

Recent Economic Developments

- Monthly Economic Report, July 26 2023 -

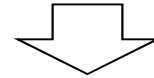
August 9, 2023

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

May

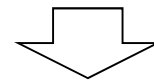
The Japanese economy is recovering at a moderate pace.



June

The Japanese economy is recovering at a moderate pace.

(Unchanged)



July

The Japanese economy is recovering at a moderate pace.

(Unchanged)

<Assessment of the current state of the Japanese economy>

	May	June	July
Private consumption	Private consumption is picking up.	Unchanged	Unchanged
Business investment	Business investment is picking up.	Unchanged	Unchanged
Exports	Exports have shown a steady undertone.	Unchanged	Unchanged
Industrial production	Industrial production shows signs of picking up.	Unchanged	Unchanged
Corporate profits	Corporate profits are improving as a whole, although the pace has become moderate.	Corporate profits are improving <u>moderately</u> as a whole.	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions show movements of picking up.	Unchanged	Firms' judgments on current business conditions <u>are picking up.</u> (↑)
Employment situation	The employment situation is picking up.	<u>The employment situation has shown movements of improvement recently.</u> (↑)	Unchanged
Prices	Consumer prices are rising.	Unchanged	Unchanged

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

<Short-term prospects>

May

The economy is expected to continue recovering at a moderate pace with the improving employment and income situation, supported by the effects of the policies. 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 and fluctuations in the financial and capital markets.

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<Policy stance>

(Monthly Economic Report, July 26, 2023)

Based on the "Basic Policies for Economic and Fiscal Management and Reform 2023", the Government will accelerate the initiative of new capitalism to expand future investment and realize structural wage increases, in order to expand more positive trends such as the highest level of wage increases in this 30 years and high investment motivation in the private sector.

The Government will swiftly and steadily implement the "Comprehensive Economic Measures for Overcoming Price Increases and Revitalizing the Economy" and the FY2022 second supplementary budget, additional measures compiled at the Headquarters for Comprehensive Measures on Prices, Wages, and Livelihoods, and the FY2023 budget, and will continue to respond with flexibility based on price and economic trends.

The Government will aiming for realization of "virtuous circle of growth and distribution" which rationaled by an increase in growth potential and a broad increases in household income, by linking it to a "virtuous circle of wages and prices" with wage increases and securing appropriate price transfers and markups for costs, as well as through continuous expansion of domestic investment by public and private sector's partnership in the areas of human resources, green and economic security which would easily be underinvested if simply left to markets principle.

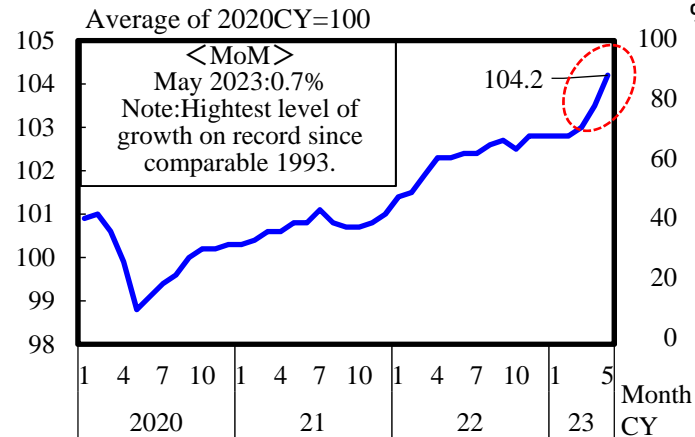
The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner, accompanied by wage increases, in light of economic activity, prices and financial conditions.

Through these measures, the Government will promote bold monetary policy, flexible fiscal policy, and a growth strategy that stimulates private investment in an integrated manner, while fostering widespread recognition that will not fall back into deflation, and leading to an end to deflation through these policy initiatives.

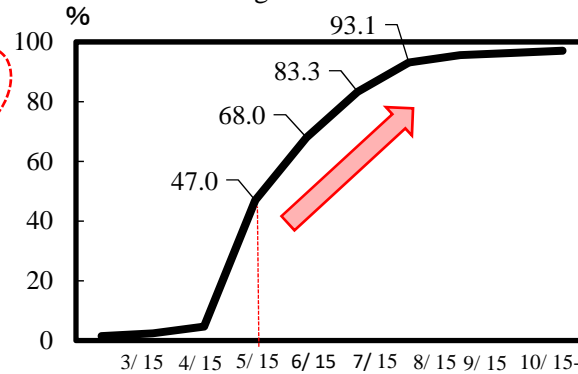
— Employment Situation —

➤ *The employment situation has shown movements of improvement recently.*

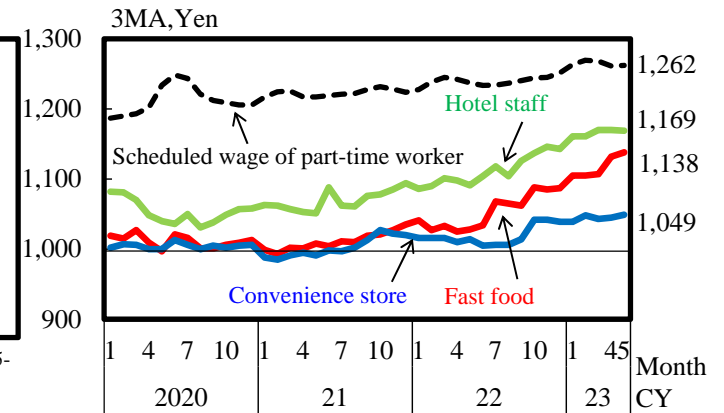
(1-1) Regular salary for full-time worker



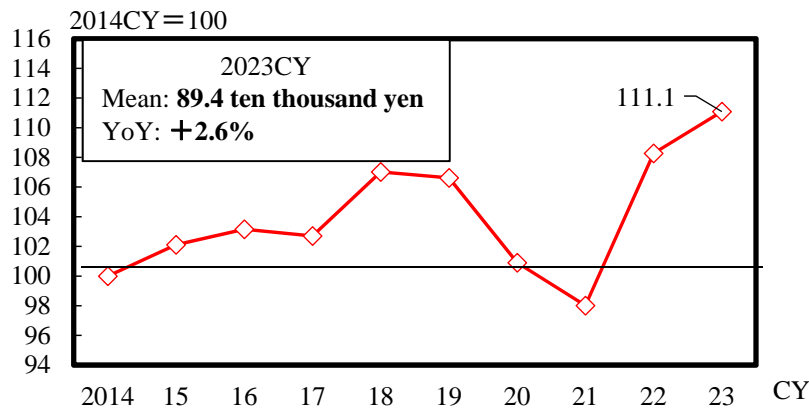
(1-2) Start Payment of revised wages
(Average from 2013 to 2022)



(1-4) Average wage for part-time recruitment

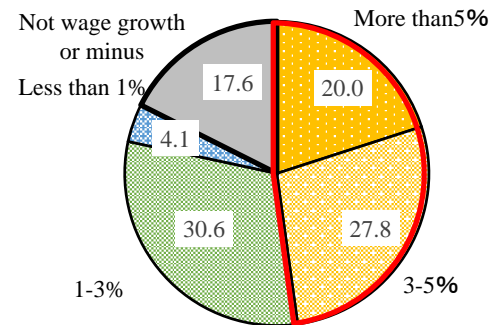


(1-3) Summer Bonus trend (Private survey)

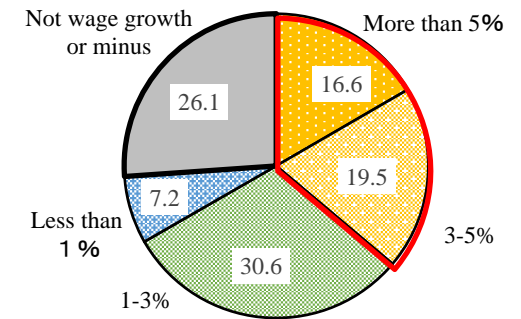


(1-5) Price pass through and wage growth rate

Companies that have implemented price pass through of more than 50%



Companies that are not able to implement price pass through

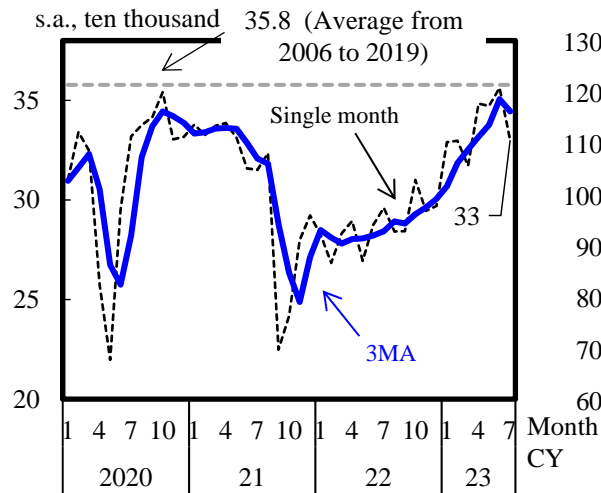


Sources: Ministry of Health, Labor and Welfare; Nikkei Inc.; Recruit Co., Ltd.; The Small and Medium Enterprise Agency

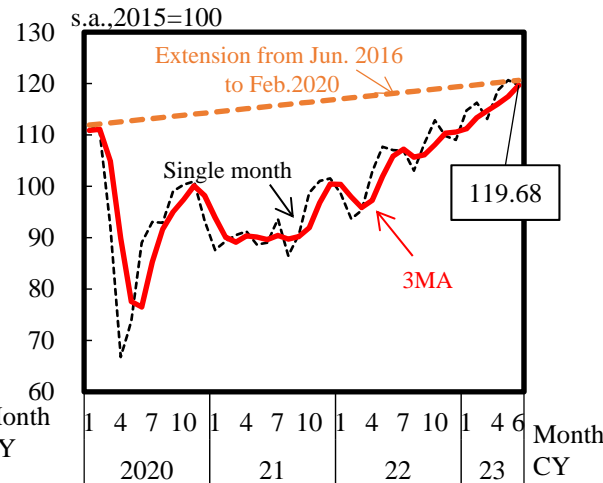
— Private consumption —

➤ *Private consumption is picking up.*

(2-1) New Automobile sales



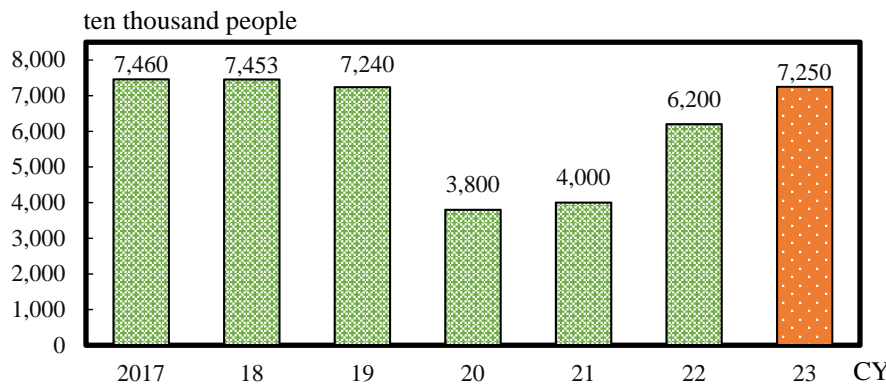
(2-2) Food service consumption



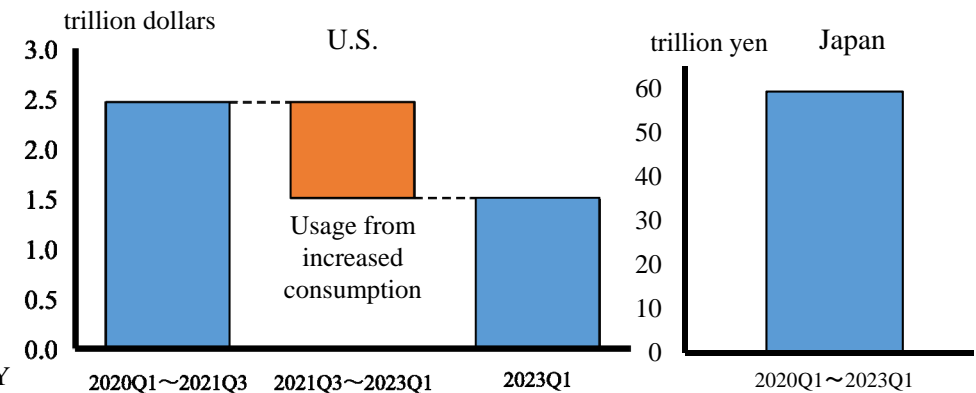
(2-4) Summer festivals to be held normally for the first time in 4 years

	Schedule	Audience (ten thousand)
GIONMATSURI	7/1 ~ 31	53
Sumida River Fireworks Festival	7/29	95
Nebuta Festival	8/2 ~ 7	285
Yosakoi Festival	8/9 ~ 12	100
The Lake Suwa Fireworks Festival	8/15	46

(2-3) Number of domestic travelers during Summer Vacation (estimated by JTB)



(2-5) Overall household excess savings in COVID-19

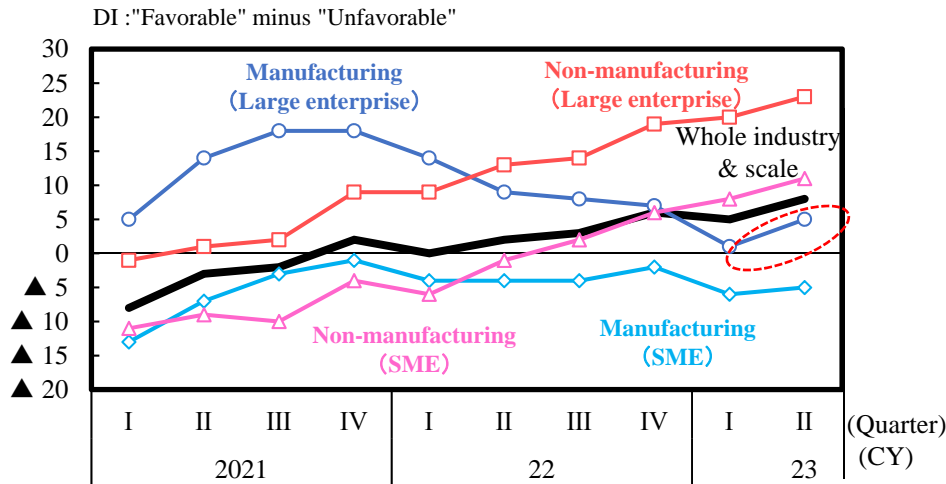


Sources: Japan Automobile Dealers Association; Japan Light Motor Vehicle and Motorcycle Association; Japan Foodservice Association; JTB Tourism Research & Consulting Co; Press materials; U.S. Department of Commerce; Cabinet Office.

— Trends in Firms' judgments on current business conditions —

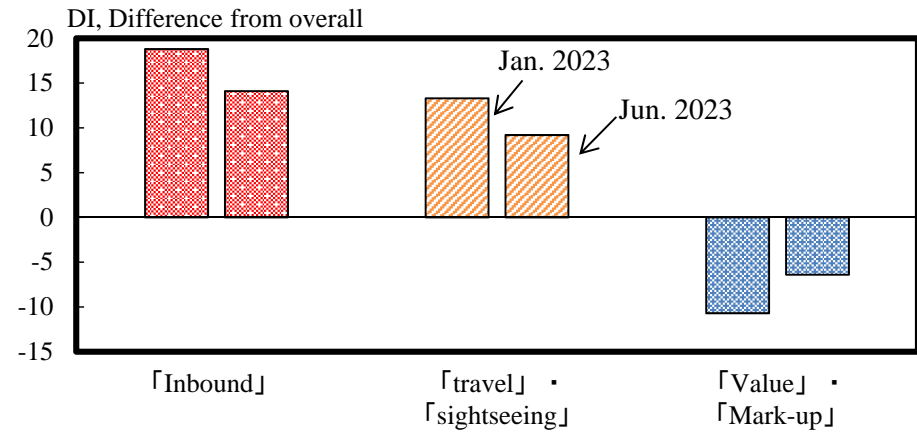
➤ Firms' judgments on current business conditions are picking up.

(3-1) Business Conditions



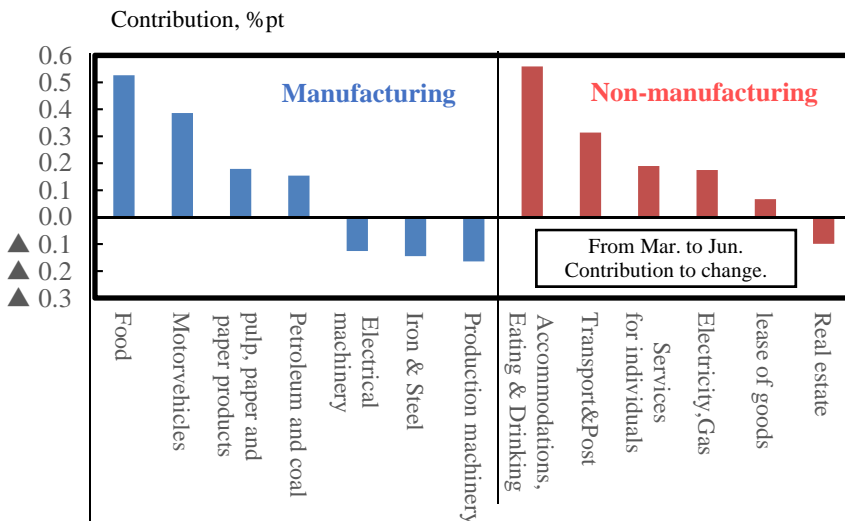
(3-3) Economy Watchers Survey

(1) DI for future conditions by keywords



(2) comment of the future for Economy Watchers Survey

(3-2) Contribution to changes in Business Conditions



Regions= Type of industry	comment
Shikoku = Food	Sales volume is somewhat lower than in 2019, but the increase in selling prices has penetrated the market and ensured that profits are secured. Going forward, sales volume is expected to increase due to a recovery in inbound and domestic travel.
Tohoku = shopping district	Summer and fall festivals and other events are scheduled to be held normally for the first time in four years , and the city is expected to come back to life.
Chugoku = Construction	The outlook for orders has improved to a certain extent, including orders from outside of the regular orders. In addition, we feel that some progress has been made in passing on the higher prices of goods and services.

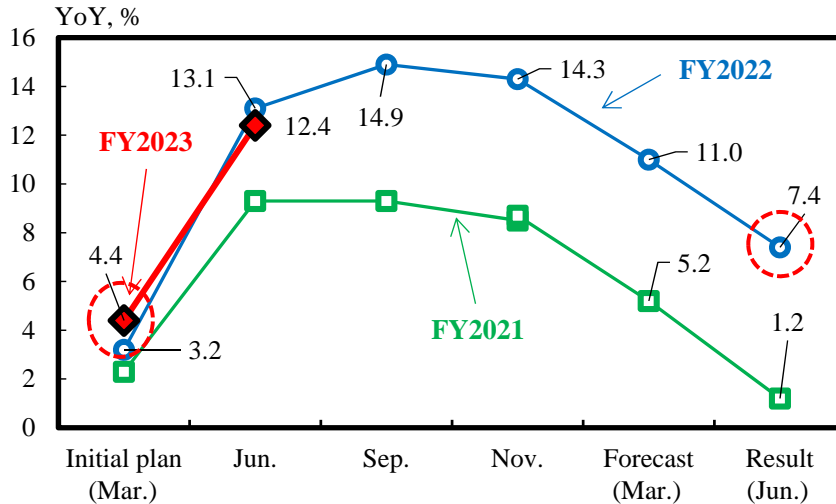
Source: Bank of Japan; Cabinet Office.

— Business Investment —

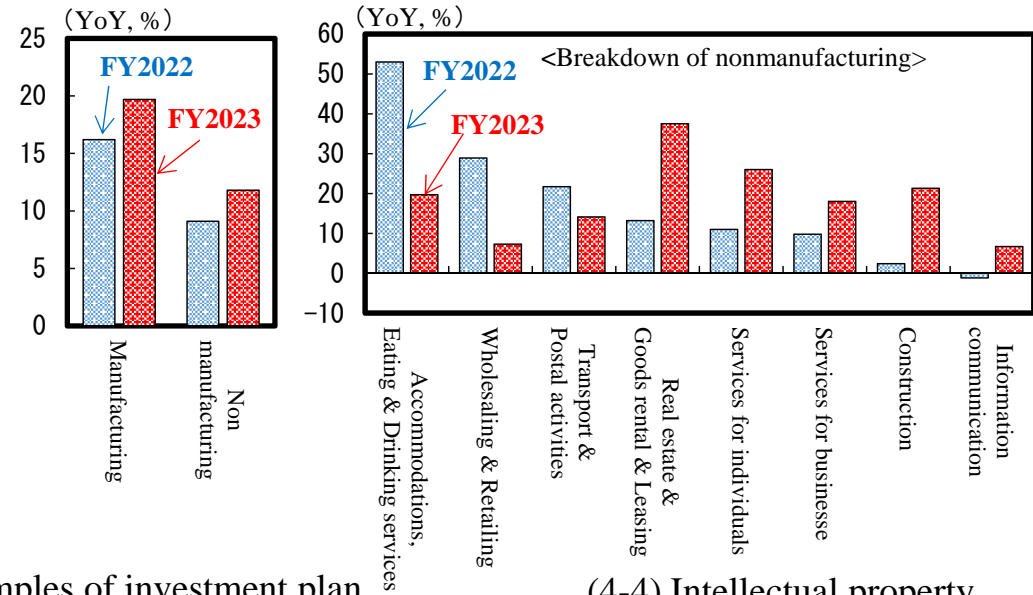
➤ Business investment is picking up.

(4-1) Business investment plan

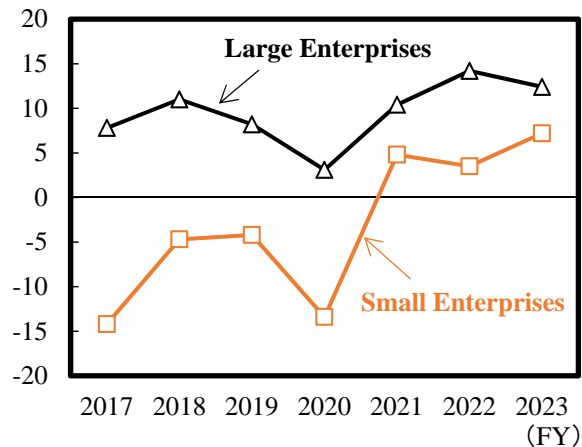
(1)Planned and actual at the time of each survey



(4-3) Software investment plan



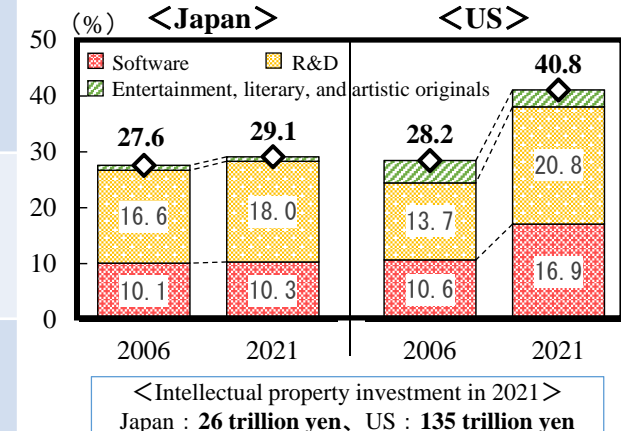
(2)Comparison as of June survey of each year



(4-2) Examples of investment plan

Company	Contents
Company A (Electrical equipment)	Established a new plant for next-generation power semiconductors , one of the largest ones in Japan, to strengthen production capacity amid the expanding EV market.
Company B (Transport)	Expanded IT investments, including the development of a system for real-time sharing of EC (electronic commerce) order status with distribution centers and delivery contractors.
Company C (Motor vehicle)	Increased investment to strengthen production capacity and R&D of lithium-ion battery for EVs in Japan.

(4-4) Intellectual property investment's share of private investment

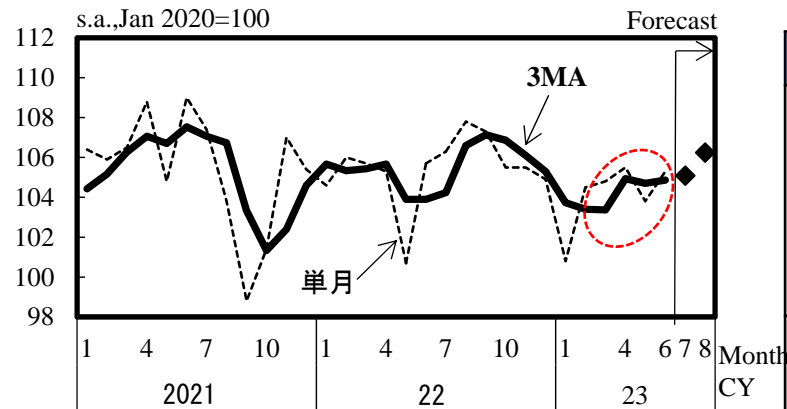


Source: Bank of Japan; various news reports; Cabinet Office; U.S. Department of Commerce.

– Exports & Industrial Production –

- *Industrial production shows signs of picking up.*
- *Exports have shown a steady undertone.*

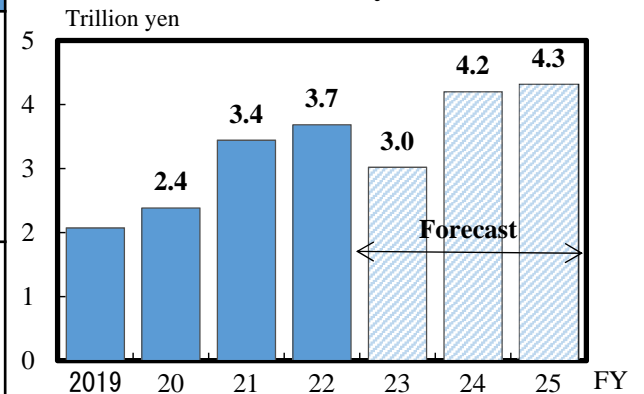
(5-1) Industrial production (Total)



(5-3) Remote Control of Construction Equipment

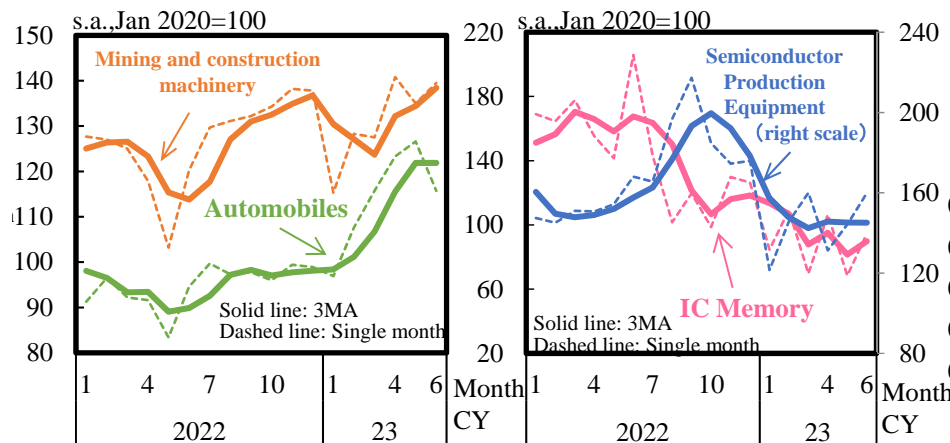
Company	Summary
A	Started offering construction equipment equipped with 5G-based remote control systems, with mass production planned for 2023.
B	Planing to launch a medium-sized excavator for remote control in FY2023.

(5-4) Demand Forecast for Semiconductor Production Equipment (Made in Japan) (as of July)



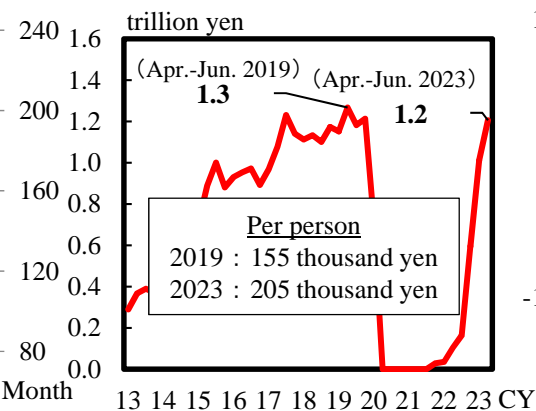
(5-2) Industrial production (by product)

Automobiles and Mining and Construction machinery
Semiconductors Related

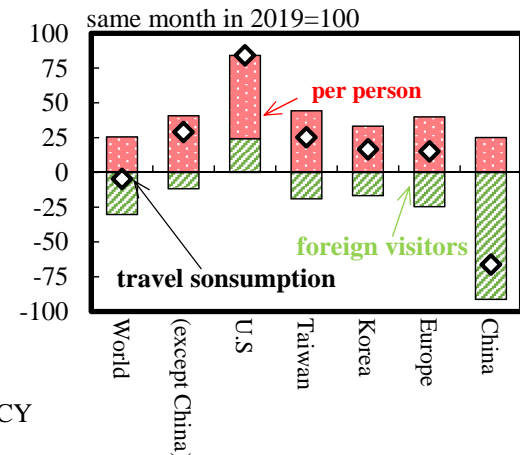


(5-5) Travel consumption by foreign visitors to Japan (Apr.-Jun.2023)

Travel consumption



Factor decomposition by region

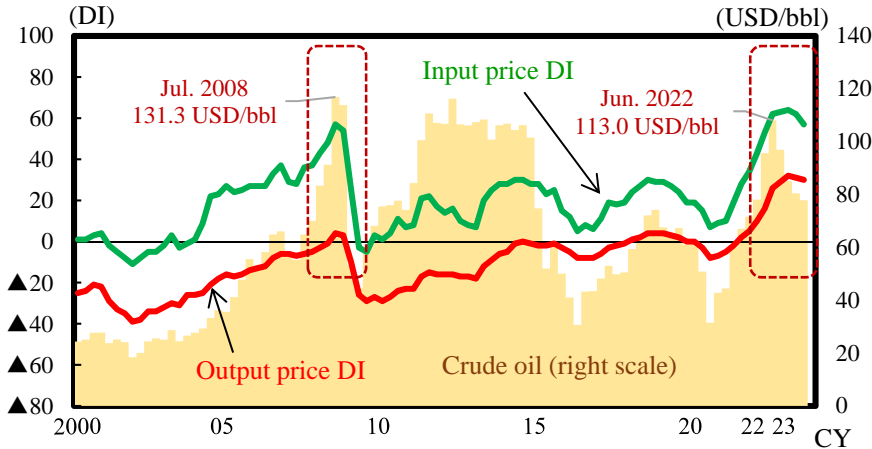


Sources: Ministry of Economy, Trade and Industry; Semiconductor Equipment Association of Japan ; Japan National Tourism Organization; Japan Tourism Agency.

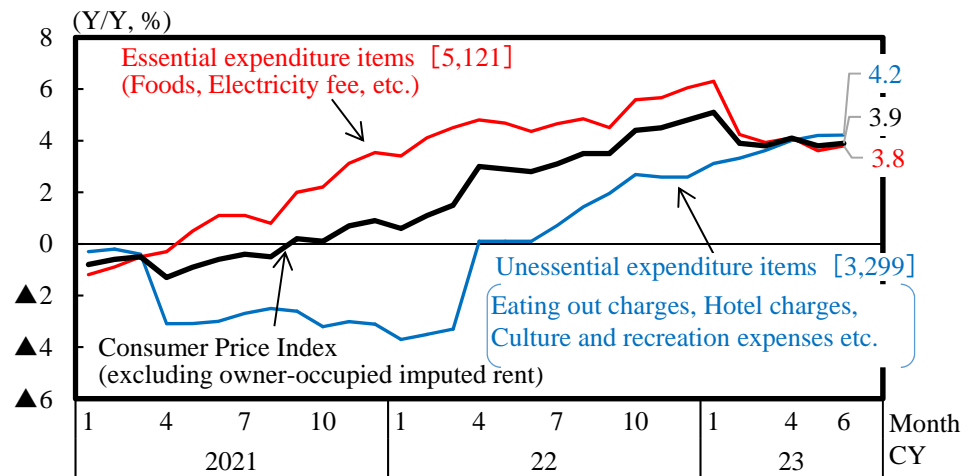
—Prices—

➤ *Producer prices have been declining moderately recently. Consumer prices are rising.*

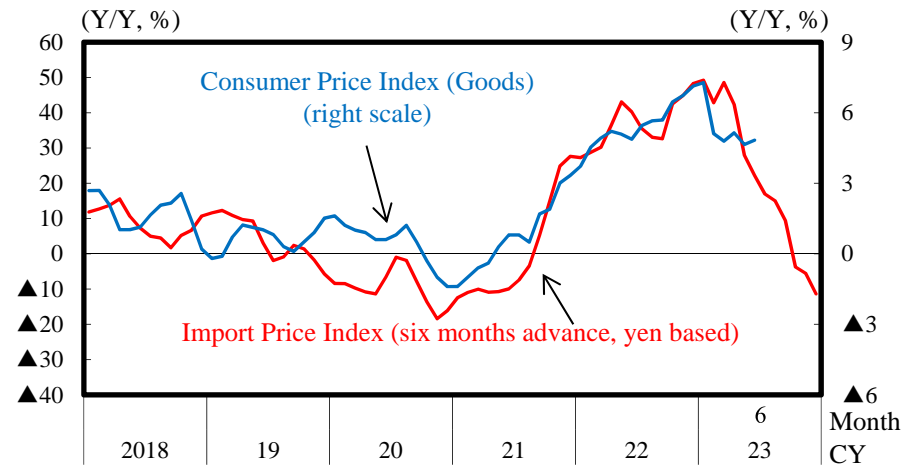
(6-1) Input price DI/ Output price DI



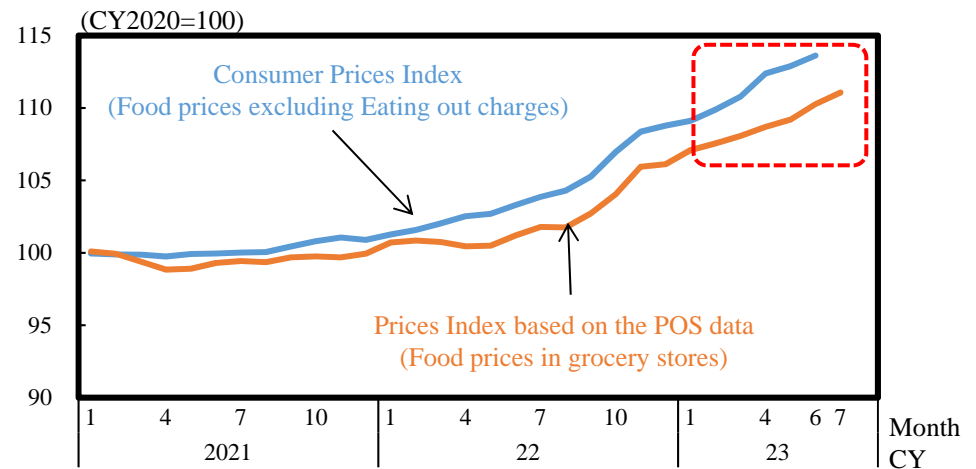
(6-3) Consumer Price Index



(6-2) Import Price Index, Consumer Price Index (Goods)

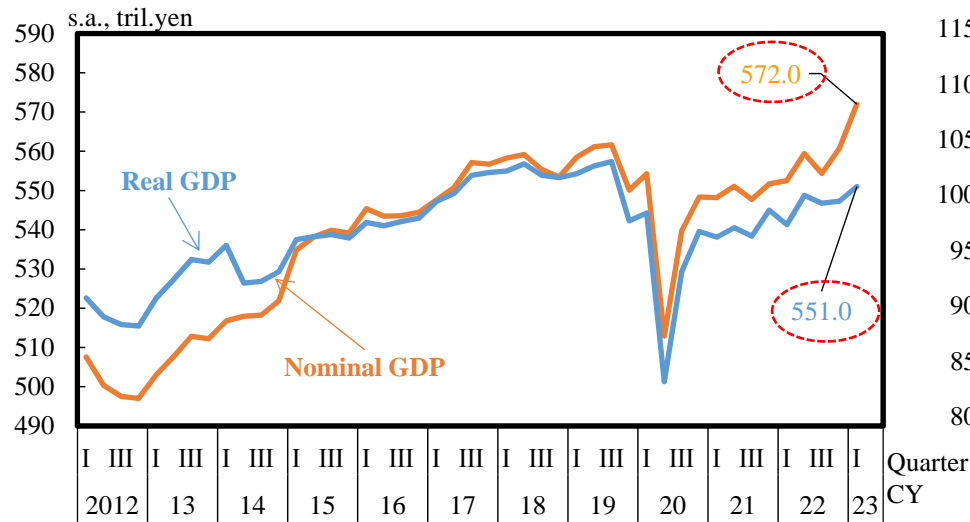


(6-4) Consumer Prices Index comparing

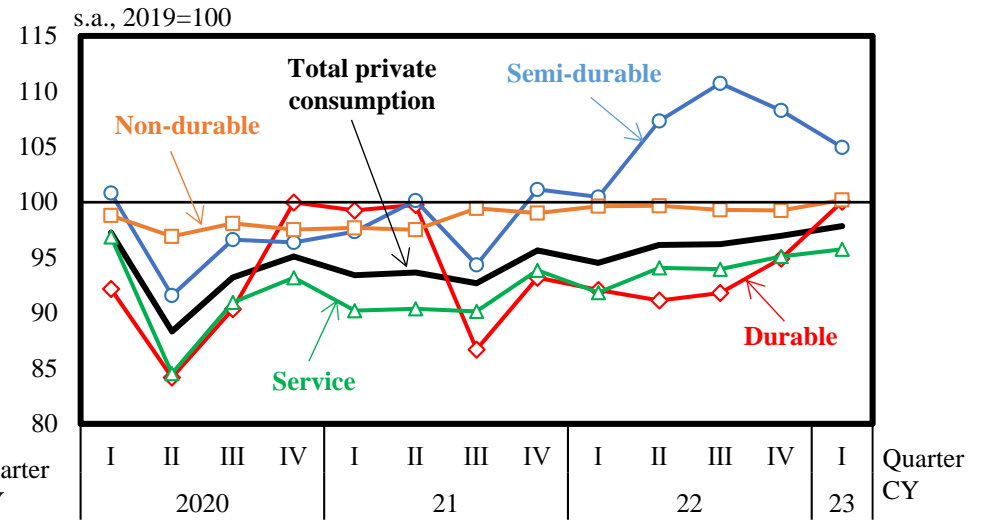


Sources: NIKKEI NEEDS; Bank of Japan; Ministry of Internal Affairs and Communications, Nowcast Inc.

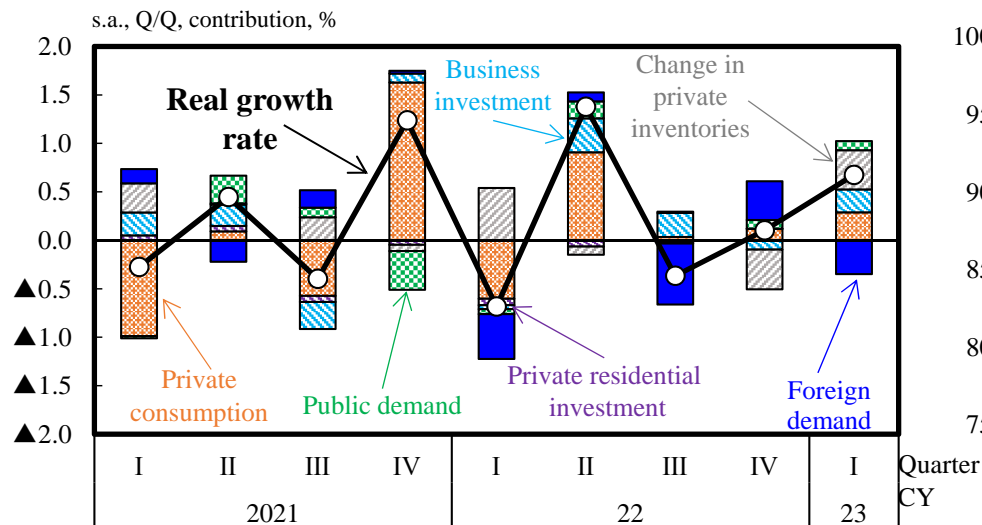
(7-1) Trends in GDP



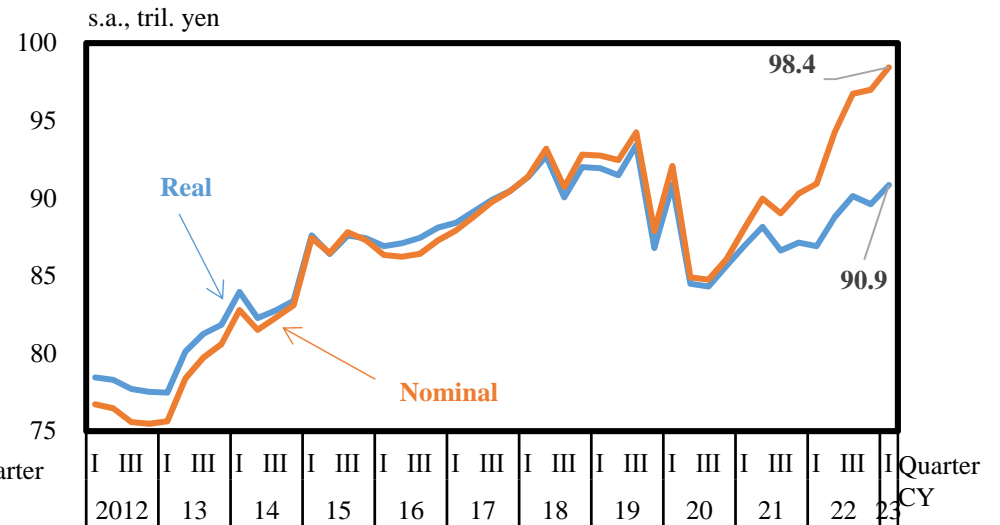
(7-3) Private consumption classified by type



(7-2) Real GDP growth rate

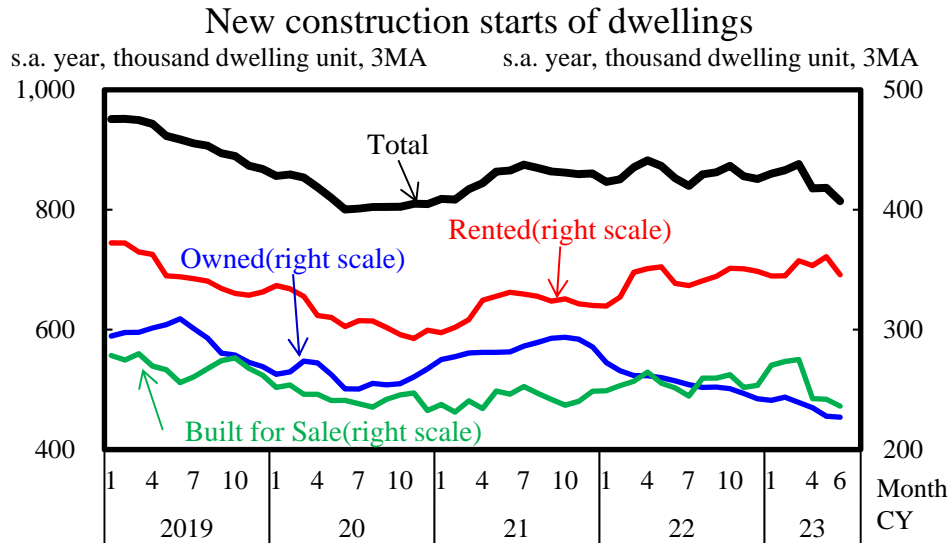


(7-4) Private Non-Resi. Investment

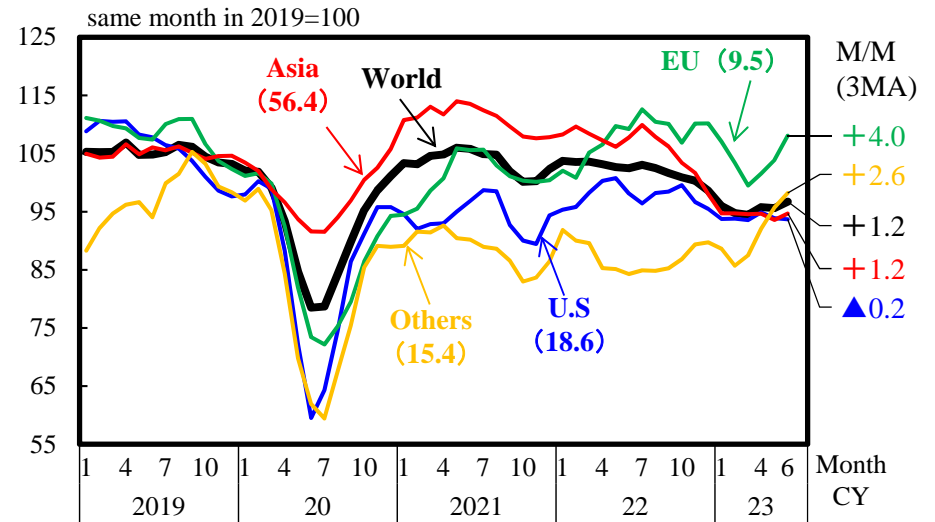


Source: Cabinet Office

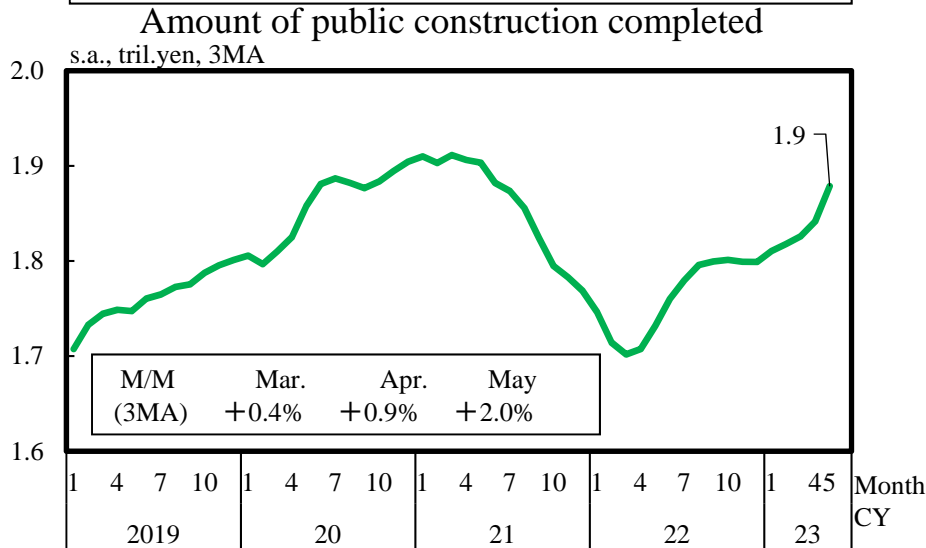
(8-1) Housing construction has shown a steady undertone.



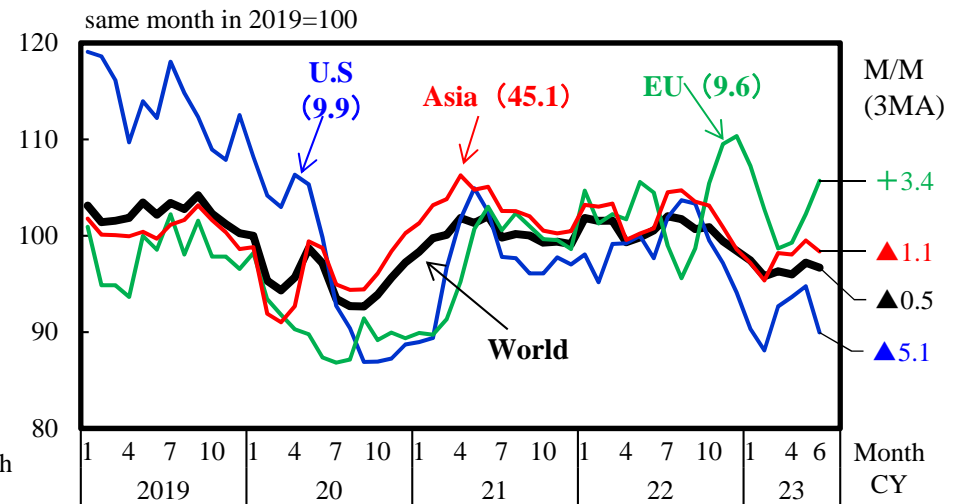
(8-3) Exports have shown a steady undertone.



(8-2) Public investment shows steady performance.

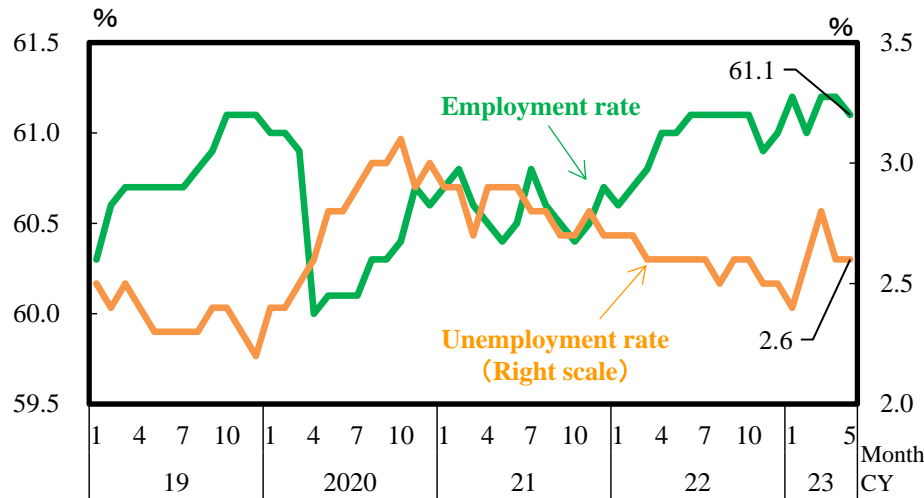


(8-4) Imports are almost flat.

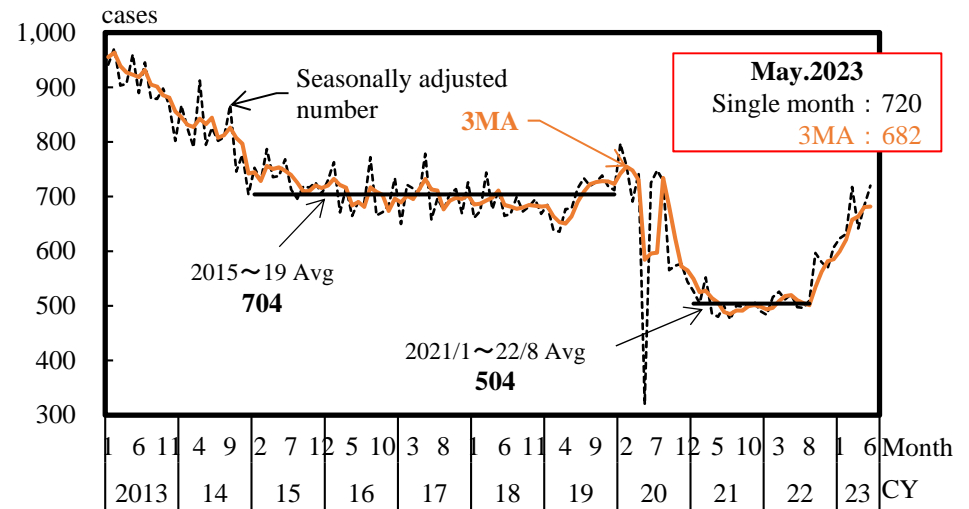


Sources: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Finance

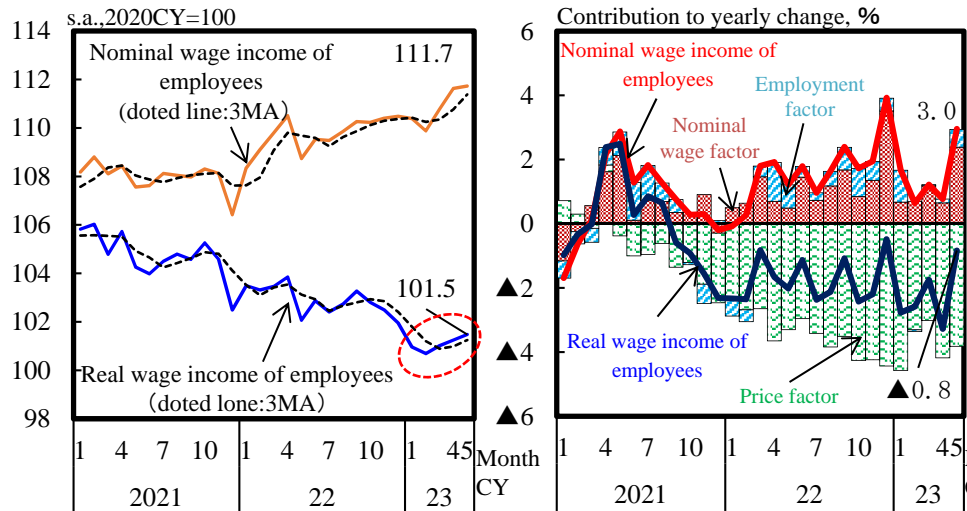
(9-1) The employment situation



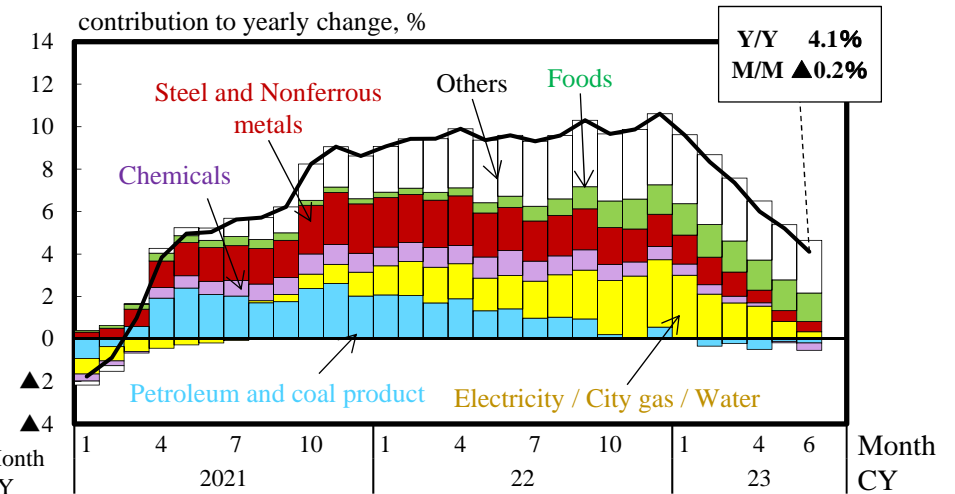
(9-3) The number of corporate bankruptcies appears to be increasing.



(9-2) Wage income of employees



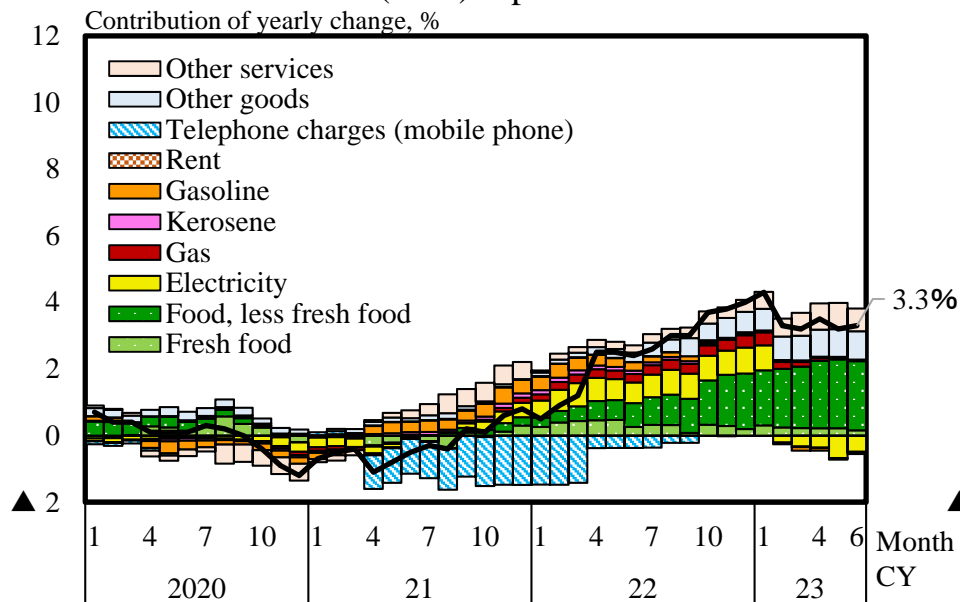
(9-4) Corporate Good Price Index



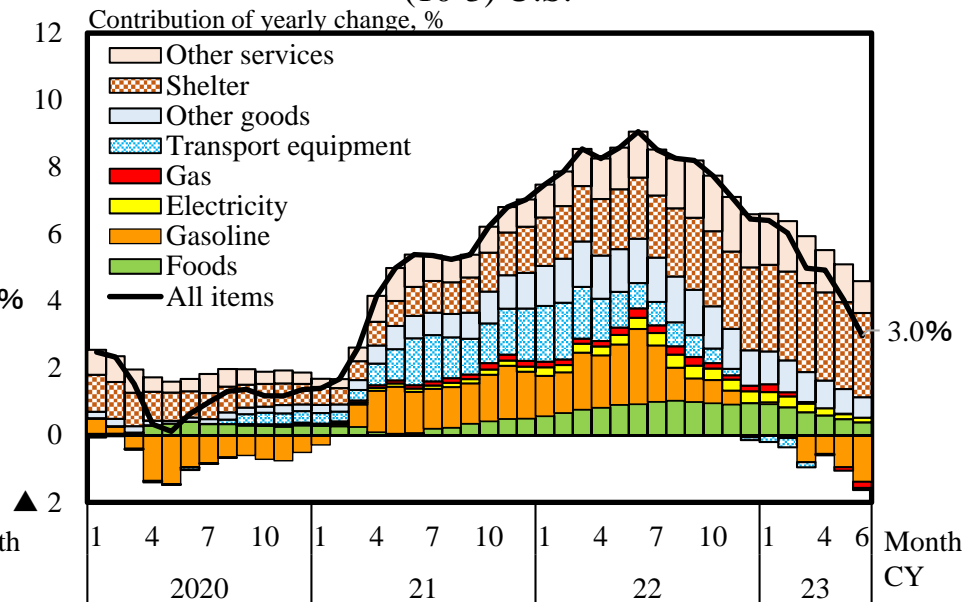
Source: Bank of Japan; Cabinet office; Ministry of Internal Affairs and Communications; Tokyo Shoko Research

International Comparison of Consumer Price Index

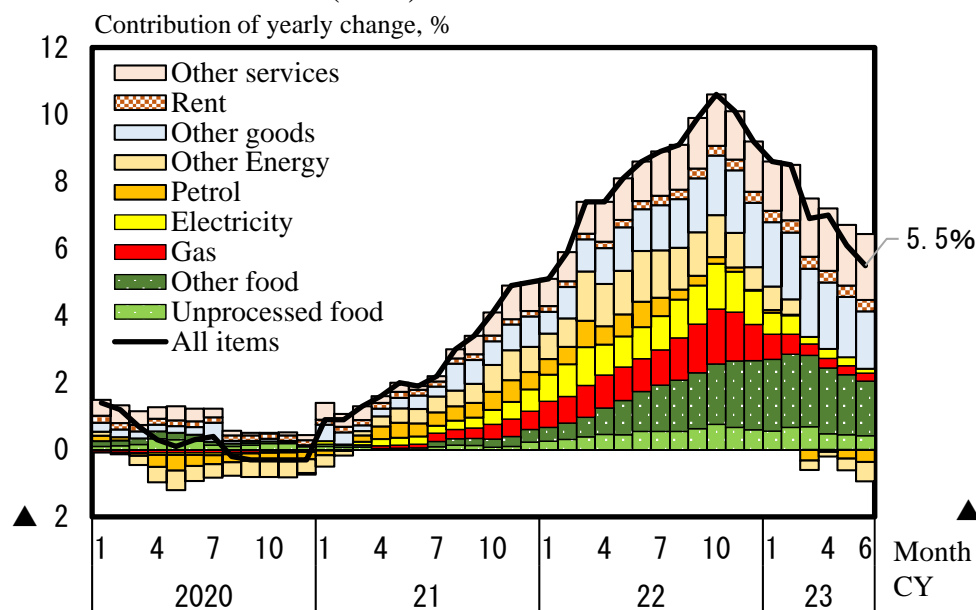
(10-1) Japan



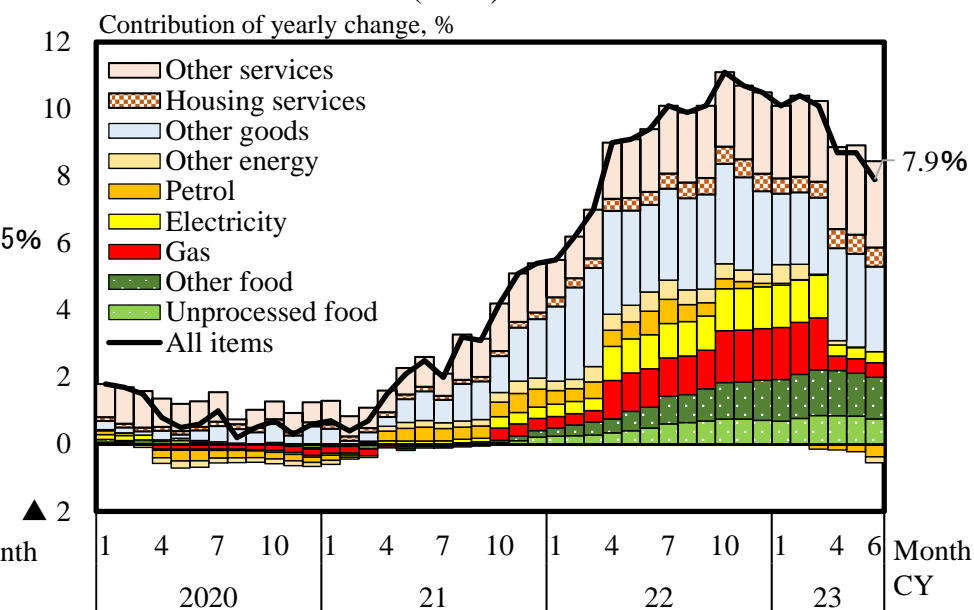
(10-3) U.S.



(10-2) Euro area



(10-4) UK



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

Note: Fixed CPI and Food includes eating out in Japan. With respect to rent and housing costs, imputed rent is included for Japan and the U.S., but not for the euro area and the U.K.