

# Monthly Report of Prospects for Japan's Economy

## September 2024

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 August 2024 issue of the original Japanese version.**

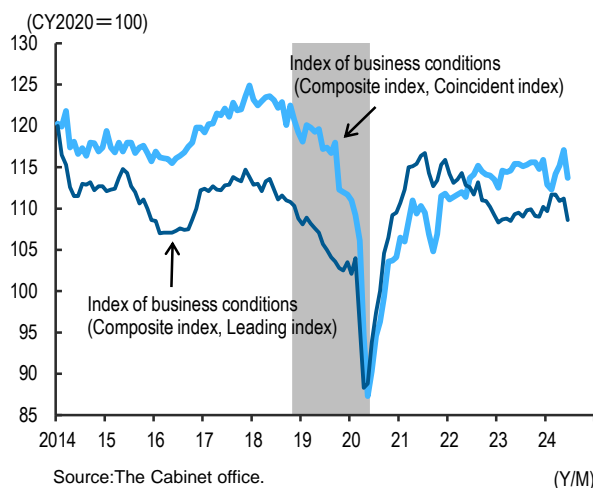
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# The General Situation – The economy is gradually recovering, though the recovery has stalled in some areas

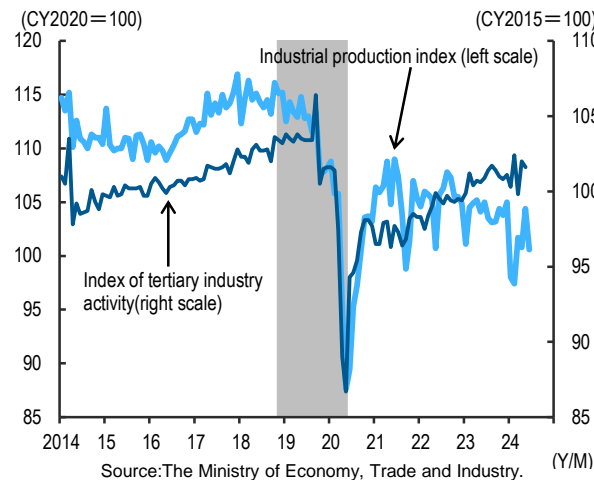
**Figure 1-1 Economic Activity**

Both coincident and leading indices of business conditions have worsened recently



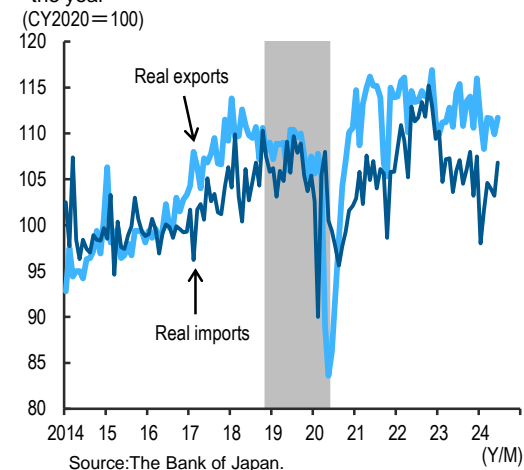
**Figure 1-2 The Corporate Sector**

Industrial production is declining, centered on automobiles  
Economic activity in the service sector is on the recovery track



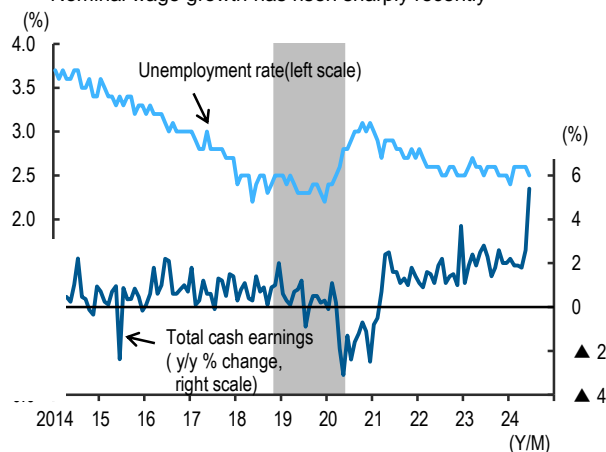
**Figure 1-3 Overseas Demand**

Goods exports are fluctuating  
Imports have picked up following the slump at the start of the year



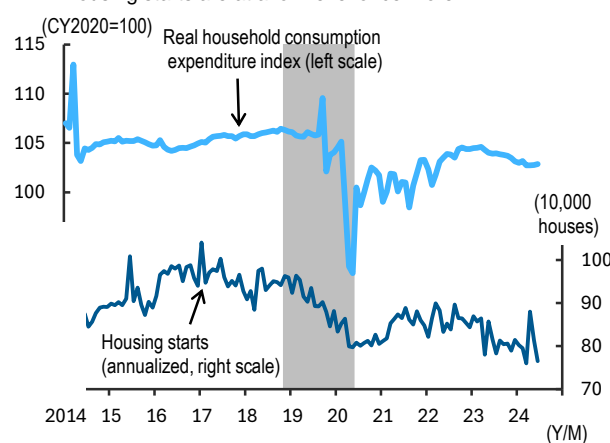
**Figure 1-4 Employment and Income**

The unemployment rate is in the mid-2% range  
Nominal wage growth has risen sharply recently



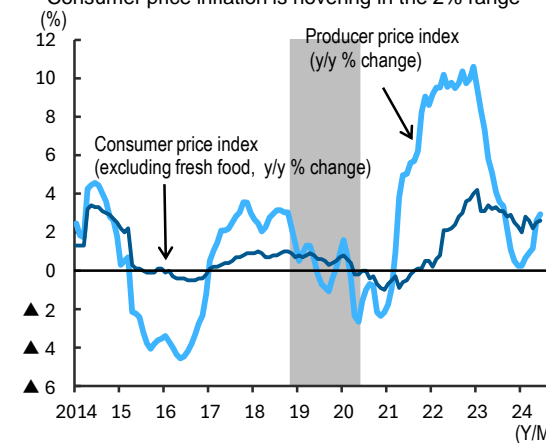
**Figure 1-5 The Household Sector**

Consumption is sluggish  
Housing starts are at a low level once more



**Figure 1-6 Prices**

Corporate price inflation is accelerating again  
Consumer price inflation is hovering in the 2% range



\* The shaded area indicates the recession phase.

## Real GDP growth in April-June 2024 was positive at +3.1%

### ◆ Personal consumption increased for the first time in five quarters

Annualized quarter-over-quarter (QoQ) real GDP growth in April-June 2024 was +3.1%, the first positive growth in two quarters. As the impact of certain automakers' suspensions of vehicle shipments faded away, domestic demand, and especially personal consumption, rebounded.

### ◆ Manufacturing activity is soft

Japan's production activity remains weak, albeit with fluctuations. With domestic and foreign demand sluggish, production activity is soft across a wide range of industries, including capital goods. The recovery of automobile output to make up for the recent suspensions also remains limited at present. A marked increase in production is expected to begin soon. Production plans indicate increases in output for two consecutive months, in July (+6.5%) and August (+0.7%). Output looks set to rise mainly in production machinery and electronic components/devices.

### ◆ Personal consumption is sluggish

Personal consumption in June was lacking in strength overall, though purchases of durable goods continued to pick up. Non-durable goods and services saw slightly higher consumption than at the end of 2023, but sluggishness has become protracted.

### ◆ Financial and capital markets are volatile

Stock prices fluctuated wildly in early August. Background factors included growing concerns about the possibility of recession in the U.S. and a deterioration in corporate earnings due to a rapid appreciation of the yen. Although the market has been starting to return to stability recently, attention needs to be paid to the adverse economic effects in the event of another sharp correction in stock prices.

Figure 2-1 Real GDP Growth Rate  
<annualized rate for the preceding period>

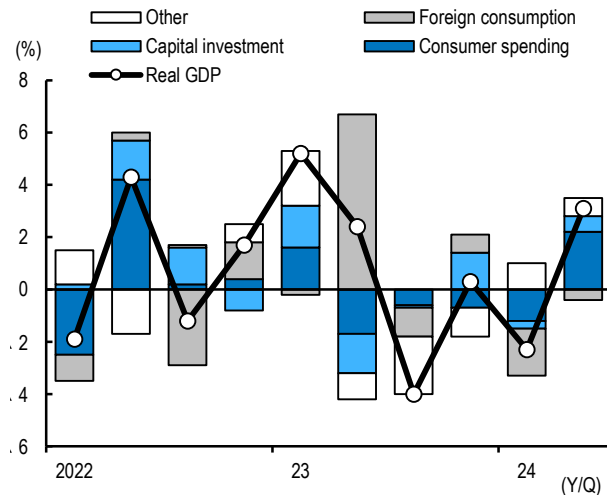
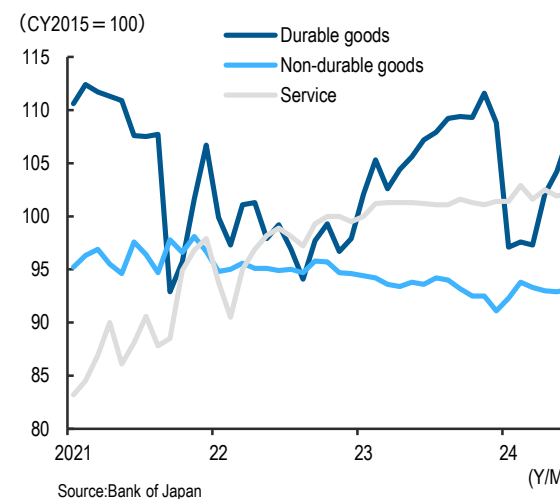


Figure 2-2 Index of Industrial Production  
<seasonally adjusted>



Figure 2-3 Consumption Activity Index  
<seasonally adjusted>



## Demand for goods is moving into a cyclical pick-up phase

### ◆ Goods demand is beginning to pick up

Foreign demand remains weak. Looking at recent export trends, the recovery in exports of transportation machinery has been weak, and exports of capital goods and IT-related goods have remained more or less flat.

Going forward, however, foreign demand is expected to move toward recovery. A background factor that can be pointed to is a cyclical pick-up in demand for goods, centered on capital goods and IT-related goods. With capacity utilization rates having bottomed out worldwide, the balance between shipments and inventories of capital goods has been on an upward trajectory since the second half of last year. In addition, global demand for semiconductors is also picking up thanks to brisk AI-related demand and the time coming to replace the PCs and smartphones purchased during the pandemic. World Semiconductor Trade Statistics (WSTS) is projecting the semiconductor market to expand steadily going into 2025.

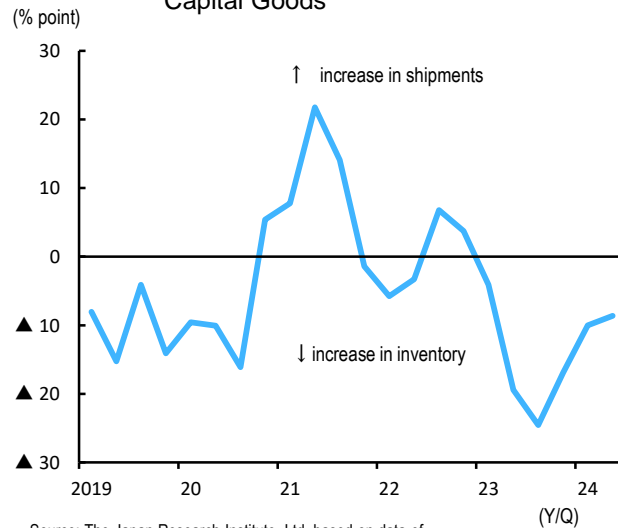
### ◆ Appetite for capital investment is strong

According to a survey by the Development Bank of Japan, planned capital investments by large companies in FY2024 are up 21.6% from the previous year, which is a high rate of increase. Semiconductor-related investment demand continues to be strong, and there is also a lot of demand for investment in future-

oriented fields such as green and digital.

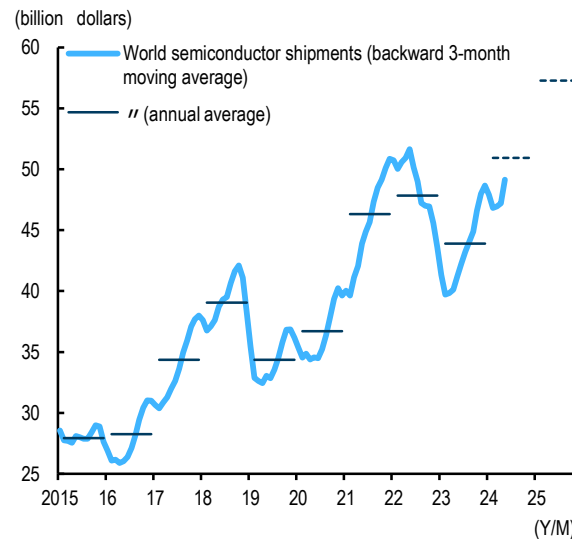
Over the medium to long term, the reshoring of production bases to Japan will also be a factor in boosting capital investment. In recent years, there have been increasing moves among large manufacturers to expand their domestic production capacity. This reflects growing awareness of the importance of corporate economic security in response to the supply chain disruptions and soaring raw material prices that were triggered by the pandemic and Russia's invasion of Ukraine.

Figure 3-1 Inventory and Shipping Balance of Capital Goods



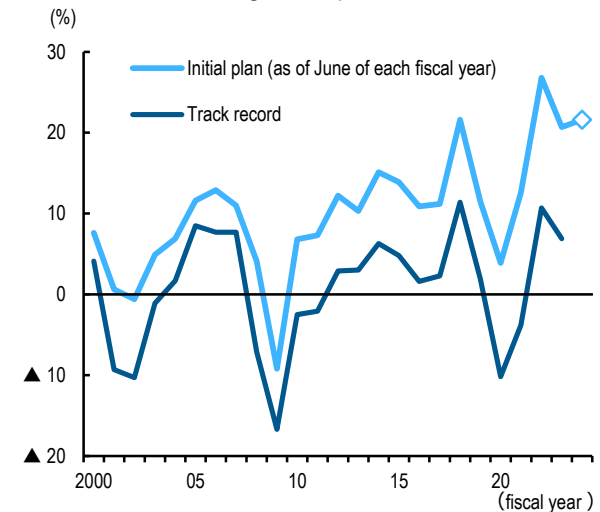
Source: The Japan Research Institute, Ltd. based on data of Ministry of Economy, Trade and Industry  
Note: Shipment/Inventory Balance = Shipment (y/y) - Inventory (y/y).  
Capital goods exclude transportation machinery.

Figure 3-2 World Semiconductor Shipments



Source: World Semiconductor Market Statistics (WSTS)  
Note: Dashed line shows WSTS annual average forecast (as of May 2024)

Figure 3-3 Capital Expenditure Plan <Large Companies, YoY>



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

# The income situation for households is gradually improving

## ◆ Real wage growth was positive for the first time in 27 months

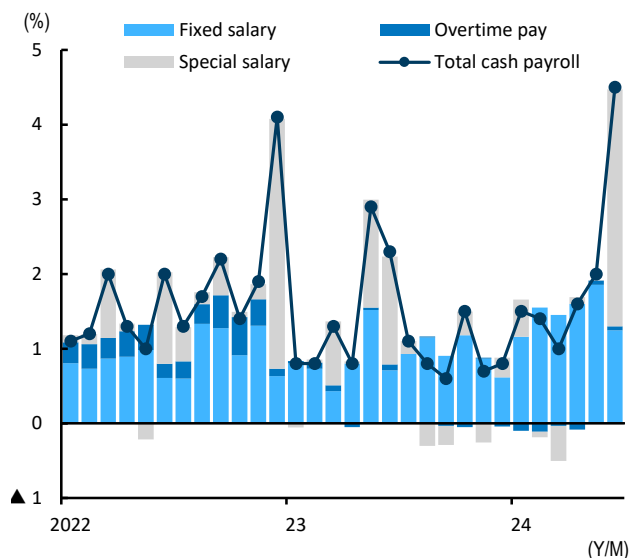
Wages are growing faster. Total cash payrolls in June rose 4.5% year over year (YoY), a high rate of increase. Significant rises in special payments such as regular and one-time bonuses lifted the overall increase. In terms of company size, the rise in these special payments was especially large at small and medium-sized enterprises (SMEs). So even SMEs, which remain cautious about raising basic salaries, may be getting more serious about improving their treatment of employees as they grapple with intensifying labor shortages. Because the increase in total cash payrolls exceeded the inflation rate, real wage growth in June was positive for the first time in 27 months, registering +1.1% YoY.

## ◆ Positive real wage growth will become firmly established

Looking ahead, it is highly likely that the substantial rises in special payments will shrink, pushing real wage growth back into negative territory in July. However, as

wage growth is expected to trend upward, mainly in basic salaries, positive YoY real wage growth should gradually become more permanent. During the summer, more companies are implementing the wage hikes agreed during the shunto (spring wage negotiations), and the basic salaries of regular workers are expected to see growth in the region of 3%. In addition, even the growth rate of basic salaries of part-time workers, whose wages are less affected by shunto trends, is accelerating sharply in response to worsening labor shortages. Going forward, the potential for further expansion of the labor supply through additional elderly and female workforce participation will diminish, which will make for an even tighter labor market. Minimum wages will also be raised this autumn, so the growth rate of basic salaries is expected to continue to rise.

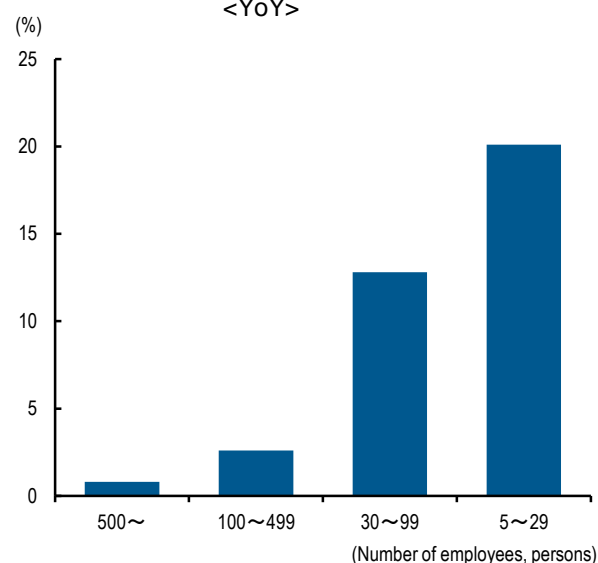
Figure 4-1 Total Cash Payroll <YoY>



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

Note: Adjustment of data faults caused by the replacement of surveyed companies

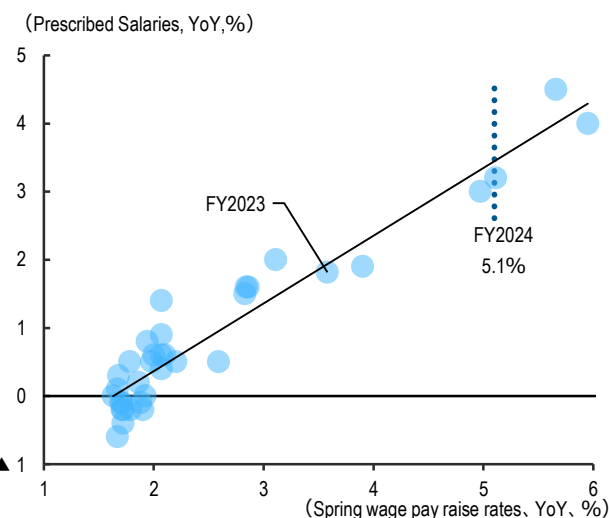
Figure 4-2 Special Payroll by Employee Size <YoY>



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

Note: Compare June 2024 with June 2023

Figure 4-3 Spring Wage Rates and Growth of Prescribed Salaries



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

Note: FY1989-FY2023. Figures for predetermined salaries are for general workers since 1994. The wage increase rate for the Spring Struggle in FY2024 is the result of the 7th round of responses.

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# Price hikes are spreading across private-sector services

## ◆ The government's scaling back of its measures to ease the pain of inflation is pushing up prices

In June, core consumer price inflation accelerated from the previous month to 2.6%. By CPI component, prices of food and core goods rose at a slower pace as imported inflationary pressures abated. On the other hand, energy prices were pushed up as a result of the government cutting subsidies for electricity and gas bills, and prices of services, especially travel-related ones, also increased at a quicker pace. For the time being, the core CPI is expected to keep rising at an annual pace of above 2%. Not only has the energy price suppression effect of government measures to ease the pain of inflation evaporated, but moves to pass on higher wages to selling prices are also gathering momentum, and prices of services look set to climb even faster. In service sectors such as land transportation and information services, where personnel expenses account for a high proportion of intermediate inputs, pressure to hike prices is mounting due to higher labor costs.

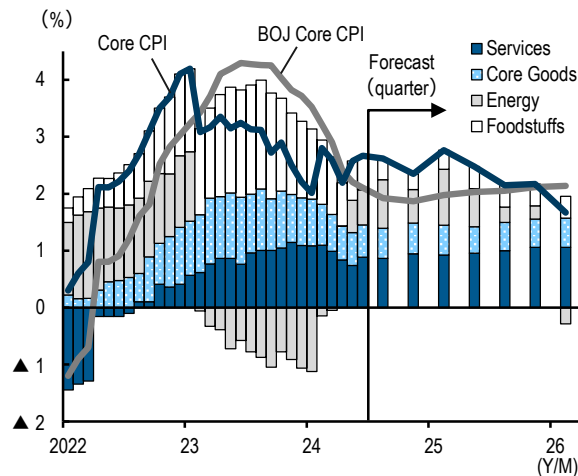
## ◆ The Bank of Japan (BOJ) has raised its policy interest rate

At its monetary policy meeting at the end of July, the BOJ hiked its policy rate to 0.25%. It also decided to gradually halve the amount of its regular Japanese government bond (JGB) purchases from the current level over the next year and a half.

Until around the end of July, long-term interest rates had continued to fluctuate at levels above 1%, but then plunged in early August. A decline in U.S. long-term interest rates against the backdrop of heightened concerns about the possibility of a U.S. recession and a retreat in expectations for additional interest rate hikes by the BOJ exerted downward pressure on Japanese interest rates.

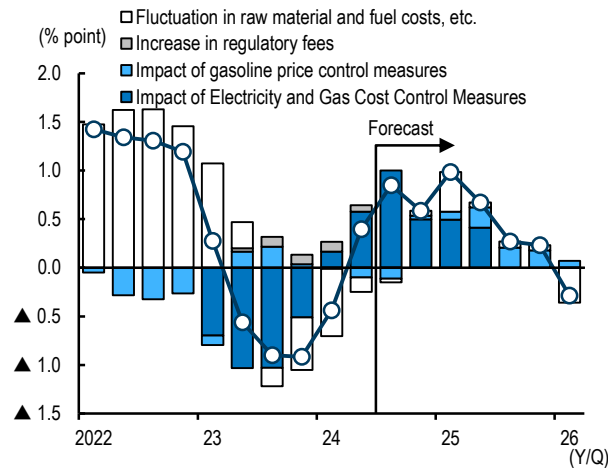
As for the outlook, the BOJ will continue to raise interest rates in stages while closely monitoring the impact on the economy of financial and capital market trends, and long-term interest rates are expected to follow a gradual upward path.

Figure 5-1 Consumer Price Index <YoY>



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

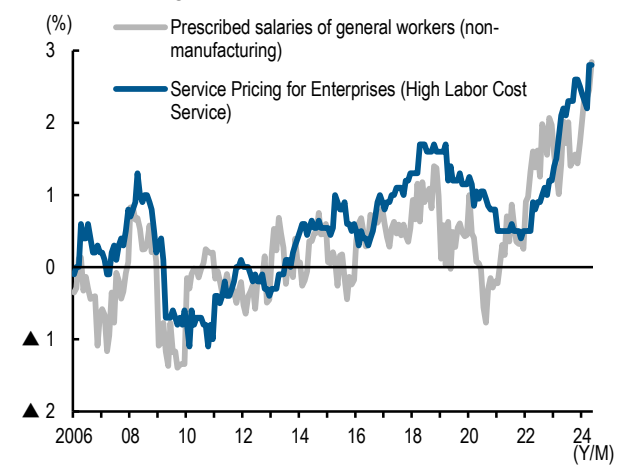
Figure 5-2 Energy prices boosting core CPI <YoY>



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

Note: Electricity and gas cost control measures will be reduced for use in May 2024 and temporarily resumed for use from August to October 2024, after being temporarily terminated in June and thereafter. Gasoline price control measures will continue to be applied during 2024, and will be phased out after the beginning of 2025.

Figure 5-3 Wages and service prices for businesses <YoY>



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

Note: Excluding impact of consumption tax.

## Topic①:Chinese tourists are now returning to Japan in force

### ◆ The resurgence of inbound tourism demand is patchy

Inbound tourism demand in Japan is steadily recovering. Since the summer of 2023, the number of foreign hotel guests in Japan has continuously exceeded pre-COVID levels. However, the return of Chinese tourists has lagged behind this overall trend. In June, the total number of Chinese hotel guests finally recovered to the level recorded prior to the pandemic.

This delay in the return of Chinese visitors has had a significant impact on the degree of recovery in inbound tourism demand in each region. In regions where Chinese tourists made up a large proportion of the total before the pandemic, the momentum of inbound tourism demand recovery has tended to be weak.

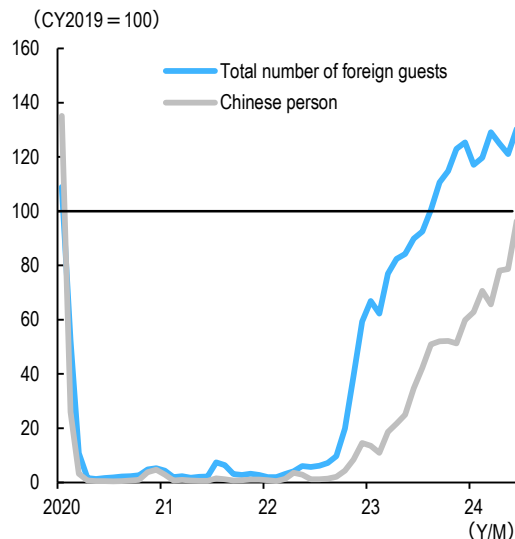
### ◆ Tourists numbers will recover mainly because of the resumption of flights from China

Looking ahead, as direct flights from China are increasingly resumed, the return of Chinese visitors is expected to accelerate. According to the flight schedule approved by the Ministry of Land, Infrastructure, Transport and Tourism for this summer, the

number of scheduled international flights between Japan and China will reach more than 80% of the pre-COVID level.

However, attention needs to be paid to the deterioration of the Chinese economy. Confidence among Chinese consumers worsened sharply in early 2022, and has remained depressed ever since. If Chinese people become cautious about traveling abroad, there is a risk that the recovery in inbound tourism demand in regions that are highly dependent on visitors from China will continue to fall short of expectations.

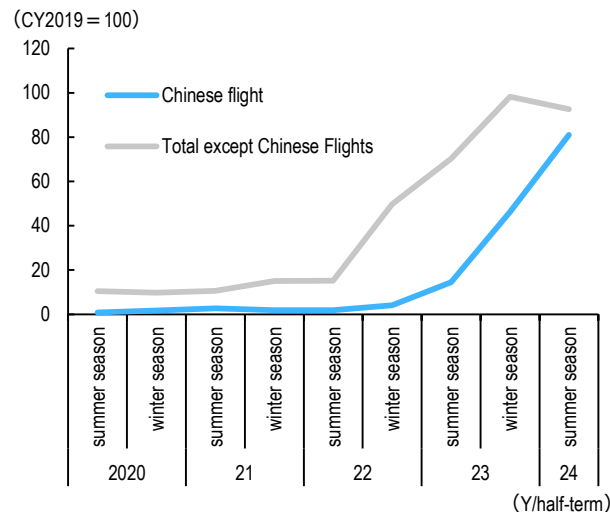
Figure 6-1 Total Number of Foreign Guests



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

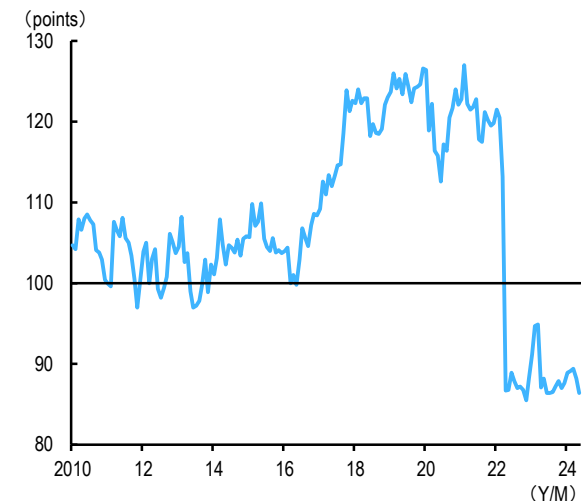
Note: Facilities with 10 or more employees are eligible.

Figure 6-2 Recovery rate for international scheduled flights



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

Figure 6-3 Chinese Consumer Sentiment



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



## Topic②: Trump's policies would deal a heavy blow to Japan's capital goods sector

### ◆ Uncertainty would increase under a Trump administration

If Mr. Trump wins the U.S. presidential election this autumn, it is highly likely that uncertainty surrounding policy will rise throughout the world. This is because his erratic words and behavior would make it hard to predict his policies. An index that measures uncertainty surrounding economic policy indicates that uncertainty increased significantly worldwide during his last stint in office.

### ◆ The impact on Japan's capital goods sector would be substantial

Elevated uncertainty causes companies to postpone investment decisions, which in turn puts downward pressure on capital investment across the globe. This pattern of events leads directly to lower demand in the capital goods sector. According to estimates, a rise in global uncertainty depresses production in manufacturing sectors throughout the world, with the reduction in output being particularly large in Japan.

This substantial impact on Japan can be attributed to two characteristics of the

country: The first is that the capital goods sector accounts for a major share of Japanese domestic industry. In Japan, capital goods make up 33% of total industrial output, a figure second only to Germany. The second is that the sector relies heavily on foreign demand. In emerging countries in Asia and elsewhere, where economic growth rates are high, strong domestic demand creates a structure whereby downturns in foreign demand can be easily absorbed. In Japan, however, there is scant potential for domestic demand growth, so fluctuations in foreign demand have a substantial impact on production. And the capital goods sector is particularly vulnerable, as the share of overseas sales in gross sales is just under 70% for transportation machinery and more than 50% for general machinery and electrical machinery, figures that are far higher than in other industries.

Figure 7-1 Economic Policy Uncertainty Index

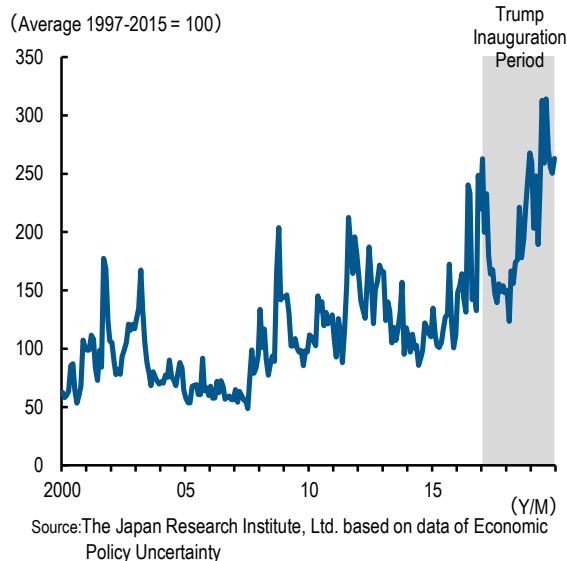


Figure 7-2 Share of Industrial Production

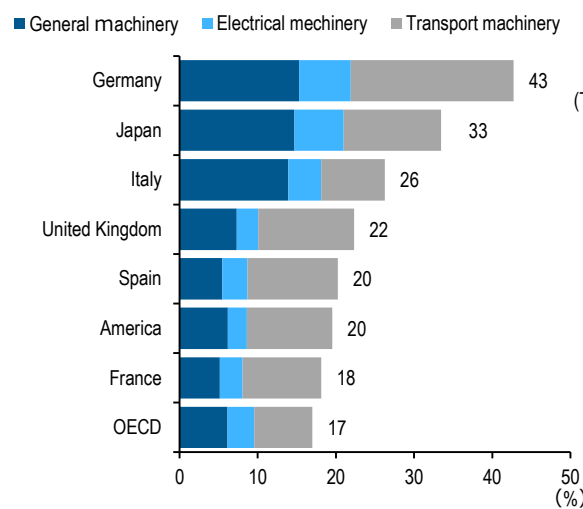
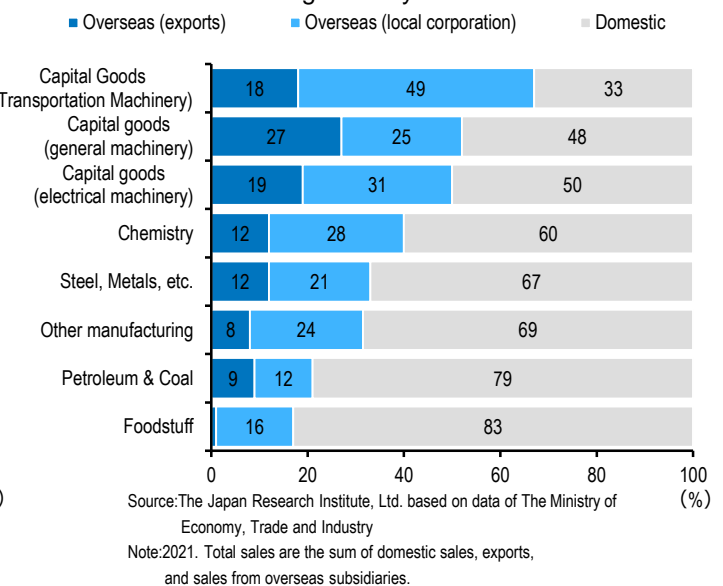


Figure 7-3 Percentage of Total Sales of Japan's Manufacturing Industry



## The economy will gradually recover, driven by domestic demand

### ◆ Strong corporate earnings will trigger a virtuous cycle

Looking ahead, Japan's economy is expected to continue its moderate recovery, led by domestic demand. With bumper corporate earnings serving as a springboard, a proactive stance on spending will likely spread among companies, which will be manifested in wage hikes that outpace inflation and an expansion in capital investment.

Personal consumption is expected to gradually recover, supported by an improved employment/income environment. As the generous wage hikes agreed during the shunto are applied by more and more firms, positive YoY real wage growth should gradually become more permanent. Wages for part-time workers, which are less affected by shunto trends, are also expected to rise at a faster pace due to intensifying labor shortages and higher minimum wages.

Capital investment should continue to increase thanks to strong corporate earnings. Companies are eager to invest in solutions for decarbonization, DX, and labor-saving. The reshoring of production bases to Japan against the backdrop of heightened geopolitical risks will also provide a boost to capital investment. However, as downside risk factors, attention will need to be paid to the Chinese economy and the result of the U.S. presidential election.

### ◆ The growth rate for FY2024 will be +0.7%

Growth is projected to be +0.7% in FY2024 and +1.2% in FY2025. Due to the impact of the weak economy in the second half of FY2023, growth will slow somewhat in FY2024, but it is expected to return to the 1% range in FY2025. Although the potential growth rate is currently estimated to be around the 0.5% mark, it should rise to about 1% toward the end of FY2025 as labor productivity improves.

Figure 8 Projections for GDP Growth and Main Indicators of Japan ( as of August 12, 2024 )

( %, changes from the previous fiscal year)

	CY2024				CY2025				CY2026	FY2023	FY2024	FY2025
	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3			
	(Actual)		(Projection)							(Actual)	(Projection)	
Real GDP	▲ 2.3	3.1	2.0	1.6	1.2	1.2	1.2	1.0	1.1	0.8	0.7	1.2
Private Consumption Expenditure	▲ 2.2	4.0	2.5	1.7	1.2	0.9	0.8	0.8	0.8	▲ 0.6	1.1	1.2
Housing Investment	▲ 10.1	6.7	▲ 0.1	▲ 0.1	▲ 0.2	▲ 0.2	▲ 0.3	▲ 0.3	▲ 0.3	0.3	▲ 1.3	▲ 0.2
Business Fixed Investment	▲ 1.8	3.6	2.5	2.3	2.1	2.3	2.4	2.4	2.4	0.3	2.4	2.3
Private Inventories (percentage points contribution)	( 1.2)	(▲ 0.4)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.2)	(▲ 0.1)	(▲ 0.0)
Government Consumption Expenditure	1.1	0.3	0.1	0.1	0.0	0.2	0.2	▲ 0.3	0.0	▲ 0.5	0.4	0.1
Public Investment	▲ 4.3	19.5	▲ 0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.7	2.6	0.2
Net Exports (percentage points contribution)	(▲ 1.7)	(▲ 0.4)	( 0.1)	( 0.2)	( 0.2)	( 0.2)	( 0.2)	( 0.2)	( 0.2)	( 1.4)	(▲ 0.4)	( 0.2)
Exports of Goods and Services	17.2	5.9	4.7	3.0	2.7	2.9	3.1	3.2	3.2	2.8	0.7	3.1
Imports of Goods and Services	▲ 9.6	7.1	4.0	2.1	1.9	1.9	1.9	2.1	2.0	▲ 3.2	2.3	2.1

	(% changes from the same quarter of the previous year)									(% changes from the previous fiscal year)		
Nominal GDP	2.5	2.1	3.8	3.9	5.0	3.7	3.0	2.5	2.7	4.9	3.7	3.0
GDP deflator	3.4	3.0	3.1	3.1	2.9	2.3	1.7	1.4	1.6	4.0	3.0	1.7
Consumer Price Index (excluding fresh food)	2.5	2.4	2.6	2.3	2.8	2.5	2.2	2.2	1.7	2.8	2.6	2.1
Unemployment Rate (%)	2.5	2.5	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.6	2.5	2.4
Exchange Rates (JY/US\$)	148	155	150	146	144	142	140	138	136	145	149	139
Import Price of Crude Oil (US\$/barrel)	83	88	86	85	84	82	80	79	77	86	85	80

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.