

# **Recent Economic Developments**

## **- Monthly Economic Report, August 2019 -**

**September 5, 2019**

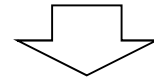
**Cabinet Office**  
**Government of Japan**

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<Assessment of the current state of the Japanese economy>

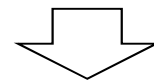
June

The Japanese economy is recovering at a moderate pace while weakness in exports and industrial production continues.



July

The Japanese economy is recovering at a moderate pace while weakness continues mainly in exports.



August

The Japanese economy is recovering at a moderate pace while weakness continues mainly in exports.

**(Changed)**

**(Unchanged)**

# <Assessment of the current state of the Japanese economy>

	June	July	August
Private consumption	Private consumption is picking up.	Unchanged	Unchanged
Business investment	Business investment is on the increase at a moderate pace, while weakness is seen recently in machinery investment.	Unchanged	Unchanged
Exports	Exports are in a weak tone.	Unchanged	Unchanged
Industrial production	Industrial production is in a weak tone recently.	Industrial production is flat recently while weakness continues in some sectors. (↑)	Unchanged
Corporate profits	Corporate profits hold firm at a high level.	Corporate profits hold firm at a high level.	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions show cautiousness, mainly among manufacturers.	Firms' judgments on current business conditions show cautiousness further, mainly among manufacturers. (↓)	Unchanged
Employment situation	The employment situation is improving steadily.	Unchanged	Unchanged
Prices	Consumer prices are rising moderately in recent months.	Unchanged	Unchanged

Note: ↑ denotes upward revision and ↓ denotes downward revision.

## <Short-term prospects>

June

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, further attention should be given to the effects of situations over trade issues on the world economy, while the prospect of the Chinese economy, the uncertainty of situations and policies in overseas economies and the effects of fluctuations in the financial and capital markets also need attention.

July

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, further attention should be given to the effects of situations over trade issues on the world economy, while the prospect of the Chinese economy, the uncertainty of situations and policies in overseas economies and the effects of fluctuations in the financial and capital markets also need attention.

August

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, further attention should be given to the effects of the intensified tension over trade issues on the world economy, while the prospect of the Chinese economy, the uncertainty of situations and policies in overseas economies and the effects of fluctuations in the financial and capital markets also need attention.

# <Policy stance>

(Monthly Economic Report, August 30, 2019)

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 will strengthen economic growth by boosting potential growth rate and expand virtuous cycle of growth and distribution based on the " Basic Policy on Economic and Fiscal Management and Reform 2019 ~ A New Era of Reiwa: Challenges toward Society 5.0 ~ ", the " Action Plan of the Growth Strategy " and so on. Moreover, in order to create a society in which everyone plays an active role and feels secure, the Government will establish the social security system for all generations. Furthermore, 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.

The Government will implement the FY2018 supplementary budget and the FY2019 budget including the temporal and special measures swiftly and steadily.

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

## —GDP: Apr. – Jun. 2019 (First Preliminary)—

- The real GDP (Gross Domestic Product) for the Apr.-Jun. 2019 period (First preliminary) increased by 0.4%(or at an annualized 1.8%) from the previous quarter.
- While net exports contributed negatively due to slowdown in overseas economies, private consumption and business investment, which are pillars of domestic demand, increased steadily, indicating the Japanese economy is recovering at a moderate pace supported by solid domestic demand.
- Nominal GDP reached a record high of 558 trillion yen.

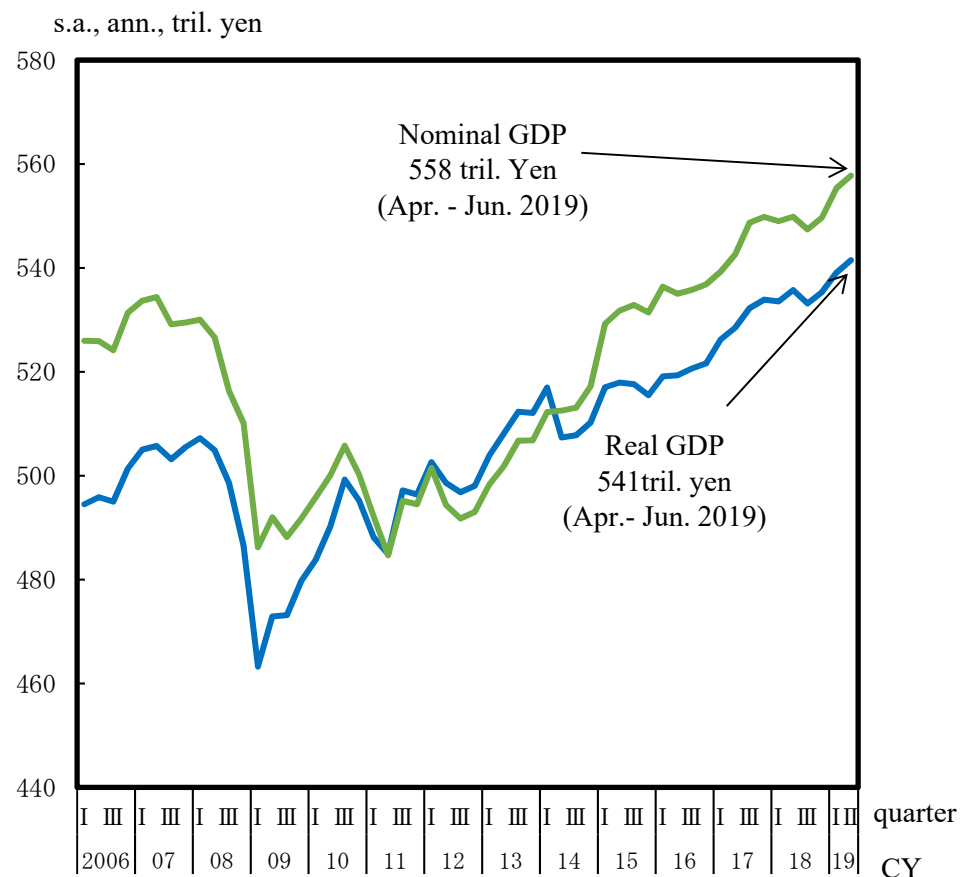
Changes and contributions to changes in real GDP  
(seasonally adjusted)

	CY2017	CY2018	2018			2019		%
			II Apr. - Jun.	III Jul. - Sep.	IV Oct. - Dec.	I Jan. - Mar.	II Apr. - Jun.	
Real GDP growth rate [at annual rate]	1.9	0.7	0.4 [1.6]	-0.5 [-1.9]	0.4 [1.6]	0.7 [2.8]	<b>0.4</b> <b>[1.8]</b>	
Domestic Demand (Contributions)	(1.5)	(0.8)	(0.4)	(-0.3)	(0.8)	(0.3)	(0.7)	
Private Demand (Contributions)	(1.3)	(0.8)	(0.5)	(-0.3)	(0.7)	(0.2)	(0.5)	
Private Consumption	1.0	0.5	0.4	-0.1	0.4	0.1	0.6	
Private Non-Resi. Investment	4.6	3.5	2.5	-2.6	2.7	0.4	1.5	
Private Residential Investment	-0.7	-4.4	-1.9	0.8	1.3	0.6	0.2	
Changes in Private Inventories (Contributions)	(0.1)	(0.1)	(-0.1)	(0.2)	(0.1)	(0.1)	(-0.1)	
Public Demand (Contributions)	(0.1)	(-0.0)	(-0.0)	(-0.0)	(0.1)	(0.1)	(0.2)	
Public Investment	0.5	-4.0	-1.2	-1.8	-1.3	1.4	1.0	
Net Exports (Contributions)	(0.4)	(-0.1)	(0.0)	(-0.2)	(-0.4)	(0.4)	(-0.3)	
Exports	6.5	1.5	0.8	-2.1	1.2	-2.0	-0.1	
Imports	4.0	2.1	0.8	-1.2	3.6	-4.3	1.6	
Nominal GDP growth rate	0.0	0.0	0.6	-1.7	1.7	4.2	1.7	

Note: Quarterly data is quarter-to-quarter change.

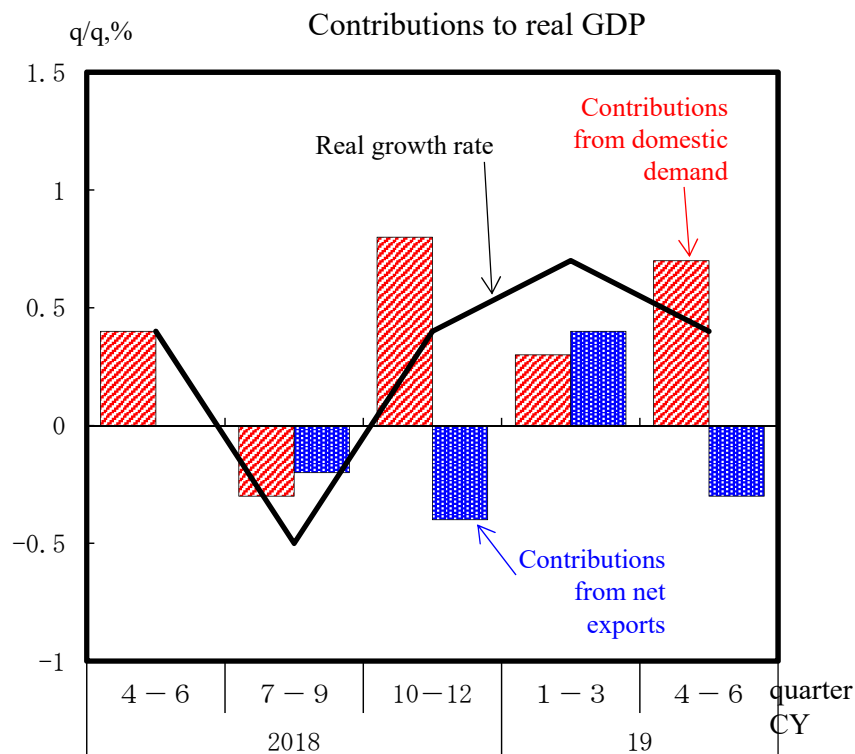
Source: Cabinet Office.

Levels of nominal GDP and Real GDP

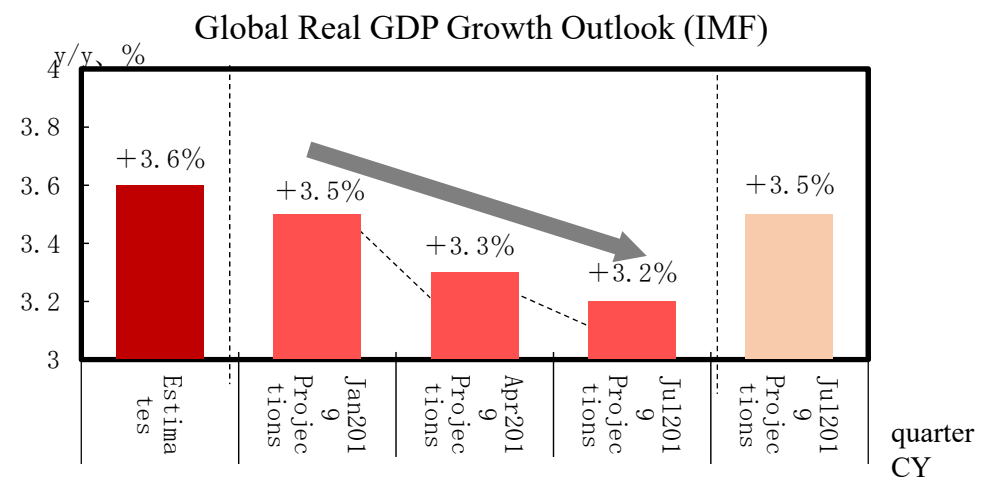
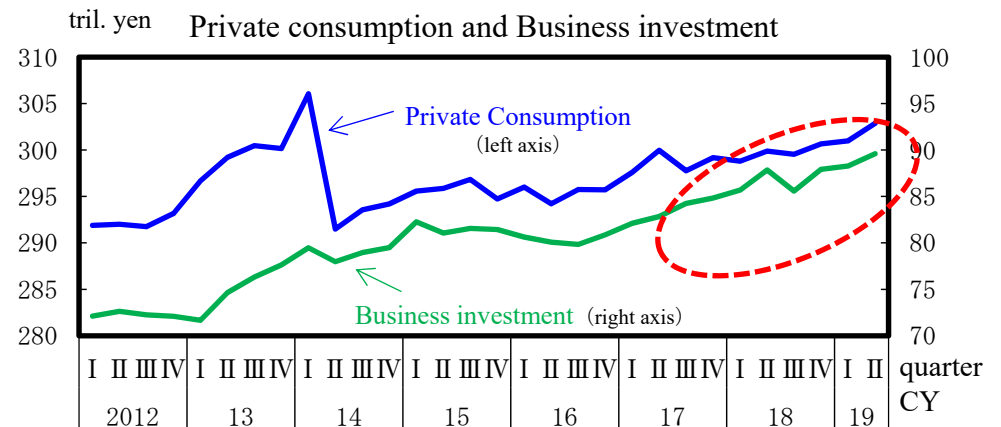


## — Domestic demand and Net exports —

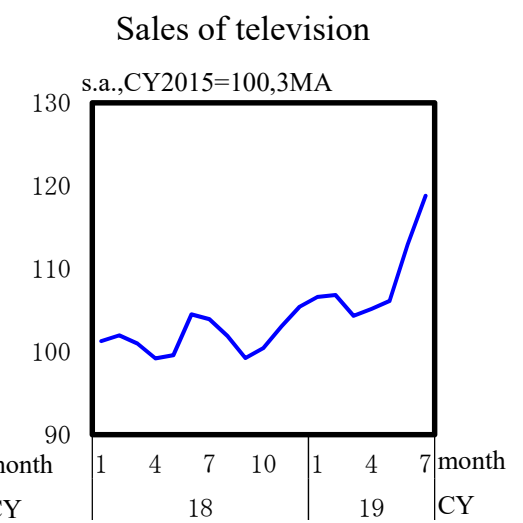
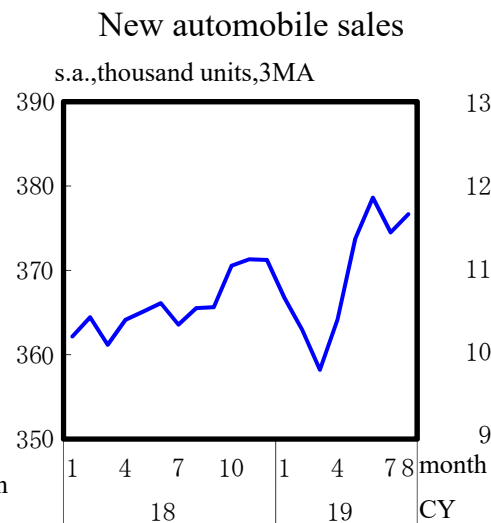
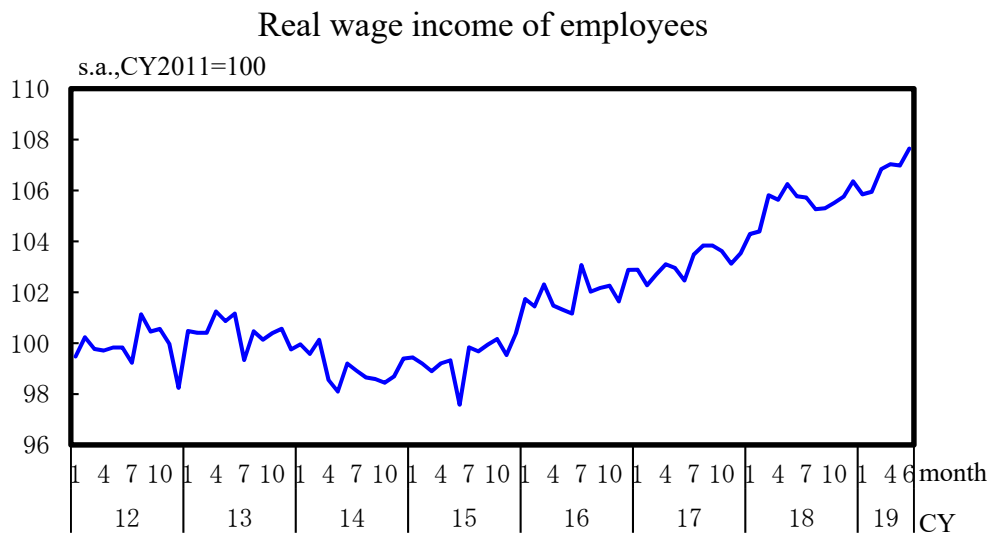
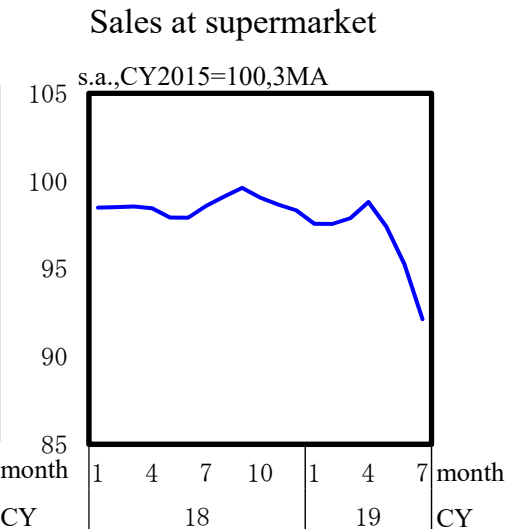
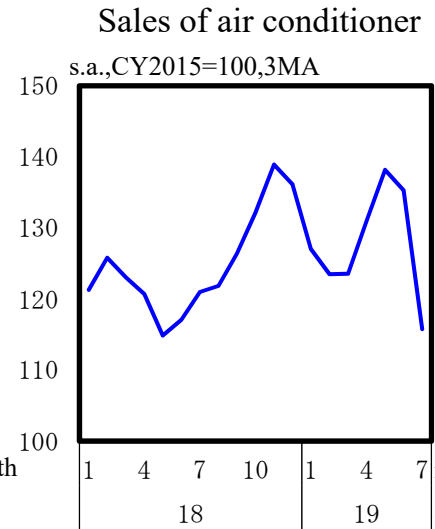
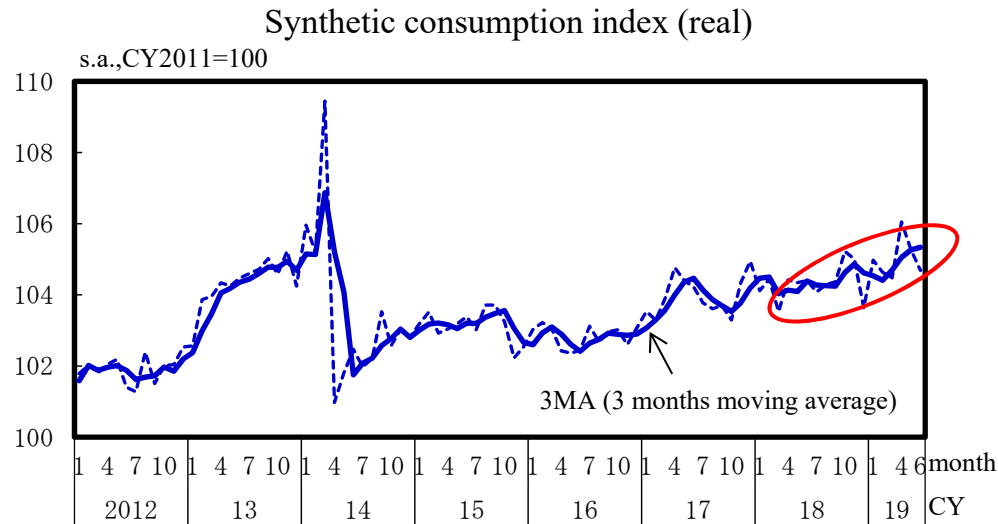
- Japan's economy has been supported by an increase in domestic demand, except in the Jul.-Sep. quarter of last year, when natural disasters occurred frequently. In particular, private consumption and business investment have continued to increase since the second half of 2016.
- Net exports has continued to be weak due to the slowdown in the global. Although the main scenario is that the global economy will improve next year, it is necessary to pay attention to trade issues between the United States and China.



Source: Cabinet Office, IMF "World Economic Outlook"



**—Private Consumption—** Private consumption is picking up, supported by an improvement in employment and income conditions. In July, sales of air conditioner and sales at supermarket including summer goods decreased due to a delay of the end of the rainy season, while sales of automobile and television which are less affected by weather are on the increasing trend.



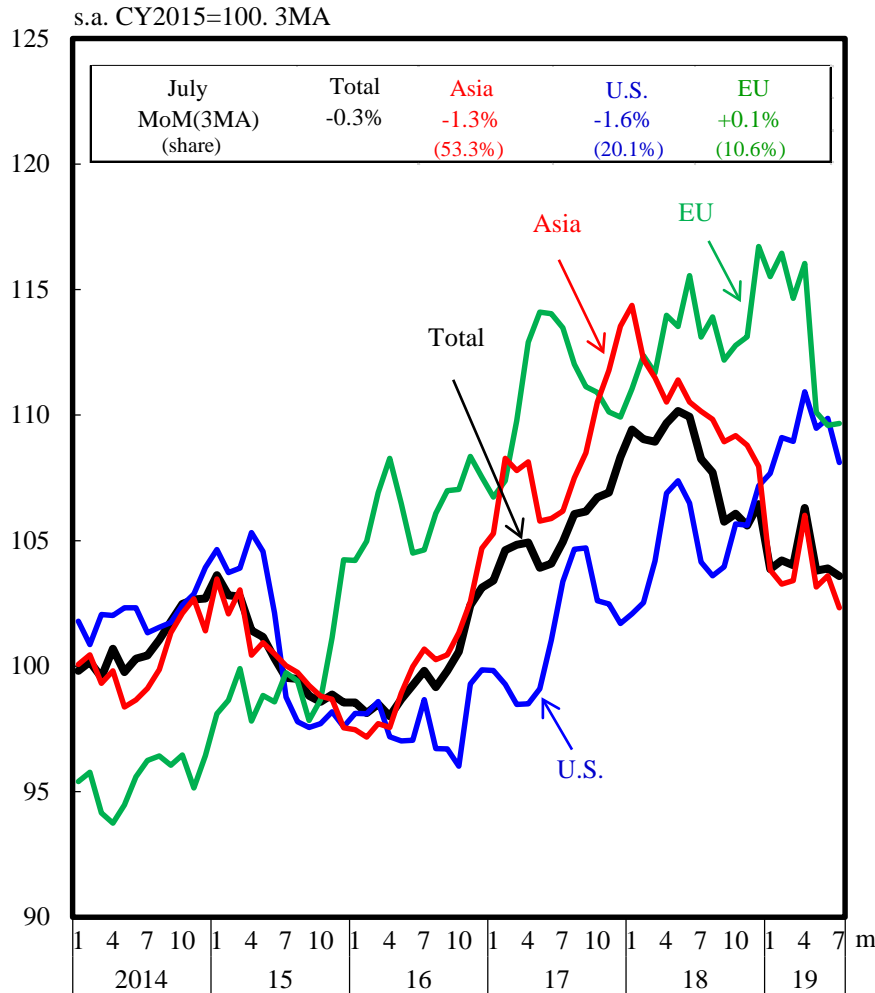
Sources: Japan Auto Dealers Association; Japan Light Motor Vehicle and Motorcycle Association; GfK Japan; Japan Chain Stores Association.

Notes: Automobiles include light motor vehicles.

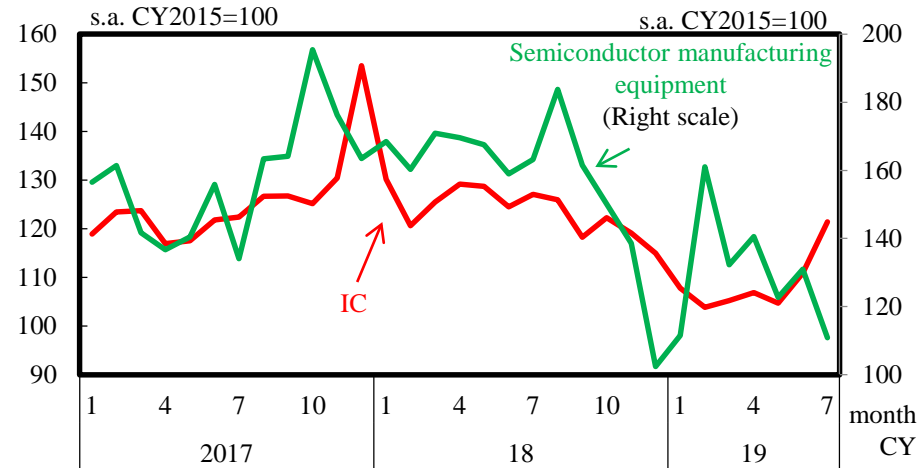


**- Exports -** Exports are in a weak tone centering on to Asia. IT-related goods, the semiconductor manufacturing equipment continues to be weak, while electronic parts(IC) appears to have bottomed out. Automobiles exports upward trend has slowed down.

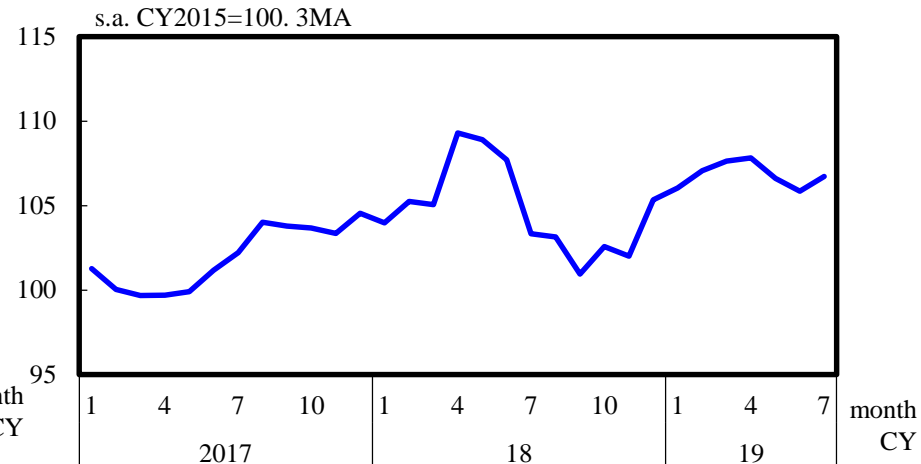
Exports volume index by region



Exports volume of IT-related goods



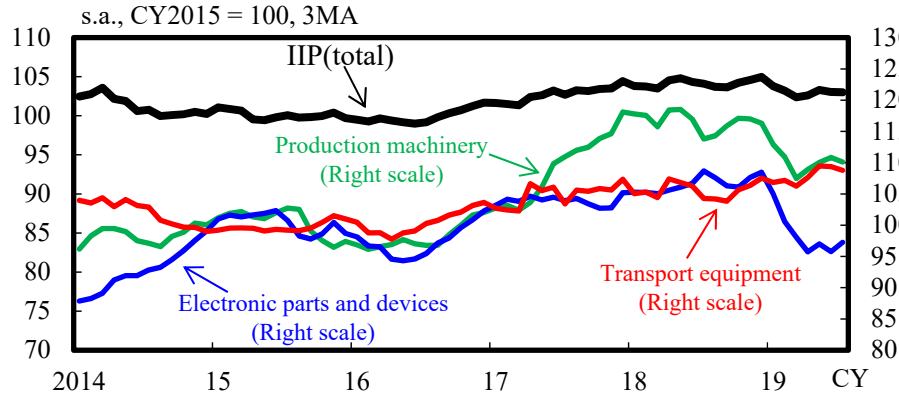
Exports volume of automobiles



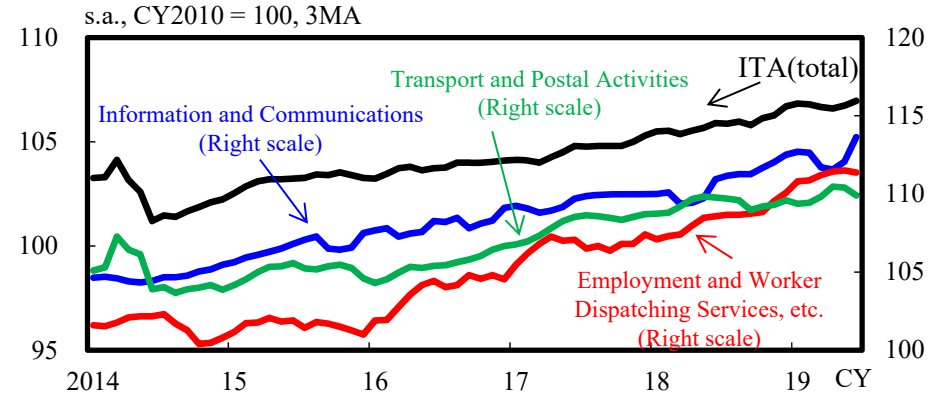
**- Industrial Production & Corporate Profits -**

**Industrial production has been flat recently, as exports are in a weak. On the other hand, Tertiary Industry Activity is increasing moderately, supported by solid domestic demand. As a result, operating income decreased in the manufacturing industry.**

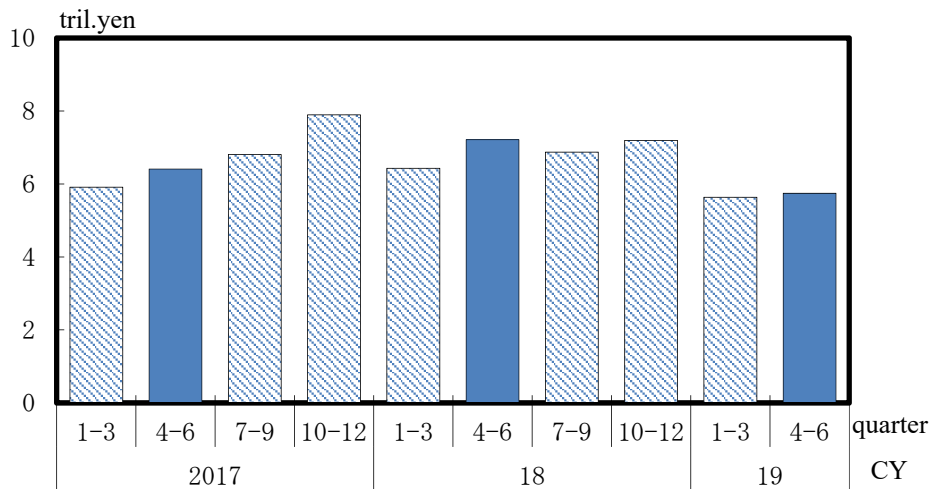
Production : Manufacturing



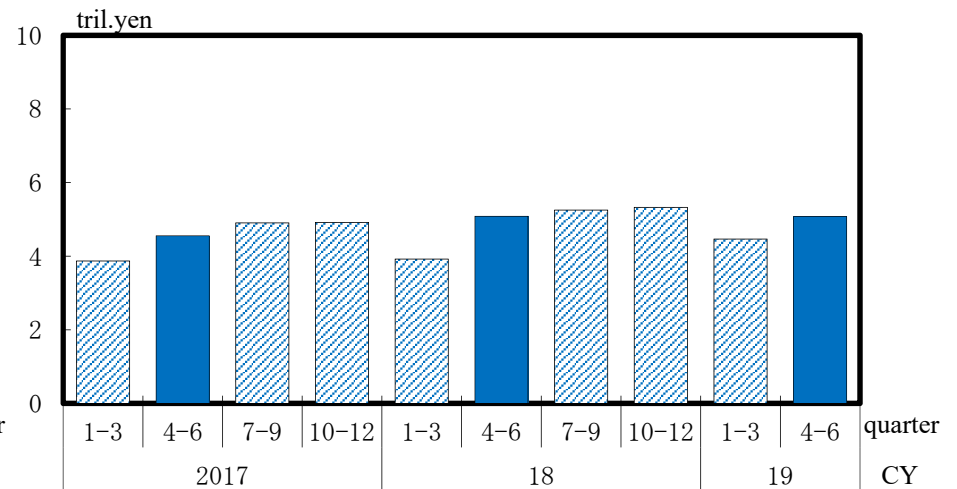
Production : Nonmanufacturing



Operating profit : Manufacturing



Operating profit : Nonmanufacturing

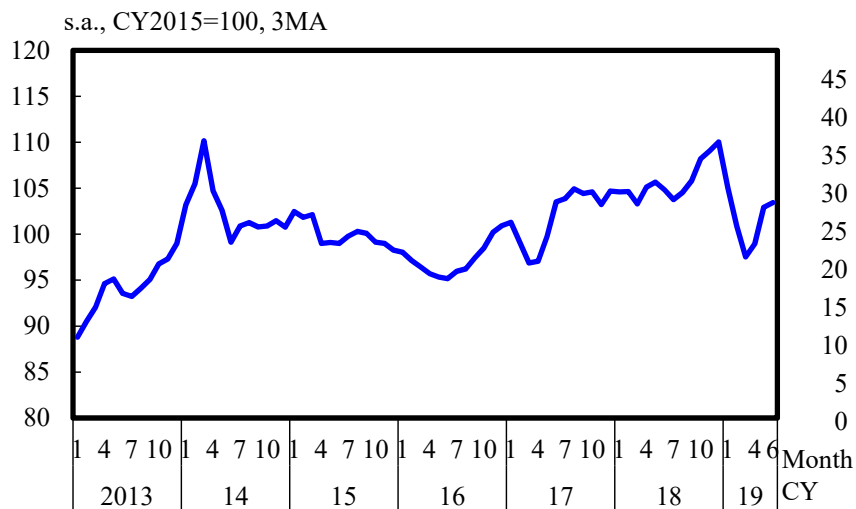


Sources: Ministry of Economy, Trade and Industry; NIKKEI NEEDS

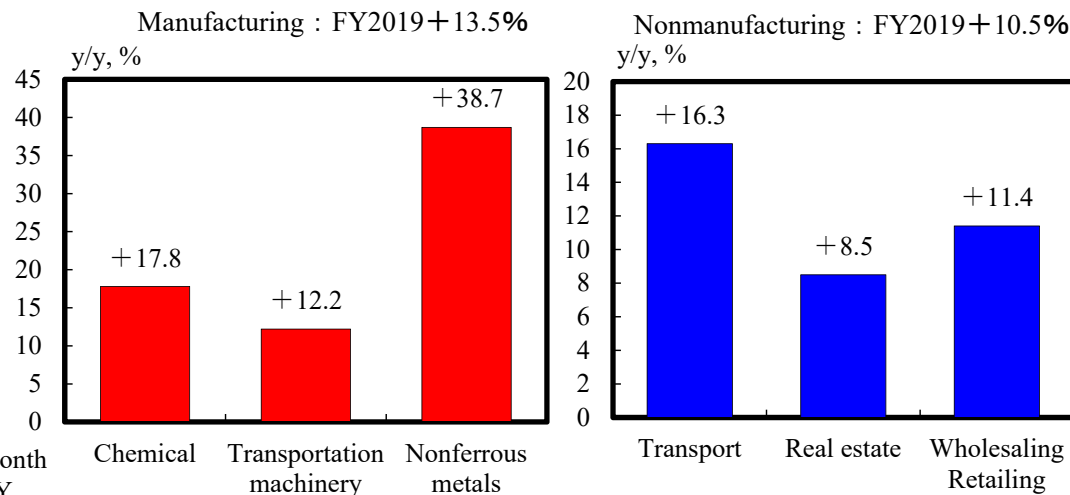
Note: Operating profit is from listed companies excluding the power and finance industries.

**Business investment is on the increase at a moderate pace, although weakness is seen recently in machinery investment.**

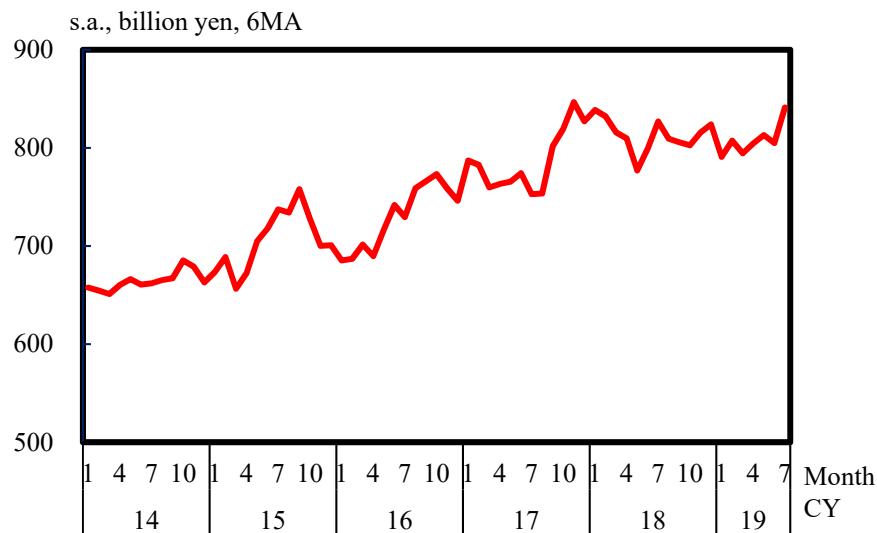
Machinery investment



Business investment plans (FY2019+11.5% “DBJ” Survey)



Construction investment

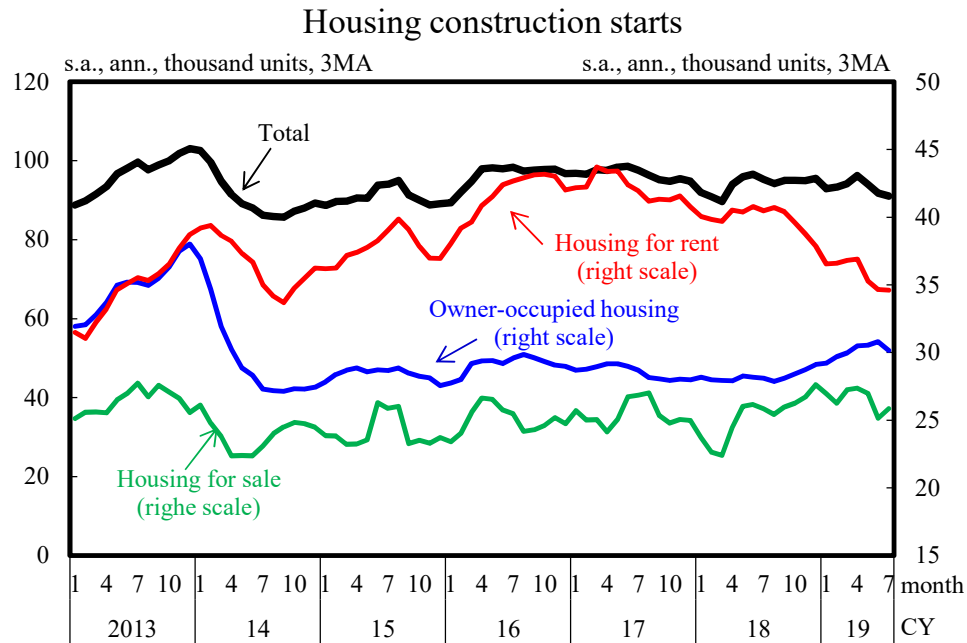


Business investment plans for FY2019 (“DBJ” Survey)

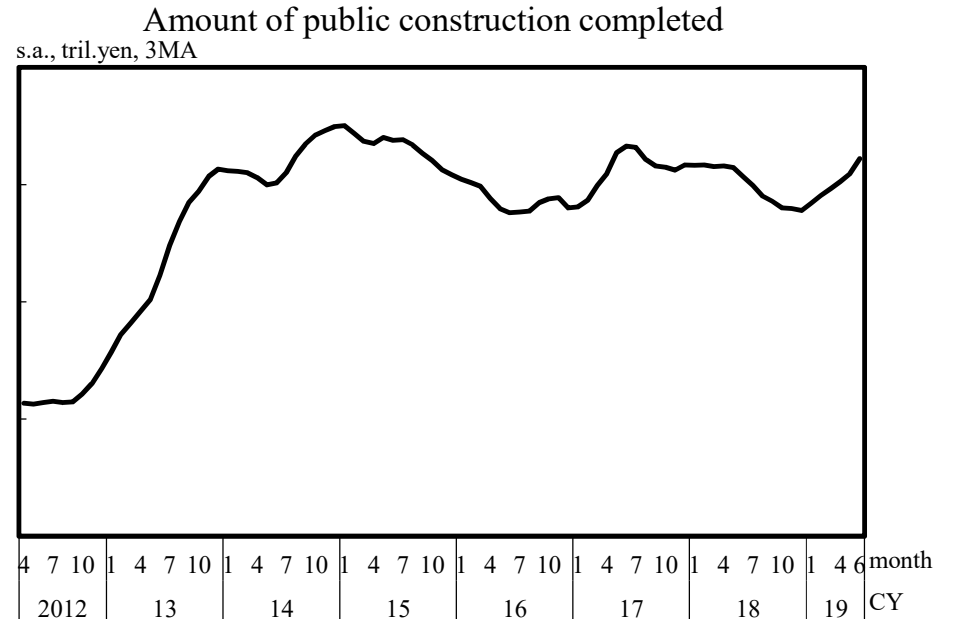
Sectors	Backgrounds
Chemical	Materials for lithium ion batteries to be installed on EVs, investment to boost production capacity for cosmetic goods and daily necessities to cope with an increasing demand.
Transportation machinery	Model change support(hybridization car), and continuation of investment for electric car.
Nonferrous metals	Expanding production capacity for battery material to be installed on car and semiconductor material.
Transport	Investment to upgrade train operations, investment in safety, real estate development and investment for development of logistics facilities.
Real estate	Continuation of urban development that is construction of international business base and large composite facilities.
Wholesaling/Retailing	Labor saving investment of convenience store, and development of logistics facilities in wholesaling(trading company etc.).

Sources: Ministry of Economy, Trade and Industry; Ministry of Land,Infrastructure,Transport and Tourism; Development Bank of Japan.

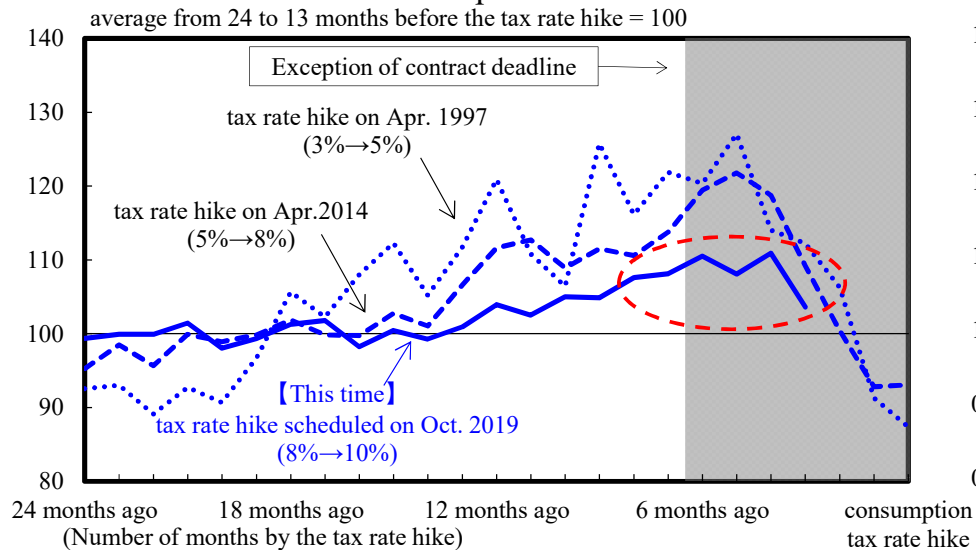
### Housing investment is almost flat



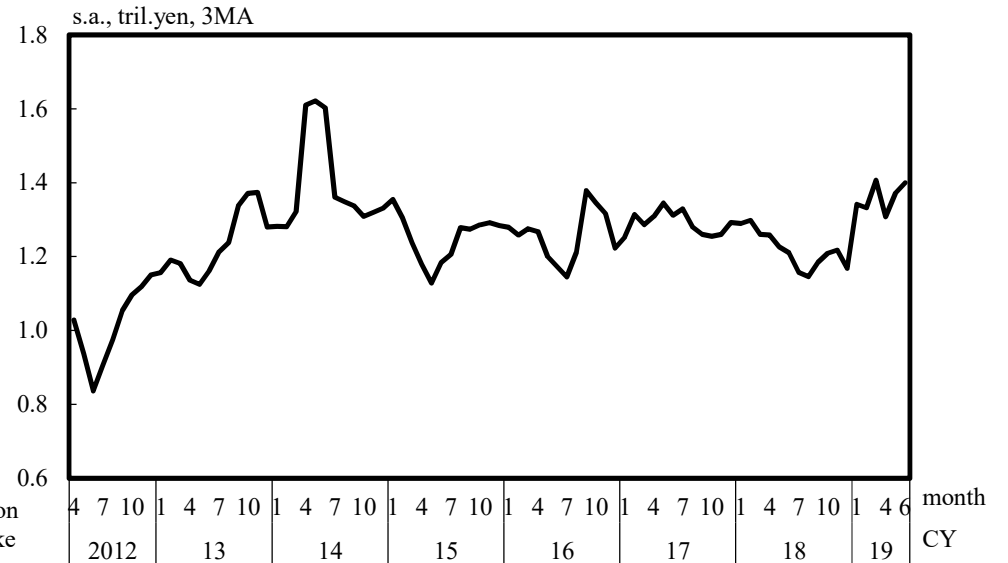
### Public investment is intensified



### Owner-occupied housing construction starts until the consumption tax rate hike



### Amount of public works orders received

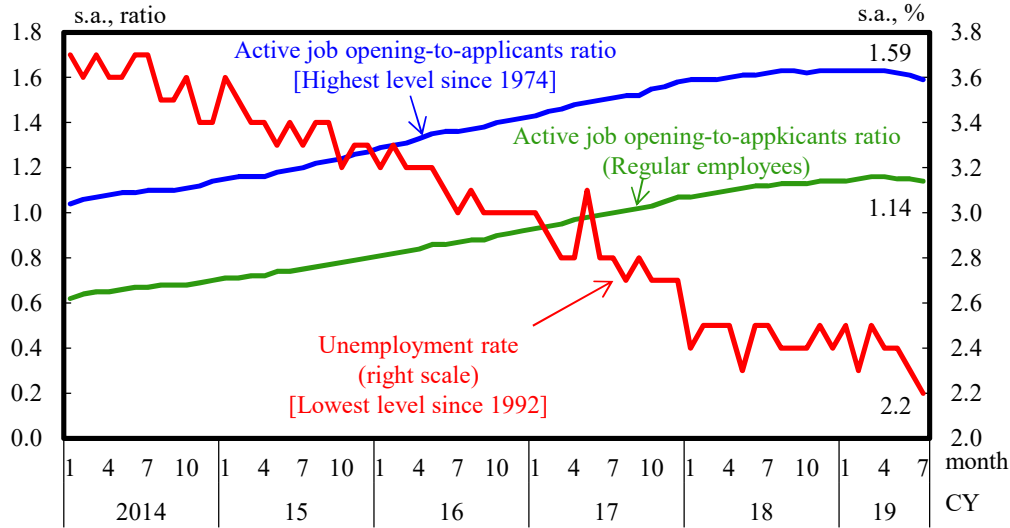


Source: Ministry of Land, Infrastructure, Transport and Tourism.

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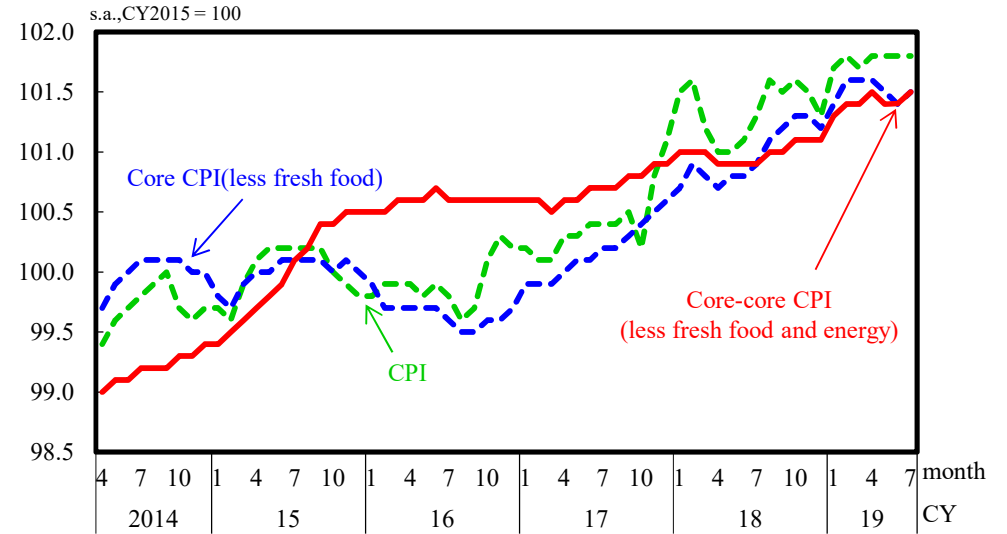
The employment situation is improving steadily.  
 Meanwhile, the sense of a labor shortage is at a high level.

Unemployment rate and active job opening-to-applicants ratio

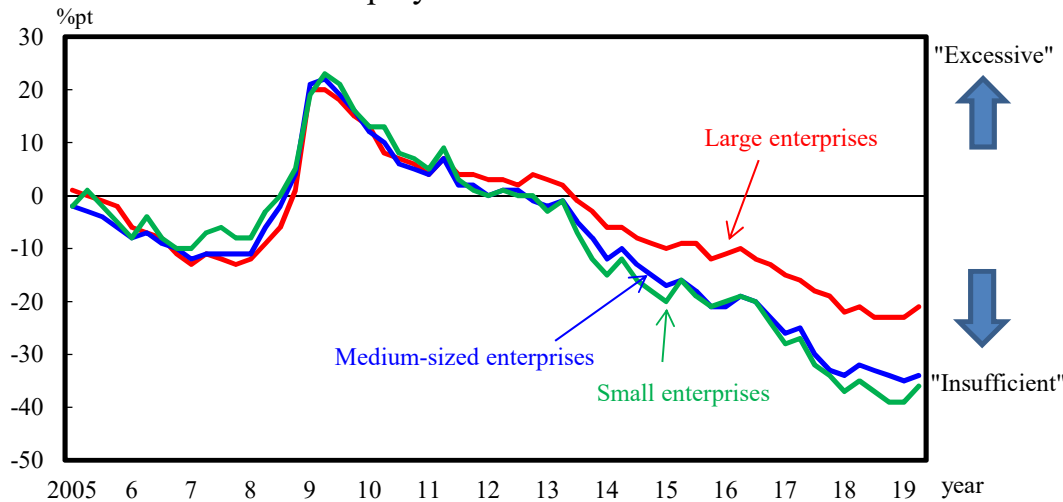


Consumer prices are rising moderately in recent months

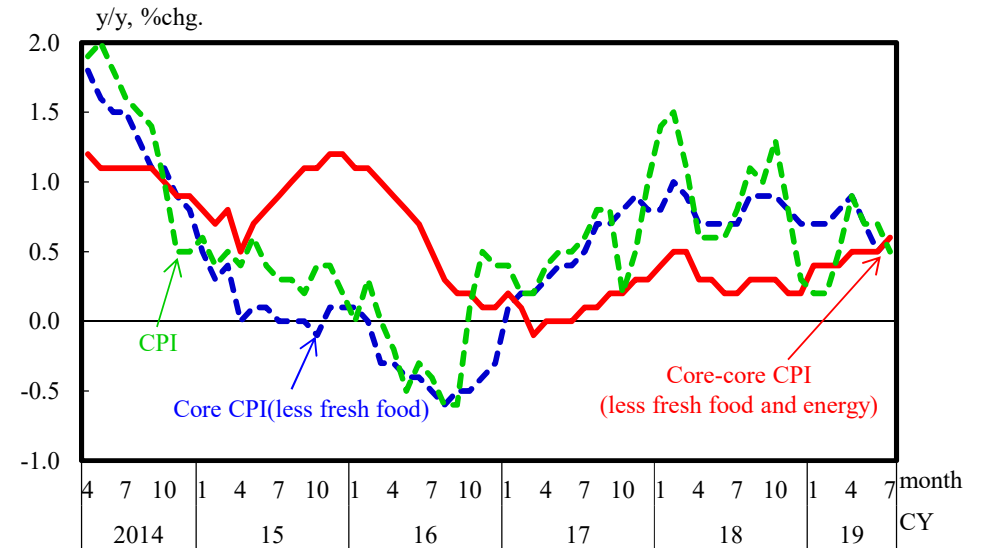
CPI(Consumer Price Index)



Employment conditions



CPI(excluding impact of a consumption tax increase)



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

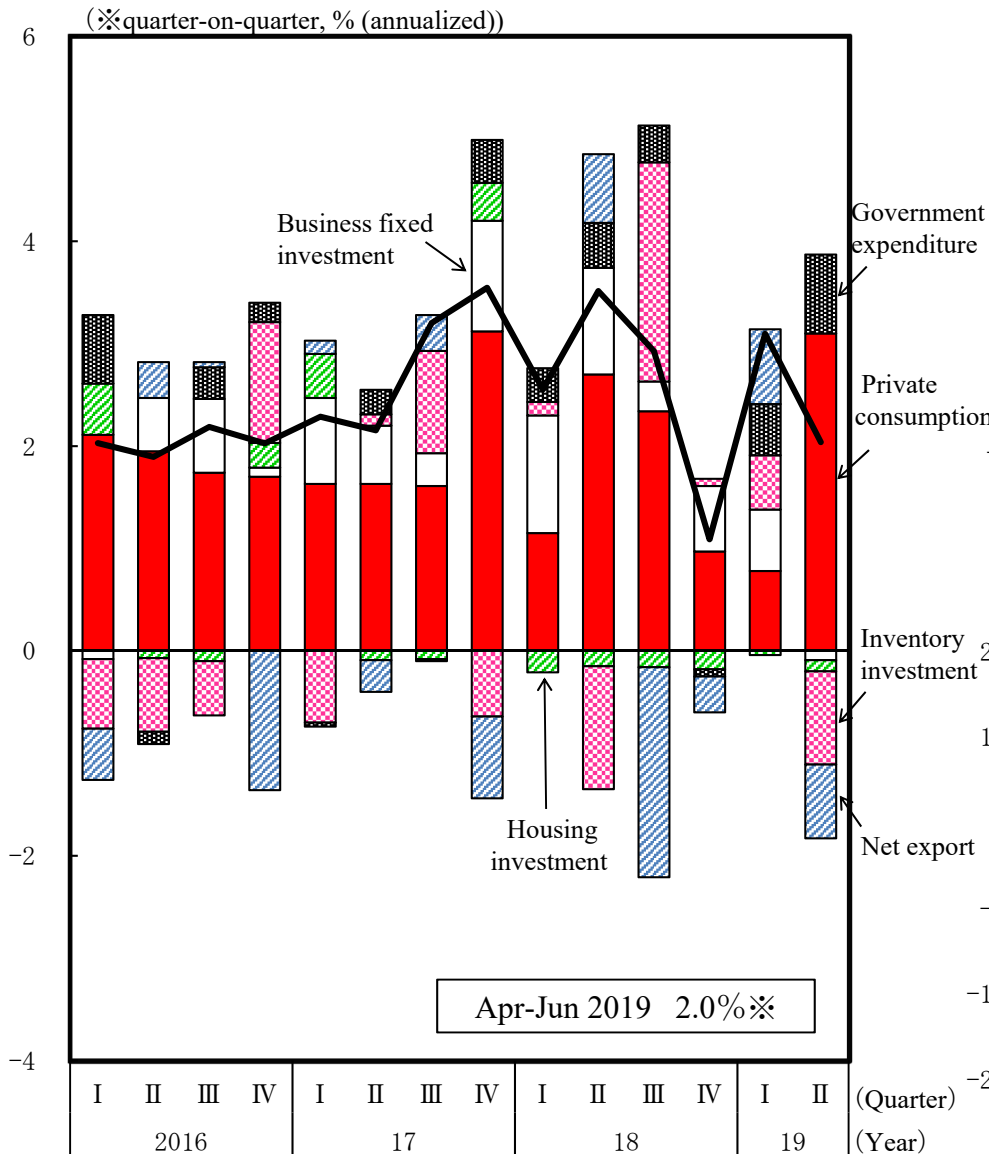
sources: Ministry of Internal Affairs and Communications; Bank of Japan.

**- Overseas**

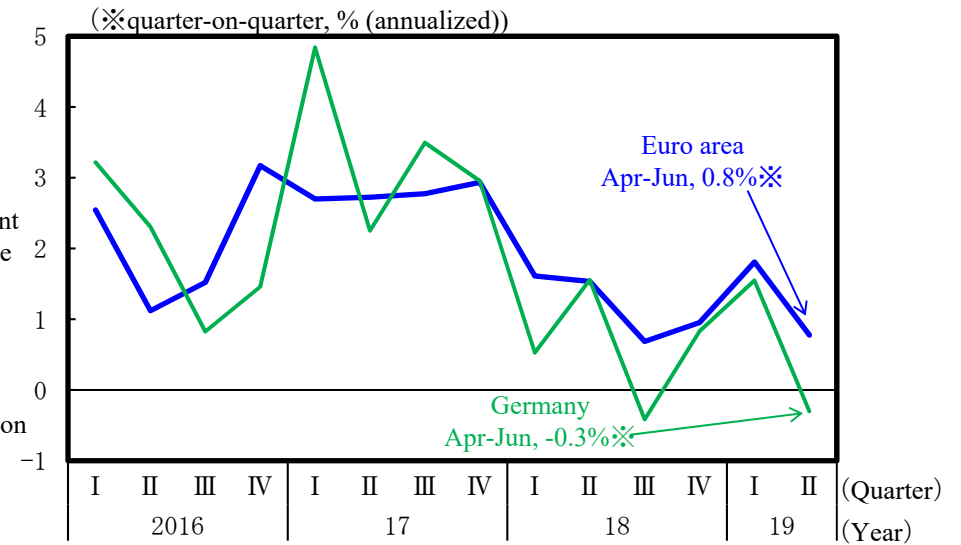
**U.S. : The economy continues to recover. However, attention should be given to the risks including the effects of the intensified tension over U.S.-China trade issues.**

**Economies - Euro area : While the economy is recovering at a moderate pace, some weak movements are seen.**

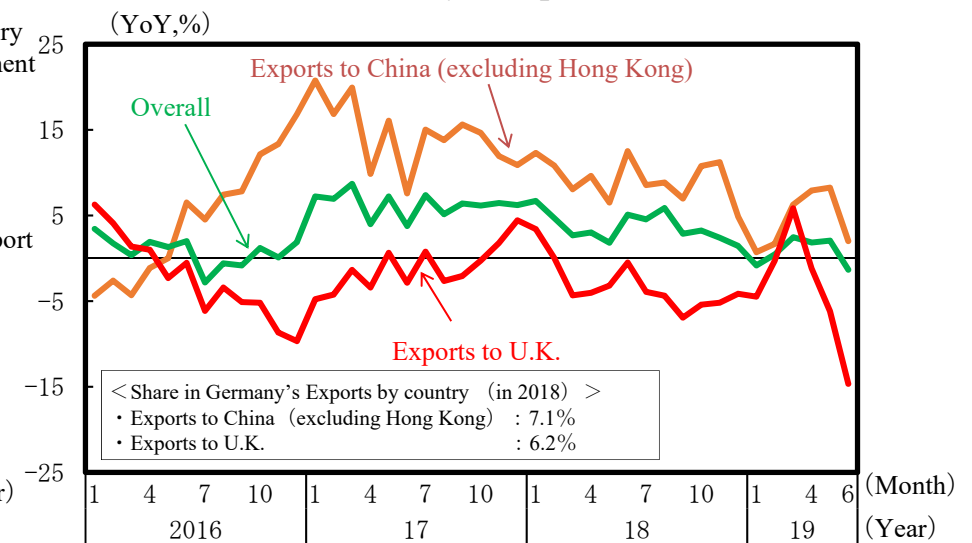
Real GDP growth rate, U.S. (※)



Real GDP growth rates, Euro area (※)



Germany's Exports



(Notes) 1. Adapted from U.S. Department of Commerce, Eurostat and Federal Statistical Office of Germany.

2. Figures of Germany's Exports are calculated in 3-month moving averages.