

Annual Report on the Japanese Economy and Public Finance 2017

(Report by Minister of State for Economic and Fiscal Policy)

—New Growth Promoted by Technological Innovation and Work Style Reform—

Summary

July 2017

Cabinet Office, Government of Japan

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This material has been tentatively prepared to explain the “Annual Report on the Japanese Economy and Public Finance.” For quotations and other purposes, please refer to the text of the “Annual Report on the Japanese Economy and Public Finance.”

Chapter 1 Current State of the Moderate Economic Recovery

- Features of the present economic recovery phase highlighted by a comparison with the past business cycle that started in 2002 (14th cycle).
 - (1) Japanese economy is no longer in deflation
 - (2) Improvement in employment/income environment (decline in unemployment rate, increase in employed persons, increase in nominal wages)
- Since the second half of 2016, the activity in corporate sector has accelerated again reflecting the world economic recovery, and acted as a starting point of a virtuous cycle.

Figure 1 Selected indicators during periods of economic expansion

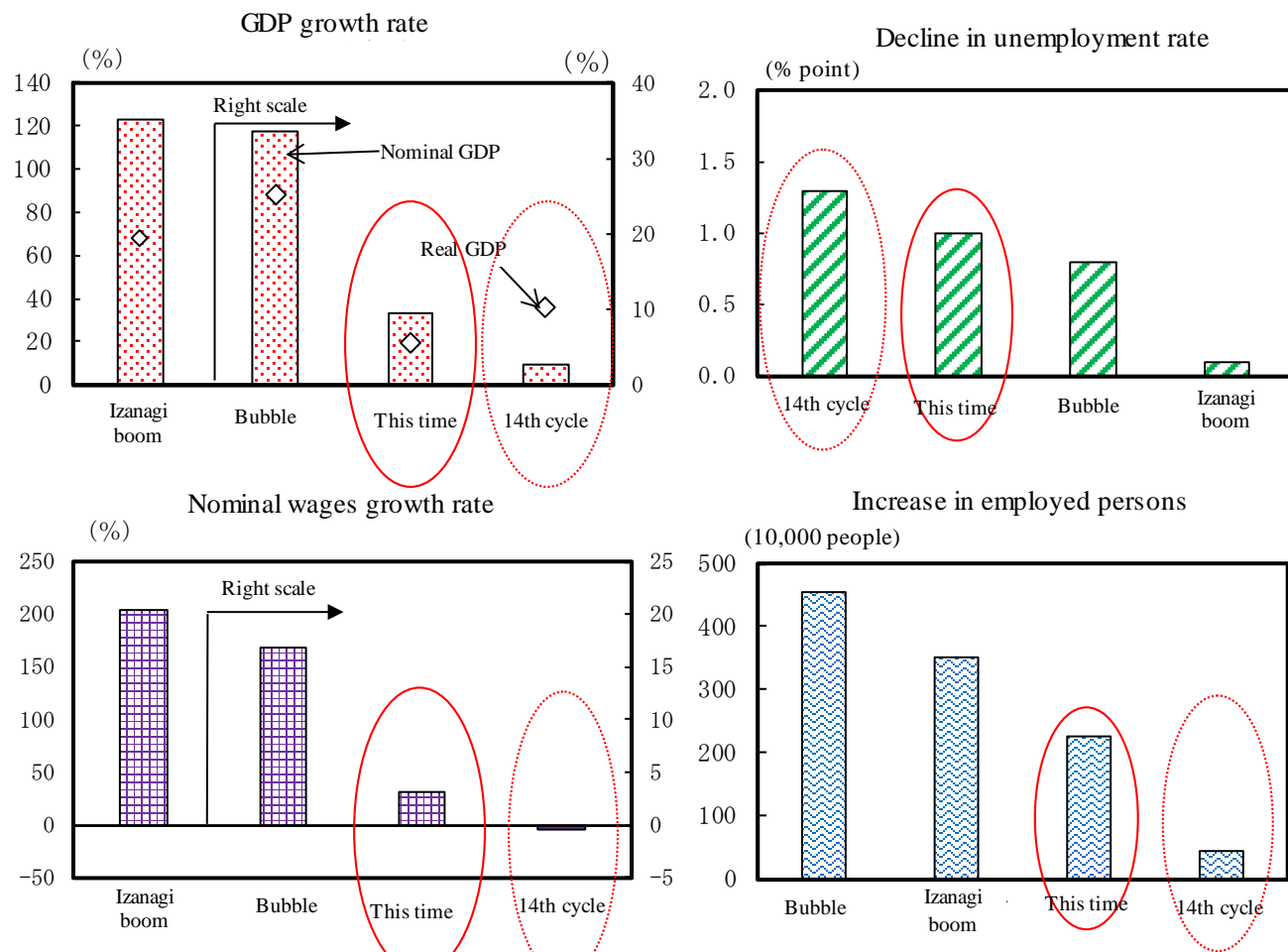
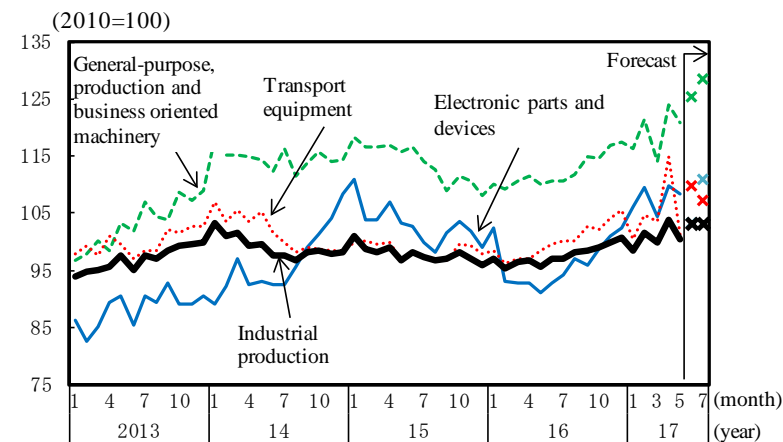
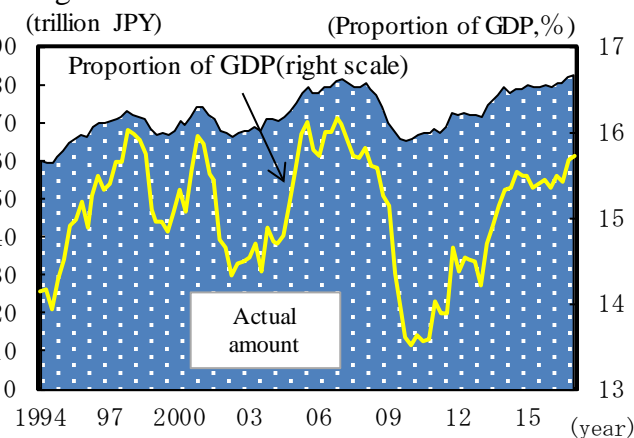


Figure 2 Industrial production by industry



(Note) Based on the Indices of Industrial Production, the Ministry of Economy, Trade and Industry.

Figure 3 Private nonresidential investment



(Note) Based on the System of National Accounts, the Cabinet Office.

(Note) Based on the System of National Accounts, the Cabinet Office; the Labour Force Survey, the Ministry of Internal Affairs and Communications; and the Monthly Labour Survey, the Ministry of Health, Labour and Welfare.
14th cycle: 2002 Feb- 2008 Feb, Izanagi: 1965 Nov- 1970 Jul, Bubble: 1986 Dec- 1991 Feb.

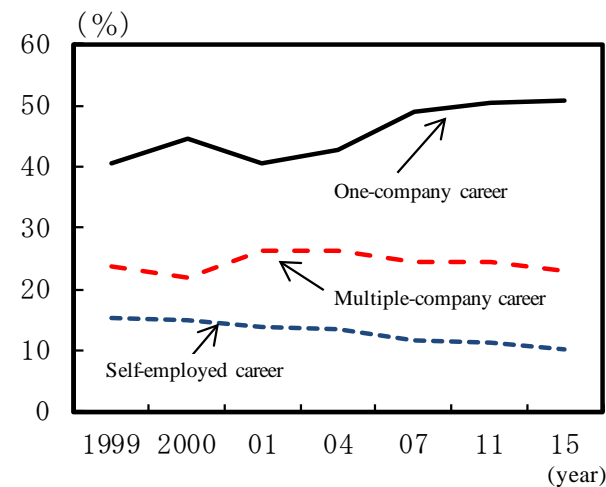
- Japan's labor market has continued to improve, with the ratio of job offers to seekers reaching 1.48 in April 2017, exceeding the level of the bubble economy period in early 1990s.
 - (1) During the bubble economy period, the labor supply measured by man-hours increased substantially. Work hours per person decreased substantially due in part to the revision of the Labor Standards Act (48 hours/week → 40 hours/week), but the labor force participation rate rose and the number of employees grew substantially, amid an increase in the working-age population.
 - (2) On the other hand, the labor supply measured by man-hours has remained flat presently. The working-age population has been decreasing at around 1% annually. Though not as much as during the bubble economy period, the number of employees has been growing, supported by the higher labor force participation rate in particular among women and the elderly. Work hours per person have decreased due to the higher ratio of part-time workers.
- Wages per person rose less compared to the bubble economy period, reflecting the following factors:
 - (1) Growth rate in labor productivity measured by man-hours is lower compared to the bubble economy period, partly reflecting the decline in the capital-labor ratio.

*Capital-labor ratio = fixed assets / number of employees
 - (2) Both workers' and employers' stance to avoid risks may be suppressing the rise in wages.

Figure 4 Comparison with the bubble economy period

	(% , %point)	
	Bubble economy period(1986-91) (Change during period, annual average)	this time(2012-2016) (Change during period, annual average)
Man-hours	1.4	0.2
working-age population (age 15-64)	0.8	-1.2
Labor force participation rate (age 15-69)	0.3	0.6
Women(age 15-64)	0.6	1.0
Elderly (65 and older)	0.3	0.7
Number of employees	2.7	1.1
Work hours per person	-0.8	-0.3
Wages per person (nominal)	3.6	0.4
Labor productivity per hour (real)	3.8	0.7
Capital-labor ratio (real)	3.3	-0.6 (2012-15)
Consumer price index (overall)	1.9	1.0

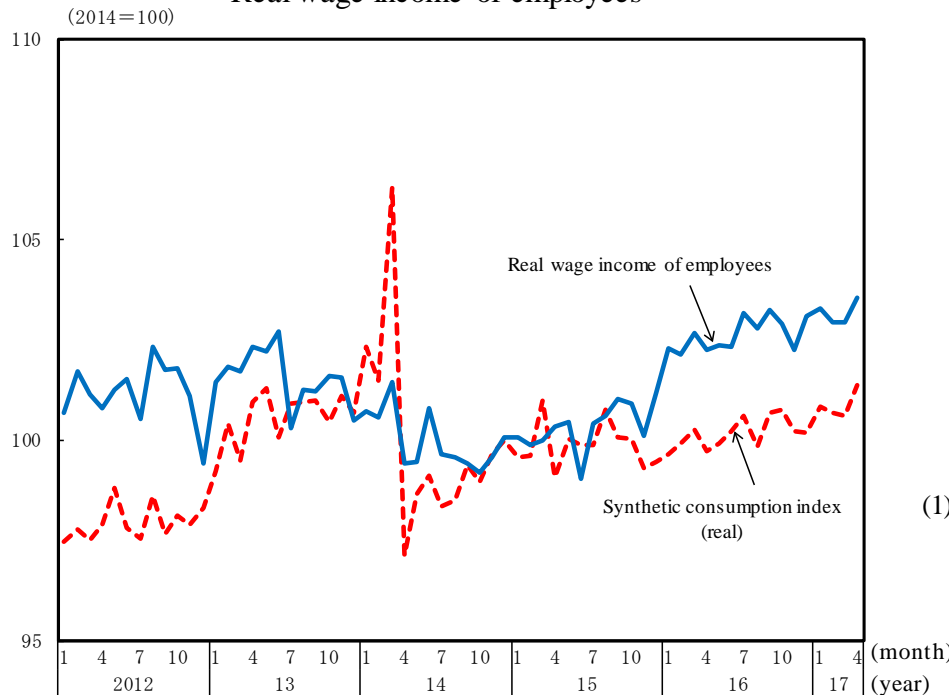
Figure 5 Desirable career development (worker questionnaire)



- (Notes) 1. (Left) Based on the Labour Force Survey and the Consumer Price Index, the Ministry of Internal Affairs and Communications; the Monthly Labour Survey, the Ministry of Health, Labour and Welfare; and the System of National Accounts, the Cabinet Office.
2. (Right) Based on the working life survey, Japan Institute for Labour Policy and Training.

- Private consumption has been picking up moderately. However, its growth has been slow compared to the substantial improvement in the employment and income environment.
- The structure of private consumption in Japan has changed substantially due to the technological innovation and structural changes of households, such as an increase in people living alone and the graying of the population. By consumption type, services increased steadily. Amid a decline in sales at department stores, convenience stores and drugstores have increased their sales, attracting consumers by their good locations and wide selections. Furthermore, the share of households that use Internet shopping has increased to around 30%, highlighting a shift from bricks-and-mortar stores to the Internet.
- There is an inclination to own fewer things. The market for secondhand goods has expanded as seen in the rapid growth of “flea market apps” (market size: approx. 300 billion JPY).

Figure 6 Synthetic consumption index and Real wage income of employees



- (Notes) 1. (Left) Consumer Price Index and real employee income based on estimates by the Cabinet Office, seasonally adjusted.
 2. (Upper right) Based on the System of National Accounts, the Cabinet Office.
 3. (Lower right) Based on the Current Survey of Commerce, the Ministry of Economy, Trade and Industry; and the Survey of Household Economy, the Ministry of Internal Affairs and Communications.

Figure 7 Expenditure of households classified by type

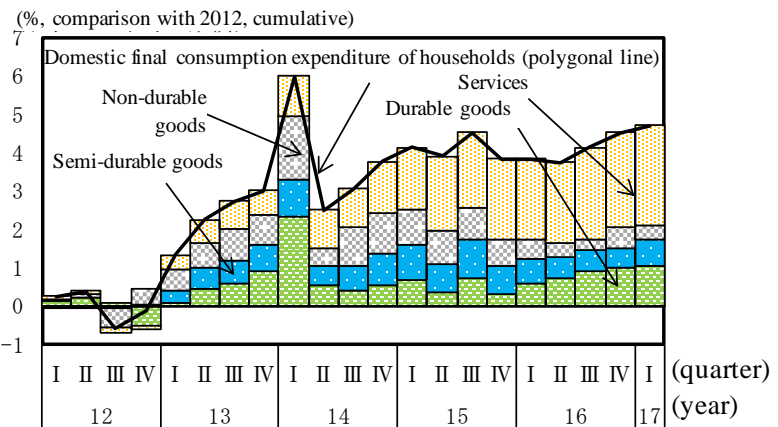
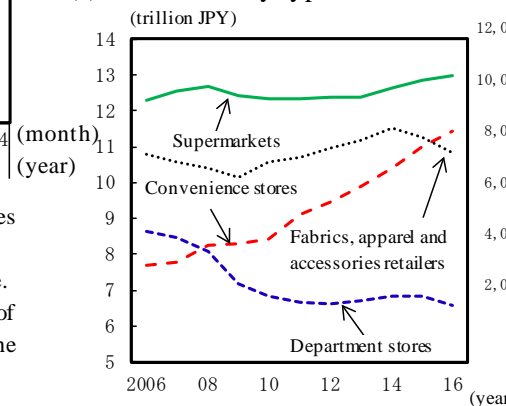
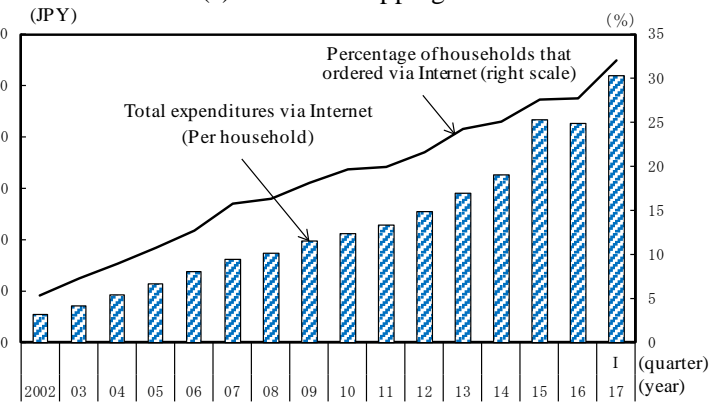


Figure 8 Shift in distribution channels

(1) Retail sales by type of business



(2) Internet shopping



- The weak growth in consumption reflects the followings:

- (1) Among young generation, the confidence for the future employment and income remains subdued. More people tend to choose late marriage or unmarried life.
- (2) Among the middle aged and elderly, amid an extension of the life expectancy, the necessity to prepare for a retirement may increase budget-minded households.
- (3) Among the elderly, the consumption is partly constrained by the limited size of the secondhand housing market, which prevents them to make full use of relocations and housing assets such as reverse mortgages.

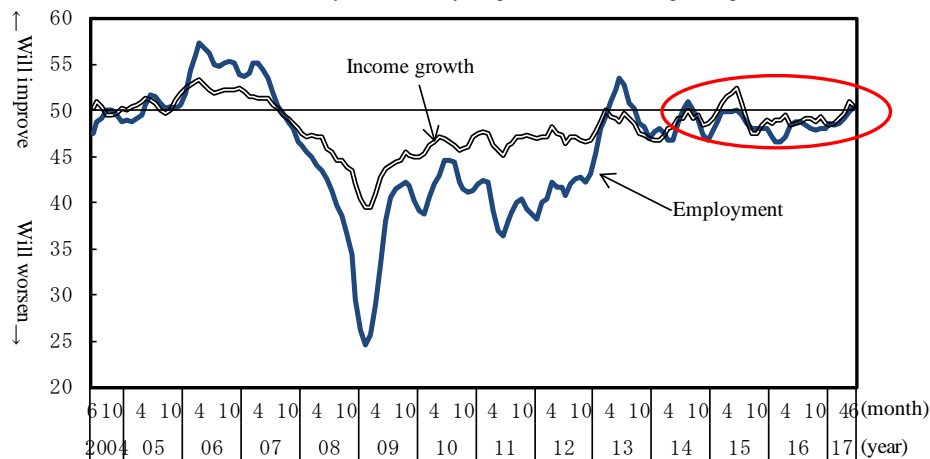


- The measures to address these issues include:

- Recovery of confidence in future economic growth and higher income.
- Stimulation of potential demand (for example, an increase in people living alone and dual-income couples, and the graying of the population may lead to an increased demand for housekeeping services)
- Effective use of households' assets to support the purchasing power through the improvement of quality and distribution of the existing houses and the expansion of the secondhand goods market.

Figure 9 Young generation's concerns about the future (employment and income environment in the next 6 months)

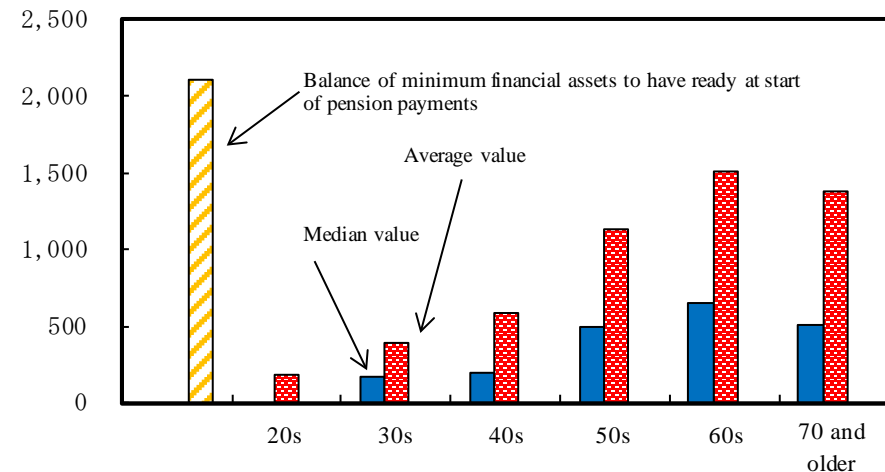
(All households with 29 years old and younger, 3-month moving average)



(Note) Based on the Consumer Confidence Survey, the Cabinet Office.

Figure 10 Financial asset holdings (households with 2 or more persons, 2016)

(10,000 JPY)



(Note) Based on the Public Opinion Survey on Household Financial Assets and Liabilities, the Central Council for Financial Services Information.