

# Monthly Report of Prospects for Japan's Economy

September 2019

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

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

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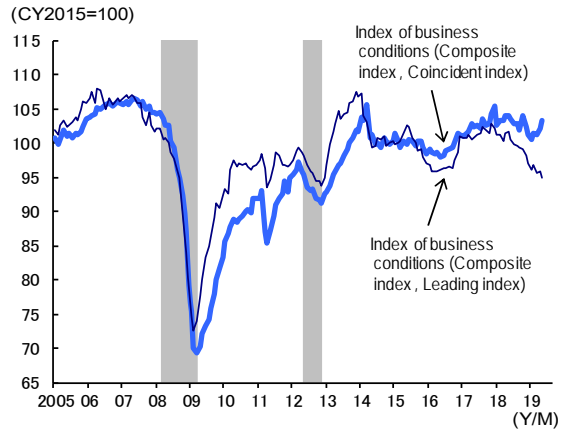
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# The General Situation of Japan's Economy – A Sense of Standstill Is Felt in Economic Activity

**Figure 1-1 Economic Activity**

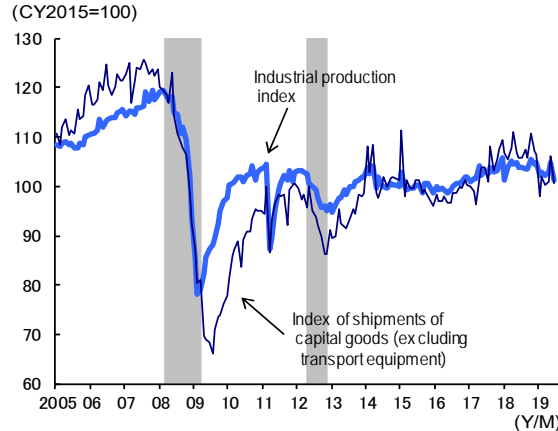
While the CI coincident index picked up, the leading index remained on a declining trend.



Source: The Cabinet Office.

**Figure 1-2 The Corporate Sector**

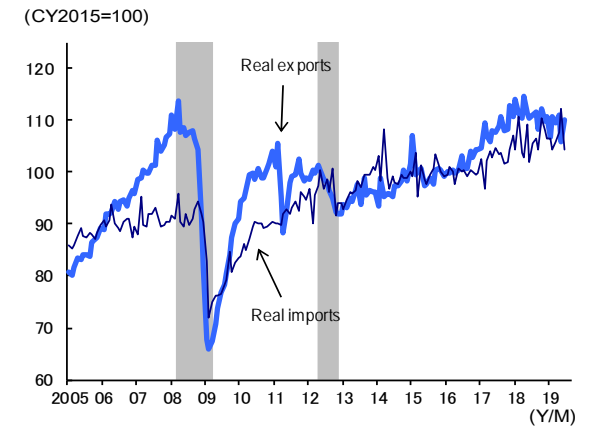
Industrial production stagnated mainly in the automobile industry and the production machinery industry.



Source: The Ministry of Economy, Trade and Industry.

**Figure 1-3 Overseas Demand**

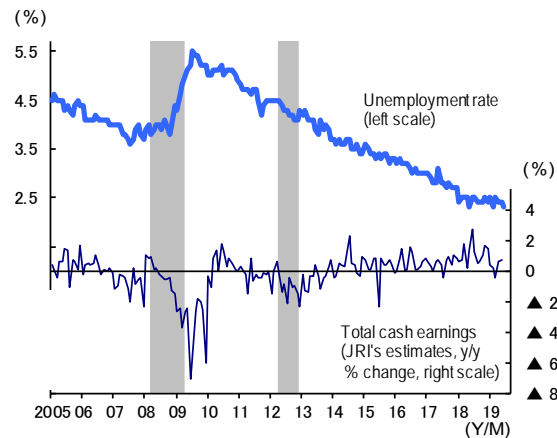
Exports, mainly to Asia, remained sluggish. Imports declined, particularly of liquefied natural gas (LNG) and nonferrous metals.



Source: The Bank of Japan.

**Figure 1-4 Employment and Income**

The unemployment rate is hovering around its lowest level since 1993. Nominal wages increased for the second consecutive month.

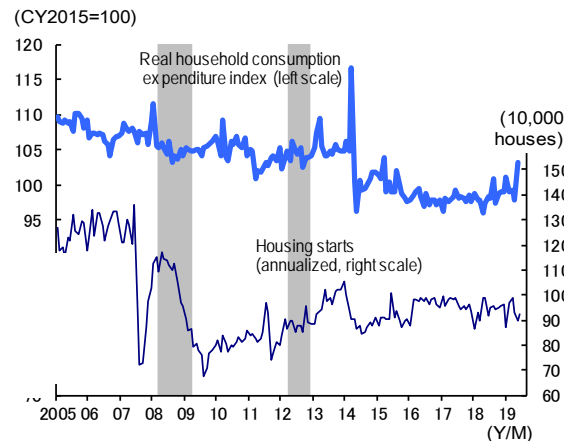


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare.

\* The shaded area indicates the recession phase.

**Figure 1-5 The Household Sector**

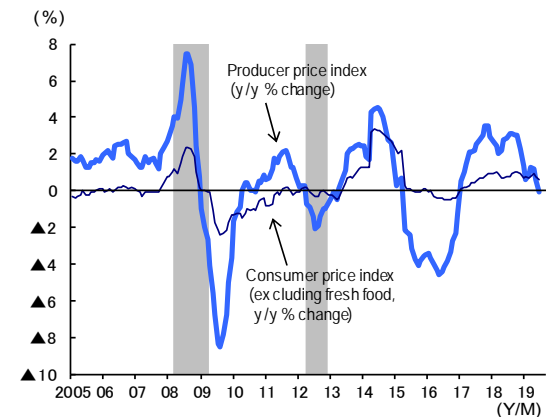
Real household consumption increased due to the effects of the 10 consecutive holidays. Housing starts were sluggish.



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

**Figure 1-6 Prices**

Producer prices declined mainly for raw materials. Consumer prices remained virtually flat.



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

# Domestic Demand Stays Firm, While Corporate Production Activities Remain Sluggish

## ◆ Industrial Production Stagnated

The Industrial Production Index for June decreased for the first time in three months, down 3.3 percent from the previous month. By industry, the automobile industry and the production machinery industry saw significant declines in industrial production. In addition to a reactionary decline following a surge in May and the accumulation of inventories, the review of production systems of some automobile manufacturers in response to the inspection fraud problem, among other issues, seems to have put downward pressure on production activities.

As for the outlook of production plans, industrial production is forecast to increase for two consecutive months, up 2.7 percent on a month-over-month basis for July and up 0.6 percent on a month-over-month basis for August. However, as it will likely take time for inventory adjustment to run its course, it is unclear whether the production increase will be achieved as scheduled.

## ◆ Public Investment Continued to Rebound

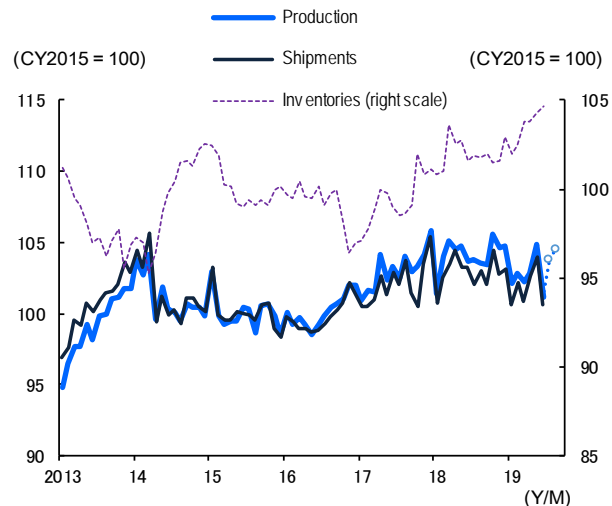
Public investment has been on the rise as the supplementary budget for FY2018 began to be executed on a full scale. The contract amount for public works projects, which serves as a leading indicator, was up 1.0 percent year-on-year in June, recording an increase for five straight months.

## ◆ The Household Sector Has Seen a Moderate Recovery

Looking at the employment situation, the active job opening-to-applicants ratio in June was 1.61 times, indicating that labor supply/demand conditions remain tight. The unemployment rate was 2.3 percent, remaining at a low level.

Signs of recovery were also witnessed in private consumption. In addition to the improvement in employment and income conditions, an expansion in travel expenditures due to the effects of the consecutive holidays, among other factors, also boosted private consumption.

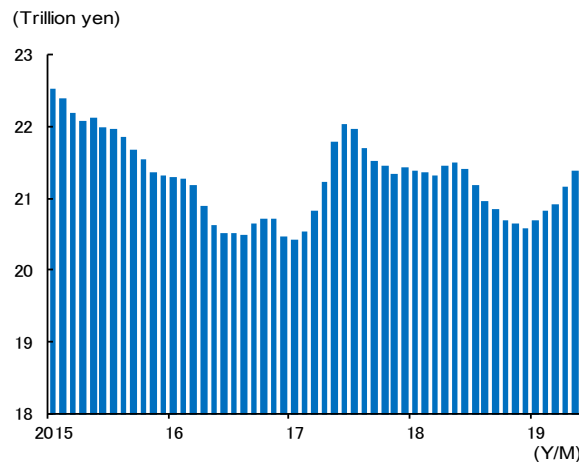
Figure 2-1 Industrial Production Index  
<seasonally adjusted>



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

Note: The latest two figures in the industrial production index are forecasts for July and August based on the production forecast index.

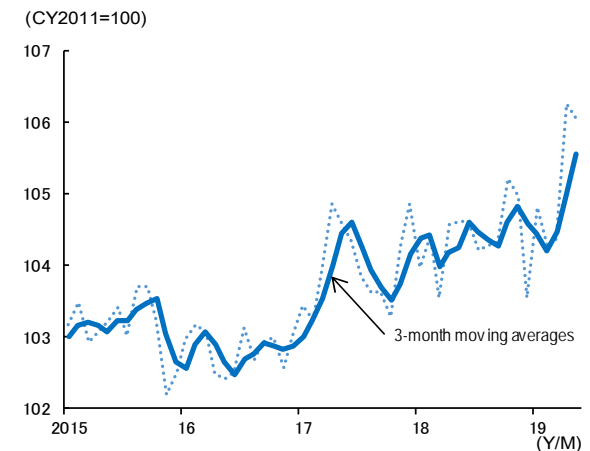
Figure 2-2 Completed Amount of Public Works  
<annualized, seasonally adjusted, 3-month moving averages>



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

Note: Non-dwelling.

Figure 2-3 Synthetic Consumption Index  
<seasonally adjusted>



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

# Exports Are Expected to Pick up

## ◆ Exports of Goods Are Expected to Pick up

The declining trend for goods exports came to a halt. Looking at exports by category, while exports of capital goods continued to decrease against the backdrop of the postponement of investment by governments and local enterprises as a result of major elections in Thailand and the Philippines, exports of electronic parts and devices started to pick up as sales of smartphones bottomed out in China and ASEAN countries.

As for future prospects, the Chinese economy is expected to pick up thanks to the government's economic stimulus measures, and exports of capital goods to Thailand and the Philippines will likely return to growth following the elections. Against such a backdrop, Japan's exports, mainly to Asia, are anticipated to rebound in the future.

However, if the trade friction between the United States and China further intensifies, downward pressure on Japan's exports to China will likely grow as a

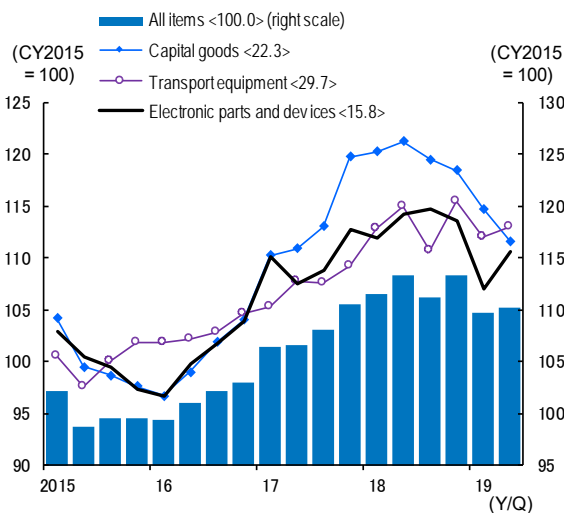
result of the slowdown of the Chinese economy.

## ◆ Demand Related to Inbound Tourism Is Picking up

Demand related to inbound tourism has picked up. The number of tourists that visited Japan in June increased by 5.2 percent over the previous month. Meanwhile, the amount of consumption by overseas tourists visiting Japan achieved a record high level in the first half of 2019.

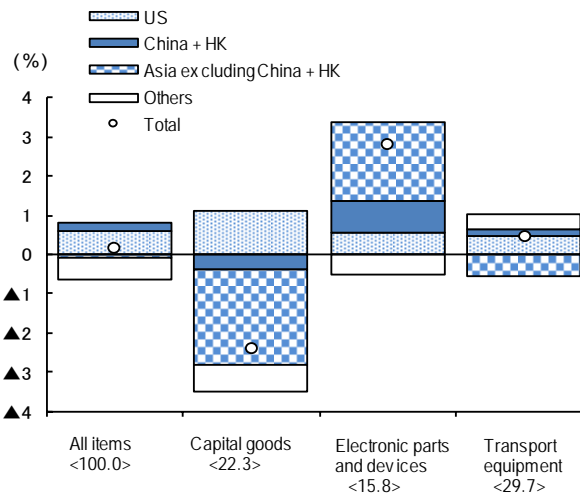
In terms of future outlook, demand related to inbound tourism is expected to continue growing moderately, driven by the expansion of middle-income earners in emerging Asian countries. Despite the foregoing, if the relationship between Japan and South Korea further deteriorates as a result of the tightening of export controls, there is a concern that the number of South Korean tourists visiting Japan, who account for approximately one-seventh of overall inbound consumption, will be significantly diminished.

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



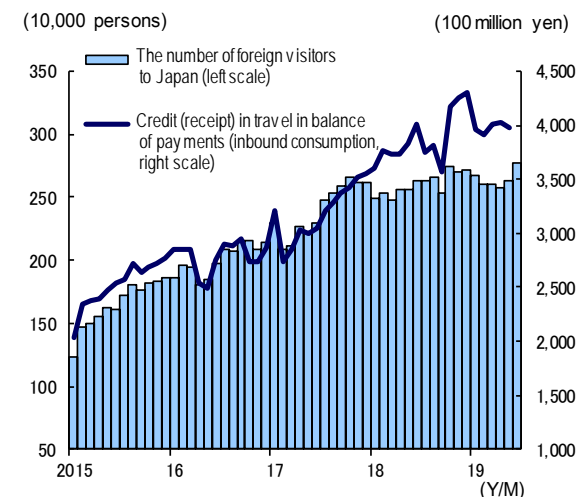
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.  
Note: Figures in the angled brackets show the shares in total nominal exports in CY2018.

Figure 3-2 Real Exports by Item and Destination in Q2 2019  
<seasonally adjusted, q/q % changes>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.  
Note: Figures in the angled brackets show the shares in total nominal exports in CY2018.

Figure 3-3 Receipt in Travel in Balance of Payments  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, Japan National Tourism Organization (JNTO).

# Business Fixed Investment Has Been on the Rise As Corporate Profits Remain at a High Level

## ◆ Corporate Profits Remain at a High Level

Corporate earnings have seen some fluctuations, while remaining at a high level. According to the Financial Statements Statistics of Corporations by Industry quarterly report, sales value for the period from January-March 2019 declined for the first time in one and a half years, reflecting a downswing in the manufacturing industry against the backdrop of sluggish exports to China. However, current profits increased for the first time in three quarters thanks to the improvement in profitability due to a decline in crude oil prices and large dividends from some pure holding companies.

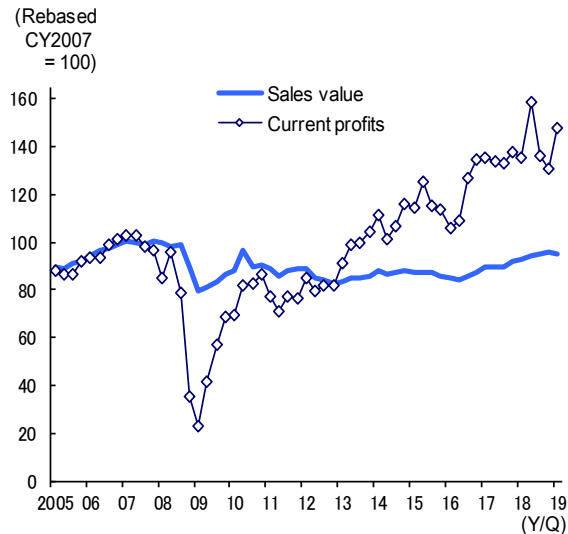
As for the outlook for corporate earnings, while a downward trend is anticipated as the temporary factors seen during the January-March period dissipate, overall corporate earnings will likely continue to expand in line with firm domestic demand and the rebound in exports.

## ◆ Business Fixed Investment Will Remain on a Rising Trend

Capital investment has remained on an increasing path. Amid labor shortages and an increase in dilapidated equipment, investments for reasons of rationalization and labor saving as well as maintenance and replacement continued to grow firmly. By industry, while signs of postponement of some investment projects were witnessed in the manufacturing industry against the backdrop of declining exports, capital expenditure grew robustly in the non-manufacturing industry on the back of an expansion in domestic demand.

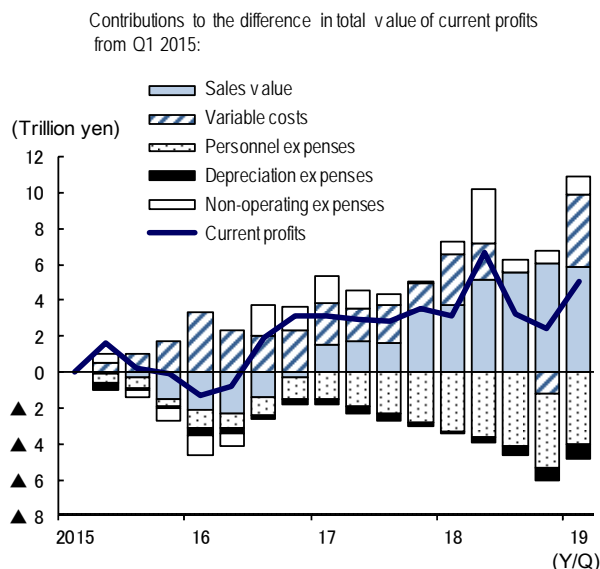
As for the future outlook, a favorable earnings environment is expected to support the appetite for investments by the corporate sector. Since postponed investment projects in the manufacturing industry will likely be executed gradually following the bottoming-out of exports, business fixed investment is forecast to remain on a rising trend.

Figure 4-1 Sales Value and Profits of Japanese Enterprises  
<seasonally adjusted>



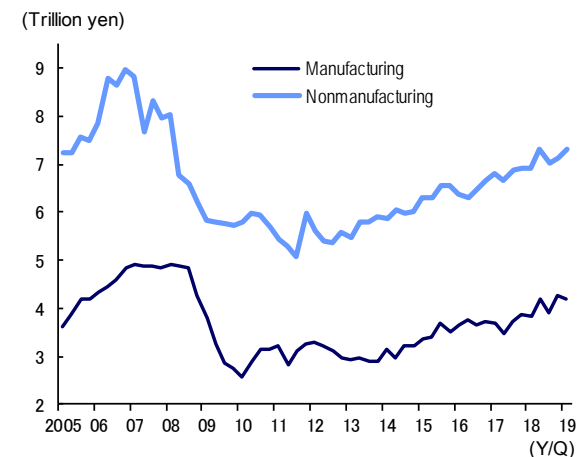
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

Figure 4-2 Contributions of Factors to Change in Total Value of Current Profits  
<seasonally adjusted>



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

Figure 4-3 Value of Business Fixed Investment Based on Financial Statements  
Statistics of Corporations by Industry  
<seasonally adjusted>



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

Note: Excluding software investment.

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# Income Is Recovering Steadily

## ◆ The Income Situation Has Continued to Improve

While the number of workers has been on the rise, the pace of growth has declined since the beginning of this year. By industry, the manufacturing industry's appetite for hiring has diminished due to stagnant production activities. On the contrary, the appetite for hiring has been increasing in the education and learning support sectors, reflecting the movements to rectify overwork by school teachers and secure teaching staff for kindergartens and childcare centers.

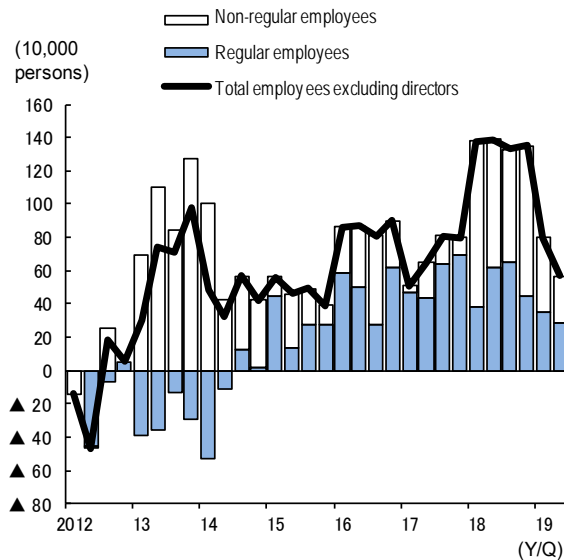
On the wage front, nominal wages have remained on a rising trend. Looking at scheduled salaries for full-time workers, growth at around 1 percent on a year-on-year basis has been maintained since the beginning of 2019 when excluding the

effects of sample switchover.

## ◆ Real Income Is Likely to Increase Firmly

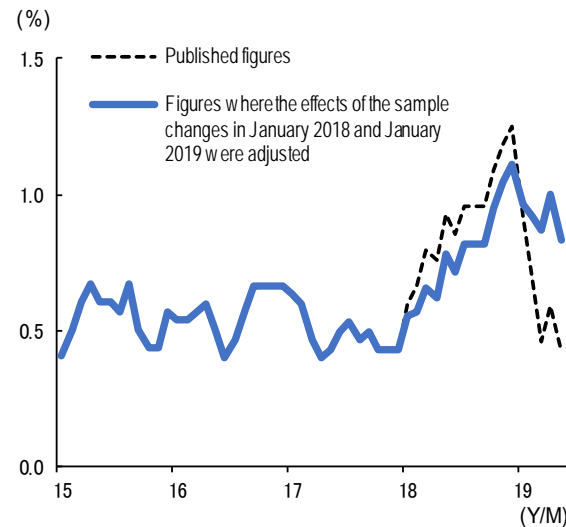
A look at future prospects shows a high likelihood that moderate growth in the number of employees will continue as a strong sense of labor shortages has still been felt by many industries. Nominal wages will likely remain on a steady rise given the tight labor supply/demand conditions. On the other hand, on the price front, it is expected that the provision of free education and nursery care and the introduction of the reduced tax rate will help minimize price increases as a result of the hike in the consumption tax. As a result, growth at around the mid-1 percent level will likely be maintained in real compensation for employees.

Figure 5-1 Number of Employees  
<difference from a year earlier>



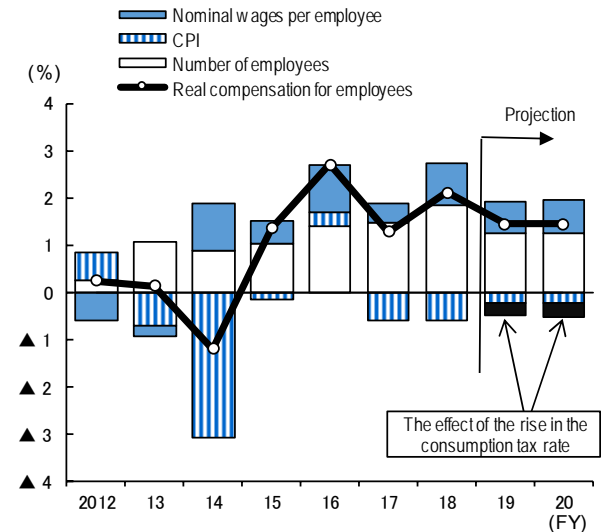
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 5-2 Scheduled Salaries for Full-time Workers  
<year-on-year % change, 3-month moving averages>



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

Figure 5-3 Real Compensation for Employees  
<year-on-year % change>



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

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# Private Consumption Expenditure Is Increasing Moderately

## ◆ Private Consumption of Services and Durable Goods Has Been Robust

Private consumption has picked up. Thanks to the positive effects of the 10 consecutive holidays in spring, consumption of services such as food services and travel consumption remained brisk. Due to a rush in demand prior to the consumption tax rate hike scheduled in October, consumption of durable goods including automobiles has been on a rise.

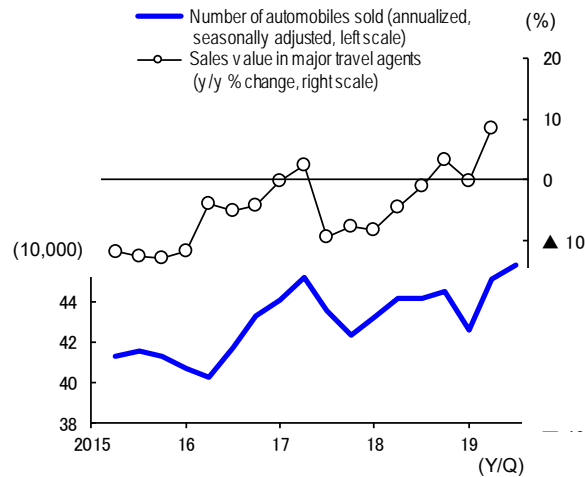
As for future prospects, a moderate recovery is anticipated to continue, underpinned by favorable employment and income conditions. The negative effects of the hike in consumption tax will likely be mitigated significantly thanks to the measures to reduce tax burdens. In addition, future consumption of durable goods will also be supported by the fact that products purchased by the users of the eco point system for household appliances 10 years ago are approaching the time for replacement.

## ◆ Housing Investment Has Turned to a Declining Trend

The number of housing starts in June increased for the first time in three months, up 2.4 percent month over month, due primarily to a reactionary increase caused by supply restrictions during the consecutive holidays. On average, housing investment has turned to a declining trend after peaking in March.

As for the future outlook, since a rush in demand prior to the consumption tax rate hike seems to have been boosting the number of housing starts for owner-occupied and subdivision housing to a certain extent, a sluggish trend will likely continue in the future due to the subsequent reactionary decline. Having said that, as the government will implement measures for levelling demand in line with the tax rate hike, the rise in rush demand will be limited compared to that for the previous tax rate hike. Given this situation, a significant decline in the number of housing starts after the tax rate hike will likely be avoided.

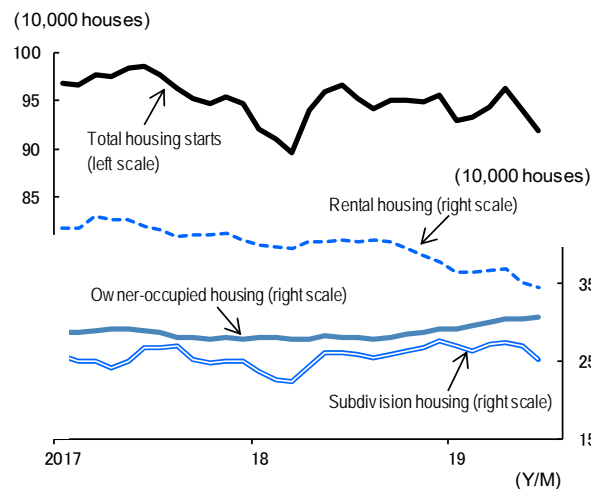
Figure 6-1 Automobile Sales and Sales Values in Major Travel Agents



Source: The Japan Research Institute, Ltd. based on data of Japan Automobile Dealers Association, Japan Mini Vehicles Association, The Ministry of Land, Infrastructure and Transport.

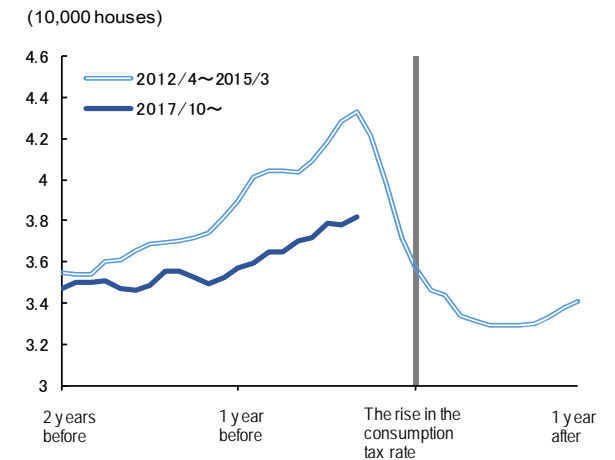
Note: The latest figure in automobile sales is for July 2019 and that in sales value in major travel agents is for April-May 2019.

Figure 6-2 Housing Starts by Type <annualized, seasonally adjusted, 3-month moving averages>



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

Figure 6-3 Housing Starts for Owner-occupied and Subdivision Detached Houses <seasonally adjusted, 3-month moving averages>



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

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# Topic: Price Changes at the Time of Tax Rate Hike Will Lead to Changes in Consumer Behavior

## ◆ Downswing in Demand as a Result of Consumption Tax Rate Hike Will not Have a Uniform Effect

Price increases in line with the hike of consumption tax rate will put downward pressure on household consumption through the decline in real income. However, the negative impact on consumption will vary depending on the items. While expenditures related to living necessities are more difficult to control, nonessential and nonurgent expenditures such as purchases of automobiles will be significantly reduced. Therefore, consumption of durable goods will likely be curtailed more substantially compared to other items.

## ◆ Consumption Patterns Will Change As a Result of Measures to Mitigate Tax Rate Hike

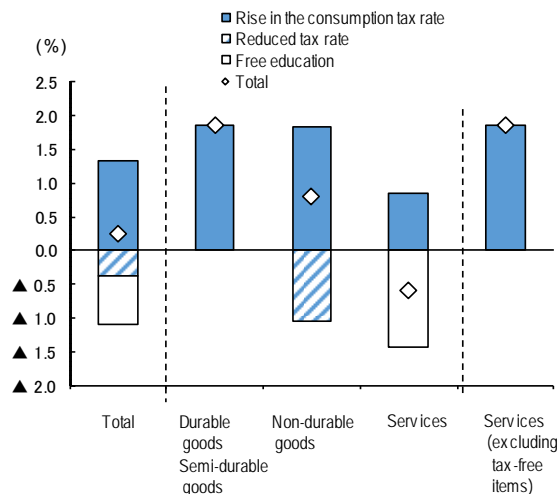
The introduction of the reduced tax rate and the provision of free education and nursery care, which will be implemented as measures to mitigate the tax rate hike, are expected to bring positive effects to household consumption through the

alleviation of rising prices as a result of the tax rate hike. Yet, since prices may be perceived as more expensive or cheaper depending on the items, demand for some items may decrease.

Specifically, while eating at home (cooking meals at home) and home meal replacements (using prepared food products) will become cheaper as a result of the introduction of the reduced tax rate, consumers will more likely refrain from eating out (using food services), to which the reduced tax rate will not be applied. With a shift in demand from eating out to eating at home and home meal replacements, there will be a negative impact on the consumption of services including food services.

Meanwhile, since the provision of free education and nursery care will significantly reduce the burdens for households with children, there will be a considerable positive impact on goods and services for which such households have potential needs. Specifically, expansion of demand can be expected for household appliances with advanced functions, leisure activities popular among families and tutoring schools.

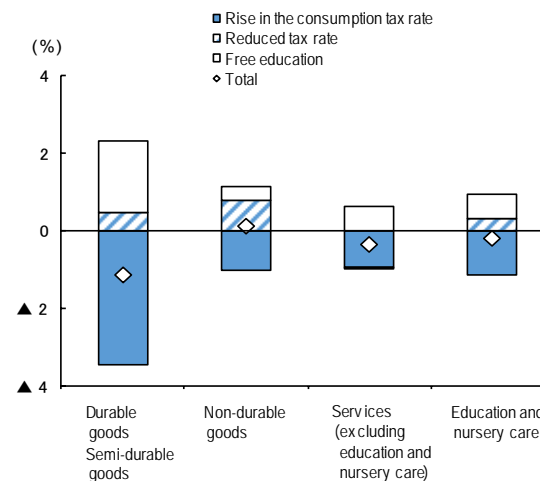
Figure 7-1 Effects on CPI by Item



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

Note: On the assumption that the effects of the tax rise and the measures would be fully passed on to the prices.

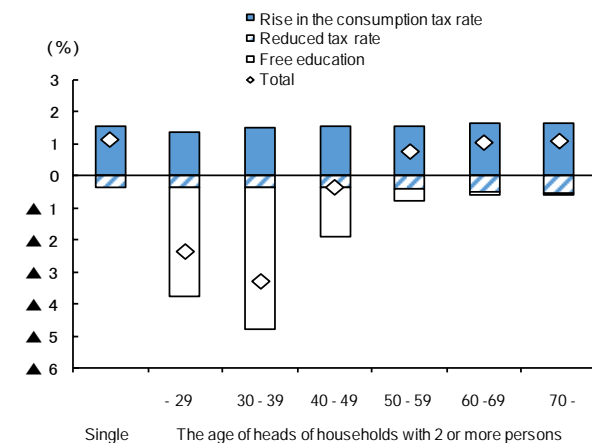
Figure 7-2 Effects on Consumption Demand by Item



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

Note: The estimates are based on a sample of workers' households with 2 or more persons.

Figure 7-3 Effects on CPI by Type of Households



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

Note: On the assumption that the effects of the tax rise and the measures would be fully passed on to the prices.

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## Prospects for Japan's Economy - Projected Real GDP Change; 0.8% in FY2019 and 0.8% in FY2020

### ◆ Mild Recovery of the Japanese Economy Will Likely Continue, Driven by Domestic Demand

(1) Japan's real GDP for the April-June 2019 period increased by 1.8% on an annualized quarter-on-quarter change basis (or 0.4% from the preceding quarter), achieving positive growth for the third consecutive quarter. This growth was driven by robust domestic demand.

Looking at the growth by demand category, while exports, mainly to Asia, remained sluggish, personal consumption and business fixed investment grew robustly. While temporary boosting factors including the consecutive holidays in relation to the change of the Japanese imperial era name contributed positively to the growth of personal consumption, consumer activities were underpinned by a favorable income environment.

Although business fixed investment may be revised downward for the Second Preliminary Quarterly Estimates of GDP (2nd QE), signs of postponing investment due to a decline in exports have not been witnessed much so far, and it is judged that Japan's economy has remained on a recovery trend.

(2) As for future prospects, mild economic recovery will likely continue driven by domestic demand, despite the fact that a robust rebound in exports cannot be expected amid a lack of momentum in the overall global economy.

While a lull in corporate capital expenditure is likely to be seen in the short term as a reaction to the high growth in the past, an upward trend will likely continue underpinned by resilient demand backed by structural factors including investments aimed at labor saving against the backdrop of labor shortages and workstyle reforms as well as the need for updating dilapidated equipment.

Personal consumption is also anticipated to continue to grow moderately, underpinned by the improvement in the income environment. While personal consumption is forecast to drop temporarily following the hike in the consumption tax rate due to a reaction to the rush demand, measures to minimize the impact of the consumption tax rate hike, such as the introduction of a reduced tax rate and provision of free education and nursery care, are expected to reduce the burden on households. Therefore, we believe that a significant decline in consumer spending will likely be avoided.

(3) Consequently, the Japanese economy is expected to grow moderately in FY2019 and FY2020 at the rate close to its potential growth rate which is estimated to be around 1.0%.

(4) However, attention must be paid particularly to the future prospects of the trade war between the United States and China given the increasing downside risks associated with the overseas economy. Since the further intensification of the conflict will increase negative impacts on the United States, it is predicted that the two countries will seek a compromise eventually in accordance with the main scenario.

As for the fourth round of tariffs imposed on Chinese goods that President Trump indicated at the beginning of August, it has been unclear how such tariffs will come into force specifically. Therefore, they have not been incorporated into the outlook of the growth rate at this point (as of August 9). If the tariffs are raised, there is a risk that business sentiment toward capital expenditure will become cautious not only in the United States and China but also on a global scale due to uncertainty over the future economic climate. It is likely that negative impact will also affect Japan, mainly regarding exports and the production of capital goods.

### ◆ The Year-on-year Change Rate in the Core CPI Will Likely Continue to Be Slightly below 1 Percent

(5) The pace of rise in the core CPI, which excludes fresh food, decelerated in June for the second consecutive month, mainly because the pace of rise in energy prices slowed down and communication charges for smartphones were reduced, despite continued rises in food prices. Looking ahead, it is predicted that the year-on-year increase rate in the core CPI will continue to be slightly less than 1 percent. This is because, while the upward pressure will likely strengthen from the supply-demand perspective, the pace of rise in energy prices will likely slow down further.

Figure 9 Projections for GDP Growth and Main Indicators of Japan ( as of August 9, 2019 )

	(seasonally adjusted, annualised % changes from the previous quarter)									(% changes from the previous fiscal year)		
	CY2019				CY2020				CY2021	FY2018	FY2019	FY2020
	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Actual)	(Projection)	(Projection)
	(Actual)	(Actual)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Actual)	(Projection)	(Projection)
Real GDP	2.8	1.8	0.6	▲ 2.9	1.5	1.6	1.3	0.5	1.2	0.7	0.8	0.8
Private Consumption Expenditure	0.4	2.5	1.4	▲ 4.9	2.3	2.1	▲ 0.2	1.2	1.0	0.5	0.6	0.6
Housing Investment	2.3	1.0	0.0	▲ 5.8	▲ 3.1	1.0	1.6	2.3	1.5	▲ 4.4	0.6	▲ 0.4
Business Fixed Investment	1.7	6.1	0.5	▲ 3.3	2.6	2.6	2.4	2.2	2.0	3.5	2.3	1.7
Private Inventories (percentage points contribution)	( 0.3)	(▲ 0.3)	(▲ 0.4)	( 0.1)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.1)	(▲ 0.0)	(▲ 0.0)
Government Consumption Expenditure	▲ 0.3	3.8	0.2	0.0	0.4	1.0	2.5	▲ 0.6	1.0	0.9	1.4	0.8
Public Investment	5.6	4.0	1.6	0.0	▲ 1.8	▲ 1.1	0.7	1.5	1.9	▲ 4.0	1.2	▲ 0.0
Net Exports (percentage points contribution)	( 1.7)	(▲ 1.2)	( 0.0)	( 0.5)	(▲ 0.1)	(▲ 0.1)	( 0.4)	(▲ 0.5)	( 0.0)	(▲ 0.1)	(▲ 0.2)	( 0.0)
Exports of Goods and Services	▲ 7.6	▲ 0.2	1.9	2.2	1.8	1.8	2.9	▲ 1.3	1.8	1.5	▲ 0.7	1.7
Imports of Goods and Services	▲ 16.0	6.7	1.8	▲ 0.8	2.4	2.6	0.4	1.4	1.8	2.1	0.2	1.5
(Ref.) Domestic Private Demand (percentage points contribution)	( 0.9)	( 2.0)	( 0.5)	(▲ 3.3)	( 1.6)	( 1.6)	( 0.3)	( 1.1)	( 0.9)	( 0.8)	( 0.7)	( 0.6)
(Ref.) Public Demand (percentage points contribution)	( 0.2)	( 0.9)	( 0.1)	( 0.0)	(▲ 0.0)	( 0.1)	( 0.5)	(▲ 0.1)	( 0.3)	(▲ 0.0)	( 0.3)	( 0.2)

	(% changes from the same quarter of the previous year)									(% changes from the previous fiscal year)		
Nominal GDP	1.1	1.6	2.2	1.6	1.1	1.2	1.1	1.6	1.5	0.5	1.6	1.4
GDP deflator	0.1	0.4	0.6	1.1	1.0	0.9	0.8	0.4	0.3	▲ 0.2	0.8	0.6
Consumer Price Index (excluding fresh food)	0.8	0.8	0.5	0.9	1.0	0.9	1.1	0.8	0.8	0.8	0.8	0.9
(excluding fresh food, consumption tax, education free of charge)	0.8	0.8	0.5	0.6	0.6	0.6	0.8	0.8	0.9	0.8	0.6	0.8
Unemployment Rate (%)	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.4	2.3
Exchange Rates (JY/US\$)	110	110	107	106	106	106	106	106	106	111	108	106
Import Price of Crude Oil (US\$/barrel)	63	72	66	68	68	68	68	68	68	72	69	68

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.

Note : "▲" indicates minus.