

Recent Economic Developments

January 15, 2019

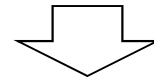
**Cabinet Office
Government of Japan**

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<Assessments of the current state of the Japanese economy>

October

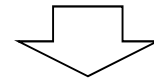
The Japanese economy is recovering at a moderate pace.



November

The Japanese economy is recovering at a moderate pace.

(Unchanged)



December

The Japanese economy is recovering at a moderate pace.

(Unchanged)

<Assessments of the current state of the Japanese economy>

	October	November	December
Private consumption	Private consumption is picking up.	Unchanged	Unchanged
Business investment	Business investment is increasing.	Unchanged	Unchanged
Exports	Exports are almost flat.	Unchanged	Unchanged
Industrial production	Industrial production is increasing moderately.	Unchanged	Unchanged
Corporate profits	Corporate profits are improving.	Unchanged	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions are almost flat.	Unchanged	Unchanged
The employment situation	The employment situation is improving steadily.	Unchanged	Unchanged
Prices	Consumer prices are rising at a slower tempo recently.	Unchanged	Unchanged

<Short-term prospects>

October

The economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to the effects of situations over trade issues on the world economy, the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets. Furthermore, sufficient attention should be given to the economic impacts by the successive natural disasters.

November

The economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to the risks including the effects of situations over trade issues on the world economy, the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

(Changed)

December

The economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to the effects of situations over trade issues on the world economy, the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

(Changed)

<Policy stance>

(December)

The Government will make its utmost efforts to ensure the economy overcomes deflation and achieve economic revitalization and fiscal consolidation simultaneously, in addition to make effort toward the reconstruction and revitalization from the Great East Japan Earthquake and the restoration and reconstruction from the 2016 Kumamoto Earthquake.

To this end, the Government steadily implements the "Basic Policies for Economic and Fiscal Management and Reform 2018", the "Growth Strategy 2018" and so on.

Moreover, in order to establish the social security system oriented to all generations under which people of all generations can live at ease and work, the Government will promote comprehensive reform of the system including the labor system.

Futhermore, looking ahead to the consumption tax rate hike planned for October 1, 2019, the Government will take all possible measures towards economic and fiscal management.

Implementing the FY2018 first supplementary budget swiftly and steadily, the Government will exert every effort for the restoration and reconstruction of the areas affected by the successive natural disasters. And the Government will compile the FY2018 second supplementary budget and swiftly undertake the "Three-year Emergency Response Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience" decided by the Cabinet on December 14th.

The Government continuously pursues to expand the economic virtuous cycles which cover local areas, SMEs and small-scale businesses, through directing growing corporate profits towards investment, wage increase and further improvement in the employment situation.

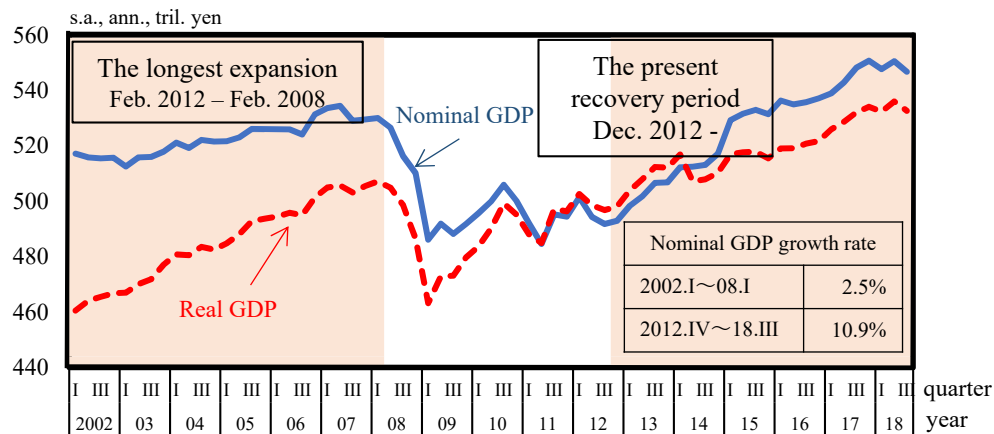
The Government presented the "Basic Principles of FY2019 Budget Formulation" (December 7th, Cabinet decision) and the "Fiscal 2019 Economic Outlook and Basic Stance for Economic and Fiscal Management" (December 18th, Approval of Cabinet) toward the compilation of the FY2019 budget.

The Government expects the Bank of Japan to achieve the price stability target of two percent in light of economic activity and prices.

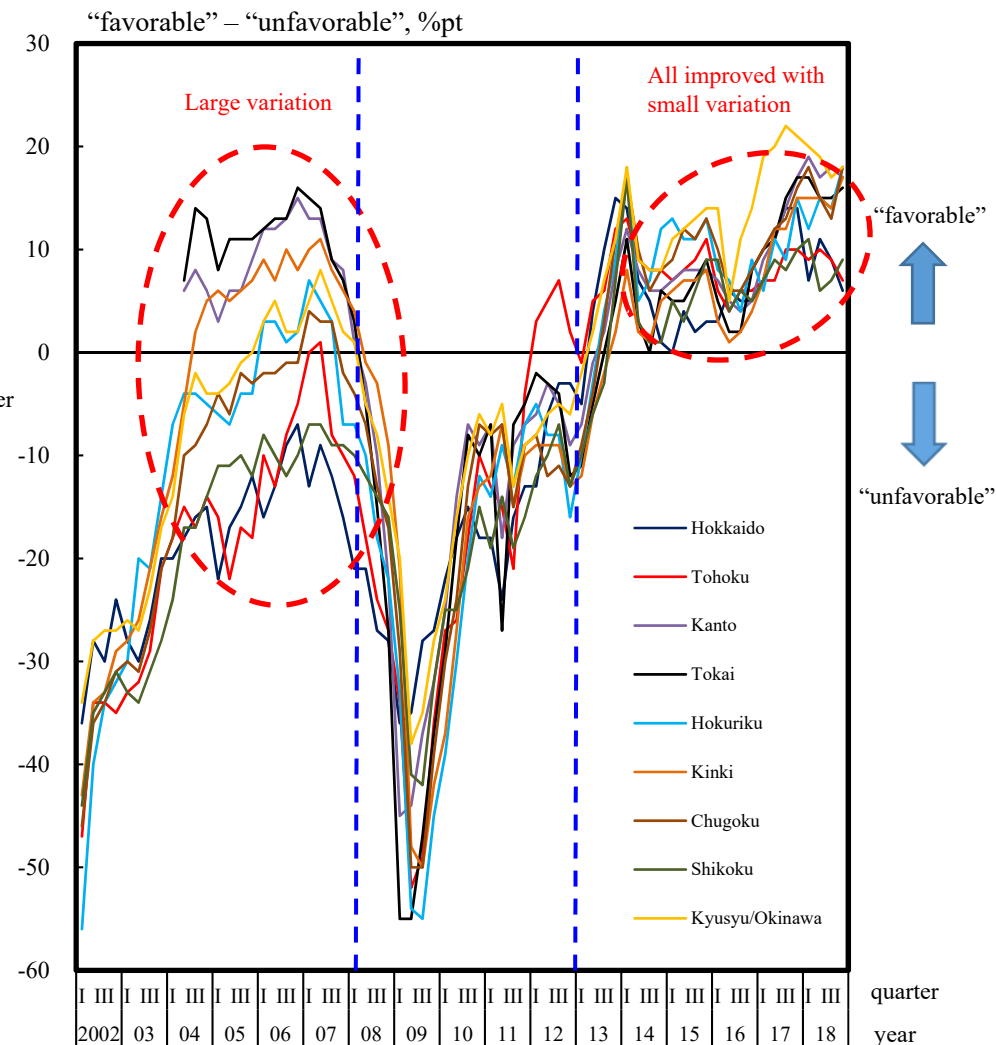
The recovery has continued for 73 months (※), equal to the longest expansion in history.

※The length of the economic expansion period is officially determined by the Economic and Social Research Institute (ESRI), based on further accumulation of data and the discussion of experts.

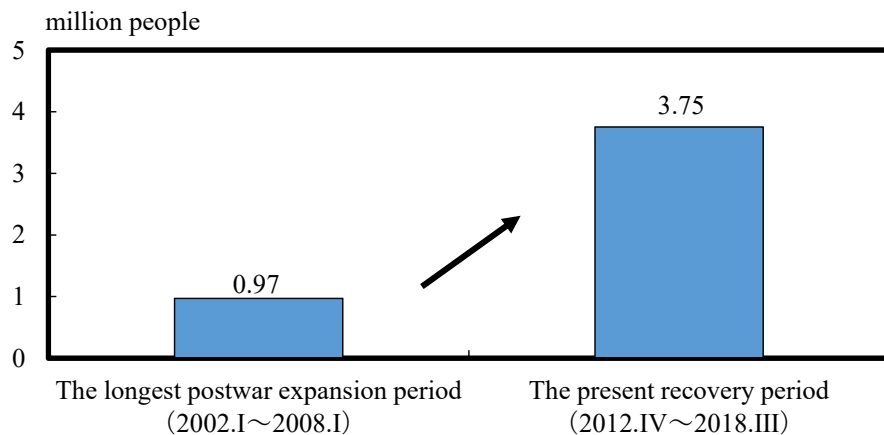
Nominal and Real GDP



Business conditions by region



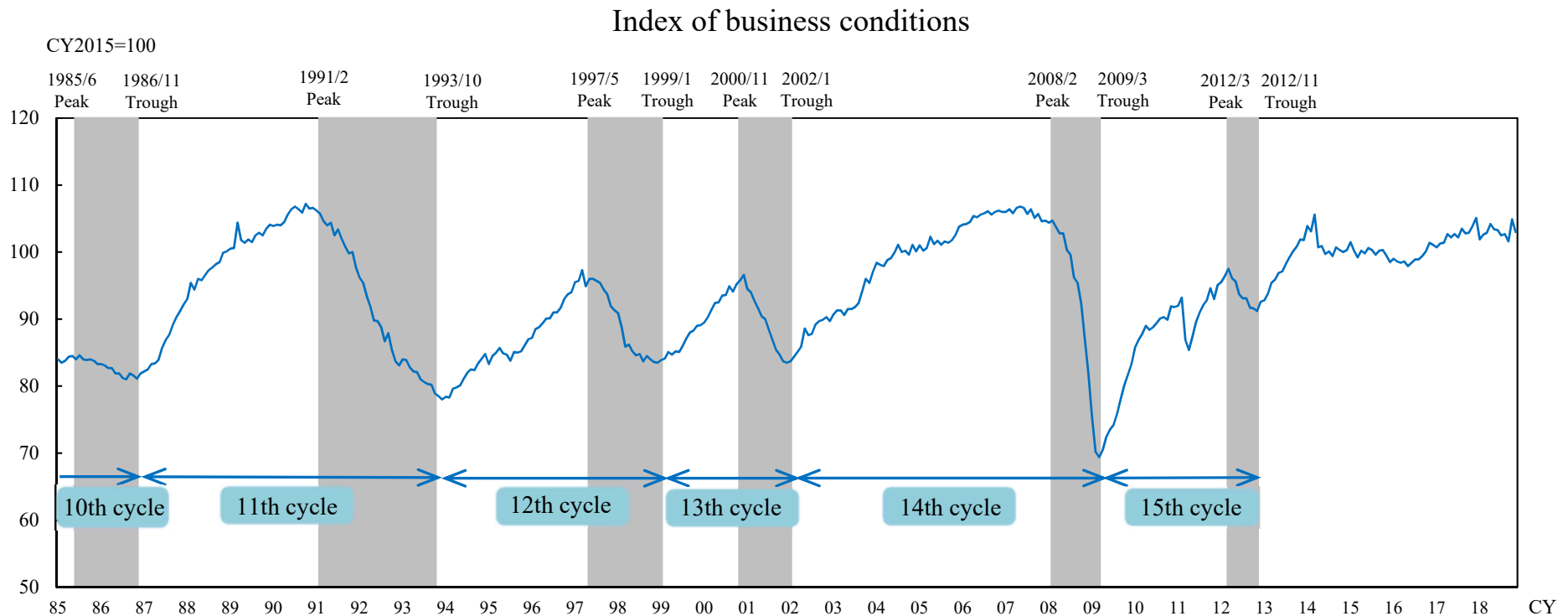
Increase in the number of employed persons



Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

Source: Bank of Japan.

Economic Expansion Period



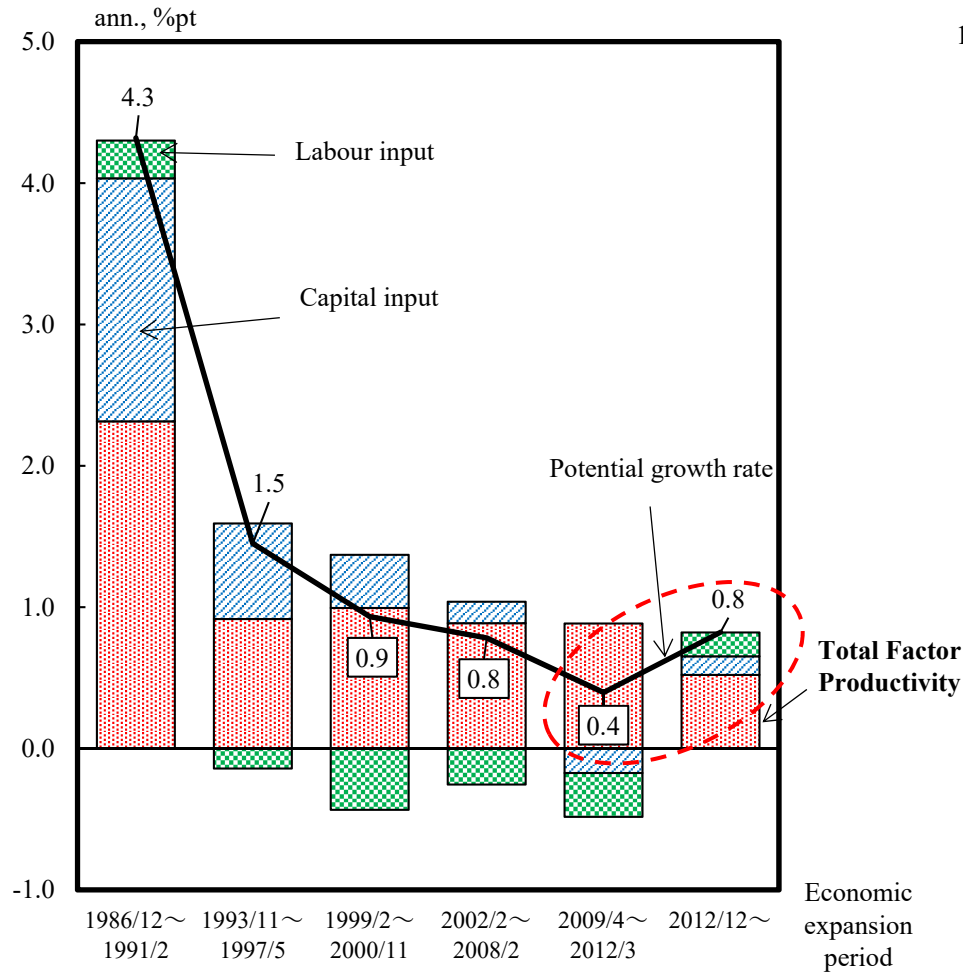
Note: Shaded areas indicate recession periods.

Rank of the length of the expansion period

Rank	Period	
1	73 months	2002 Feb. – 2008 Feb.
2	57 months	1965 Nov. – 1970 Jul., “Izanagi”
3	51 months	1986 Dec. – 1991 Feb., “Bubble”
This time	73 months	2012 Dec. –

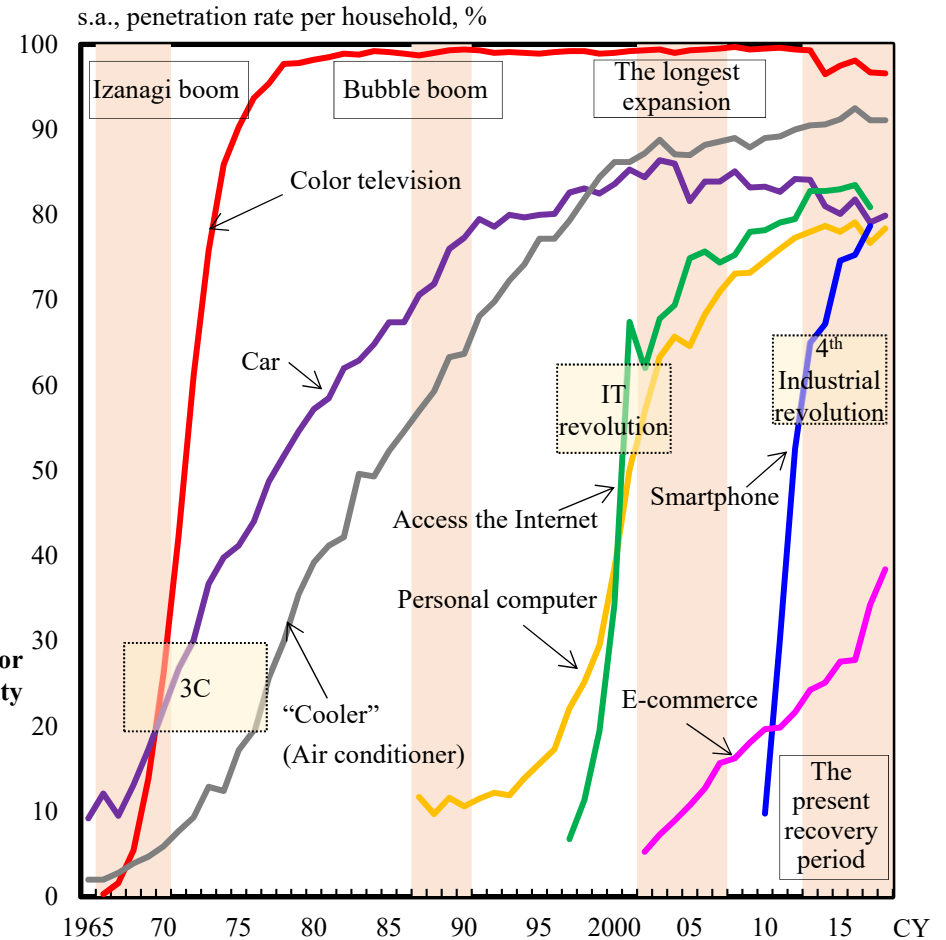
The greatest challenge: Further boosting of the potential growth.

Contributions to percent change in potential growth rate



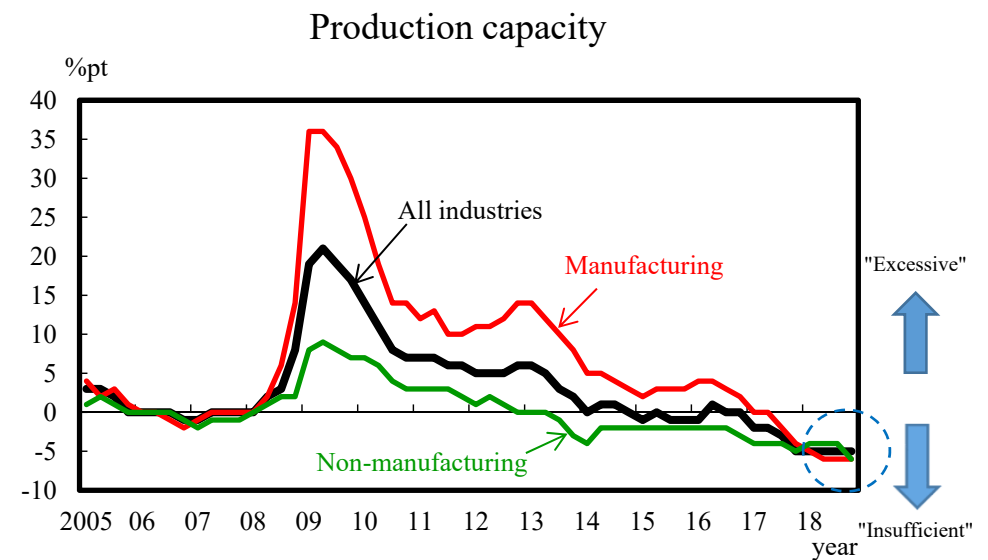
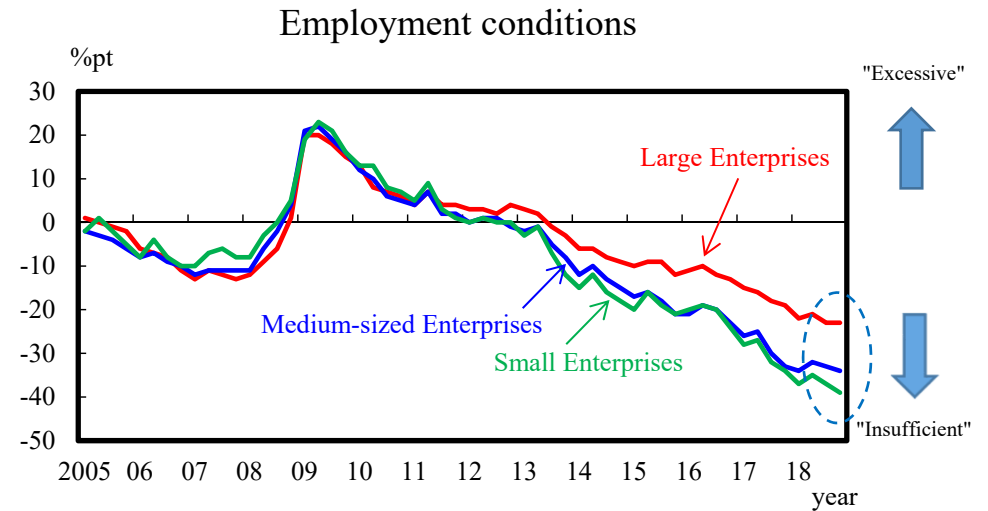
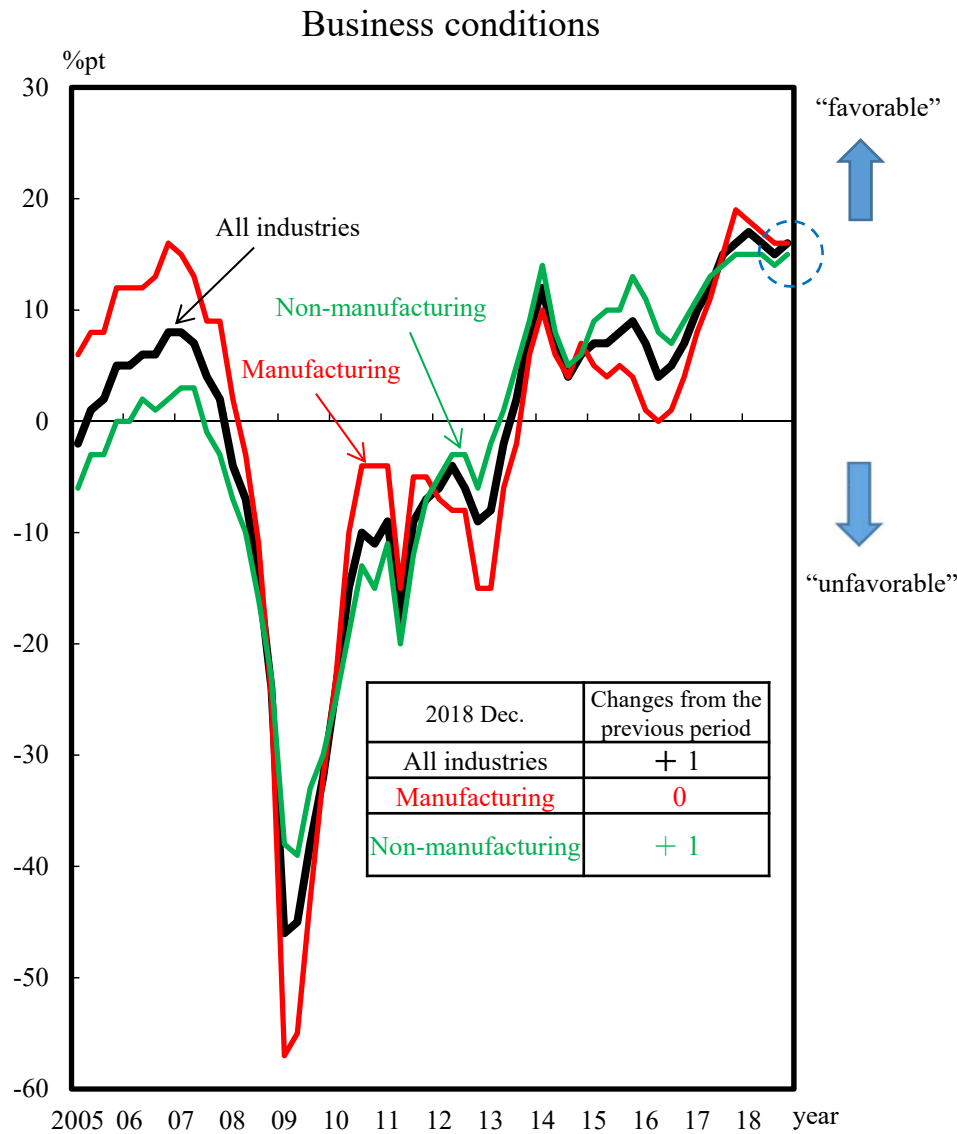
Source: Cabinet Office.

The technological innovation and new products contribute to long-term economic expansion



Sources: Ministry of Internal Affairs and Communications; Cabinet Office.

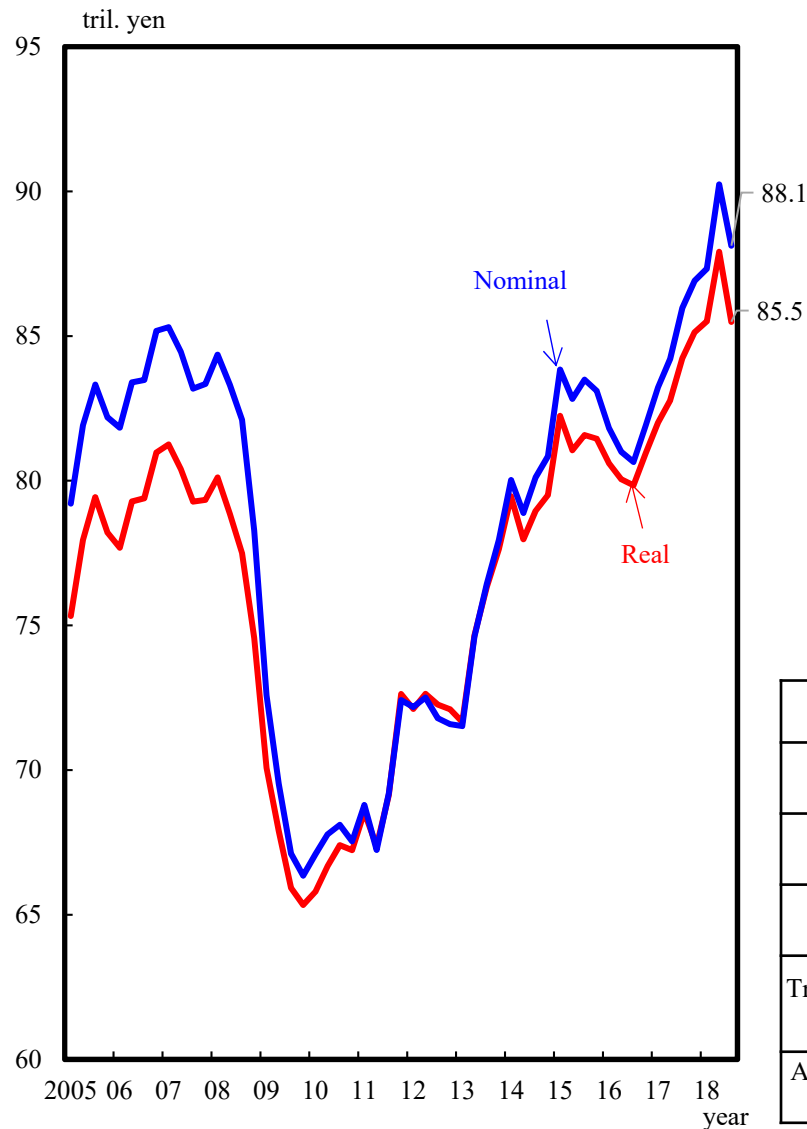
— “Tankan” Survey — **Business conditions continue to be more "Favorable" than "Unfavorable" with further shortage of labor and production capacity.**



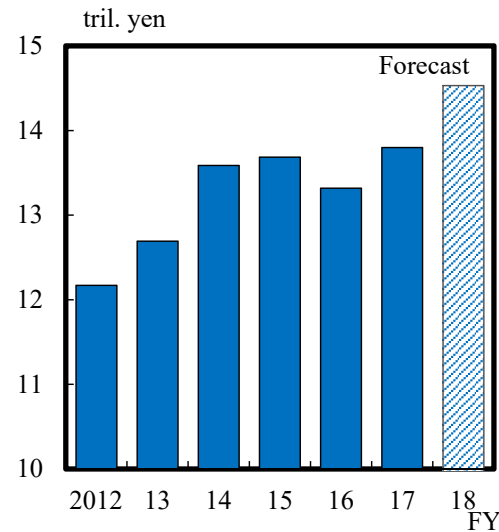
Source: Bank of Japan.

— Business investment — Business investment has increased and the plans for FY2018 are revised up.

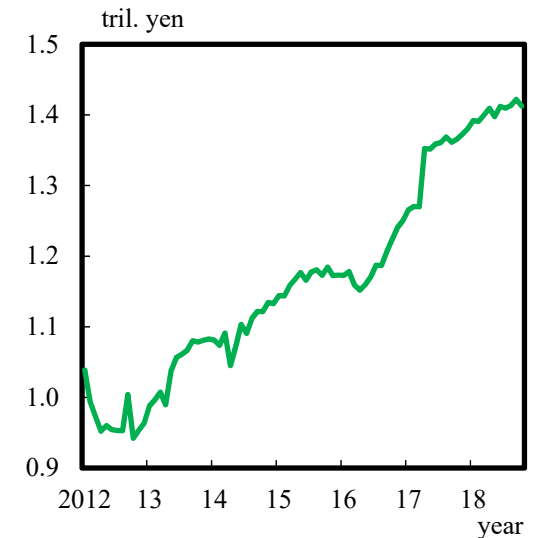
Business investment



R&D investment



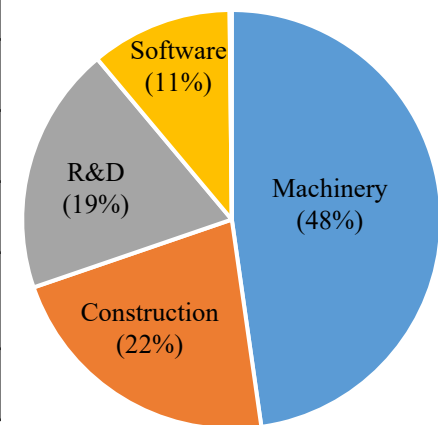
Amount of private construction completed



Business investment plan for FY2018: +9.6%

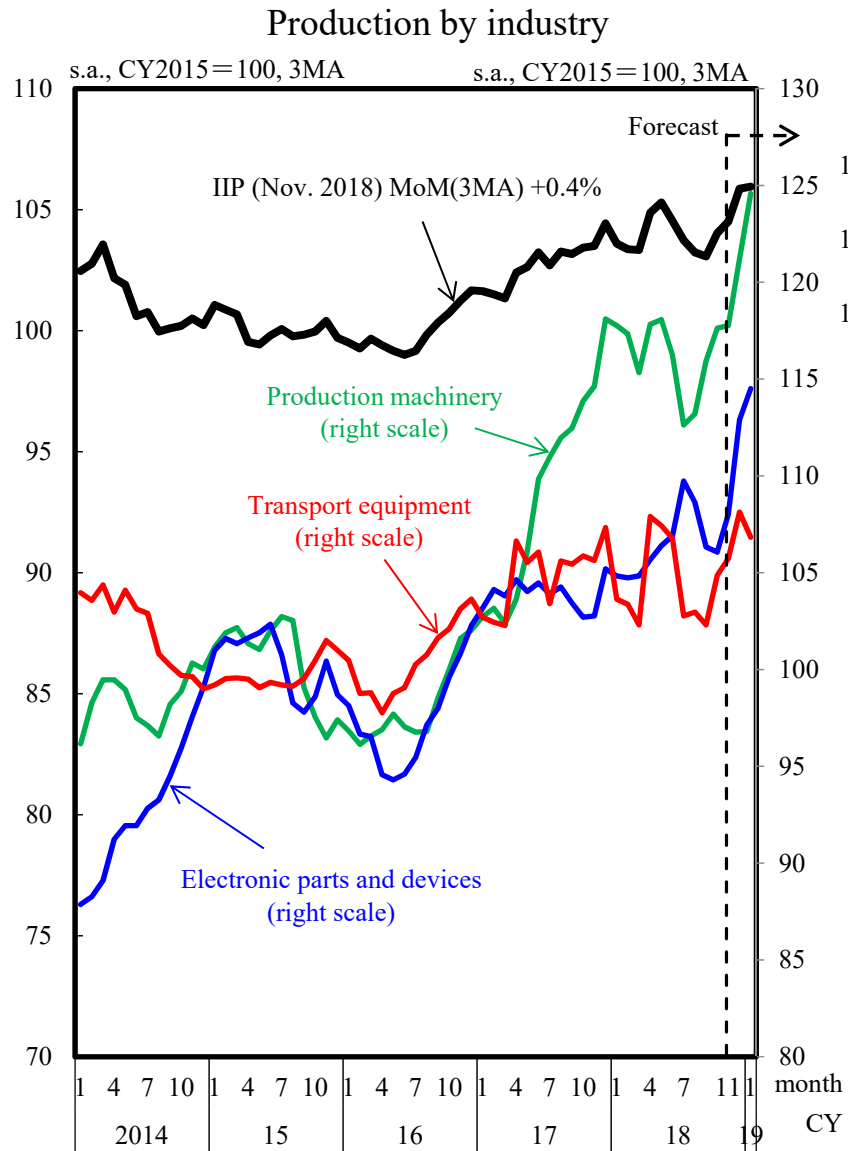
Industry	y/y	Assumed main background
Motor vehicles	7.2%	Electric vehicle, Construction of R&D facilities
Chemicals	12.4%	Increasing production of materials for lithium ion battery
Production machinery	21.1%	Increasing production capacity
Transport & Postal activities	16.8%	Introduction of new type rail cars, Redevelopment of stations Safety measures
Accommodations, Restaurants	15.9%	Increasing the number of foreigners visiting Japan

Components of business investment (2016)



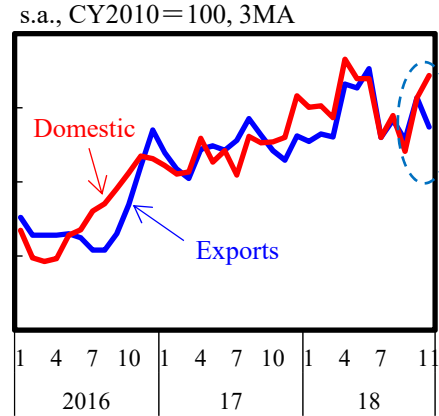
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan; Development Bank of Japan.

— Industrial production — Industrial production is increasing moderately.

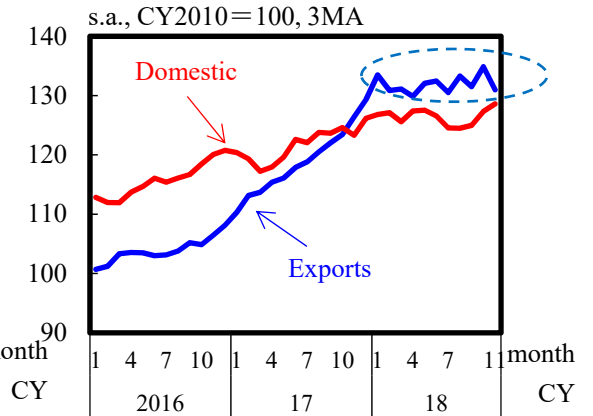


Shipments by industry

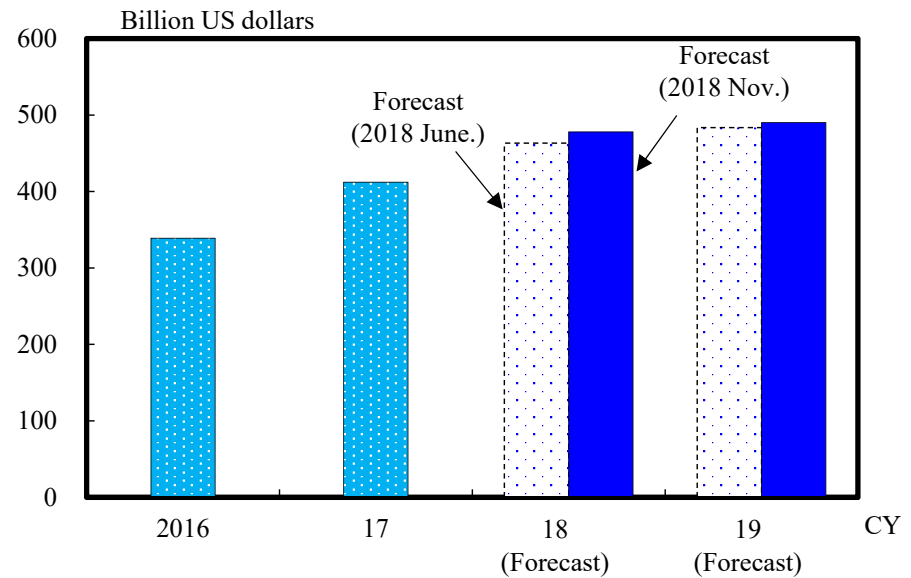
Transport equipment: recovering from disasters



General machinery: growing at a slower pace (incl. Production machinery)



World semiconductor market forecast

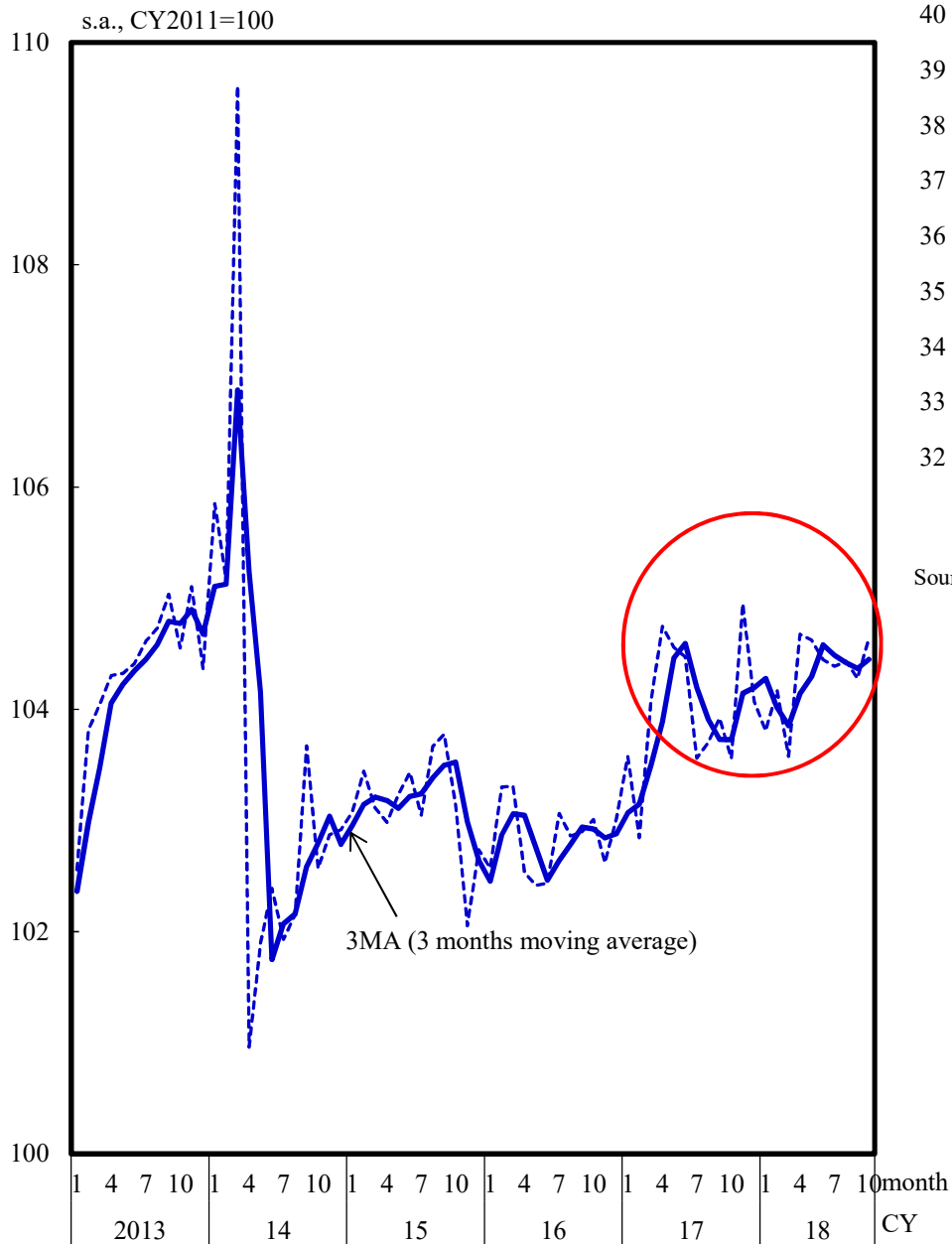


Source: Ministry of Economy, Trade and Industry; World Semiconductor Trade Statistics.

<References>

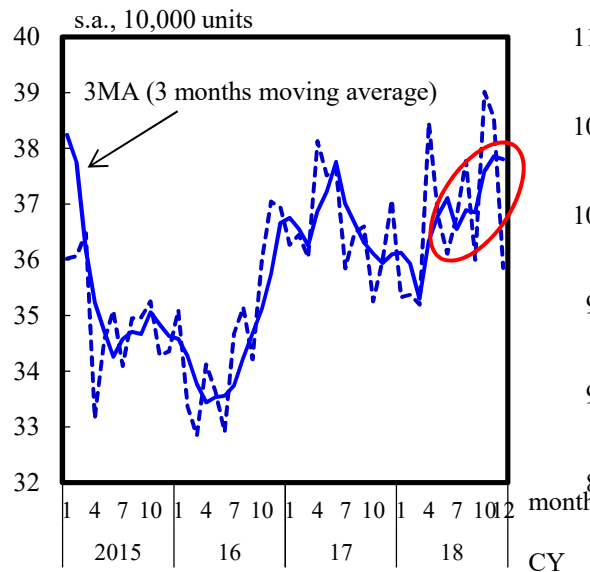
Private Consumption

Synthetic consumption index (Real)



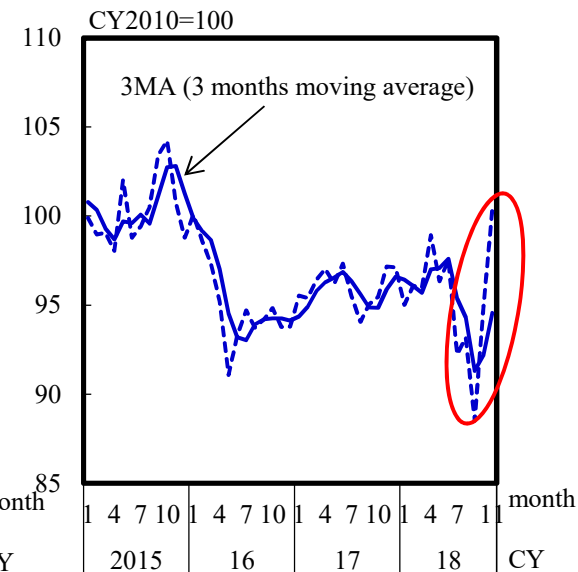
Source: Cabinet Office.

New automobile sales volume



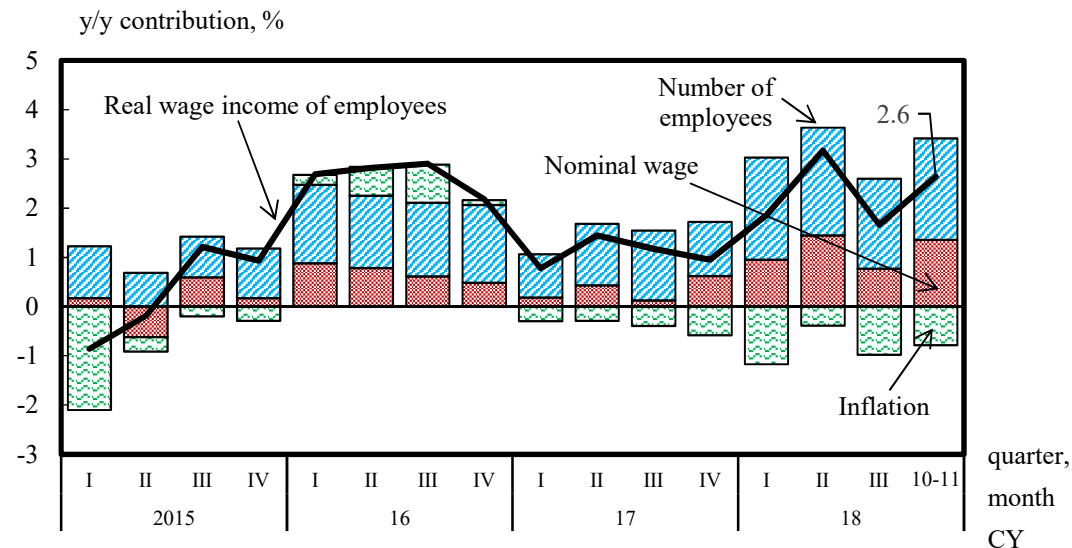
Sources: Japan Auto Dealers Association; Japan Light Motor Vehicle and Motorcycle Association.

Travel



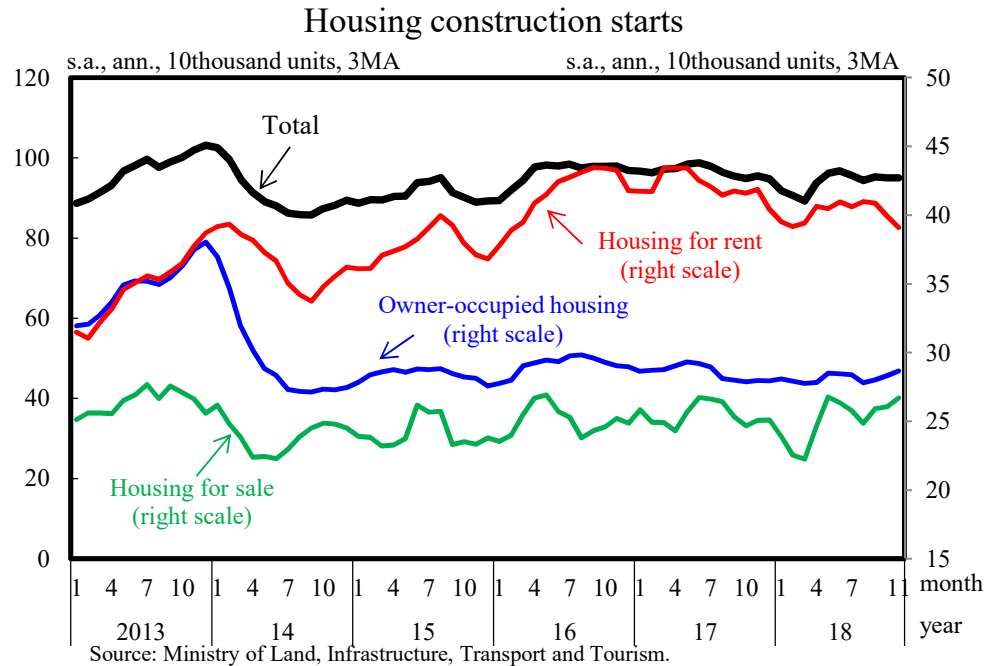
Source: Railway Passenger Association.

Real wage income of employees

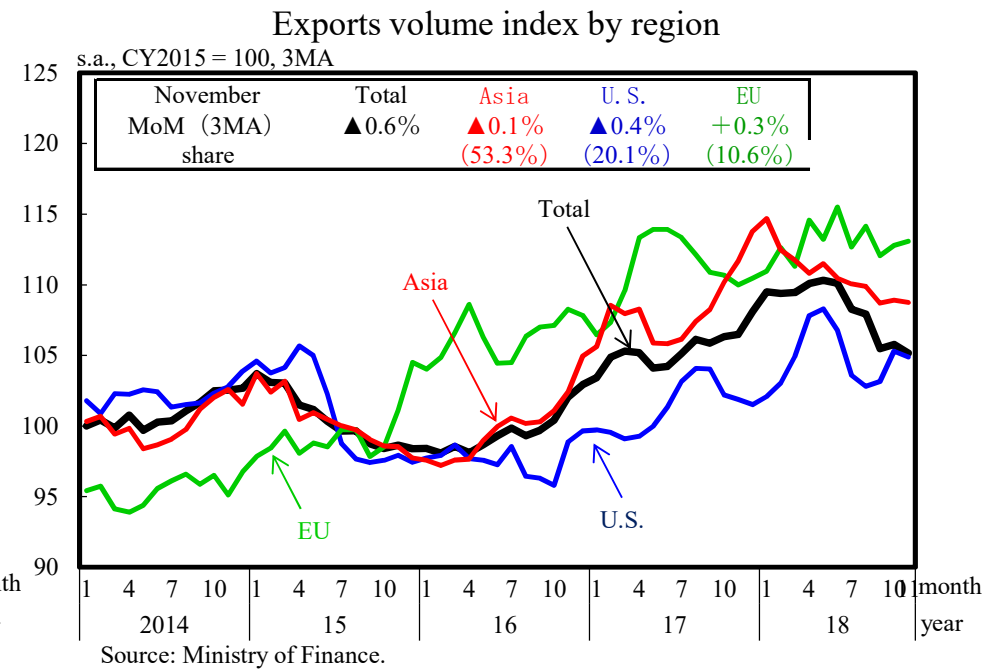


Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Cabinet Office.

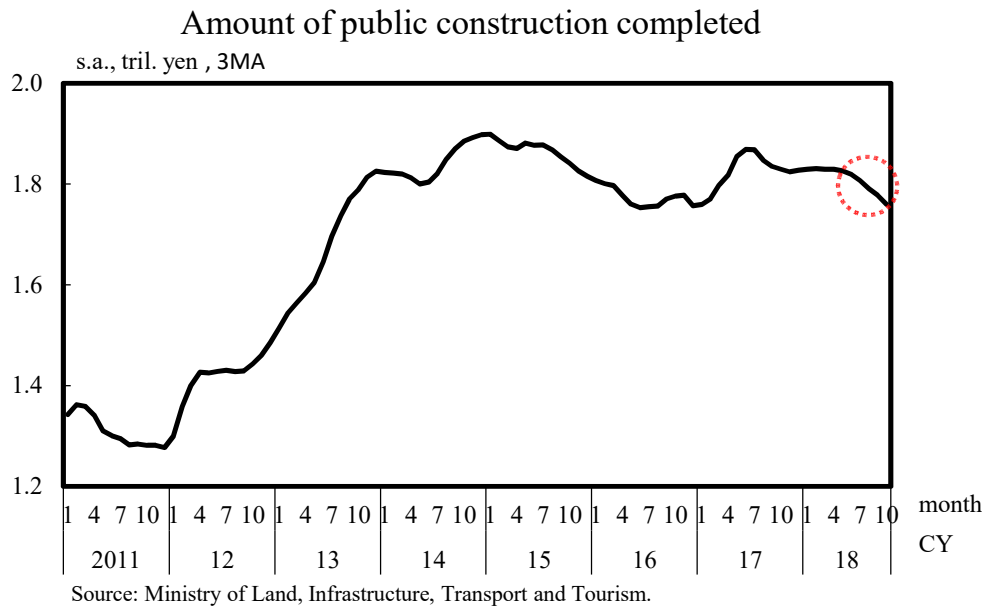
Housing Construction



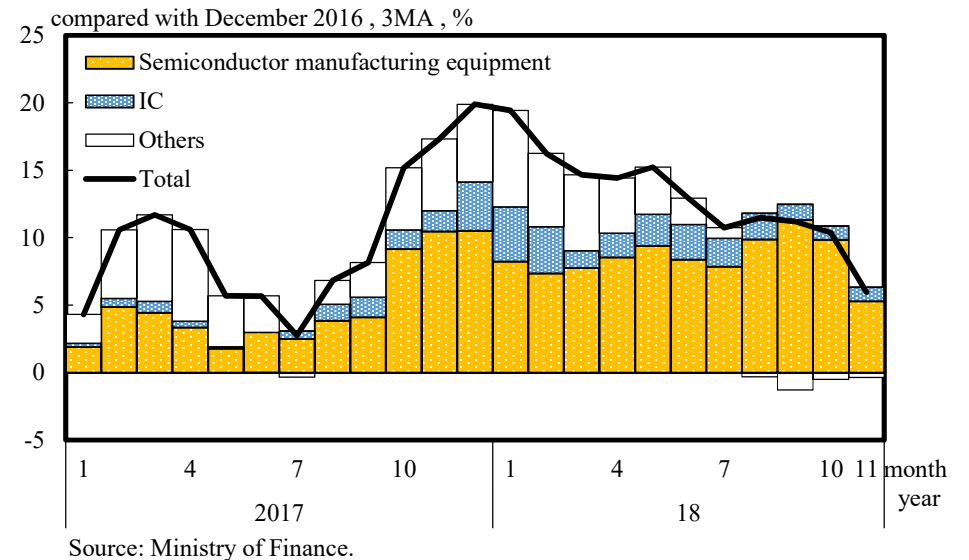
Exports



Public investment

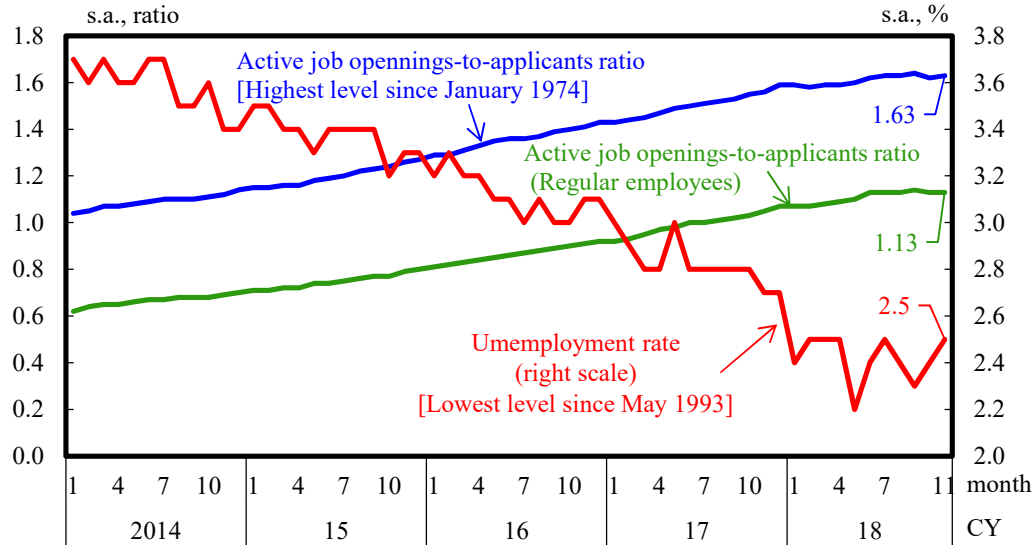


Exports of IT-related goods for Asia



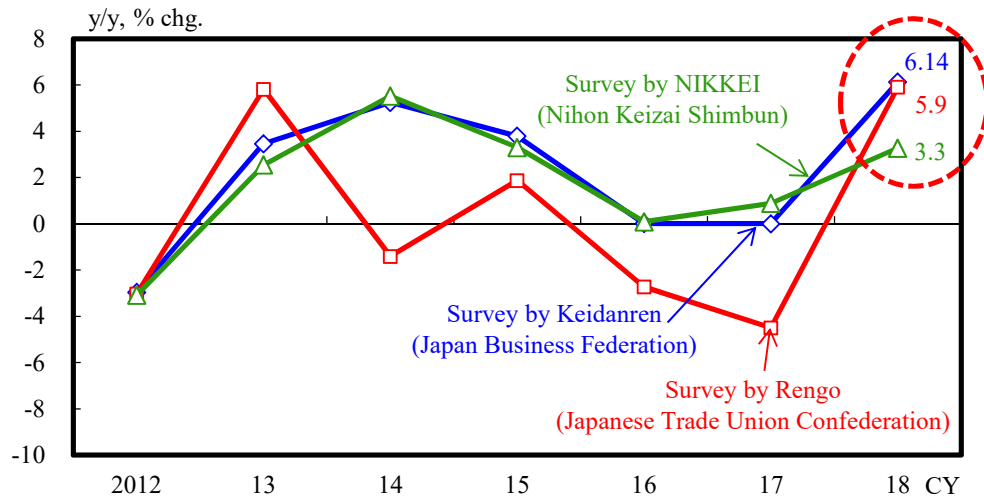
Employment situation

Unemployment rate and active job openings-to-applicants



Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

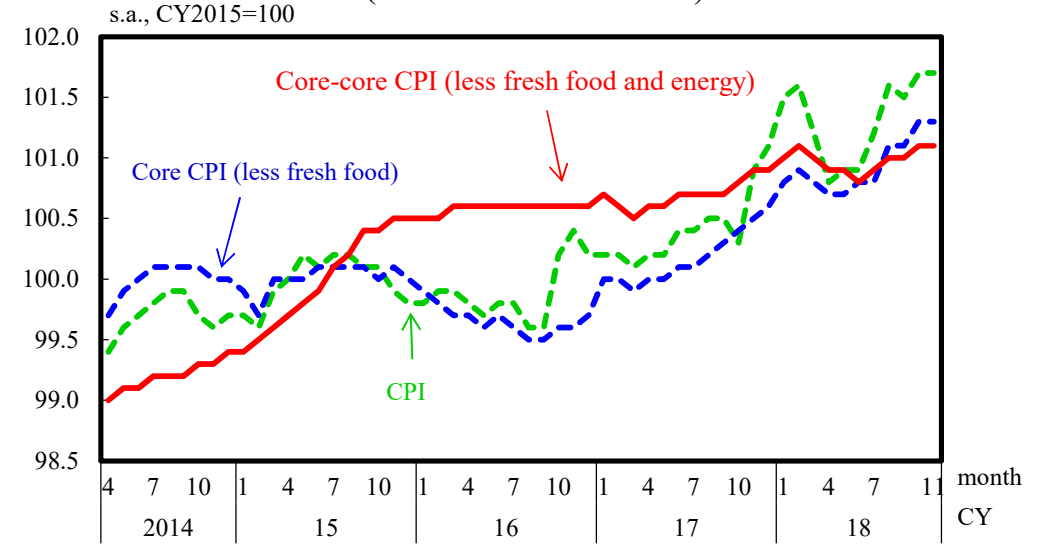
Winter bonus



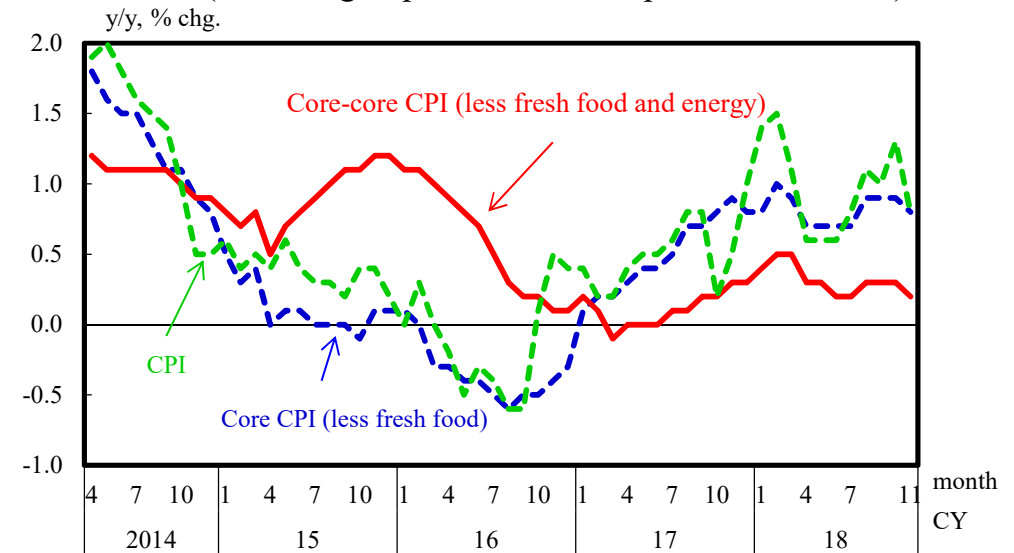
Sources: Japan Business Federation; Japanese Trade Union Confederation; Nihon Keizai Shimbun, Inc.

Prices

CPI (Consumer Price Index)



CPI (excluding impact of a consumption tax increase)



Source: Ministry of Internal Affairs and Communications.