leading indices for capital investment, have been on a rising trend. Although there are concerns over the negative effects of the Omicron outbreak, the corporate investment appetite for digitization and other measures remains strong, and capital investment on the whole is expected to continue to rebound in the future.

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



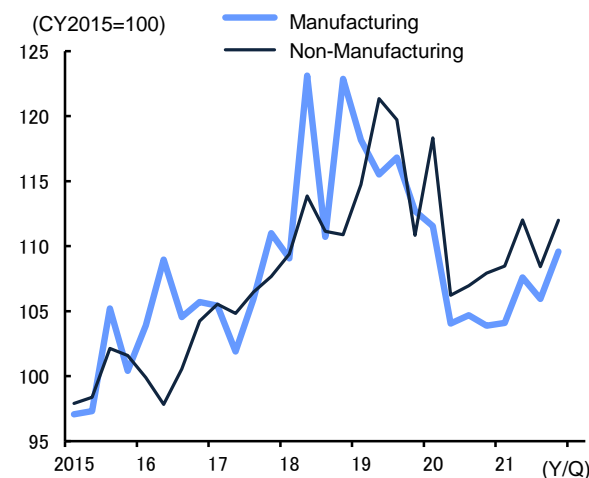
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

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 Will Likely be Delayed Again Due to Activity Restrictions

## ◆ Job Recovery Is Expected to be Delayed

The number of workers in December 2021 increased by 490,000 from the previous month on the back of the economic recovery trend. However, the improvement in the unemployment rate has been limited, and the increase in the number of active job openings is not large enough to put a significant dent in the number of applicants, indicating that the employment situation has remained severe. Following the issuance of the priority preventive measures to control the spread of COVID-19 due to the Omicron wave since the beginning of January 2022, the recovery in employment conditions will likely be delayed.

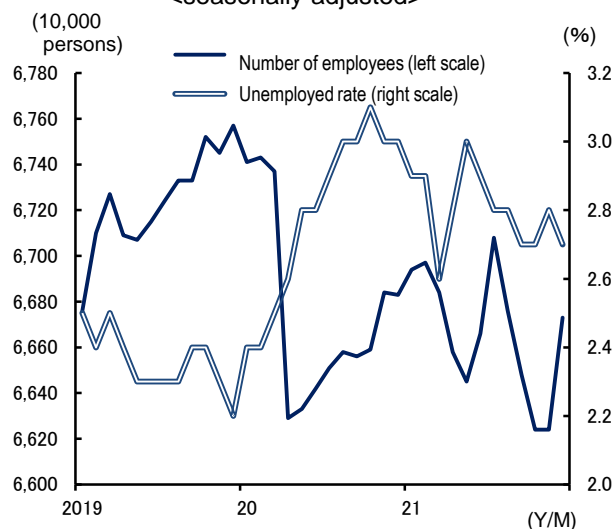
As for future prospects, the employment situation is expected to improve as activity restrictions ease in line with the decline in the number of COVID-19 cases and the economy returns to a recovery trend. Having said that, amid concerns over a resurgence in infections due to the emergence of a new variant, the pace of improvement in employment conditions is likely to remain moderate.

## ◆ The Decline in the Employment of Nonregular Workers is Expected to Put Downward Pressure on Average Wages

Total cash earnings (on the basis of common business establishments) in December 2021 rose 1.4% 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 1) a decrease in the number of nonregular workers paid low wages, and 2) an increase in reaction to the decline in special salaries (bonuses) in the previous year, indicating that the environment surrounding wages remains severe. The wage increase as a result of the spring labor offensive is expected to exceed the 1.86% seen in the previous year but will barely reach 2%.

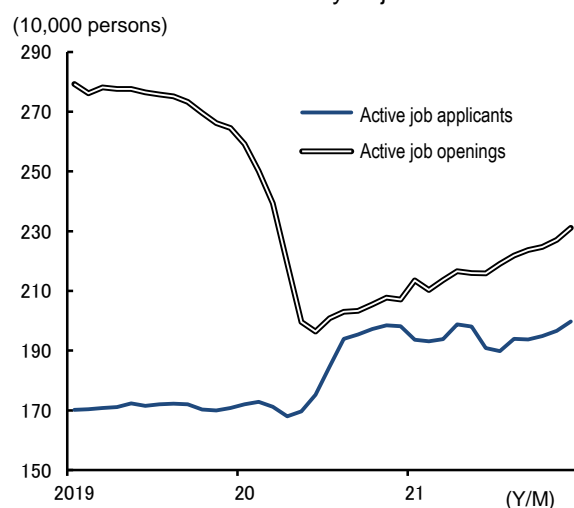
As for future prospects, it is predicted that there will be downward pressure on average wages, as the employment of nonregular workers will start to rebound amid the gradual normalization of consumption activities.

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



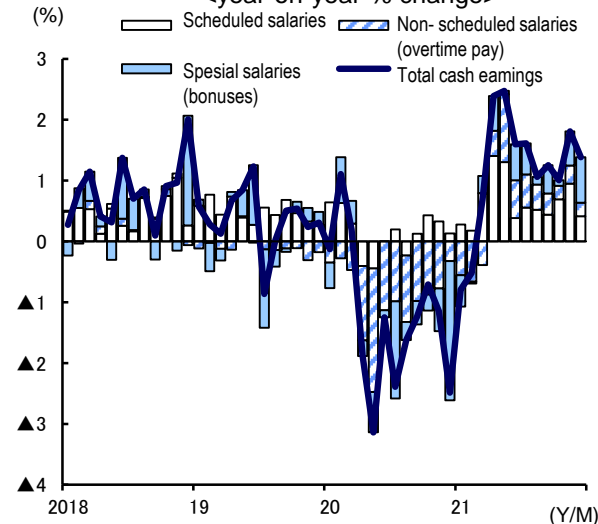
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

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.

# The Consumption Downturn Due to the COVID-19 Resurgence is Expected to Be Short-lived

## ◆ Consumer Spending Has Weakened Again

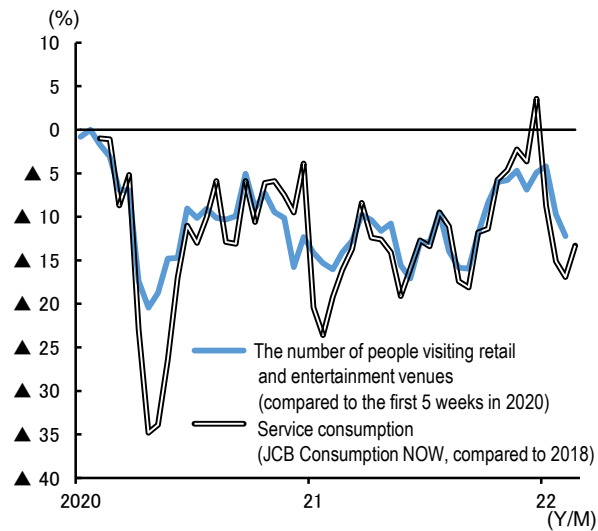
Personal consumption has once again weakened due to the spread of the Omicron variant since the beginning of the new year and the subsequent issuance of the priority preventive measures to control the spread of COVID-19. The number of people visiting retail and entertainment facilities has plunged, and service consumption has also declined. In addition to the moves to refrain from eating out and traveling, constraints on the supply side, such as automobile production cuts, have served to place downward pressure on consumption. Furthermore, heavy snowfall in Hokuriku and Hokkaido from late January to February negatively affected private spending.

## ◆ Consumption is Expected to Visibly Recover After April 2022

Looking ahead, activity restrictions will likely continue until the hospitalization rate visibly declines. It is difficult to expect a full-fledged recovery in service consumption until then. Although the COVID-19 situation remains uncertain, there

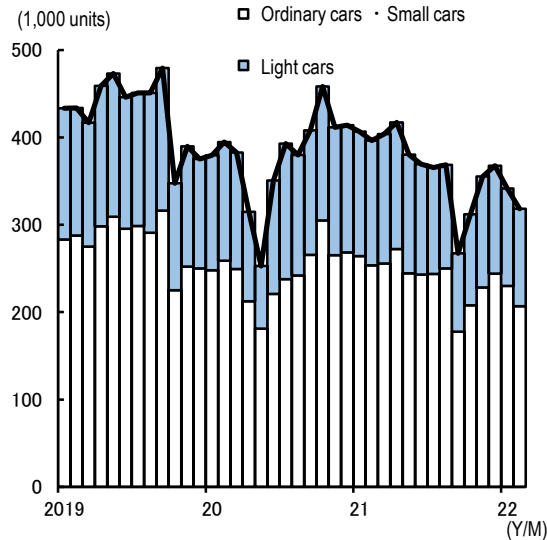
have been signs that the Omicron wave is peaking in Japan in terms of the number of new cases, and it is expected that the priority preventive measures to control the spread of COVID-19 will be fully lifted by the end of March. In that case, private consumption will likely return to a recovery trend once again. However, concerns over inflation due to the rise in gasoline prices and other factors may dampen consumer sentiment, and it is difficult to expect a rapid increase in consumption via active use of the excess savings that accumulated due to the COVID-19 pandemic as a result of voluntary restraint by consumers on eating out and traveling. Moreover, there is a risk of recurrence in the tendency toward voluntary restraint as a result of the possibility of emergence of a new COVID-19 variant in the future.

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



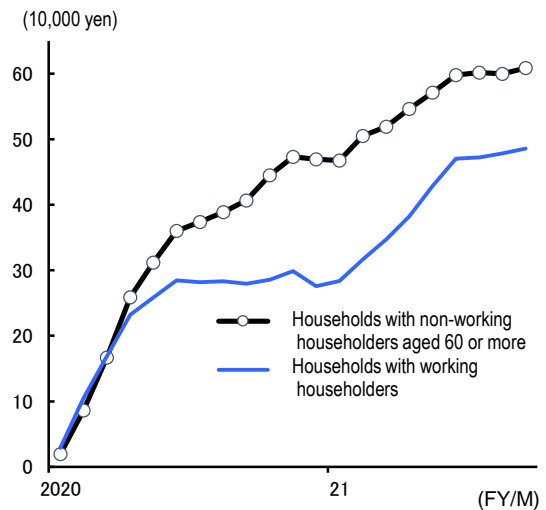
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption Now, Google.

Figure 6-2 New Vehicle Registrations  
<annualized, seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of National Federation of Mini Vehicle Associations, The Automobile Dealers Association of Japan.

Figure 6-3 COVID-19 Related Savings per Household by Type in 2020



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.

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## Topic: Rising Market Prices Push Food Prices Higher

### ◆ Food Prices Are Soaring

The year-on-year increase in food prices has been at its highest level since 2008, reflecting soaring market prices. This is attributable to factors both on the supply and demand sides. On the supply side, production has stagnated due to a shortage of farmers as a result of the impact of activity restrictions caused by the COVID-19 pandemic, as well as the poor harvest of many crops as a result of unfavorable weather conditions around the world. Meanwhile, on the demand side, demand for food is increasing as economic activities pick up following the downturn caused by the pandemic. In addition, demand for soybeans and other raw materials is growing as biofuels attract more attention as part of the efforts being made toward decarbonization.

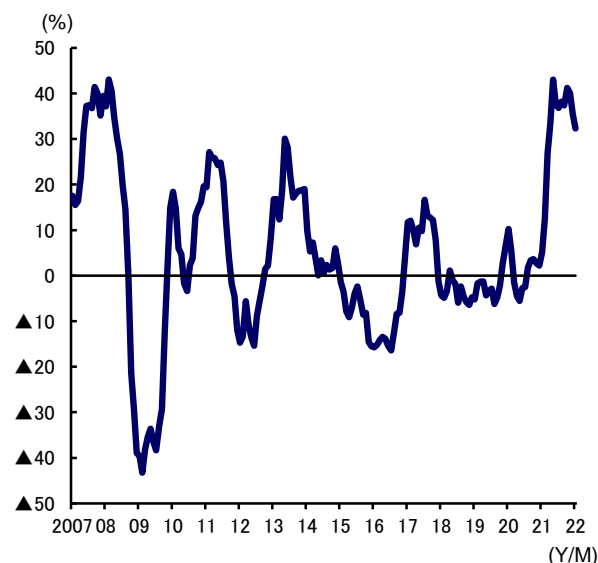
### ◆ Higher Food Prices Are Driving up Overall Prices

Presently, many food manufacturers have decided that their corporate efforts

will not be able to cover the cost increase caused by the sharp rise in market prices since last year, and consequently raised the prices of their food products one after another. Japanese companies have been persistently trying to absorb the increase in costs caused by the sharp rise in market prices by cutting other costs, which tends to result in an approximately one-year delay in passing on cost increases. Higher prices are likely to increase for a wide range of products going forward.

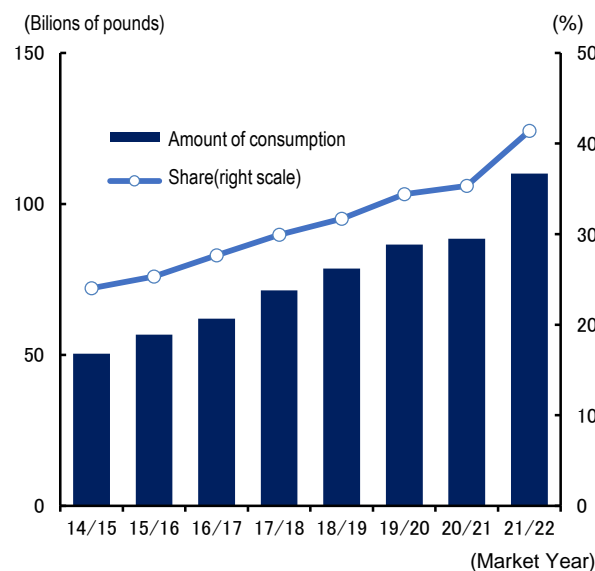
The hike in food prices is expected to boost consumer prices. Given past patterns of volatility, food prices are expected to increase core CPI by 0.5 percentage points from early spring to summer. Crude oil prices rose to the 110-dollar-per-barrel level due to the worsening Ukraine situation. If this level continues, core CPI for the July-September period could rise to +2% on a year-on-year basis.

Figure 7-1 Food Market Prices  
<year-on-year % change>



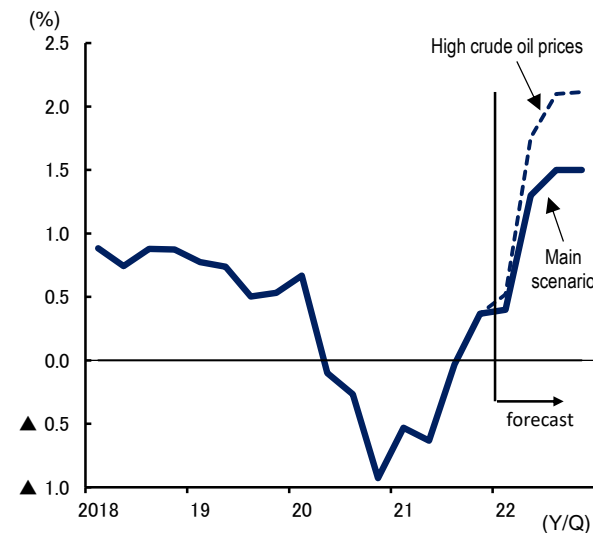
Source: The Japan Research Institute, Ltd. based on the data of Food and Agriculture Organization of the United Nations.

Figure 7-2 Soybean Oil Consumption for Biofuels (US)



Source: The Japan Research Institute, Ltd. based on the data of The United States Department of Agriculture.  
Note1: USDA Forecast for 2021/2022. Market year begins in September. Share is the ratio of consumption of bio-oriented fuels to total soybean consumption

Figure 7-3 Core CPI Forecast



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

Note: For the high oil price case, WTI is assumed to remain at \$110/barrel throughout 2022.

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## Prospects for Japan's Economy - Projected Real GDP Change; 2.4% for FY2021 and 3.0% for FY2022

### ◆ While Japan's Economy Is Expected to Pick up Again After Spring, the Conflict in Ukraine Poses a Risk

(1) According to the Second Preliminary Quarterly Estimates of GDP (2nd QE), Japan's real GDP for the October-December 2021 period was +4.6% on an annualized quarter-on-quarter change basis (up 1.1% from the preceding quarter), revised downward from the First Preliminary Quarterly Estimates of GDP (1st QE) (+5.4% on an annualized quarter-on-quarter change basis; up 1.3% from the preceding quarter). While there has been no change in the view that Japan's economy had rebounded toward the end of 2021, private consumption and business fixed investment have been revised downward, indicating the weakness in recovery.

(2) Service consumption declined for the January-March 2022 period due to the spread of the Omicron variant and the recurrence of the tendency toward voluntary restraint as a result of the issuance of the priority preventive measures to control the spread of COVID-19. In addition, as the surge in the number of new cases and close contacts has curbed production activities in the manufacturing industry, it is unlikely that exports, capital investment, and consumption of durable goods will increase significantly. Real GDP growth is expected to slow to 0% on an annualized quarter-on-quarter change basis.

(3) After the April-June 2022 period, service consumption is anticipated to pick up again as activity restrictions are relaxed in line with the decline in the number of new COVID-19 cases. The recovery in production activities in the manufacturing industry on the back of the easing of supply restraints will also likely boost exports and capital investment, realizing high positive growth. However, it is hard to exclude the risk that strict activity restrictions could be imposed again due to the emergence of a new COVID-19 variant, among other factors, and the timing of economic recovery will be delayed.

(4) The impact of Russia's invasion of Ukraine on the Japanese economy also remains unclear. While the direct negative impact through trade and financial transactions is expected to be limited, soaring resource prices will likely exert downward pressure on personal spending and capital investment through the rise in consumer prices and sluggish corporate earnings. If resource prices continue to soar or remain high or the European economy declines significantly due to the conflict escalating or becoming protracted, the Japanese economy could also be seriously damaged.

(5) Japan's growth rate forecast for FY2021 and FY2022 is +2.4% and +3.0%, respectively. After recording high positive growth for two consecutive years backed by the recovery of economic activity from the COVID-19 pandemic, the growth rate for FY2023 is expected to be +1.3%, indicating that the pace of growth will slow as economic activity is normalized. It is forecast that Japan's real GDP will recover to the pre-COVID-19 peak in the January-March 2023 period.

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

(6) In January 2022, core CPI increased 0.2% year on year, up for the fifth consecutive month. While mobile phone charges continued to decline significantly, the rise in energy prices boosted the overall CPI. Despite growing concerns over inflation against the backdrop of soaring resource prices, companies remain cautious about passing on cost increases, and it is unlikely that inflation will accelerate for a broad range of products. However, against the backdrop of the rising energy and food prices and the narrowing of the decline in mobile phone charges, core CPI growth is expected to rise to the mid-1% level in the future.

Figure 8 Projections for GDP Growth and Main Indicators of Japan ( as of March 9, 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	(Projection)	(Projection)	(Projection)
	(Actual)	(Projection)	(Projection)				(Projection)				(Projection)	(Projection)	(Projection)	(Projection)
Real GDP	▲ 2.8	4.6	0.5	6.7	3.2	1.4	1.1	1.1	1.1	0.9	0.9	2.4	3.0	1.3
Private Consumption Expenditure	▲ 3.8	10.0	▲ 1.2	7.3	3.0	1.2	1.2	1.0	1.0	0.8	0.8	2.6	3.3	1.2
Housing Investment	▲ 6.3	▲ 3.8	2.0	3.8	2.9	1.5	0.0	0.5	0.2	0.0	0.0	▲ 1.1	1.2	0.5
Business Fixed Investment	▲ 9.3	1.4	5.3	6.7	4.8	4.0	2.8	2.6	2.6	2.4	2.4	1.4	3.8	2.9
Private Inventories (percentage points contribution)	( 0.4)	(▲ 0.5)	( 0.1)	( 0.7)	( 0.4)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.1)	( 0.2)	( 0.0)
Government Consumption Expenditure	4.5	▲ 1.4	1.4	2.8	0.4	1.0	0.4	0.2	0.2	0.2	0.2	1.9	1.3	0.4
Public Investment	▲ 11.6	▲ 14.4	2.5	7.8	4.8	▲ 2.1	▲ 1.5	0.2	0.6	0.8	0.4	▲ 7.6	0.5	0.0
Net Exports (percentage points contribution)	( 0.4)	( 0.9)	(▲ 0.3)	(▲ 0.3)	(▲ 0.1)	(▲ 0.1)	(▲ 0.1)	( 0.0)	( 0.0)	(▲ 0.0)	(▲ 0.0)	( 1.0)	( 0.0)	(▲ 0.0)
Exports of Goods and Services	▲ 1.1	3.9	3.0	5.4	3.8	3.4	3.4	3.0	3.0	2.6	2.6	12.6	3.4	3.0
Imports of Goods and Services	▲ 3.7	▲ 1.1	3.9	6.1	4.2	3.4	3.2	2.7	2.7	2.6	2.6	6.3	3.0	2.9
(Ref.) Domestic Private Demand (percentage points contribution)	(▲ 1.2)	( 3.8)	( 3.2)	( 4.4)	( 3.6)	( 3.2)	( 3.2)	( 3.0)	( 3.0)	( 2.6)	( 2.6)	( 12.6)	( 3.4)	( 3.0)
(Ref.) Public Demand (percentage points contribution)	(▲ 3.8)	(▲ 1.5)	( 4.5)	( 5.2)	( 3.6)	( 3.4)	( 3.2)	( 2.7)	( 2.7)	( 2.6)	( 2.6)	( 6.3)	( 3.0)	( 2.9)

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	FY2021	FY2022	FY2023
Nominal GDP	▲ 0.1	▲ 0.9	▲ 0.4	0.6	3.2	3.4	3.9	2.7	1.8	1.6	1.5	1.1	2.8	1.9
GDP deflator	▲ 1.2	▲ 1.3	▲ 1.3	▲ 1.6	▲ 0.5	0.4	0.6	1.0	0.6	0.5	0.5	▲ 1.2	▲ 0.3	0.6
Consumer Price Index (excluding fresh food)	▲ 0.0	0.4	0.4	1.6	1.8	1.8	1.4	1.0	0.5	0.2	0.3	0.0	1.7	0.5
Unemployment Rate (%)	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.8	2.5	2.3
Exchange Rates (JY/US\$)	110	114	115	116	117	116	116	116	117	117	117	112	116	117
Import Price of Crude Oil (US\$/barrel)	73	80	87	111	106	100	93	90	86	84	83	77	102	86

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.