

# Monthly Report of Prospects for Japan's Economy February 2023

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

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

**This report is the revised English version of the January 2023 issue of the original Japanese version.**

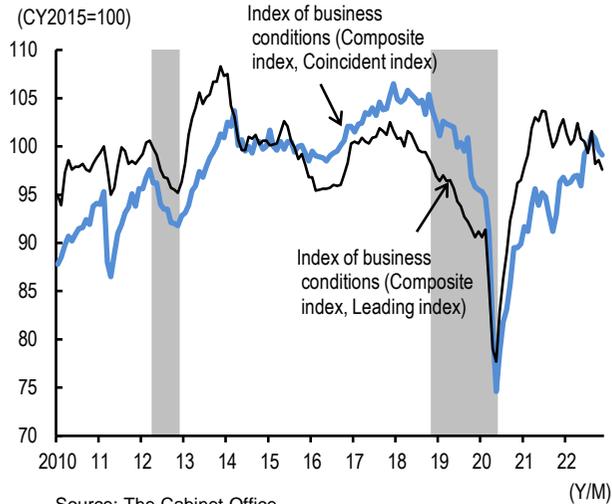
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# The General Situation – The economy is slowly picking up

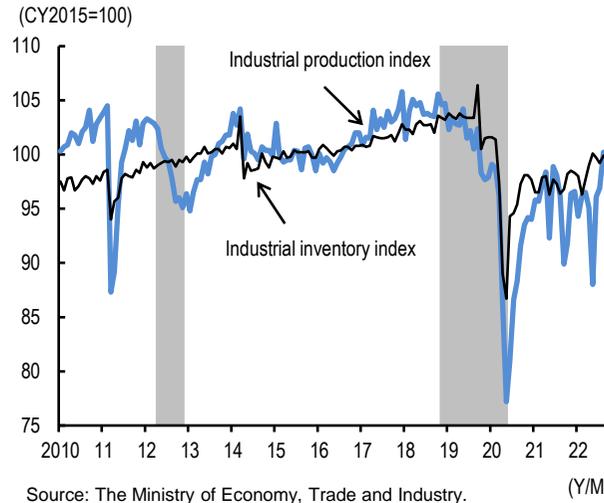
**Figure 1-1 Economic Activity**

Both coincident and leading indices of business sentiment are falling.



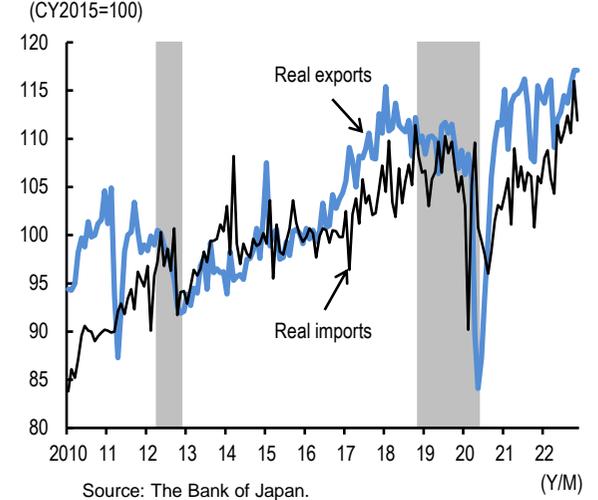
**Figure 1-2 The Corporate Sector**

Industrial production is weakening. Tertiary industry activity is picking up, with services the main driver.



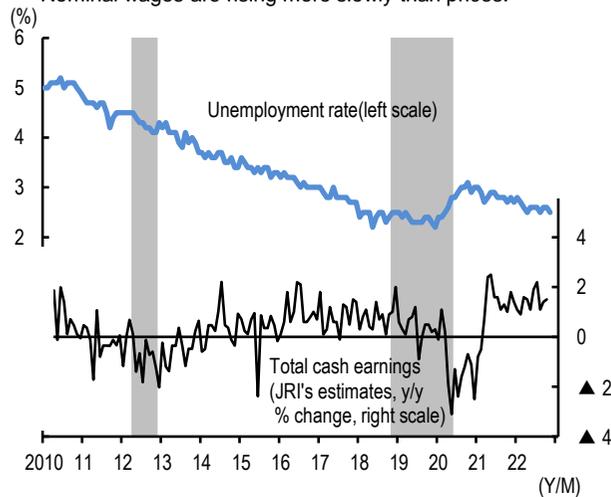
**Figure 1-3 Overseas Demand**

Overseas economies are slowing, but exports are firm. Imports remain high due to a recovery in domestic demand.



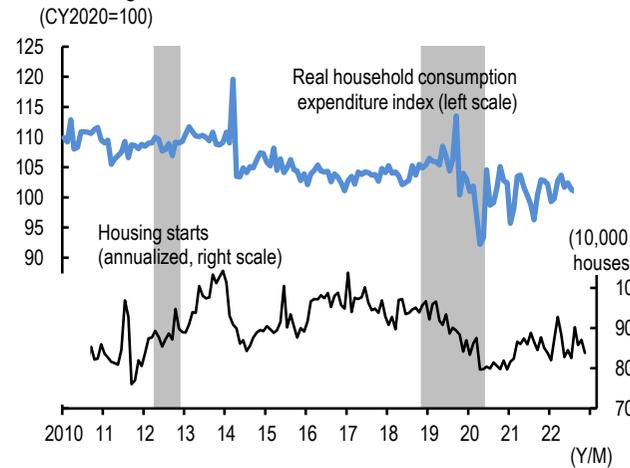
**Figure 1-4 Employment and Income**

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



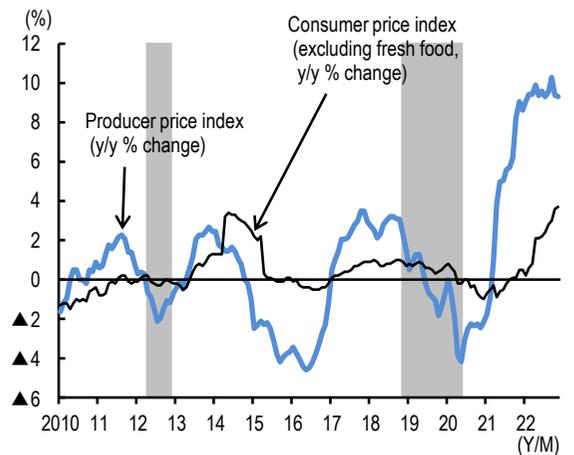
**Figure 1-5 The Household Sector**

Consumption is fluctuating, but gradually rising overall. Housing starts are at an annualized level in the low-800,000 units range.



**Figure 1-6 Prices**

Corporate price inflation remains high. Consumer price inflation has reached the high-3% range.



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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\* The shaded area indicates the recession phase.

## Business confidence has deteriorated in the manufacturing sector, but improved in the non-manufacturing sector

### ◆ Business confidence is polarized

In the Bank of Japan's Tankan December 2022 survey, the DI for business conditions for large manufacturing enterprises fell by one percentage point, dropping for the fourth straight quarter. Business confidence deteriorated mainly in materials industries such as petroleum/coal products and paper/pulp due to increased raw material costs. Meanwhile, the DI for large non-manufacturing companies increased by five percentage points, rising for the third quarter in a row. Business confidence in consumption-related sectors, such as lodging and food/beverage services, improved significantly due to a rapid recovery in inbound tourism demand as a result of the relaxation of border control measures.

### ◆ Exports increased moderately

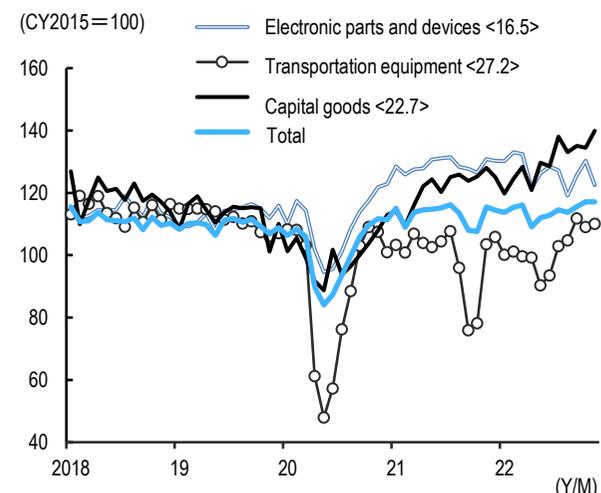
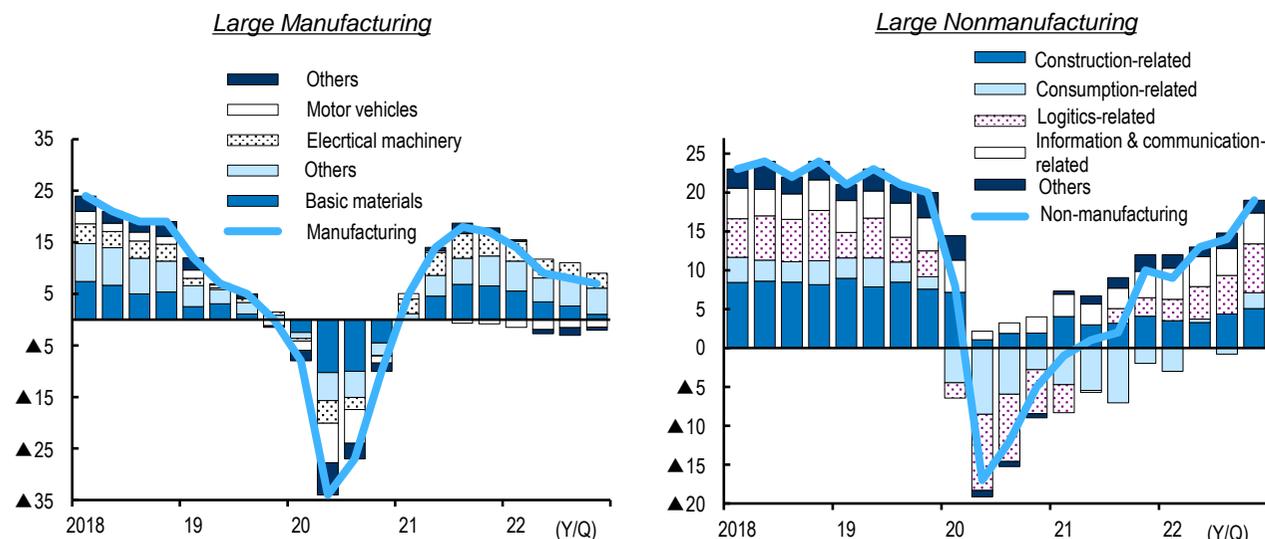
Real exports increased moderately. By product category, exports of electronic components/devices weakened due to the cyclical decline in semiconductor demand. On the other hand, exports of automobiles are recovering as supply constraints have eased, and capital goods exports are also increasing on the back of strong capital investment worldwide.

### ◆ Service sector economic activity picked up

The Tertiary Industry Activity Index for October 2022 increased for the first time in two months, up 0.2% from the previous month. In addition to benefitting from the increase in inbound tourism demand, the face-to-face service sector has seen a sharp recovery thanks to the nationwide rollout of the government's travel discount program.

Figure 2-1 Contributions to the Business Conditions Diffusion Index by Industry  
<the first preliminary estimate, on an annualized q/q change basis>

Figure 2-2 Real Exports by Item  
<seasonally adjusted>



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

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

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# Supported by high corporate earnings, capital investment will continue to increase going forward

## ◆ Corporate earnings remain high

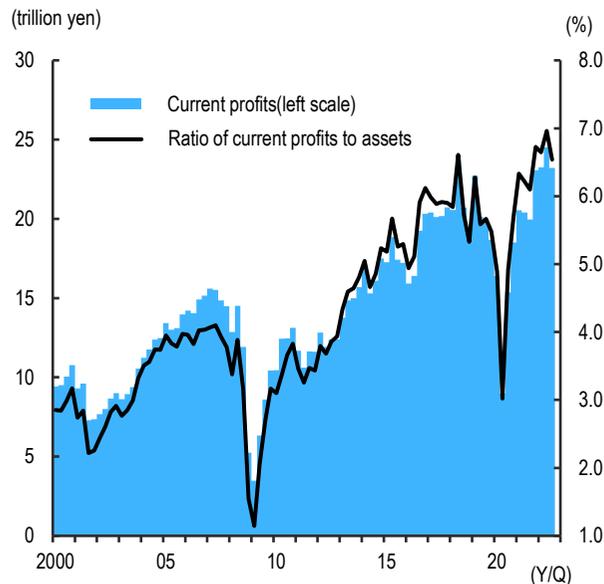
According to the Financial Statements Statistics of Corporations, ordinary profit for the July-September 2022 quarter declined 5.3% quarter on quarter for the first drop in four quarters, though it remained at a high level. The weak yen boosted the non-operating earnings of large companies with offshore operations through higher dividends from overseas subsidiaries. However, the earnings environment for small and medium-sized enterprises (SMEs) has worsened due to insufficient price pass-through, as high raw materials costs stemming from ongoing yen depreciation and high commodity prices have piled downward pressure on earnings. Corporate earnings are expected to remain at high levels. Although a pause in the depreciation of the yen will reduce the boost to non-operating income, the earnings environment is expected to improve even for small and medium-sized companies as the pressure

to increase costs will weaken.

## ◆ Proactive stance toward capital investment remains unchanged

Capital investment continues to increase. In October 2022, construction investment was sluggish, while investment in software and machinery remained strong. Capital investment is expected to continue rising in the future. The Bank of Japan's Tankan survey for December 2022 showed no change in the plans for large increases in capital investment in the current fiscal year. Capital investment is expected to increase even in the face-to-face service sector, where investment has been limited until now, due to the recovery in demand for services. There is also a strong appetite for post-COVID investment aimed at decarbonization and digitalization.

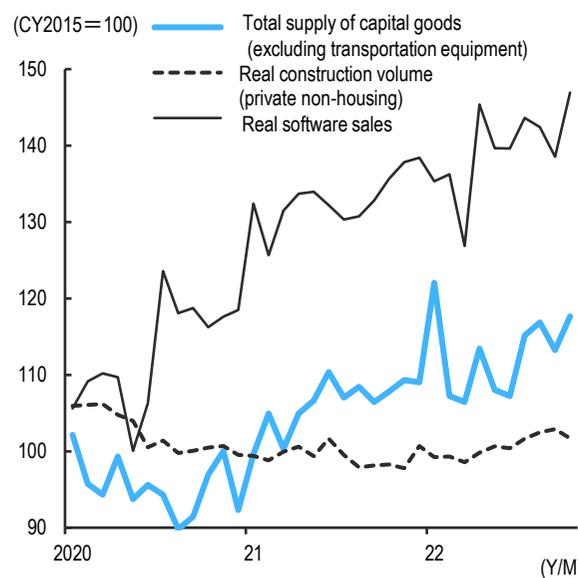
Figure 3-1 Ordinary Income and Return on Sales <seasonally adjusted>



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

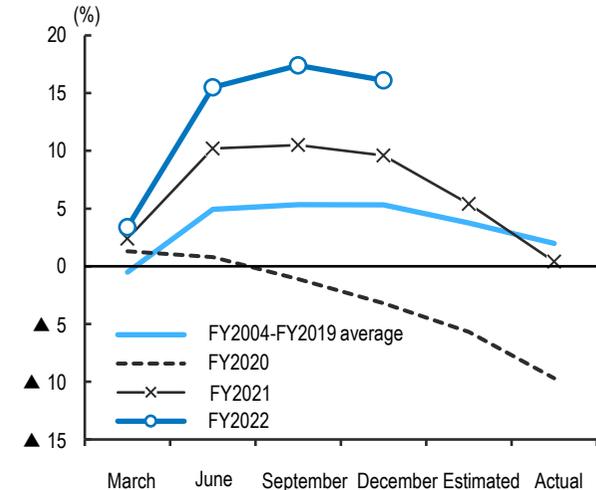
Note: All sizes and all industries (excluding finance and insurance).

Figure 3-2 Private Capital Investment by Type <seasonally adjusted>



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

Figure 3-3 Capital Investment Plan <all scale>



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

Note: Includes software and excludes land and R&D investment.

# The employment situation is improving, and the outlook is for higher wages, especially at large companies

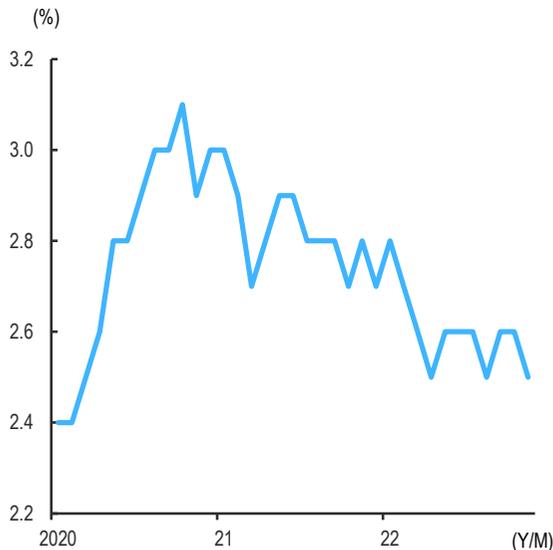
## ◆ Personnel shortages are evident

The employment situation is improving. The unemployment rate for November 2022 was 2.5%, down from the previous month. The ratio of new full-time job openings to new full-time job seekers continues to rise, and personnel shortages are becoming more apparent. According to the Bank of Japan's Tankan DI survey of employment, labor shortages are becoming more serious, especially in the lodging and food/beverage service, construction, and transportation sectors, and the overall personnel shortage across all industries is at the same level as it was before COVID. Looking ahead, the employment situation is expected to improve further as economic activity normalizes. However, the labor participation rate has already recovered to its pre-COVID level, limiting the scope for additional labor supply from women and the elderly. The labor supply-demand crunch is expected to intensify further in the future.

## ◆ Large companies especially are moving to raise wages

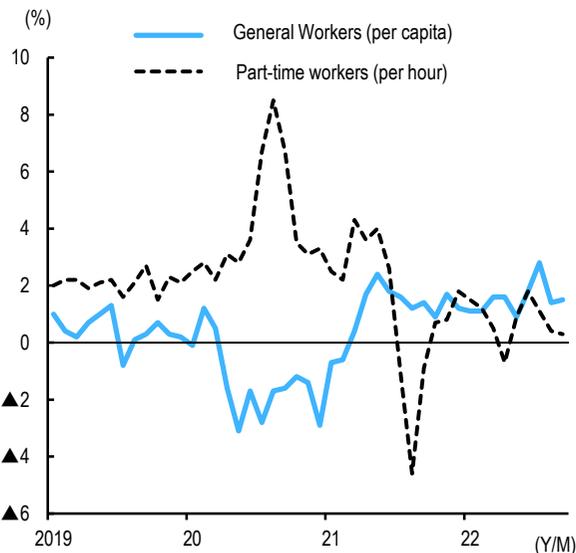
Total cash payrolls in November 2022 increased 1.0% year on year (YoY), staying in positive territory. Increases in wages in the face-to-face service and transportation sectors, which had fallen sharply due to the COVID pandemic, are driving the overall increase in wages. Some companies, especially large ones, are paying their employees special allowances to help them cope with inflation. Looking ahead, wages are expected to rise in a wide range of industries due to hikes in basic wages in response to higher prices and because labor shortages are becoming more serious. The average rate of wage increase during the 2023 shunto spring wage offensive is projected to be about +2.7%, up 0.5 percentage points from last year. However, for the time being, a cautious stance on wage setting is expected to be maintained by small and medium-sized enterprises (SMEs), for which the earnings environment is deteriorating.

Figure 4-1 Unemployment Rate  
<seasonally adjusted>



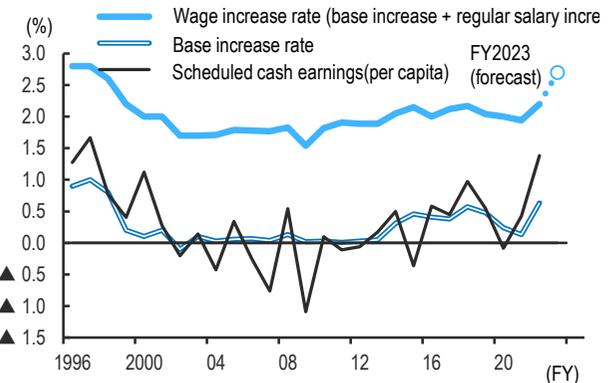
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 4-2 Nominal Wages  
<year-on-year % change>



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

Figure 4-3 Spring Wage Increase Rate and Fixed Wages  
<large companies, all industries>



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

Note1: Wage increase rates are based on the Central Labor Relations Commission's announcement until FY2021 and RENGO's announcement for FY2022.

Note2: Figures for "salary per capita" are for general workers at establishments with 30 or more employees, and for FY2022 are based on actual payments from April to September compared with the same period of the previous year.

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# Personal consumption is picking up, supported by excess savings and measures to ease the burden of inflation

## ◆ The infection resurgence is weighing down on services consumption

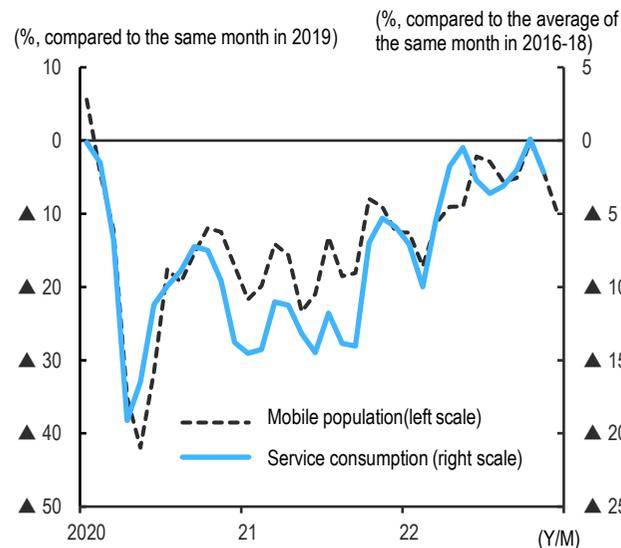
The recovery in personal consumption has stalled. Services consumption has weakened since November 2022, as a resurgence of COVID infections has deterred people from getting out and about. However, a significant decline has been avoided as only limited proportion of infected people are becoming seriously ill and an attitude of living with the disease has become more widespread. Meanwhile, goods consumption remains firm. Sales of luxury items at department stores continued to rise strongly, and increases in sales of passenger cars were also maintained.

## ◆ Excess savings and measures to ease the inflation burden are supporting personal consumption

Personal consumption, especially of services, is expected to bounce back again as infections subside. Consumption of face-to-face services such as travel, transportation, and eating out is still well below pre-COVID levels, and there is

plenty of room for recovery. The resumption of the government's travel discount scheme on January 10 is also expected to help services consumption rebound. Although high prices are putting downward pressure on the purchasing power of households, the excess savings accumulated as a result of them cutting back on services consumption during the COVID pandemic and the government's measures to ease the pain of inflation are expected to support the recovery in consumption. In macroeconomic terms, excess savings average 600,000 yen for working households and just under 700,000 yen for retired households, levels that are seven to eight times the annual increase in the financial burden caused by inflation. In addition, government measures to reduce the burden of rising electricity and city gas bills are also expected to alleviate the negative impact of higher prices, especially for low-income households.

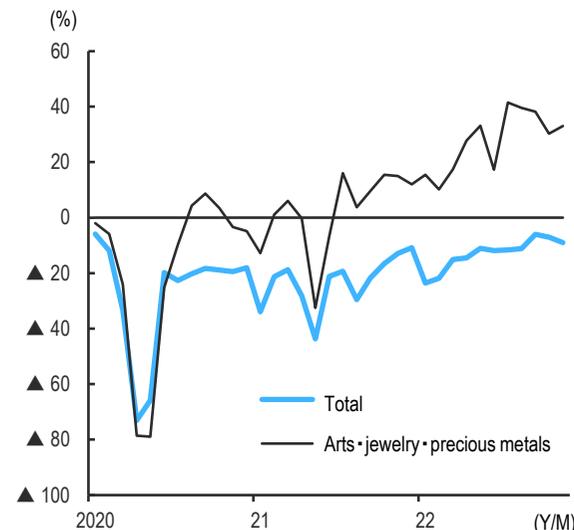
Figure 5-1 Mobile Population and Service Consumption



Source: The Japan Research Institute, Ltd. based on data of the JCB Consumption NOW, V-RESAS.

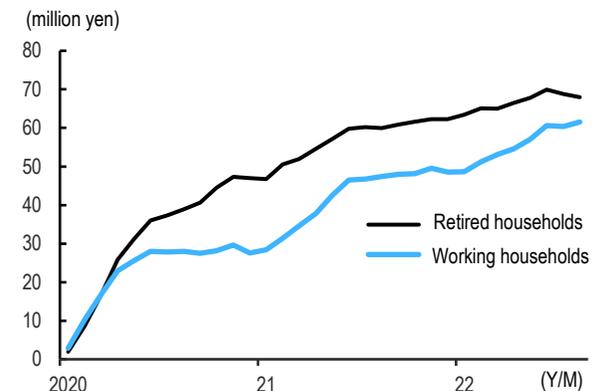
Note: Mobile population is the population that is staying in a municipality at a given point in time but whose estimated place of residence is another municipality.

Figure 5-2 Department Store Sales <compared to the same month in 2018 >



Source: The Japan Research Institute, Ltd. based on data of The Japan Department Stores Association.

Figure 5-3 Excess Savings per Household



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

Note1: Retired households are those whose head of household is 60 years old or older and unemployed.

Note2: Cumulative amount of savings since April 2020, calculated as disposable income for the month x (propensity to consume in the same month of fiscal 2019 - propensity to consume in the month in question).

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# Topic: There are signs of a full-fledged recovery in inbound tourism demand

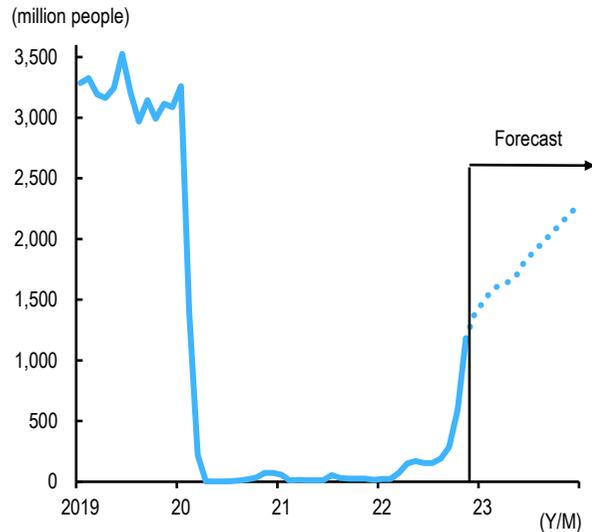
## ◆ The number of foreign visitors to Japan is surging

There are signs of a full-fledged recovery in inbound tourism demand following the significant easing in the autumn of COVID-related border control measures. The number of foreign visitors to Japan increased to 930,000 in November 2022, about 40% of the pre-COVID level. Global airline demand forecasts indicate that the number of foreign visitors to Japan will recover to over 20 million in annual terms by the end of 2023. Looking at the number of visitors to Japan by region, there has been a marked recovery in travelers coming from East Asia, excluding China. The number of visitors from places like South Korea, Taiwan and Hong Kong, in particular, has increased significantly. Outside of East Asia, the number of travelers from the U.S. and Singapore recovered ahead of others.

## ◆ GDP will be pushed up by 0.4% in 2023

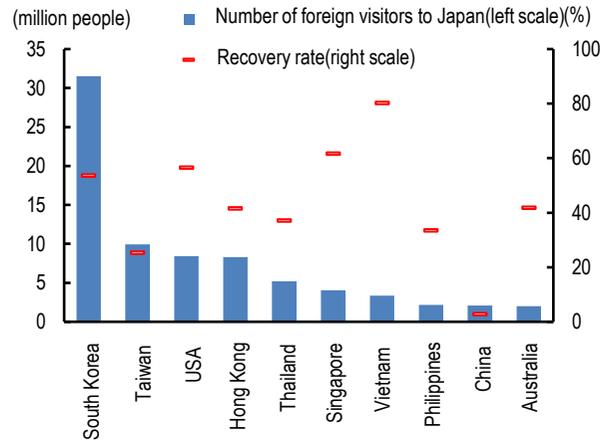
The depreciation of the yen has also helped to increase per-capita travel spending. The relationship between per-capita spending by foreign visitors to Japan and exchange rates is such that spending tends to increase as the yen depreciates. The yen is weaker than it was before the COVID pandemic, making Japan cheaper for most foreign travelers. In 2023, a recovery in inbound consumption is expected to support Japan's economic rebound. Given the increase in the number of foreign visitors to Japan and the rise in per-capita travel spending, it is estimated that inbound consumption in 2023 will amount to 3.1 trillion yen, boosting nominal GDP by about 0.4%. This estimate assumes that the number of tourists from China will recover from the summer onwards, but it should be noted that if the border control measures for Chinese visitors remain in place, inbound consumption may be lower than anticipated.

Figure 6-1 Foreign Visitors to Japan  
<seasonally adjusted, annualized>



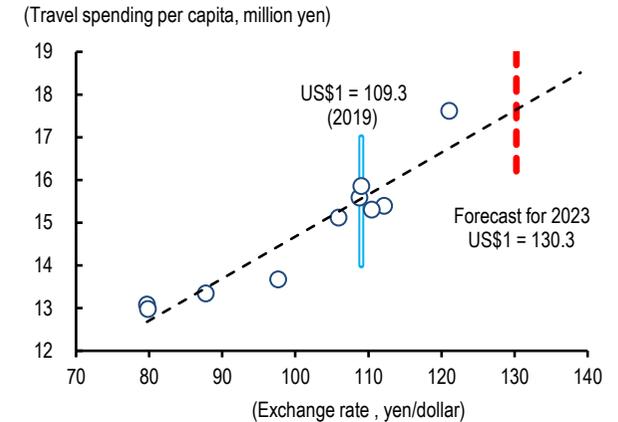
Source: The Japan Research Institute, Ltd. based on data of The Japan National Tourism Organization, IATA, ICAO.  
Note1: Forecasts are estimated with reference to global air travelers, etc.  
Note2: Chinese tourists are assumed to start recovering from June 2023.

Figure 6-2 Number of Foreign Visitors to Japan in November and Recovery Rate



Source: The Japan Research Institute, Ltd. based on data of The Japan National Tourism Organization.  
Note: Top 10 countries in terms of the number of foreign visitors to Japan, excluding others. Recovery rates are compared to the same month in 2019 for each country. Calculated compared to November 2018 for South Korea only.

Figure 6-3 Exchange Rates and Per Capita Travel Expenditures



Source: The Japan Research Institute, Ltd. based on data of The Japan National Tourism Organization, Bloomberg L.P.  
Note: The chart plots the combination of travel expenditures per capita (general visitors) and the exchange rate between the dollar and the yen in the Survey of Foreign Visitor Consumption Trends in Japan. The period is from 2010 to 2019. 2023 dollar-yen exchange rate is forecast by JRI.  
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# Topic: Increased uncertainty concerning exchange rates is putting downward pressure on exports and capital investment

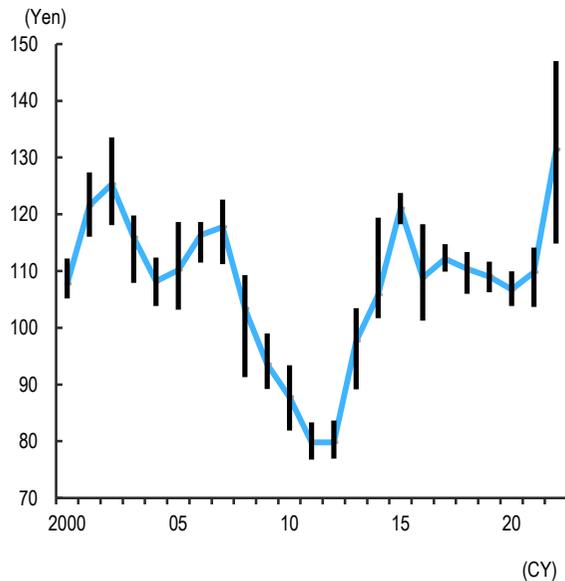
## ◆ Sharp fluctuations in exchange rates are heightening uncertainty

Exchange rates have seen huge fluctuations. The dollar-yen rate, which was hovering around 115 yen per dollar at the beginning of 2022, dropped to the 150-yen level in November, the lowest it has been since 1990, and then rallied to the 130-yen level as opinions concerning future monetary policy in Japan and the U.S. changed. The range (difference between high and low) of dollar-yen exchange rates in 2022 was 37 yen, the largest seen since 1986. Abrupt changes in exchange rates make exchange-rate projections less certain and could affect corporate decision-making. According to the Bank of Japan, the standard deviation of assumed exchange rates among companies has increased by nearly two yen compared to the average over the past 20 years. This suggests that exchange-rate uncertainty has risen significantly.

## ◆ Exchange-rate uncertainty will push GDP growth down by 0.9%

Increased uncertainty concerning exchange rates tends to put downward pressure on exports and capital investment. According to estimates, a one-yen increase in the standard deviation of assumed exchange rates results in a 3.2-percentage-point decrease in planned exports and a 3.8-percentage-point drop in planned capital investment. According to the Bank of Japan's December 2022 Tankan survey, both planned exports and planned capital investment for the current fiscal year are higher than in previous years. However, the exchange-rate uncertainty may push down planned exports by 2.6 percentage points and planned capital investment by 2.7%. This impact would push down the economic growth rate by 0.9%. If exchange-rate uncertainty remains high, the economic recovery will lose momentum.

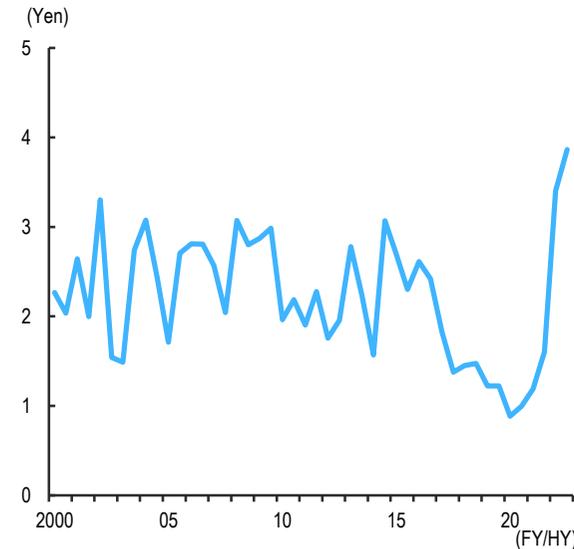
Figure 7-1 Trends in the Dollar-Yen Exchange Rate



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

Note: Bars indicate highs and lows of monthly data.

Figure 7-2 Standard deviation of Assumed Exchange

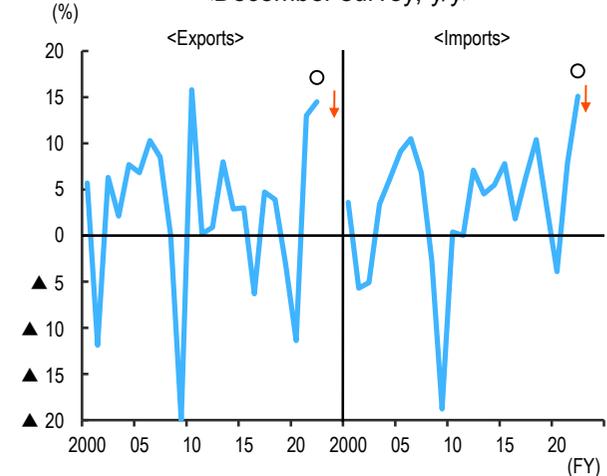


Source: The Japan Research Institute, Ltd. based on data of The Ministry of The Bank of Japan.

Note1: By company size and industry.

Note2: Figures for the first half of the fiscal year are from the June survey, and figures for the second half of the fiscal year are from the December survey.

Figure 7-3 Export and Capital Investment Plans <December survey, y/y>



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

Note1: White markers indicate estimated values if the standard deviation of the assumed exchange rate for FY2022 were at the level of previous years.

## Normalization of economic activity will support economic recovery

### ◆ Sharp fluctuations in exchange rates are heightening uncertainty

In the October-December 2022 quarter, higher growth is likely to have been realized thanks to a sharp recovery in inbound tourism demand coupled with the decrease of imports of services. The Japanese economy is expected to recover in the January-March quarter and beyond as economic activity normalizes. Inbound tourism demand is expected to see a full-fledged recovery, and consumer spending, especially on services, is also expected to increase. Although rising prices are weighing heavily on household purchasing power, household savings accumulated during the COVID pandemic and government measures to ease the pain of higher prices, such as electricity and gas bill subsidies, will lessen their adverse impact. Capital investment is expected to continue to increase. Investment for the post-COVID world, such as environmental investment for decarbonization and ICT investment for labor-saving, is strong. 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.

### ◆ The growth rate for FY2023 will be +1.5%

The growth rate for FY2022 is expected to be strongly positive at +1.7% as the economy rebounded from the COVID pandemic slump. The growth rate is expected to be +1.5% in FY2023 and +1.3% in FY2024, exceeding the potential growth rate, which is in the mid-0% range.

Figure 8 Projections for GDP Growth and Main Indicators of Japan ( as of January 16, 2023 )

	CY2022		CY2023				CY2024				CY2025	FY2022	FY2023	FY2024
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Projection)		
	(Actual)	(Projection)												
Real GDP	▲ 0.8	3.6	2.0	1.2	1.1	1.2	1.1	1.2	1.4	1.5	1.5	1.7	1.5	1.3
Private Consumption Expenditure	0.5	1.0	1.6	1.1	1.0	1.0	1.1	1.2	1.3	1.3	1.4	2.4	1.1	1.2
Housing Investment	▲ 2.0	3.6	3.0	2.5	0.8	0.2	0.0	▲ 0.1	0.0	▲ 0.1	0.0	▲ 4.0	1.7	0.1
Business Fixed Investment	6.2	2.4	3.3	3.1	3.0	3.0	3.0	2.7	2.6	2.8	2.9	3.4	3.2	2.8
Private Inventories (percentage points contribution)	( 0.4)	(▲ 0.3)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.3)	(▲ 0.0)	(▲ 0.0)
Government Consumption Expenditure	0.5	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	1.1	0.1	0.1
Public Investment	3.8	3.0	2.0	1.6	1.4	1.2	1.2	1.0	0.8	0.8	0.8	▲ 2.6	1.8	1.0
Net Exports (percentage points contribution)	(▲ 2.5)	( 3.2)	( 0.2)	(▲ 0.2)	(▲ 0.1)	(▲ 0.1)	(▲ 0.1)	( 0.0)	( 0.1)	( 0.2)	( 0.2)	(▲ 0.4)	( 0.1)	( 0.0)
Exports of Goods and Services	8.6	8.0	2.6	1.1	1.8	2.0	2.0	2.8	3.5	4.0	4.2	5.4	3.0	2.9
Imports of Goods and Services	22.7	▲ 5.0	1.5	2.0	2.2	2.1	2.3	2.4	2.5	2.8	3.0	7.0	2.2	2.4

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	1.3	3.3	3.8	3.4	4.5	2.2	1.7	1.8	2.2	2.6	3.4	2.3	3.3	2.2
GDP deflator	▲ 0.3	1.4	1.4	2.0	2.5	0.9	0.5	0.6	1.0	1.3	2.0	0.6	1.7	1.0
Consumer Price Index (excluding fresh food)	2.7	3.8	2.9	2.4	1.7	1.2	1.9	1.6	1.6	1.4	1.6	2.9	1.8	1.5
Unemployment Rate (%)	2.6	2.5	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.6	2.4	2.3
Exchange Rates (JY/US\$)	138	141	132	131	129	128	127	125	124	124	123	135	129	124
Import Price of Crude Oil (US\$/barrel)	112	99	83	87	90	90	92	92	91	90	89	101	90	91

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.