

# Monthly Report of Prospects for Japan's Economy

## May 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 April 2023 issue of the original Japanese version.**

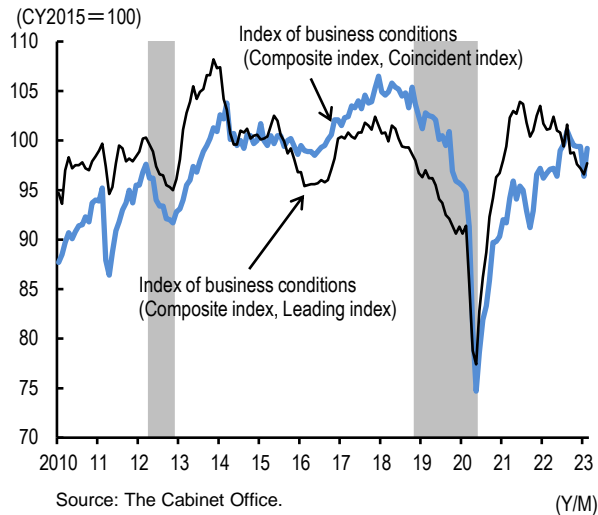
**Disclaimer:**

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 despite weakness in certain areas

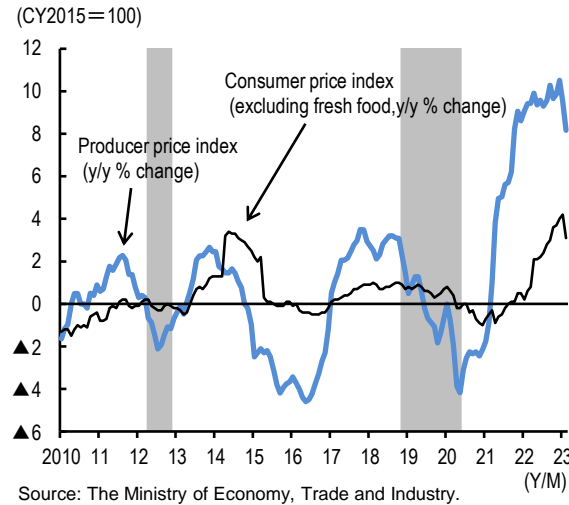
**Figure 1-1 Economic Activity**

Both coincident and leading indices are trending downward, though with some upward/downward fluctuation.



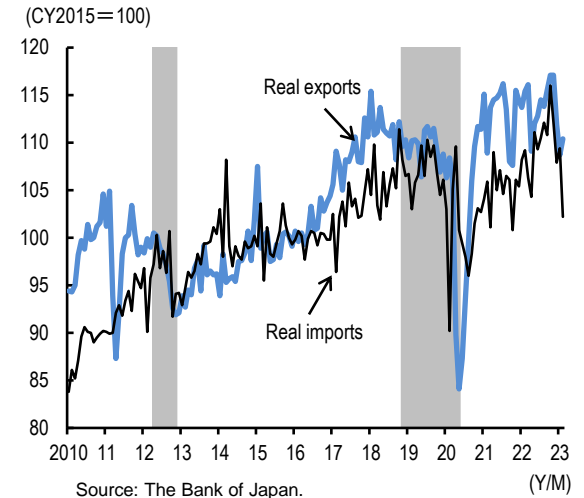
**Figure 1-2 The Corporate Sector**

Industrial production is weakening.  
Tertiary industrial activity is recovering.



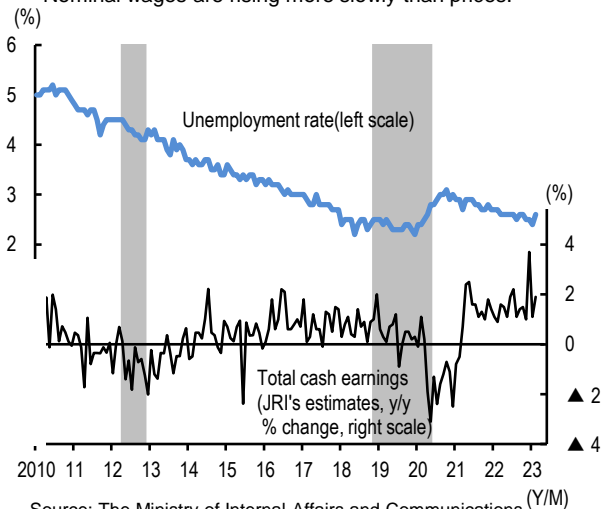
**Figure 1-3 Overseas Demand**

Exports, mainly to the U.S. and Europe, are down.  
Imports, mainly from those from Asia, are falling.



**Figure 1-4 Employment and Income**

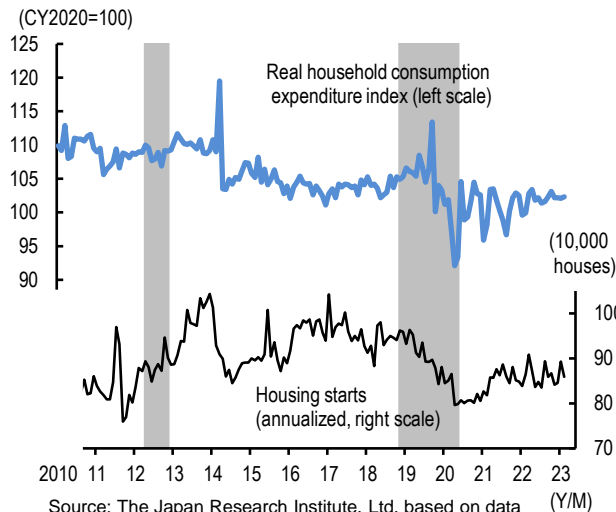
The unemployment rate has risen slightly.  
Nominal wages are rising more slowly than prices.



\* The shaded area indicates the recession phase.

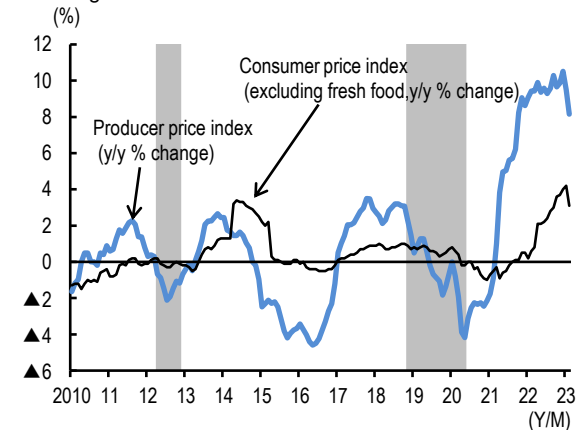
**Figure 1-5 The Household Sector**

Consumption is fluctuating, but gradually rising overall.  
Housing starts are hovering within a narrow range.



**Figure 1-6 Prices**

In response to government measures to reduce the burden of electricity and gas bills, corporate and consumer price growth slowing.



**Monthly Report of Prospects for Japan's Economy May 2023**  
The Japan Research Institute, Limited

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

### ◆ BoJ Tankan shows polarization

In the Bank of Japan's Tankan March survey, the DI for business conditions for large manufacturing enterprises fell by six percentage points, falling for the fifth straight quarter. Business confidence in the materials sector was weak due to high raw materials prices, and there was also deterioration in the electrical machinery sector in the face of a slump in global demand for semiconductors.

Meanwhile, the DI for large non-manufacturing enterprises increased by one percentage point, so it rose, albeit slightly, for the fourth quarter in a row. Business confidence in retail and other consumption-related sectors improved on the back of a rebound in personal consumption and inbound demand.

### ◆ A dip in foreign demand is constraining production activity in the manufacturing sector

The Industrial Production Index moved into positive territory in February, up 4.1%

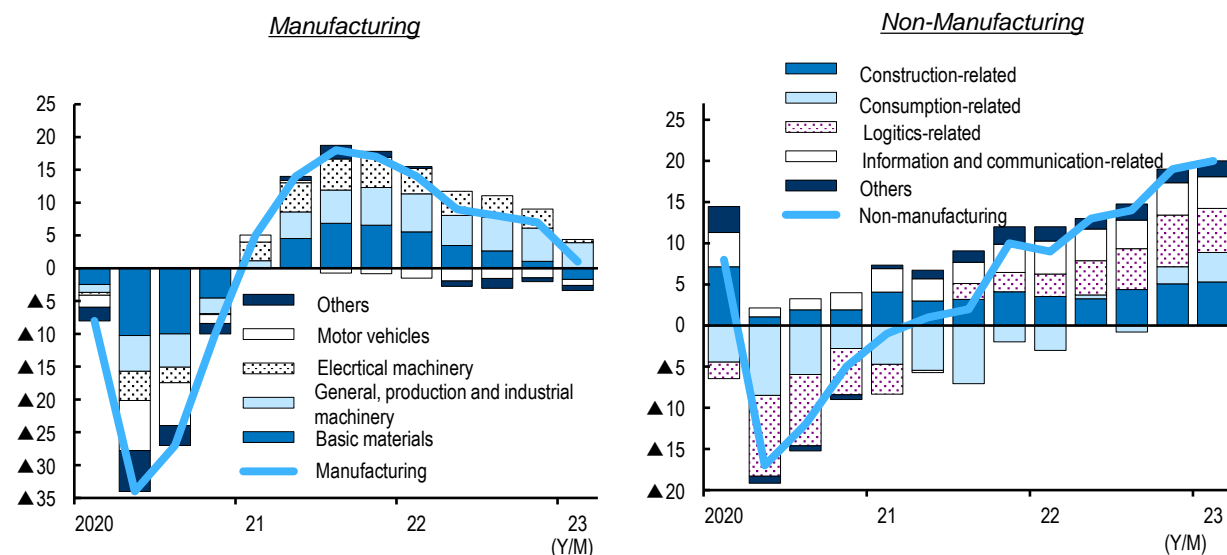
from the previous month. By industry, the automobile sector boosted output as supply constraints eased for automotive semiconductors and other components. The production machinery sector also increased production thanks to a rebound in demand from China, which had declined due to the effect of the Chinese New Year.

Near-future production plans indicate increases in output in March (+2.3% month on month (MoM)) and April (+4.4% MoM). Although automobile production is expected to rise on the back of the easing of supply constraints, the increase is unlikely to be as high as planned because the slowdown in overseas economies will put downward pressure on production in numerous industries.

### ◆ Non-manufacturing economic activity picked up

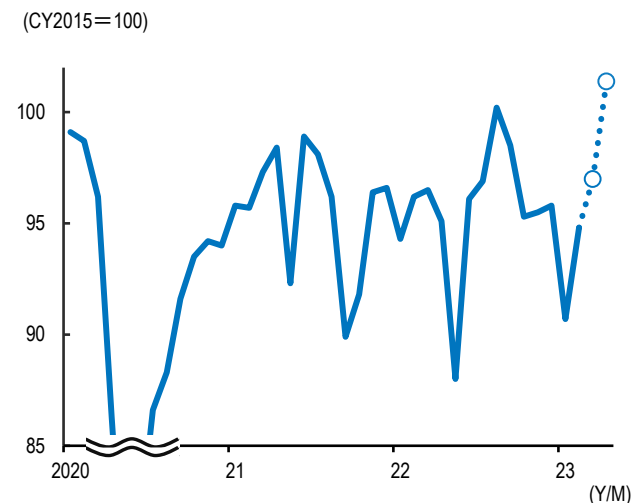
The Tertiary Industry Activity Index for January increased for the first time in two months, up 0.9% from the previous month. The indices for transport and postal activities as well as living and amusement-related services saw rises as COVID infections dropped.

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



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

Figure 2-2 Industrial Production Index  
<seasonally adjusted>



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

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

Monthly Report of Prospects for Japan's Economy May 2023  
The Japan Research Institute, Limited

# Goods exports are lackluster, but inbound demand is continuing to recover

## ◆ Goods exports, mainly to the West, are down

Real exports are showing weakness. While there has been a pickup in exports to China, where production activity has recovered, exports to the U.S. and Europe, where the momentum of goods consumption has slowed, are weak. By item, information-related exports have declined due to the petering out of stay-home-related demand for products such as smartphones and PCs, while the momentum of global capital investment has also weakened, resulting in a decline in capital goods exports.

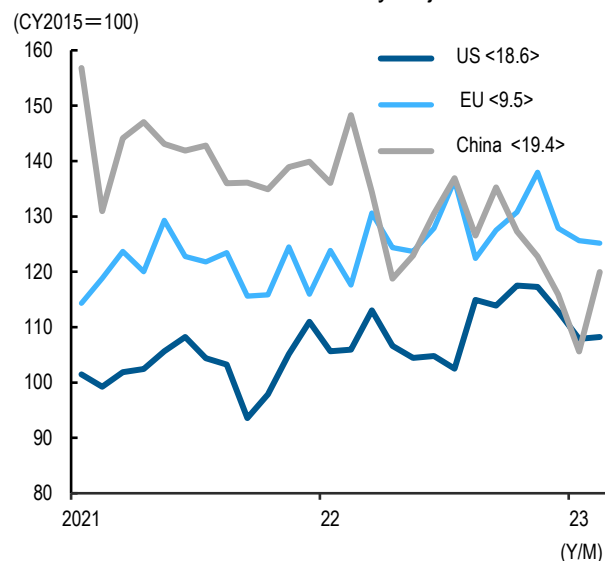
Looking ahead, exports of goods are expected to remain stagnant against a backdrop of weak demand for goods, mainly in West. The new export orders index remained below 50, which is the dividing line between improvement and deterioration. However, a further drop in exports should be avoided, as exports of transportation machinery, production of which is forecast to rise thanks to the easing of supply constraints, will shore up the overall figure.

## ◆ The number of foreign visitors to Japan continues to recover

The number of foreign visitors to Japan in February rebounded to more than 50% of the 2019 level. Although Chinese tourists, who accounted for 30% of all visitors to Japan before COVID, have not yet returned in numbers, there has been a strong recovery, chiefly due to large numbers of travelers coming from East Asian countries other than China.

Inbound demand is expected to continue to recover. The Japanese government has announced that COVID-related border control measures will be lifted on May 8. At present, the Chinese government is restricting group travel to Japan, but once these curbs are relaxed, the number of Chinese tourists should recover. If the Chinese government's restrictions are eased in May, the number of foreign visitors to Japan is expected to rebound to 80% of the pre-COVID level by the end of the year.

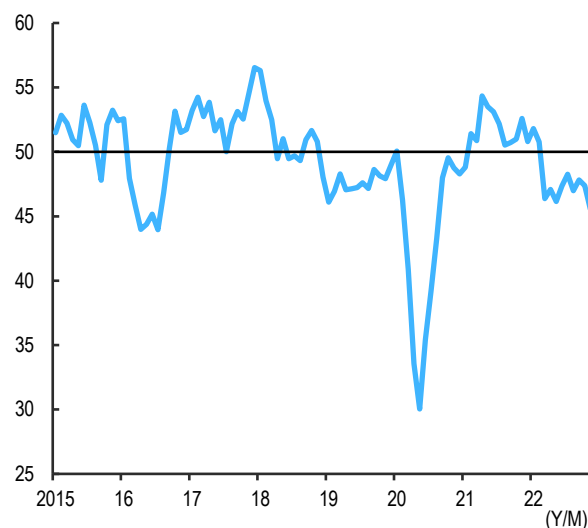
Figure 3-1 Real Export by Area  
<seasonally adjusted>



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

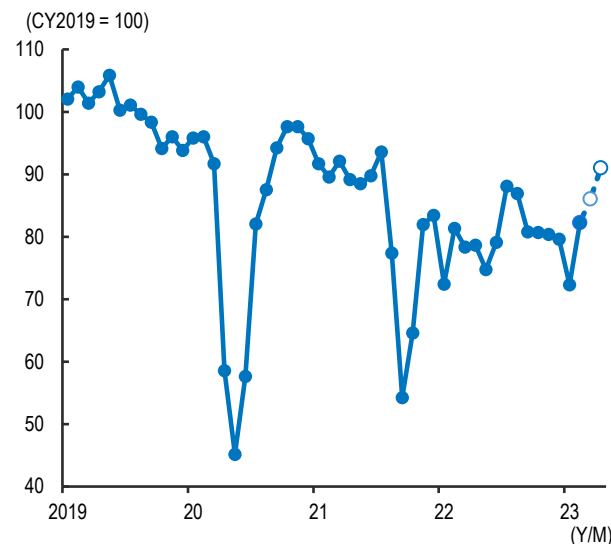
Note: <>Figures in parentheses represent the share of total nominal exports in 2022.

Figure 3-2 New Export Orders Index



Source: The Japan Research Institute, Ltd. based on data of The S&P Global.

Figure 3-3 Industrial Production Index for Transportation Equipment <seasonally adjusted>



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

# Corporate earnings are down, but capital investment is on the rise

## ◆ Corporate earnings vary from industry to industry

According to the Financial Statements Statistics of Corporations, ordinary profit for October-December 2022 declined for the second consecutive quarter, though at 22 trillion yen, it remained at a high level. In the manufacturing sector, rising costs due to ongoing factors such as high resource prices and the weak yen weighed on the industry, resulting in a significant decrease in profits, especially in materials manufacturing. On the other hand, the non-manufacturing sector saw profit growth on the back of the recovery in services consumption and inbound demand.

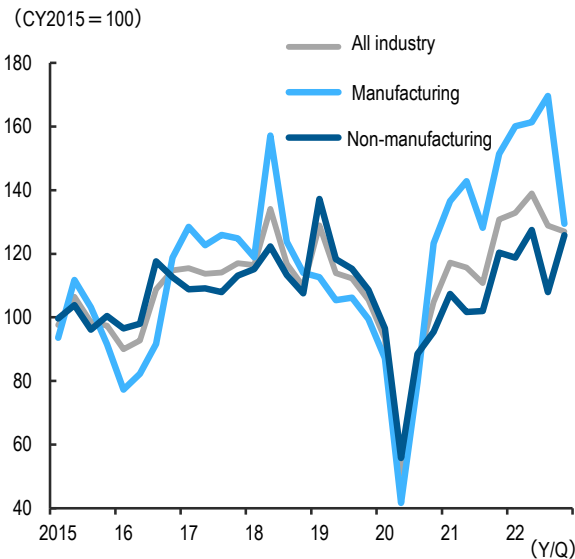
Looking ahead, corporate earnings are expected to remain high overall, but polarization by industry sector will become marked. The non-manufacturing sector's earnings should continue to improve as economic activity normalizes. Manufacturing sector's earnings, meanwhile, are predicted to weaken against a backdrop of sluggish exports, though as the yen stops depreciating and resource prices stop rising, cost pressures are expected to abate.

## ◆ Capital investment appetite remains strong

Capital investment is increasing moderately. Looking at capital investment by type, while machinery investment is weak, software investment remains strong against a backdrop of factors such as progress in digitalization.

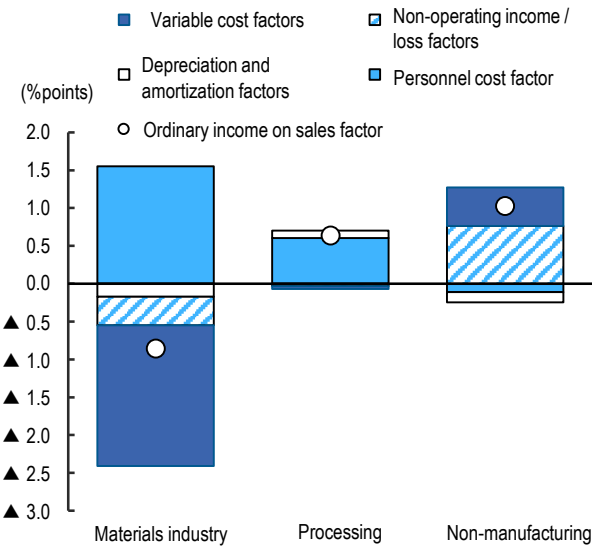
Capital investment is expected to continue rising in the future. According to the Bank of Japan's March Tankan survey, capital investment plans (including software but excluding land) for FY2023 are 5.6% higher than in the previous year. This figure tops the rate of growth seen in typical years. Software investment will continue to drive growth, as the appetite for capital investment in labor-saving and digitalization is strong.

Figure 4-1 Ordinary Income  
<all sizes, seasonally adjusted>



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

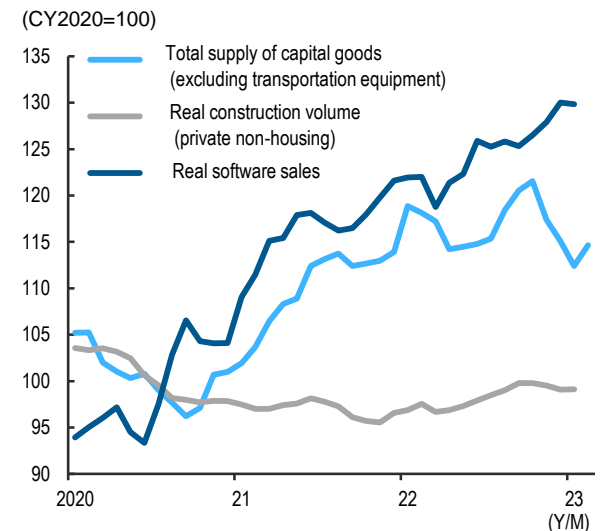
Figure 4-2 Factor Decomposition of Changes in Ratio of Ordinary Income to Net Sales



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

Note: Difference between Oct-Dec 2022 and Oct-Dec 2018.

Figure 4-3 Private-sector Capital Investment by Type



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

Note: Backward 3-month moving average.

Monthly Report of Prospects for Japan's Economy May 2023  
The Japan Research Institute, Limited

# The employment situation is improving and wage hikes are spreading

## ◆ Personnel shortages are becoming more serious

The employment situation is improving. The unemployment rate for February was 2.6%, up from the previous month. The rise was mainly due to increases in the numbers of new job seekers and people quitting their jobs for personal reasons in the wake of the COVID pandemic. The labor market is tight, with the proportion of vacancies filled dropping to 11.8% in February, well below the pre-COVID level. Construction-related and sales workers are in especially short supply.

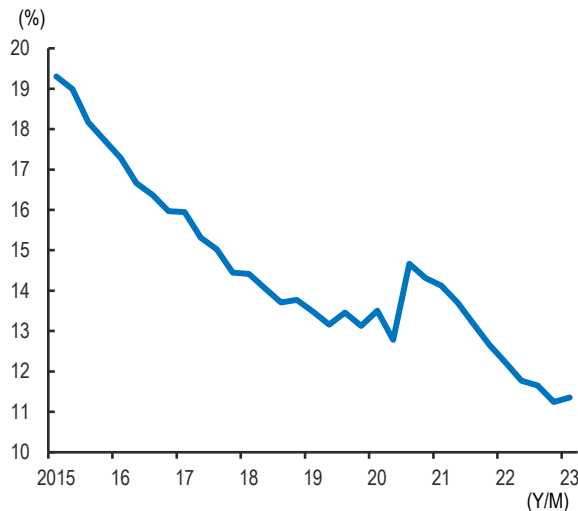
The labor supply-demand crunch is expected to intensify further in the future as economic activity normalizes. The labor participation rate has already risen beyond its pre-COVID level, limiting the scope for fresh supplies of labor from new labor-market participation by women and the elderly.

## ◆ The wage-hike trend is spreading

Total cash payrolls in February increased 1.9% YoY, staying in positive territory. However, they did not keep pace with the rate of price increases, with real wages falling 1.8% for the 11th consecutive month of negative growth.

Looking ahead, real wages are expected to move into positive territory. Basic salary for regular employees looks set to increase as base pay hikes become more widespread amid labor shortages and rising prices. The average rate of wage increase following this year's shunto spring wage offensive was 3.70% (based on the third tally from RENGO (Japanese Trade Union Confederation)), the highest rise in 29 years. In many cases, unions were able to win wage hikes at levels close to their demands. The pay rises were not limited to large corporations, as even wage hikes by small and medium-sized enterprises (SMEs) topped 3%. SMEs are experiencing more severe labor shortages than large corporations, and this indicates that pressure to raise wages to secure personnel may have spread to them.

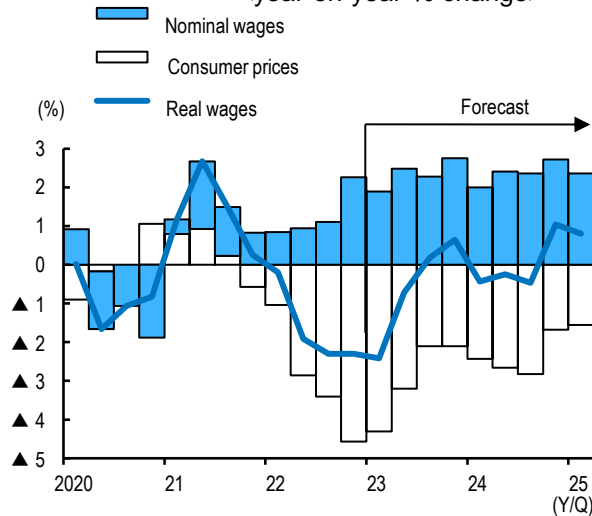
Figure 5-1 New Job Fill Rate<seasonally adjusted>



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

Note: Fill rate = number of jobs filled / number of new jobs created.  
Figures for January-February 2023 are for the period from January to March 2023.

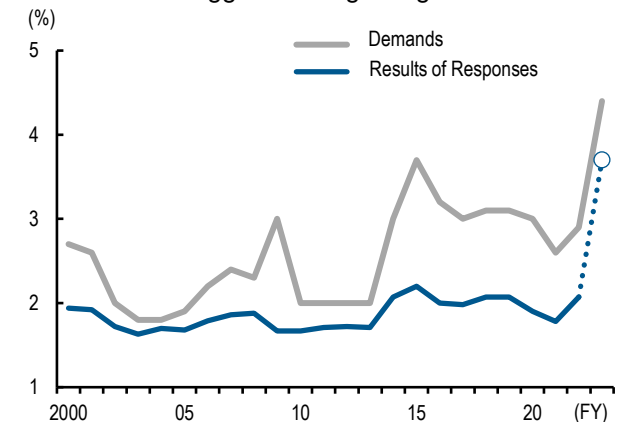
Figure 5-2 Forecast for Real Wages <year-on-year % change>



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

Note: Adjusted for fault due to data replacement. Consumer prices exclude imputed rent of owner-occupied houses.

Figure 5-3 Rate of Wage Increase in the Spring Struggle <average wage method>



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

Note: Figures for 1998 and earlier are as of the time of the final response tabulation (June); figures for 1999 and later are as of the end of February. The white markers in the results at the time of the response tally are the figures from the third Coalition tally (3.70%).

**Monthly Report of Prospects for Japan's Economy May 2023**  
The Japan Research Institute, Limited

## With consumption bouncing back from the COVID pandemic, personal consumption is on the road to recovery

### ◆ Personal consumption is on the recovery track

Personal consumption is gradually recovering. Services consumption, including dining out and travel, is driving the rebound. Events of various types are being revived after a three-year absence, so more people are getting out and about. And as the COVID caseload drops, services consumption by the elderly, which had been low and pushing down consumption overall, is also picking up. Goods consumption also remains firm. With supply constraints easing, a recovery in passenger car sales is boosting overall consumption.

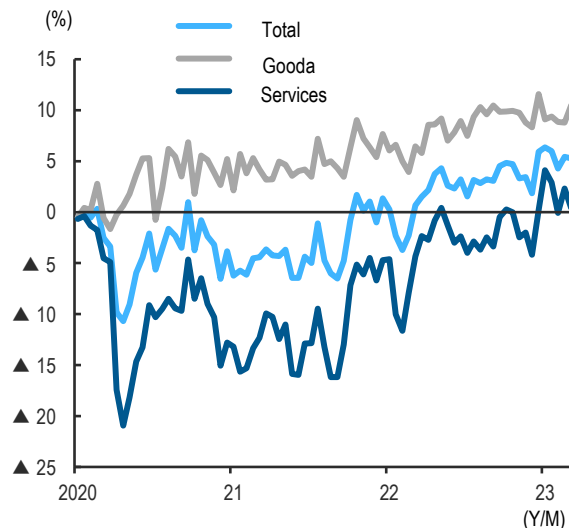
### ◆ Consumption continues to bounce back from the COVID pandemic

Personal consumption is expected to continue to recover going forward. Households' average propensity to consume remains below the pre-COVID level, so there is still room for an expansion in consumption. As with-COVID lifestyles take root, the tendency to hold back on consumption of face-to-face services is

expected to diminish. The Consumer Confidence Index, which had deteriorated due to rising prices, is picking up in expectation of wage hikes.

On March 28, the government released a total of 2.2 trillion yen to fund measures to combat inflation. LP gas subsidies and limitation of the margin of increase in the price of wheat sold by the government are expected to mitigate the downward pressure on consumption caused by high prices. In addition, the government will provide cash handouts worth a total of 655 billion yen, consisting of 30,000 yen to each household exempt from residential tax plus 50,000 yen per child to low-income households. Low-income households have a high propensity to consume, but even if the entire amount were to be consumed, it would only account for 0.3% of domestic household consumption, so the potential of the handouts to boost personal consumption at the macro level is limited.

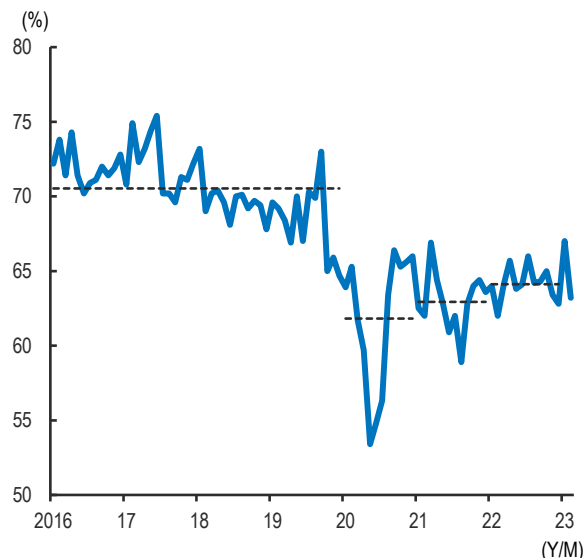
Figure 6-1 Domestic Household Consumption



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

Note1: Compared to 2016-2018 average. Consumption statistics based on credit card spending

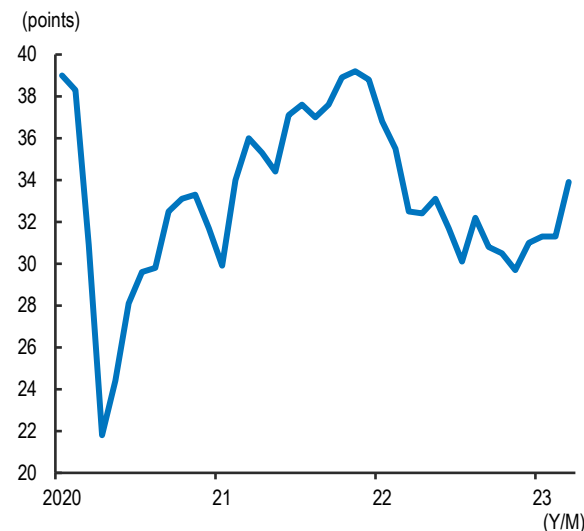
Figure 6-2 Consumption Propensity of Working Households



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

Note: Households with two or more persons. Dotted lines are simple averages for each period.

Figure 6-3 Consumer Attitude Index



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



## Topic: Wages beginning to rise overall in Japan

### ◆ Rents have stopped falling in Japan

Rents in Japan have generally stopped dropping. The rent CPI, which had been slowly declining, has been unchanged since the COVID pandemic. In light of the three points below, rents will likely trend upward more strongly going forward.

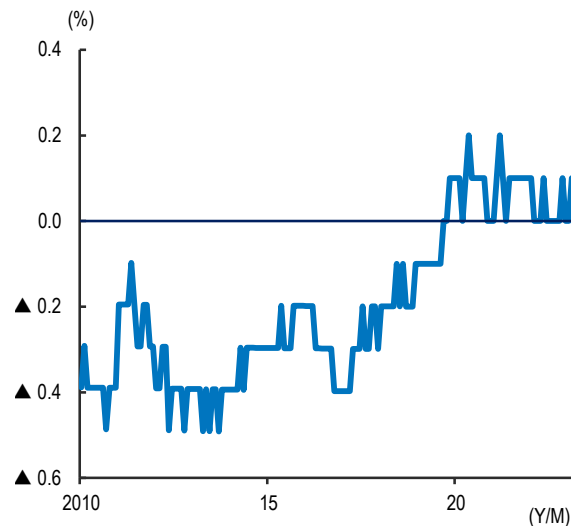
### ◆ The upward trend for rents may intensify

First, rents no longer seem excessively high. While housing prices fell sharply after the bursting of the bubble in the early 1990s, rents, which are extremely rigid in the downward direction, remained high. As a result, rents became relatively expensive through the late 2000s. However, at the beginning of the 2010s, housing prices began to rise and rents became less expensive in relative terms, and are now at a neutral level from a long-term perspective. In the future, housing price increases are expected to be more quickly reflected in rents.

Second, the capacity of renters to accept rent hikes has increased. Since the late 1990s, sluggish wage growth has kept a lid on rents in Japan, and rent and wage trends have tended to follow each other. Recently, the momentum for rent hikes has been growing against the backdrop of dearer goods and services and shortages of labor, and renters should become more accepting of rent hikes.

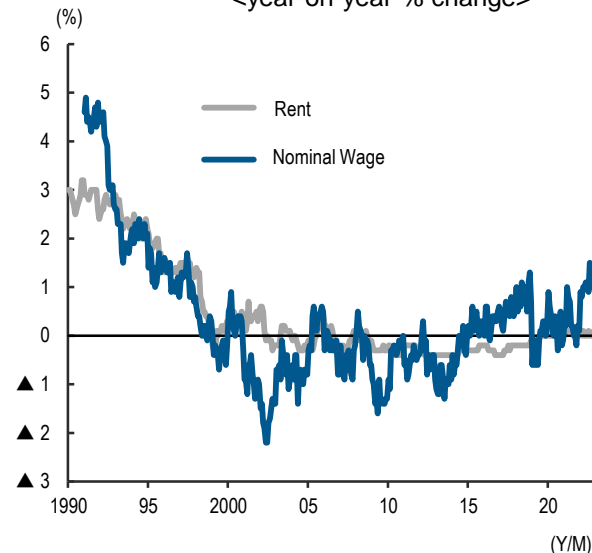
Third, residential property repair costs are skyrocketing. The cost of repairing and maintaining fixtures has risen in the face of soaring materials prices. If materials prices continue to climb, rents, especially for used properties, are expected to be pushed higher.

Figure 7-1 CPI Rent <year-on-year % change>



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

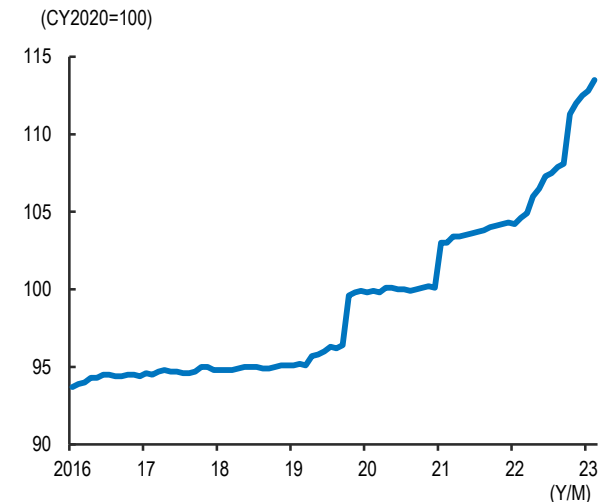
Figure 7-2 Rents and Nominal Wages <year-on-year % change>



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

Note1: Nominal wages are per capita fixed salaries. Business establishment size: 5 or more employees.

Figure 7-3 Consumer Prices for Equipment Repair and Maintenance



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

Monthly Report of Prospects for Japan's Economy May 2023  
The Japan Research Institute, Limited

## Japan economic forecast: FY22: +1.4%, FY23: +1.5%, FY24: +1.3%

### ◆ The normalization of economic activity will boost the economy

Looking ahead, the economy is expected to recover. The normalization of economic activity is expected to accelerate with the downgrade of COVID to Class 5 from May 8. Inbound demand should also continue to increase as a result of the scrapping of border control measures. Furthermore, personal consumption looks set to rebound as people become less inclined to refrain from consumption-related activities. Although the current rise in consumer prices puts downward pressure on household purchasing power, real wage growth is expected to turn positive sooner or later as nominal wages rise, boosting personal consumption.

However, a slowdown in overseas economies, particularly those of Western countries, is predicted to weigh on the Japanese economy. Goods export lack strength, and capital investment in the manufacturing sector is projected to be restrained.

### ◆ The growth rate for FY2023 will be +1.6%

Growth was +1.4% in FY2022, and is expected to be +1.6% in FY2023 and +1.3% in FY2024, above the potential growth rate, which is in the mid-0% range.

### ◆ Government measures have slowed core inflation

Core CPI growth slowed to 3.1% year on year in February. Government measures to reduce the burden of rising electricity and gas bills kept energy prices down. Meanwhile, the Bank of Japan's version of the core CPI, which excludes fresh food and energy, rose faster at 3.5%. Prices rose across a wide range of goods and services. The trend of passing on higher purchase prices to selling prices is ongoing.

In the second half of 2023, inflationary pressure from higher wages will gradually mount, though price increases stemming from higher resource prices are expected to subside.

Figure 8 Projections for GDP Growth and Main Indicators of Japan ( as of April 10, 2023 )

( %, changes from the previous fiscal year )

		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)									(Projection)		
Real GDP		0.1	0.1	3.9	1.8	1.2	1.1	1.3	1.3	1.5	1.6	1.4	1.5	1.3
Private Consumption Expenditure		1.3	1.3	2.8	2.4	1.2	1.0	1.2	1.5	1.6	1.6	2.5	1.7	1.4
Housing Investment		▲ 0.0	▲ 0.0	3.0	2.5	0.8	0.2	0.0	▲ 0.1	0.0	▲ 0.1	▲ 4.3	1.3	0.1
Business Fixed Investment		▲ 2.0	▲ 2.0	0.8	1.5	2.8	3.2	3.0	2.8	2.7	2.6	2.8	1.8	2.8
Private Inventories (percentage points contribution)		(▲ 2.1)	(▲ 2.1)	( 0.7)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.1)	(▲ 0.1)	(▲ 0.0)
Government Consumption Expenditure		1.0	1.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	1.1	0.2	0.0
Public Investment		▲ 1.2	▲ 1.2	3.0	3.0	1.6	1.4	1.2	1.2	1.0	0.8	▲ 3.4	1.9	1.1
Net Exports (percentage points contribution)		( 1.4)	( 1.4)	( 1.3)	(▲ 0.1)	(▲ 0.2)	(▲ 0.1)	(▲ 0.0)	(▲ 0.2)	( 0.1)	( 0.1)	(▲ 0.5)	( 0.1)	(▲ 0.0)
Exports of Goods and Services		6.0	1.3	1.6	1.5	1.8	2.3	2.0	3.3	3.5	4.0	5.3	2.6	2.6
Imports of Goods and Services		▲ 1.6	▲ 3.8	2.0	2.2	2.1	2.3	2.4	2.5	2.5	2.6	7.4	1.7	2.4

(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	1.6	4.0	3.1	4.3	3.9	2.6	2.6	3.0	2.5	2.8	2.1	3.5	2.7
GDP deflator	1.2	2.0	1.8	2.6	2.0	1.2	1.4	1.7	1.1	1.2	0.6	1.9	1.4
Consumer Price Index (excluding fresh food)	3.8	3.6	2.6	1.6	1.6	2.1	2.3	2.5	1.5	1.4	3.1	2.0	1.9
Unemployment Rate (%)	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.5	2.3	2.2
Exchange Rates (JY/US\$)	141	133	133	131	129	128	126	124	122	122	136	130	124
Import Price of Crude Oil (US\$/barrel)	99	86	88	90	90	92	92	91	90	89	102	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.