

# **Recent Economic Developments**

**- Monthly Economic Report, September 30 2022 -**

**October 6, 2022**

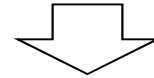
**Cabinet Office**

**Government of Japan**

<Assessment of the current state of the Japanese economy>

July

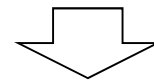
The Japanese economy is picking up moderately.



August

The Japanese economy is picking up moderately.

**(Unchanged)**



September

The Japanese economy is picking up moderately.

**(Unchanged)**

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

	July	August	September
Private consumption	Private consumption is picking up moderately.	Unchanged	Unchanged
Business investment	Business investment shows movements of picking up.	Unchanged	Unchanged
Exports	Exports are almost flat.	Unchanged	Unchanged
Industrial production	Industrial production appears to be pausing for picking up.	Industrial production shows movements of picking up.( ↑ )	Unchanged
Corporate profits	Corporate profits are improving as a whole, although some weaknesses remain.	Unchanged	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 is picking up.	Unchanged	Unchanged
Prices	Consumer prices are rising.	Unchanged	Unchanged

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

## <Short-term prospects>

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.

August

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, slowing down of overseas economies due to global monetary tightening and other factors is downside risk of the Japanese economy. Also, full attention should be given to impact of price increases on households and businesses and supply-side constraints.

September

Concerning short-term prospects, the economy is expected to show movements of picking up, supported by the effects of the policies as the transition to a new phase of the “new normal” is underway. However, slowing down of overseas economies is downside risk of the Japanese economy, amid ongoing global monetary tightening and other factors. Also, full attention should be given to price increases, supply-side constraints and fluctuations in the financial and capital markets.

# <Policy stance>

(Monthly Economic Report, September 30, 2022)

In the face of a range of issues, including COVID-19 infections, soaring commodity prices worldwide, and ensuring a stable energy supply, the Government will mobilize all policy measures to defend Japanese people's daily lives and also the Japanese economy.

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.

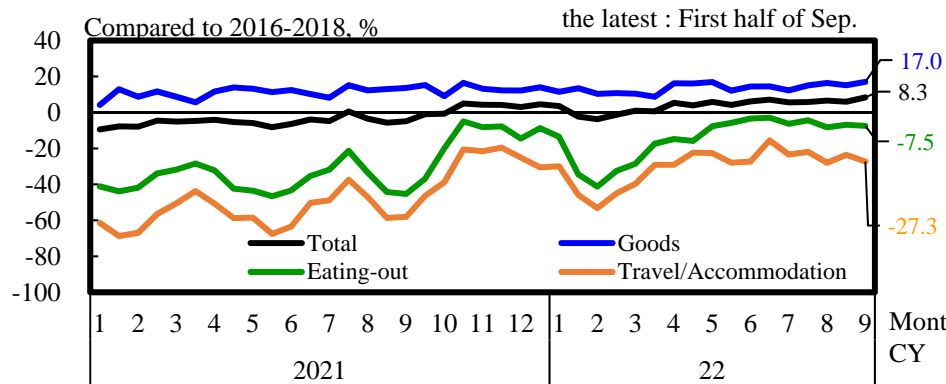
The Government will swiftly implement additional measures compiled at the Task Force on Prices, Wages, and Daily Living on September 9. Even after that, the Government will compile comprehensive economic measures by the end of October and promptly implement them in order to respond seamlessly to the current soaring prices and other changes in the economic situation, and advance a New Form of Capitalism, while keeping the risk of a global economic slowdown fully in mind. The measures will be to respond to price hikes and to increase wages, to recover and strengthen regional earning power by taking advantage of the weak yen, to accelerate a New Form of Capitalism, and to ensure the safety and security of the people.

The Bank of Japan decided to phase out the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) and shift to fund-provisioning that would meet a wide range of financing needs on September 22. 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.

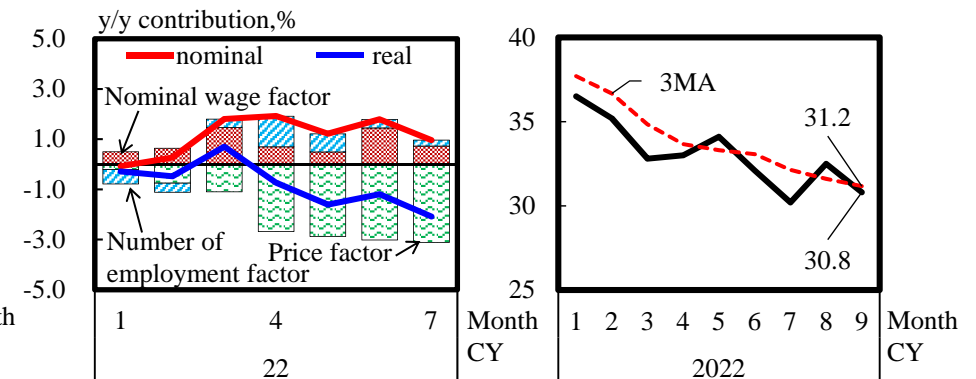
## - Private consumption -

- Private consumption is picking up moderately. Sales of eating-out and occupancy rates for accommodations are showing improvement as the spread of infection settles down this summer.
- With employment improving and the trend of wage increases continuing and expanding, nominal wage income of employees is increasing, but real wage income of employees is decreasing due to rising prices. Consumer confidence index is weakened.
- Against this backdrop, household final consumption expenditures on energy and food items are positive compared to 2019 due to rising prices, while other expenditures are negative. Household final consumption expenditures continue to show a trend toward saving, especially among lower-income households.

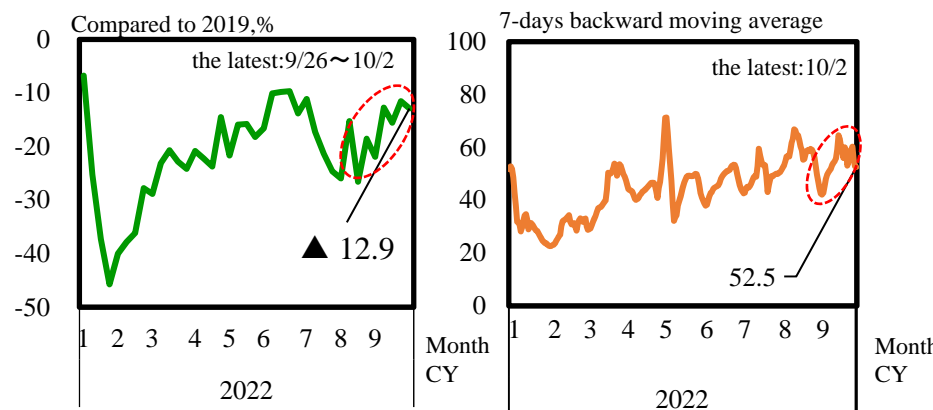
(1-1) Consumption based on credit card expenditures



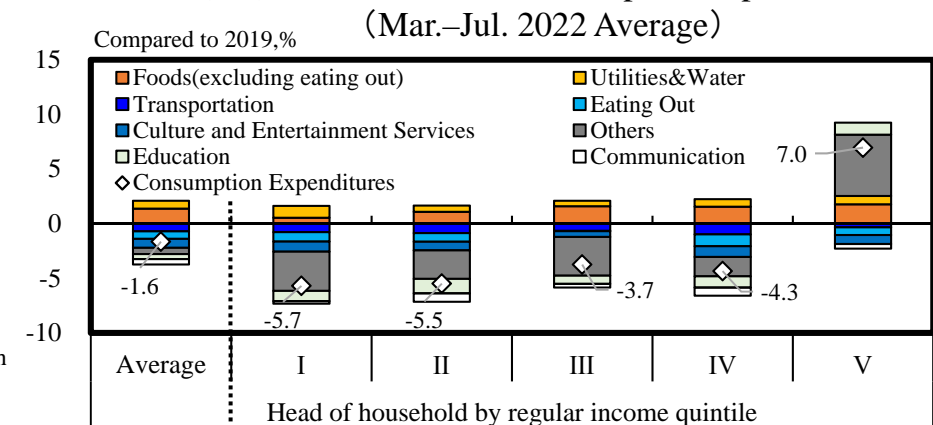
(1-4) Wage income of employees (1-5) Consumer confidence index



(1-2) Sales of eating-out (1-3) Occupancy rates for accommodations



(1-6) Factorization of Consumption Expenditures

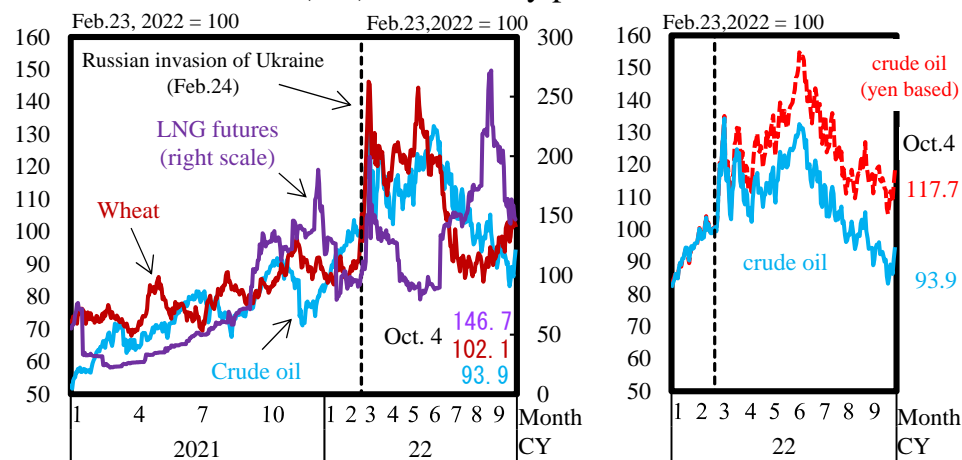


Sources: NOWCAST, INC.; JCB Co. Ltd; POSTAS Co. Ltd; Kyushu Economic Research Center; Cabinet Office; Ministry of Internal Affairs and Communications

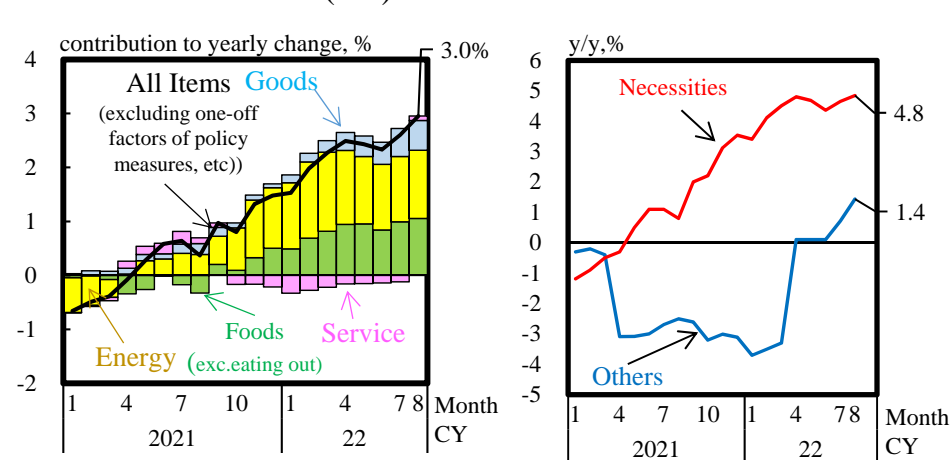
## — Prices —

- Commodity prices have been unstable since the middle of this year due to monetary tightening in Europe and the U.S., and the yen has been weakening recently. In response to the situation, corporate goods prices also have been rising.
- Consumer prices continue to rise at 3.0% y/y and service prices have turned positive. In particular, the hike in prices of necessities, such as energy and food, is particularly evident.
- Consumer prices are expected to continue to rise. Food prices are planned to hike and electricity price is scheduled to increase to reflect fuel costs a few months ago.

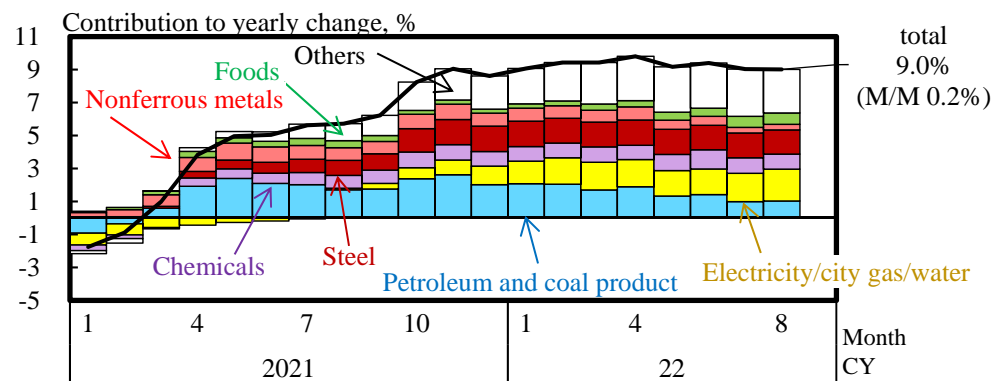
(2-1) Commodity prices



(2-3) Consumer Price Index



(2-2) Corporate Goods Price Index



(2-4) Future price increases

Item	Date	Range	Change in standard price
Tea	Oct.	20yen/bottle	140yen→160yen
Sushi	Oct.	10yen/dish	110yen→120yen
Mayonnaise	Oct.	39yen/bottle	436yen→475yen
Flavor seasoning	Oct.	33yen/120g	453yen→486yen
Theme park Entrance fee	Oct.	400yen/adult	9,400yen→9,800yen
Bath charge	Oct.	40yen/adult	450yen→490yen
Yogurt	Nov.	10yen/400g	220yen→230yen

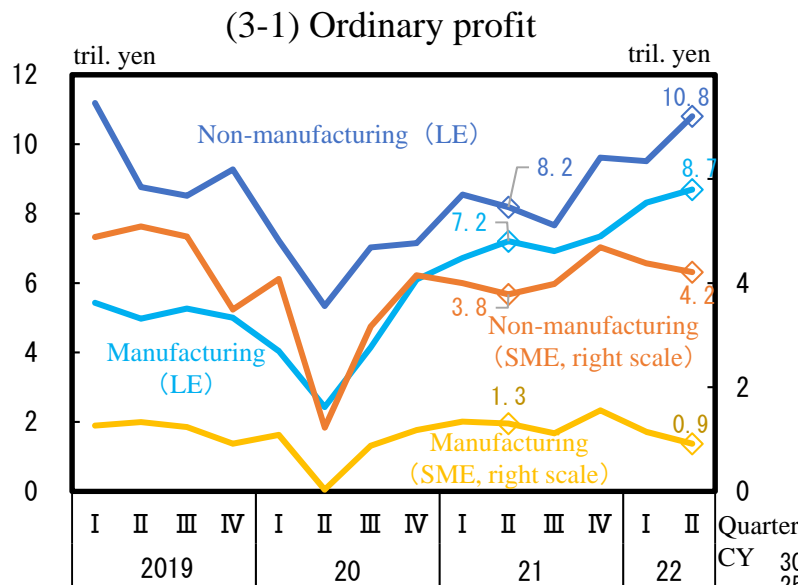
Source: Bloomberg; Bank of Japan; Ministry of Internal Affairs and Communications; Ltd.

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.

CGPI excludes extra charges for summer electricity. Crude oil(yen based) calculated at the exchange rate of the day.

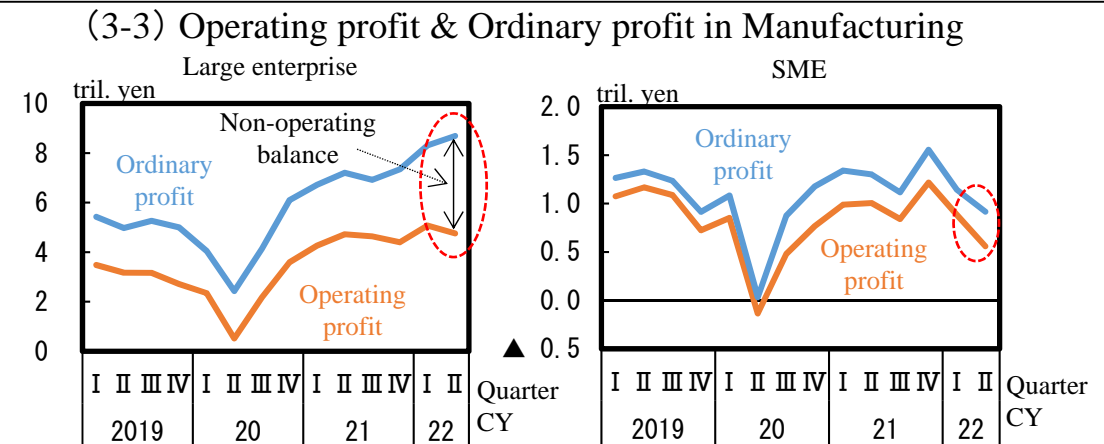
## — Trends in Business Activities —

- Ordinary profit for the 2nd quarter of 2022 increased to the highest level. In particular, large enterprises led the increase of ordinary profit. On the other hand, ordinary profit of SMEs declined both in QoQ and YoY.
- In manufacturing sector, while operating profit of large enterprises slightly declined, non-operating profit from foreign exchange gains boosted ordinary profit. In contrast, operating profit of SMEs resulted in a large decrease, because they had trouble in fully passing on higher raw material prices to their customers. There was also little boost of non-operating profit from foreign exchange gains due to the yen's depreciation. To strengthen the profitability of SMEs, it is necessary to pass on prices and expand sales channels, including export promotion.

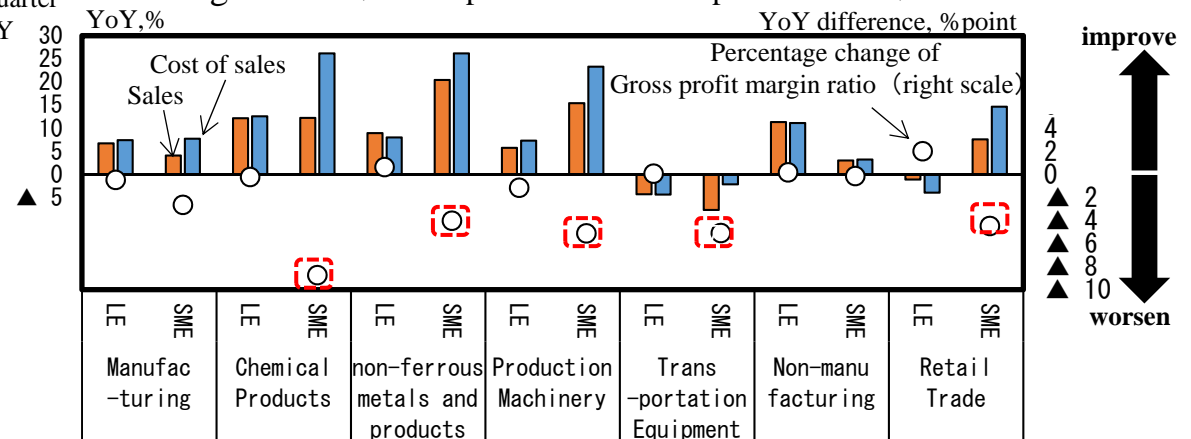


(3-2) Percentage change in ordinary profit (YoY,%)

	Total	LE	SME
Total	+17.6	+22.1	▲1.6
Manufacturing	+11.7	+18.2	▲27.2
Non-manufacturing	+21.9	+25.3	+10.1



(3-4) Percentage change in sales, cost of sales and gross profit margin ratio (From Apr. - Jun. 2021 to Apr. - Jun. 2022)



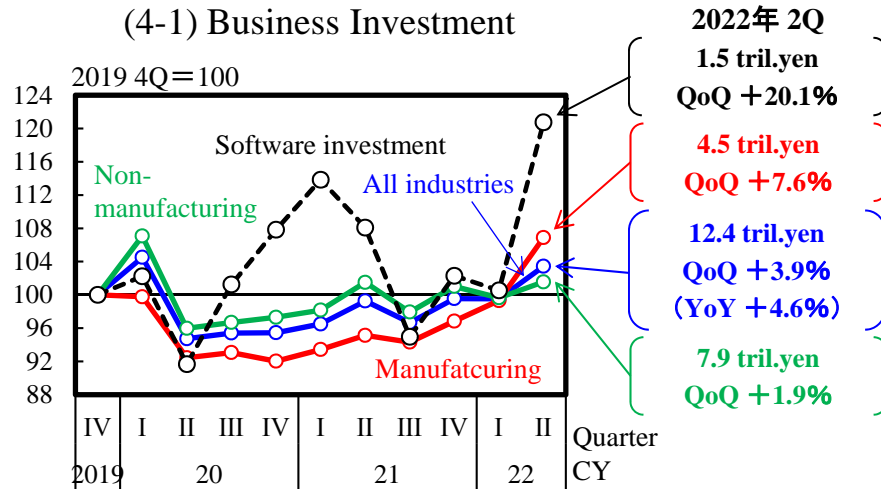
Source: Ministry of Finance, The data of upper three charts is on seasonally adjusted. LE means "Large Enterprise", and its capital stock is over 100 million yen.



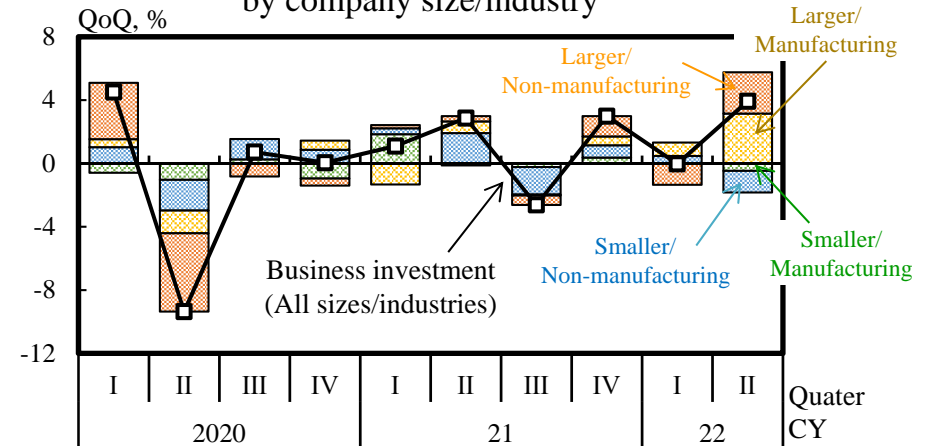
## — Business & Housing investment —

- Business investment shows movements of picking up, driven by an increase in software investment in response to digitization and other trends. Machinery investment is also picking up, especially in machinery orders, a leading indicator.
- By company size, business investment by larger companies increased significantly in the April-June 2022 quarter from the previous quarter on the back of strong earnings, while investment by smaller companies decreased. Efforts to improve earnings and increase investment, and to this end, price pass-through will remain important.
- Housing construction has shown a steady undertone. Housing for sale and rent have shown a steady undertone, while owner-occupied housing has been in a weak tone recently on the back of rising construction costs.

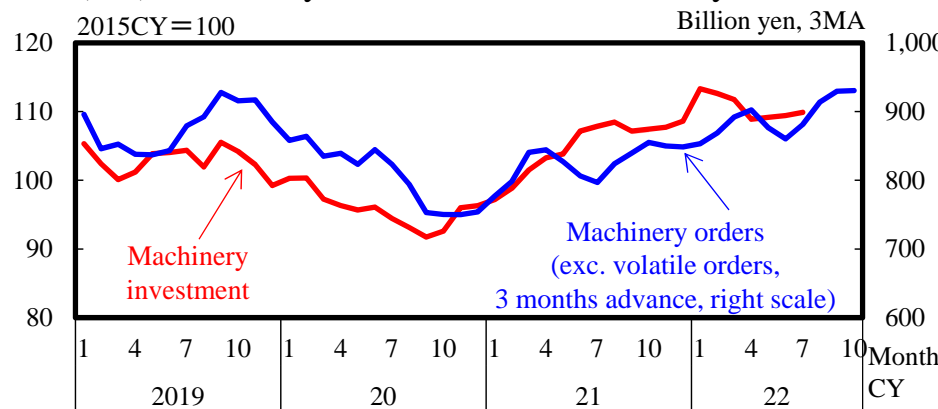
(4-1) Business Investment



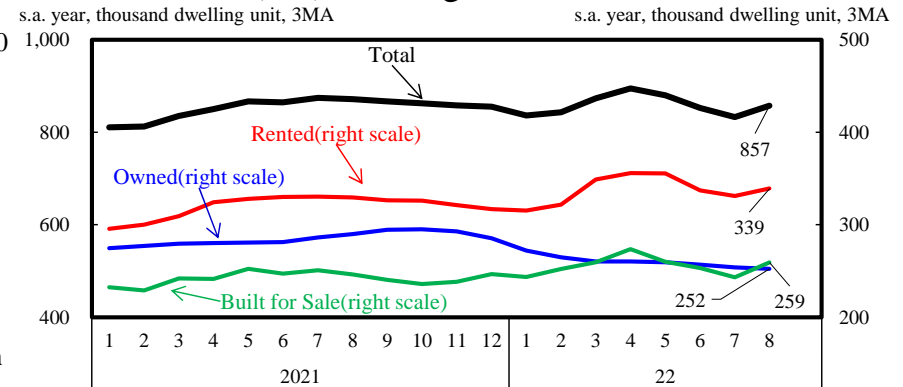
(4-3) Contribution to business investment increase by company size/industry



(4-2) Machinery investment and Machinery orders



(4-4) Housing construction

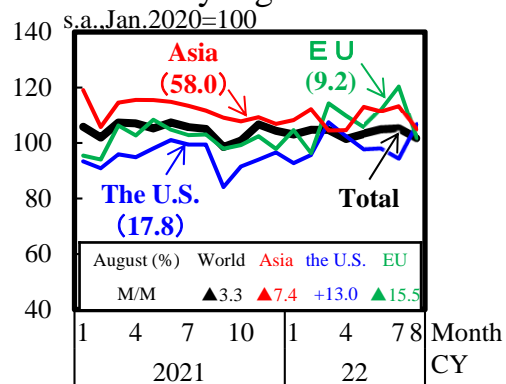


Source: Ministry of finance; Ministry of Economy, Trade and Industry; Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism.

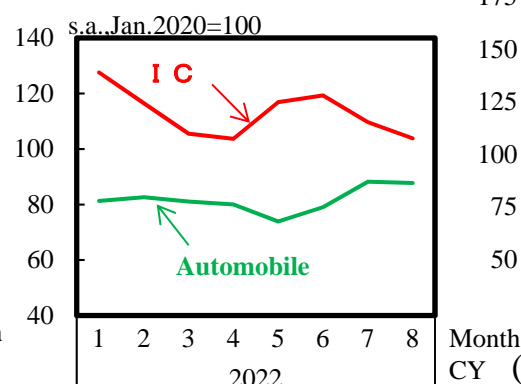
## – Industrial Production & Exports –

- Exports are almost flat. Automobile is picking up from supply constraints, but IC is weakening due to a lull in global PC and smartphone demand, among other factors.
- Industrial production show movements of picking up. Electronic parts and devices such as ICs are flat, while capital goods for capital investment are increasing moderately.
- Looking at trends in exports to the U.S., one of Japan's largest export destinations, Japan's exports to the U.S. are relatively sluggish, while in the EU, chemical industry products such as medical supplies make a large contribution. Japan has competitiveness in machinery and equipment such as semiconductor manufacturing equipment and construction and mining equipment while automobile, one of Japan's main products, make a negative contribution.

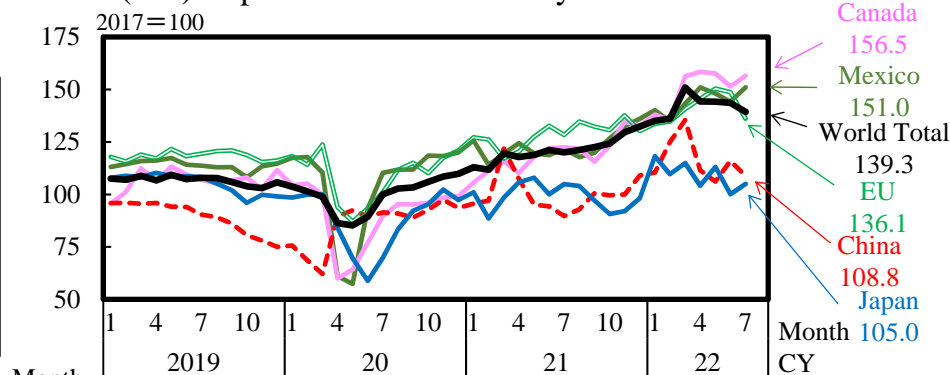
(5-1) Export volume index by region



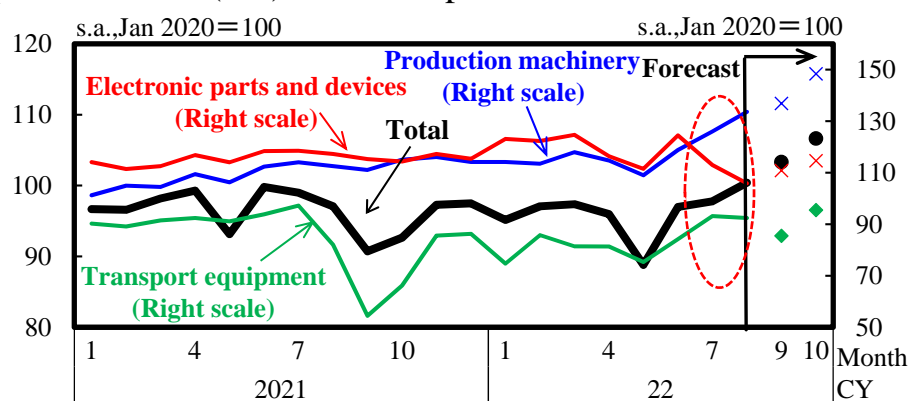
(5-2) Exports of automobile and IC



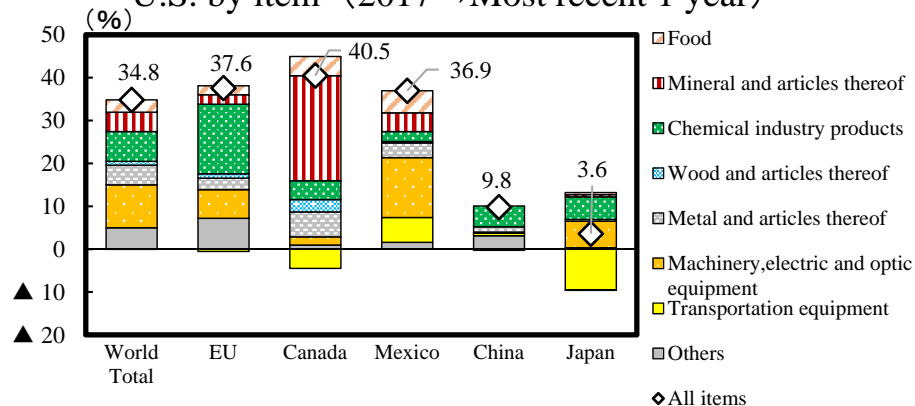
(5-4) Exports from each country to the U.S.



(5-3) Industrial production



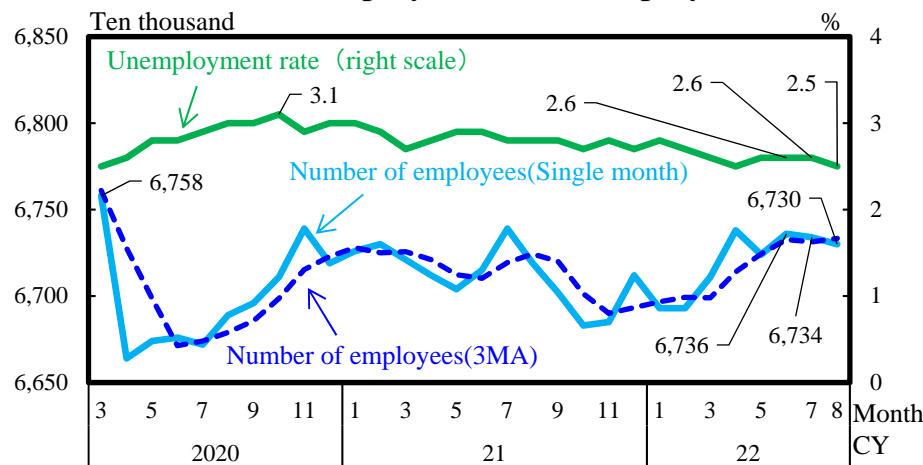
(5-5) Contribution to exports from each country to the U.S. by item (2017→Most recent 1 year)



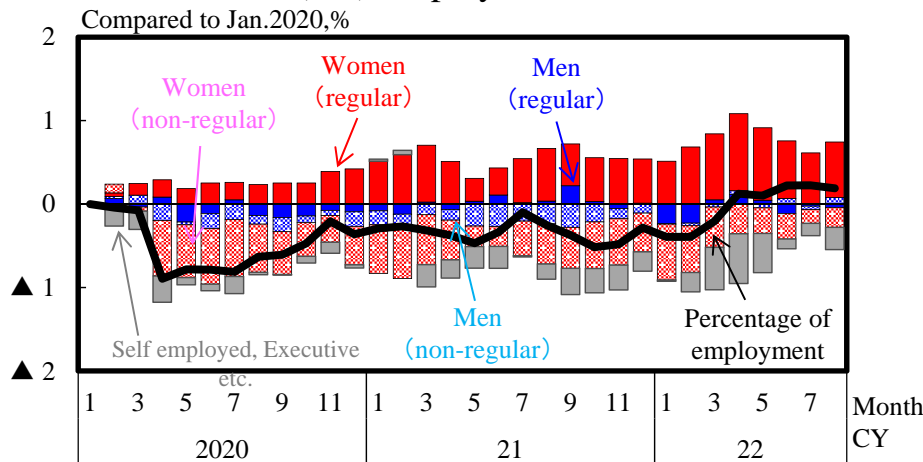
## — Employment Situation —

- The employment situation is picking up. Number of employees and Unemployment rate have remained largely unchanged, but the employment rate has continued to rise due to an increase in the number of female employees and other factors.
- Per capita wage increase rate continued to be positive year-on-year. Summer bonuses (June-July average) increased year-over-year for the first time since 2018. Against the backdrop of strong earnings, the larger the size of the company, the larger the increase. Continuation and expansion of the trend of wage hikes is important to realize a virtuous cycle of growth and distribution.

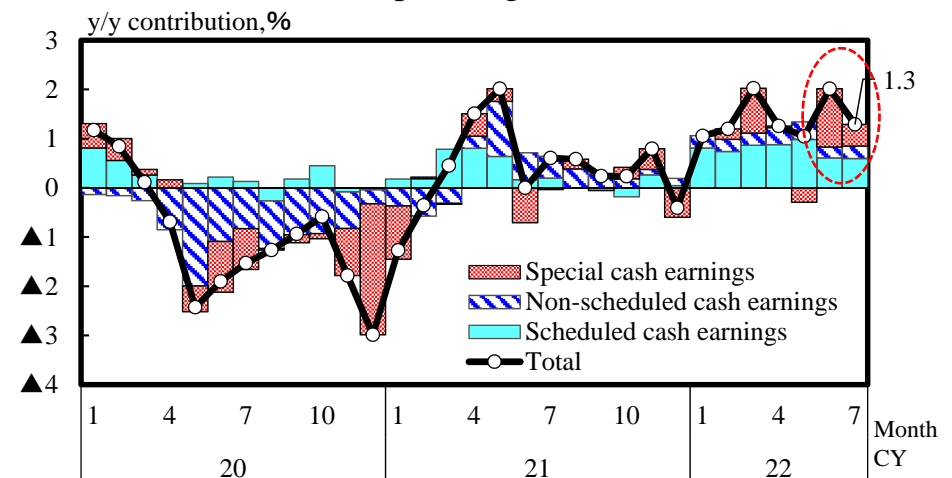
(6-1) Number of employees and Unemployment rate



(6-2) Employment rate



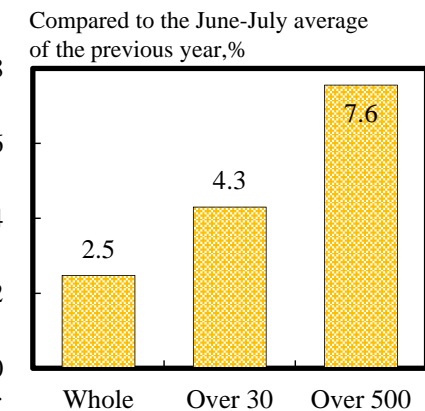
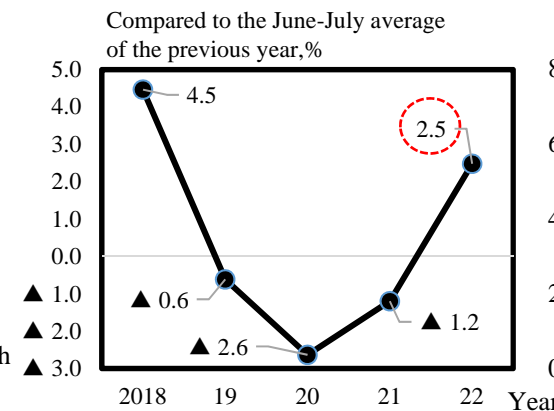
(6-3) Per capita wage increase rate



(6-4) Summer Bonus Payments

<Payment Trends>

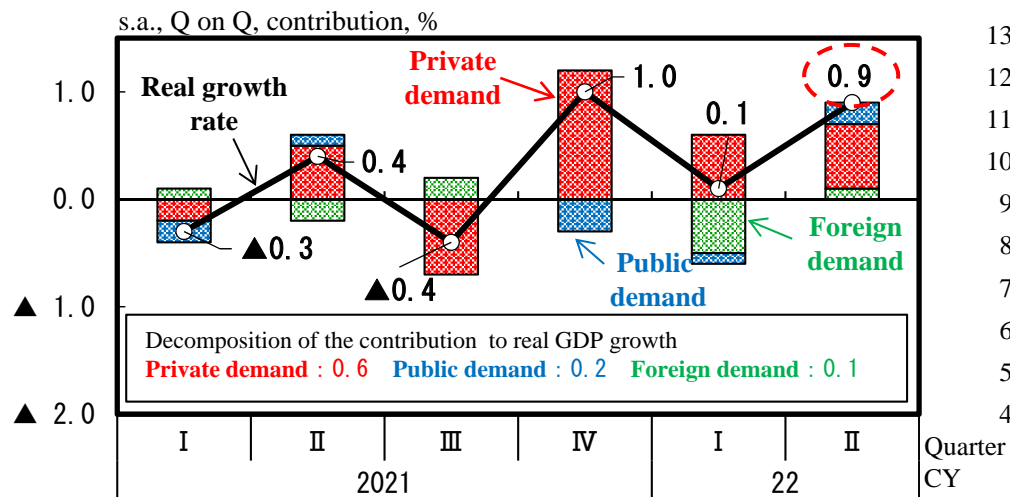
<Employee Size>



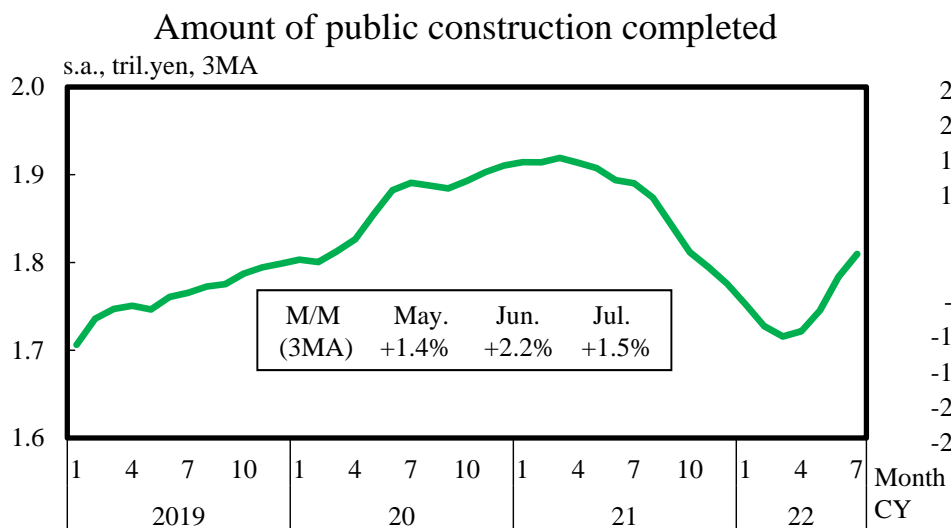
Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications;

# Reference

(7-1) GDP: Apr.-Jun. 2022  
(Second Preliminary Estimates)

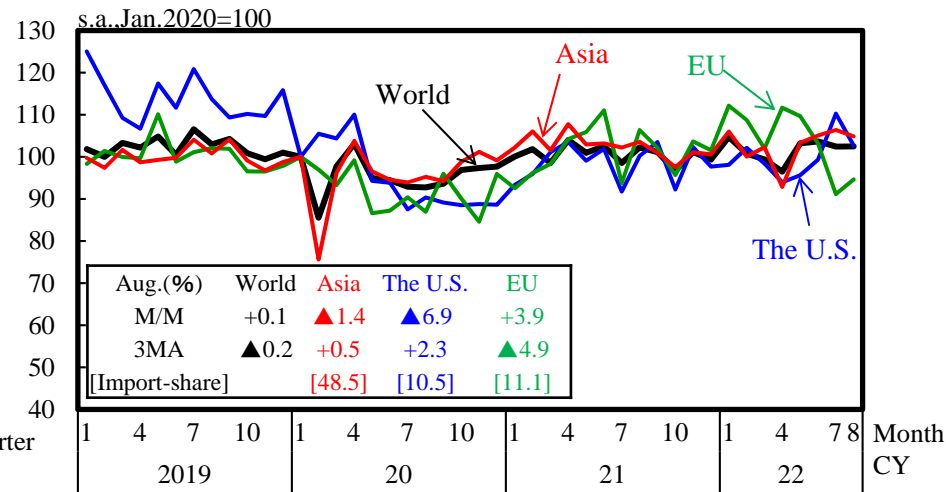


(7-2) Public investment is intensified.



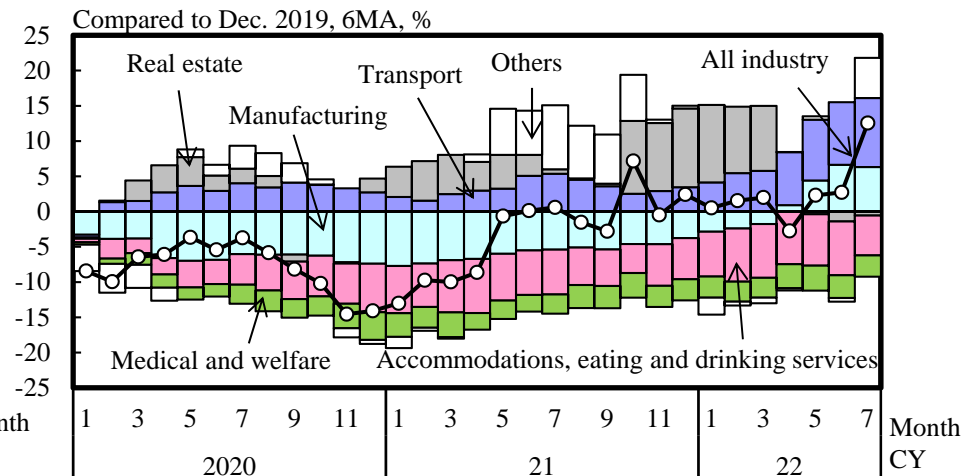
(7-3) Imports show movements of picking up.

Import volume by region

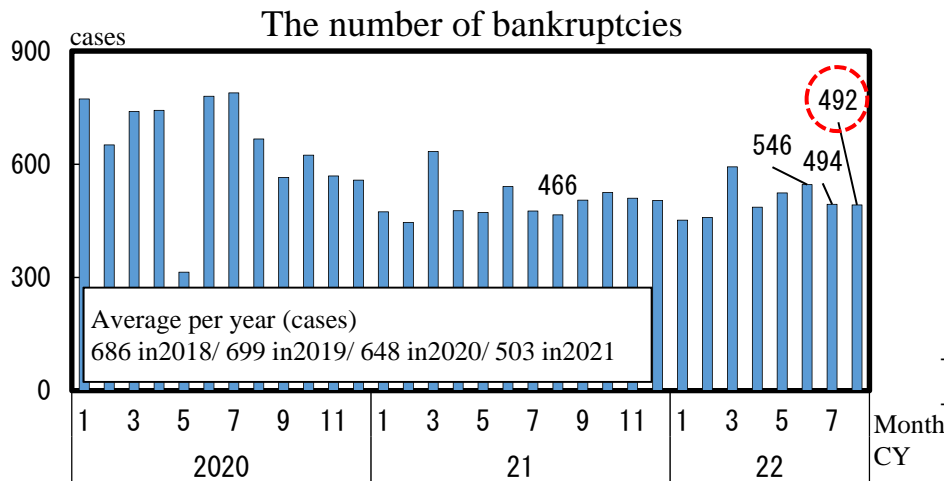


(7-4) Private construction investment is picking up.

Planned Construction Cost and Contribution by Use

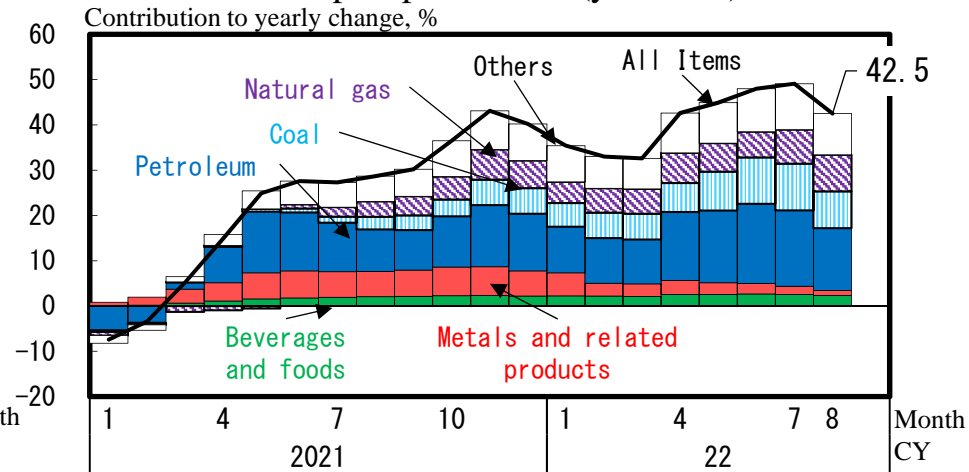


(8-1) The number of corporate bankruptcies is almost flat.



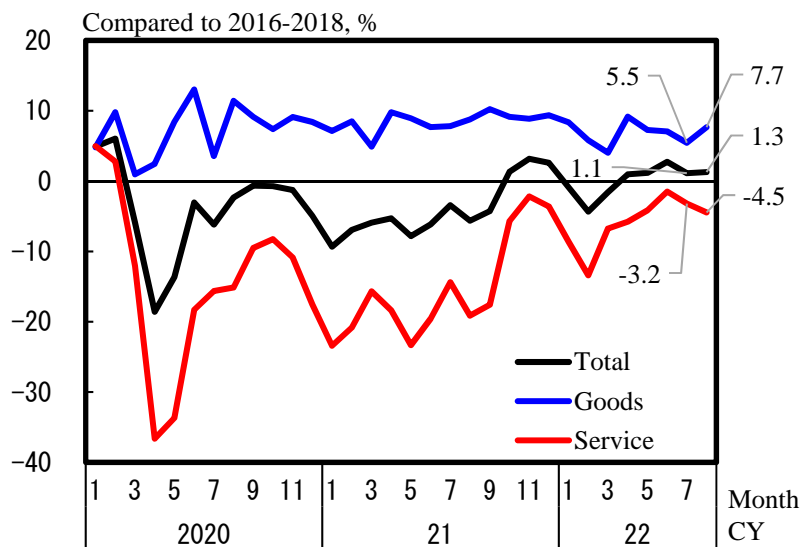
(8-3) The import price index

The import price index (yen basis)

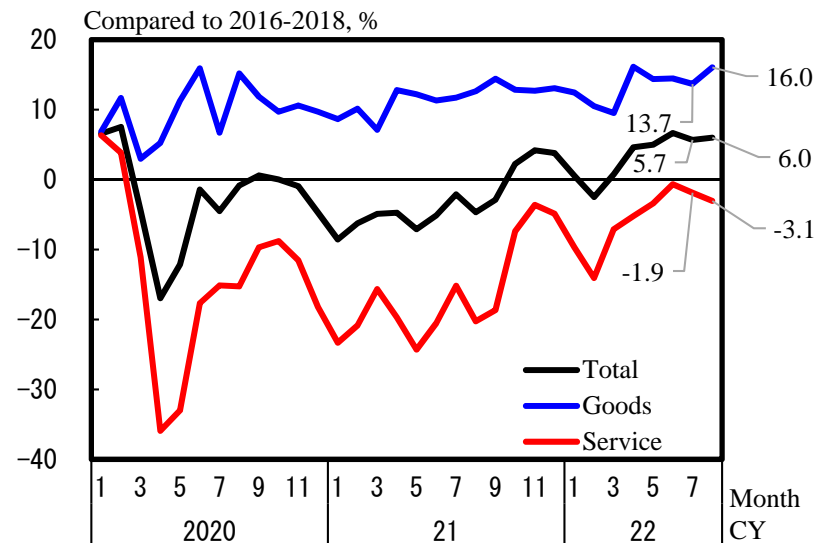


(8-2) Consumption based on credit card expenditures

Real (Reference calculation)

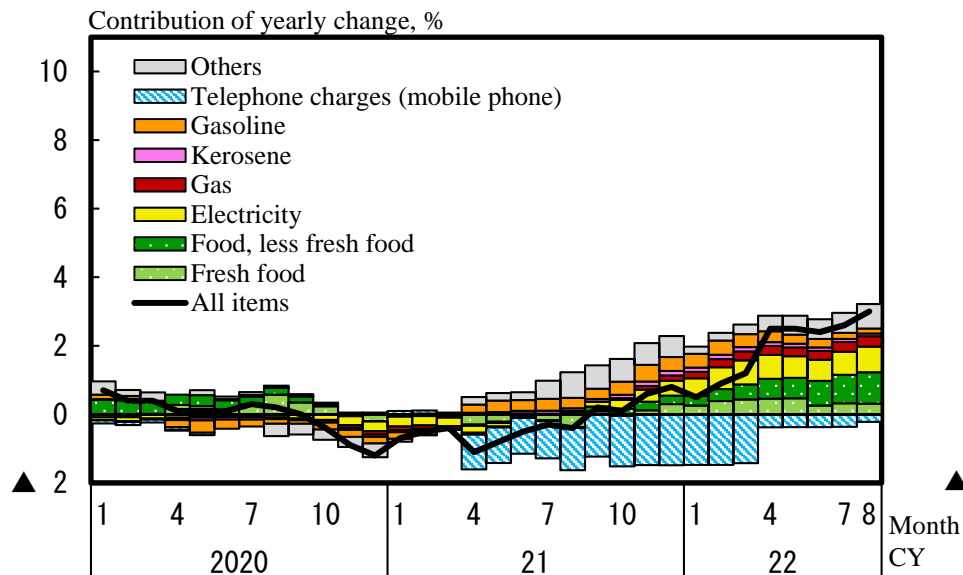


Nominal (Published Value)

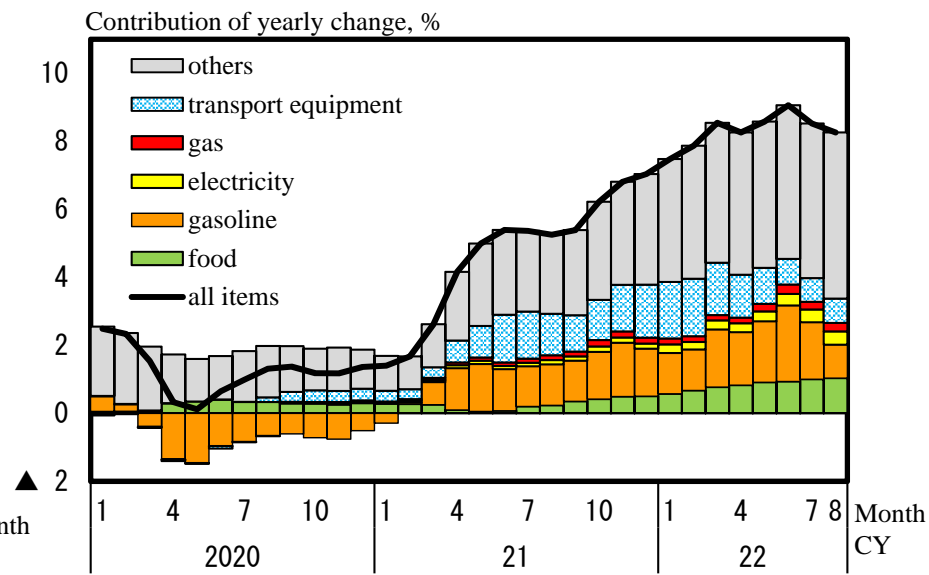


# International Comparison of Consumer Price Index

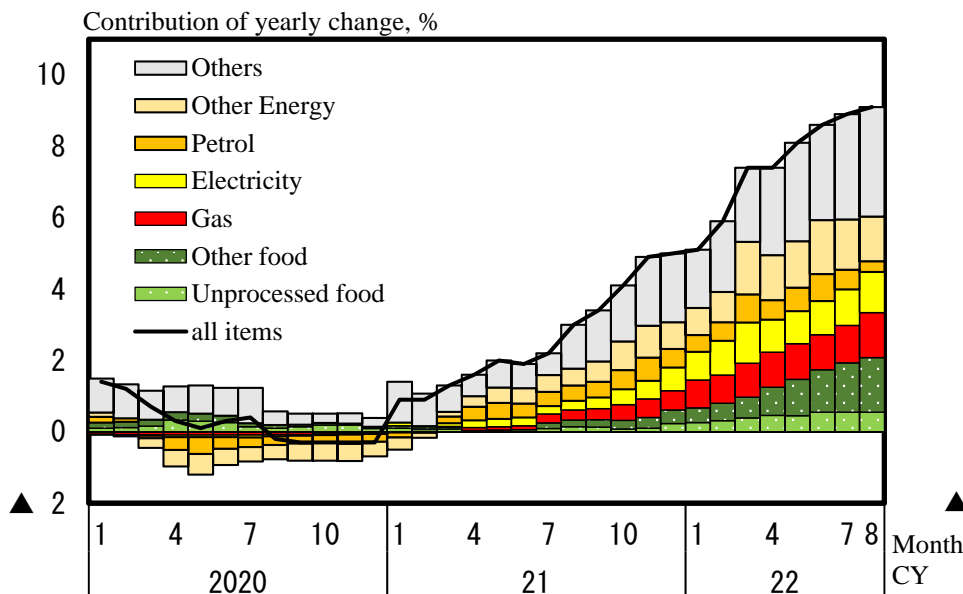
(9-1) Japan



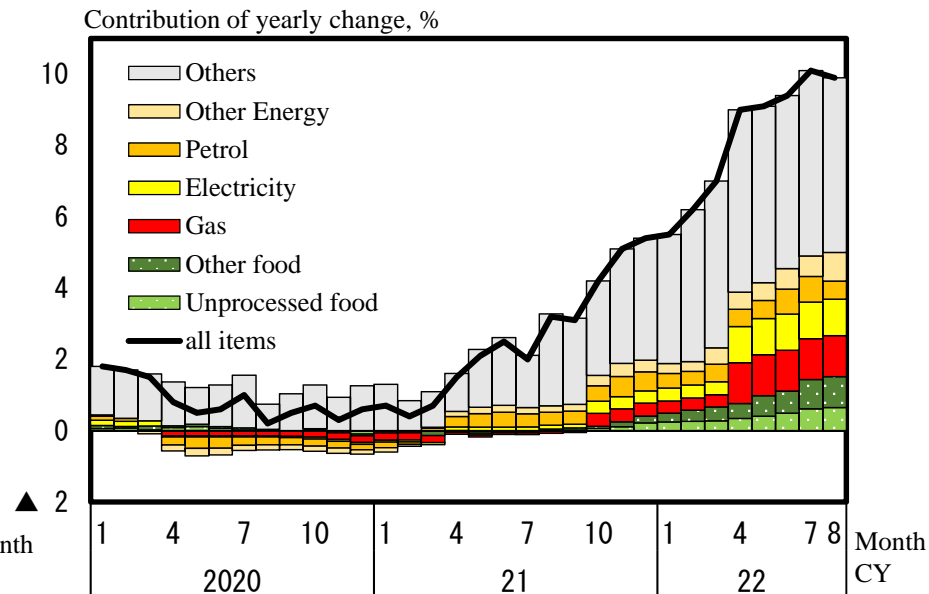
(9-3) The U.S.



(9-2) Euro area



(9-4) UK



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

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