

Monthly Report of Prospects for Japan's Economy

December 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 November 2022 issue of the original Japanese version.

Disclaimer:

This report is intended solely for informational purposes and should not be interpreted as an inducement to trade in any way. All information in this report is provided “as is”, with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will JRI, its officers or employees and its interviewee be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any damages, even if we are advised of the possibility of such damages. JRI reserves the right to suspend operation of, or change the contents of, the report at any time without prior notification. JRI is not obliged to alter or update the information in the report, including without limitation any projection or other forward looking statement contained therein.

The General Situation – The economy is slowly picking up

Figure 1-1 Economic Activity

Both coincident and leading indices of business sentiment are rising.

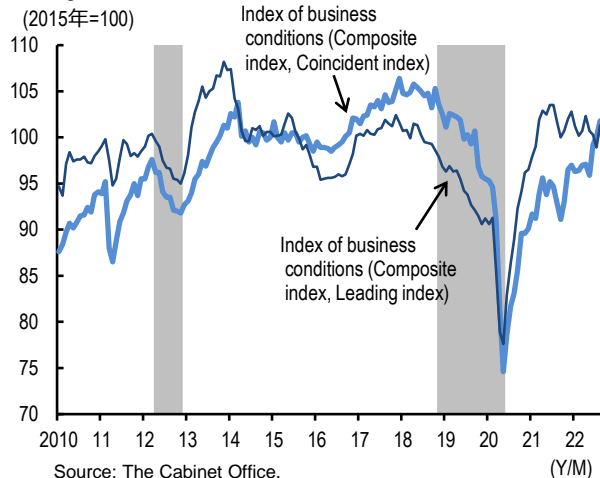


Figure 1-2 The Corporate Sector

Industrial production continues to increase despite a lull in the rapid recovery that has been underway since this summer.

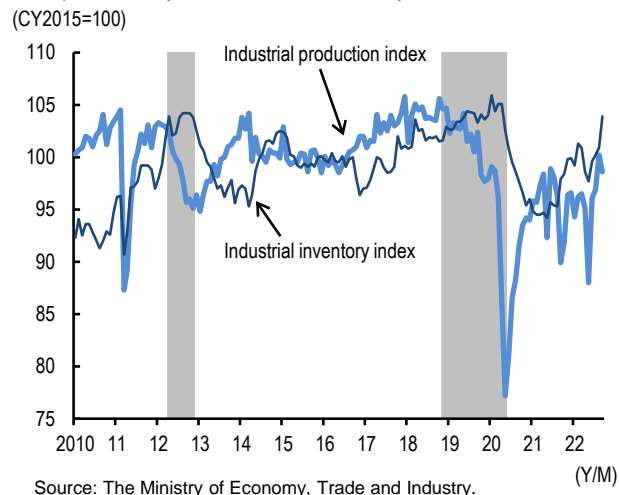


Figure 1-3 Overseas Demand

Exports of automotive and capital goods are rising. Imports remain high due to a recovery in domestic demand.

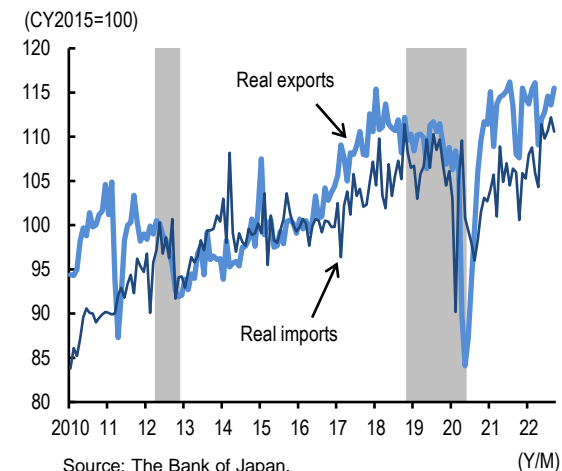
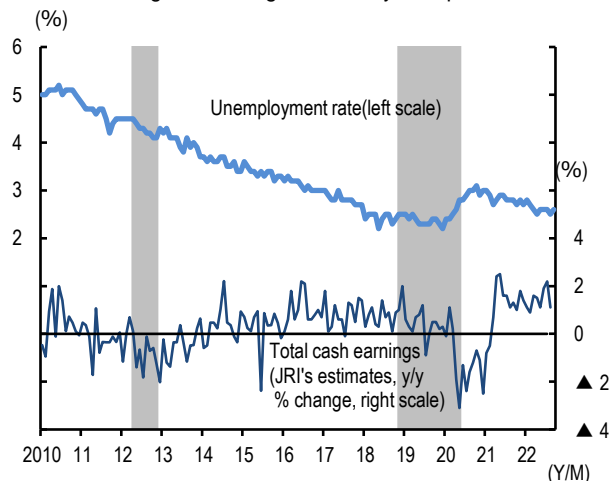


Figure 1-4 Employment and Income

The unemployment rate is hovering in the mid-2% range. Nominal wages are rising more slowly than prices.



* The shaded area indicates the recession phase.

Figure 1-5 The Household Sector

Consumption is fluctuating, but gradually rising overall. Housing starts have declined to an annualized level in the mid-800,000-unit range.

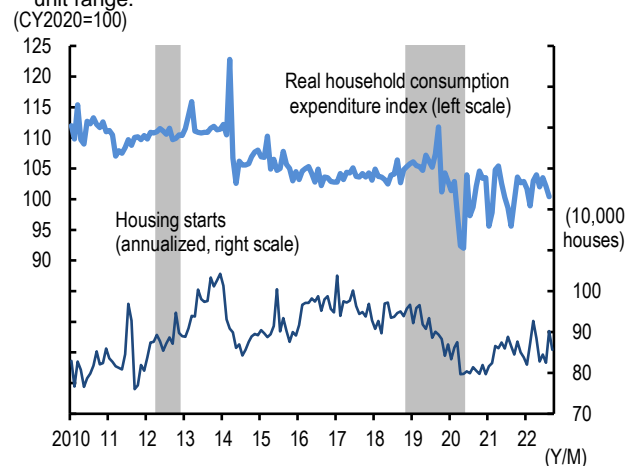
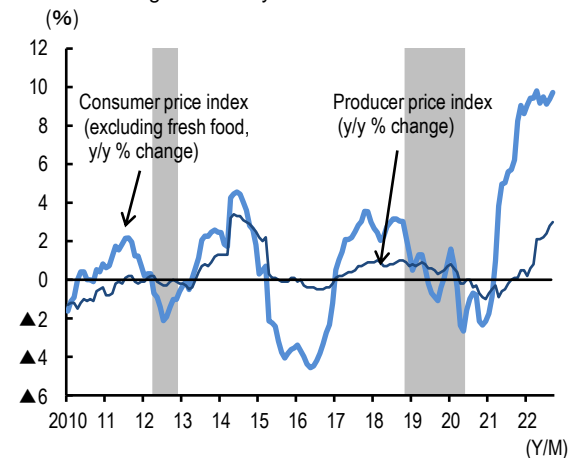


Figure 1-6 Prices

Corporate price inflation is still running high. Consumer prices are now 3% higher than a year earlier.



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications, The Bank of Japan.
Monthly Report of Prospects for Japan's Economy December 2022
 The Japan Research Institute, Limited

Manufacturing production has dropped temporarily, but non-manufacturing activity is picking up

◆ Production activity in the manufacturing sector has dropped temporarily

In September, the Industrial Production Index fell for the first time in four months, slipping 1.6% from the previous month. By industry, the automobile and chemical sectors saw lower production. Looking ahead, the pace of recovery is expected to be moderate, despite plans to boost production of electrical/ICT equipment as a result of heavy order backlogs and to make up for past shortfalls in automobile output. The recovery in production of electronic components/devices is expected to remain weak due to the global decline in chip demand, and the rebound in output of production machinery, which has been driven by demand for semiconductor fabrication equipment in overseas markets, is also expected to slow. According to companies' production plans, output is expected to increase in most industries, though the plans call for lower output of production machinery.

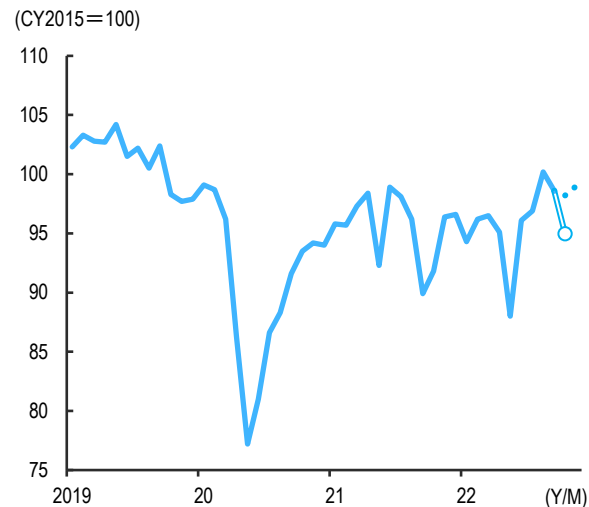
◆ Non-manufacturing activity has recovered

In August, the Tertiary Industry Activity Index rose for the first time in three months, up 0.7% from the previous month. This was due to increases in a wide range of industries, including the ICT sector, where demand is robust as a result of the proliferation of 5G mobile communication systems and digital transformation (DX).

◆ Consumption activity has picked up since the beginning of autumn

In September, the Consumption Activity Index rose for the first time in three months, climbing 1.7% from the previous month. Services consumption recovered as a drop in infections got more people out and about, and consumption of durable goods, especially automobiles, rebounded as supply constraints eased.

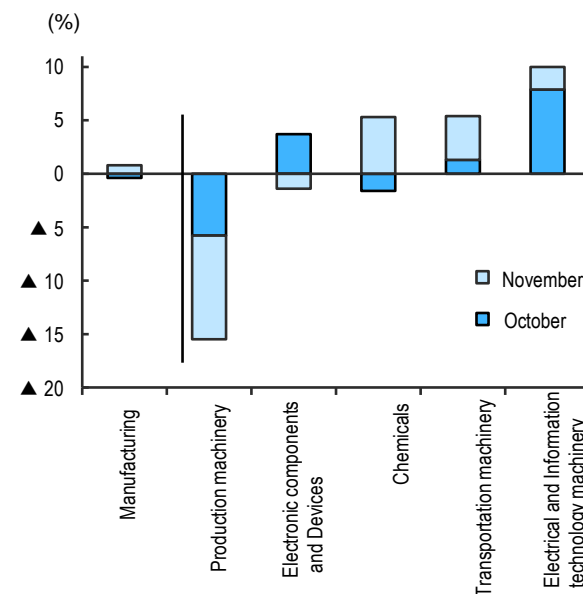
Figure 2-1 Industrial Production Index
<seasonally adjusted>



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

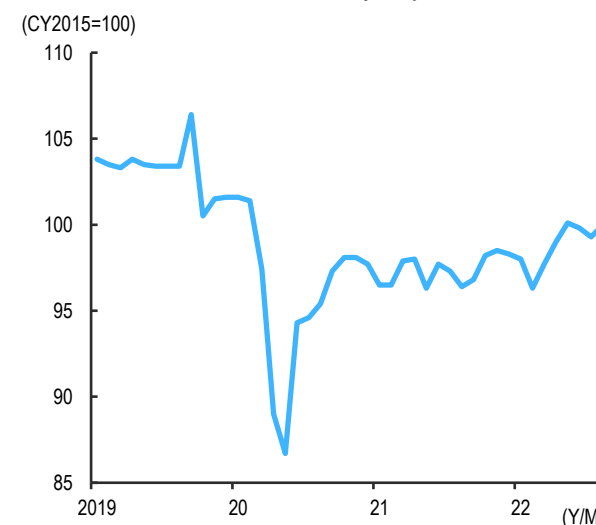
Note: Dotted lines are postponed based on the Manufacturing Production Forecast Index. White lines are postponed based on corrected values from METI.

Figure 2-2 Manufacturing Industry Production Forecasting Index<seasonally adjusted>



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

Figure 2-3 Tertiary Industry Activity Index
<seasonally adjusted>



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

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

Goods exports are recovering, and inbound tourism demand is set for a gradual recovery

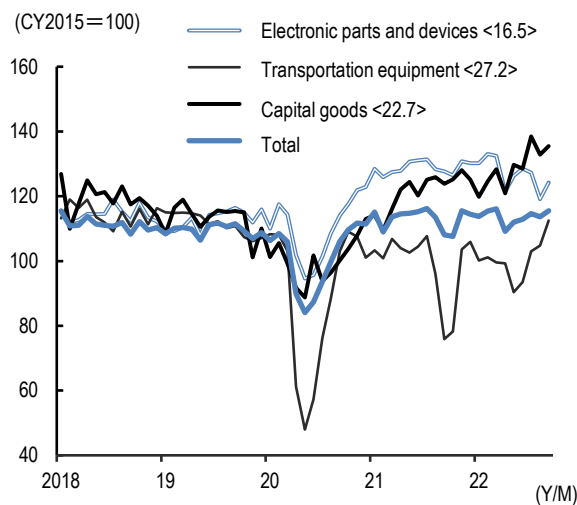
◆ Goods exports are recovering, and inbound tourism demand is set for a gradual recovery

Real exports increased in September for the first time in two months, up 1.7% from the previous month. By product category, exports of transportation machinery rose significantly as supply constraints eased, and exports of capital goods also remained at high levels on the back of strong capital investment worldwide. Looking ahead, export growth is expected to slow. The DI for overseas supply and demand conditions for products from large manufacturing enterprises points to a decline going forward, so foreign demand is expected to slow. By product, exports of electronic components/devices are expected to continue to decline due to the cyclical slump in semiconductors, though the recovery in output of automobiles as a result of the easing of supply constraints will boost exports.

◆ The government has eased border-control measures

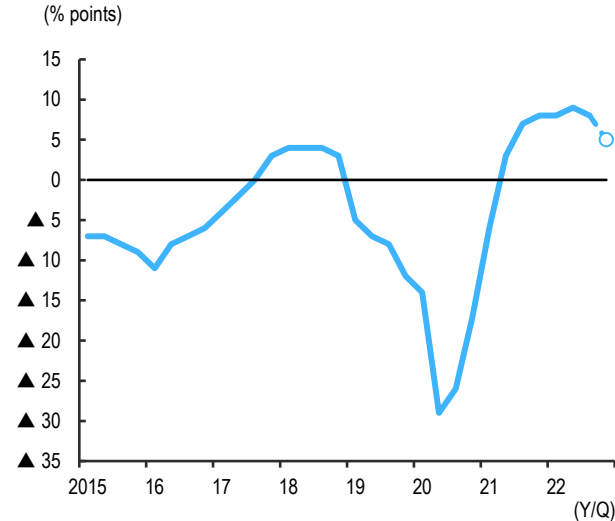
The number of foreign visitors to Japan in September exceeded 200,000 for the first time since the COVID pandemic began, but the figure is still 90% lower than it was in 2019. The government has eased its border-control measures significantly. Since October 11, there has been no cap on the number of people entering the country and the ban on individual travel has been lifted, for example. The pace of increase in the number of visitors to Japan looks set to accelerate, and the recent depreciation of the yen is also expected to push up the amount spent by each traveler. However, since overseas travel remains restricted in China, tourists from which accounted for more than 30% of foreign visitors to Japan in 2019, due to its zero-COVID policy, it will likely be some time before the number of visitors to Japan recovers to pre-COVID levels.

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



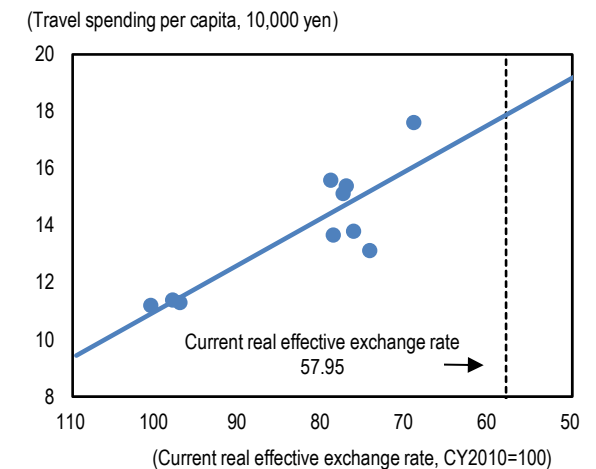
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.
Note: Figures in the angled brackets show the shares in total nominal exports in CY2021.

Figure 3-2 DI for Overseas Supply and Demand Conditions for Products



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan.
Note: Large manufacturing enterprises. White circles indicate

Figure 3-3 Relationship between Exchange Rate and Travel Spending by Visitors to Japan



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

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

Capital investment will continue to increase going forward

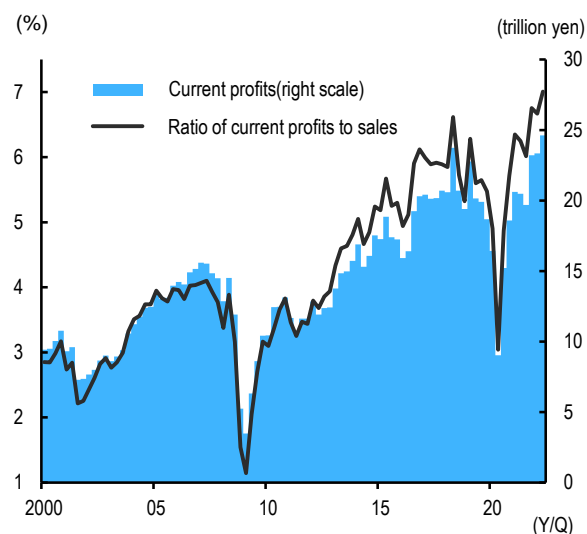
◆ Corporate earnings remain high

According to the Financial Statements Statistics of Corporations, ordinary profit for all industries in the April-June quarter rose by 5.5% from the previous quarter, meaning that profits have climbed for three quarters in succession. In the July-September quarter, costs increased further due to a weaker yen and higher resource prices, but production activity saw a recovery as supply constraints eased, and this resulted in high levels of earnings, particularly in the manufacturing sector. Corporate earnings are expected to continue to rise. The recovery in services consumption and inbound tourism demand is triggering a rebound in earnings in consumption-related sectors such as accommodation and food service. In the next phase, companies will be more likely to pass on higher purchase prices to selling prices than they have been, so the negative impact on earnings of higher costs is expected to abate going forward.

◆ Companies seem to be considerably short of equipment

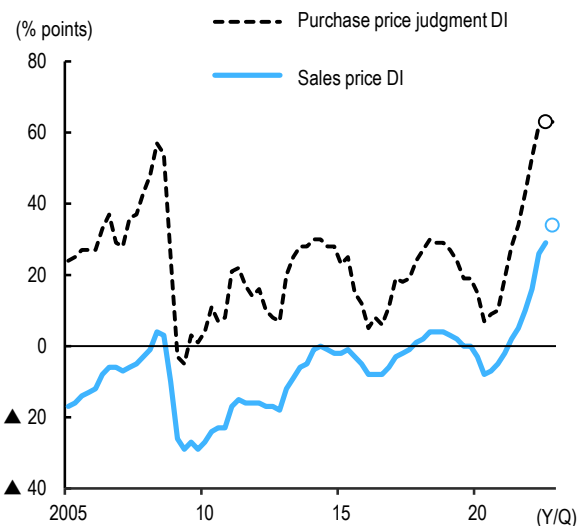
Capital investment continues to increase. Investment in software and machinery held firm, and construction investment also edged up. Looking ahead, as economic activity continues to normalize, equipment shortages among companies will become increasingly apparent, and investment is expected to increase further. R&D investment for decarbonization and ICT investment for digitalization are also brisk. In addition, the continued high levels of corporate earnings and the accumulation of cash and deposits by companies are boosting capital investment by making it easier to pay for.

Figure 4-1 Current Profit and Ratio of Current Profits to Sales
<seasonally adjusted>



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

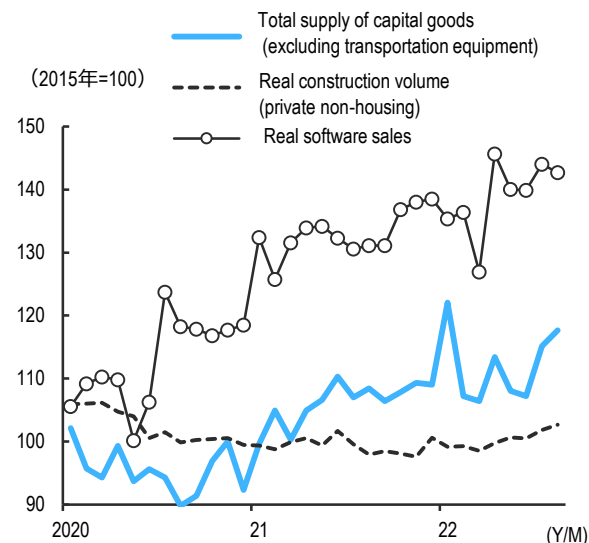
Figure 4-2 DI of Purchase and Sales Price Judgments



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

Note: White markers indicate the outlook as of the September survey.

Figure 4-3 Private Capital Investment by Type
<seasonally adjusted>



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

Note: All industries except for financial services and insurance.

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

The employment situation is improving, but real wages are declining

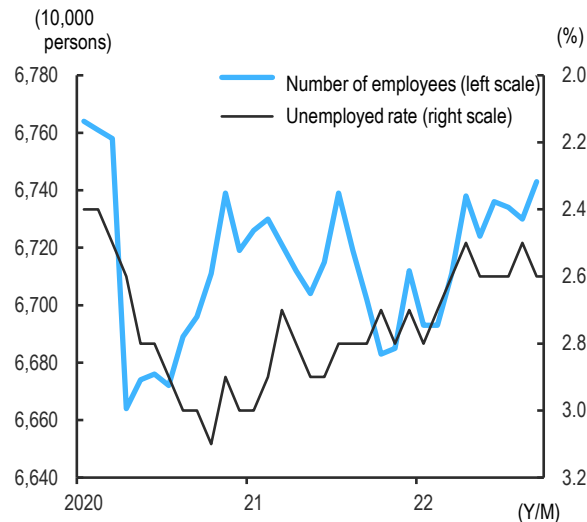
◆ The number of workers is rising

The employment situation is improving. The number of workers did not decline even during the summer, when the infection situation worsened, and the upward trend is being maintained. In September, the unemployment rate rose slightly to 2.6%, marking the first increase in four months, but this was due to an uptick in the number of people quitting their jobs for personal reasons. The number of workers is expected to continue to increase moderately. With the recovery in services consumption, the number of job openings is increasing, especially in the accommodation and food service sector, and labor shortages are becoming more apparent. In addition, although pandemic-related subsidies aimed at helping employers keep workers on the payroll will come to an end in December, this is unlikely to lead to a deterioration in the employment situation, as the subsidies had already been pared back.

◆ Real wage growth rate has turned negative

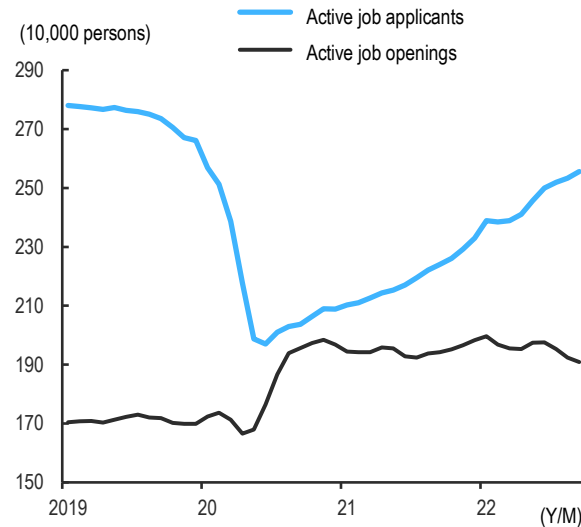
Total cash payrolls in September increased 1.3% year on year (YoY), staying in positive territory. By job type, payrolls for regular workers increased 1.5% YoY, while those for part-time workers climbed 2.2%. However, real wages decreased by 2.2% YoY as the inflation rate reached the mid-3% range. Looking ahead, nominal wages, both for regular and part-time workers, are expected to continue to rise moderately against a backdrop of 1) a growing sense of labor shortages, 2) increases in minimum wages, and 3) moves to reflect higher prices in basic wage hikes. In the 2023 shunto spring labor offensive, Rengo (the Japanese Trade Union Confederation) will demand wage increases of about 5% in total, with the rise comprising higher base pay and a regular salary increase. However, companies, especially small and medium-sized enterprises that have been unable to secure sufficient funds to finance wage hikes, will remain cautious when setting wages, so the expectation is that wage increases will not outstrip price rises.

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



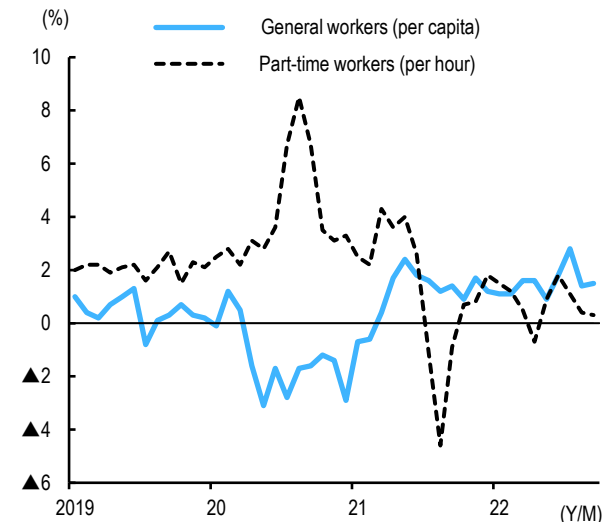
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 5-2 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 Nominal Wages <year-on-year % change>



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

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

Personal consumption is picking up, but high prices are a dampener

◆ Personal consumption is recovering

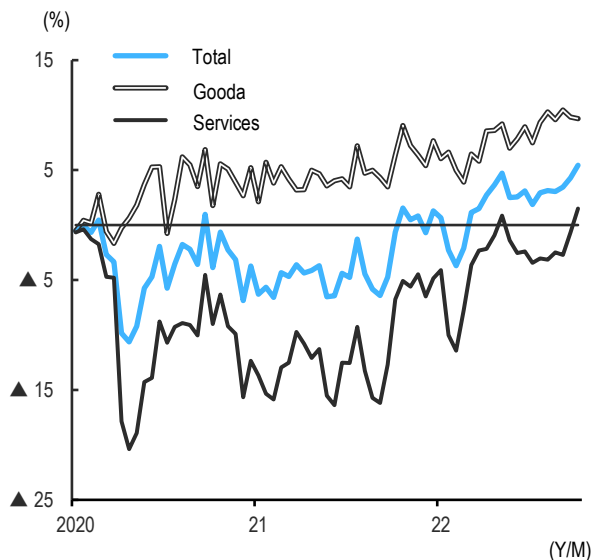
Personal consumption, mainly in services, has bounced back due to the nationwide decline in the number of new infections since the fall. Goods consumption is also gradually recovering. Department store sales have risen as opportunities to go out increase. Automobile sales, which had been sluggish, have begun to pick up as delays in the supply of components due to the impact of lockdowns in China have started to dissipate. However, the elderly remain reluctant to get out and about, so the pace of the consumption recovery is moderate.

◆ High prices and a resurgence of infections are concerns

Personal consumption is expected to recover in the near term as pent-up demand for services is released. In particular, the government's travel discount

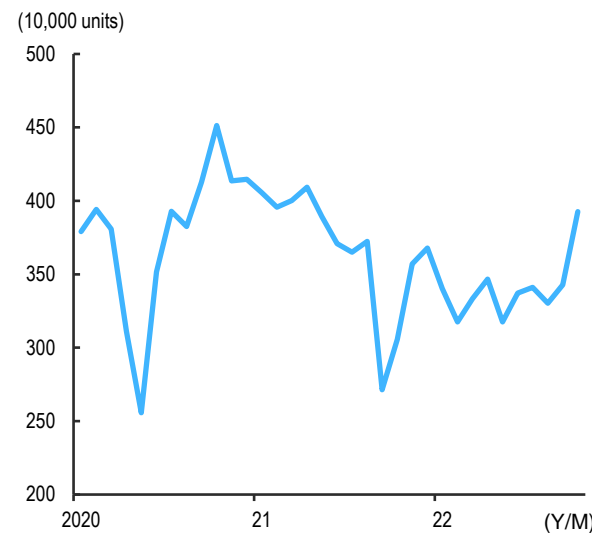
program, which was extended nationwide in October, has helped leisure consumption to recover. If the propensity to consume returns to the pre-COVID level, real personal consumption will rise by six trillion yen (2.0%). However, high prices are reducing household purchasing power. Price hikes have also spread beyond just food and energy to a wide range of products. Higher prices are expected to increase the financial burden on households by 87,000 yen in FY2022 from the previous year. Although excess savings accumulated, especially by middle- and high-income households, during the COVID pandemic, and measures taken by the government, such as cash handouts to low-income households, look set to offset the negative impact of higher prices, attention needs to be paid to the risk of the consumption slumping due to a worsening of consumer sentiment. There is also the risk of the infection situation deteriorating again over the winter, which could derail the consumption recovery.

Figure 6-1 Consumption Statistics Based on Credit Card Spending
<compared to 2016-2018 average>



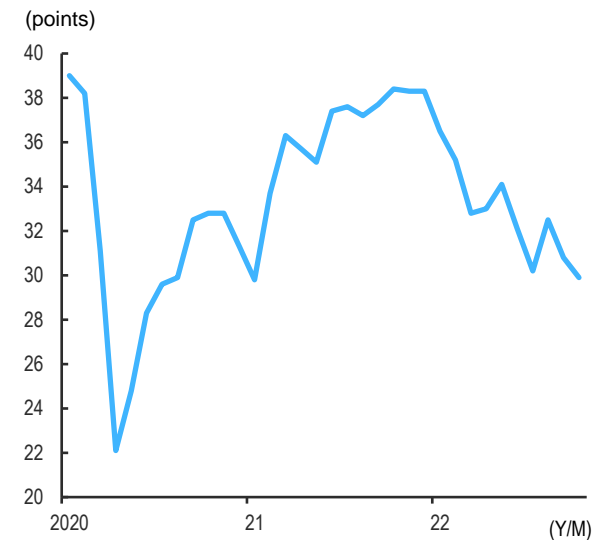
Source: The Japan Research Institute, Ltd. based on data of JCB consumption Now, Google.

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 Consumer Attitude Index
<seasonally adjusted>



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

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

Topic: Future measures to mitigate the effects of inflation should be centered on support

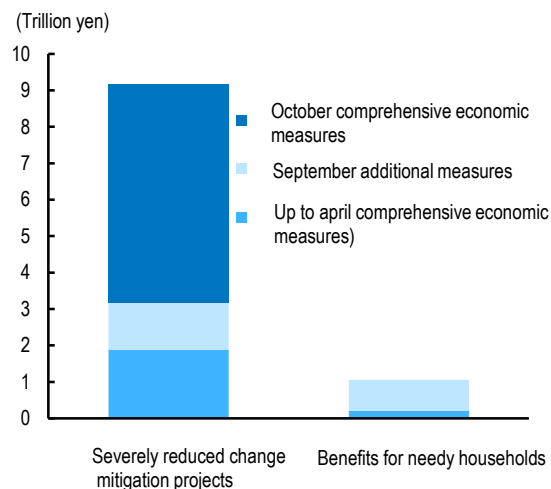
◆ The government has decided on uniform support for households

Since this spring, the government has been strengthening measures to respond to inflation. The key measures are price controls and support for low-income households. The main price-control policy is to keep fuel prices stable. Petroleum wholesalers are provided with subsidies to prevent gasoline prices from soaring. As for the support for low-income households, those that do not earn enough to have to pay local residents' tax will be given 50,000 yen cash. The Cabinet approved a comprehensive economic stimulus package worth 71.6 trillion yen at the end of October, and this includes money for strengthening price controls. The controls, which are designed to curb sharp rises, will be extended beyond fuel to cover electricity and city gas bills. As a result, spending on price controls is expected to swell from the initially budgeted figure of less than two trillion yen to approximately nine trillion yen.

◆ Future measures should focus on supporting low-income households

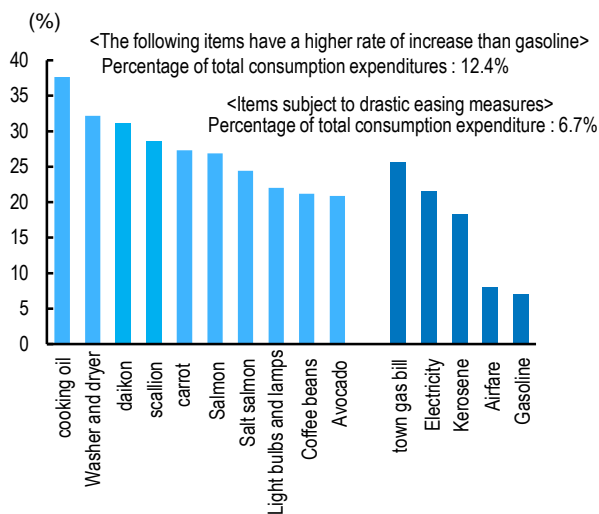
Future inflation-related measures will need to be limited to support for low-income households, the people who require government support the most. There are two reasons for this: First, prices of a broad range of items, not just fuel, electricity, and city gas, have been rising. Price increases have spread to encompass a wide variety of goods. In September, for example, items whose prices had risen by more than that of gasoline (7% YoY) accounted for around 12% of total consumer spending. Second, the negative impact of high prices is greater for low-income households. The increase in the financial burden on households of inflation in the current fiscal year represents 2.3% of income for those in the lowest income bracket, which is 1.7 times the figure for those in the highest income bracket. In addition, excess savings accumulated during the COVID pandemic amount to only 500,000 yen for low-income households, which is about 60% of the average for all

Figure 7-1 Budget Size for Inflation Protection (FY2022)



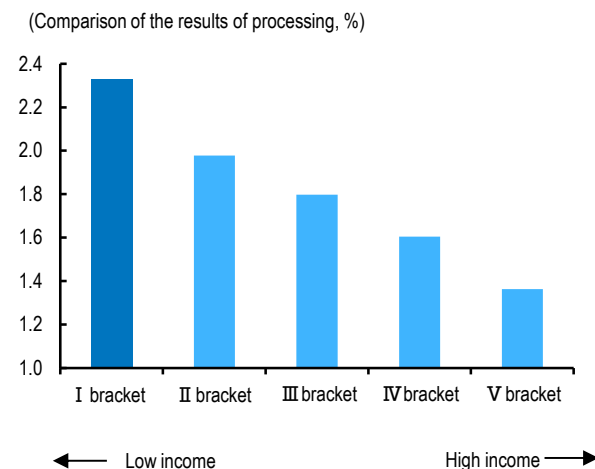
Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Secretariat, Ministry of Internal Affairs and Communications.

Figure 7-2 Rate of Increase in Consumer Prices <Top 10 Commodities, year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.
Note: As of September 2022.

Figure 7-3 Increased Burden on Households due to Rising Prices(FY2022)



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

Note: For 2 or more workers. Estimated using the CPI forecasts of The Japan Research Institute, Inc.

Monthly Report of Prospects for Japan's Economy December 2022
The Japan Research Institute, Limited

Prospects for Japan's Economy - Projected Real GDP Change; 1.9% for FY2022 and 1.5% for FY2023

(1) Real GDP in July-September shrank 1.2% year on year (YoY) and 0.3% from the previous quarter, the first negative growth in four quarters. This was mainly due to a significant increase in imports, especially services, which pushed down the growth rate. However, by demand category, personal consumption, capital investment, exports, and other final demand components continued to rise, indicating that the recovery trend has not lost momentum.

(2) Looking ahead, the Japanese economy is expected to continue to bounce back, led by domestic demand. Personal consumption will accelerate as the rebound moves into full swing, with the release of pent-up demand for services the key driver. Although rising prices will weigh heavily on household purchasing power, government measures to ease the pain, such as cash handouts to low-income households and reduced electricity and gas bills for all households, will mitigate the negative impact of inflation. Capital investment is expected to continue rising because corporate earnings remain high, especially at large companies, and there is a strong appetite for investment in digitalization- and environment-related projects.

(3) Exports are expected to increase, particularly in services. Although growth in goods exports will weaken due to the global economic slowdown, the relaxation of waterfront measures, such as the removal of the cap on the number of visitors and the lifting of the ban on individual travel, will help inbound demand recover.

(4) The growth rate for FY2022 is expected to be strongly positive at +1.9% as the economy rebounds from the COVID pandemic slump. In FY2023, growth is expected to cool to +1.5%, a pace that will still exceed the potential growth rate. In contrast to Western economies, which are feared to be on the brink of recession, Japan's economy is expected to remain resilient.

Figure 8 Projections for GDP Growth and Main Indicators of Japan (as of November 15, 2022)

(seasonally adjusted, annualized % changes from the previous quarter)										(% changes from the previous fiscal year)			
		CY2022				CY2023				CY2024	FY2021	FY2022	FY2023
		1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3			
		(Actual)			(Projection)						(Actual)	(Projection)	
Real GDP		0.2	4.6	▲ 1.2	3.6	1.8	1.4	1.3	1.1	1.0	2.3	1.9	1.5
Private Consumption Expenditure		1.3	5.1	1.1	2.4	1.8	1.4	1.1	0.9	0.9	2.6	3.1	1.4
Housing Investment		▲ 5.2	▲ 7.4	▲ 1.7	3.6	2.4	1.6	0.4	0.0	▲ 0.1	▲ 1.7	▲ 3.7	1.2
Business Fixed Investment		▲ 0.5	9.9	6.3	3.4	3.0	2.5	2.2	2.0	2.0	0.6	5.0	3.4
Private Inventories (percentage points contribution)		(2.0)	(▲ 0.9)	(▲ 3.0)	(▲ 0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(▲ 0.0)	(▲ 0.0)
Government Consumption Expenditure		1.6	3.4	0.0	0.3	0.2	0.2	0.1	0.1	0.1	2.0	1.3	0.1
Public Investment		▲ 11.5	4.2	4.9	3.4	1.6	1.2	0.8	0.4	0.2	▲ 7.5	▲ 2.1	1.5
Net Exports (percentage points contribution)		(▲ 0.0)	(▲ 0.0)	(▲ 0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(▲ 0.1)	(▲ 0.1)
Exports of Goods and Services		4.6	7.2	7.9	1.4	1.4	1.5	1.9	1.9	1.7	12.4	4.6	2.0
Imports of Goods and Services		15.1	3.3	22.6	▲ 5.0	1.7	1.7	1.5	1.5	1.4	7.1	6.9	1.9

(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)			
Nominal GDP		0.1	1.3	1.3	3.2	3.8	3.5	4.6	2.3	1.9	1.3	2.4	3.0
GDP deflator		▲ 0.5	▲ 0.4	▲ 0.5	1.3	1.4	2.0	2.5	0.9	0.6	▲ 1.0	0.5	1.5
Consumer Price Index (excluding fresh food)		0.6	2.1	2.7	3.7	2.5	1.6	0.8	0.9	1.5	0.1	2.8	1.2
Unemployment Rate (%)		2.7	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.3	2.8	2.6	2.4
Exchange Rates (JY/US\$)		116	130	138	146	144	142	141	139	137	112	140	139
Import Price of Crude Oil (US\$/barrel)		85	109	112	94	94	90	91	90	90	76	101	89

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.