

# Monthly Report of Prospects for Japan's Economy

## March 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 February 2023 issue of the original Japanese version.**

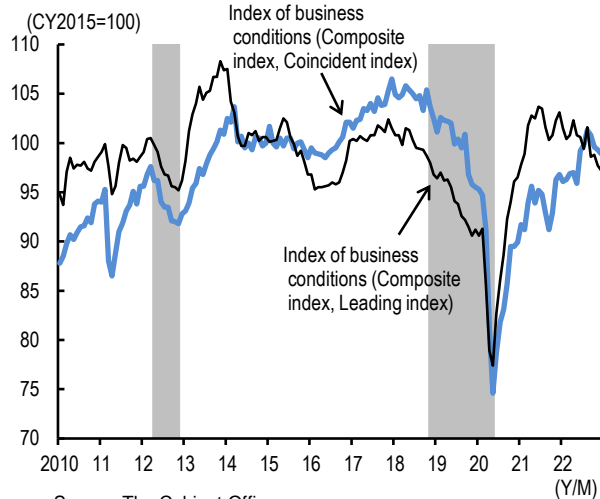
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# The General Situation – The economy is slowly picking up

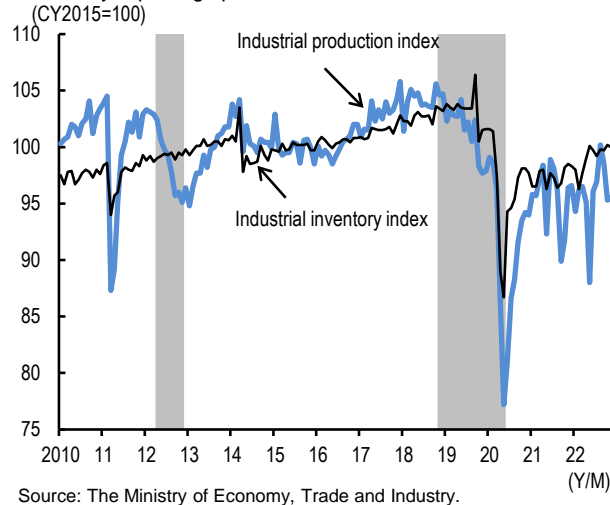
**Figure 1-1 Economic Activity**

Both coincident and leading indices of business sentiment are falling.



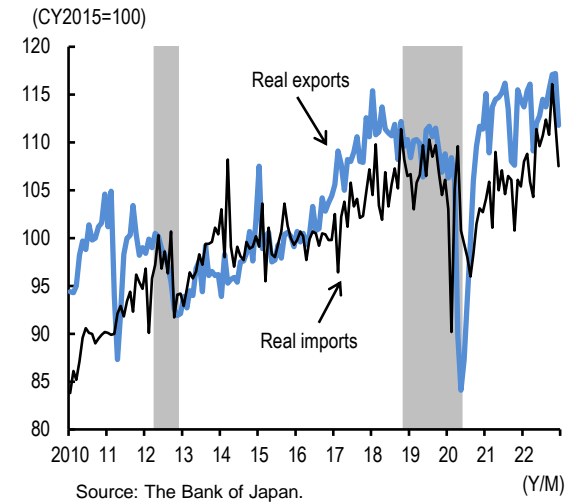
**Figure 1-2 The Corporate Sector**

Industrial production is weakening, while tertiary industry activity is picking up.



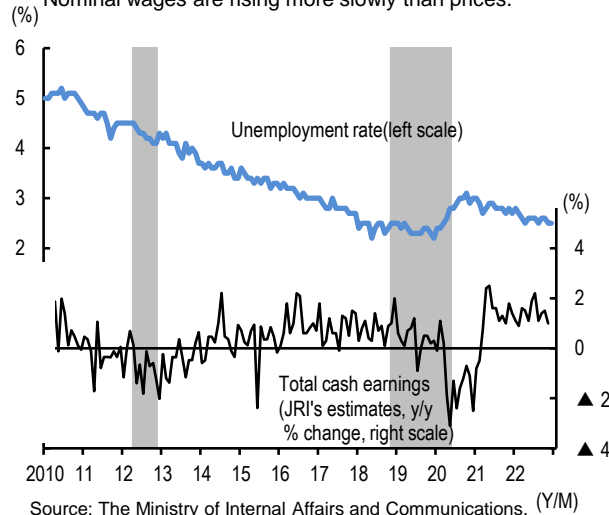
**Figure 1-3 Overseas Demand**

Exports are down due to the slowdown in overseas economies. Imports, mainly from those from Asia, are lower.



**Figure 1-4 Employment and Income**

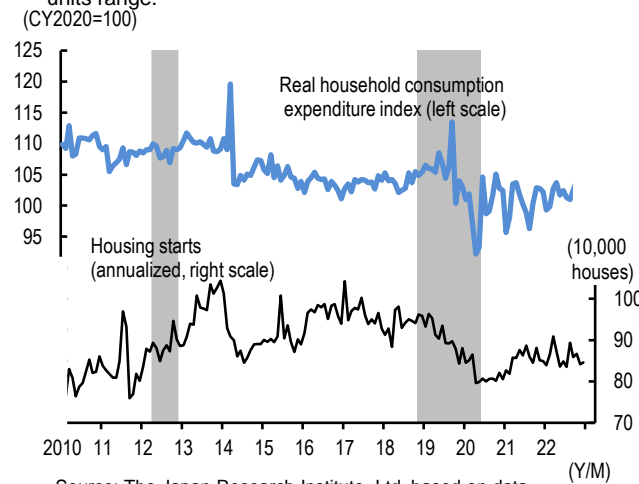
The unemployment rate is hovering in the mid-2% range. Nominal wages are rising more slowly than prices.



\* The shaded area indicates the recession phase.

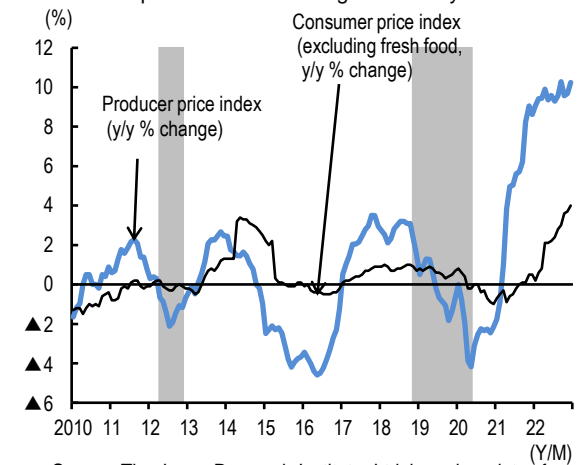
**Figure 1-5 The Household Sector**

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



**Figure 1-6 Prices**

Corporate price inflation remains high. Consumer prices are now 4% higher than a year earlier.



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# Manufacturing has weakened, while the non-manufacturing sector is picking up

## ◆ Production activity in the manufacturing sector has stalled

In December 2022, the Industrial Production Index fell for the first time in two months, slipping 0.1% from the previous month. By industry, production declined across a wide range of industries, with the automobile sector the exception as production rose in response to the easing of supply constraints. This decline reflected such factors as a downturn in demand in China, where economic activity stagnated due to the confusion surrounding the zero-COVID policy. Looking ahead, although the slowdown in Western economies will act as a drag on production activity, in Japan production activity is expected to remain firm, as it will be supported by the recovery of the Chinese economy, which has abandoned its zero-COVID policy. Firms in the electrical/ICT equipment and transportation equipment sectors, which have large order backlogs, are planning to boost output.

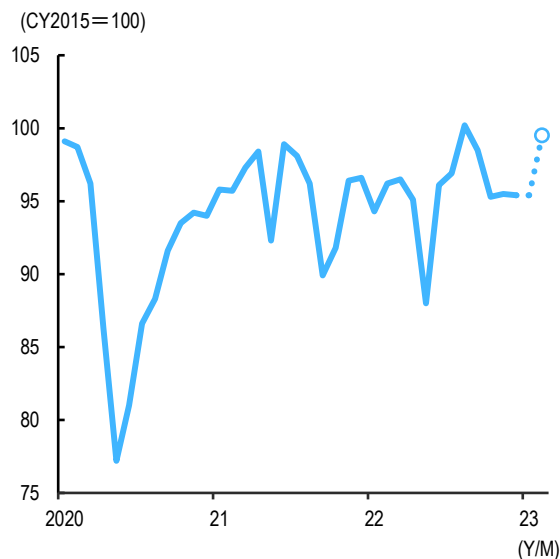
## ◆ Non-manufacturing business activity has picked up slightly

The Tertiary Industry Activity Index for November 2022 fell for the first time in two months, down 0.2% from the previous month, though the recovery trend is being maintained. Activity in the food/beverage services sector declined due to the impact of the COVID resurgence, while the ICT sector remained strong on the back of robust DX-related demand. The lodging industry is also bouncing back thanks to the rapid increase in the number of foreign visitors to Japan.

## ◆ Consumer confidence has bottomed out

In January, the Consumer Confidence Index rose for the second consecutive month, edging up 0.7% from the previous month. While the willingness to buy component continued to fall in the face of ongoing rising prices, the income growth and employment components saw increases.

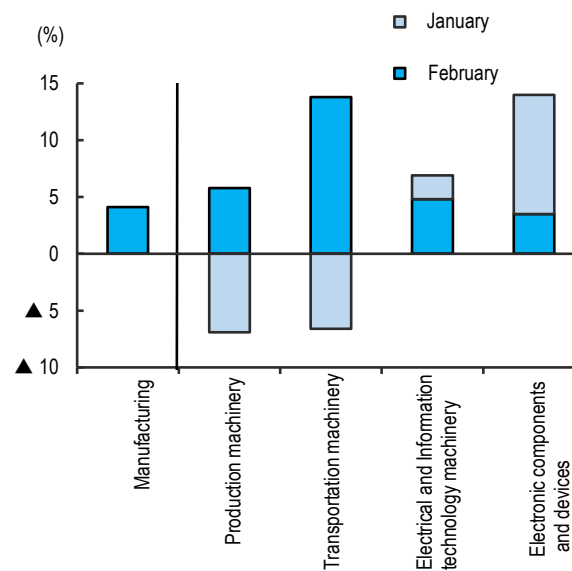
Figure 2-1 Industrial Production Index  
<seasonally adjusted>



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

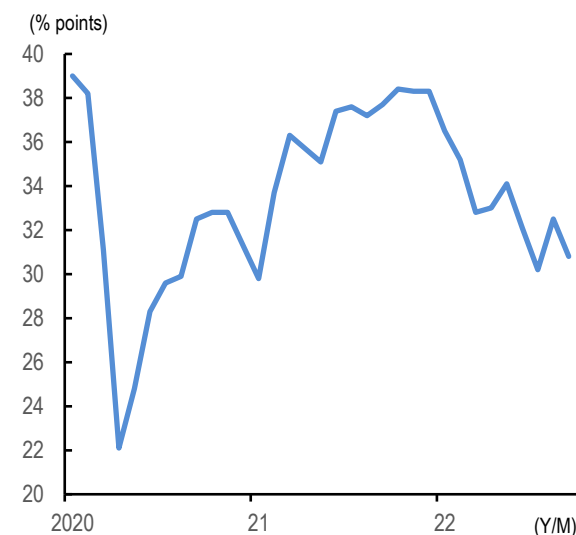
Note: Dotted lines are postponed based on the forecast index of manufacturing production (January and February).

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 Consumer Attitude Index  
<seasonally adjusted>



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

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# Goods exports are decreasing, but inbound demand is recovering rapidly

## ◆ Goods exports to China have declined sharply

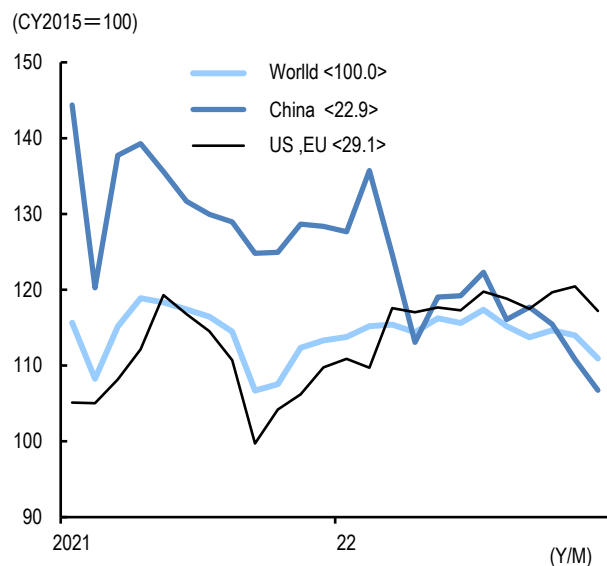
Real exports declined in December 2022. By region, shipments to the U.S. and Europe reached a plateau, while those to China, where production activity stalled due to the spread of COVID, declined sharply. Looking ahead, exports are expected to remain firm. While exports to the U.S. and Europe are expected to weaken as the economic slowdown bites, those to China look set to increase as economic activity there begins to recover. In January, China's manufacturing PMI recovered to above 50, the threshold for improvement or deterioration, for the first time in four months.

## ◆ Foreign visitors to Japan are rapidly recovering

The number of foreign visitors to Japan in December 2022 was 1.37 million, rebounding to more than 50% of the 2019 level. The weak yen boosted per-capita

travel spending in the October-December quarter to 1.3 times that of 2019. Inbound demand is expected to continue to recover. Before COVID, 30% of all visitors to Japan came from China, and the government there removed its strict curbs on travel when it scrapped its zero-COVID policy. Japan has tightened restrictions on the entry of Chinese tourists, requiring them, for example, to present proof of a negative COVID test when they arrive. However, once these restrictions are lifted, the pace of recovery in inbound demand is expected to further accelerate.

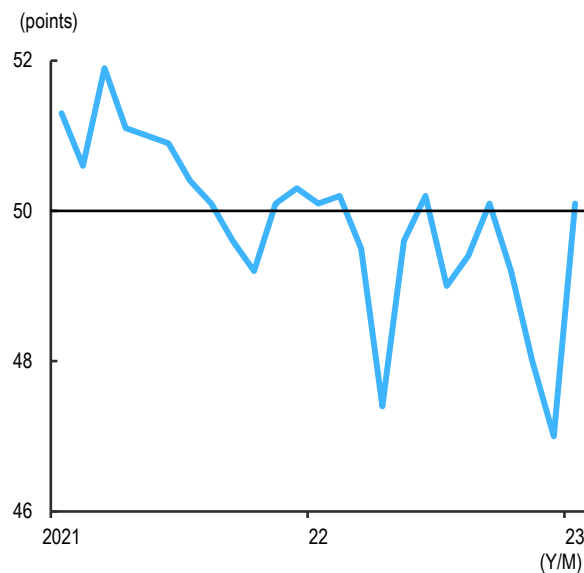
Figure 3-1 Real Export by Area  
<seasonally adjusted>



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

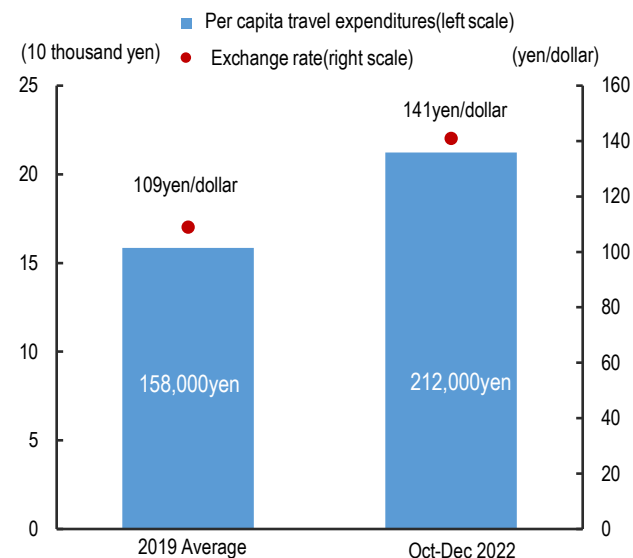
Note: <>Figures in parentheses represent the share of total nominal exports in 2022.

Figure 3-2 China's Manufacturing PMI



Source: The Japan Research Institute, Ltd. based on data of The China National Bureau of Statistics.

Figure 3-3 Travel Expenditures per Capita and Exchange Rates



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

Note: Exchange rates are averages for the period.

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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% year on year (YoY) for the first drop in four quarters. Compared to large companies, however, the earnings environment for small and medium-sized enterprises (SMEs) has worsened due to slower price pass-through. In the October-December quarter, firms in the lodging and food/beverage services sector, in particular, reported higher profits as they rode the surge in inbound demand and recovery in services consumption. Corporate earnings are expected to remain at high levels. Although earnings in the manufacturing sector are expected to weaken due to the slowdown in overseas economies, profits in the non-manufacturing sector look set to improve further as economic activity normalizes. For SMEs, the earnings environment is expected to improve as the yen has stopped depreciating and resource prices have stopped rising, which is easing cost pressures, and because

SMEs are gradually making progress with price pass-through.

## ◆ Proactive stance toward capital investment remains unchanged

Capital investment is increasing. Looking at capital investment by type, the recovery in machinery investment has slowed, while software investment and construction investment remain on an upward trend. 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. However, caution is needed regarding the risk that a slowdown in overseas economies will dampen the manufacturing sector's appetite for investment.

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

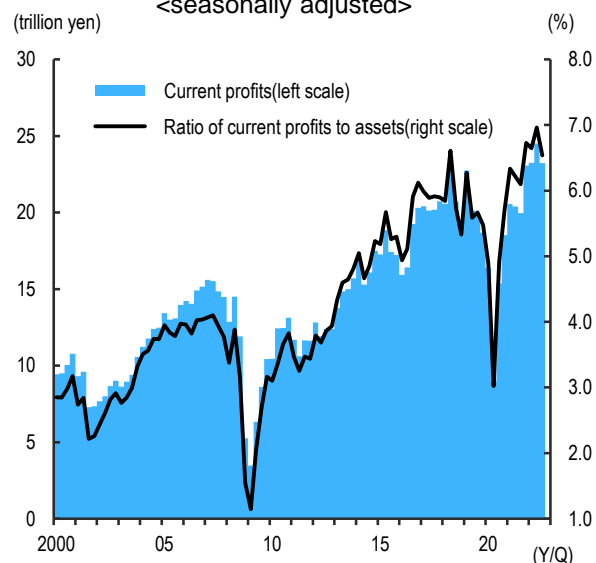


Figure 4-2 Factor Decomposition of Changes in Ratio of Ordinary Income to Net Sales

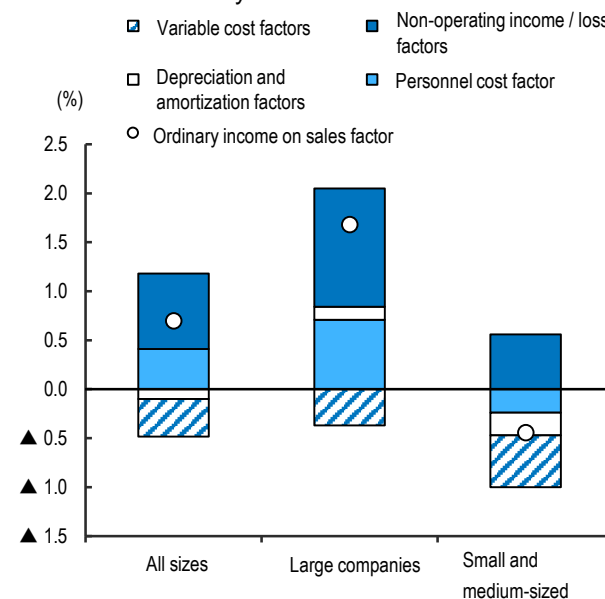
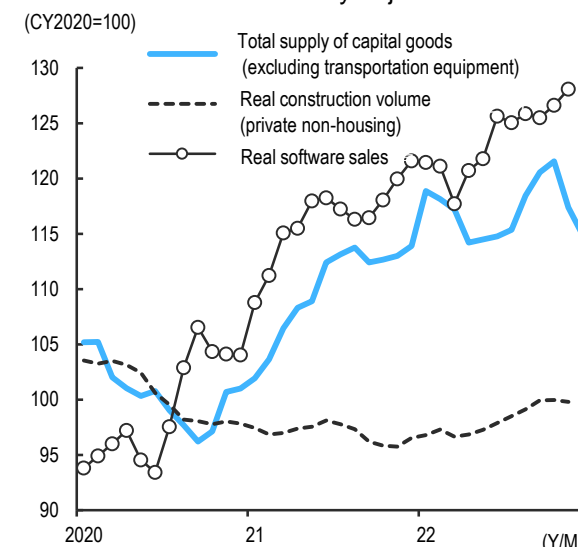


Figure 4-3 Private Capital Investment by Type  
<seasonally adjusted>



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

## ◆ Personnel shortages are evident

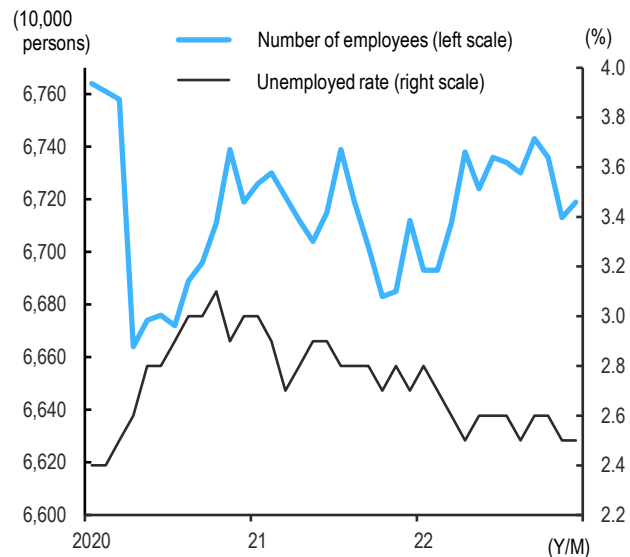
The employment situation is improving. The unemployment rate remained low at 2.5% in December 2022. The number of workers has maintained a gradual upward trend, with some fluctuations. A recovery is now occurring in the number of workers in the lodging and food/beverage services, where headcounts had been slow to bounce back. Labor shortages are becoming more serious, with less than 10% of full-time job openings being filled. The labor supply-demand crunch is expected to intensify further in the future. Labor demand is expected to strengthen further as economic activity normalizes. However, the labor participation rate has already risen beyond its pre-COVID level, limiting the scope for new labor-market participation from women and the elderly.

## ◆ Large companies especially are moving to raise wages

Total cash payrolls in December 2022 increased 3.3% YoY, staying in positive

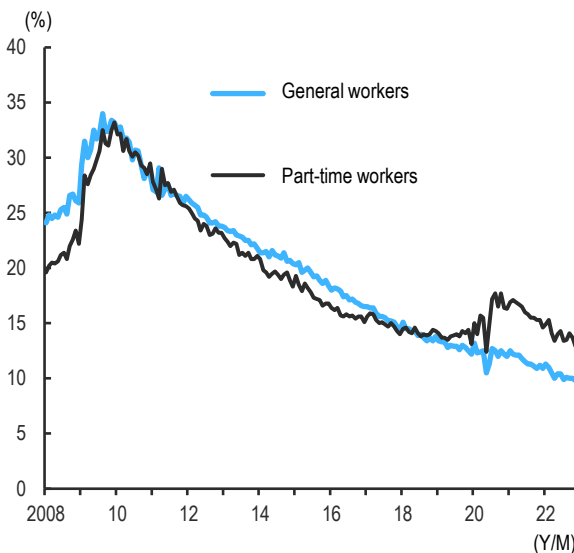
territory. Wage hikes in sectors such as face-to-face services and transportation, which are recovering from the slump induced by COVID, led the overall increase in wages. Some companies, especially large ones, are paying their employees special allowances to help them cope with inflation. Looking ahead, 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 perceived as 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. Wages of full-time employees are expected to increase. Wages for non-regular workers are also expected to rise due to the impact of the growing labor shortages and increases in minimum wages. However, for the time being, a cautious stance on wage setting is expected to be maintained by SMEs, for which the earnings environment has been slow to recover.

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



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

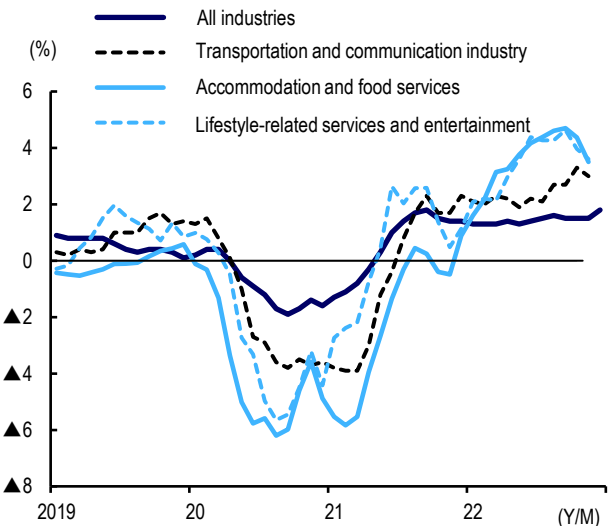
Figure 5-2 Fill Rate of Job Openings <seasonally adjusted>



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

Note: Number of jobs found ÷ Number of new jobs created.

Figure 5-3 Nominal Wages <year-on-year % change>



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

Note: Based on common establishments. Backward 6-month moving average.

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## Supported by the transition to living with the virus and excess savings, personal consumption is picking up

### ◆ Personal consumption is recovering

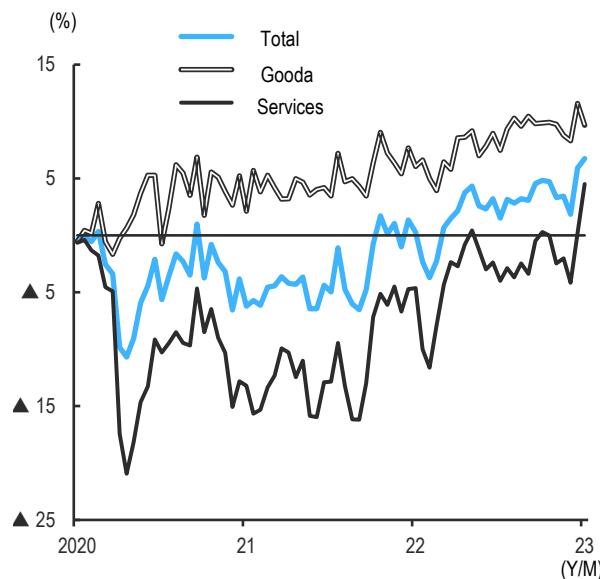
Services consumption has been picking up recently. The year-end and New Year holidays were the first in three years that there were no restrictions on activities, and this spurred a recovery, especially in face-to-face services such as travel and eating out. Goods consumption also remains steady. With supply constraints easing, a pickup in passenger car sales is also boosting overall consumption.

### ◆ Excess savings are supporting consumption

Personal consumption is expected to gradually recover going forward, especially in services. Consumption of face-to-face services remains well below the pre-COVID level, so there is plenty of room for recovery. The legal status of COVID is set to be downgraded to Class 5 on May 8, and as the living-with-COVID lifestyle takes root, the tendency to curb consumption out of fear of contracting the virus is

expected to wane. Excess savings accumulated as a result of the pandemic are also expected to support the consumption recovery. 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. Although consumer-perceived inflation has reached 10% for the first time since 2008, compared to then, the proportion of consumers who plan to spend less going forward than they do now is limited.

Figure 6-1 Domestic Household Consumption

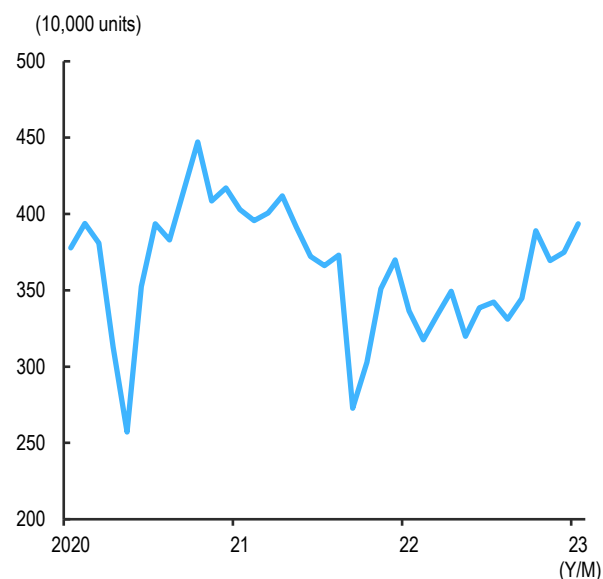


Source: The Japan Research Institute, Ltd. based on data of The JCB Consumption now.

Note1: Consumption statistics based on credit card spending.

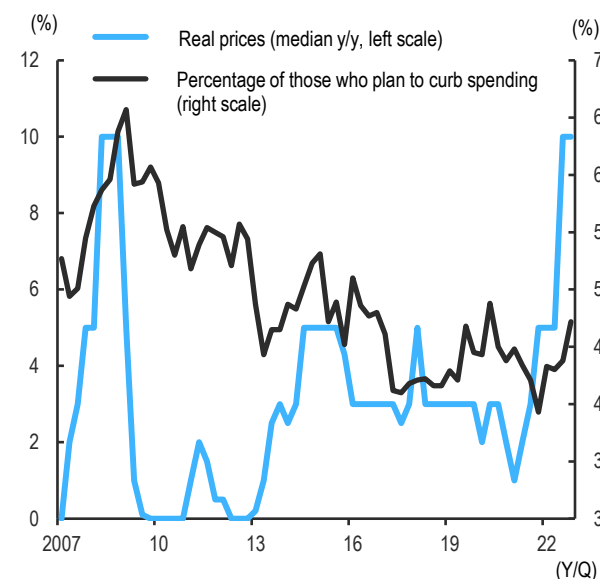
Note2: compared to 2016-2018 average.

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



Source: The Japan Research Institute, Ltd. based on date of The Japan Mini Vehicles Association, Japan Automobile Dealers Association.

Figure 6-3 Real Prices and Willingness to Spend



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

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## Topic: Electricity and city gas bills will rise from the middle of the year

### ◆ Outlook for electricity and city gas bills

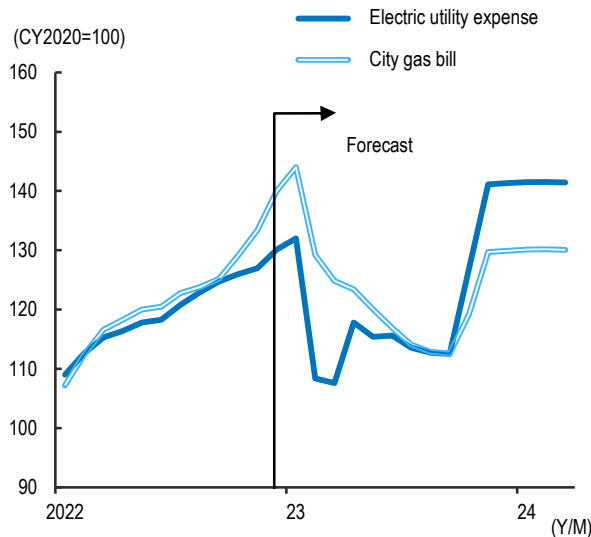
Electricity and city gas bills are expected to fall briefly from February and then rise again from the middle and through the second half of the year. As a result, electricity and city gas bills will push down annualized consumer price inflation (composite excluding fresh food) through the middle of the year, and then push it up from the fall onwards.

### ◆ Background factors are measures to mitigate sudden changes and higher electricity charges

Shaping this trend are measures by the government to keep a lid on prices and price hikes by electric power companies. Government measures to ameliorate the impact of sharp spikes in electricity and city gas prices will curb electricity and city

gas bills from February onward. The government is providing electricity and city gas retailers with money to fund discounts. With this cash, the companies cut their charges. This reduces the household burden by 20% for electricity and over 10% for city gas. However, the measures are time-limited and set to be halved in September. If the measures come to an end in October as scheduled, the downpush effect on core CPI will be erased. In addition, price hikes by electric power companies are also expected to push up electricity bills. Power firms, which have been squeezed by the high resource prices of late, have applied the authorities to raise regulated prices from the spring. Although the requested price increases may be reduced after the government reviews the applications, the price hikes are expected to partially offset the price-suppressing effect of the measures to mitigate sudden changes from April.

Figure 7-1 Electricity and City Gas Prices in CPI

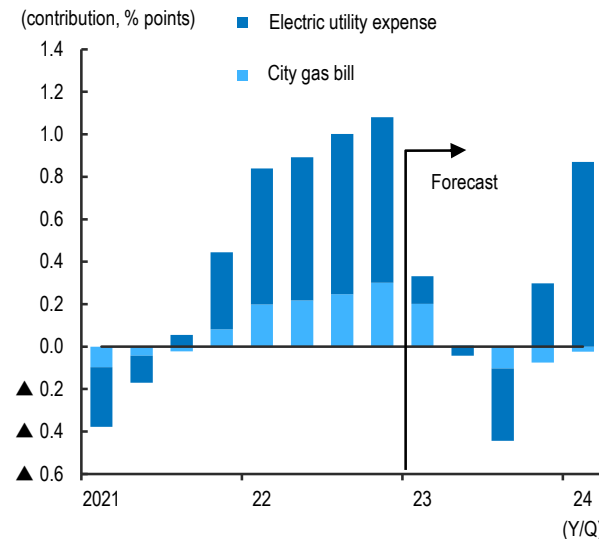


Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications, Agency for Natural Resources and Energy.

Note1: Assumes a 20% increase in electricity prices in the regulated sector.

Note2: Assumes that the price discount for electricity and city gas will be halved in September and will end in October.

Figure 7-2 Impact of Electricity and City Gas Bills on Core CPI

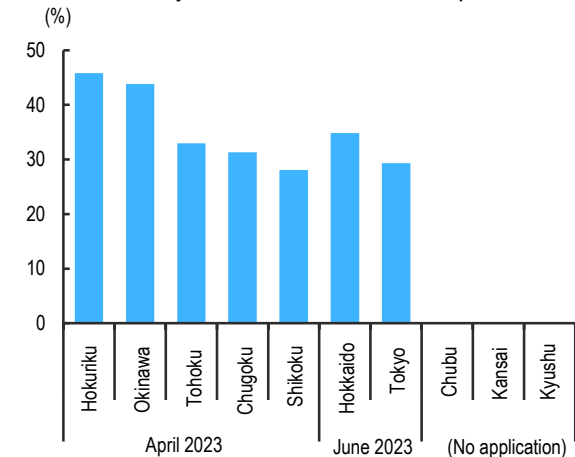


Source: The Japan Research Institute, Ltd. based on data of The Ministry of The Bank of Japan.

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 Status of Applications for Price Increases by 10 Electric Power Companies



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

Note1: Average price increase in the regulated sector. The lower row shows the timing of the price increase.

## Japan economic forecast: FY22: +1.5%, FY23: +1.6%, FY24: +1.3%

(1) Real GDP in October-December 2022 grew 0.6% year on year (YoY) and 0.2% from the previous quarter. Although the increase was small, this marked the first growth in two quarters. Although declines in capital investment and inventory investment put downward pressure on the growth rate, this positive growth indicates a gradual pickup in the economy. Regarding personal consumption, spending on durable goods, such as automobiles, rebounded as supply constraints eased, and services consumption also recovered, helped by the nationwide rollout of the travel discount program. Inbound demand also surged against the backdrop of the relaxation of waterfront measures.

(2) Looking ahead, the economy is expected to recover, especially in the non-manufacturing sector, as economic activity continues to normalize. The decision has been made to downgrade the legal status of COVID-19 to Class 5 on May 8, so various regulations are expected to be reviewed going forward. The recovery in services consumption is expected to continue as the mood of refraining from consumption-related activities fades away. Inbound demand is also expected to continue to increase. Restrictions on

the entry of Chinese tourists have been tightened, but once these are lifted, the pace of recovery in inbound demand will further accelerate.

(3) The manufacturing sector is expected to remain firm. Exports of goods to the U.S. and Europe are expected to weaken as the economic slowdown bites, but goods exports will be supported by the recovery of the Chinese economy following the lifting of its zero-COVID policy. As a result, a bottoming out of capital investment is likely to be avoided.

(4) The growth rate for FY2022 is expected to have been strongly positive at +1.5% as the economy rebounded from the COVID pandemic slump. The growth rate is expected to be +1.6% 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 February 14, 2023 )

		CY2023					CY2024				CY2025	FY2022	FY2023	FY2024
		10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3			
		(Actual)	(Projection)											
Real GDP	0.6	4.2	1.7	1.2	1.1	1.1	1.3	1.4	1.5	1.5	1.5	1.6	1.3	
Private Consumption Expenditure	2.0	2.8	2.4	1.2	0.8	1.0	1.3	1.3	1.4	1.5	2.6	1.8	1.2	
Housing Investment	▲ 0.5	3.0	2.5	0.8	0.2	0.0	▲ 0.1	0.0	▲ 0.1	0.0	▲ 4.3	1.2	0.1	
Business Fixed Investment	▲ 2.1	0.8	1.5	2.8	3.2	3.0	2.8	2.7	2.6	2.6	2.7	1.8	2.8	
Private Inventories (percentage points contribution)	(▲ 1.8)	( 0.7)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.2)	(▲ 0.1)	(▲ 0.0)	
Government Consumption Expenditure	1.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	1.2	0.3	0.0	
Public Investment	▲ 2.1	3.0	1.6	1.6	1.4	1.2	1.2	1.0	0.8	0.8	▲ 3.5	1.8	1.1	
Net Exports (percentage points contribution)	( 0.2)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.0)	( 0.0)	( 0.0)	
Exports of Goods and Services	5.7	2.8	1.1	1.8	2.0	2.0	2.8	3.5	4.0	4.2	5.4	2.8	2.9	
Imports of Goods and Services	▲ 1.6	▲ 3.5	2.0	2.2	2.1	2.3	2.4	2.5	2.8	3.0	7.4	1.7	2.4	

(% changes from the same quarter of the previous year)

(% changes from the previous fiscal year)

Nominal GDP	1.7	4.5	3.5	4.4	3.8	1.9	2.1	2.5	2.1	2.4	2.2	3.4	2.3
GDP deflator	1.1	2.3	2.1	2.5	1.9	0.7	0.9	1.3	0.8	0.9	0.7	1.8	1.0
Consumer Price Index (excluding fresh food)	3.7	3.5	2.6	1.3	1.5	2.1	2.1	2.6	1.5	1.4	3.1	1.9	1.9
Unemployment Rate (%)	3.6	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\$)	139	132	131	129	128	127	125	124	124	123	135	129	124
Import Price of Crude Oil (US\$/barrel)	113	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.