

# **Recent Economic Developments**

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

**October 30, 2019**

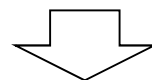
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**Government of Japan**

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<Assessment of the current state of the Japanese economy>

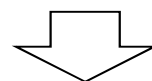
August

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



September

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



**(Unchanged)**

October

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

**(Changed)**

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

	August	September	October
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 flat recently while weakness continues in some sectors.	Unchanged	Industrial production is in a weak tone recently. ( ↓ )
Corporate profits	Corporate profits hold firm at a high level.	Unchanged	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions show increased cautiousness, mainly among manufacturers.	Unchanged	Firms' judgments on current business conditions continue increasing cautiousness, mainly among manufacturers. ( ↓ )
Employment situation	Employment situation is improving steadily.	Unchanged	Unchanged
Prices	Consumer prices are rising moderately in recent months.	Unchanged	Consumer prices are rising at a slower tempo recently.

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

## <Short-term prospects>

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.

September

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, 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 oil price hikes and fluctuations in the financial and capital markets also need attention.

October

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, attention should be given to situations in overseas economies including the tension over trade issues, the prospect of the Chinese economy and the outcome of the UK leaving the EU, the effects of fluctuations in the financial and capital markets, and the situations of the consumer sentiment after the consumption tax increase. Also, full attention should be given to the economic impact of the successive natural disasters including Typhoon No. 19 of 2019.

## <Policy stance>

(Monthly Economic Report, October 18, 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 ~ 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.

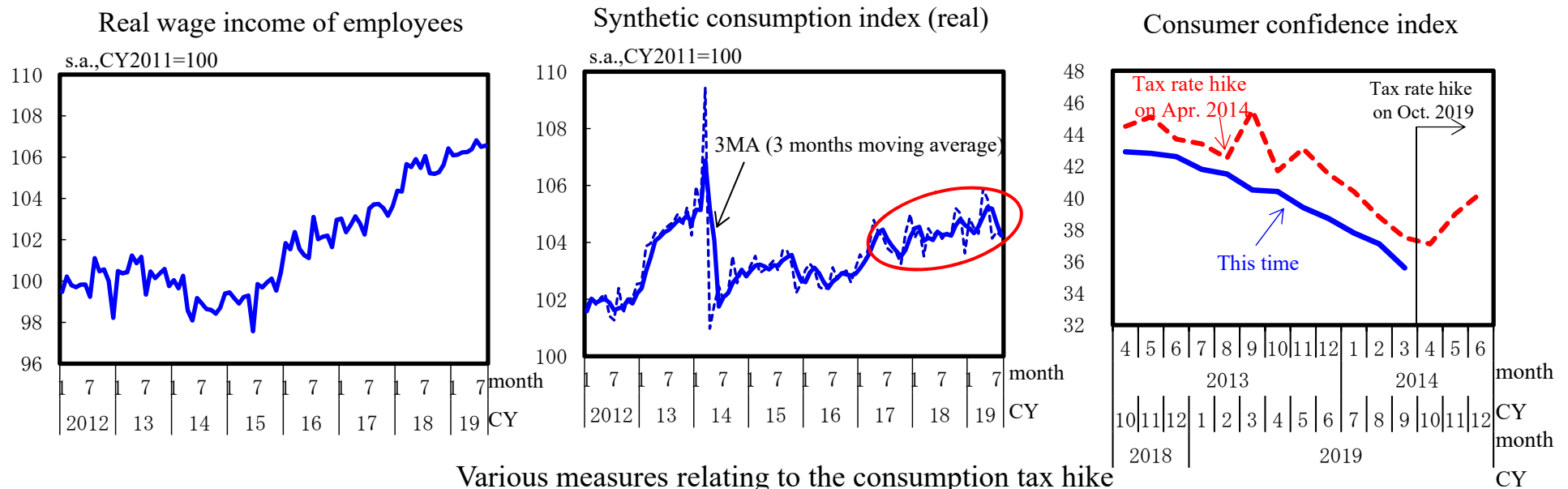
Furthermore, the Government will pay careful attention to the economic trend after the consumption tax rate hike and take all possible measures towards economic and fiscal management ensuring that the hike will not affect the recovery trend of the economy.

The Government will accelerate the provision of support for the daily lives of those affected by the successive natural disasters including Typhoon No. 19 of 2019 and work to swiftly advance the restoration and reconstruction of the affected areas.

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.

## — Private consumption —

- The wage increase of the highest level in this century continues for six years and the number of employees also increases, and the real wage income of employees increases at a moderate pace. Supported by the improvement in employment and income condition, the individual consumption is picking up.
- However, consumer confidence is in a weak tone, and it is necessary to pay attention to its effects on consumption. Various measures relating to the consumption tax rate hike started, and the smooth implementation is important.

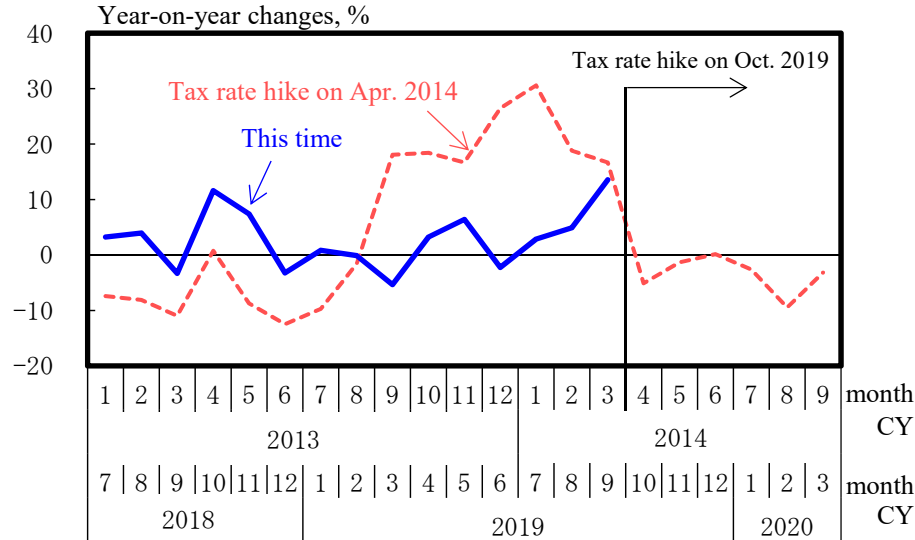


- the Point Reward Program for Cashless Payments : The number of participating companies amounts to 1,000. As of October 11, That of participating stores for this project amounts to 520,000 and it is projected to increase to 610,000 by October 21. The reward amount from October 1 to 7 is estimated at 0.8 billion yen per day on average and 6 billion yen in total.
- Premium voucher program : Almost all municipalities started the use of vouchers on October 1. They are available at a wide range of local stores regardless of the size of stores (The total number of the stores amounts to 494,000 in all cities of Japan (As of 10/8) ) .
- Tax measures for automobile purchase    ○ Tax and budgetary measures for housing purchase
- Free early childhood education    ○ Support benefits for pensioners    ○ The reduced consumption tax rate schemes    etc.

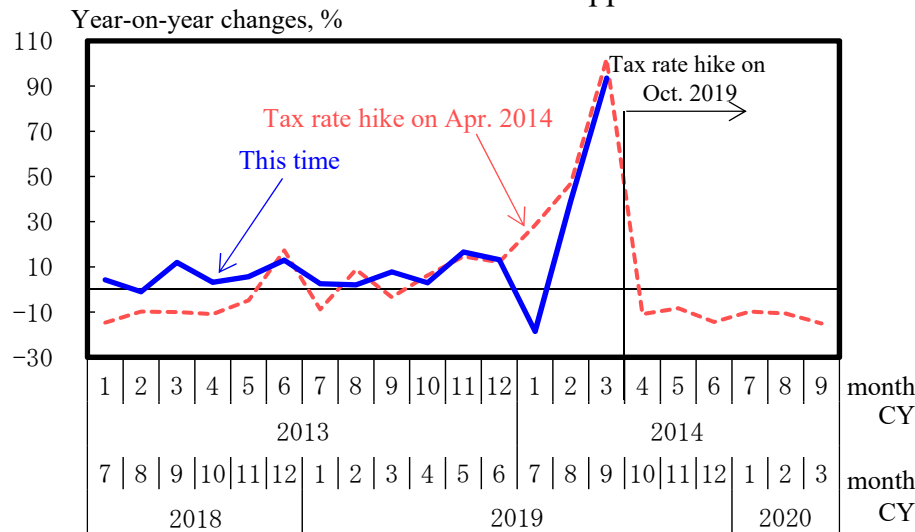
—Private consumption (2)—

As of automobile sales, large-scale last-minute demand occurred in 2014 was not observed this time. In September, sales of home electric appliances and luxurious goods such as jewelry increased. Keep observing sales trend closely.

New automobile sales



Sales of 5 home electric appliances



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

Notes: Automobiles include light motor vehicles. 5 home electric appliances include television, air conditioner, refrigerator, computer and washing machine.

Interview about sales condition

<Automobile>

○ There was last-minute demand on some automobile models in September, although the scale is limited compared to that in 2014. As for the prospects, a decline in demand is expected to be limited due to the existence of unfilled orders and the sales promotion effect by new automobiles.

<Home electric appliances>

○ In September, sales has been increasing steadily, and expensive products sold well. Sales in the first week of October declined compared to those in last October, but we expect that sales are going to recover from the end of November to December.

<Department store>

○ Sales decreased in the first and second week of October due to decline in average sales per customer. Sales of luxurious goods such as jewelry dropped considerably. Sales of cosmetics also decreased, although the impact of reactionary downturn is smaller than in 2014.

<Convenience store>

○ Last-minute demand and its reverse effect occurred only for cigarettes. Sales growth rate in the first two weeks of October was better than that in September. The usage ratio of cashless payment has been increasing since the beginning of October.

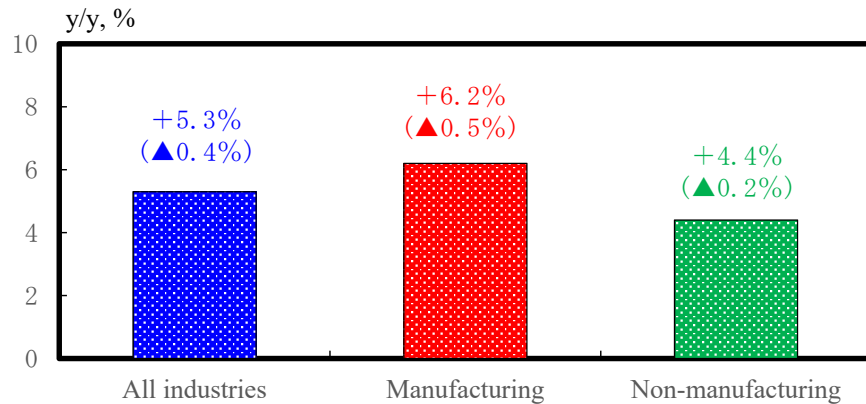
<E-commerce>

○ Decline in trading volume considered as reactionary downturn was observed in the beginning of October, but gradually recovering afterwards. Owing to smaller scale of last-minute demand and implementation of the point reward program for cashless payments, the recovery of trading volume is faster than expected.

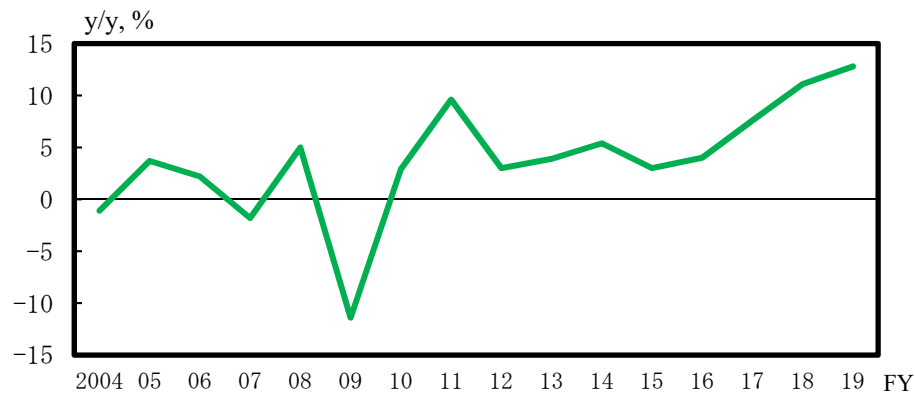
— Business investment and software investment —

- The business investment plan for the 2019 fiscal year (BOJ Tankan, September) has been revised downward compared to the previous (June) survey, but increased compared to the previous year. In particular, software investment is growing at a high rate.
- In the manufacturing industry, investments related to electric vehicles are conspicuous, and software investments for automation and labor saving are being made both in manufacturing and non-manufacturing, while proceeding with Society 5.0.

Planned business investment for FY2019 (“Tankan” survey)



Software investment plans (“Tankan” survey)



Source: Bank of Japan

Business investment plans for FY2019 (“Tankan” survey)

< Manufacturing >

Sectors	y/y	Backgrounds
Motor vehicles	+6.4%	Model change including electric vehicles.
Chemicals	+8.5%	Increasing production capacity of lithium-ion battery materials for electric vehicles and cosmetics in response to the increase of inbound demand, and <a href="#">strengthening of factory base by introducing IoT, AI, etc.</a>
Electrical machinery	+5.5%	Increasing production capacity for automotive electronic components and image sensors, and <a href="#">realization of smart factory.</a>

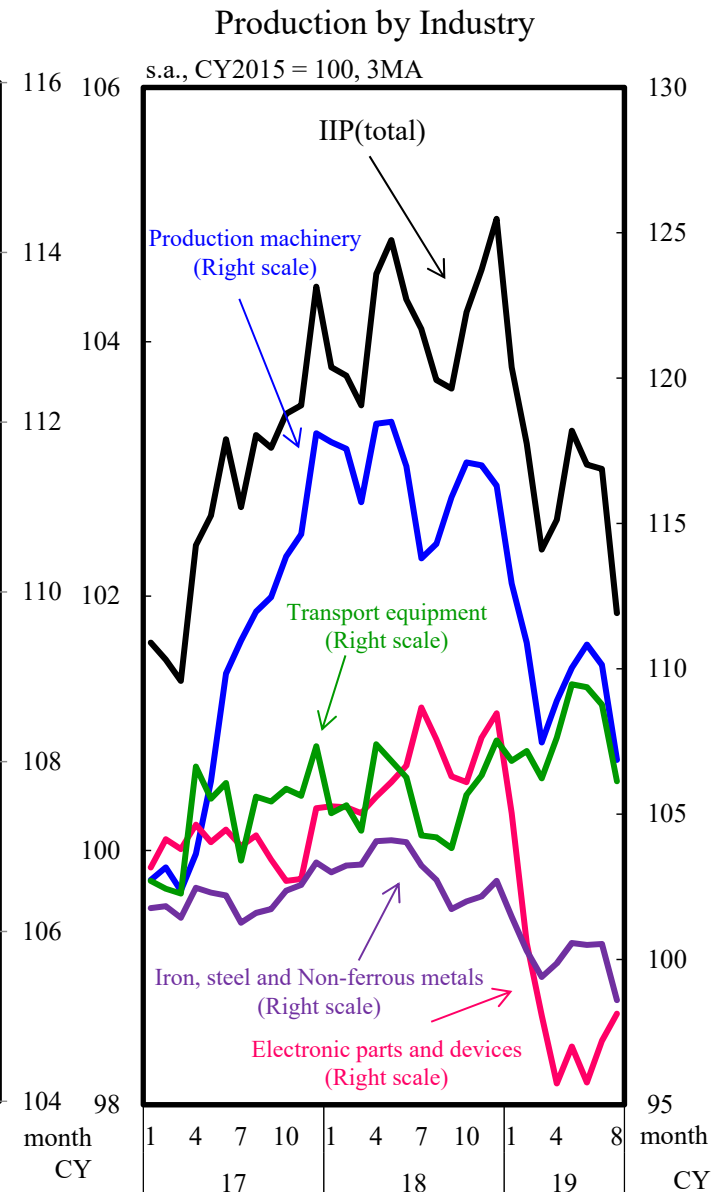
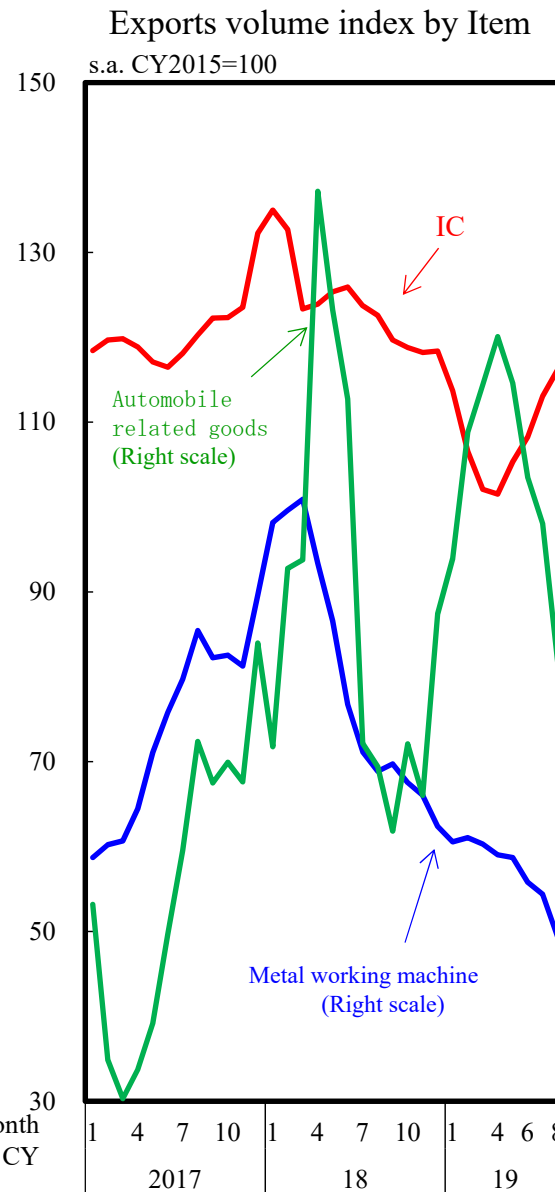
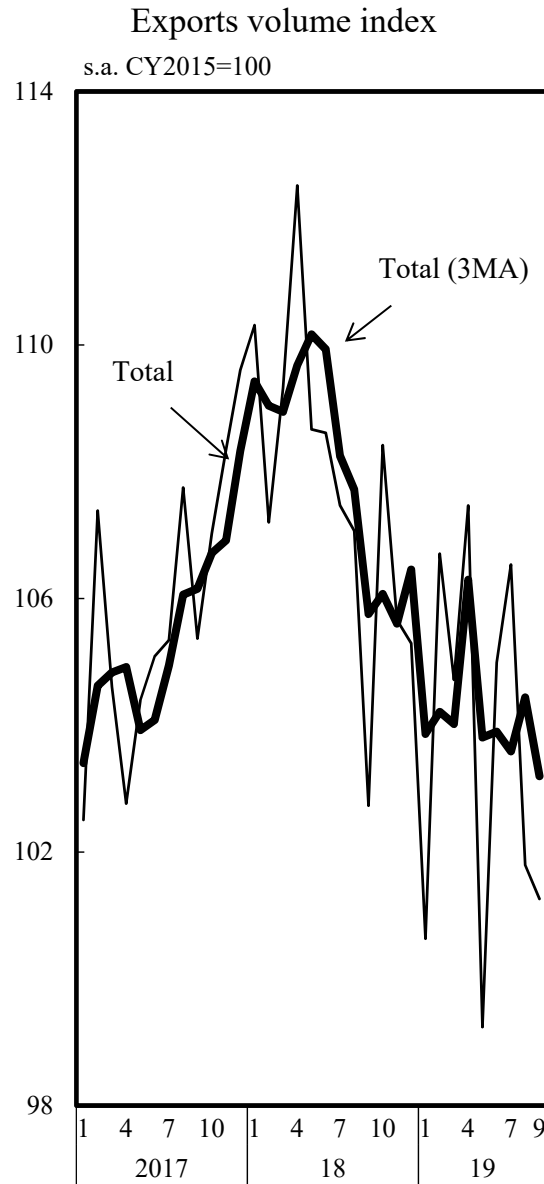
< Non-manufacturing >

Sectors	y/y	Backgrounds
Wholesaling	+15.2%	<a href="#">Introduction of RPA (Robotic Process Automation) for labor-saving measures,</a> and maintenance of logistics facilities by expansion of online shopping.
Transport & Postal activities	+4.9%	Railway safety measures construction, introduction of new train models and maintenance of logistics facilities, and <a href="#">development of automated entry of delivery slips.</a>
Real estate	+8.1%	Urban development such as large complex facilities, and <a href="#">utilization of AI and robots in logistics facilities.</a>



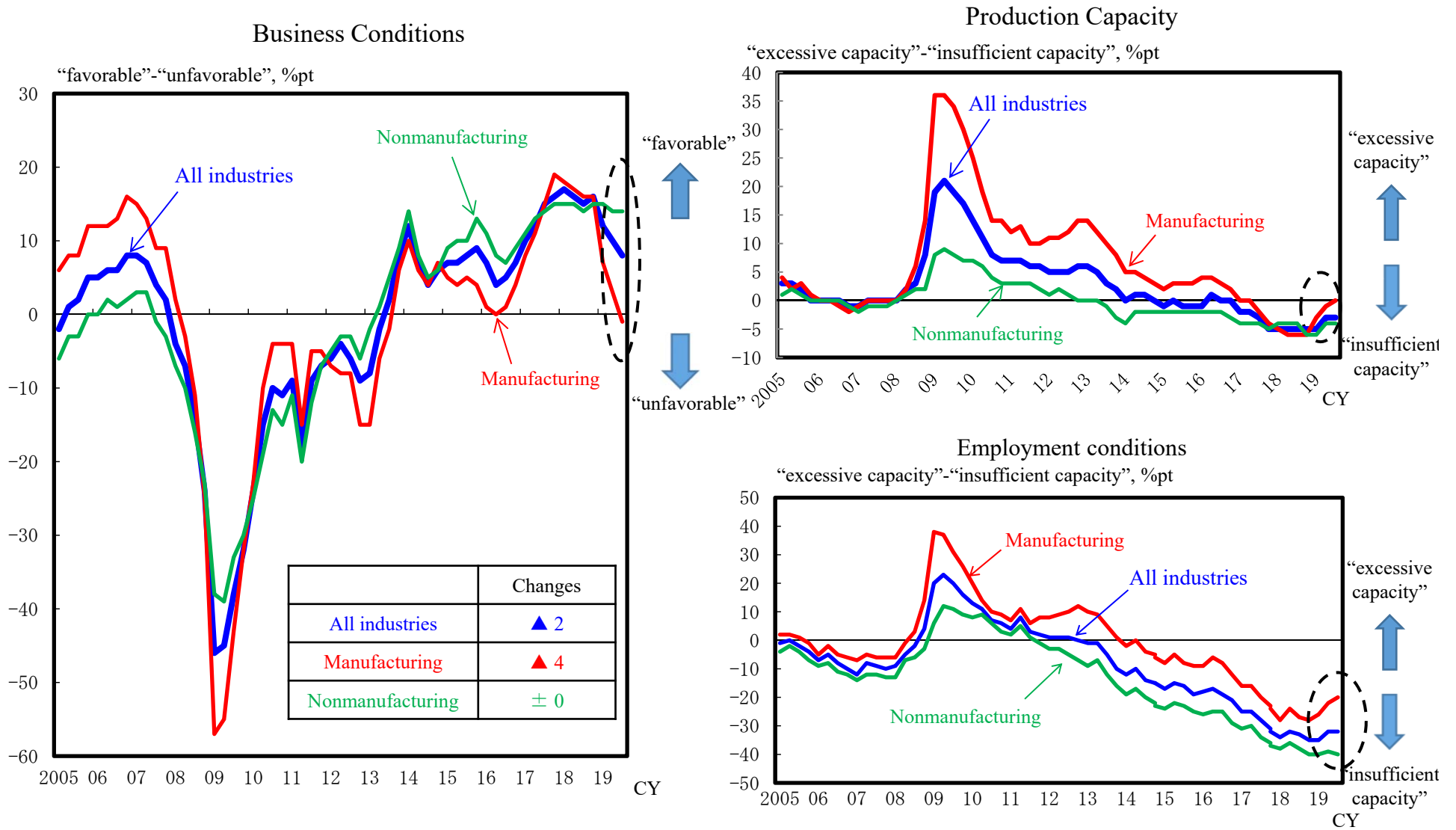
**- Export  
& Industrial Production -**

**Exports are in a weak tone. Export of IC has bottomed out, while Machining tool and Automobile are in a weak movement. Affected by these external economies weaknesses, the Industrial production is in a weak tone. Also the weakness is seen in Material Industry such as steel.**



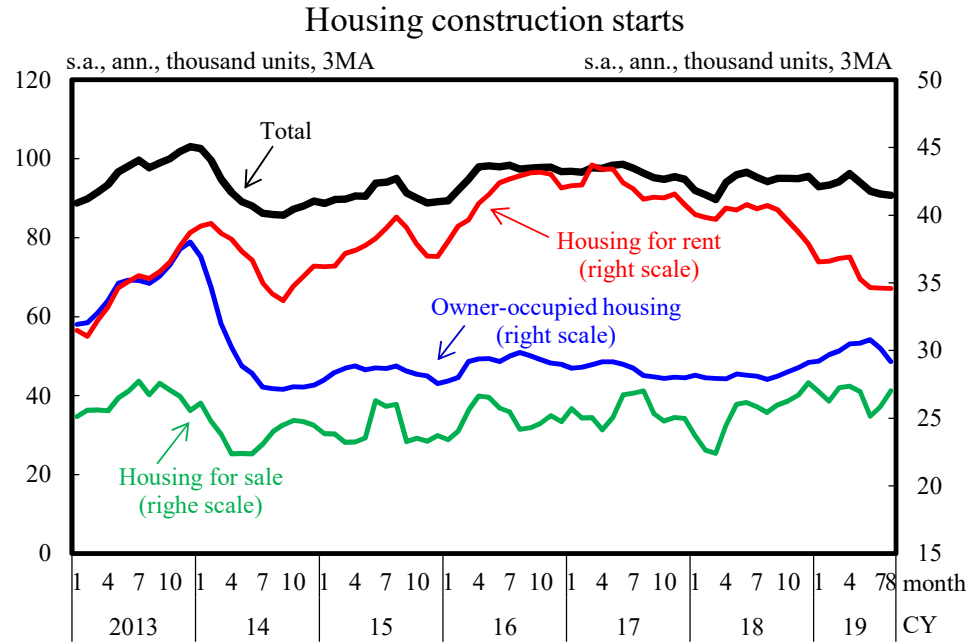
Sources: Ministry of Finance; Ministry of Economy, Trade and Industry

**—Business Sentiment—** Business sentiment has continued to decline, particularly in the manufacturing, which is susceptible to the slowdown in exports. Looking at the feeling of production capacity and employment conditions, the feeling of insufficiency has eased in manufacturing.



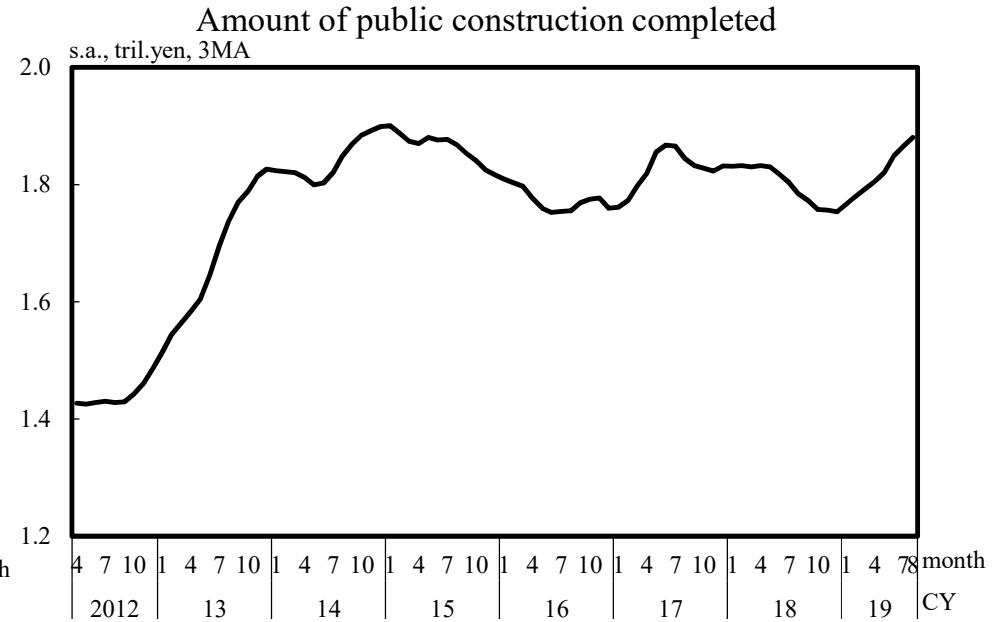
Source: Bank of Japan

### Housing investment is in a weak tone recently.

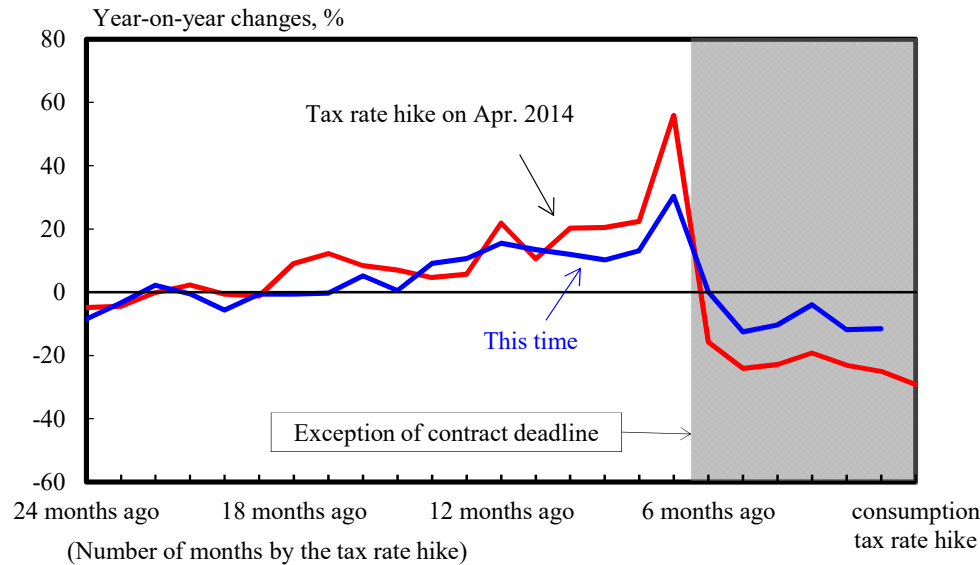


Source: Ministry of Land, Infrastructure, Transport and Tourism.

### Public investment is intensified



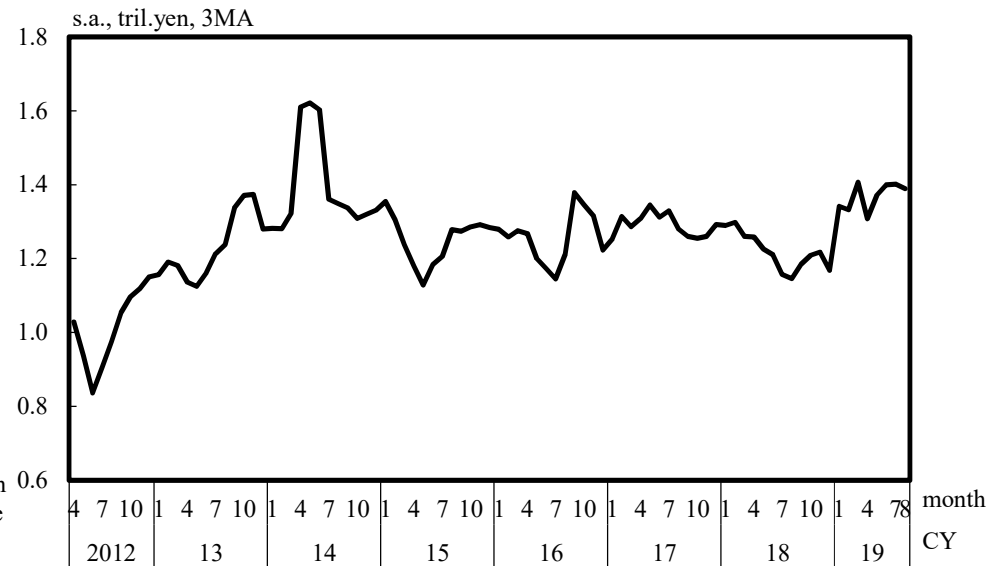
### Order trends of Owner-occupied housing



Source: IR information of each company

Notes: Exception of contract deadline is the contract deadline of contracted work etc. to which tax rate before the tax rate hike applied.

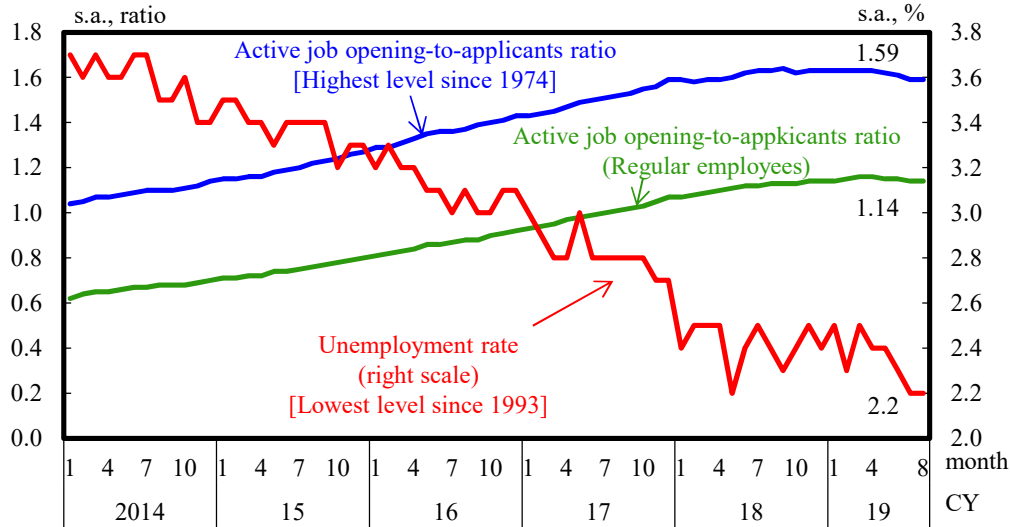
### Amount of public works orders received



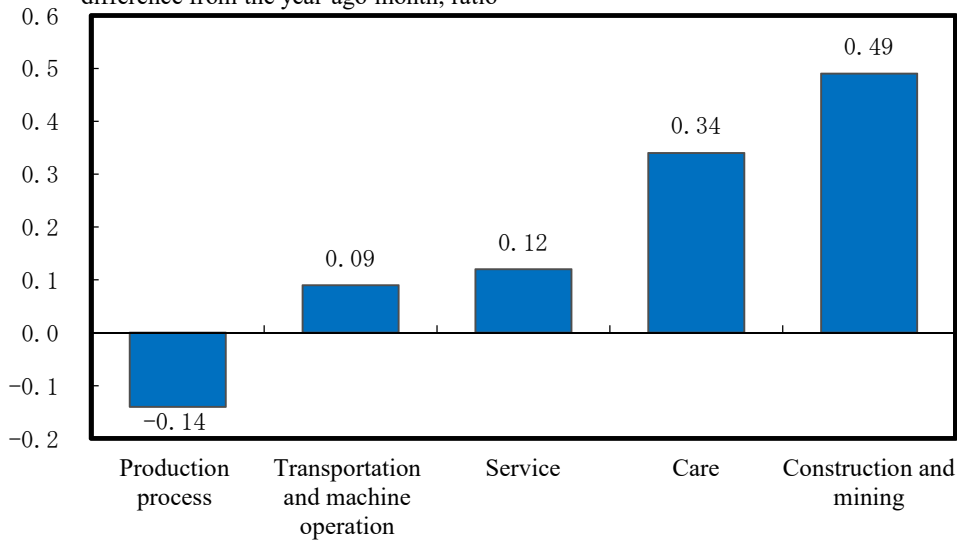
Source: Ministry of Land, Infrastructure, Transport and Tourism.

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

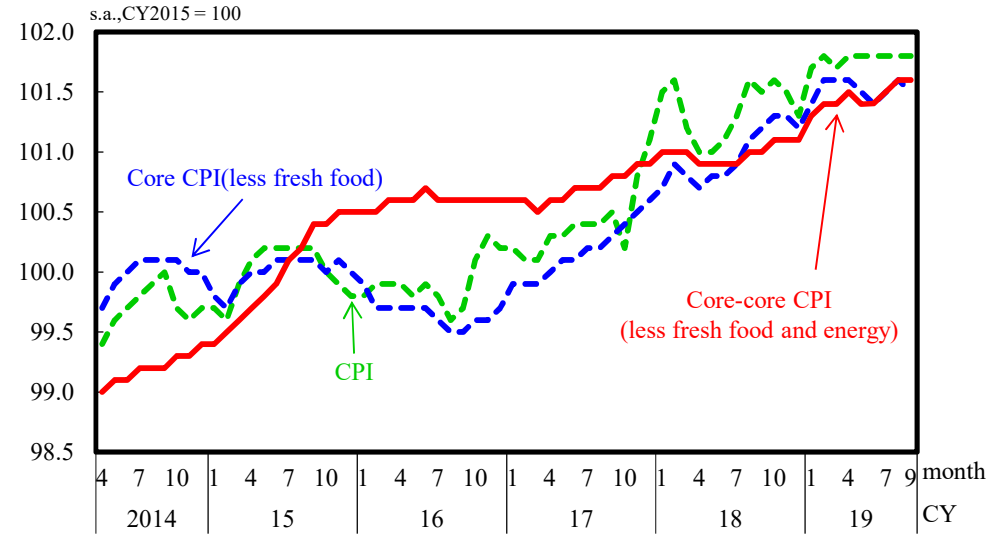


Active job opening-to-applicants ratio by type of job(Aug.2019)  
 difference from the year-ago month, ratio

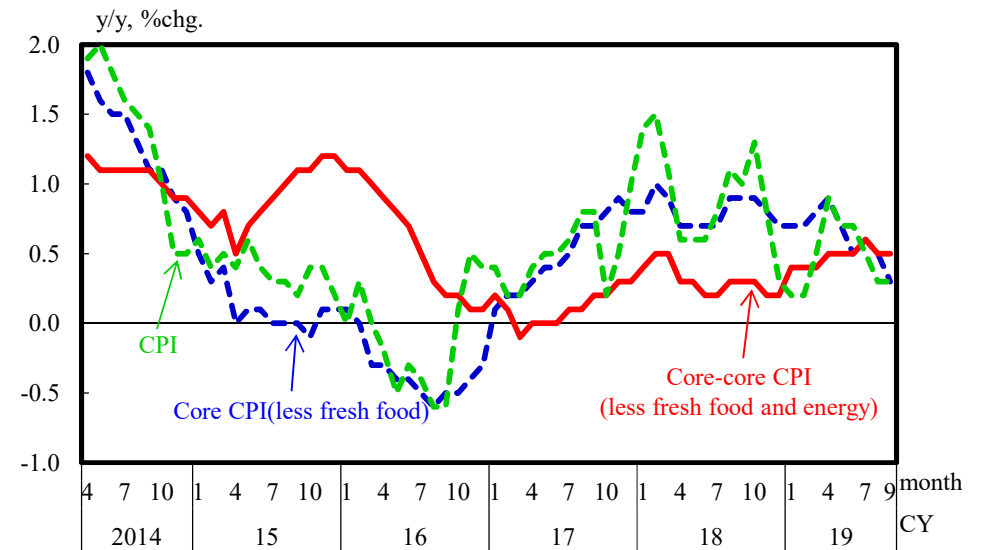


Consumer prices are rising at a slower tempo recently.

CPI(Consumer Price Index)



CPI(excluding impact of a consumption tax increase)



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

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