

Monthly Report of Prospects for Japan's Economy

June 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 May 2023 issue of the original Japanese version.

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The General Situation – The economy is slowly picking up despite weakness in certain areas

Figure 1-1 Economic Activity
Business sentiment indices are up slightly, but the underlying trend is flat.

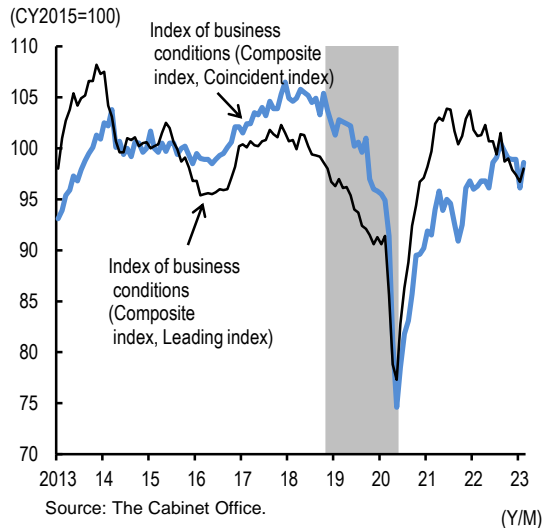
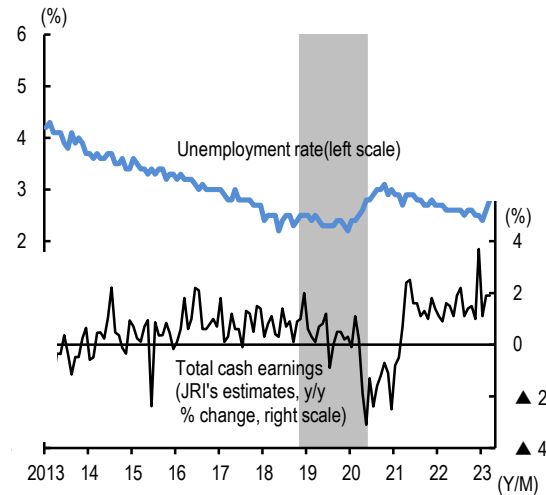


Figure 1-4 Employment and Income
The unemployment rate is edging up.



* The shaded area indicates the recession phase.

Figure 1-2 The Corporate Sector
Industrial production is increasing moderately.
Tertiary industrial activity is recovering.

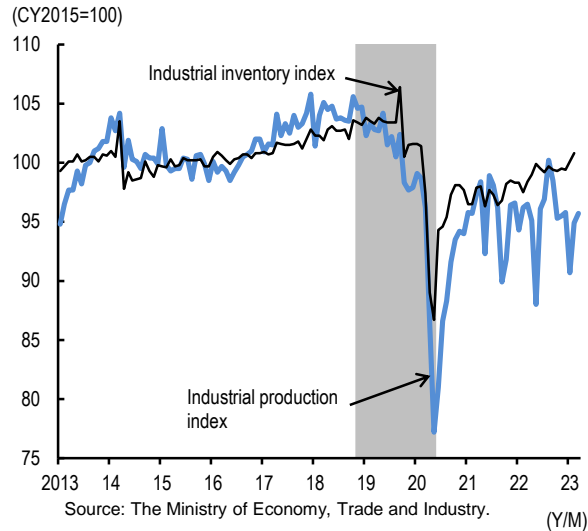


Figure 1-5 The Household Sector

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

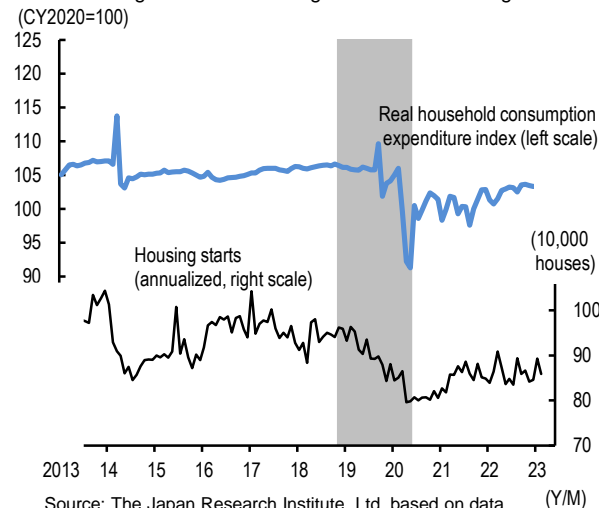


Figure 1-3 Overseas Demand
Exports are trending lower due to the slowdown in overseas economies.

Imports, mainly from those from Europe, are trending lower.
(CY2020=100)

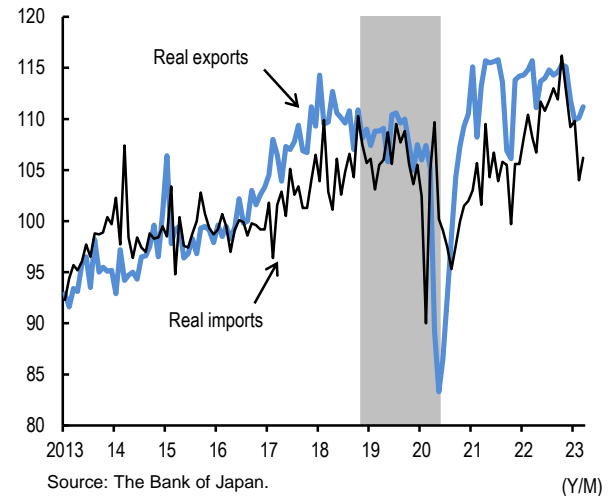
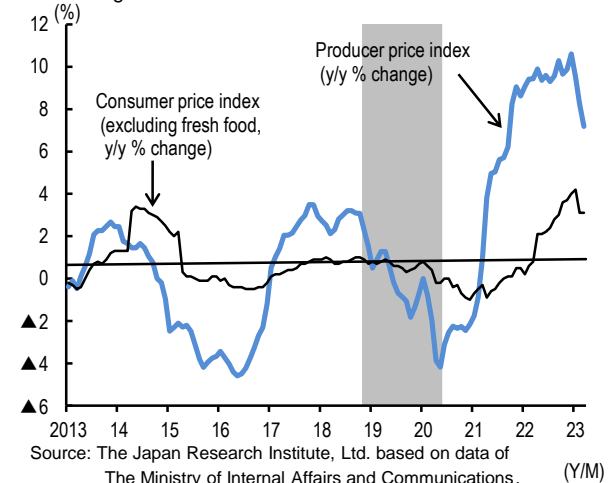


Figure 1-6 Prices

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



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Business confidence is improving, and manufacturing and non-manufacturing activity is picking up

◆ Business confidence has improving across the board

The DI for current conditions in the Economy Watchers Survey for March climbed to 53.3, rising for the second straight month. The breakdown shows that household, corporate, and employment DIs all increased. Regarding households, the ending of activity restrictions and revision of rules for wearing masks led to substantial rises in dining out and use of services..

◆ Industrial production has picked up as supply constraints have eased

The Industrial Production Index rose in March, up 0.8%% from the previous month, climbing for the second consecutive month. By industry, the automobile sector boosted output thanks to the easing of automotive-semiconductor supply shortages, while the production machinery sector, which includes semiconductor and display manufacturing equipment, also increased production.

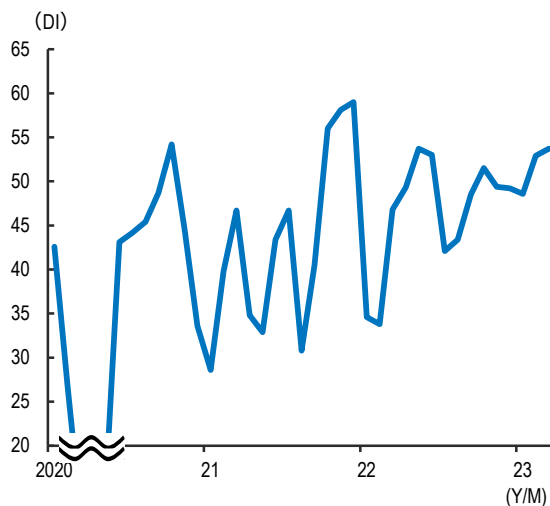
Near-future production plans indicate an increase in output in April (+4.1% month-

on-month (MoM)) and a decrease in May (-2.0% MoM). Although the slowdown in overseas economies will weigh heavily on a wide range of industries, production is expected to continue to rise in the automobile sector and other sectors where supply constraints are easing.

◆ Non-manufacturing activity has also gained momentum

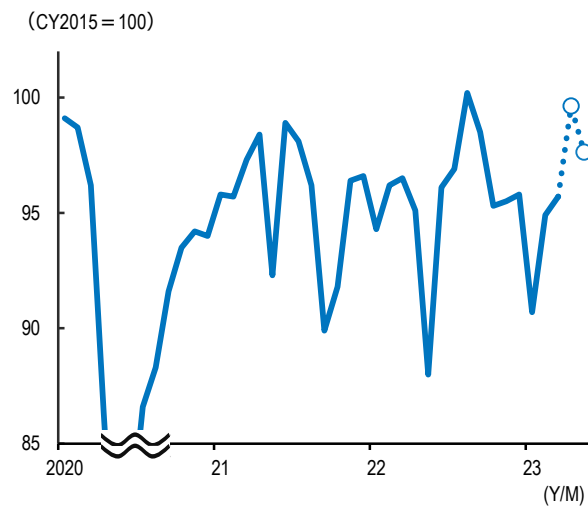
The Tertiary Industry Activity Index for February was up 0.7% MoM, increasing for the second month in a row. By industry, transport and postal activities picked up thanks to an increase in shipments from the manufacturing sector, and the DI for living and amusement-related services rose sharply on the back of an increase in the number of workers as COVID infections subsided.

Figure 2-1 Economy Watchers Survey
<DI for the current situation,
seasonally adjusted>



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

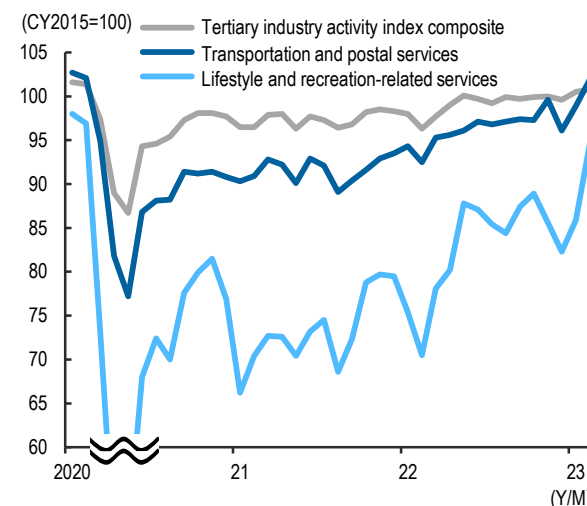
Figure 2-2 Industrial Production Index
<seasonally adjusted>



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 (April and May).

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



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

Goods export are lackluster, but inbound demand is continuing to recover

◆ Goods exports are weaker due to tepid overseas demand

Real exports are showing weakness. Exports of electronic components/devices have declined due to a cyclical drop in demand for semiconductors, and capital goods exports are also fragile due to weakening momentum in capital investment associated with the overseas economic slowdown.

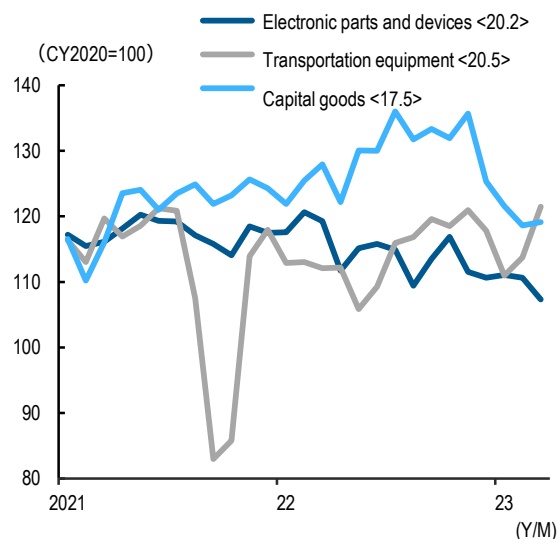
Looking ahead, goods exports are expected to remain weak against a backdrop of tepid global demand for goods. Among them, exports of electrical machinery, including semiconductor-related machinery, are looking especially precarious. According to the BOJ's Tankan survey, the DI for the overseas supply-demand balance for electrical machinery has turned negative (indicating excess supply). However, a further drop in exports looks set to 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 March rebounded to more than 60% of the 2019 level. While Chinese visitors to Japan remain fewer than before the COVID pandemic, travelers from places such as the U.S. and other East Asian countries are arriving in larger numbers. Travel spending per capita in the January-March quarter increased to 1.3 times that of 2019. The main reasons were rising prices and a jump in spending on accommodation as tourists opted for longer stays.

Inbound demand is expected to continue its recovery in the near term. The Japanese government ditched COVID-related border control measures in April. At present, the Chinese government is restricting group travel to Japan, but once the Chinese side relaxes these curbs, the rebound in the number of Chinese tourists is expected to accelerate.

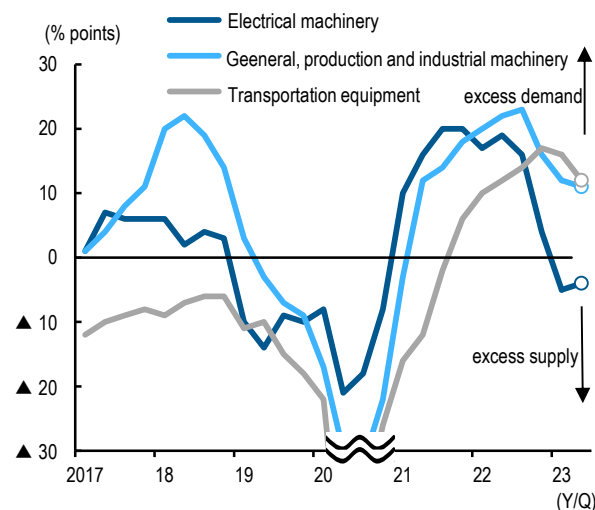
Figure 3-1 Real Exported by Item
<seasonally adjusted>



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

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

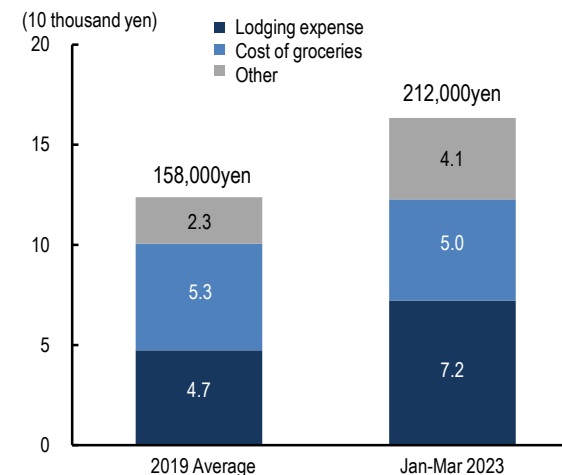
Figure 3-2 DI of Supply-Demand for Products Manufactured Overseas
<large company>



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

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

Figure 3-3 Per Capita Travel Expenditures by Foreigners Visiting Japan



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Land, Infrastructure, Transport and Tourism.

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

◆ The non-manufacturing sector is driving corporate earnings higher

According to the Financial Statements Statistics of Corporations, ordinary profit for October-December 2022 declined for the second consecutive quarter. Rising costs due to ongoing factors such as high resource prices and the weak yen weighed on the manufacturing sector, resulting in a significant decrease in profits.

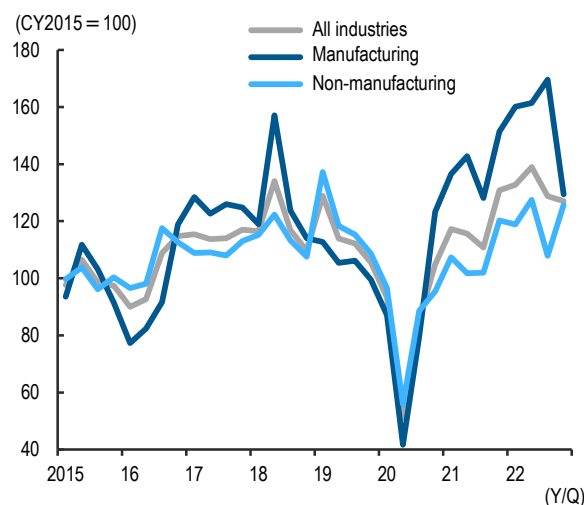
Corporate earnings for the January-March 2023 quarter and beyond are expected to remain at high levels overall. While the slowdown in overseas economies will put downward pressure on profits in the manufacturing sector, the non-manufacturing sector should continue to drive overall earnings as consumer spending and inbound demand recover. More and more companies are passing on higher costs, and this will also work to boost earnings.

◆ Capital investment appetite remains strong

Capital investment is showing weakness in some areas. Looking at capital investment by type, while software investment remained strong against a backdrop of progress with digitalization, machinery investment in the manufacturing sector has been on a downward trend since last fall due to sluggish foreign demand.

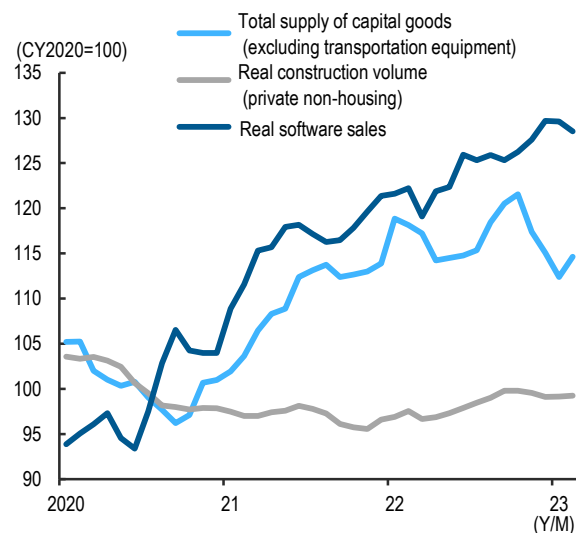
Capital investment is expected to increase steadily going forward. According to the Bank of Japan's March Tankan survey, capital investment plans (including software but excluding land) for FY2023 are 5.6% higher than in the previous year. This figure tops the rate of growth seen in typical years. Software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

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



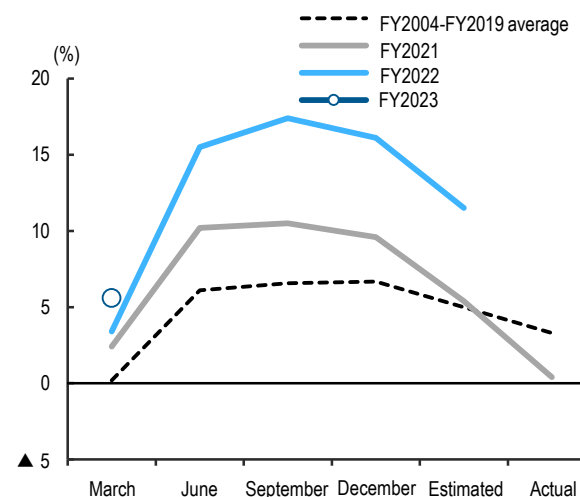
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance.

Figure 4-2 Private Capital Investment by Form
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Economy, Trade and Industry.
Note: Backward 3-month moving average.

Figure 4-3 Capital Investment Plan
<all sizes, all industries, year-on-year>



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

Note: Including software investment, excluding land investment. 2004-19 average excludes 2009.

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The employment situation is improving on the whole

◆ The pace of improvement in employment is waning

The employment situation is slowly improving. The number of workers in March increased by 170,000 MoM. Lodging and food/beverage services and information and communications were the drivers. However, the unemployment rate rose for the second consecutive month to 2.8%. Looking at the number of unemployed persons by reason for seeking employment, there was an increase in people quitting their jobs for personal reasons as COVID infections abated, though recently the number of people who were laid off from their previous jobs has also been on the rise. As such, there is weakness in some areas. The job offers-to-seekers ratio also declined for the third consecutive month. The slowdown in overseas economies has caused employers in manufacturing and other sectors to pause recruitment.

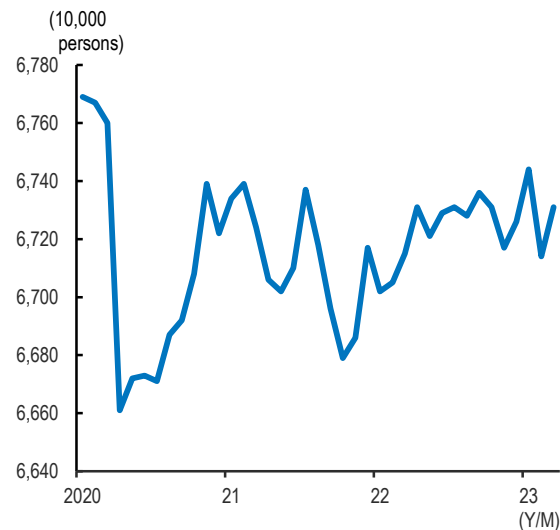
The labor supply-demand crunch is expected to intensify in the future as economic activity normalizes. The labor participation rate has already risen beyond its pre-COVID level, limiting the scope for additional supplies of labor from the ranks of women and the elderly.

◆ The wage-hike trend is spreading

Total cash payrolls in March increased 1.9% YoY, staying in positive territory. However, they did not keep pace with the rate of consumer price increases, with real wages falling 2.9% for the 12th consecutive month of negative growth.

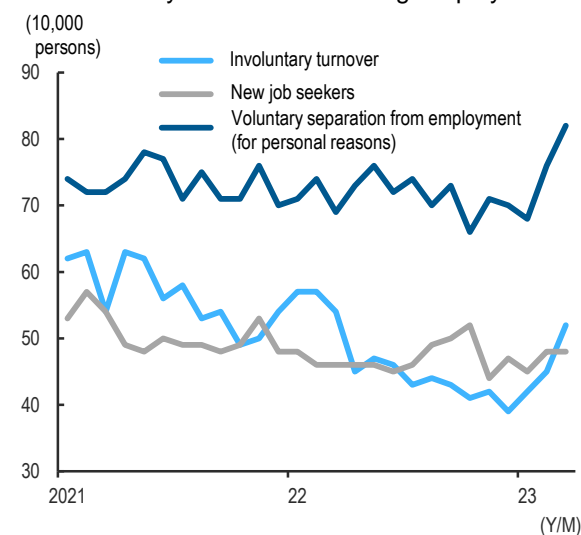
Looking ahead, the negative figure for YoY wage growth is expected to shrink before turning positive during 2024. Basic salaries for regular employees look set to increase as base pay hikes become more widespread, and wages for non-regular employees are also expected to see higher growth amid intensifying labor shortages and rises in minimum wages.

Figure 5-1 Number of Persons Employed
<seasonally adjusted>



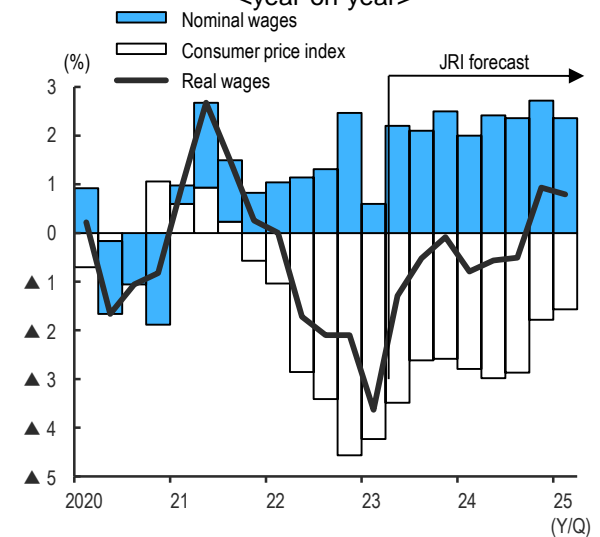
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 5-2 Number of Unemployed Persons
by Reason for Seeking Employment



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

Figure 5-3 Real Wage Outlook
<year-on-year>



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

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Personal consumption is on the recovery track

◆ Personal consumption is gradually recovering

Personal consumption remains on the recovery track. Services consumption, including dining out and travel, is driving the rebound. With activity restrictions removed, events of various types are being revived after a three-year absence, so the number of people getting out and about is rebounding. Goods consumption is also holding firm. Passenger car sales are recovering as supply constraints ease, and department-store sales to domestic customers in department stores are also strong.

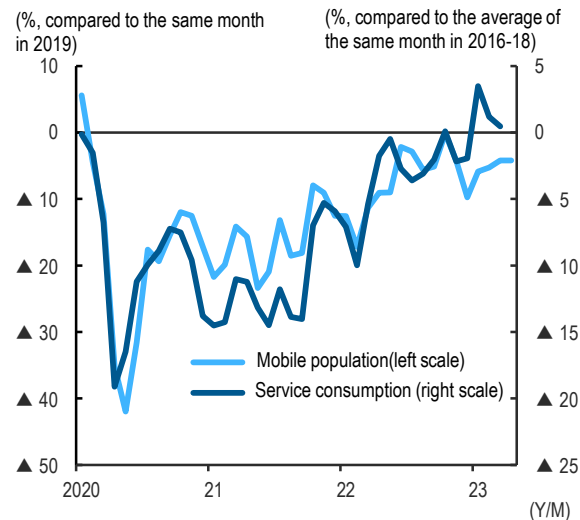
◆ Consumption continues to bounce back from the COVID pandemic

Personal consumption is expected to maintain its gradual recovery 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.

In the face of rising prices, consumer-perceived inflation has reached 10% for the first time since 2008, though compared to then, the proportion of consumers saying that they are going to reduce their consumption is limited. Consumer sentiment is exhibiting resilience, and some of the reasons for this are that consumers have not yet exhausted the excess savings they accumulated during the COVID pandemic, and that moves to raise wages have become more widespread. The recovery trend in personal consumption is expected to stay on track even as high prices put downward pressure on household purchasing power.

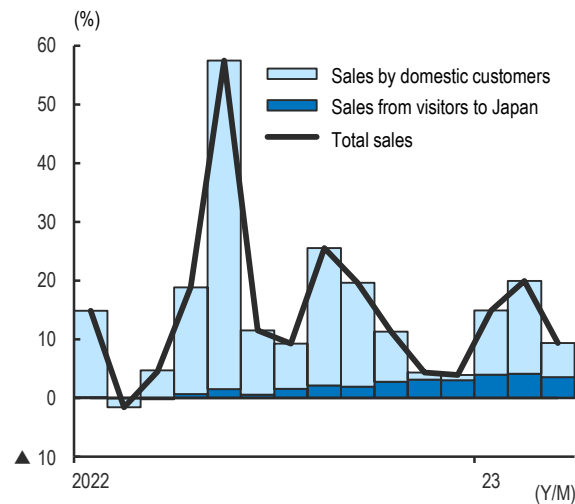
Figure 6-1 Mobile Population and Service Consumption



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

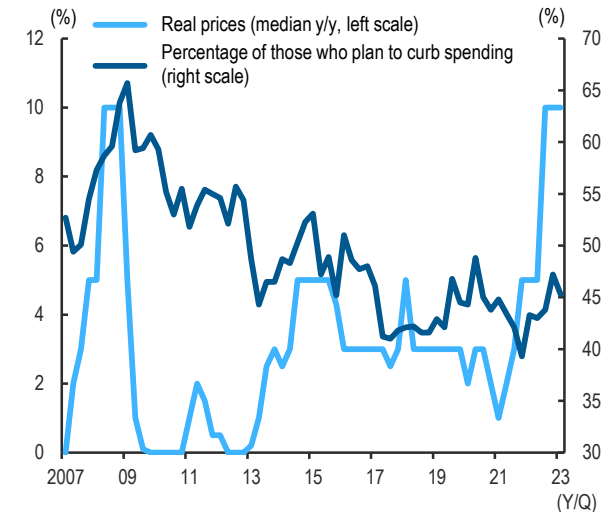
Note1: Mobile population is the population that is present in the municipality at the time of designation and whose estimated place of residence is in another municipality.

Figure 6-2 Department Store Sales <year-on-year>



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

Figure 6-3 Real Prices and Consumer Confidence



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

Topic : Rates of wage increases have hit a 30-year high, and this will expedite the consumption recovery

◆ The wage-hike trend is spreading to small and medium-sized enterprises (SMEs)

Wages are climbing against a backdrop of high prices and labor shortages. According to the latest tally from RENGO (Japanese Trade Union Federation) tally, the average rate of wage increase (including regular salary increases) agreed at this year's shunto spring wage negotiations was 3.69%, the highest rise in 30 years, or since 1993. Management's attitude toward raising wages tended to be positive. In many cases, unions were able to win wage hikes at levels close to what they asked for, and one company after another actually gave the nod to the full amount of the wage increase demanded.

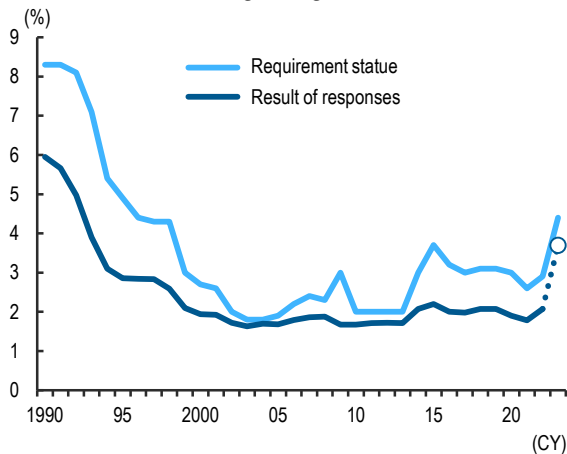
The wage-hike trend is also spreading beyond large corporations to SMEs. Rates of wage increases at SMEs have already reached the mid-3% range, on a par with large companies. The reason that SMEs are now boosting pay by large margins despite weaker earnings performance than big corporations is that they are grappling

with severe personnel shortages. In the travel and hotel sectors, which are feeling the pinch the most, rates of wage increases at SMEs far exceed those at large corporations. Since more than 50% of general workers are employed by SMEs, it is estimated that if the shunto effects ripple into enterprises with non-unionized workforces, the fixed wages (i.e., not including overtime) of general workers as a whole will increase by about 2% YoY.

◆ GDP will be given a 0.6% boost

The spread of wage increases is expected to support a recovery in personal consumption. Unlike bonuses and other perks, a rise in fixed wages leads to a permanent increase in income, and thus gives a substantial lift to consumer spending. Estimates indicate that a 1% increase in fixed wages boosts nominal personal consumption by 0.7%. It is estimated that a 2% increase in the fixed wages of all general workers would boost nominal GDP by 0.6%.

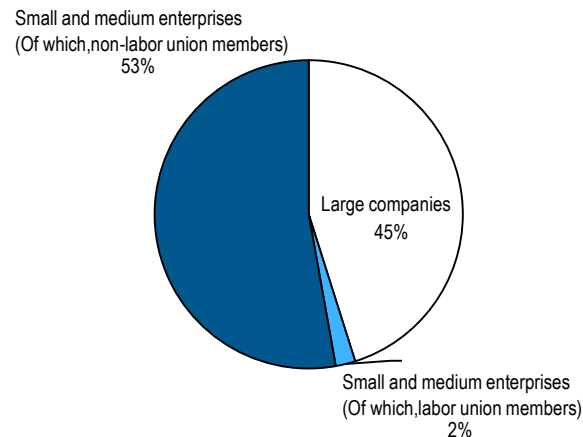
Figure 7-1 Percentage of Wage Increase in The Shunto
<average wage method>



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

Note: White markers in the response totals are values for the fourth round of 2023.

Figure 7-2 Number of Regular Staff and Employees by Company Size

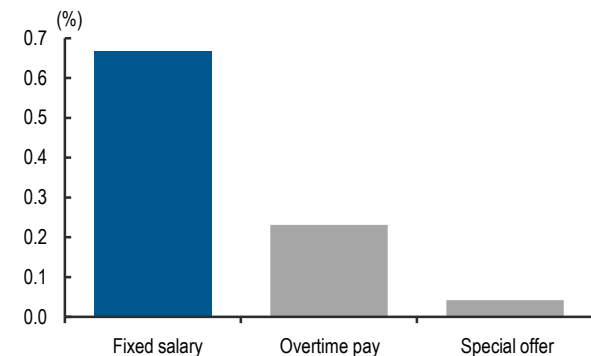


Source: The Japan Research Institute, Ltd. based on data of The Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications.

Note: Value in 2022.

SMEs are companies with less than 300 employees. For the category of 100-499 employees in the Labor Force Survey, the results of the Basic Survey on Employment Structure (2017) were used to prorate between less than 300 employees and the rest.

Figure 7-3 Impact of a 1% Salary Increase on Consumer Spending



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

Note: Coefficients for regression of nominal household final consumption expenditure on constant terms, within-position salaries, outside-position salaries, special salaries, and the number of permanent workers. Salaries are estimated assuming the part-time ratio is constant as an average during the period. The estimation period is from January-March 1994 to October-December 2022.

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

◆ The normalization of economic activity is giving the economy a boost

In the January-March quarter, it looks as though the Japanese economy grew for the second consecutive quarter. Although exports of goods and capital investment in the manufacturing sector declined due to the slowdown in overseas economies, growth was supported by an increase in personal consumption and a sharp recovery in inbound demand on the back of the normalization of economic activity.

The economy is expected to continue recovering in the April-June quarter and beyond, driven by rebounding demand in the services sector. The normalization of economic activity has been accelerating since the legal status of COVID was downgraded to Class 5 on May 8. Inbound demand is also expected to 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.

Even after rebound demand runs its course, the economy should continue to recover, with domestic demand the driver. Personal consumption is expected to continue to bounce back, supported by rising wages resulting from labor shortages and other factors. Capital investment is also projected to increase. Companies are eager to invest in labor-saving, digitalization, etc.

◆ The growth rate for FY2023 will be +1.4%

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

◆ The price-hike trend is spreading

The core CPI in March was up 3.1% YoY, with the rate of increase unchanged from the previous month. Although the pace of energy price drops quickened, prices across a broad array of other goods and services climbed as resource prices stayed high and the yen remained weak.

Core inflation is expected to slow in the near term. The inflation-reducing contribution of energy prices should increase due to lower electricity prices resulting from the reduction of the renewable energy levy and measures to reduce the burden of propane gas charges. However, BoJ Core CPI growth, which excludes energy and fresh food, is expected to speed up through the first half of this year. Many food product manufacturers are planning to continue raising prices after May, citing high prices of ingredients.

In the second half of the year, price hikes stemming from higher ingredient prices are expected to subside, though rising wages look set to exert inflationary pressure, leading to prices of services being increased by even larger margins.

Figure 10 Projections for GDP Growth and Main Indicators of Japan (as of May 9, 2023)

(seasonally adjusted, annualized % changes from the previous quarter)											(% 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)											
Real GDP	0.1	1.7	2.5	1.7	1.4	1.4	1.2	1.4	1.3	1.4	1.3	1.4	1.3
Private Consumption Expenditure	1.3	1.8	2.4	2.2	1.5	1.4	1.3	1.3	1.2	1.2	2.4	1.8	1.4
Housing Investment	▲ 0.0	0.6	1.5	0.8	0.2	0.0	▲ 0.1	0.0	▲ 0.1	0.0	▲ 4.4	0.6	0.1
Business Fixed Investment	▲ 2.0	▲ 1.0	3.0	2.8	3.2	3.0	2.8	2.7	2.6	2.6	2.6	1.8	2.8
Private Inventories (percentage points contribution)	(▲ 2.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(▲ 0.2)	(▲ 0.0)
Government Consumption Expenditure	1.0	0.5	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	1.1	0.3	0.0
Public Investment	▲ 1.2	3.1	3.0	1.6	1.4	1.2	1.2	1.0	0.8	0.8	▲ 3.4	1.9	1.1
Net Exports (percentage points contribution)	(1.4)	(0.5)	(0.3)	(▲ 0.2)	(▲ 0.1)	(▲ 0.1)	(▲ 0.2)	(0.1)	(0.1)	(0.2)	(▲ 0.5)	(0.1)	(▲ 0.0)
Exports of Goods and Services	6.0	▲ 4.3	4.9	1.5	1.8	2.4	2.0	3.3	3.5	4.0	4.9	2.4	2.6
Imports of Goods and Services	▲ 1.6	▲ 5.5	2.9	2.3	2.2	2.3	2.5	2.6	2.5	2.6	7.2	1.6	2.4

(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
Nominal GDP	1.6	3.4	2.8	4.0	3.7	3.0	2.8	3.0	2.4	2.6	1.9	3.4	2.7
GDP deflator	1.2	2.0	1.9	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	3.5	2.8	2.1	2.1	2.4	2.6	2.5	1.6	1.4	3.0	2.3	2.0
Unemployment Rate (%)	2.5	2.6	2.6	2.5	2.5	2.4	2.3	2.3	2.3	2.2	2.6	2.5	2.3
Exchange Rates (JY/US\$)	141	132	135	133	131	129	128	126	124	124	135	132	126
Import Price of Crude Oil (US\$/barrel)	102	87	83	84	87	89	86	87	85	84	103	86	85

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.