

Recent Economic Developments

- Monthly Economic Report, June 20 2022 -

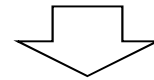
June 24, 2022

**Cabinet Office
Government of Japan**

<Assessment of the current state of the Japanese economy>

April

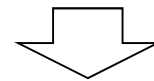
The Japanese economy shows movements of picking up as the severe situation due to the Novel Coronavirus is easing.



May

The Japanese economy shows movements of picking up.

(Changed)



June

The Japanese economy shows movements of picking up.

(Unchanged)

<Assessment of the current state of the Japanese economy>

| | April | May | June |
|---|---|---|--|
| Private consumption | Private consumption shows movements of picking up recently.(↑) | Private consumption has shown movements of picking up recently. | Private consumption shows movements of picking up. |
| Business investment | Business investment shows movements of picking up. | Unchanged | Unchanged |
| Exports | Exports are almost flat. | Unchanged | Unchanged |
| Industrial production | Industrial production shows movements of picking up. | Unchanged | Industrial production appears to be pausing for picking up.(↓) |
| Corporate profits | Corporate profits are improving as a whole, although some weaknesses remain in non-manufacturers due to the influence of the infectious disease. | Unchanged | Corporate profits are improving as a whole, although some weaknesses remain. (→) |
| Firms' judgments on business conditions | Firms' judgments on current business conditions appear to be pausing for picking up. | Unchanged | Unchanged |
| Employment situation | Employment situation shows picking up in some components such as job offers, while weakness remains due to the influence of the infectious disease. | The employment situation shows movements of picking up.(↑) | Unchanged |
| Prices | Consumer prices are rising moderately recently. | Consumer prices have been rising recently. (→) | Unchanged |

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

<Short-term prospects>

April

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while all possible measures are being taken against infectious diseases and economic and social activities move toward normalization. However, full attention should be given to the further increase in downside risks due to rising raw material prices and fluctuations in the financial and capital markets and supply-side constraints while the uncertainties surrounding the state of affairs of Ukraine. Also attention should be given to the effects of the Novel Coronavirus.

May

The economy is expected to show movements of picking up, supported by the effects of the policies while all possible measures are being taken against infectious diseases, and economic and social activities proceed to normalization. However, full attention should be given to the downside risks due to supply-side constraints, rising raw material prices and fluctuations in the financial and capital markets while there are concerns regarding the effects of the re-spread of the Novel Coronavirus in China and lengthening the state of affairs of Ukraine. Also attention should be given to the effects of the Novel Coronavirus.

June

The economy is expected to show movements of picking up, supported by the effects of the policies while all possible measures are being taken against infectious diseases, and economic and social activities proceed to normalization. However, full attention should be given to the downside risks due to rising raw material prices, supply-side constraints and fluctuations in the financial and capital markets while there are concerns regarding the effects of lengthening the state of affairs of Ukraine and suppression of economic activities in China.

<Policy stance>

(Monthly Economic Report, June 20, 2022)

The Government will continue to maintain the framework of economic and fiscal management for joint promotion of bold monetary policies, flexible fiscal policies, and growth strategies that will encourage private investment. The macroeconomy will be managed flexibly without hesitation to achieve autonomous growth led by private demand, and to break away from deflation.

The Government will implement the “Economic Measures for Overcoming Coronavirus Infections and Opening Up a New Era”, the FY2021 supplementary budget, and the FY2022 budget swiftly and properly. Also, the Government will implement Comprehensive Emergency Measures to Counter Soaring Crude Oil and other Prices under the COVID-19 Pandemic and establish Task Force on Prices, Wages, and Daily Living to take swift and comprehensive measures tailored to the situation in terms of both prices and economic conditions, including the flexible use of reserve funds, as a seamless response.

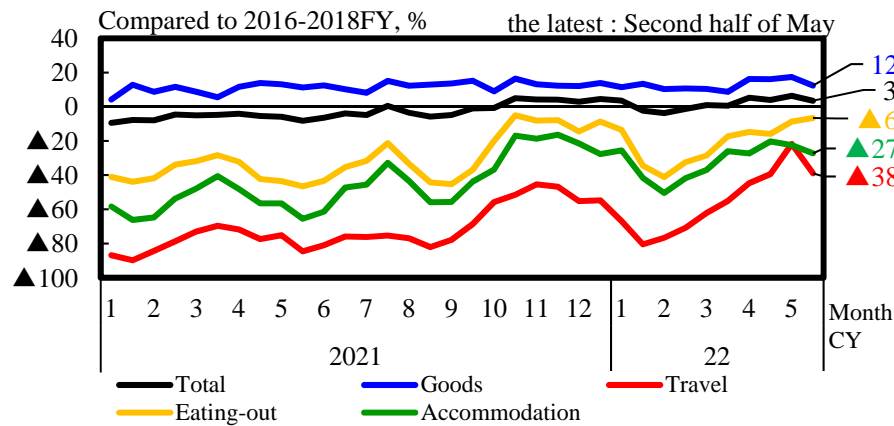
In addition, the government will steadily implement policy measures that we have included in the vision and the action plan of a New Form of Capitalism and our Basic Policy on Economic and Fiscal Management and Reform 2022, which the Cabinet decided on June 7th, and then give concrete shape immediately to the comprehensive measures for advancing these initiatives and put into practice.

The Bank of Japan continues monetary easing with a view to doing its utmost to support financing mainly of small and medium-sized firms and maintaining stability in financial market. The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner in light of economic activity, prices and financial conditions.

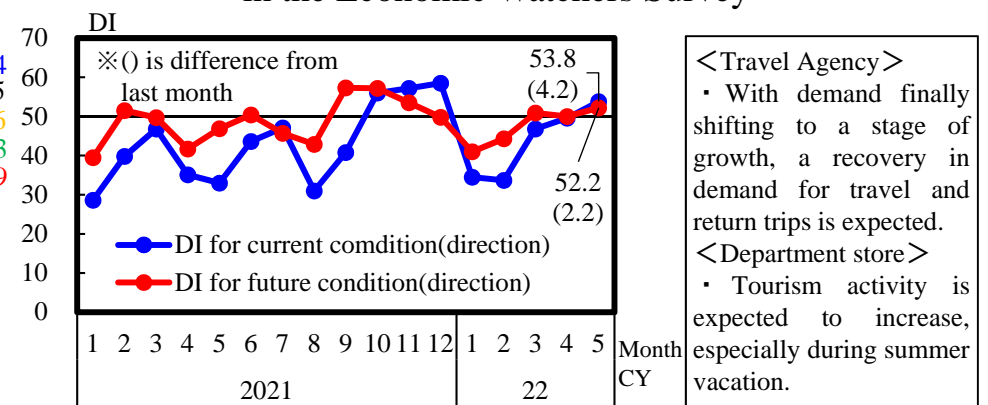
– Private consumption –

- Private consumption shows movements of picking up. Consumption of services such as eating-out and travel continues to pick up. However, travel from residence to neighboring prefectures is mainly recovering.
- Household sentiment in the Economic Watchers Survey has improved due to an increase in the number of people going out and expectations for summer events and travel, despite some concerns about rising prices.
- Weekly private consumption has been generally above normal through June.

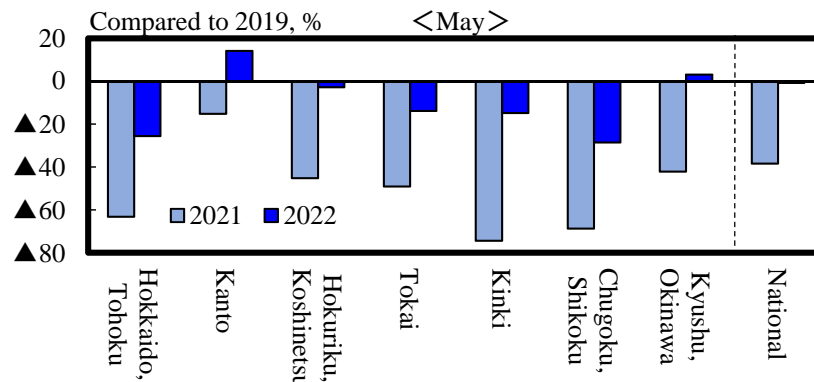
(1-1) Consumption based on credit card expenditures



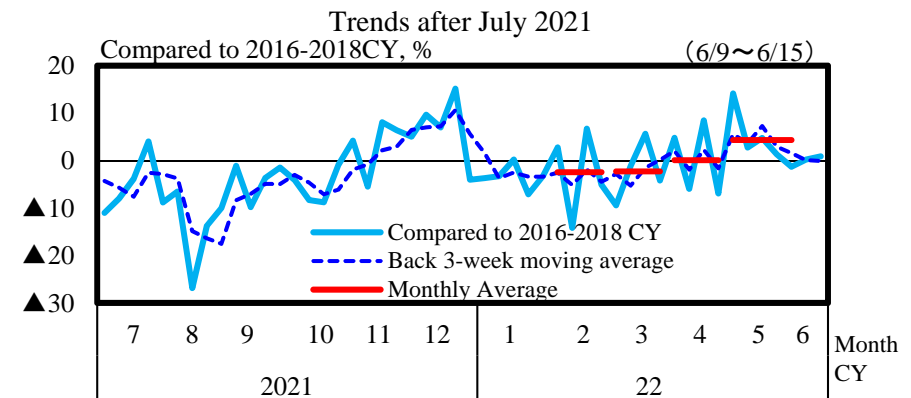
(1-3) Household sentiment in the Economic Watchers Survey



(1-2) Number of Tokyo residents staying overnight by destination



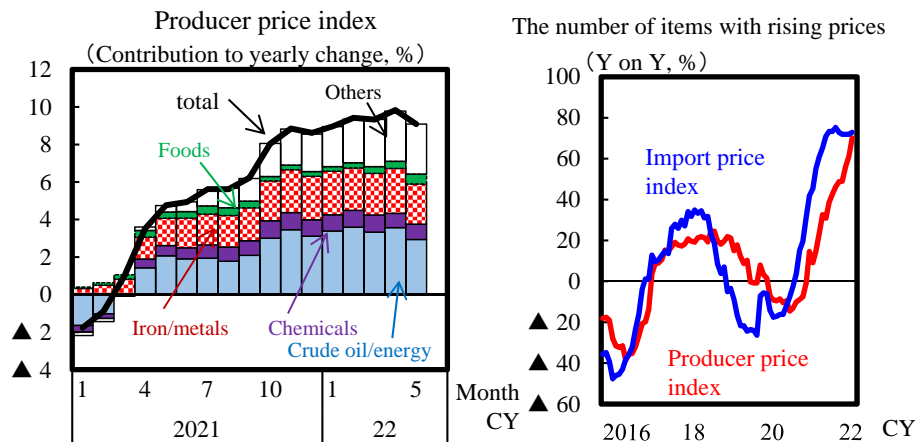
(1-4) Weekly consumption expenditure



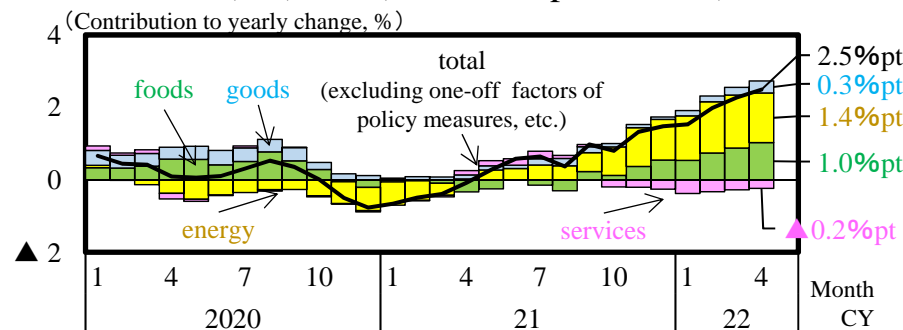
— Prices —

- Producer prices have continued to rise to 9.1% y/y in May, due to rising raw material prices against the backdrop of the situation in Ukraine, with a further spread in the number of items whose prices are rising.
- Consumer prices have been rising on the back of price hikes in energy and foods. In April, consumer prices grew 2.5% y/y, the highest in about 30 years, due in part to the loss of the effect of reductions in mobile phone charges. However, Japan is in the bottom third of the G20 countries, half of which face the inflation of 7% or more.
- The rate of price increases for energy and food products in Japan is lower than in Europe and the U.S., due in part to the policies implemented so far.

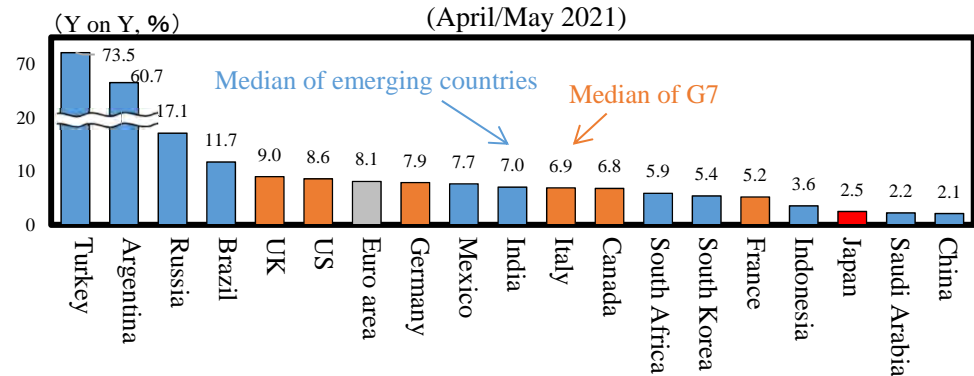
(2-1) Corporate Goods Price Index



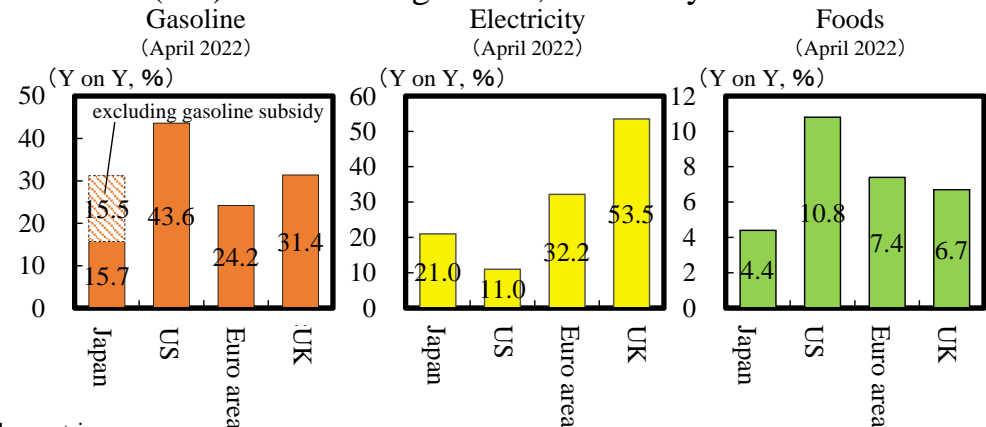
(2-2) CPI (Consumer price index)



(2-3) Consumer price inflation rate in G20 countries



(2-4) Inflation of gasoline, electricity and foods



Source: Bank of Japan; Ministry of Internal Affairs and Communications; the statistics of each country.

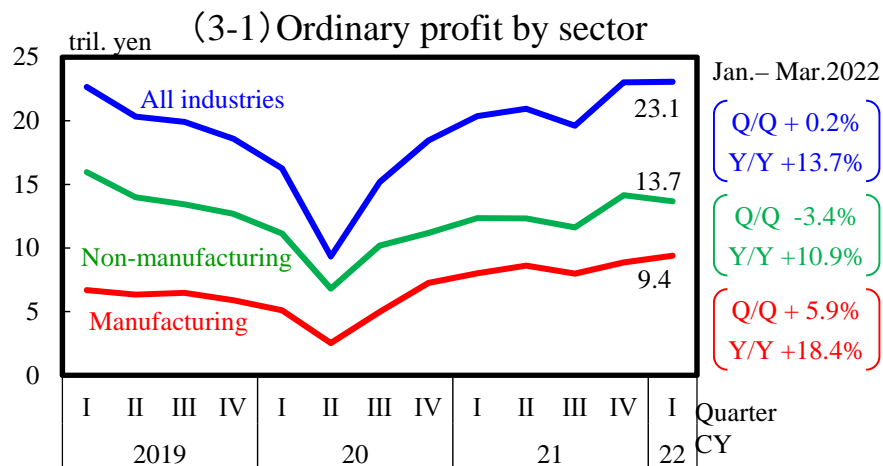
Note: In CPIs, "one-off factors of policy measures, etc." means the direct effects of the Go to Travel Campaign and a decrease in telephone charges (mobile phone) in April 2021, etc. Producer price index excludes extra charges for summer electricity and the direct effects of the consumption tax increase.

The inflation rate of Australia is not included in figure 2-3 (the inflation rate of Australia is 5.1% in January-March 2022 period.)

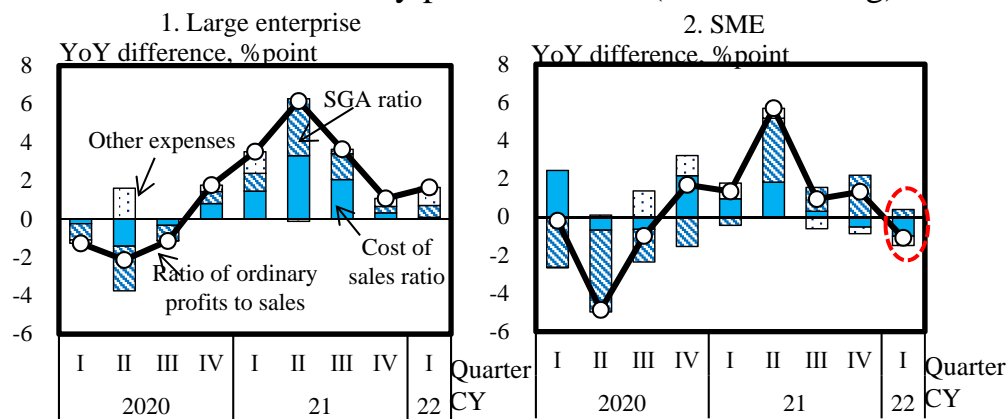
Foods of figure 2-4 excludes food-away-from-home.

— Trends in Business Activities —

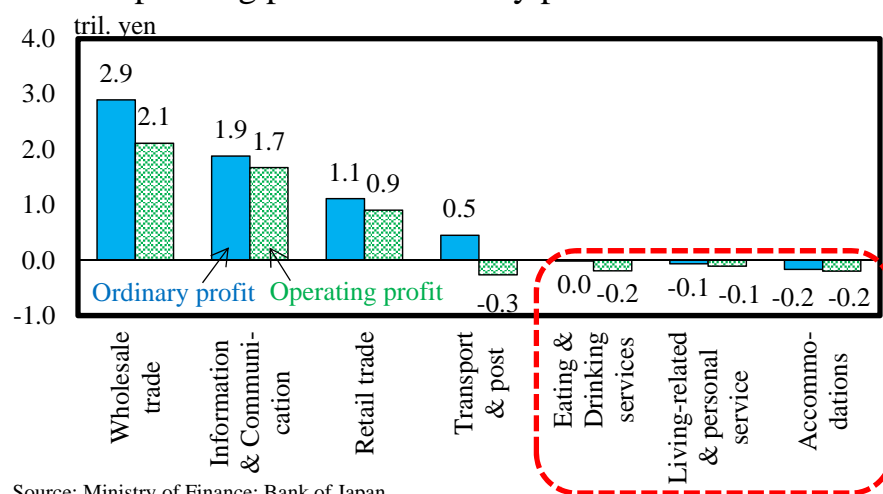
- Corporate profits for the first quarter of 2022 increased and exceeded generally the pre-COVID-19 outbreak level. The accommodations, eating and drinking services are in the red in terms of operating income.
- Ordinary profits in the SME manufacturing declined YoY due to higher raw material prices. An increase in the cost of sales ratio, which is affected by the cost of goods purchased, put downward pressure on the ratio of ordinary profits of sales.
- Particularly in the process manufacturing of SME, the difference between sales price DI and purchase price DI, which approximately shows the terms of trade, worsened. Price pass-through continues to be important.



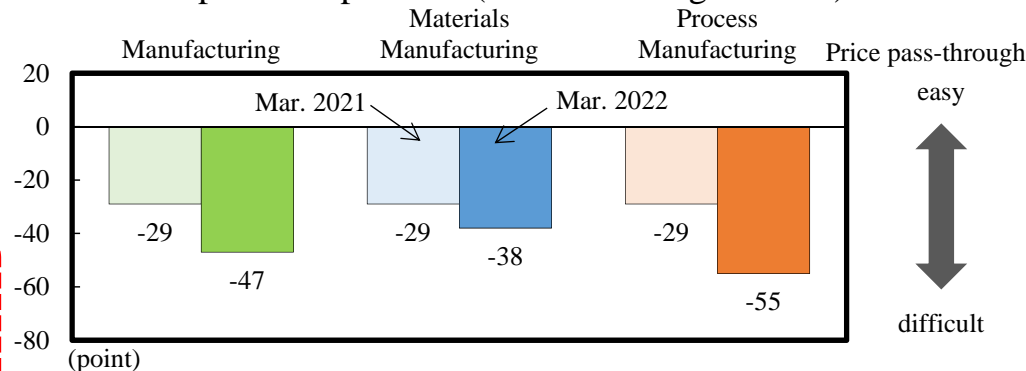
(3-3) Ratio of ordinary profits to sales (Manufacturing)



(3-2) Operating profit & Ordinary profit in Non-manufacturing



(3-4) The difference between sales price DI and purchase price DI (Manufacturing of SME)



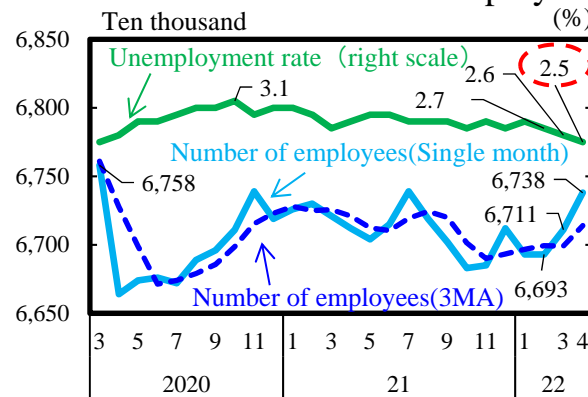
Source: Ministry of Finance; Bank of Japan

— Employment Situation —

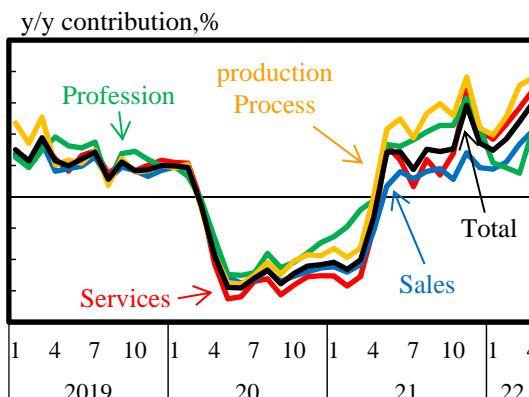
- The employment situation is picking up. The number of employees increased moderately and the unemployment rate declined for the third month in a row. The employment rate, especially among women aged 25-64, has risen above the pre-COVID-19 level.
- The number of job openings picked up. The number of job ads posted increased in a wide range of industries, including production processes and services. The number of firms offering job openings on the internet at Public Employment Security Office continued to increase.
- Total cash earnings increased over the previous year in April, mainly due to a continued increase in the scheduled cash earnings. Wage increases for FY 2022 in “shunto” (spring wage negotiation) stands at 2.09% according to RENGO (Japanese Trade Union Confederation), higher than last year. Summer bonuses are expected to increase for the first time in four years.

(4-1)

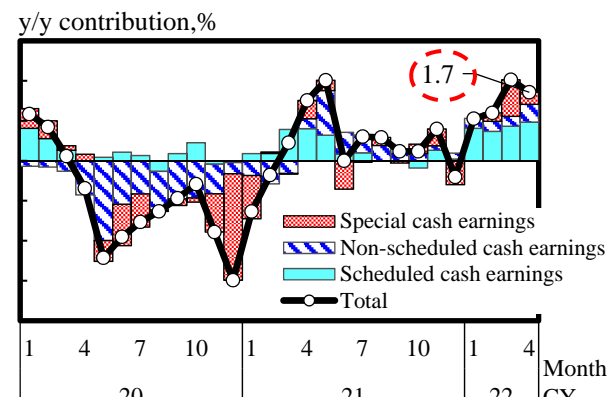
Number of Workers and Unemployment rate



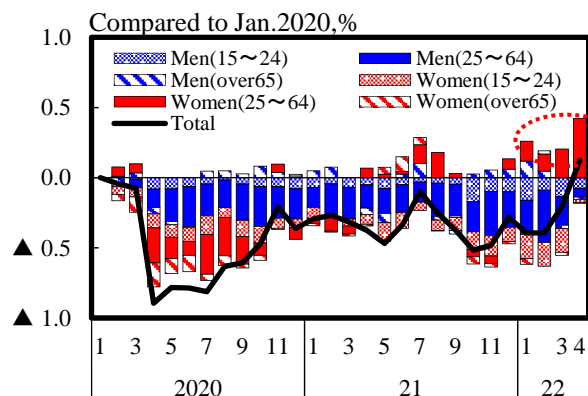
(4-3) Number of job ads posted



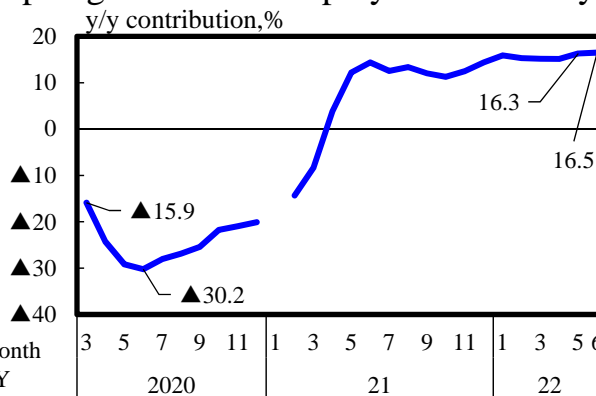
(4-5) Total cash earnings



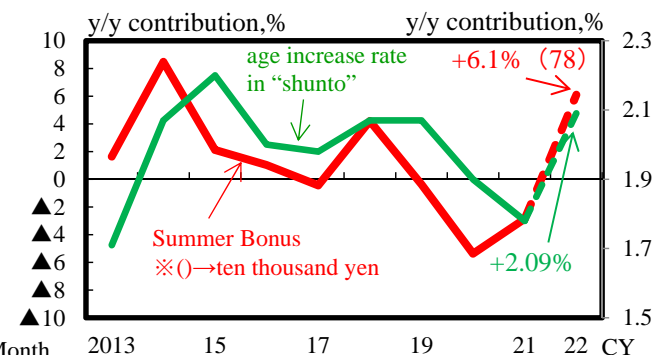
(4-2) Percentage of employment



(4-4) The number of firms offering the active job openings at Public Employment Security Office



(4-6) Summer Bonus and Wage increase rate in “shunto”

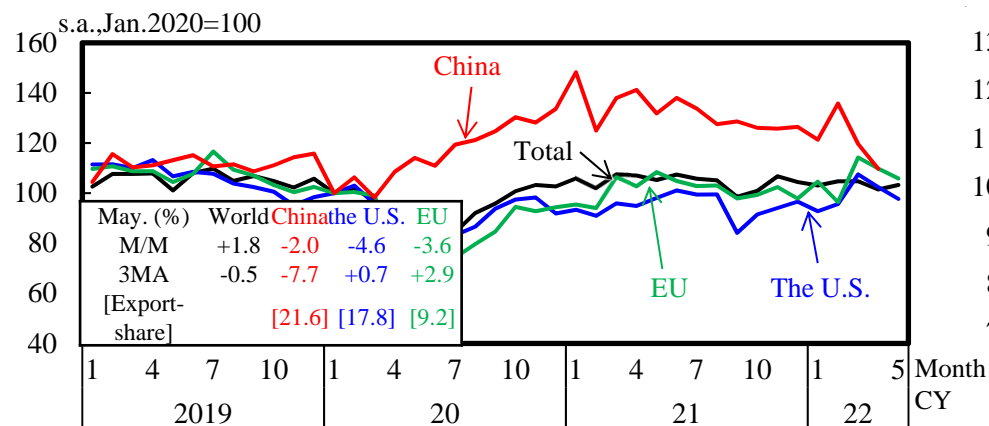


Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications; Association of job information of Japan; RENGO; The Nikkei

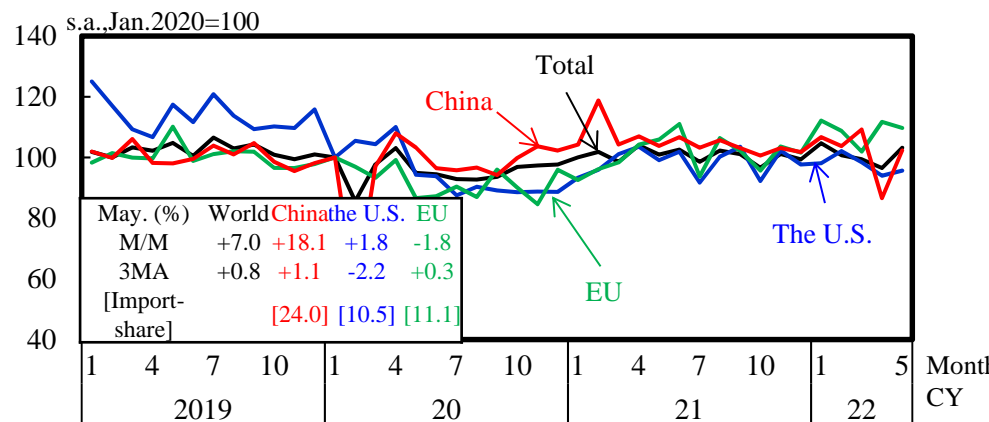
– Industrial Production & Exports –

- Exports are almost flat. Exports to the U.S. and Europe are showing movements of picking up, while China has decreased in May. Imports have bottomed out due to the easing of the impact of activity restrictions imposed in China.
- Industrial production appears to be pausing for picking up. Transport equipment has stagnated due to supply restrictions. Although the increase in electronic parts and devices has slowed due to the effects of restrictions on activities in China, strong demand for semiconductor products is expected to continue.

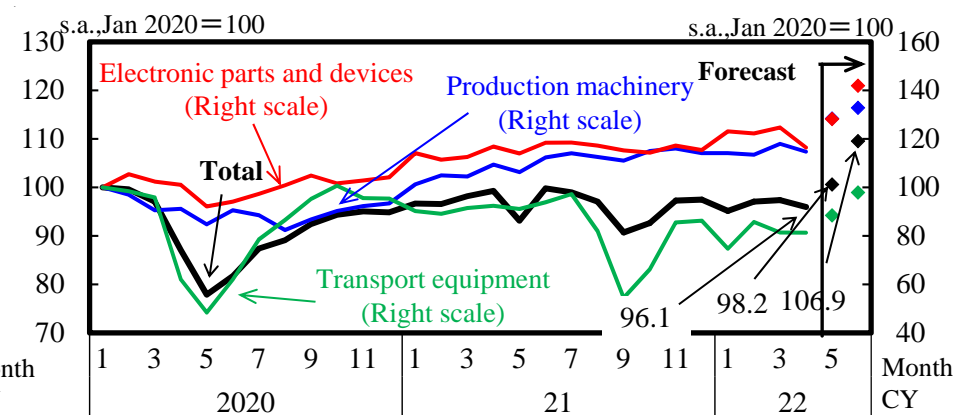
(5-1) Export volume index by region



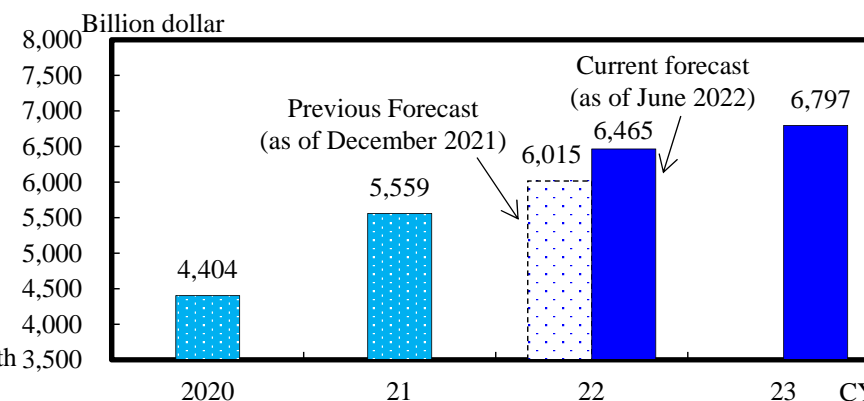
(5-2) Import volume index by region



(5-3) Industrial production



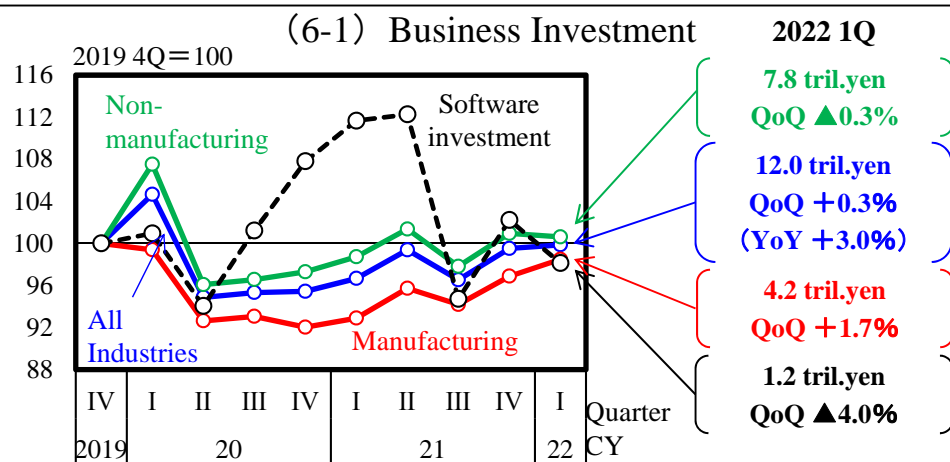
(5-4) Global Semiconductor Shipments Forecast



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

— Business & Housing investment —

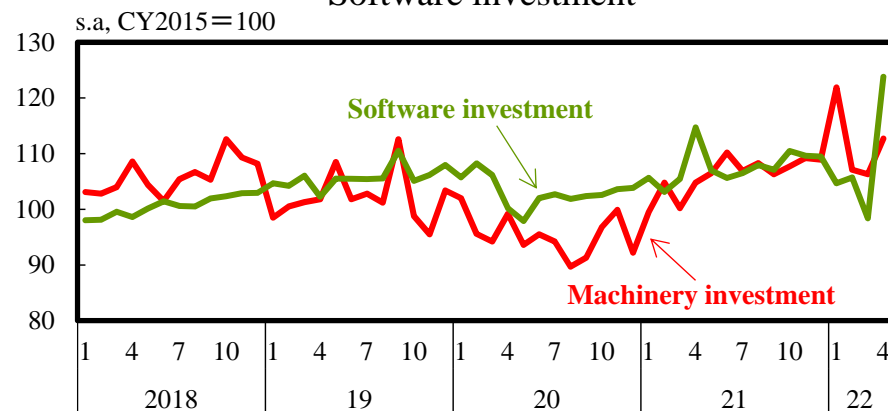
- Business investment is picking up recently. Business investment in Jan.-Mar. 2022 increased QoQ in manufacturing. Machinery investment is picking up recently. Software investment increased moderately on average, with monthly fluctuations.
- According to the Business Outlook Survey (Apr.-Jun. 2022), business investment plans in FY2022 is robust (+16.0% on a year-on-year basis). It is important to realize investments to decarbonize and increase energy efficiency.
- Housing construction has shown a firm trend driven by construction of rental apartments and condominiums.



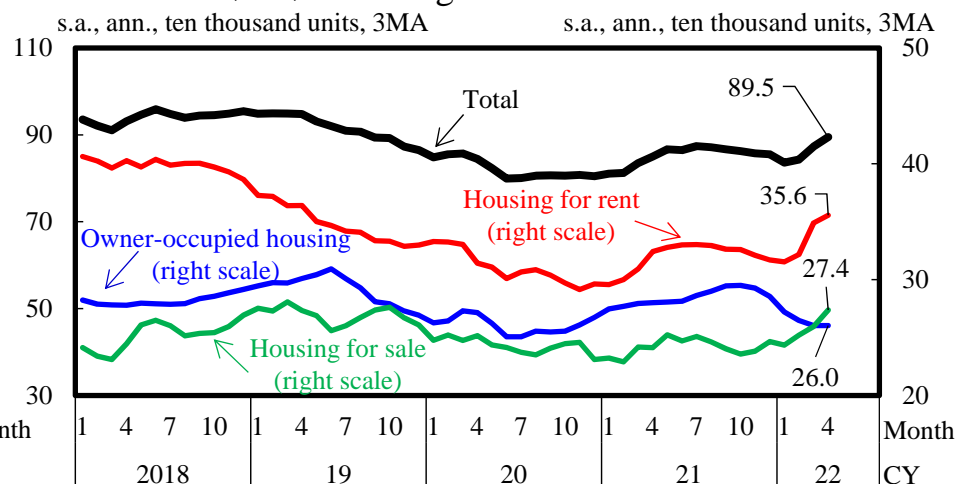
(6-3) FY2022 Business investment outlook
Business Outlook Survey(Apr.-Jun. 2022)

| FY/FY, % | Investment (Incl. software) | Software investment |
|-------------------|--------------------------------|------------------------|
| All industries | +16.0 | +22.4 |
| Manufacturing | +26.4 | +33.8 |
| Non-manufacturing | +11.2 | +19.5 |

(6-2) Machinery investment and
Software investment

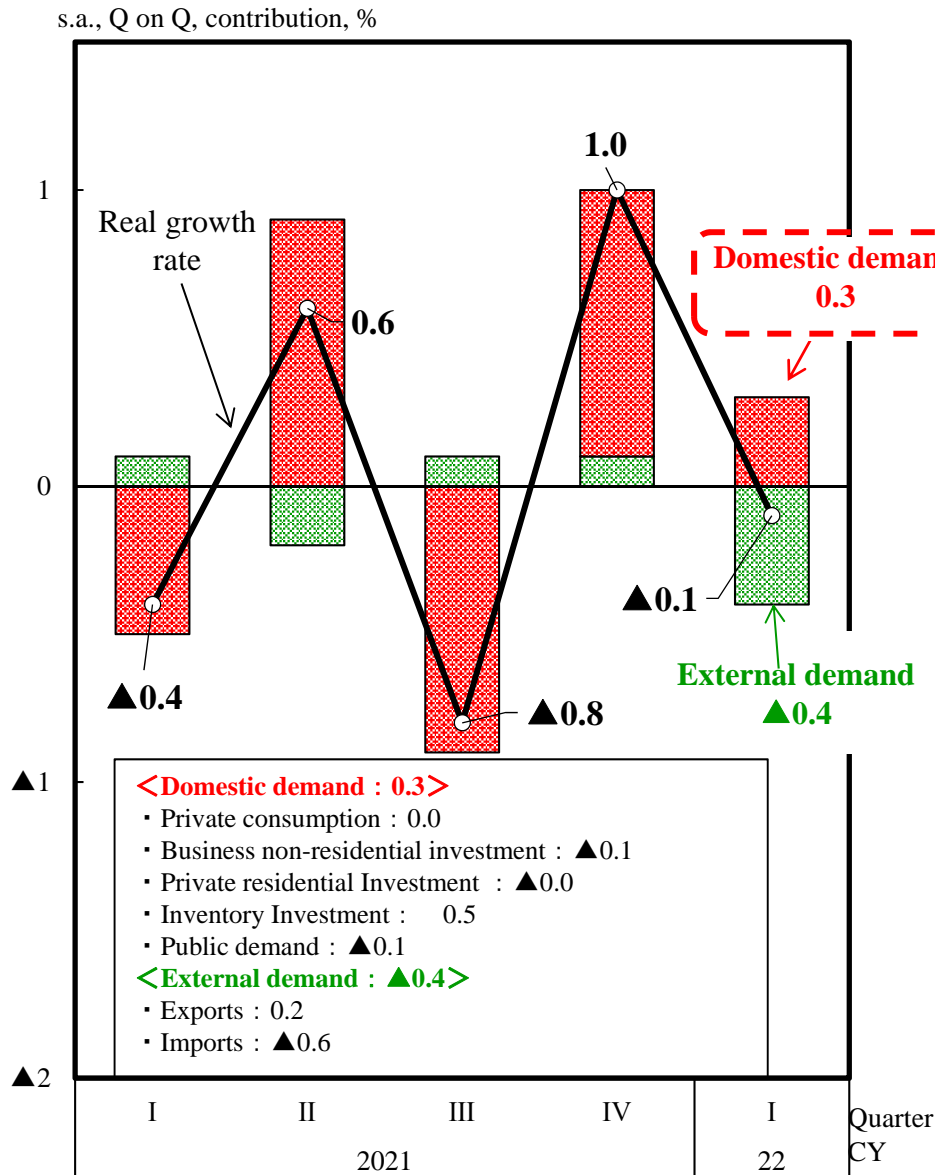


(6-4) Housing construction starts

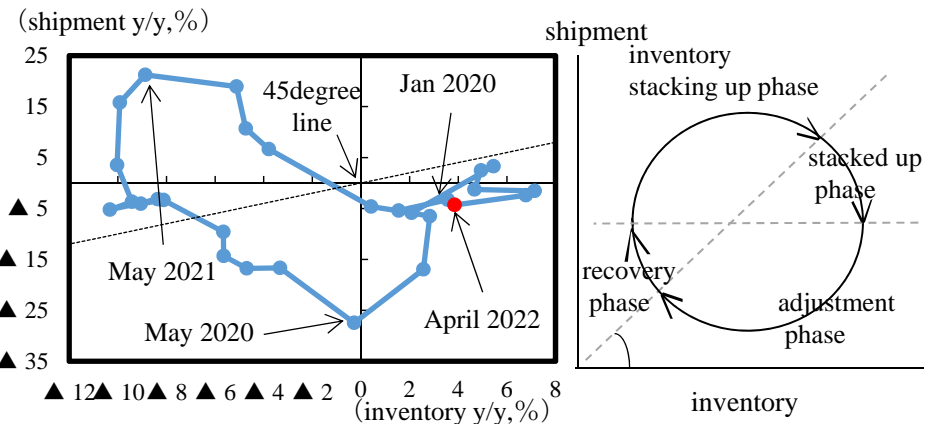


Reference

(7-1) GDP: Jan.-Mar. 2022 (Second Preliminary Estimates)



(7-2) Industrial production appears to be pausing for picking up



(7-3) The number of corporate bankruptcies is almost flat

