Monthly Report of Prospects for Japan's Economy

June 2022

Macro Economic Research Center

Economics Department

The Japan Research Institute, Limited

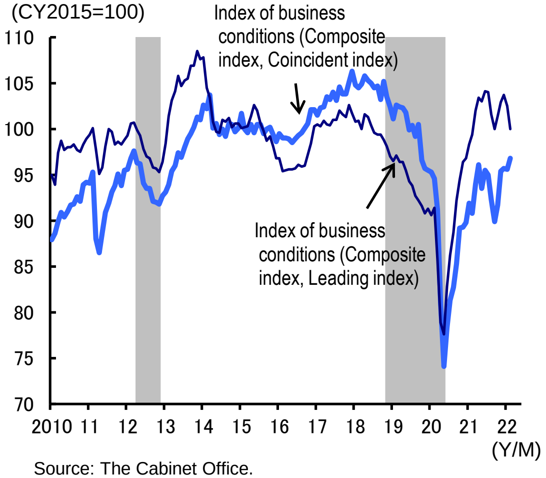
https://www.jri.co.jp/english/periodical/

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

The General Situation – The economy is picking up

Figure 1-1 Economic Activity

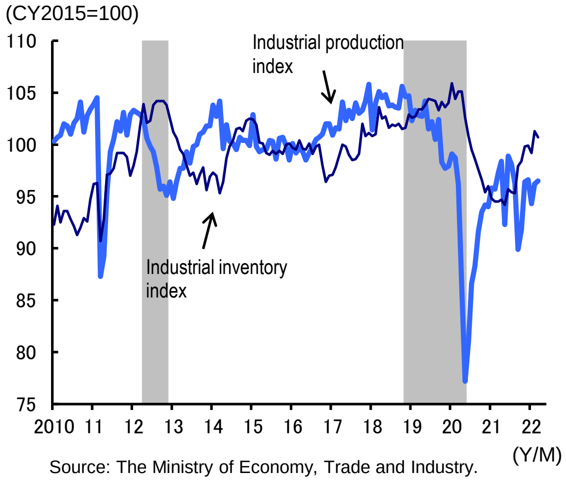
Regarding indices of business sentiment, coincident indices are rising, while leading indices are moving back and forth.



Source: The Cabinet Office.

Figure 1-2 The Corporate Sector

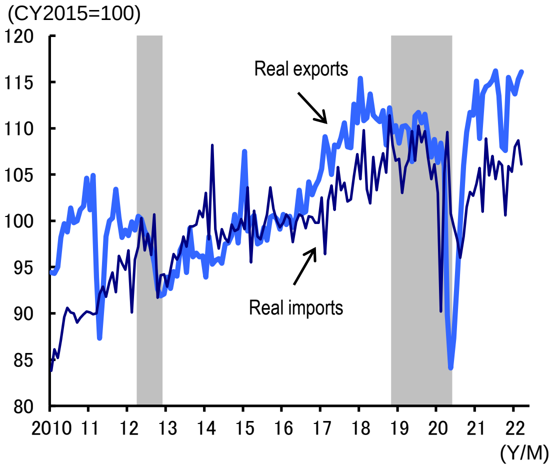
The Industrial Production Index is bouncing back, mainly in the production machinery and chemicals sectors.



Source: The Ministry of Economy, Trade and Industry.

Figure 1-3 Overseas Demand

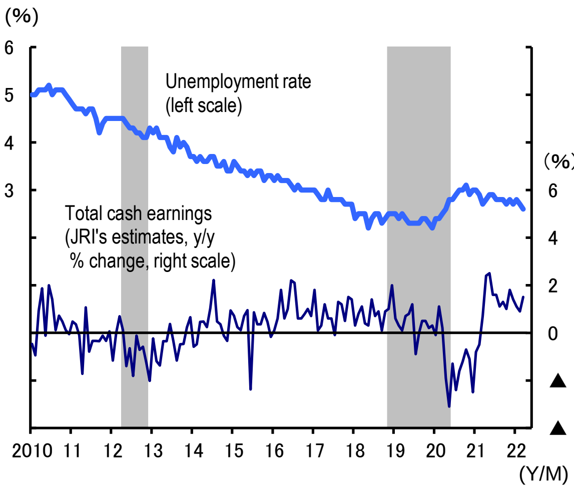
Exports to the U.S. and EU are rising. Imports are fluctuating but picking up overall.



Source: The Bank of Japan.

Figure 1-4 Employment and Income

The unemployment rate is hovering in the high 2% range. Nominal wages are rising mainly due to higher fixed wages.

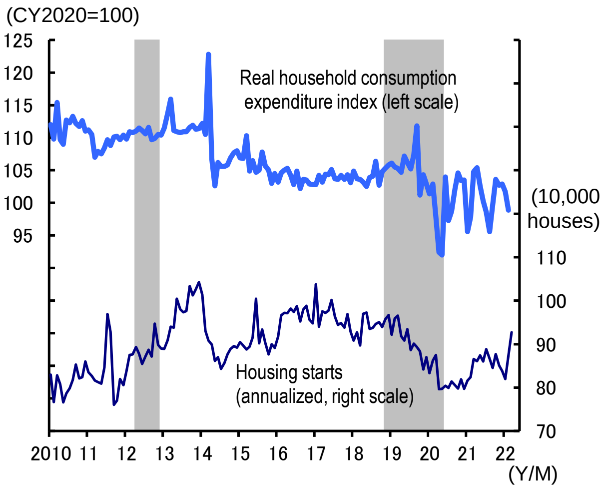


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare.

＊The shaded area indicates the recession phase.

Figure 1-5 The Household Sector

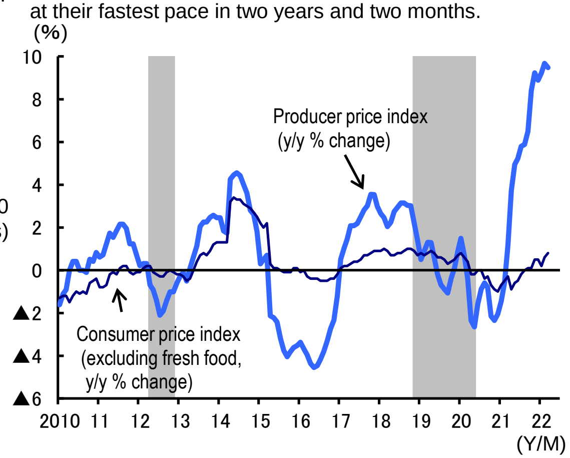
Real consumption is moving back and forth.Housing starts have risen to their highest level in two years and seven months.



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

Corporate goods prices, most notably electricity and gas, have increased substantially.Consumer prices are climbing at their fastest pace in two years and two months.



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

Business confidence among companies is improving, and there are signs of recovery in production and consumption

◆ Household-related confidence is improving

The DI for current conditions in the Economy Watchers Survey for March rose to 40.7, marking its first increase in three months. The breakdown shows that the DI for household activity, which includes dining out and consumption of services, improved due to the nationwide lifting of quasi-emergency measures.

◆ Production plans indicate a significant increase in production

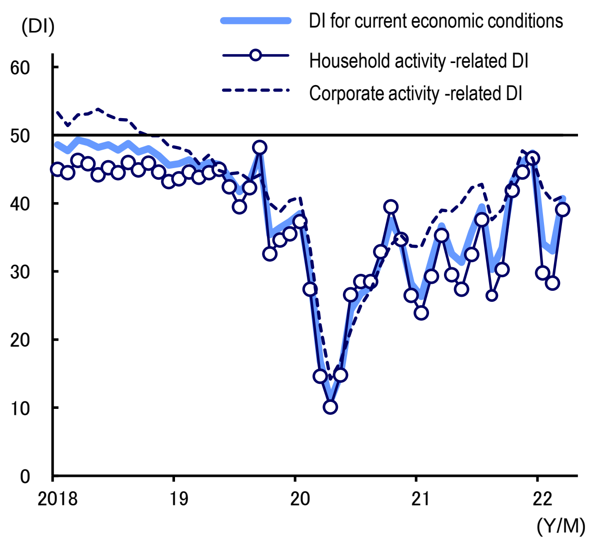
The Industrial Production Index rose slightly in March, up 0.3% from the previous month. Although production of automobiles declined, increased output of production machinery, chemicals, and electronic components/devices pushed overall production upward.

According to production plans for April and May, output is expected to increase by around 5% compared to March. However, some companies, such as automobile manufacturers, are currently having to reduce production due to the lockdown in Shanghai, China, and there is a risk that the timing of the recovery in production may be delayed if shortages of procured components become more widespread.

◆ Consumption is picking up as infections fall

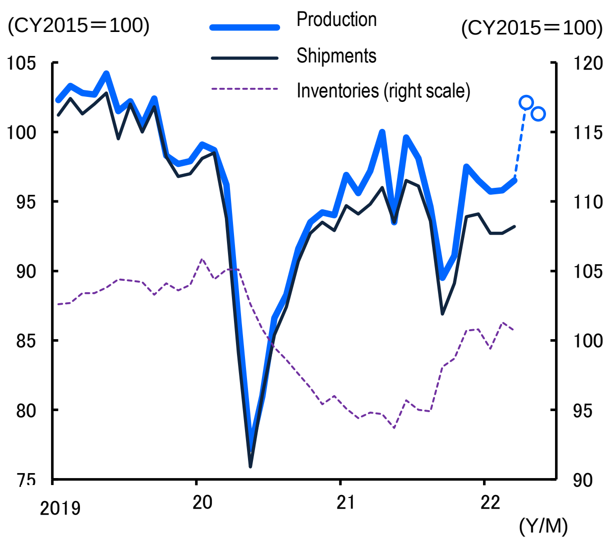
In February, the Real Consumption Activity Index (adjusted for the travel balance) dipped 1.1%, the third consecutive month of month-on-month (MoM) decline. Consumption of non-durable goods and services, such as clothing, declined as the spread of the Omicron variant reduced opportunities to go out. Since March, however, a decrease in the number of COVID-19 infections and the lifting of quasi-emergency measures has led to a recovery in the number of people visiting retail and entertainment facilities, so consumption is expected to pick up.

Figure 2-1 Economy Watchers Survey <seasonally adjusted>



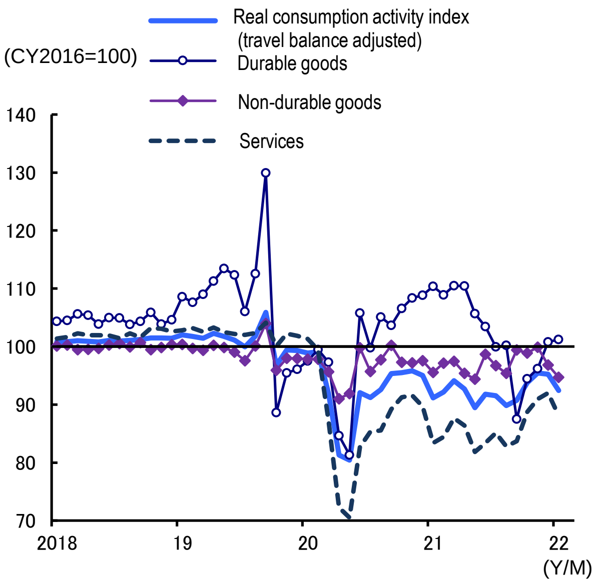
Source: The Japan Research Institute, Ltd. based on data of The of the Cabinet Office.

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.

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



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

Goods exports are rising, while inbound demand is close to zero

◆ Exports of capital goods and electronic components are strong

Goods exports increased in March for the second straight month, up 1.0% from the previous month. By product category, exports of capital goods and electronic components/devices climbed, though exports of transportation machinery decreased due to parts shortages following earthquakes off the coast of Fukushima and the worsening situation in Ukraine.

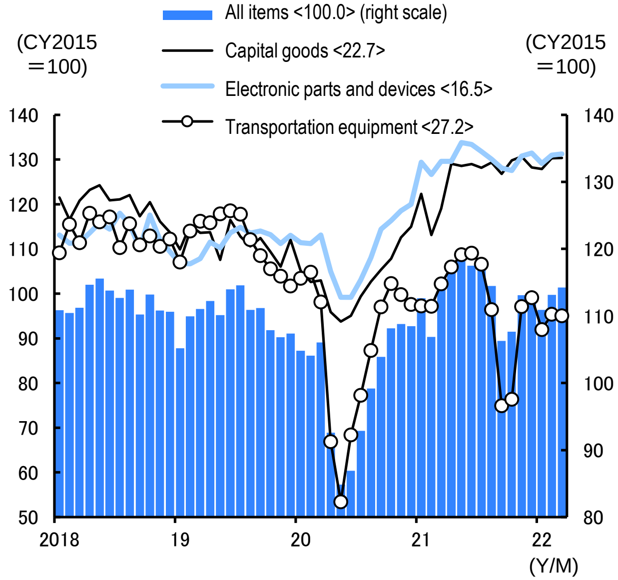
Looking ahead, exports of capital goods and electronic components are expected to remain strong on the back of growing demand associated with the global economic recovery. Furthermore, exports of transportation machinery are also expected to increase as supply constraints gradually begin to ease. However, caution is needed regarding the risk that a prolonging of the invasion of Ukraine and stagnant supply chains, against the backdrop of the lockdowns in China, could put downward pressure on exports.

◆ Inbound demand is almost zero

Although the number of foreign visitors to Japan in March was still down by the massive figure of 97.6% compared to 2019, the government is easing waterfront measures in stages, including raising the upper limit on the number of visitors to Japan to 10,000 per day. The government is also considering resuming the acceptance of foreign tourists in June or thereabouts.

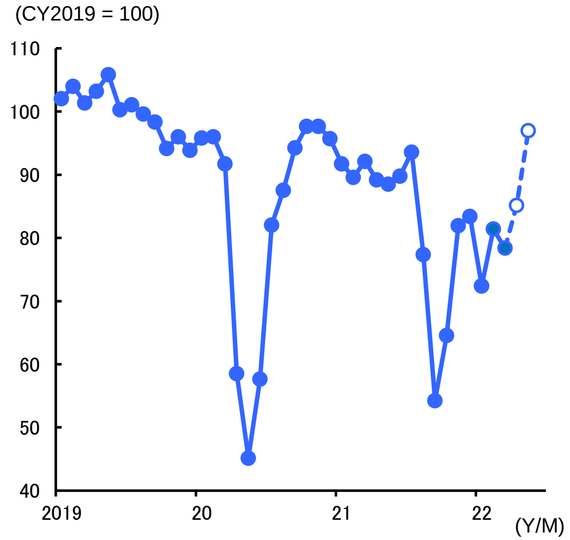
Global passenger traffic is picking up, and the International Civil Aviation Organization (ICAO) expects it to recover to 70% of pre-COVID levels by the end of 2022. In Japan, too, the assumption is that the recovery in inbound demand will become more apparent in the second half of the year, as long as significant progress is made with accepting foreign tourists.

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



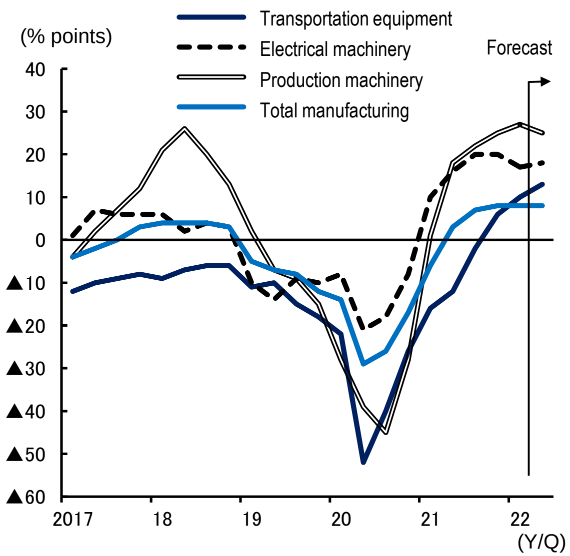
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.
Note: Figures in the angled brackets show the shares in total nominal exports in CY2020.

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 April 2022 Tankan survey.

Corporate earnings are down, but capital investment is picking up

◆ Corporate earnings drop in January-March quarter

According to the Financial Statements Statistics of Corporations, ordinary profit in October-December last year rose a significant 17.4% on an all-industry basis from the previous quarter. However, in the January-March quarter of this year, ordinary profit appears to have fallen again due to factors such as the renewed “stay home” mood as the Omicron strain proliferated and rising resource prices.

Currently, causes for concern are the rapid depreciation of the yen in the foreign exchange market because of such factors as the tightening of U.S. monetary policy, and further rises in resource prices. A weak yen has a number of positive aspects, such as higher export prices in yen terms and higher dividends from overseas subsidiaries, so the negative impact on corporate earnings will be limited for the economy as a whole. On the other hand, higher resource prices put downward pressure on corporate earnings by increasing import costs. Although ordinary profit is expected to increase in FY2022, reflecting the recovery in economic activity following the COVID pandemic, it could still drop if oil prices stay at over $130 per barrel.

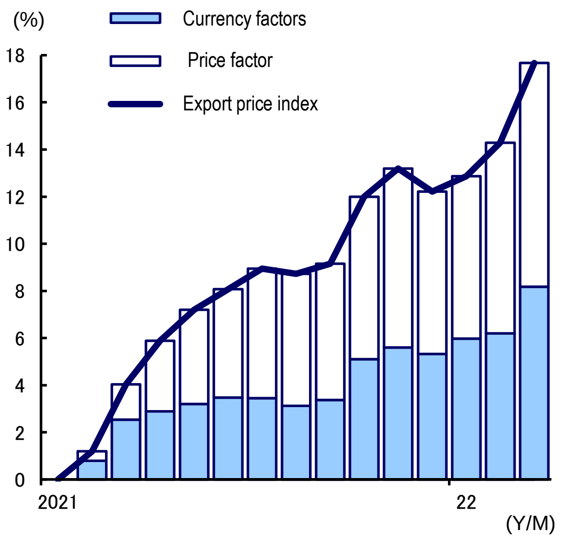
◆ Investment plans for FY2022 will be substantially higher

According to the Financial Statements Statistics of Corporations, capital investment in October-December last year increased from the previous quarter for the first time in two quarters. Large companies’ capital investment plans for FY2022 will also be substantially higher compared to pre-COVID levels as companies maintain a positive investment stance. However, caution is needed regarding the risk of a delay in the timing of recovery in capital investment as there is a strong sense of uncertainty about the future, especially in overseas economies. Specifically, there is uncertainty as to whether the invasion of Ukraine will be prolonged and whether COVID will begin spreading once again in China.

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

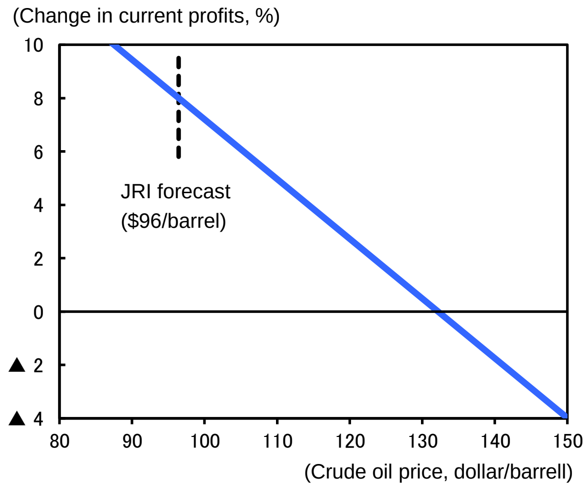
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.
Note: All industries except for financial services and insurance.

Figure 4-2 Factor Decomposition of Export Prices <compared to January in 2018>



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

Figure 4-3 Current Profits Forecast by Oil Price Level<FY2022>



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

The pace of recovery in employment and incomes is slowing

◆ Employment recovery is dragging its feet

The number of workers in March increased by 180,000 from the previous month due to the easing of activity restrictions. Furthermore, the unemployment rate improved for the second consecutive month to 2.6%, while the number of involuntarily unemployed persons decreased for the first time in five months. However, according to estimates, the unemployment rate has been pushed down by 0.5 to 1.2 percentage points due to the provision of employment adjustment subsidies (i.e., subsidies to help employers keep workers on the payroll), and the employment situation remains weak.

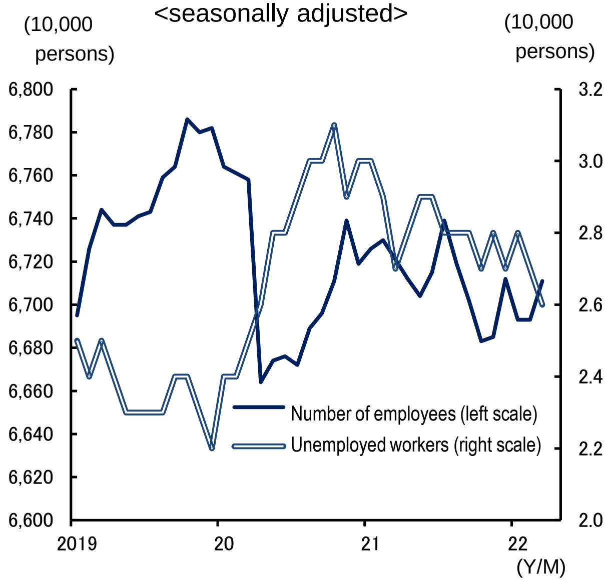
Looking ahead, employment is expected to improve on the back of a recovery in personal consumption, but the pace of this improvement in employment is expected to remain moderate amid persistent uncertainty about the infection situation going forward.

◆ A decline in non-regular employment boosts average wages

Total cash payrolls in March increased 1.5% year on year (YoY), continuing the positive trend. The rise is mainly due to the slow recovery in non-regular, i.e., part-time, employment, for which wage levels are low, and the environment surrounding wages remains harsh. The rates of wage increases awarded during in this year's shunto spring wage offensive were generally higher than last year, with preliminary data (compiled by the Japan Trade Union Federation (RENGO) on April 14) putting them at 2.11% on average. However, it appears that only a small number of companies raised wages by the 3%+ level that the government had requested of the business community.

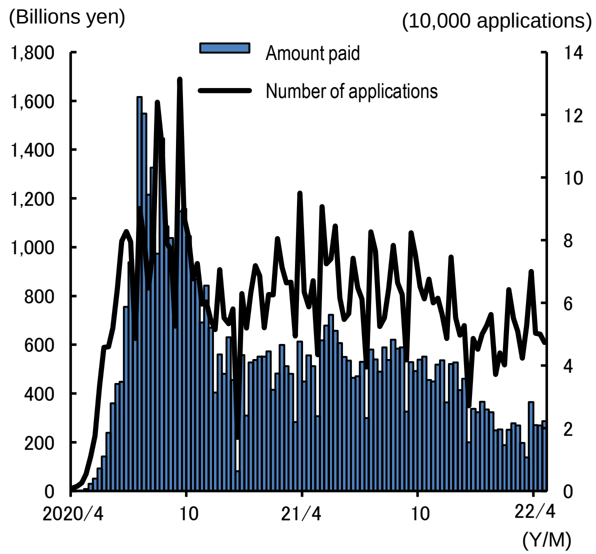
Looking ahead, as consumption activity gradually begins to normalize, non-regular employment with low wage levels is expected to increase, exerting downward pressure on average wages

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



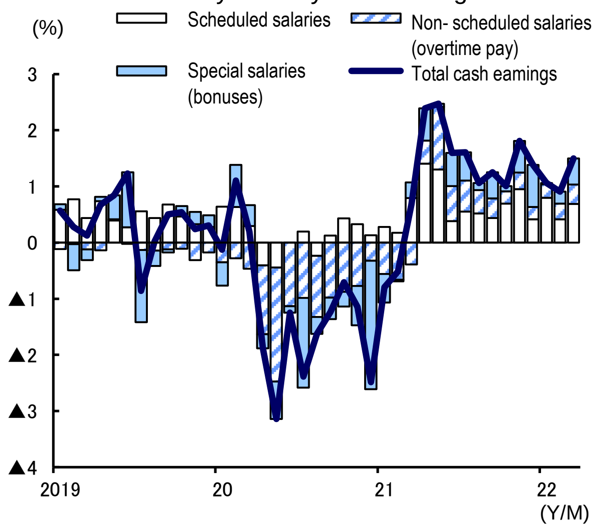
Source: The Japan Research Institute, Ltd. based on data of The Minustry of Internal Affairs and Communications.

Figure 5-2 Status of Employment Adjustment Subsidy Payments



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.

Personal consumption picks up, but high goods prices and low stock prices pose a risk

◆ Personal consumption is recovering

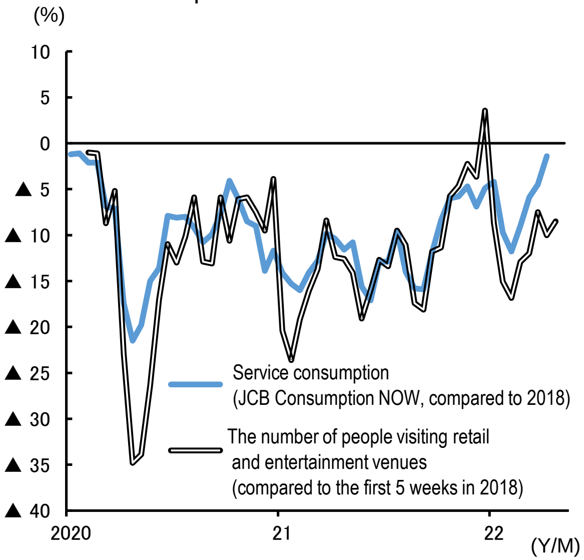
Consumer spending is down due to the spread of COVID since the beginning of the year and the accompanying application of quasi-emergency measures. However, since late February more and more people have been getting out and about, and services consumption is bouncing back. March saw the introduction of a “prefectural residents discount” program, which provides subsidies for travel within one’s own prefecture, and a “regional block discount” program, which extends the subsidies to travel to neighboring prefectures, and travel demand has gradually increased.

◆ The normalization of economic activity has provided clearer prospects of a recovery in consumption

Although the outlook for the COVID infection situation is highly uncertain, the assumption is that the number of new infections will be suppressed during the April-June quarter, and a re-imposition of quasi-emergency measures will be avoided. The recovery in personal consumption is expected to become clearer. Savings, which have increased during the COVID pandemic, will support the consumption rebound.

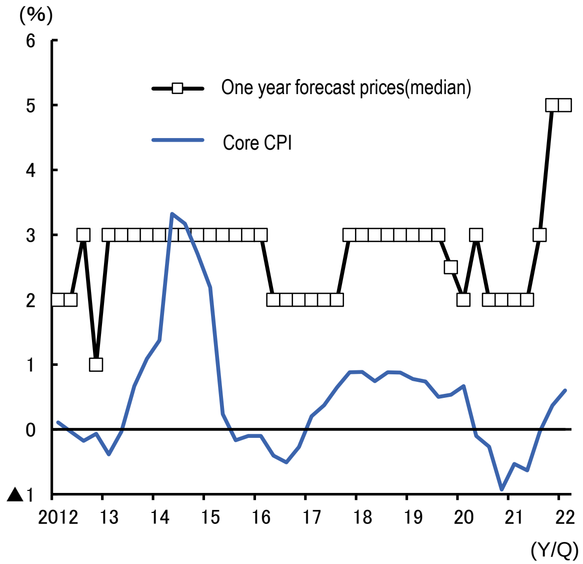
However, attention needs to be paid to the negative impact on consumer spending of rising resource prices and financial market turmoil in the wake of Russia's invasion of Ukraine. It is estimated that households of two or more people will bear an increased burden of about 5,300 yen per month from higher consumer prices, mainly for energy such as gasoline and electricity charges. In addition, the decline in stock prices since the beginning of the year will depress personal consumption by around -0.2% through the negative asset effect. A further surge in resource prices or a substantial decline in stock prices could disrupt the consumption recovery scenario.

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



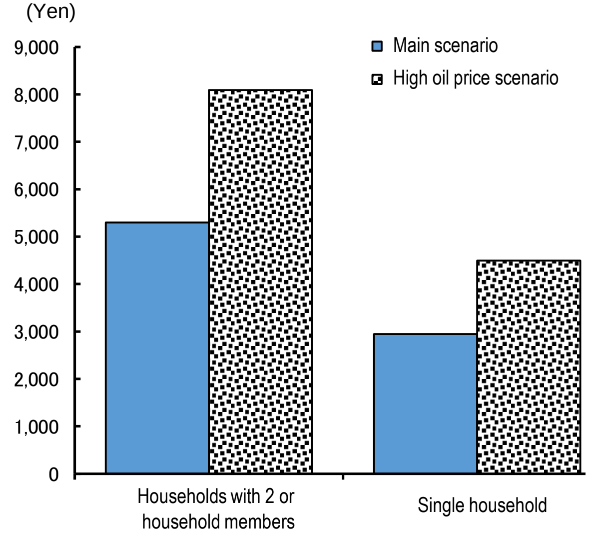
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption Now, Google.

Figure 6-2 Consumer Prices and Forecast Prices



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

Figure 6-3 Monthly Increase in Burden per Household Associated with Price Increases



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.

Topic: eterioration of the current account balance is due to high resource prices as well as delays in economic normalization

◆ The current account surplus has declined significantly

Japan's current account surplus has fallen sharply. The quarterly current account surplus had shrunk by four trillion yen in the most recent quarter, January-March, compared to pre-COVID. Of this amount, one trillion yen is attributable to energy-related imports, while the remaining three trillion yen is attributable to other goods and services trade. So decrease in the current account surplus is not only due to the sharp increase in the value of energy-related imports as a result of high resource prices, but also to the following two factors:

First, there has been a delay in export recovery because of supply constraints. Although overseas demand is recovering, exports are stagnant due to shortages of raw materials and components. In particular, exports of automobiles, have fallen far behind the pace of growth of the global economy as a consequence of automakers having to cut production due to the semiconductor shortage.

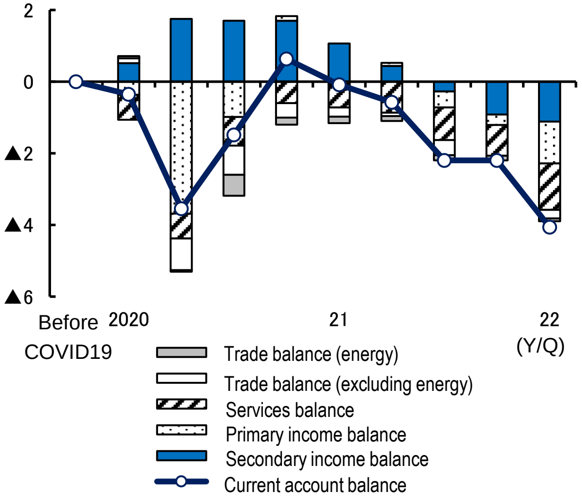
Second, there has been a drop in inbound demand due to entry restrictions. Travel receipts in the services balance have declined significantly as a consequence of a dramatic drop in the number of inbound foreign visitors due to strict waterfront measures during the COVID pandemic.

◆ 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 Current account balance <seasonally adjusted>

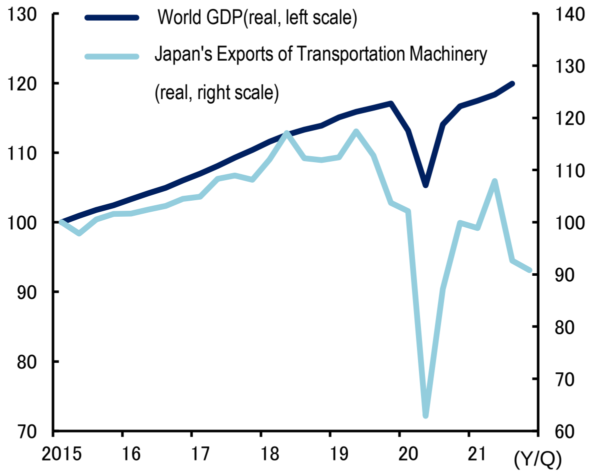
(Difference from before COVID19, Trillion yen)



Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan , The MInistry of Finance .
Note: Figures for Jan-Mar 2022 are estimates. Before Covid19 is the average of 2017-19.

Figure 7-2 World GDP and Japanese Automobiles Exports

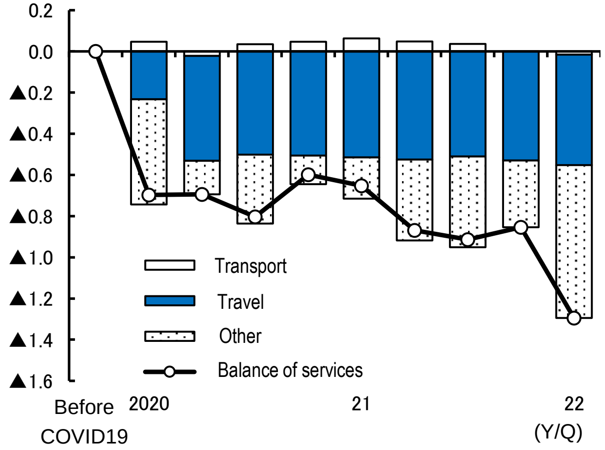
(January to March period in 2015=100) (January to March period in 2015=100)



Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan , The MInistry of Finance, Bloomberg L.P.

Figure 7-3 Balance of services <seasonally adjusted>

(Difference from before COVID19, Trillion yen)



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan.
Note: Figures for Jan-Mar 2022 are estimates. Before Covid19 is the average of 2017-19.

Topic: Economic stimulus measures focus on reducing the burden on households, but have limited stimulative effect

◆ The government is responding to rising prices of oil and goods

On April 26, at a cabinet meeting of the relevant ministers, the government determined the details of a comprehensive package of emergency measures worth 13.2 trillion yen. The main focus of the measures is to respond to soaring oil prices and provide assistance to the needy in the face of rising prices.

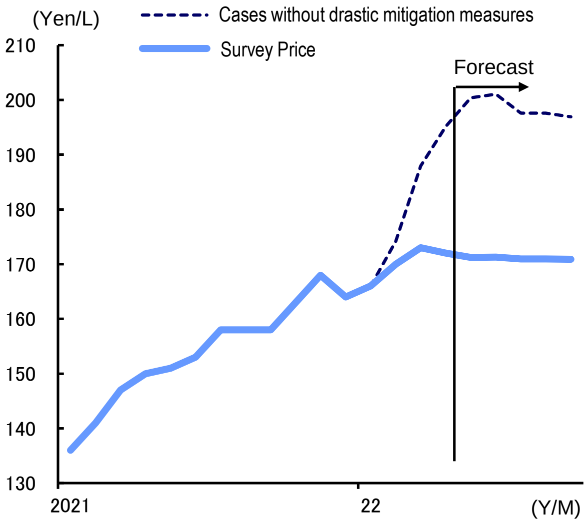
First, as a response to soaring oil prices, the government will extend and expand a subsidy payment program for oil firms aimed at suppressing the price of gasoline and other fuel oils. The maximum amount to be paid per liter will be increased and the payment period will be extended until the end of September. Estimates indicate that this measure will push down the core CPI by 0.4% in the first half of FY2022.

Second, as support for the needy, special benefits will be provided to low-income child-rearing households and tax-exempt households. This measure is being taken because households with lower incomes are facing a more difficult economic environment due to rising prices of daily necessities. However, many households have increased their savings by staying home during the COVID pandemic, and the economy as a whole has become more resilient to rising prices.

◆ GDP will receive a 0.1% boost

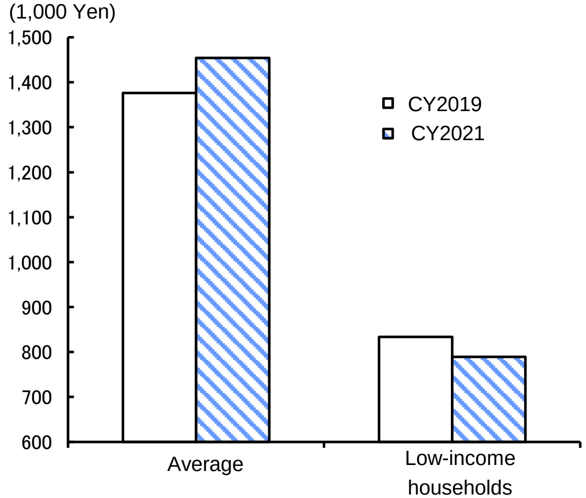
The purpose of these economic measures is not to create new demand to stimulate the economy, but to reduce the burden on households. Additional government spending will amount to just 2.7 trillion yen, so the budget impact will be relatively small. As a result, the boosting effect on GDP is expected to be limited to about 0.1%.

Figure 8-1 Retail Gasoline Prices <national average>



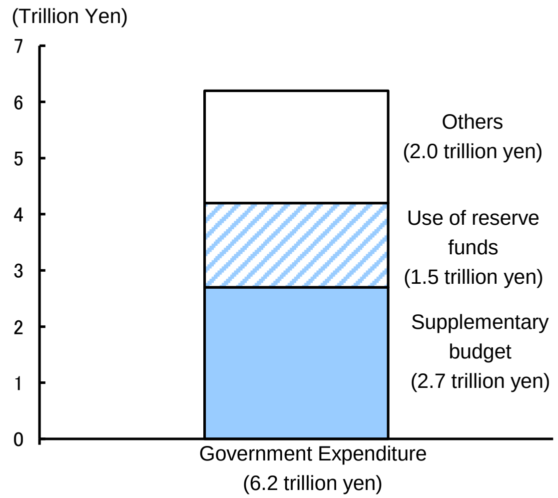
Source: The Japan Research Institute, Ltd. based on the data of Agency for Natural Resources and Energy,etc.

Figure 8-2 Current savings per household



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.
Note: Households with two or more workers. Low-income households are in the first quintile of the annual income quintile (annual income of 3.54 million yen in 2021).

Figure 8-3 Breakdown of Government Expenditure on Comprehensive Emergency Measures



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

Prospects for Japan's Economy - Projected Real GDP Change; 2.3% for FY2021 and 3.0% for FY2022

◆ High levels of positive growth will appear from the April-June quarter

In the January-March quarter, growth was slightly negative due to such factors as services consumption being down following the outbreak of the Omicron strain and the application of quasi-emergency measures.

In April-June, services consumption is expected to increase again as economic activities begin to normalize, thanks in part to the lifting of quasi-emergency measures. A recovery in manufacturing production activity, reflecting the easing of supply constraints, is also expected to boost exports and capital investment, resulting in higher growth.

However, attention needs to be paid to the adverse impact on the Japanese economy of rising resource prices in the wake of Russia's invasion of Ukraine and the stagnation of supply chains due to the spread of COVID in China. Although the main scenario is for higher growth in the near term on the back of a normalization of economic activity following the COVID pandemic, the recovery scenario could be disrupted if resource prices continue to soar and supply chains remain stagnant.

◆ The growth rate will be +3.0% in FY2022

Growth rates for FY2021 and FY2022 will have been (will be) +2.3% and +3.0%, respectively, meaning that there will have been two consecutive years of higher positive growth on the back of a recovery in economic activity in the aftermath of the COVID pandemic. The pace of growth will slow significantly to +1.3% in FY2023, reflecting the normalization of economic activity.

◆ Prices of goods rise for seven straight months

The core CPI rose for the seventh consecutive month in March, with the YoY rate of change standing at +0.8%. Although mobile communications charges continued to fall sharply, higher energy prices pushed up the overall figure.

Although inflation fears have been growing recently against the backdrop of soaring resource prices and a weakening yen, companies are cautious about passing on prices to consumers, and the likelihood of inflation accelerating significantly, as has happened in Western countries, is low. Core CPI growth is expected to remain around 2% going forward as the impact of reductions in mobile communications charges run their course.

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

	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)		
	(seasonally adjusted, annualized % changes from the previous quarter)											(% changes from the previous fiscal year)		
Real GDP	▲ 2.8	4.6	▲ 0.2	6.8	3.5	1.7	1.2	1.1	1.1	0.9	0.9	2.3	3.0	1.3
Private Consumption Expenditure	▲ 3.8	10.0	▲ 1.6	7.6	3.0	1.2	1.2	1.0	1.0	0.8	0.8	2.5	3.3	1.2
Housing Investment	▲ 6.3	▲ 3.8	1.1	3.8	4.6	1.5	0.0	0.5	0.2	0.0	0.0	▲ 1.2	1.3	0.6
Business Fixed Investment	▲ 9.3	1.4	4.9	6.7	4.9	3.8	2.8	2.6	2.6	2.4	2.4	1.3	3.7	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	2.0	1.5	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	▲ 8.3	▲ 0.3	0.4
Net Exports (percentage points contribution)	(0.4)	(0.9)	(▲ 0.4)	(▲ 0.4)	(▲ 0.1)	(▲ 0.1)	(0.0)	(0.0)	(0.0)	(▲ 0.0)	(▲ 0.0)	(1.0)	(0.0)	(▲ 0.1)
Exports of Goods and Services	▲ 1.2	3.8	3.2	4.4	3.6	3.2	3.2	3.0	3.0	2.6	2.6	12.6	3.3	2.9
Imports of Goods and Services	▲ 3.8	▲ 1.5	4.5	5.2	3.6	3.4	3.2	2.7	2.7	2.6	2.6	6.4	3.1	2.8
	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	▲ 0.1	▲ 0.9	▲ 0.4	0.5	3.2	3.5	4.0	3.0	2.1	1.8	1.6	1.1	2.8	2.1
GDP deflator	▲ 1.2	▲ 1.3	▲ 1.2	▲ 1.5	▲ 0.4	0.5	0.6	1.1	0.8	0.8	0.6	▲ 1.2	▲ 0.2	0.8
Consumer Price Index (excluding fresh food)	▲ 0.0	0.4	0.6	2.0	2.0	2.1	1.7	1.2	0.8	0.3	0.2	0.1	2.0	0.5
Unemployment Rate (%)	2.8	2.7	2.7	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$)	110	114	116	122	123	124	124	124	123	122	122	112	131	129
Import Price of Crude Oil (US$/barrel)	73	80	85	110	108	100	93	90	86	84	83	76	103	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.