

Recent Economic Developments

- Monthly Economic Report, July 26 2022 -

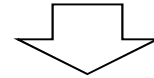
August 5, 2022

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

May

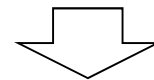
The Japanese economy shows movements of picking up.



June

The Japanese economy shows movements of picking up.

(Unchanged)



July

The Japanese economy is picking up moderately.

(Changed)

<Assessment of the current state of the Japanese economy>

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

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

<Short-term prospects>

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.

July

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 fluctuations in the financial and capital markets amid global monetary tightening, rising raw material prices and supply-side constraints.

<Policy stance>

(Monthly Economic Report, July 26, 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, at the Task Force on Prices, Wages, and Daily Living, will monitor the situation of prices and the economy, and work seamlessly to take swift and comprehensive measures tailored to the situation, while making flexible use of reserve funds.

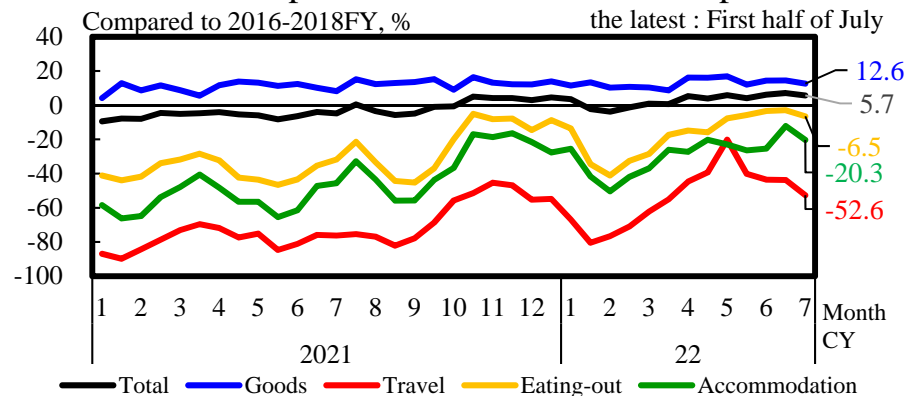
In addition, the government will steadily implement policy measures that we have included in the vision and the action plan of a New Form of Capitalism and our Basic Policy on Economic and Fiscal Management and Reform 2022, which the Cabinet decided on June 7th, and then give concrete shape immediately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

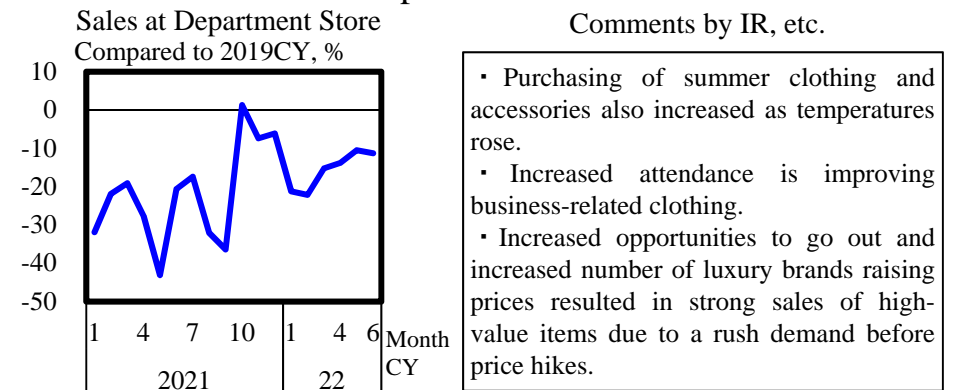
– Private consumption –

- Private consumption is picking up moderately. Consumption of services such as eating-out and travel continues to pick up. In addition to the number of Japanese guest nights, transportation usage in July also continue to rise. Reservations for Obon-period also exceeded the previous year's level.
- Department store sales improved with increased opportunities to go out. Strong sales were reported mainly for high-value items and clothing associated with increased opportunities to go out.
- Due to rising prices, expenditures on daily necessities such as food and utilities are higher than before COVID-19, while expenditures on other items are lower than before COVID-19, indicating a trend toward saving, especially among low-income households.

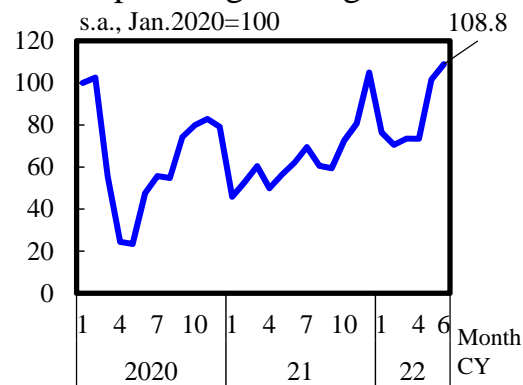
(1-1) Consumption based on credit card expenditures



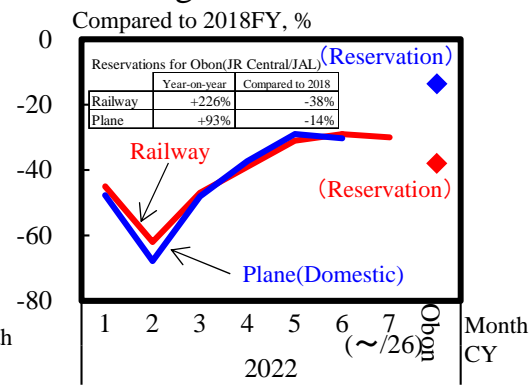
(1-4) Department Store Sales



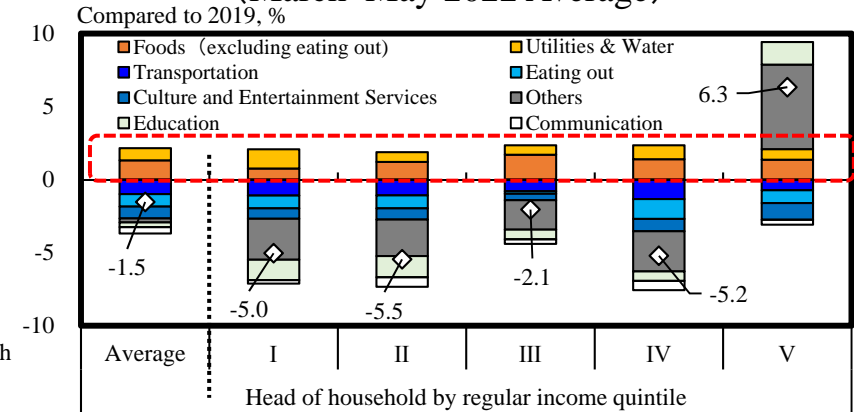
(1-2) Total number of Japanese guest nights



(1-3) Transportation usage figures



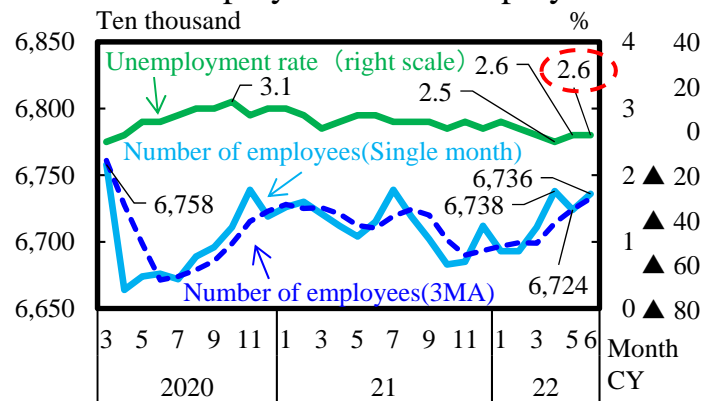
(1-5) Factorization of Consumption Expenditures (March–May 2022 Average)



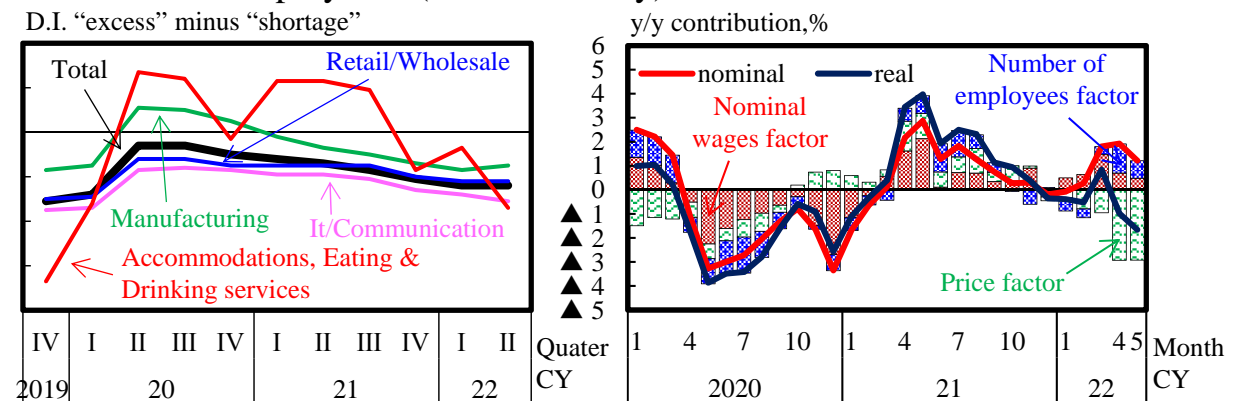
— Employment Situation —

- The employment situation is picking up. The number of employees is increasing and the unemployment rate is declining. The employment rate has risen above the pre-COVID-19 level, mainly due to an increase in the number of women in full-time employment.
- While the excess of employment (Tankan Survey) declined in a wide range of industries, particularly in the accommodation and food services sector, the daily number of effective job openings via the Internet by Hello Work continues to increase.
- Wage income of employees increased year-on-year in nominal terms due to an increase in the number of employees and higher wages, while in real terms it was negative due to the impact of rising prices. Wage increases for FY 2022 in “shunto” (spring wage negotiation) was 2.07%, higher than last year. According to RENGO (Japanese Trade Union Confederation), summer bonuses are expected to be significantly higher than the previous year.

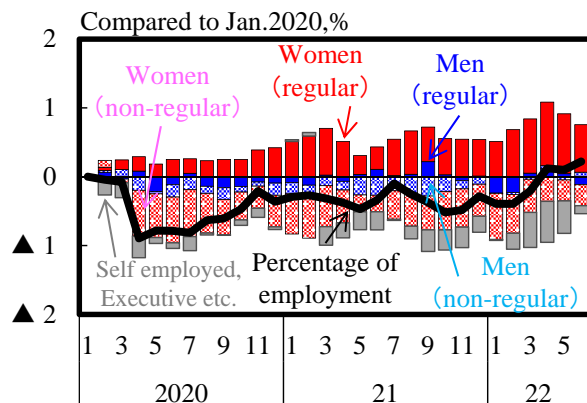
(2-1) Number of employees and Unemployment rate



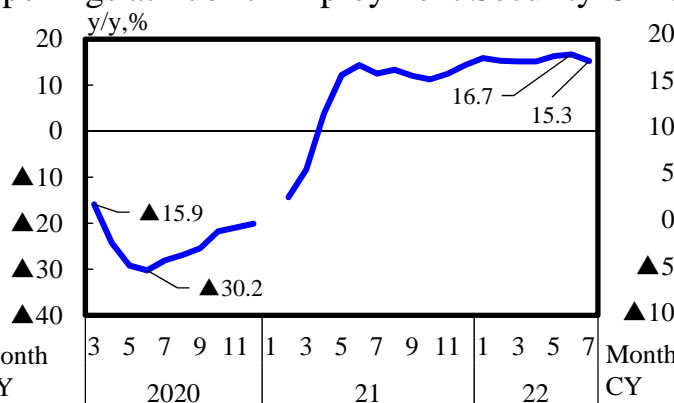
(2-3) The excess of employment(Tankan Survey) (2-5) Wage income of employees



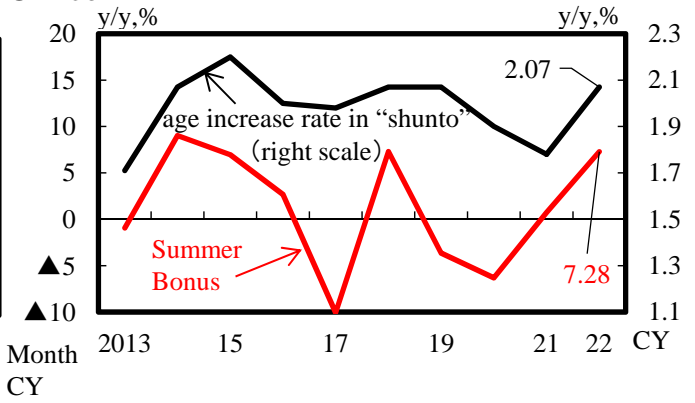
(2-2) Employment rate



(2-4) The number of firms offering the active job openings at Public Employment Security Office



(2-6) Summer Bonus and Wage increase rate in “shunto”

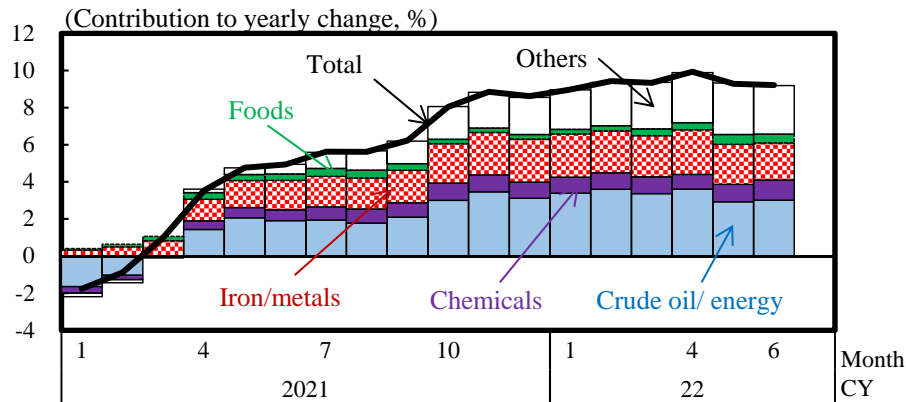


Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications; Cabinet Office; Kyushu Economic Research Center; RENGO;

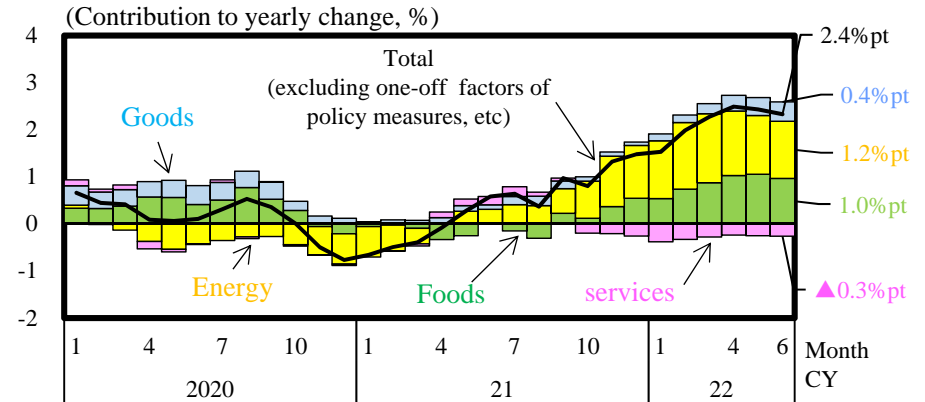
— Prices —

- Producer prices have continued to rise to 9.2% y/y in June, due to rising raw material prices and others. Producer price by demand stage, the increase in intermediate demand and final demand is relatively small compared to the rise in raw materials prices. Price pass-through continues to be an issue. Prices for intermediate and final demand are rising in the U.S.
- Consumer prices have been rising on the back of price hikes in energy and foods. In June, consumer prices grew 2.4% y/y. According to private surveys, price increases are expected to continue in August and beyond for many items, especially food.

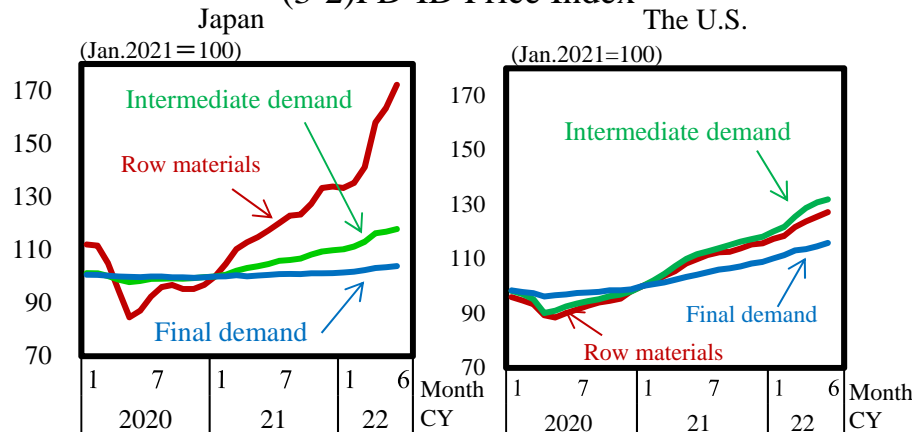
(3-1) Corporate Goods Price Index



(3-3) Consumer Price Index



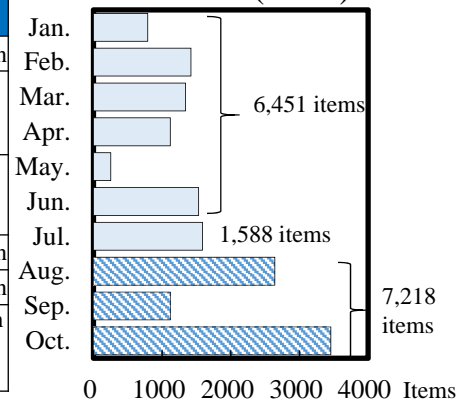
(3-2)FD-ID Price Index



(3-4)Future price increases

Item	Date	Range	Change in standard price
Cooking oil	Jul.	60yen(1kg)	391yen→451yen
Electricity charges	Aug.	347yen (1 month)	16,136yen →16,494yen
Airfare	Aug.	16,000yen (Japan→N.A.)	33,000yen →49,000yen
Bear	Oct.	15yen(1can)	187yen→202yen
Sushi	Oct.	10yen(1dish)	110yen→120yen
Automobile	Autumn	70,000yen (1unit)	2.22 million yen →2.29 million yen

(3-5)Trends in food price increases(2022)



Source: Bank of Japan; Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics, Teikoku Databank, Ltd.

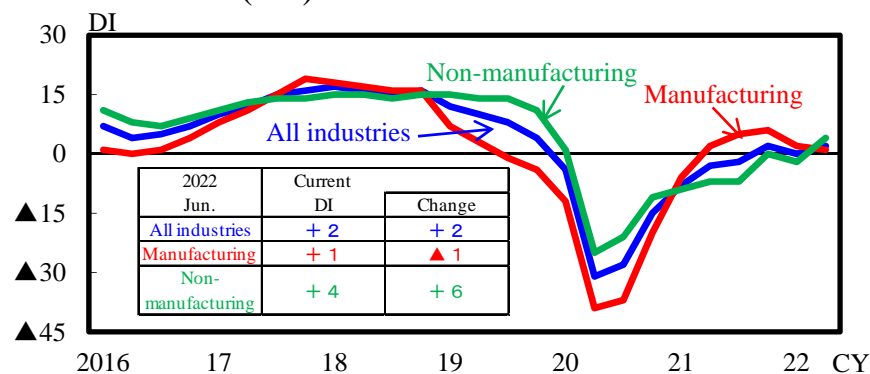
Note: In FD-ID, "Raw materials" means the index for stage 1 intermediate demand and "Intermediate demand" means the index for stage 3 intermediate demand.

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.

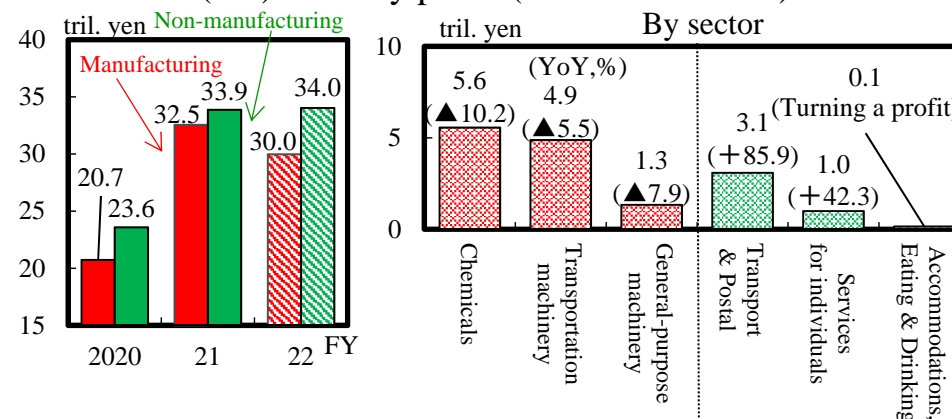
— Trends in Business Activities —

- Firms' judgments on current business conditions appear to be pausing for picking up. According to the BOJ Jun. Tankan survey, they declined in many industries due to the effects of restrictions on activities in China and rising raw material prices. On the other hand, Non-manufacturing industries improved slightly, especially in Accommodations, Eating & Drinks, due to recovery in economic activity.
- Ordinary profit in FY2022 is expected to be about the same level in the non-manufacturing sector as in FY2021. On the other hand, many manufacturing industries are expected to see negative year-on-year.
- Input price DI is rising particularly in the manufacturing sector, while the rise of output price DI is limited. Salary increase and price pass-through continue to be important.

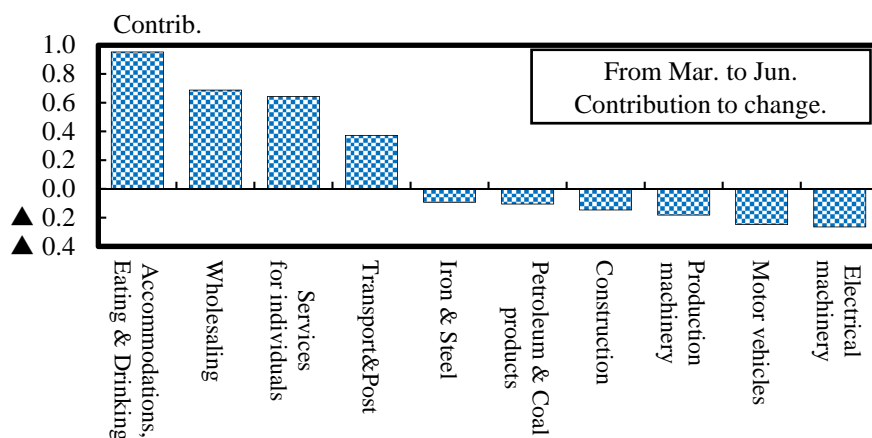
(4-1) Business Conditions



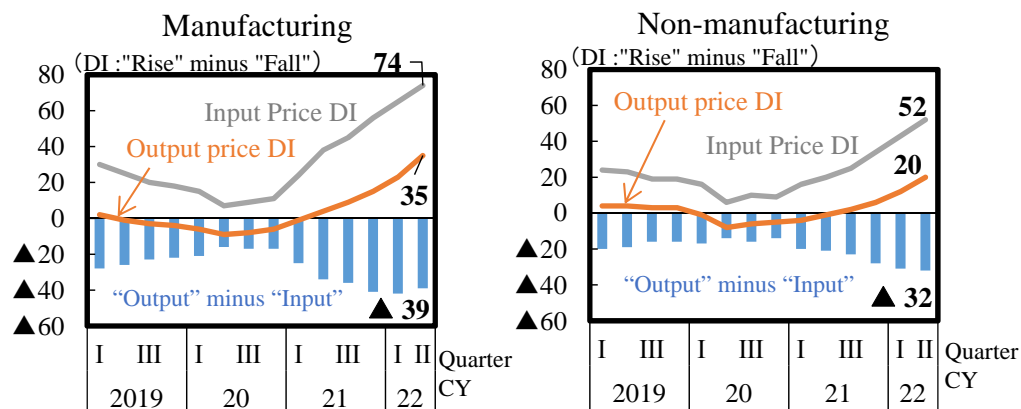
(4-3) Ordinary profit (2022FY Forecast)



(4-2) Contribution to changes in Business Conditions



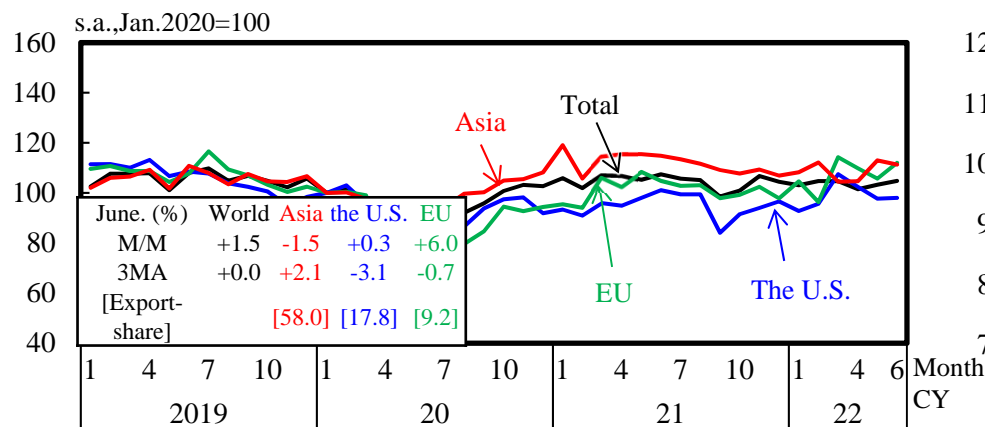
(4-4) Output price diffusion index and input price diffusion index



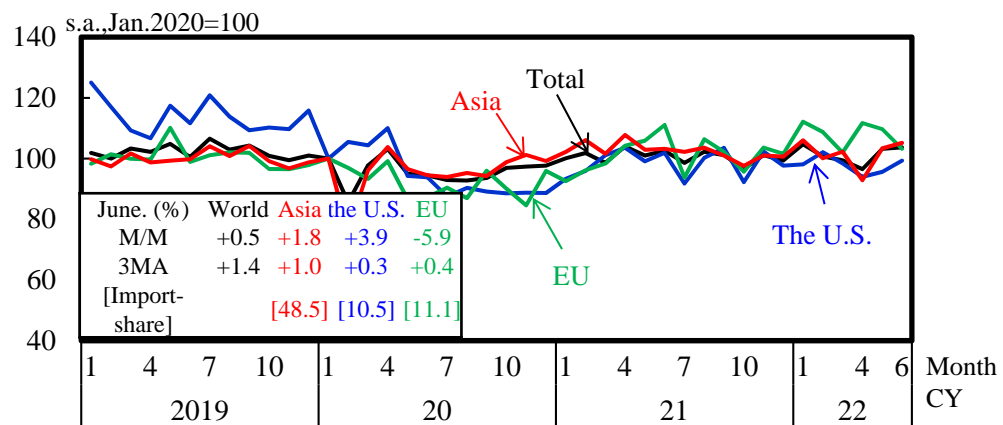
– Industrial Production & Exports –

- Exports are almost flat. Exports to the U.S. and Europe are showing movements of picking up, while Asia has remained flat in June. Imports are picking up, reflecting firm domestic demand and strong imports from Asia.
- Industrial production appears to be pausing for picking up in May. Transport equipment has stagnated due to supply restrictions. In addition, the increases in production machinery, electronic parts and devices have slowed due to the effects of restrictions on activities in China. Machine tool orders from Asia weakened while domestic demand is steady.

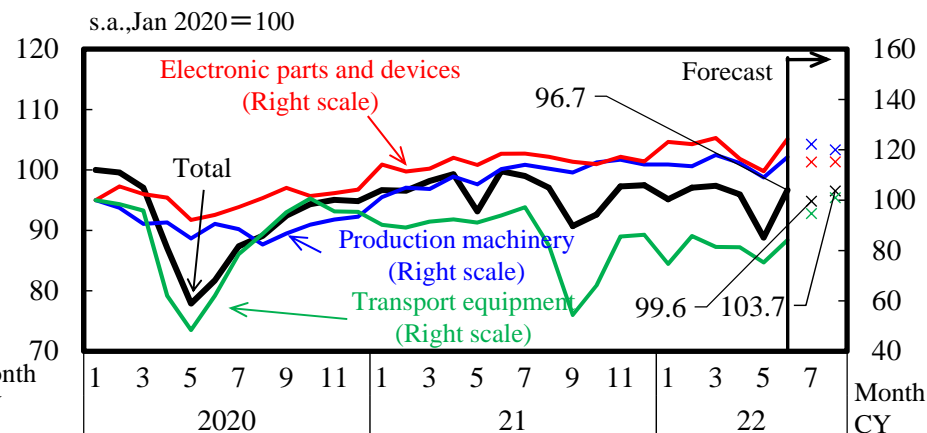
(5-1) Export volume index by region



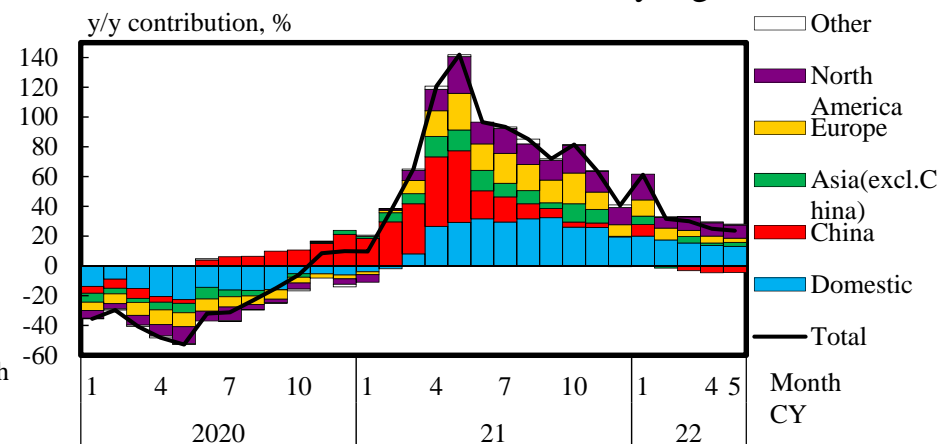
(5-2) Import volume index by region



(5-3) Industrial production



(5-4) Machine tool orders (by region)

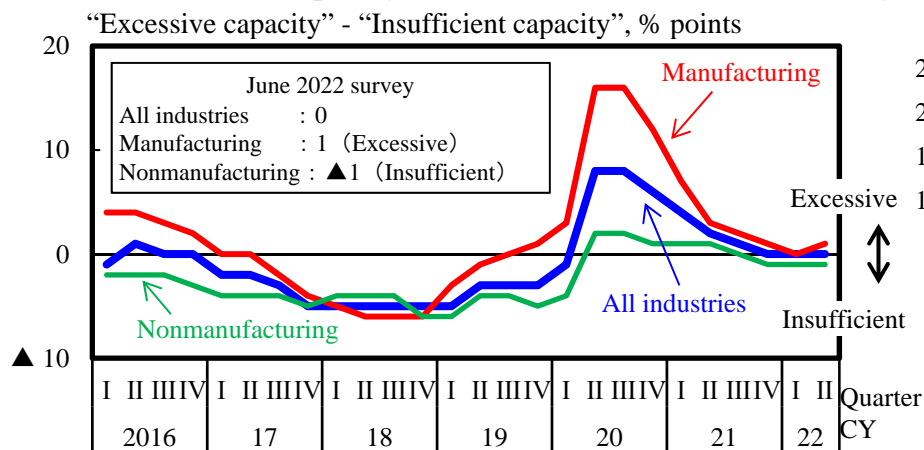


Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Japan Machine Tool Builders' Association.

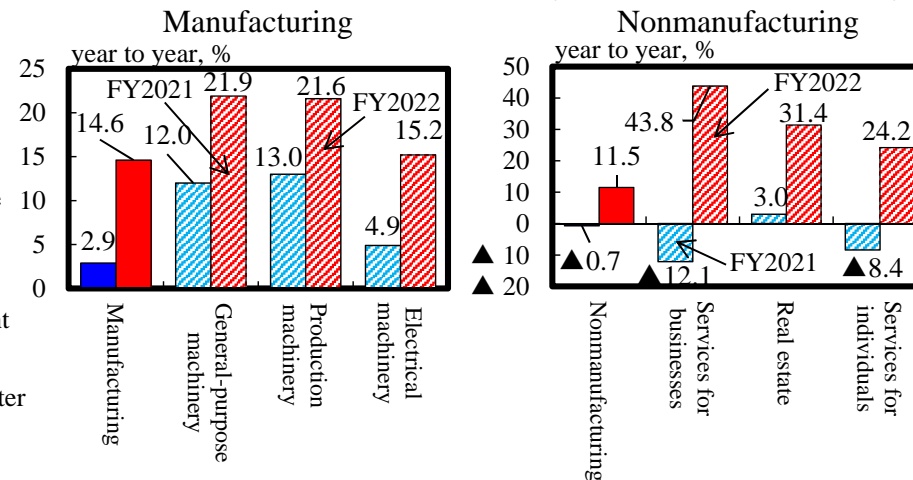
– Business Investment –

- According to the BOJ June Tankan survey, there is no excess production capacity remaining both in manufacturers and non-manufacturers, but business investment remains low compared to pre-COVID-19 level. Business investment is expected to continue to increase in FY2022 especially in software. By industry sector, the machinery manufacturing and service industries showed large year-on-year gains.
- Capital investment projections relative to sales are more aggressive than in the past, and future sales improvement is expected to lead to aggressive capital investment.

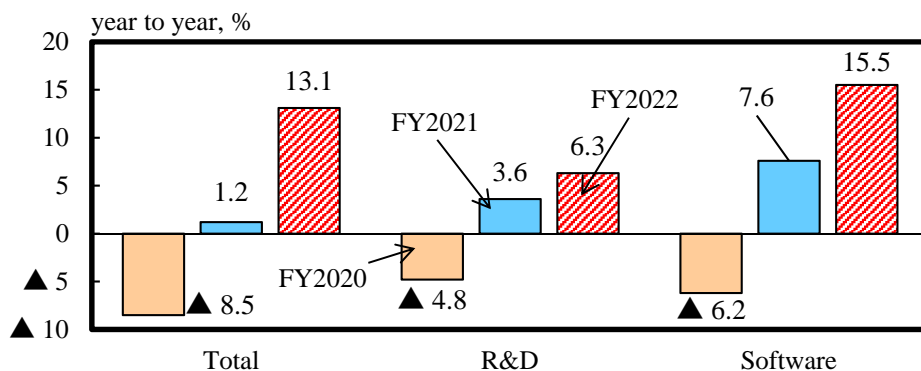
(6-1) Production Capacity: Diffusion index (Tankan survey)



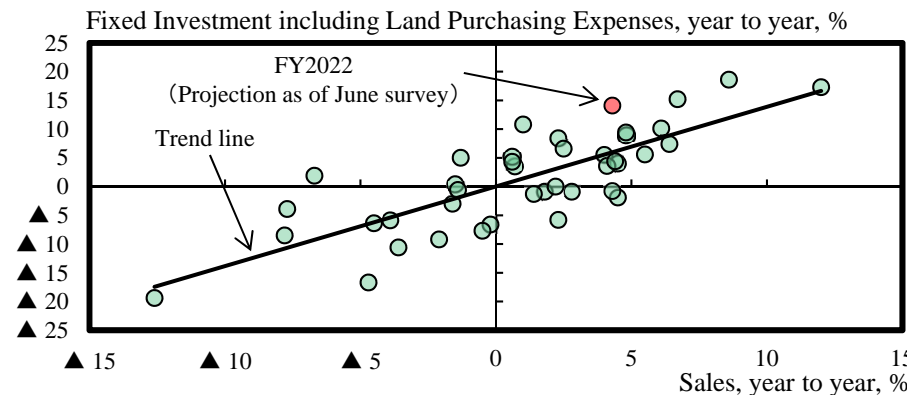
(6-3) Business Investment Plan by sector (Tankan survey)



(6-2) Business Investment Plan (Tankan survey)



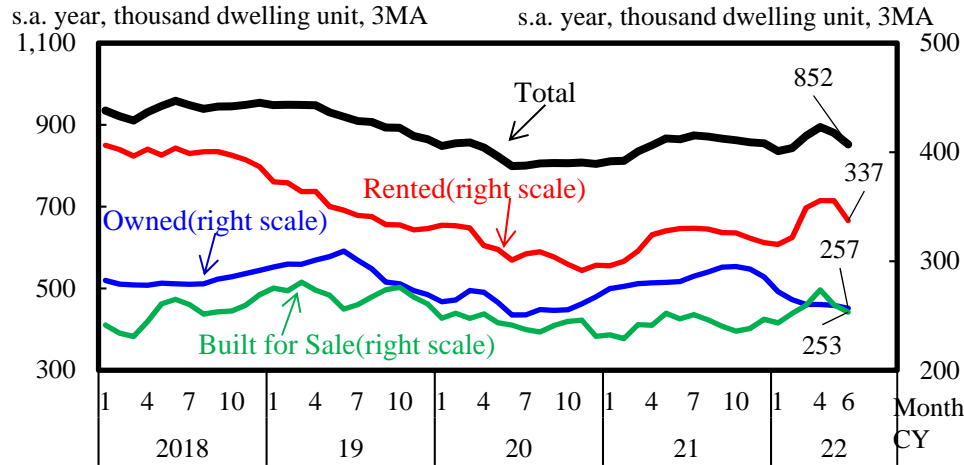
(6-4) Relationship between Business Investment and Sales



Reference

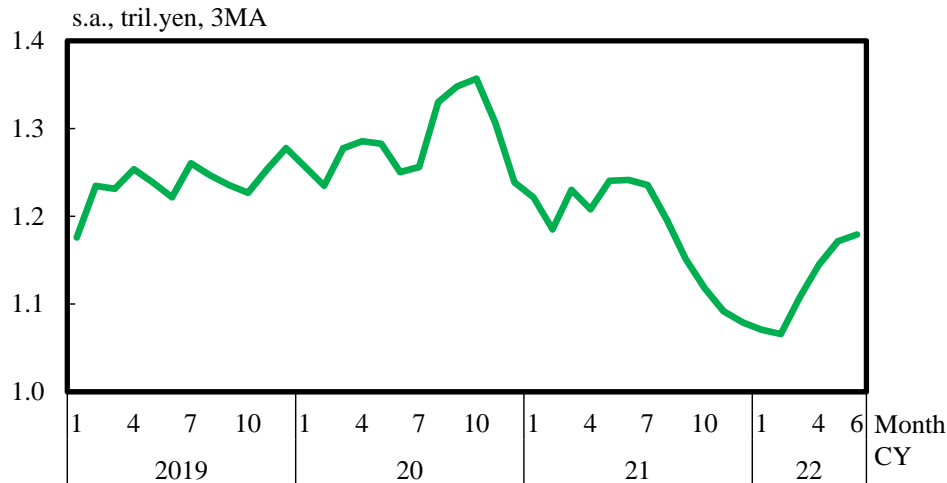
(7-1)Housing construction has shown a steady undertone.

New construction starts of dwellings



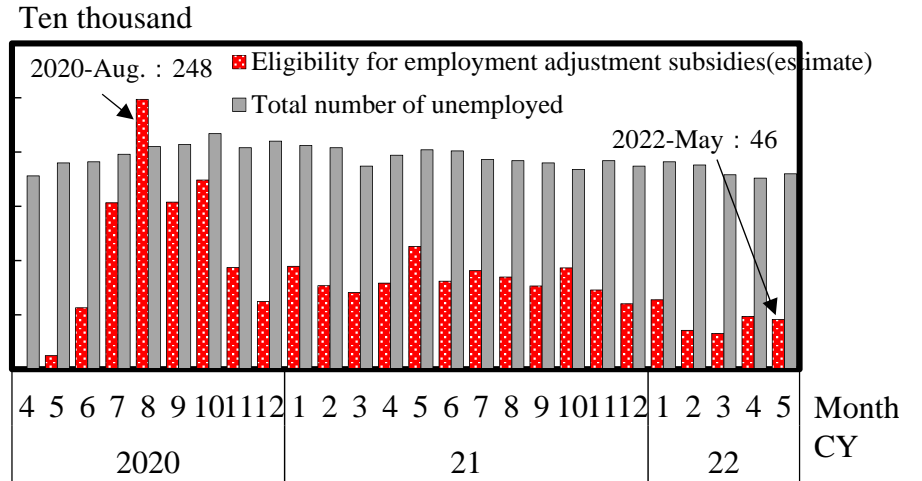
(7-2)Public investment has shown a steady undertone.

Contracted value of public construction

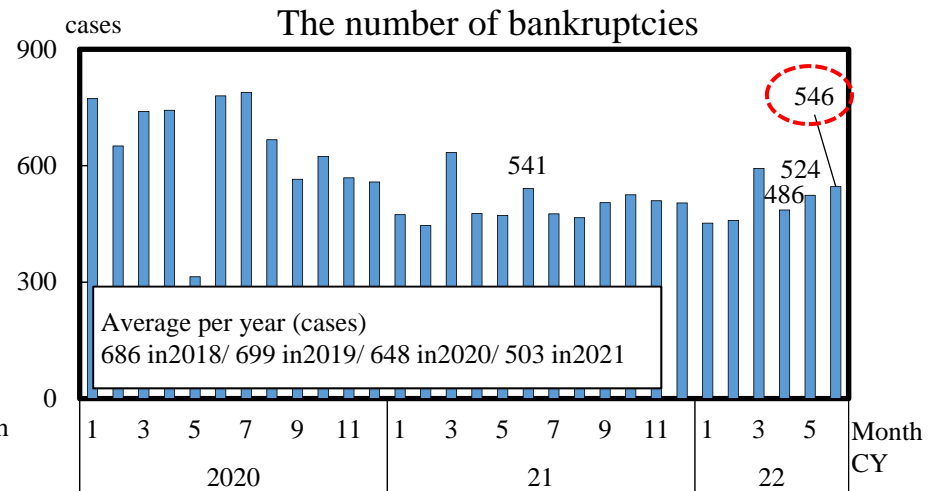


(7-3)The employment situation is picking up.

Eligibility for employment adjustment subsidies

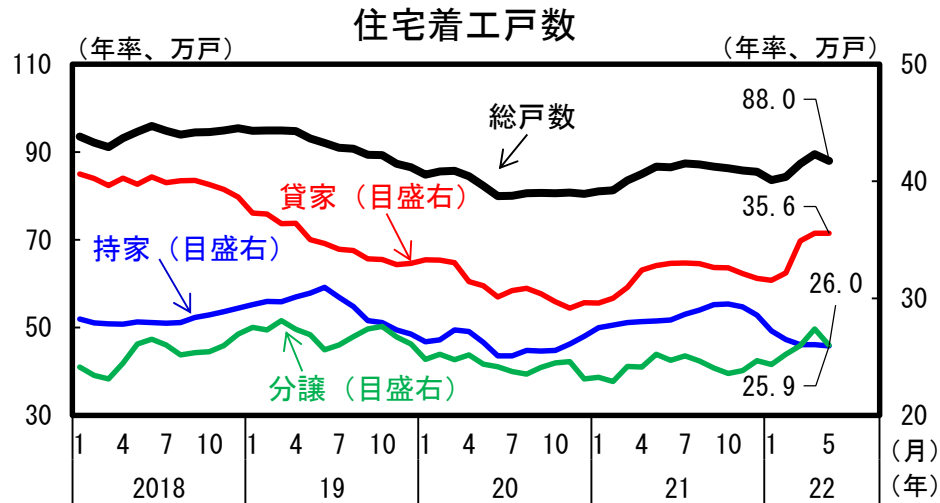


(7-4)The number of corporate bankruptcies is almost flat.

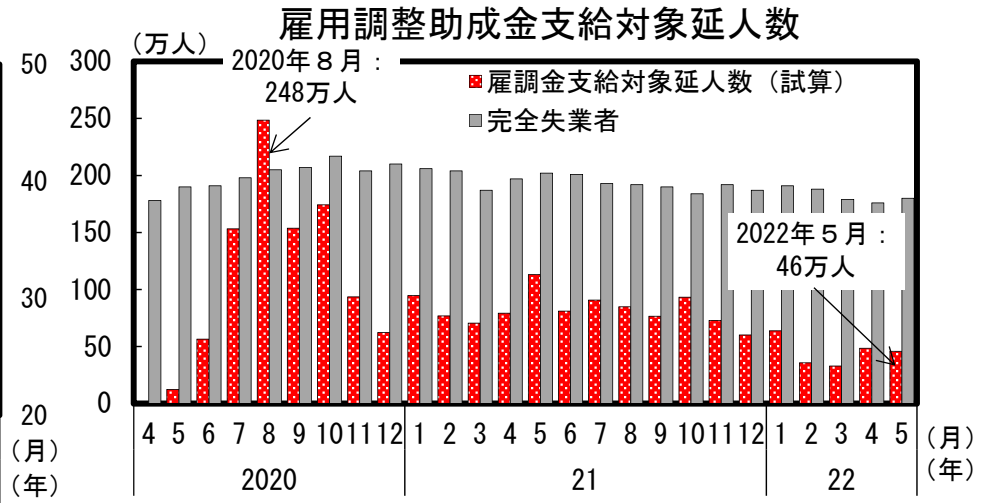


Source: Ministry of Land, Infrastructure, Transport and Tourism; East Japan Construction Surety Co.,Ltd.,etc., ; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Tokyo Shoko Research.

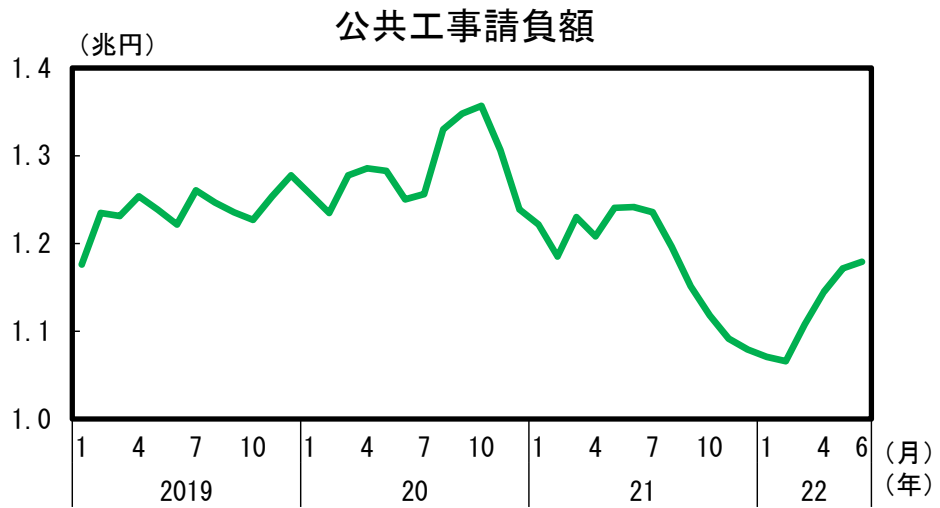
住宅建設：底堅い動き



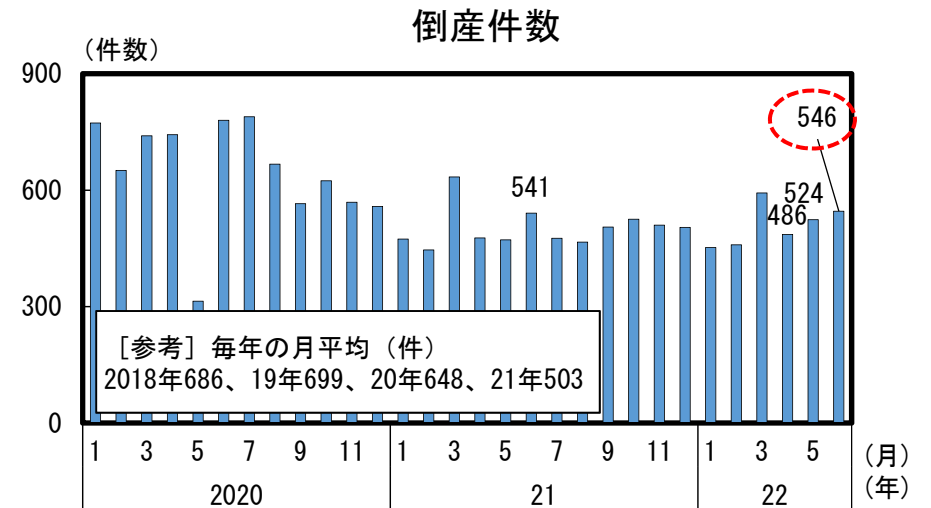
雇用：持ち直している



公共投資：底堅い動き



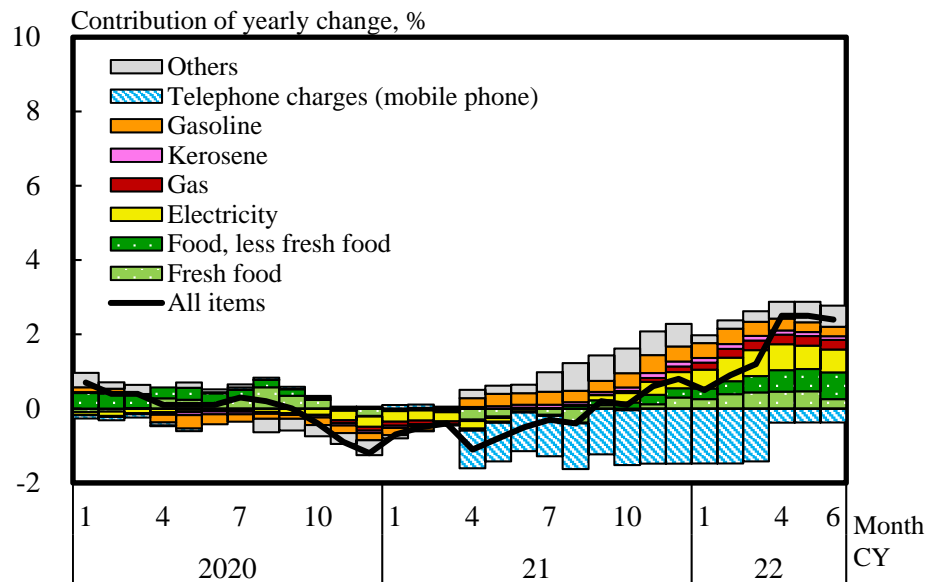
倒産：おおむね横ばい



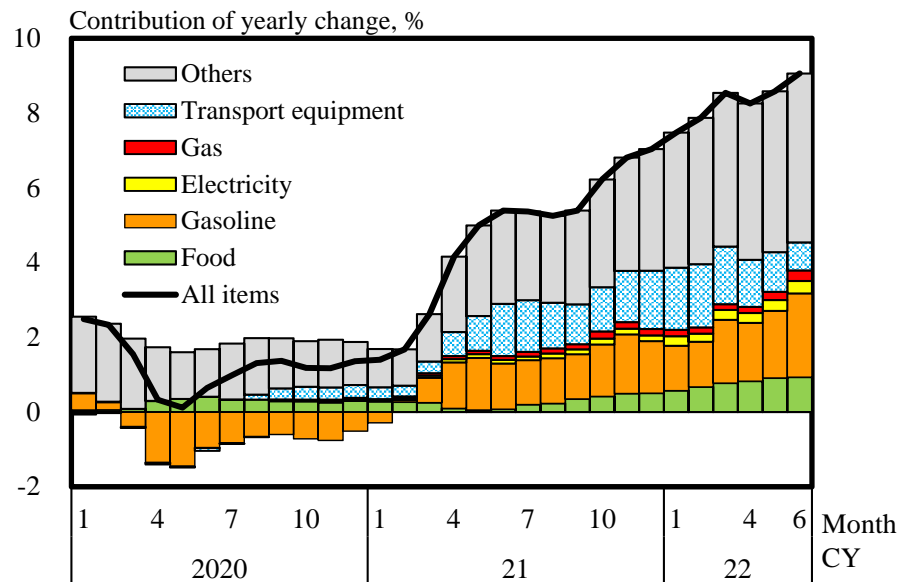
(備考) 1. 左上図は、国土交通省「住宅着工統計」により作成。季節調整値、3か月移動平均。左下図は、北海道建設業信用保証株式会社・東日本建設業保証株式会社・西日本建設業保証株式会社「公共工事前払金保証統計」により作成。内閣府による季節調整値。後方3か月移動平均。
 2. 右上図は厚生労働省ホームページ及び総務省「労働力調査」により作成（雇調金支給対象延人数は原数値、完全失業者は季節調整値）。雇用調整助成金支給対象延人数は、月ごとの雇用調整助成金支給額を毎月勤労統計調査の定期給与で除したものの。
 3. 右下図は東京商工リサーチ「倒産月報」により作成（原数値）。

International Comparison of Consumer Price Index

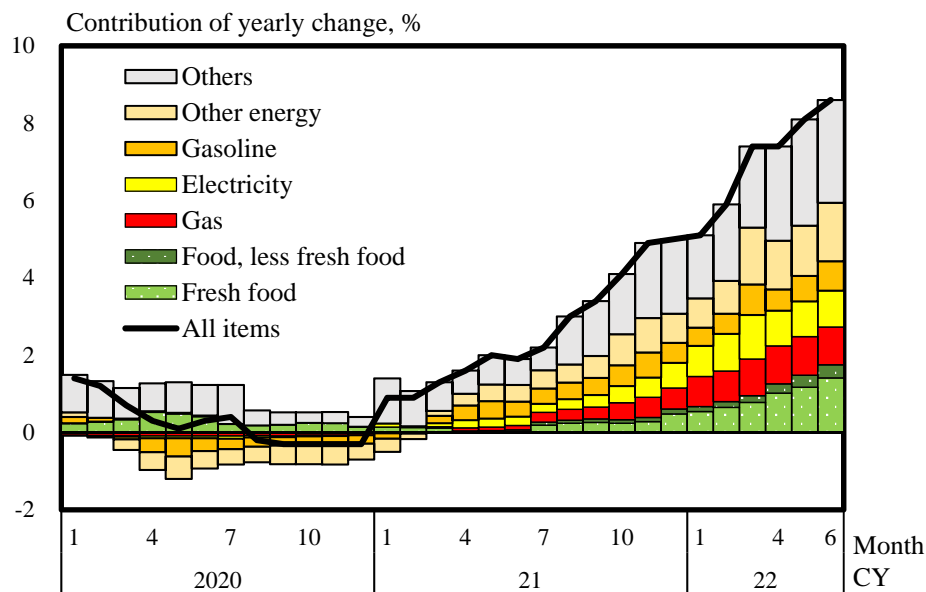
(8-1)Japan



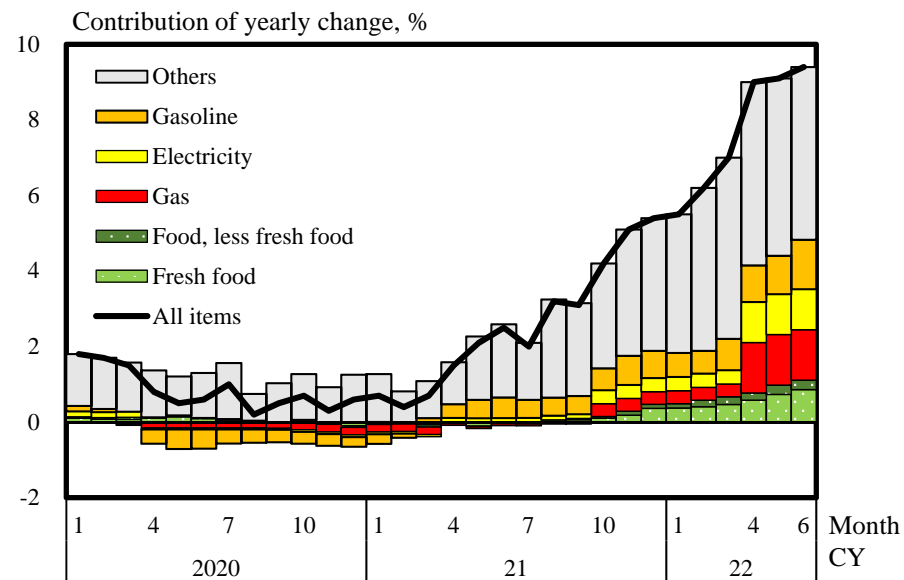
(8-3)The U.S.



(8-2)Euro area



(8-4)UK

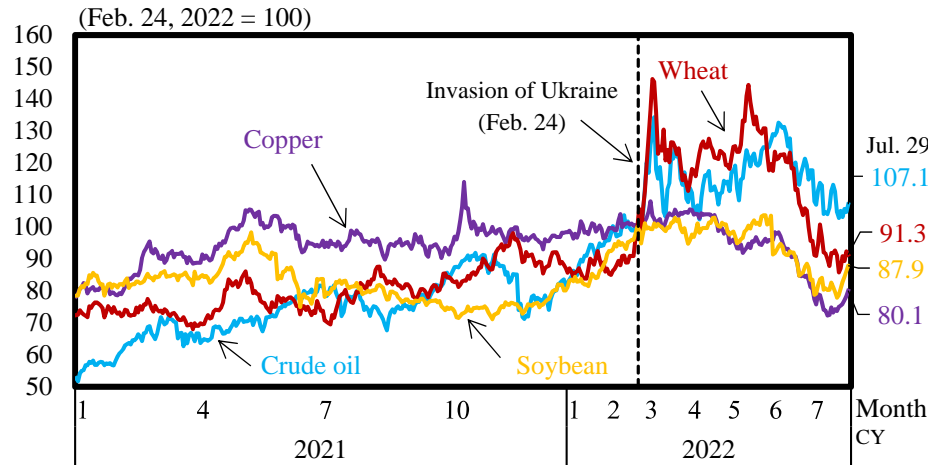


Source: Ministry of Internal Affairs and Communications; the statistics of each countries.

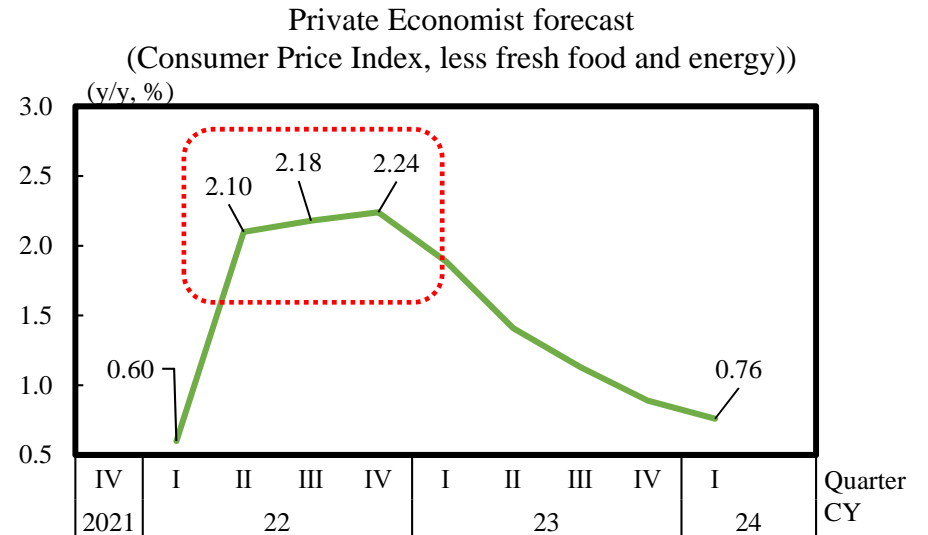
Note: Fixed CPI and Food includes eating out in Japan.

Price trends

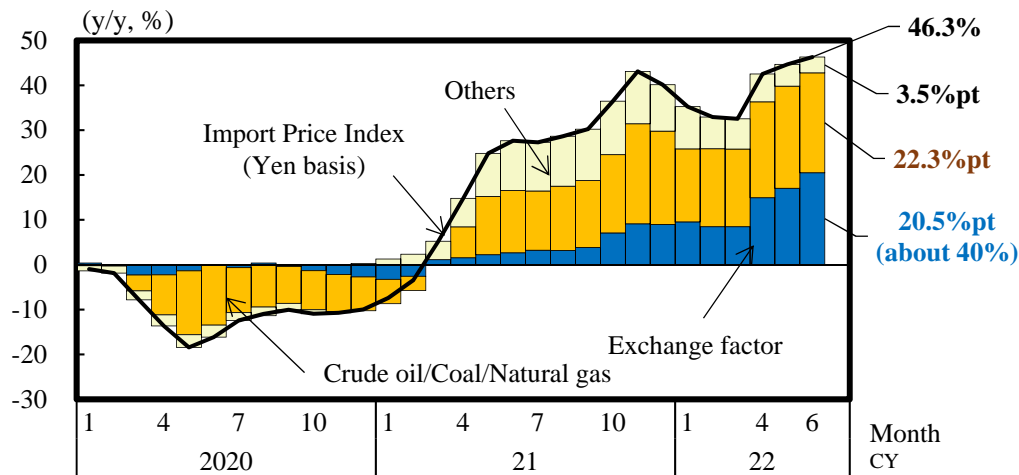
(9-1)Commodity prices



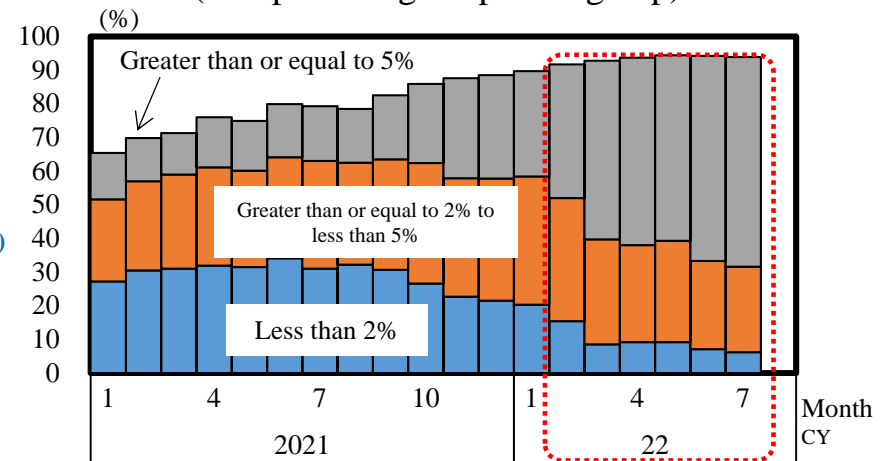
(9-3)Households' growing sense of price inflation



(9-2)Impact of depreciation of the yen on Import Price Index



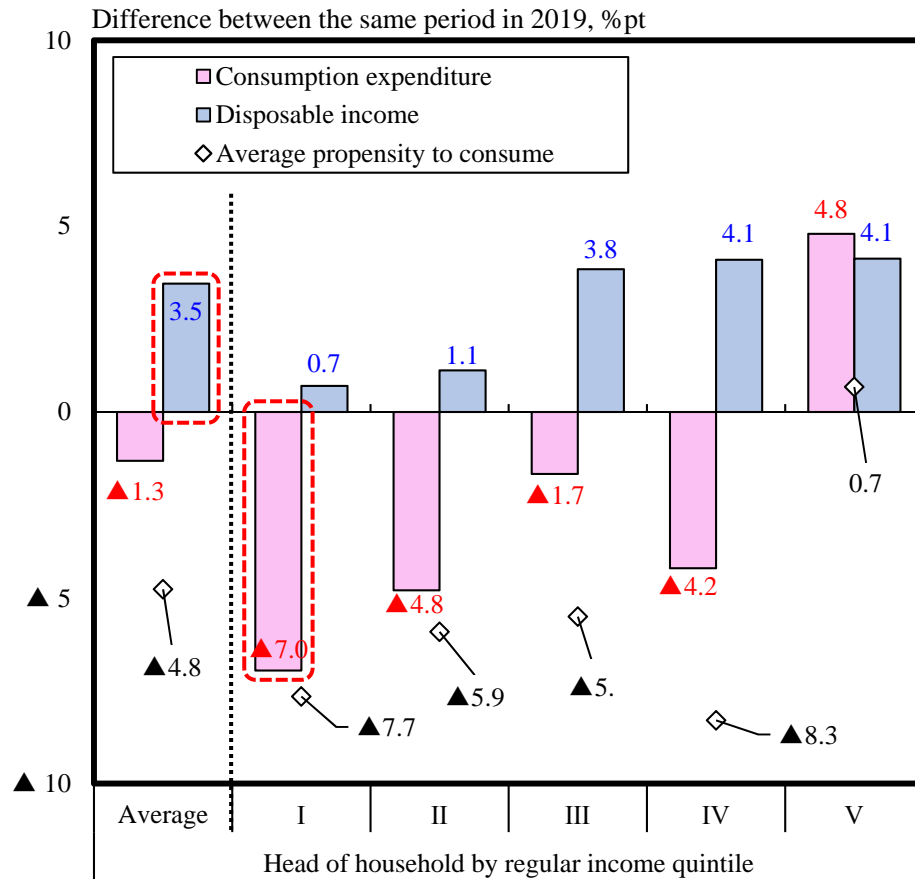
(9-4)Price expectations a year ahead
(The percentage expected go up)



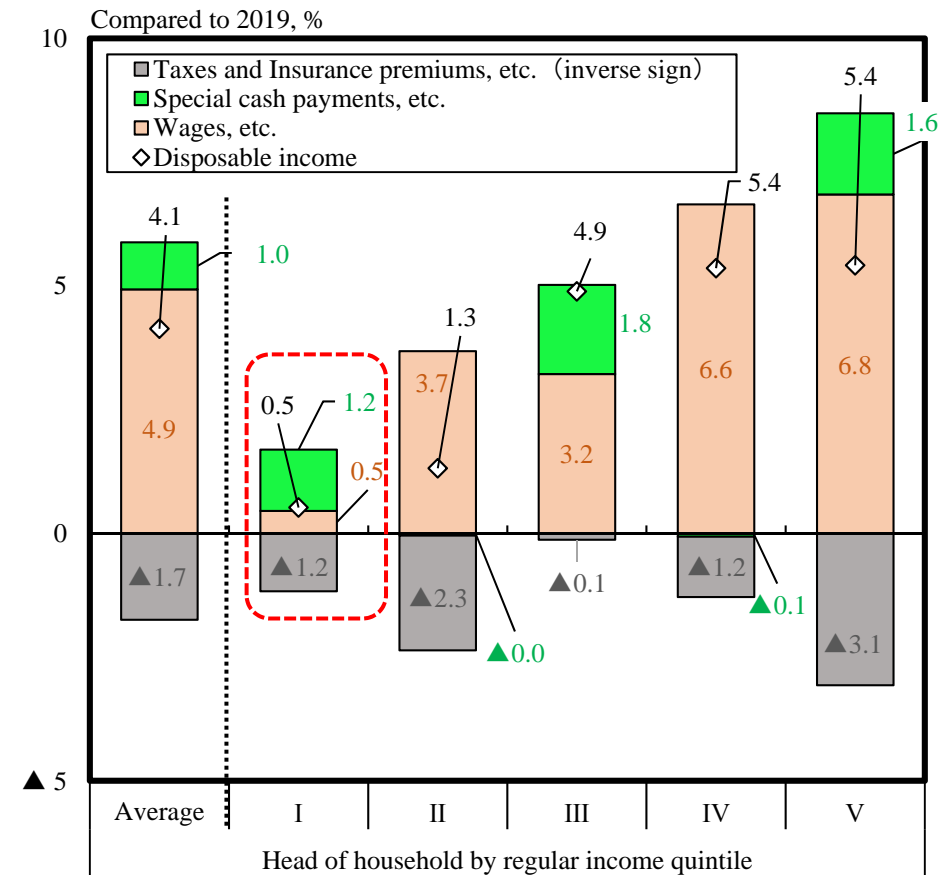
(Source) Bloomberg; Bank of Japan; Cabinet Office; Japan center for Economic Research.

Impact of Price Hikes on the Household Sector

(10-1) Factorization of average propensity to consume
(March-May 2022 average)



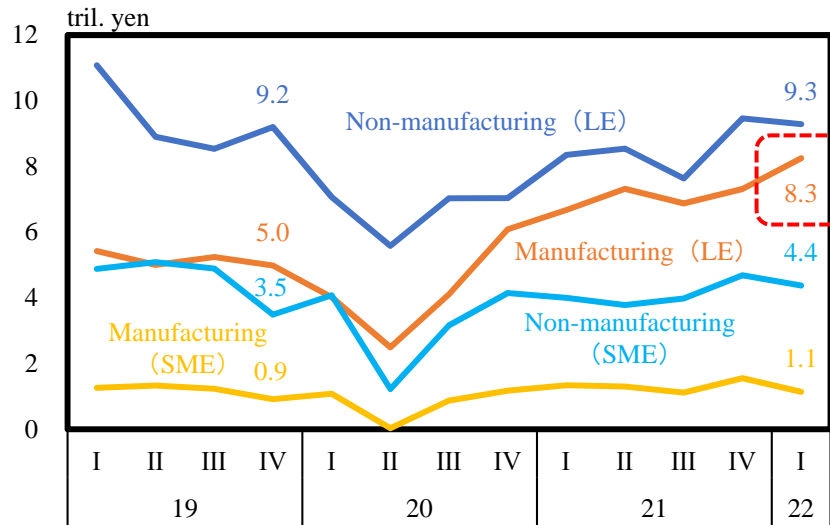
(10-2) Factorization of disposable income
(March-May 2022 average)



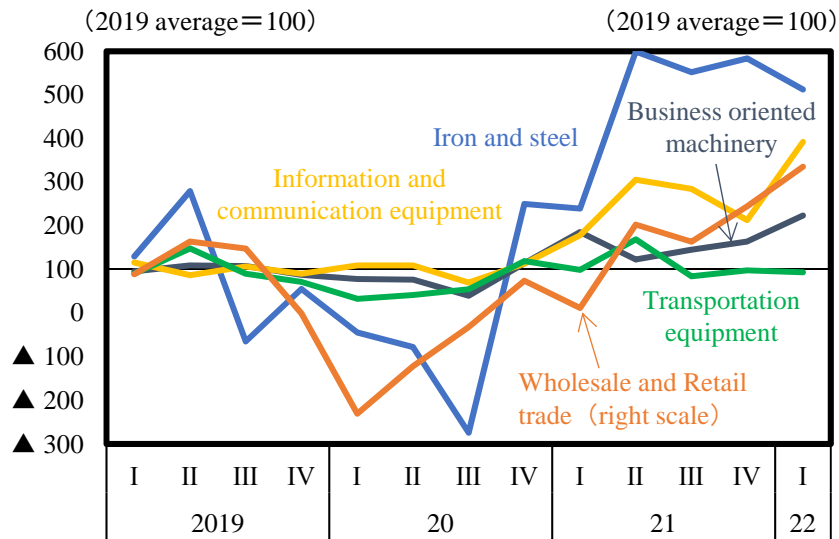
Sources: Ministry of Internal Affairs and Communications.

Impact of Price Hikes on the Corporate Sector

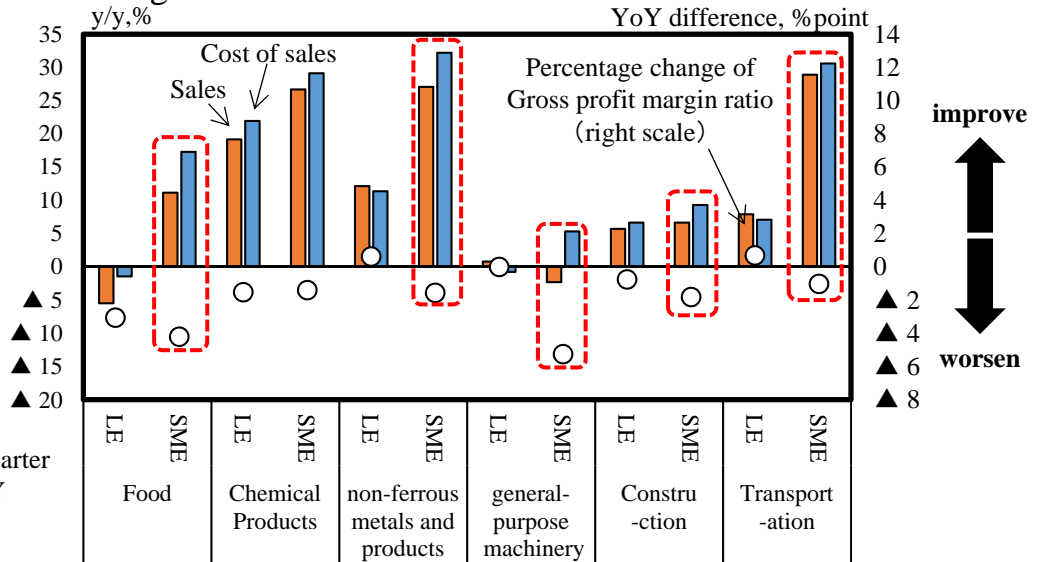
(11-1) Ordinary Profit



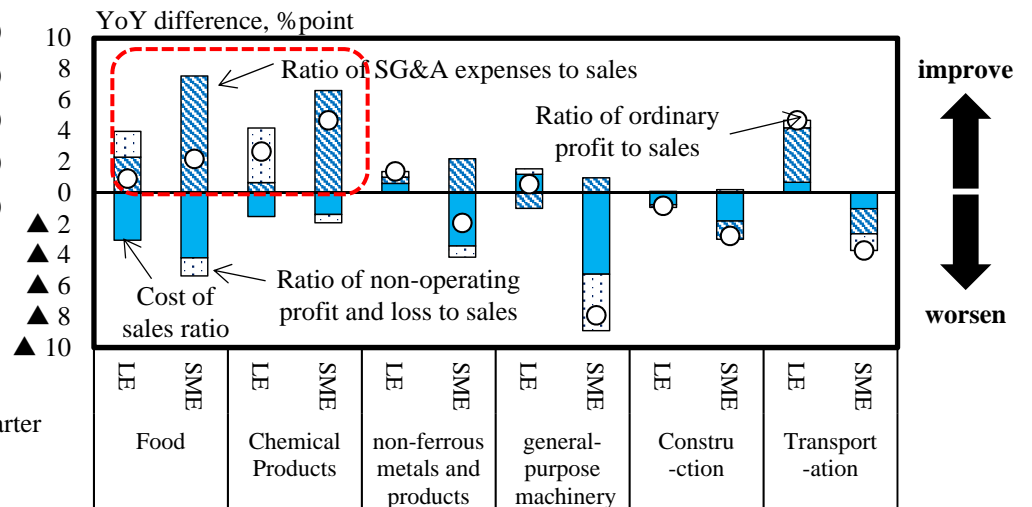
(11-2) Ordinary profit by industry (LE)



(11-3) Percentage change in sales, cost of sales and gross profit margin ratio (From Jan. - Mar. 2021 to Jan. - Mar. 2022)



(11-4) Percentage change in ratio of ordinary profits to sales (From Jan. - Mar. 2021 to Jan. - Mar. 2022)



Source: Ministry of Finance, The data of left two charts is on seasonally adjusted. LE means "Large-size Enterprise". SME Means "Small and Medium-size Enterprise".