

# Monthly Report of Prospects for Japan's Economy

## July 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 June 2022 issue of the original Japanese version.**

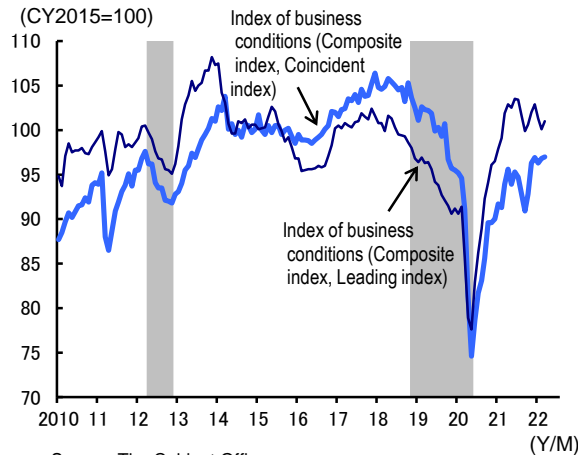
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# The General Situation – The economy is picking up

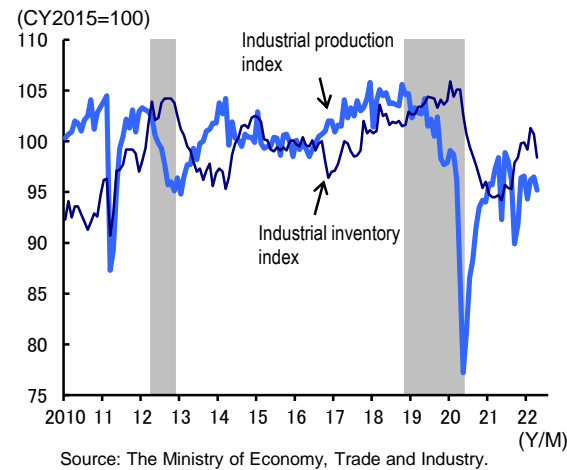
**Figure 1-1 Economic Activity**

Regarding indices of business sentiment, coincident indices are rising, while leading indices are more or less flat.



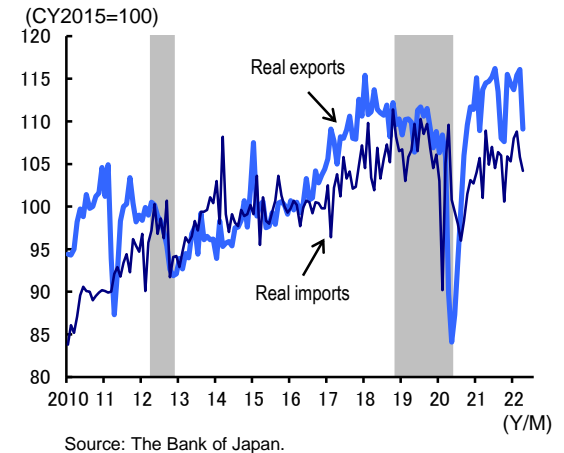
**Figure 1-2 The Corporate Sector**

Industrial production is sluggish due to parts supply constraints caused by China's lockdowns.



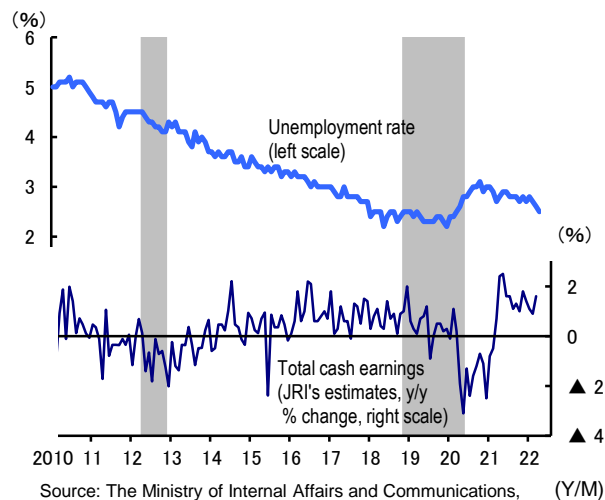
**Figure 1-3 Overseas Demand**

Exports of capital goods and information-related exports are falling. Imports of intermediate goods from China are down.



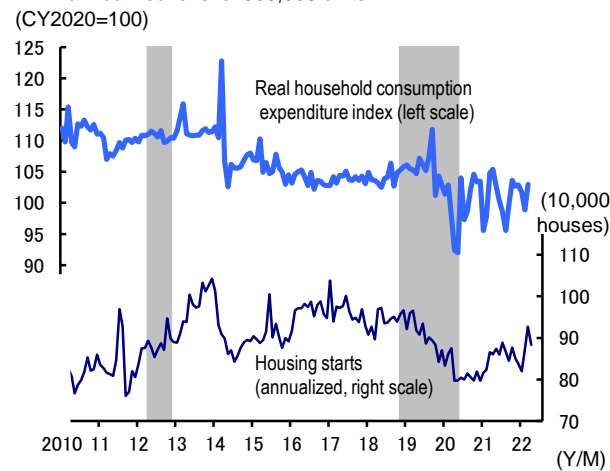
**Figure 1-4 Employment and Income**

The unemployment rate is declining gradually. Nominal wages are rising mainly due to overtime pay.



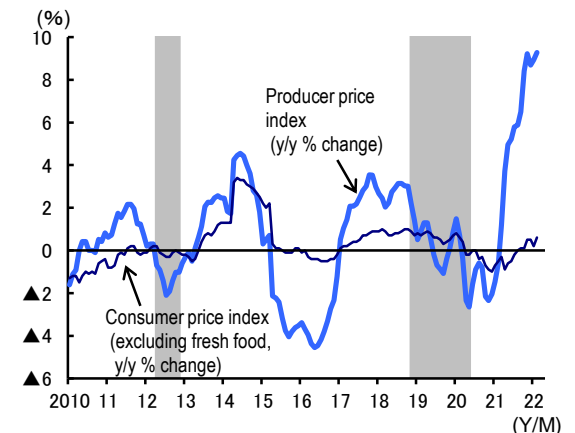
**Figure 1-5 The Household Sector**

Real consumption is picking up due to the easing of activity restrictions. Housing starts have recovered to an annualized level of 900,000 units.



**Figure 1-6 Prices**

Corporate prices are climbing at the fastest rate since December 1980. Consumer price inflation has topped 2% for the first time since 2015.



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\* The shaded area indicates the recession phase.

# Production and exports are moving back and forth, while personal consumption is picking up

## ◆ Negative growth in January-March quarter

Real GDP in January-March saw negative growth for the first time in two quarters. In domestic demand, capital investment continued to increase, but personal consumption declined slightly due to quasi-emergency measures to curb the spread of COVID-19. On the other hand, foreign demand was negative for the first time in three quarters, due to an increase in imports resulting from the purchase of vaccines and other products overseas. This was despite higher exports, especially automobiles, and put downward pressure on the growth rate.

## ◆ Production has been cut due to China's lockdowns

In April, the Industrial Production Index fell for the first time in three months, down 1.3% from the previous month. A shortage of parts supplies due to China's lockdowns caused some companies, including automakers, to halt operations at their plants, which weighed on the recent recovery in production. China's zero-

COVID policy also put downward pressure on exports from Japan, with real exports to China falling sharply in April.

Looking ahead, near-future production plans indicate significant increases in output in May (+4.8% month-on-month (MoM)) and June (+8.9% MoM). However, the impact of supply chain disruption has yet to be fully factored in, and production plans are likely to be revised downward.

## ◆ Household-related confidence is improving

The DI for current conditions in the Economy Watchers Survey for April rose to 43.9, rising for the second straight month. With the relaxation of activity restrictions, the DI for household activity, which includes dining out and consumption of services, improved significantly.

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

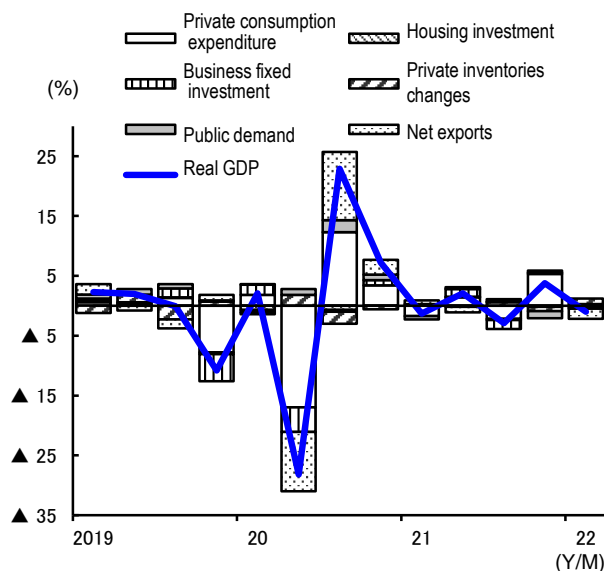


Figure 2-2 Industrial Production Index  
<seasonally adjusted>

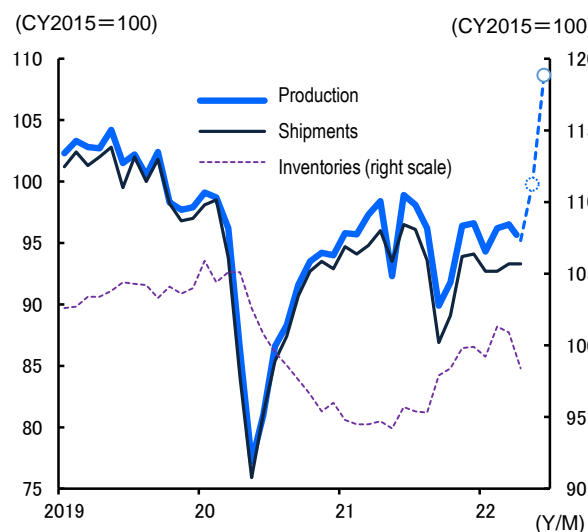
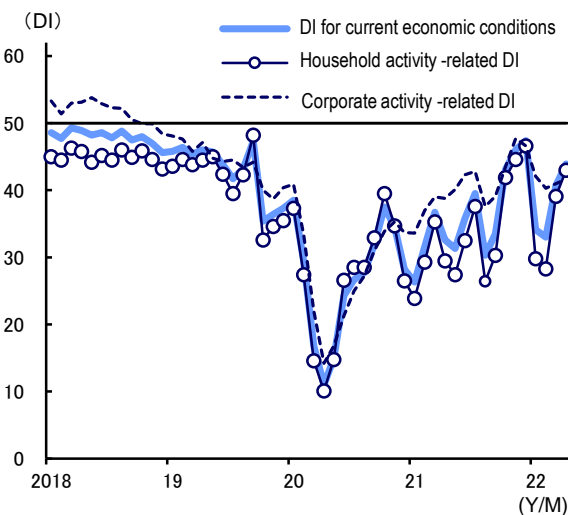


Figure 2-3 Economy Watchers Survey  
<seasonally adjusted>



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## Goods exports are sluggish, while inbound demand is gradually recovering

### ◆ Shipments to China have fallen substantially

Goods exports decreased in April for the first time in three months, down 0.9% from the previous month. By product category, exports of transportation machinery climbed, but those of capital goods and electronic components/devices dropped. This was due to a significant decrease in exports to China owing to the impact of lockdowns imposed there to contain COVID.

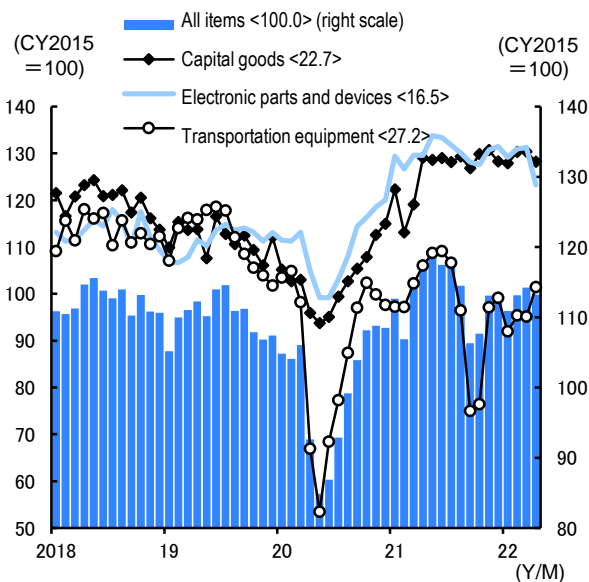
For the time being, China's zero-COVID policy will weigh on export recovery. Coupled with the current downturn in local (Chinese) demand, a shortage of parts supplies from the local market has caused major automakers to temporarily halt operations at their domestic plants. Although production activities are gradually resuming in Shanghai and other areas, a delay in the timing of export recovery is inevitable if the stagnation of production and logistics becomes prolonged, including in other regions.

### ◆ Government eases waterfront measures

The number of foreign visitors to Japan in April was 139,000, exceeding 100,000 for the first time in two years and one month. The government is gradually easing its waterfront measures, including raising the upper limit on the number of people entering the country from 10,000 to 20,000 per day, starting in June.

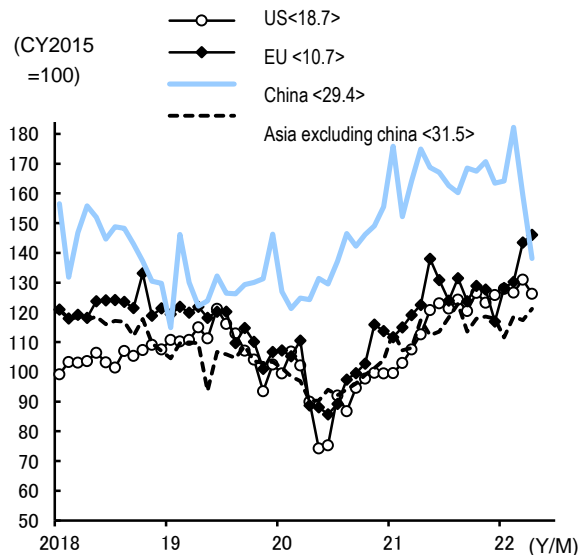
At the global level, passenger traffic is picking up, and the International Civil Aviation Organization (ICAO) expects it to recover to 70% of pre-COVID levels by the end of 2022. In Japan, a rapid recovery is not expected for the time being due to the cap on the number of visitors to Japan, but as preparations are made to receive visitors, the recovery of inbound demand is expected to become clearer from fall through the year-end and New Year's holidays.

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



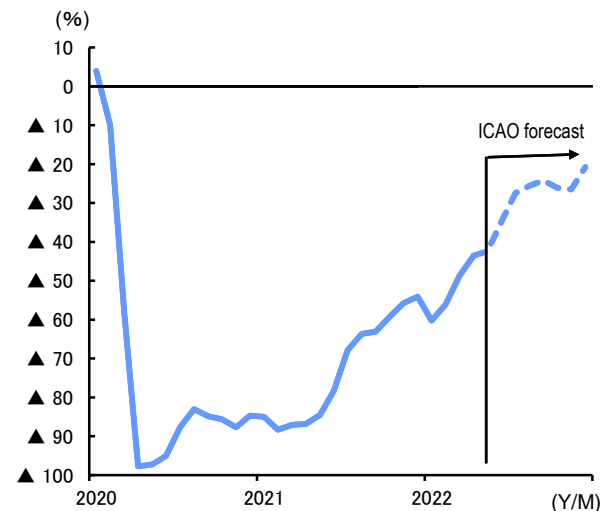
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.  
Note: Figures in the angled brackets show the shares in total nominal exports in CY2021.

Figure 3-2 Real Exports of Capital Goods  
by Country or Area  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Economy, Trade and Industry.  
Note: Figures in the angled brackets show the shares in total nominal exports of capital goods in CY2020.

Figure 3-3 The Number of international  
passengers  
<compared to the same month in 2019>



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

## The pace of profit growth is slowing, but capital investment is picking up

### ◆ Corporate earnings were lackluster in the January-March quarter

According to the Financial Statements Statistics of Corporations, ordinary profit in January-March rose by 0.2% on an all-industry basis from the previous quarter. This was only a slight increase, but marked the second consecutive quarter in positive territory. By industry, earnings in the manufacturing sector continued to rise on the back of higher exports thanks to a recovery in overseas demand. On the other hand, the non-manufacturing sector saw its first decline in profits in two quarters. The return of the “stay home” mood following the spread of the Omicron strain has led to a significant downturn in earnings in the accommodation/food service and lifestyle-related service sectors.

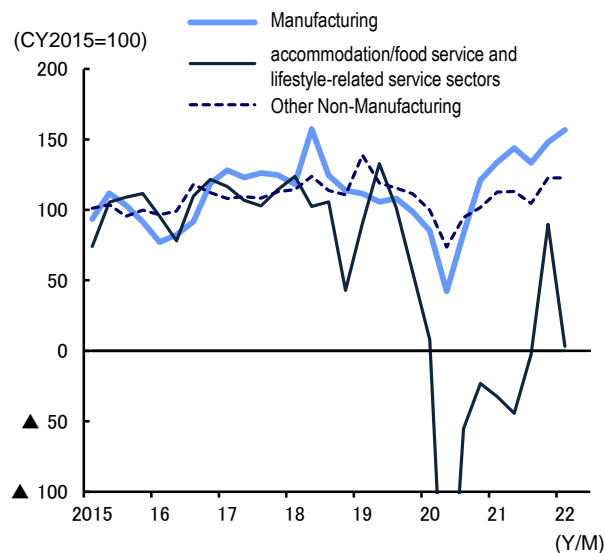
Looking ahead, earnings in the non-manufacturing sector are expected to improve on the back of a recovery in services consumption in the wake of the decline in the number of new COVID cases, but the manufacturing sector will be weighed down by

stagnant supply chains due to China's zero COVID policy and higher costs associated with rising resource prices. Earnings are expected to remain sluggish for the time being.

### ◆ Capital investment is seeing a moderate recovery

According to the Financial Statements Statistics of Corporations, capital investment in January-March increased for the second quarter in a row. Large companies' capital investment plans for FY2022 will also increase substantially compared to pre-COVID levels as companies maintain a positive investment stance. Although the recovery in capital investment is expected to continue going forward, there is a strong sense of uncertainty stemming from Russia's invasion of Ukraine and China's COVID response, and attention needs to be paid to the risk of caution on the part of more and more investors.

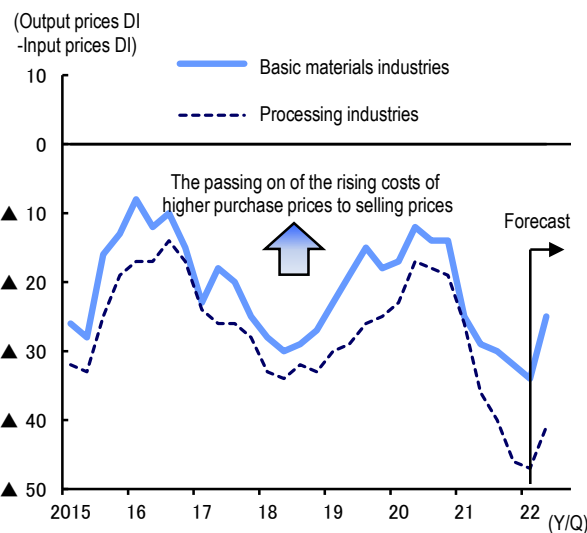
Figure 4-1 Current Profits of Japanese Corporations  
<seasonally adjusted>



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



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.

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## The employment and income environment is slowly improving

### ◆ The number of furloughed workers is down to pre-COVID levels

The number of workers in April increased by 270,000 from the previous month due to the easing of activity restrictions. Furthermore, the unemployment rate fell for the third consecutive month to 2.5%. The number of furloughed workers, which had been increasing since the beginning of the year, especially in the accommodation/food service sector, has dropped to pre-COVID levels, and the employment situation is gradually improving.

Looking ahead, employment is unlikely to improve rapidly due to lingering uncertainty over the infection situation, but is still expected to get better on the back of the recovery in services consumption and inbound demand.

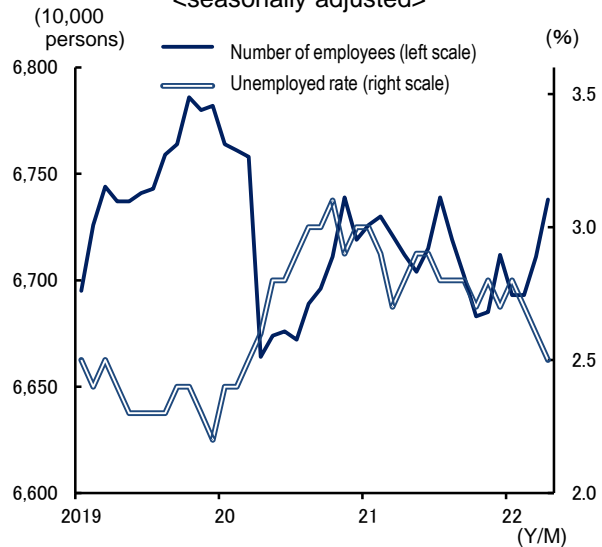
### ◆ A decline in non-regular employment boosts average wages

Total cash payrolls in March increased 1.6% year on year (YoY), maintaining 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, so wage growth is actually weak.

The rates of wage increases awarded during this year's shunto spring wage offensive were higher than last year, with preliminary data (compiled by the Japan Trade Union Federation (RENGO) on May 6) putting them at 2.1% on average, but on a real basis, with the impact of rising price excluded, they are expected to remain at the same level as the previous year. For small and medium-sized enterprises faced with a difficult earnings environment, wage increase rates may be negative in real terms.

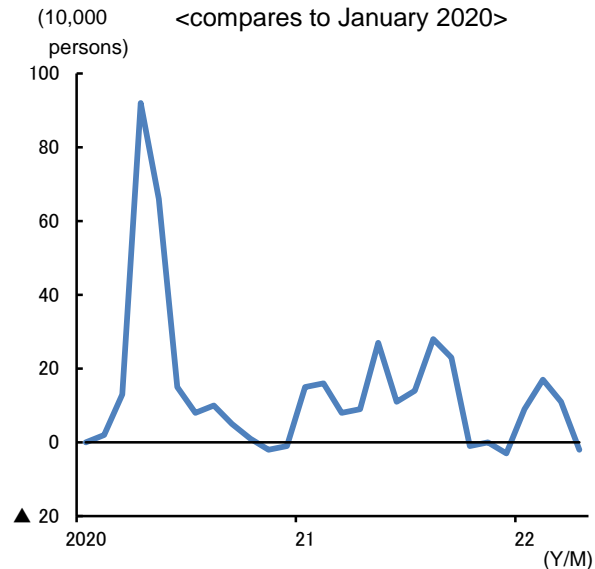
Looking ahead, as consumption activity gradually begins to normalize, non-regular employment with low wage levels is expected to increase, exerting downward pressure on average wages.

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



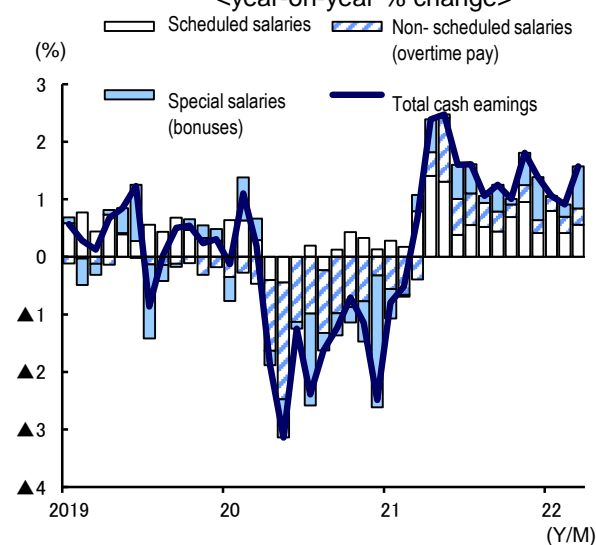
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 5-2 Number of Furloughed Workers in the Accommodation/Food Service Sector  
<compares to January 2020>



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

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 is picking up, but high goods prices and low stock prices pose a risk

## ◆ Personal consumption is recovering

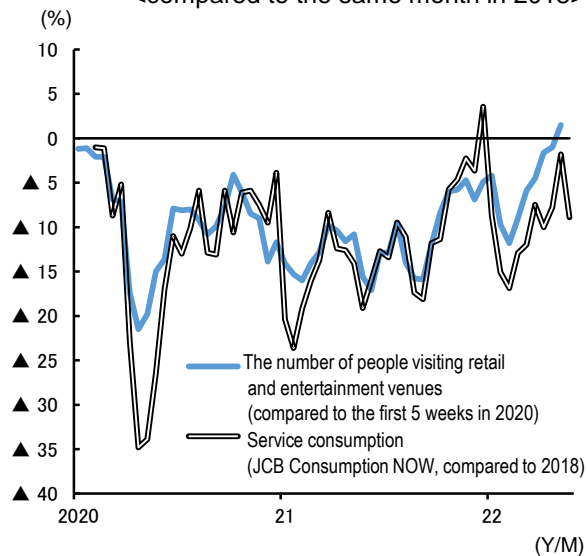
Regarding personal spending, services consumption is rebounding as more people get out and about due to the easing of restrictions on activities. Since March, some prefectures have introduced “prefectural residents discount” programs, which provide subsidies for travel within one’s own prefecture, and “regional block discount” programs, which extend the subsidies to travel to neighboring prefectures, and travel demand during Golden Week (consecutive public holidays in early May) seems to have been strong. Looking at credit card usage by age group, the recovery had been driven mainly by the younger generation until April, but going into May, the rebound has involved a wide range of generations.

## ◆ 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 continue to be suppressed,

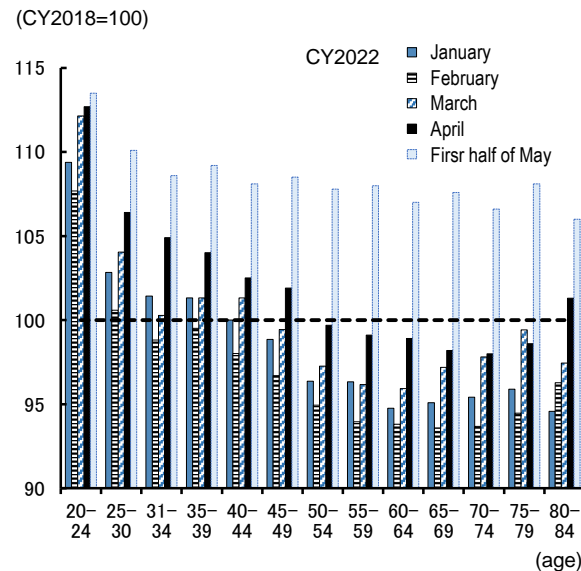
and a re-strengthening of restrictions on behavior will be avoided. In June, the governments of Tokyo and other large cities also revived their local tourism support measures, which had been suspended. Supported by these demand-stimulating measures, services consumption is expected to continue to recover. On the other hand, in the area of goods consumption, more and more auto plants have been suspending operations due to supply chain disruptions caused by the Shanghai lockdown, and passenger vehicle sales have been sluggish on account of delayed deliveries. Furthermore, 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, and that the decline in stock prices since the beginning of the year will also depress personal consumption by 0.2% through the negative asset effect. Caution is needed to guard against the risk that supply chain disruptions, rising resource prices, and turmoil in financial markets could derail the consumption recovery.

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



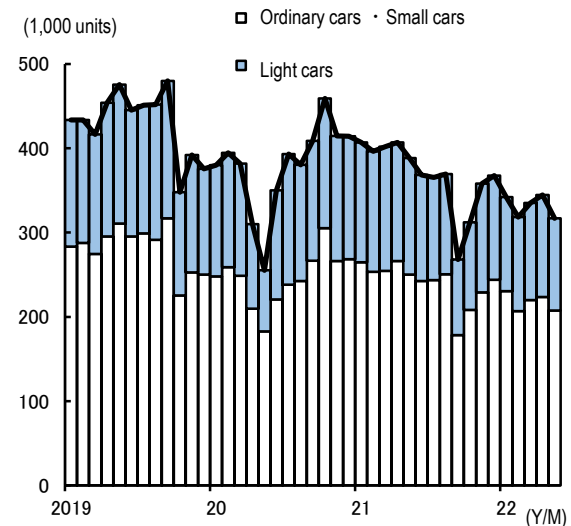
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption Now, Google.

Figure 6-2 Credit Card Usage by Age Group



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

Figure 6-3 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.



## Topic: Russian coal embargo risks dampening construction investment

### ◆ The cement industry is being severely impacted

Following the lead of the U.S., EU, and other countries, the Japanese government announced a ban on Russian coal imports in April. It intends to reduce imports in stages, and eventually eliminate them altogether. Yet there are concerns that the embargoes imposed by Western countries will tighten the supply-demand balance for non-Russian coal, causing coal prices to soar.

Most of Japan's coal imports come from Australia and Indonesia, with Russian coal accounting for only about 10% of imports. However, some industries are heavily dependent on Russian coal. For example, in the cement sector, nearly half of the coal used in cement production comes from Russia.

With the rise in coal prices, cement prices are also likely to rise significantly in the future. According to estimates based on input-output tables, a 50% increase in the price of cement products would push up the cost of public works projects that use a

lot of concrete, such as road construction, by 3%, and the cost of private-sector civil engineering projects by close to 2%.

### ◆ There are downside concerns regarding construction investment

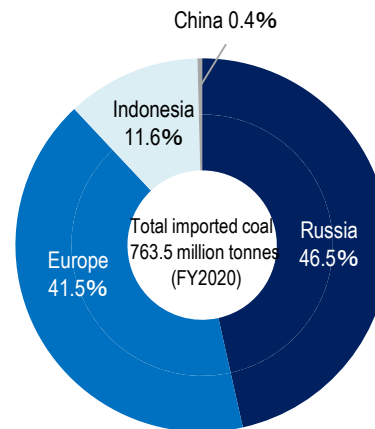
Higher construction costs could put downward pressure on construction investment, which is still recovering from the slump induced by the COVID pandemic. Since construction investment has a large impact on the economy as a whole, accounting for 45% of total fixed capital formation, attention needs to be paid to the relationship between the coal embargo and construction investment.

Figure 7-1 Crude Oil Futures Price



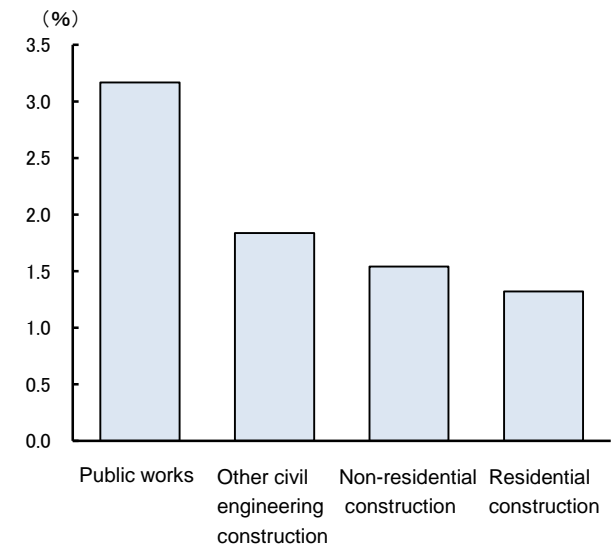
Source: The Japan Research Institute, Ltd. based on the data of The Bloomberg L.P.

Figure 7-2 Share of Oil Importers in The Cement Industry



Source: The Japan Research Institute, Ltd. based on the data of the general incorporated association cement association.

Figure 7-3 Incremental Cost of a 50% Increase in Cement Prices



Source: The Japan Research Institute, Ltd. based on the data of the ministry of land, infrastructure, transport and tourism.

## Prospects for Japan's Economy - Projected Real GDP Change; 2.6% for FY2022 and 1.4% for FY2023

### ◆ Despite fairly high growth for the time being, the risk of an economic downturn is high

(1) The Japanese government's second quarterly estimate (QE) for the January-March quarter saw the real GDP growth rate revised upward to an annualized -0.5% compared with the previous quarter (-0.1% compared with the same quarter the previous year) from the first QE figures (-1.0% and -0.2%). By demand category, capital investment was revised downward, while personal consumption and inventory investment saw upward revisions. In relation to GDP in its entirety, the revisions were small, and there is no change in the view that the economic recovery paused due to the spread of the Omicron strain.

(2) Looking ahead, the economy is expected to clearly pick up, driven by a recovery in services consumption, based on the assumption that the COVID-19 situation will remain calm. Although rising energy and food prices due to the weaker yen and higher resource prices are putting downward pressure on household purchasing power, many households have significantly increased their savings as a result of staying home during the COVID pandemic, making them more resilient to rising prices. Personal consumption is therefore expected to continue to recover as economic activity normalizes.

(3) The government is easing waterfront measures in stages to restore inbound demand. A rapid recovery is not expected for the time being due to caps on the number of visitors to Japan, but as more preparations are made to receive visitors, a clear increase is expected from fall through the year-end and New Year's holidays. If domestic services consumption and inbound demand recover, more companies in nonmanufacturing sectors are expected to resume capital investment.

(4) On the other hand, the manufacturing sector is being weighed down by higher costs due to soaring resource prices, the downturn in local demand in China due to the country's zero-COVID policy, and stagnant supply chains. Although the

lockdown in Shanghai has been lifted, the timing of the recovery in production and exports will be delayed if the stagnation of output and logistics becomes prolonged, including in other regions.

(5) The growth rate for FY2022 is expected to be +2.6%, as the recovery in economic activity in the wake of the COVID pandemic delivers high positive growth. In FY2023, meanwhile, the pace of growth is expected to continue to exceed the potential growth rate, though it will slow to +1.4% as economic activity normalizes. However, caution is needed regarding the risk of an economic downturn, as there is a strong sense of uncertainty about the future, particularly in connection with the COVID infection situation, resource price trends, and China's zero-COVID policy.

### ◆ Prices of goods rise for eight straight months

The core CPI in April was up 2.1% YoY, with prices rising at their highest rate since March 2015. Compounding higher food and energy prices, the impact of the reductions in mobile communications charges have run their course, and rising prices have accelerated significantly from the +0.8% YoY recorded in March.

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, as has happened in Western countries, is low. Core CPI growth is expected to remain around 2% going forward.

Figure 8 Projections for GDP Growth and Main Indicators of Japan ( as of June 8, 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)	(Actual)	(Projection)	(Projection)
Real GDP	▲ 3.2	4.0	▲ 0.5	5.0	3.2	2.5	1.4	1.2	1.2	0.9	0.9	2.2	2.6	1.4
Private Consumption Expenditure	▲ 4.0	10.1	0.2	6.6	2.2	1.2	1.2	1.0	1.0	0.8	0.8	2.6	3.3	1.1
Housing Investment	▲ 6.6	▲ 4.5	▲ 4.8	4.9	5.2	3.0	0.0	0.5	0.2	0.0	0.0	▲ 1.6	0.6	0.8
Business Fixed Investment	▲ 9.2	0.3	▲ 2.8	4.1	6.4	6.4	3.1	2.8	2.8	2.4	2.4	0.8	2.3	3.4
Private Inventories (percentage points contribution)	( 0.3 )	(▲ 0.3)	( 2.1 )	(▲ 0.5)	( 0.0 )	( 0.0 )	( 0.0 )	( 0.0 )	( 0.0 )	( 0.0 )	( 0.0 )	( 0.1 )	( 0.2 )	( 0.0 )
Government Consumption Expenditure	4.5	▲ 1.1	2.0	1.2	1.2	1.2	0.4	0.2	0.2	0.2	0.2	2.0	1.2	0.4
Public Investment	▲ 14.6	▲ 17.6	▲ 14.7	7.4	8.9	6.6	▲ 1.2	▲ 0.4	0.0	0.4	0.2	▲ 9.4	▲ 1.6	0.9
Net Exports (percentage points contribution)	( 0.4 )	( 0.4 )	(▲ 1.7)	( 0.4 )	( 0.1 )	( 0.1 )	( 0.1 )	( 0.0 )	( 0.0 )	(▲ 0.0)	(▲ 0.0)	( 0.8 )	(▲ 0.1)	( 0.0 )
Exports of Goods and Services	▲ 1.1	3.6	4.6	1.0	3.4	4.0	4.0	3.0	3.0	2.6	2.6	12.5	2.9	3.2
Imports of Goods and Services	▲ 3.4	1.4	13.9	▲ 1.1	2.5	3.0	3.0	2.6	2.6	2.4	2.4	7.2	3.2	2.7
(Ref.) Domestic Private Demand (percentage points contribution)	(▲ 3.6)	( 4.8 )	( 1.6 )	( 4.0 )	( 2.4 )	( 1.8 )	( 1.2 )	( 1.0 )	( 1.0 )	( 0.8 )	( 0.8 )	( 1.5 )	( 2.4 )	( 1.2 )
(Ref.) Public Demand (percentage points contribution)	( 0.0 )	(▲ 1.2)	(▲ 0.4)	( 0.6 )	( 0.7 )	( 0.6 )	( 0.0 )	( 0.0 )	( 0.0 )	( 0.1 )	( 0.1 )	(▲ 0.1)	( 0.2 )	( 0.1 )

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	0.0	▲ 0.9	▲ 0.1	0.3	2.2	2.7	3.4	2.6	2.4	1.7	1.6	1.2	2.2	2.0
GDP deflator	▲ 1.2	▲ 1.3	▲ 0.5	▲ 1.1	▲ 0.8	0.1	0.2	0.6	0.8	0.6	0.5	▲ 1.0	▲ 0.4	0.6
Consumer Price Index (excluding fresh food)	▲ 0.0	0.4	0.6	2.0	2.1	2.2	2.1	1.6	1.3	0.9	0.6	0.1	2.1	1.1
Unemployment Rate (%)	2.8	2.7	2.7	2.5	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.8	2.5	2.3
Exchange Rates (JY/US\$)	110	114	116	130	130	129	128	127	126	125	125	112	129	126
Import Price of Crude Oil (US\$/barrel)	73	80	85	107	116	111	106	104	106	106	101	76	110	105

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.