

# **Recent Economic Developments**

**- Monthly Economic Report, February 21 2024 -**

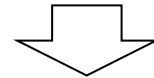
**March, 2024**

**Cabinet Office  
Government of Japan**

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

December

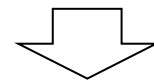
The Japanese economy is recovering at a moderate pace, although it recently appears to be pausing in part.



January

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**(Unchanged)**



February

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**(Changed)**

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

	September	October	November
Private consumption	Private consumption is picking up.	Unchanged	Private consumption appears to be pausing for picking up.(↓)
Business investment	Business investment appears to be pausing for picking up.	Unchanged	Unchanged
Exports	Exports show movements of picking up recently.	Exports <u>appear to be pausing</u> for picking up recently.(↓)	Unchanged
Industrial production	Industrial production shows signs of picking up.	Unchanged	Industrial production was on the way to picking up, but manufacturing activities has declined recently due to the effects of suspension of production and shipment by some automotive manufacturers.(↓)
Corporate profits	Corporate profits are improving as a whole.	Unchanged	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions are improving.	Unchanged	Unchanged
Employment situation	The employment situation shows movements of improvement.	Unchanged	Unchanged
Prices	Consumer prices have been rising at a moderate tempo recently.	Consumer prices have been rising moderately recently.(→)	Unchanged

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

## <Short-term prospects>

December

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, including the effects of global monetary tightening and the concern about the prospect of the Chinese economy. Also, full attention should be given to price increases, the situation in the Middle East and fluctuations in the financial and capital markets.

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# <Policy stance>

(Monthly Economic Report, , February 21 2024 )

The Government will accelerate the initiative of new capitalism to transform the economy from a cost-cutting economy that has been in place for 30 years to a growth-oriented economy driven by sustained wage increases and active investment.

To this end, the Government will swiftly and steadily implement the “Comprehensive Economic Measures for Completely Break Free from Deflation: Toward New Stage of the Japanese Economy”(Nov 2nd , Cabinet decision) and the FY2023 supplementary budget and will also work for early passage of the FY2024 budget and the related bills. Moreover, based on the “Package to Support the Lives and Livelihoods of the Affected People”, reserve funds will be utilized to provide continuous support for the victims of the 2024 Noto Peninsula Earthquake, including the rebuilding of their lives and livelihoods, as well as for the reconstruction of the areas affected by this earthquake.

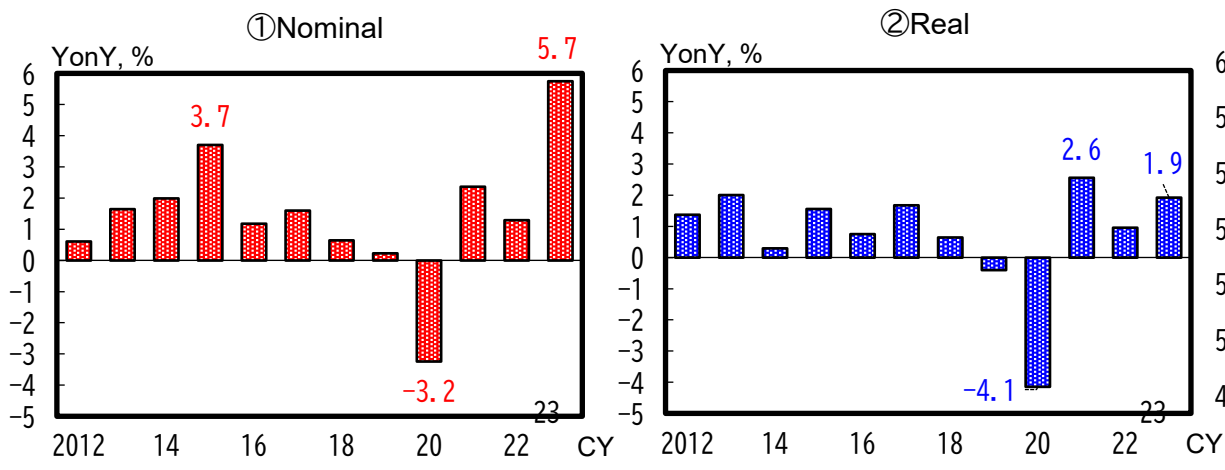
The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner, accompanied by wage increases, in light of economic activity, prices and financial conditions.

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.

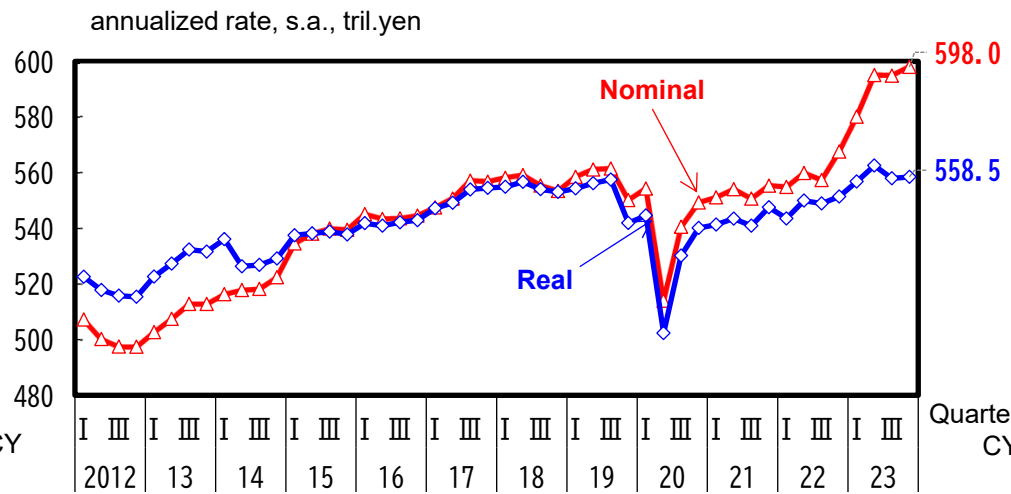
# Gross Domestic Product: 2<sup>nd</sup> Preliminary Estimates for 2023Q4

- ◆ Nominal GDP growth rate in CY2023 was 5.7% (highest since CY1991).
- ◆ Real GDP in 2023Q4 increased by 0.1% on a quarterly basis. While Real Private Consumption decreased for three consecutive quarters, Real Business Investment increased for the first time in three quarters. Nominal Business Investment exceeded 100 trillion yen for the first time since 1991.

(1-1) GDP growth rate (CY)



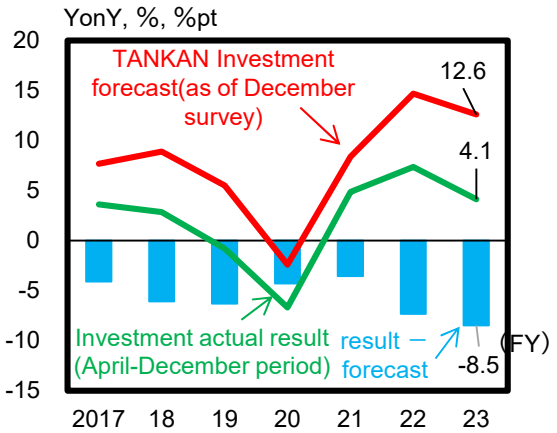
(1-2) GDP level (Quarter)



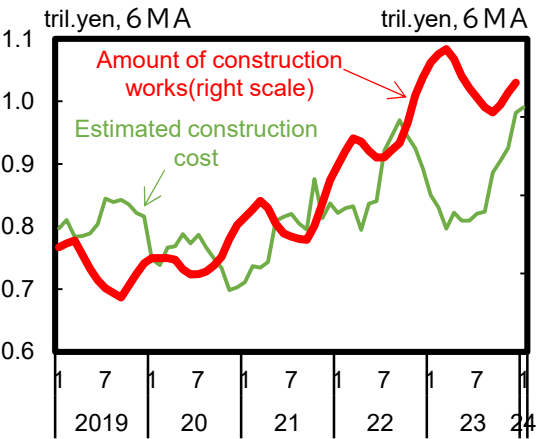
# Business Investment

◆ Apr-Dec Business investment growth in FY2023 relative to Planned Investment is weaker than before. One of the possible factors is plausibly the shortage in construction sector workers, especially in electricians and plumbers.

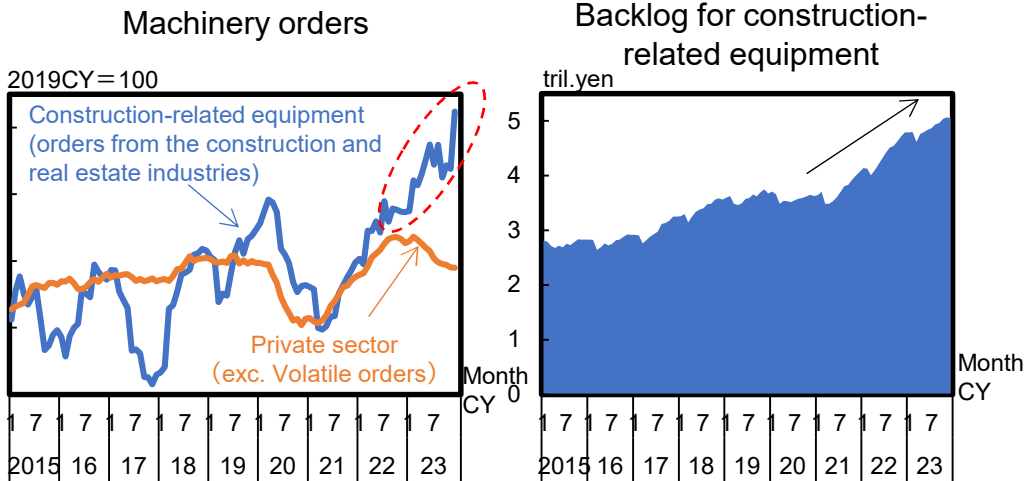
(2-1) Planned and Realized Investment



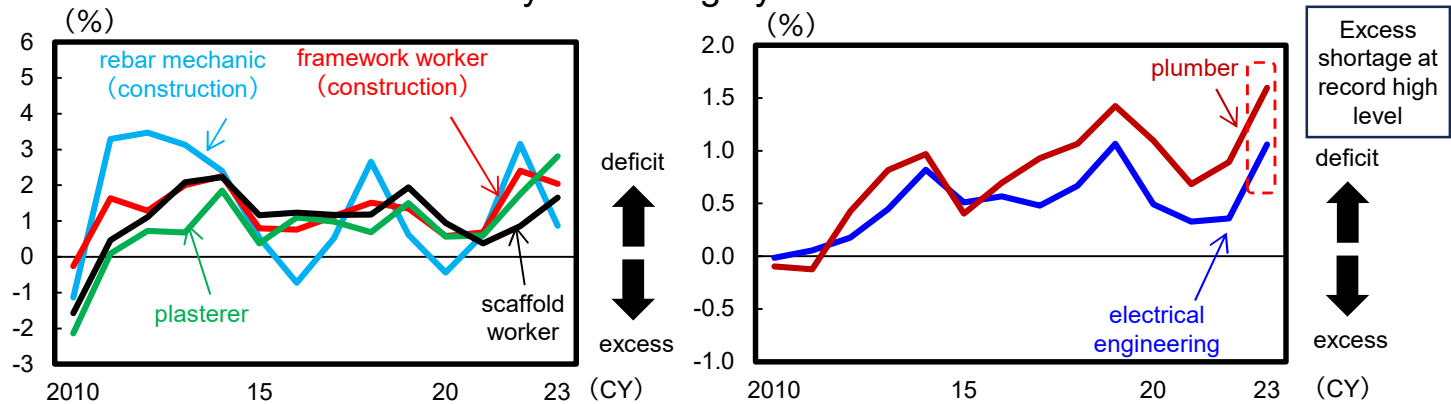
(2-2) Construction investment



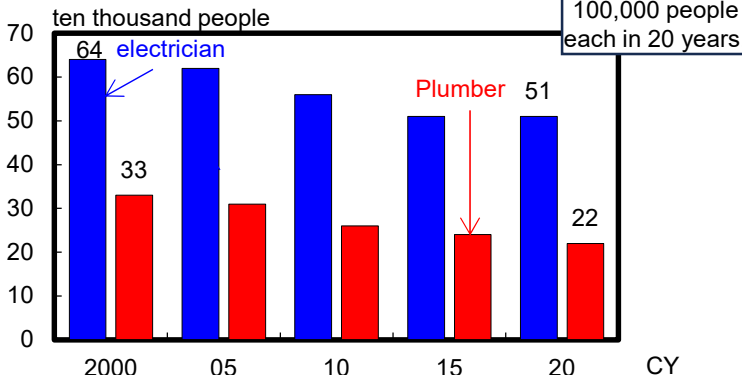
(2-4) Machinery orders for elevators, air conditioning, and other construction-related equipment



(2-3) Over/Under Ratio of Construction Technicians by Job Category



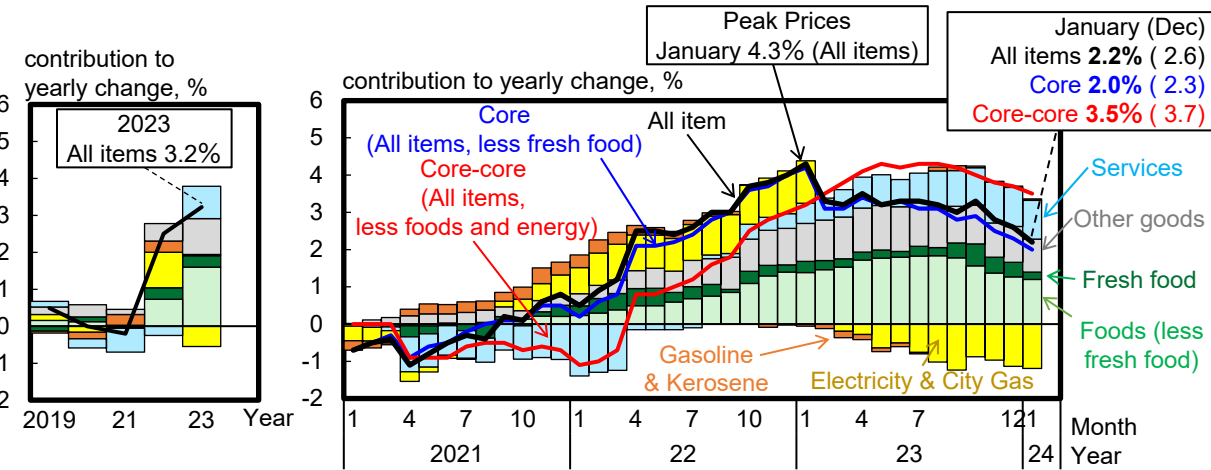
(2-5) Number of workers in electrician and plumber



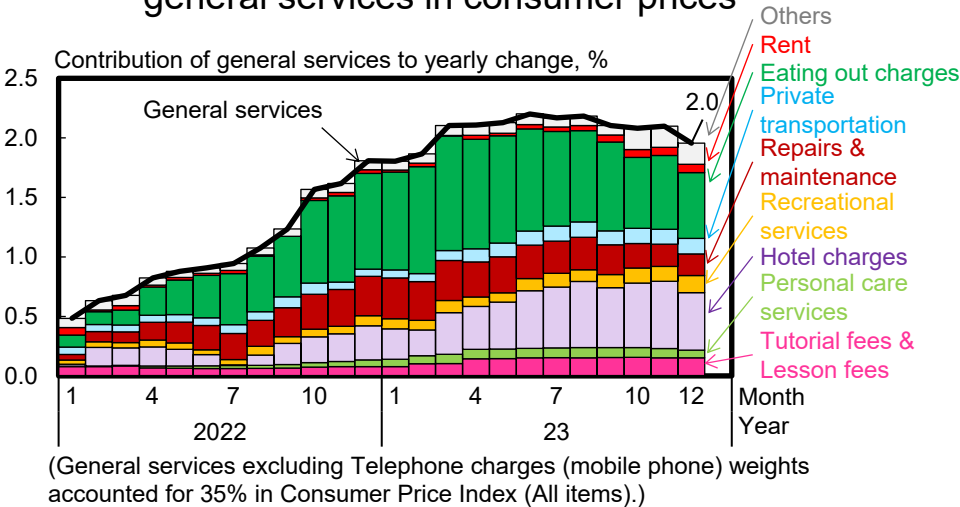
# Prices

◆ CPI inflation rate has become moderate after hitting the peak of 4.3% in Jan. 2023, due to the pause of price hike in foods and beverages. Meanwhile, service price is gradually rising, including the sectors where wage cost share is relatively high

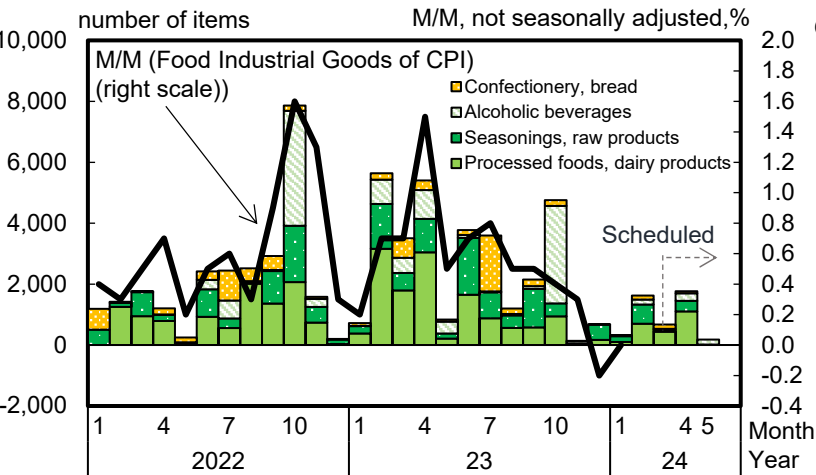
(3-1) Consumer Price Index



(3-3) Decomposition of the contribution of general services in consumer prices



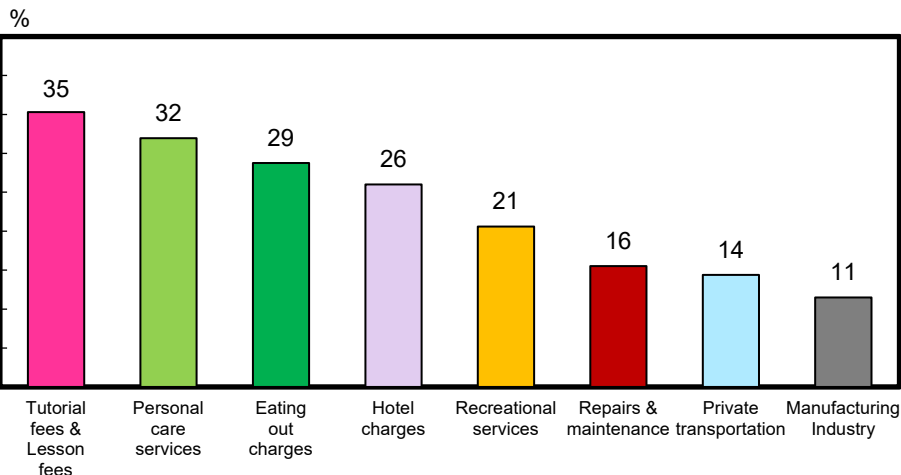
(3-2) Number of food items with price increases  
(195 major food companies as of the end of January)



Questionnaire on Factors Contributing to Food Price Increases

%	Jan-May 2024	Jan-May 2023
Raw materials Cost	84.6	98.9
Energy	70.4	83.7
Logistics Fee	51.6	55.5
Yen depreciation (Exchange rate fluctuation)	39.9	20.1
Personnel expenses	18.1	10.4

(3-4) Cost structure of the service industry  
(Salaries as a percentage of total expenses)



Source :Ministry of Internal Affairs and Communications; Teikoku Data Bank; Ltd.

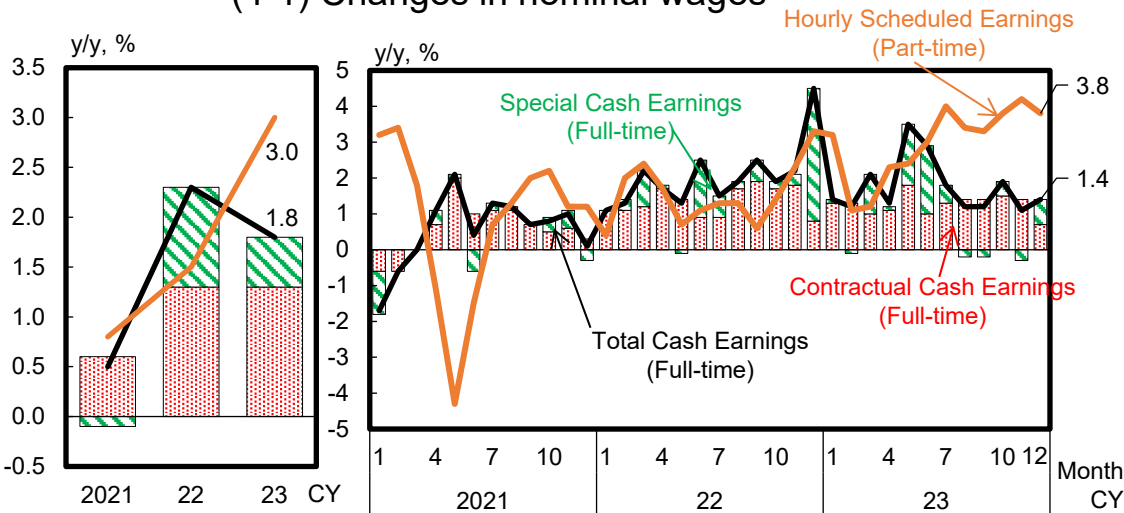
Note : (figure below left) Factors Contributing to Food Price Increases is the percentage of items for which the factor is the reason out of the total number of items with a price increase (including some duplicates).  
(figure upper right) General services exclude the effects of policy factors. Recreational services exclude monthly fees and Internet access fees. Internet access fees are included in others.  
(figure below right) This figure is the total payroll as a percentage of total expenses for the industries in "Economic Census" that are considered to correspond to the items in the "Consumer Price Index."



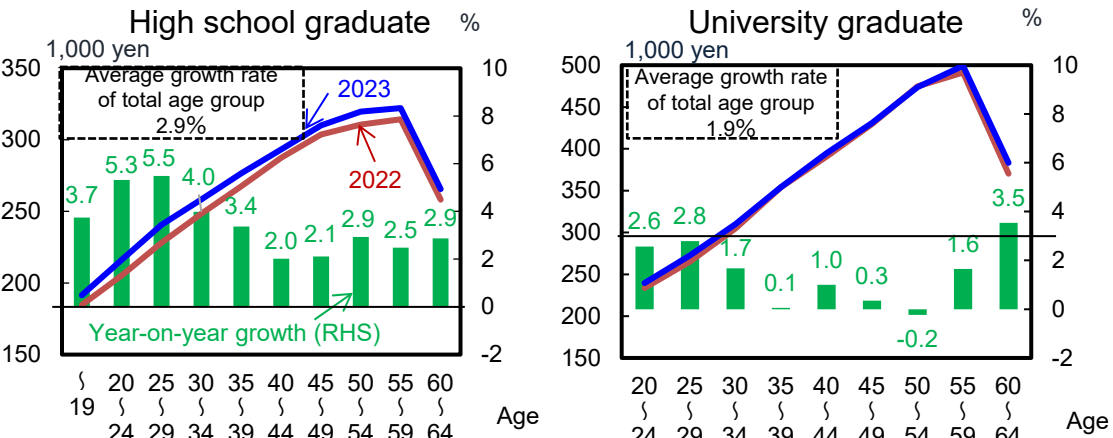
# Wage

- ◆ Hourly nominal wage for part-time worker is increasing approximately by 4%. The scheduled wage for full-time workers grew in 2023. especially for the younger workers.
- ◆ Nominal wage development in the U.S., Germany and Japan before deflation points to the importance in both price inflation and labor productivity improvement.

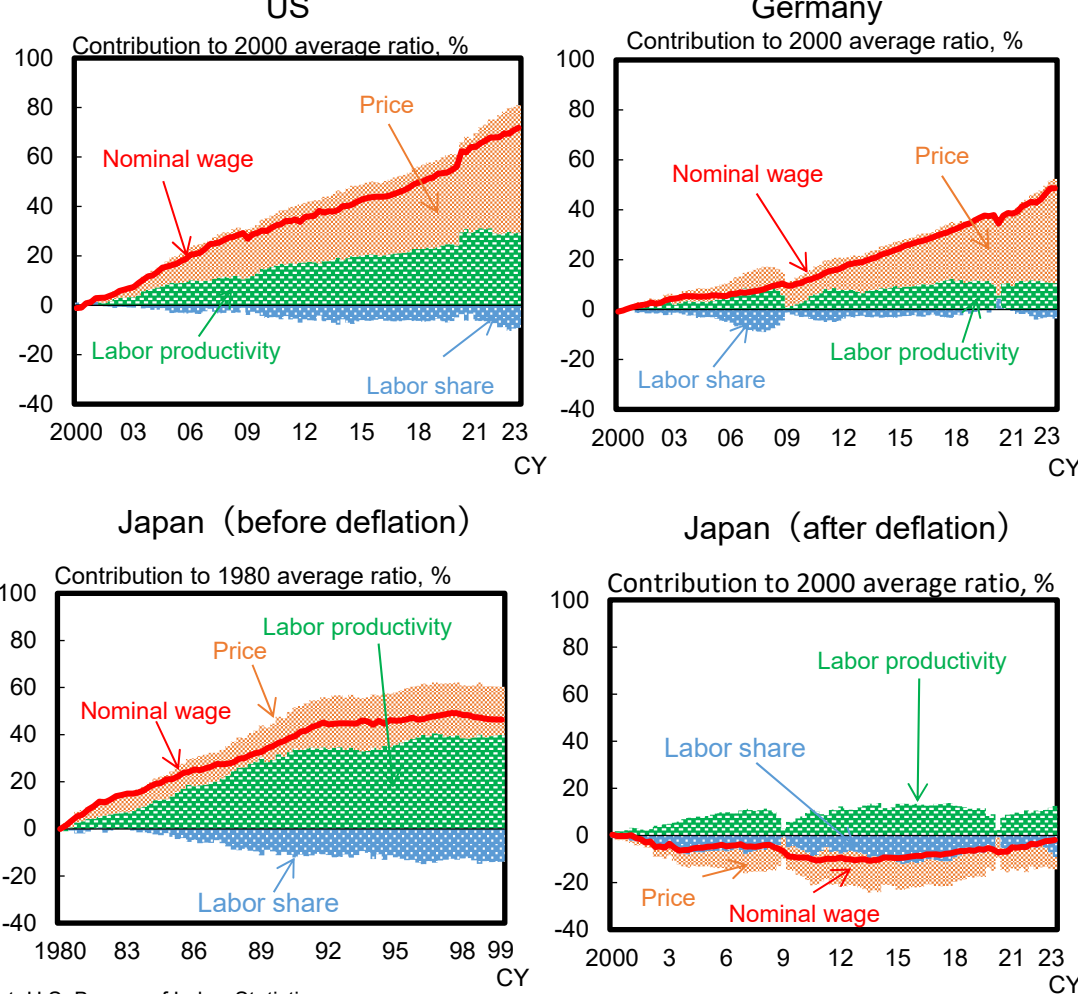
(4-1) Changes in nominal wages



(4-2) Wage growth rate by age group in 2023 (general workers and scheduled cash earnings)



(4-3) Factor decomposition of nominal wages in major countries and in Japan before and after deflation

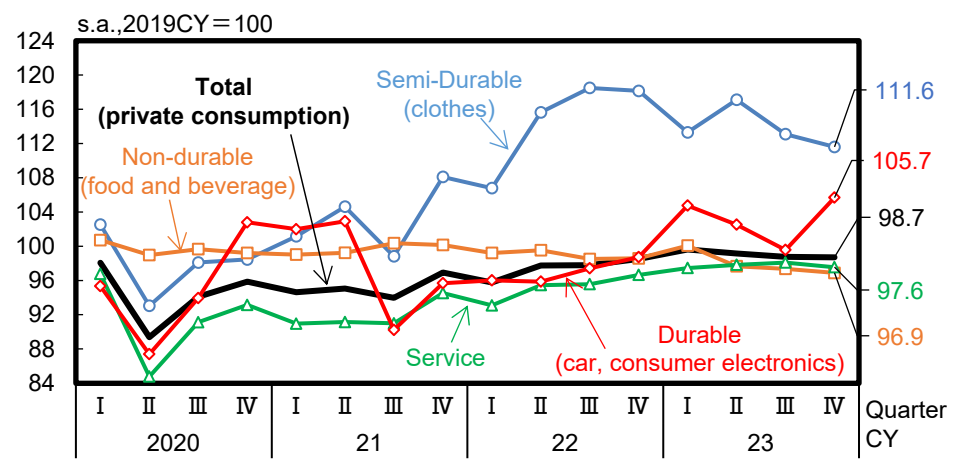


Source : Ministry of Health, Labor and Welfare; Cabinet Office; Ministry of Internal Affairs and Communications; OECD.stat; U.S. Bureau of Labor Statistics.  
 Note : (figure upper left) Figures for December 2023 are preliminary.  
 (figure right) Japan's nominal GDP and GDP deflators prior to 1993 are based on the expenditure-side GDP series simplified retrospective (2015 basis, 08SNA). In addition, employer compensation prior to 1993 is connected using the average of the ratio to the 2015 basis, 08SNA by values from the first quarter of 1994 to the first quarter of 2009 for the 2000 basis, 93SNA series. For 2023, values through the second quarter are used.

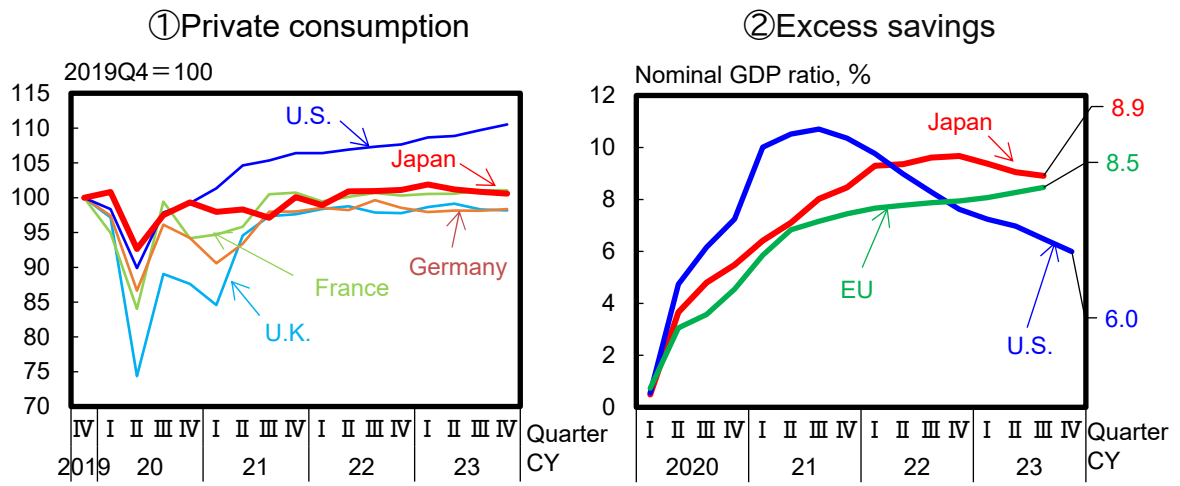
# Private consumption

- ◆ Private consumption lacks the strength, due to the effect of rising price and warm winter. On the other hand, consumer confidence is picking up and real gross wage income increased for two consecutive months.
- ◆ Excess saving is decreasing in the U.S. which has supported the growth in private consumption, while the withdrawal of excess saving in Japan has been limited.

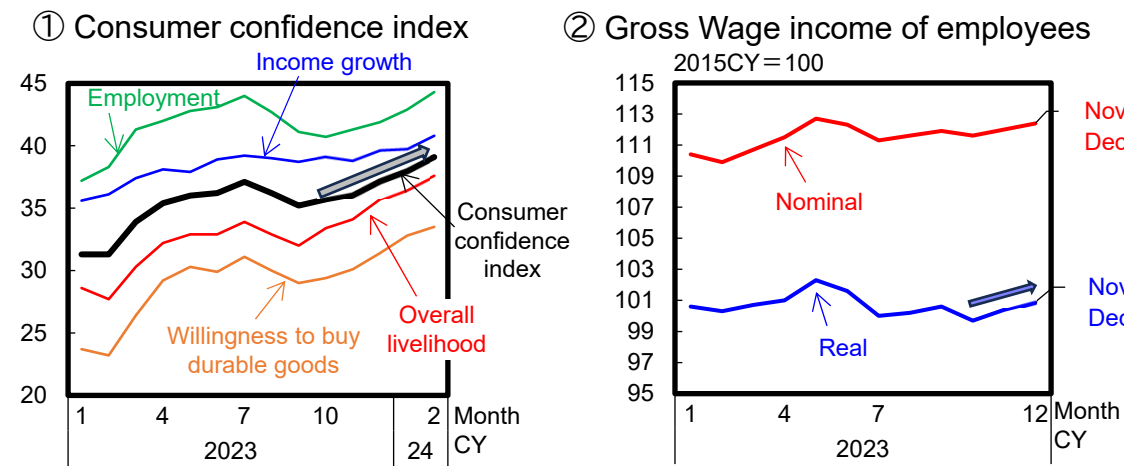
(5-1) Real private consumption classified by type



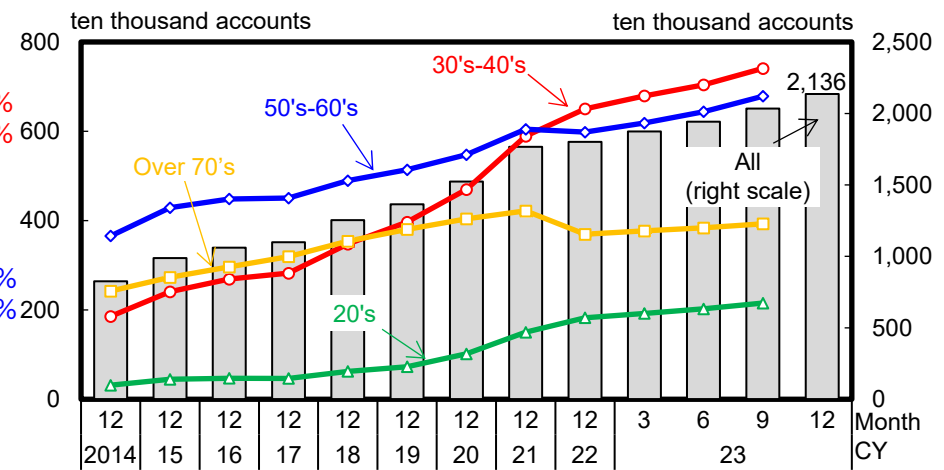
(5-3) Private consumption and Excess savings in major countries



(5-2) Consumer confidence index and Wage income of employees



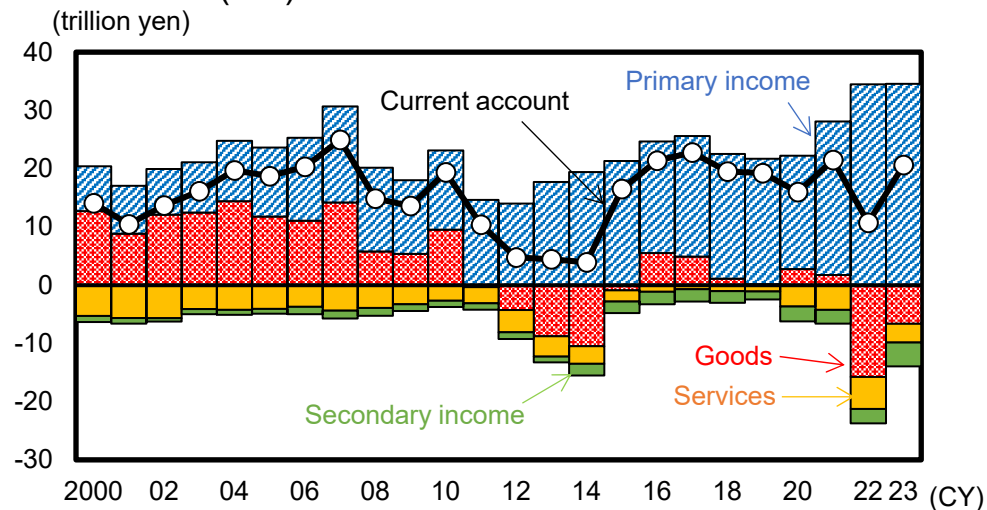
(5-4) Number of NISA accounts opened



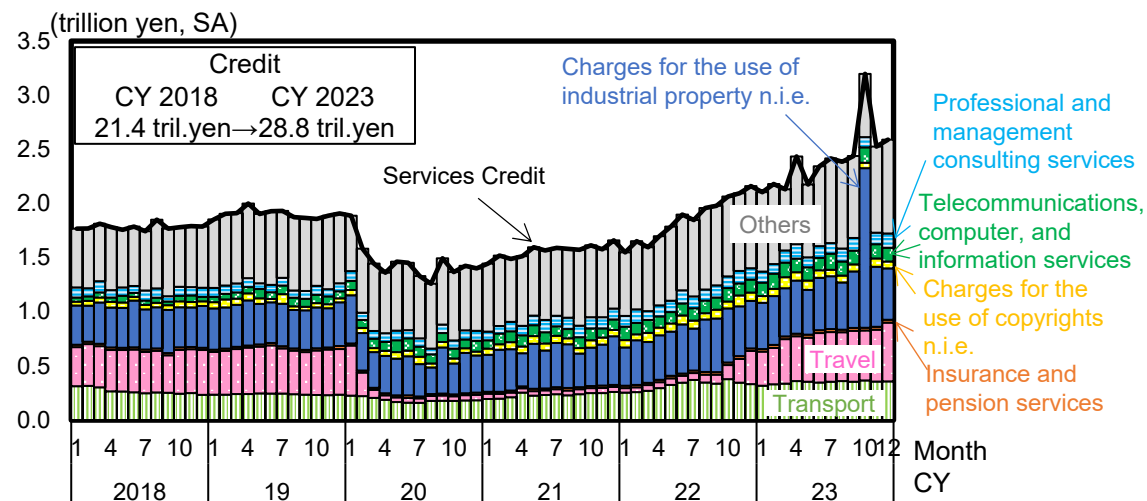
## Balance of Payments

- ◆ The current account surplus is accounted for by primary income balance including dividend receipts from abroad. Service imports is increasing steadily, especially in the digital service areas, where the competitiveness in Japan is a challenge.

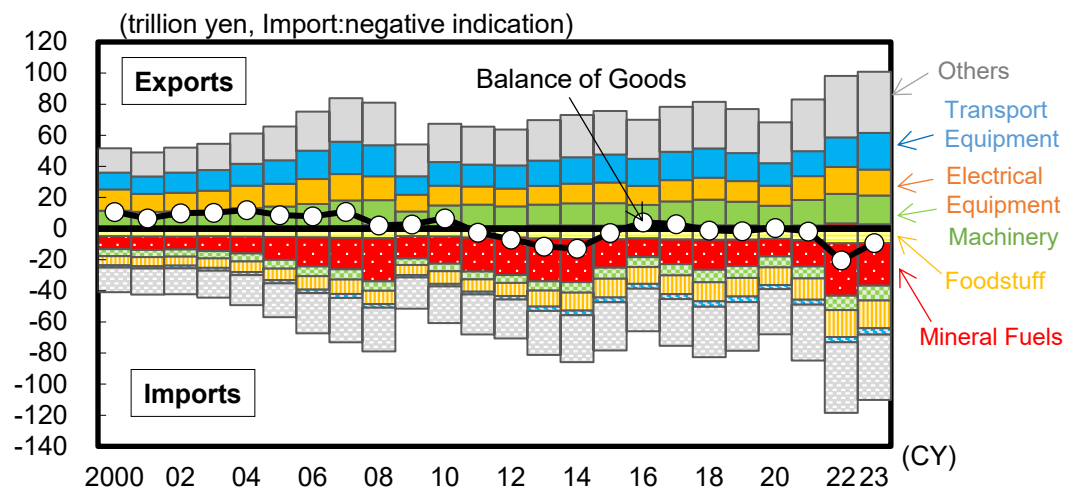
### (6-1) Trend of Current account



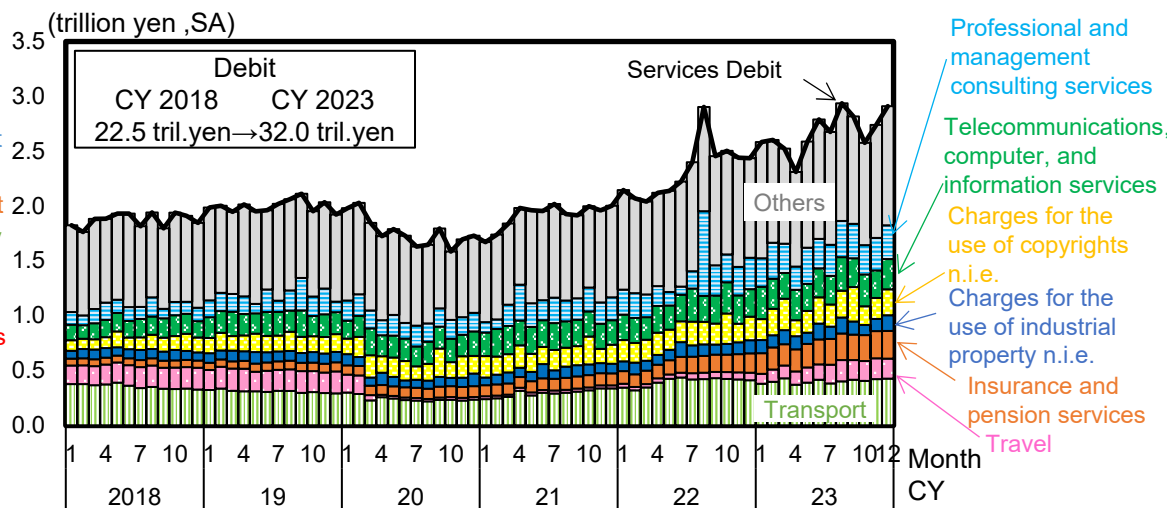
### (6-3) Service Exports



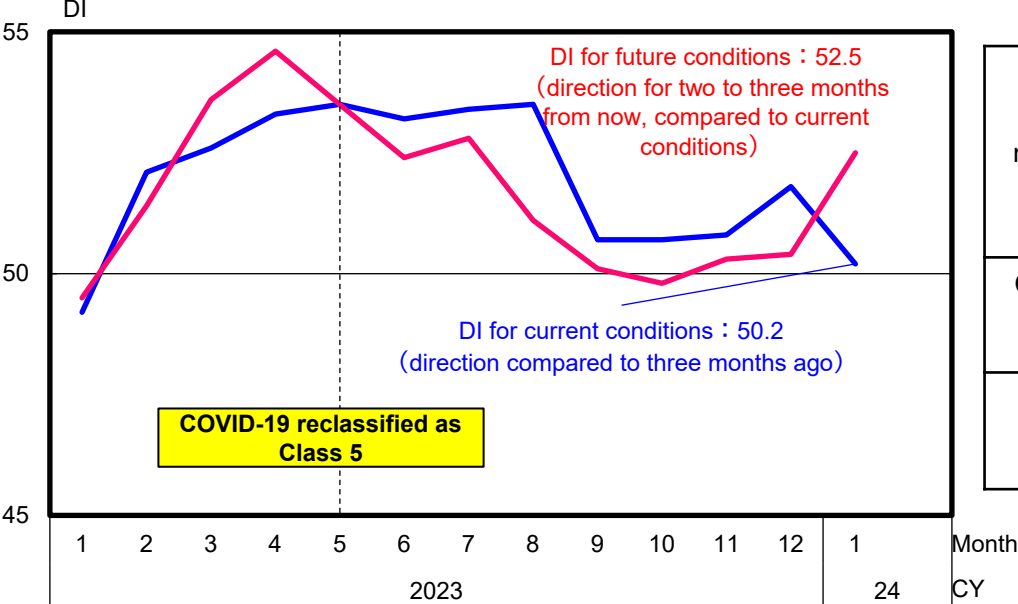
### (6-2) Goods Exports & Imports (by Commodity)



#### (6-4) Service Imports



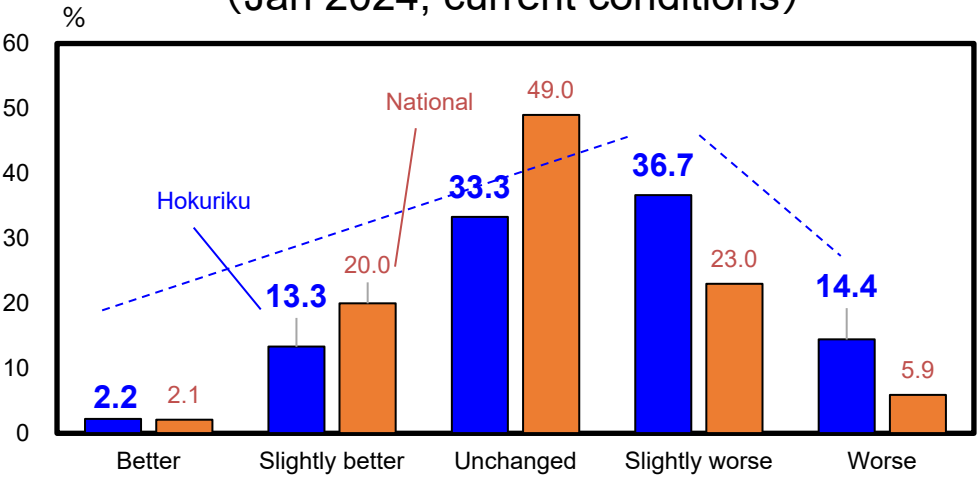
(7-1)Economy Watchers Survey (National)



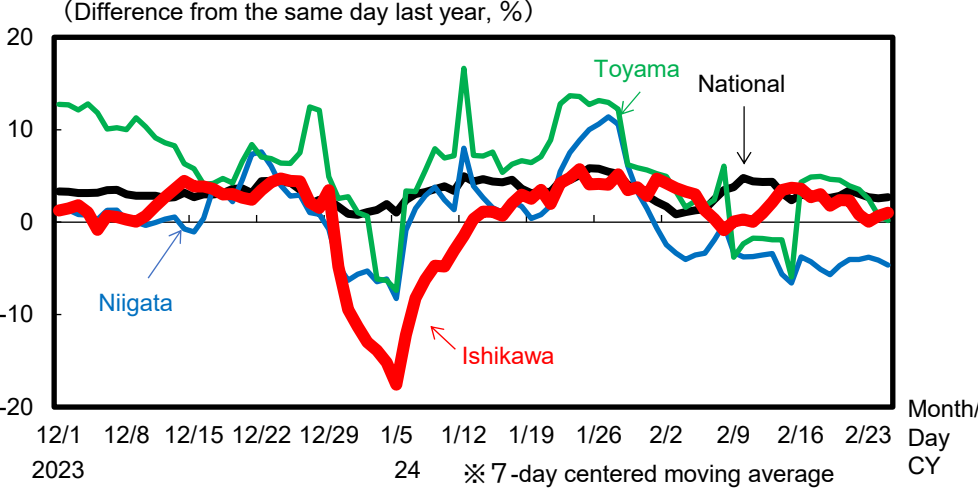
(7-3)Impact from Noto Peninsula Earthquake on production

Company A Construction machinery manufacturer (Ishikawa Prefecture etc)	<ul style="list-style-type: none"><li>Although it was temporarily difficult to procure parts due to damage to suppliers, things returned to normal in February. Due to damage to the wharf at Kanazawa Port where the products used to be shipped, the products are currently shipped from another wharf, which is leading to additional costs.</li></ul>
Company B Precision machinery equipment manufacturer (Tokyo etc)	<ul style="list-style-type: none"><li>Production of endoscopes is expected to be reduced due to damage to suppliers.</li></ul>
Company C Car manufacturer (Mie Prefecture etc)	<ul style="list-style-type: none"><li>Due to damage to suppliers, parts supply has been disrupted in some places, and production may continue to be reduced through February.</li></ul>

(7-2)Distribution of responses in Hokuriku region  
(Jan 2024, current conditions)



(7-4) Movement of people in Hokuriku region (Big data)

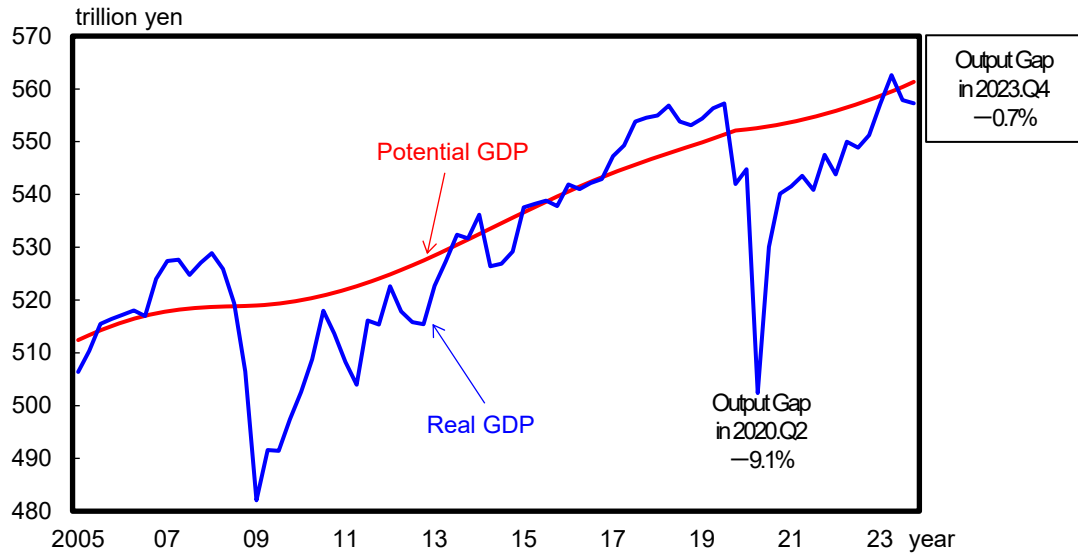


Source : Cabinet Office (figures on the left), seasonally adjusted (upper left). Various press releases and interviews etc (upper right). Cabinet Secretariat (lower right), Mobile Spatial Statistics R. Mobile Spatial Statistics R is provided by NTT Docomo, Inc. and Docomo Insight Marketing, Inc. and is a registered trademark of NTT DoCoMo, Inc.

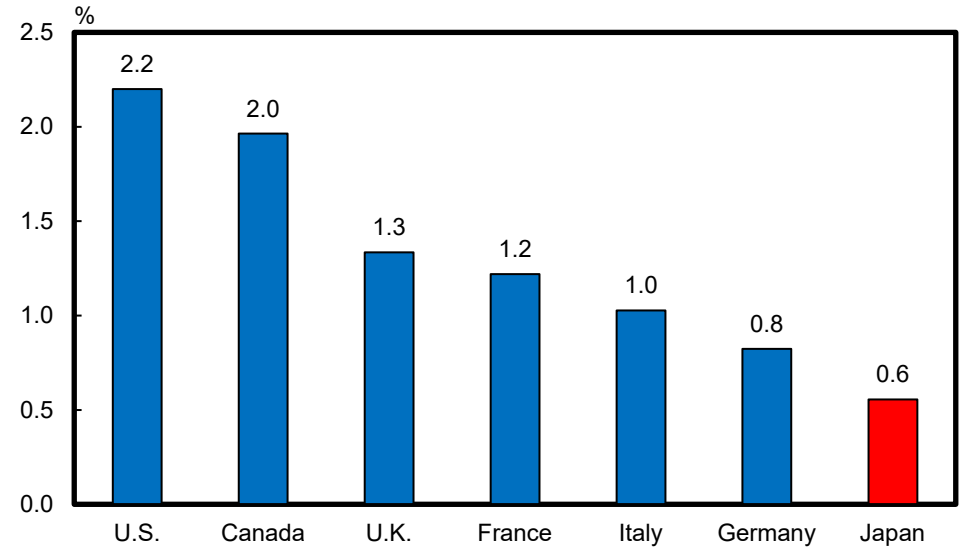
Note : The backward moving average data on the Cabinet Secretariat website is processed into a central moving average. Difference from the same day last year when the 7-day central moving average of the number of people at 3:00 pm in each region (main location) is indexed using the maximum value (per day) in 2019 for that region. Nationwide figures are the total of 60 major locations in 47 prefectures.

# Reference

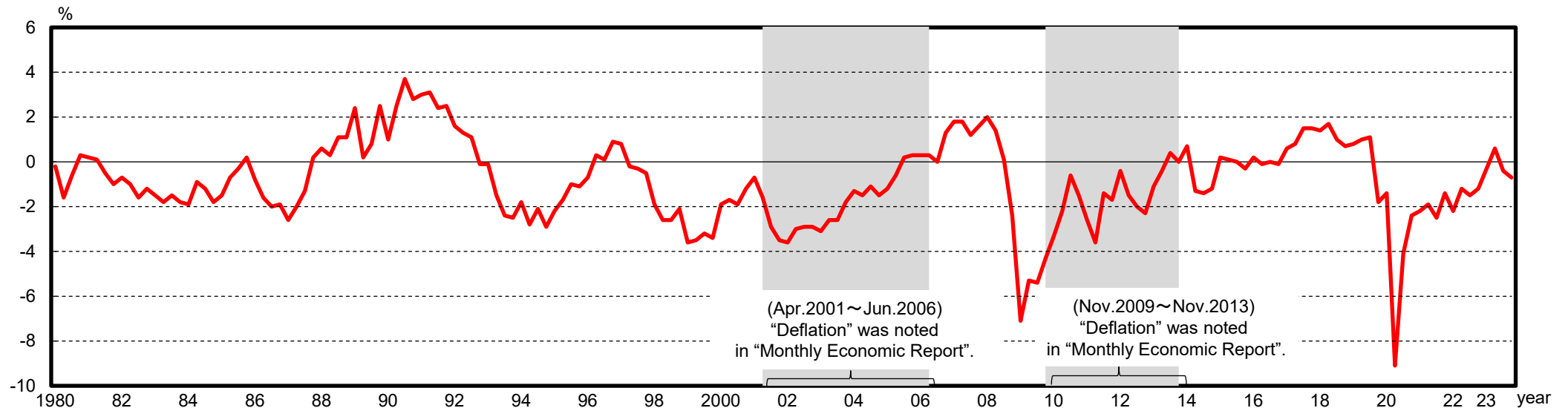
(8-1) Potential GDP and Real GDP



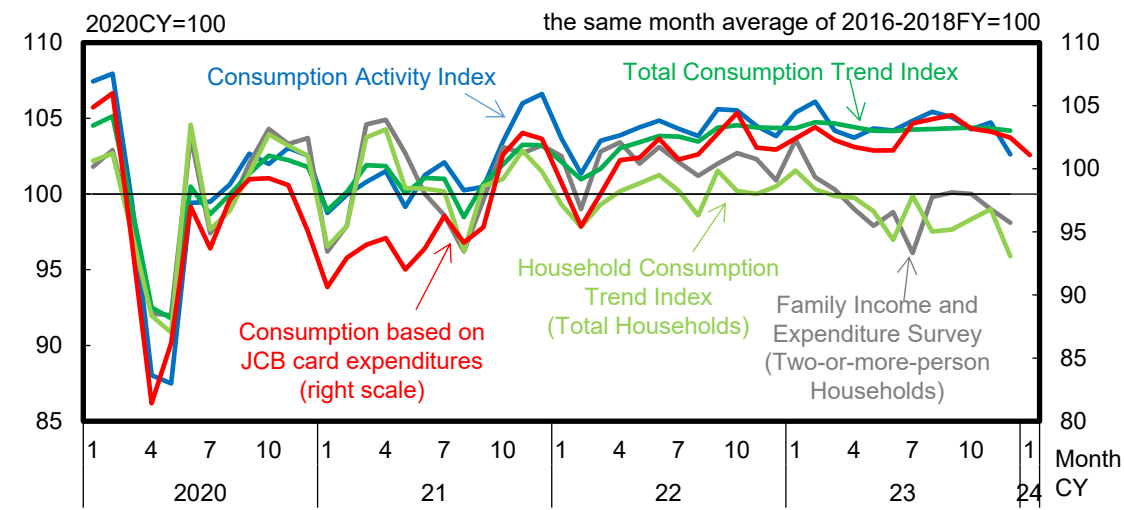
(8-2) Potential GDP growth rate



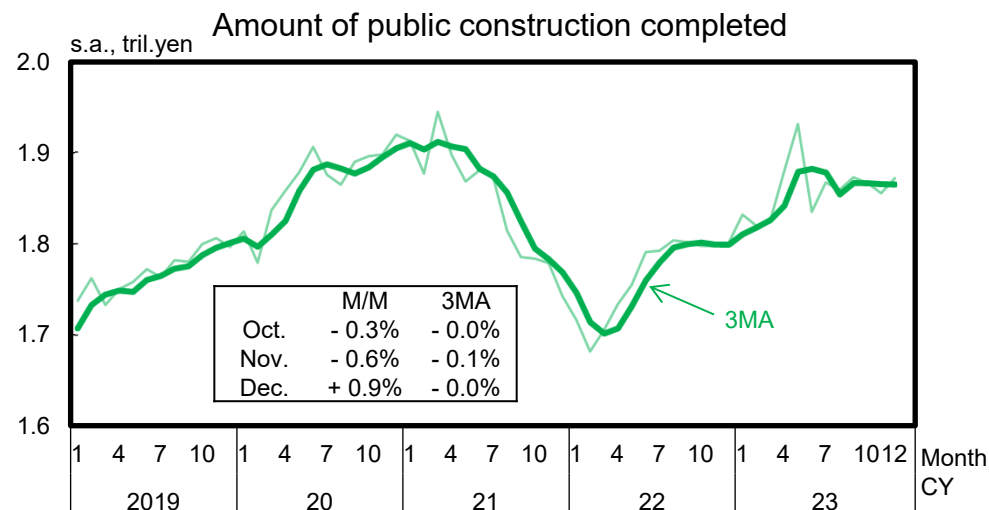
(8-3) Trend in Output Gap



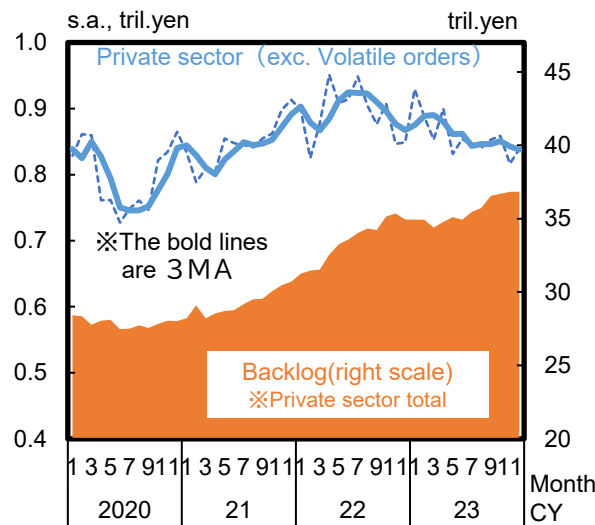
(9-1) Various real consumption indicators



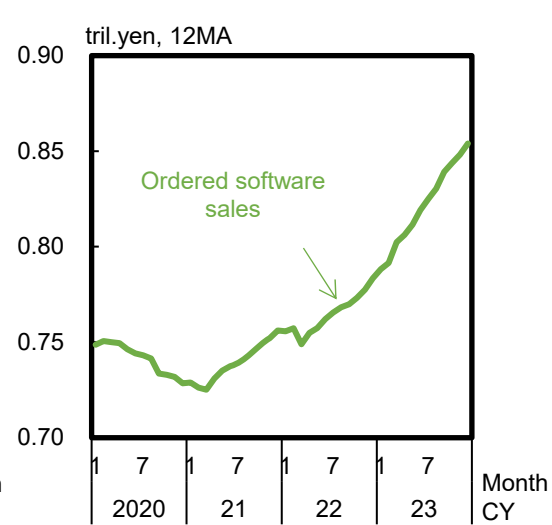
(9-4) Public investment holds firm.



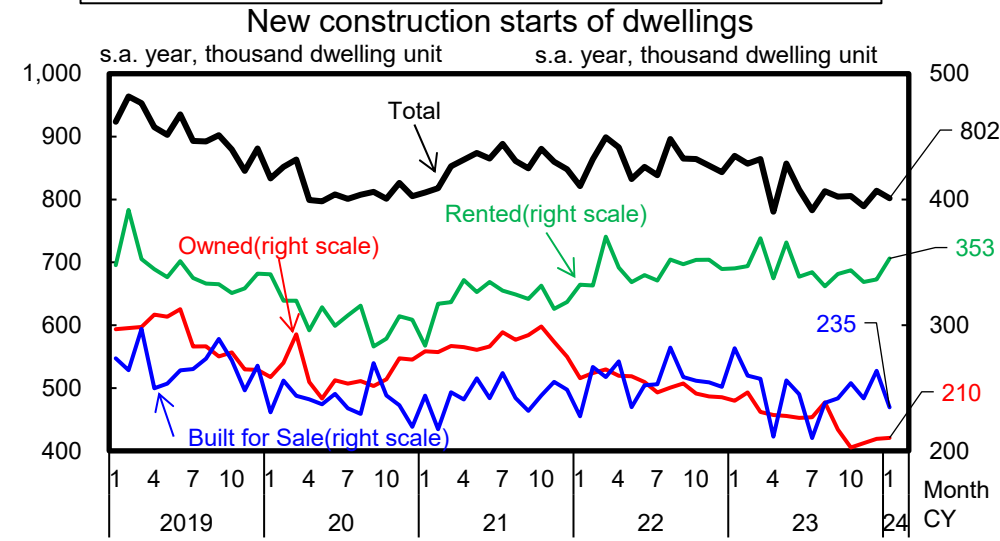
(9-2)Machinery orders  
~almost flat~



(9-3)Software investment  
~increasing~



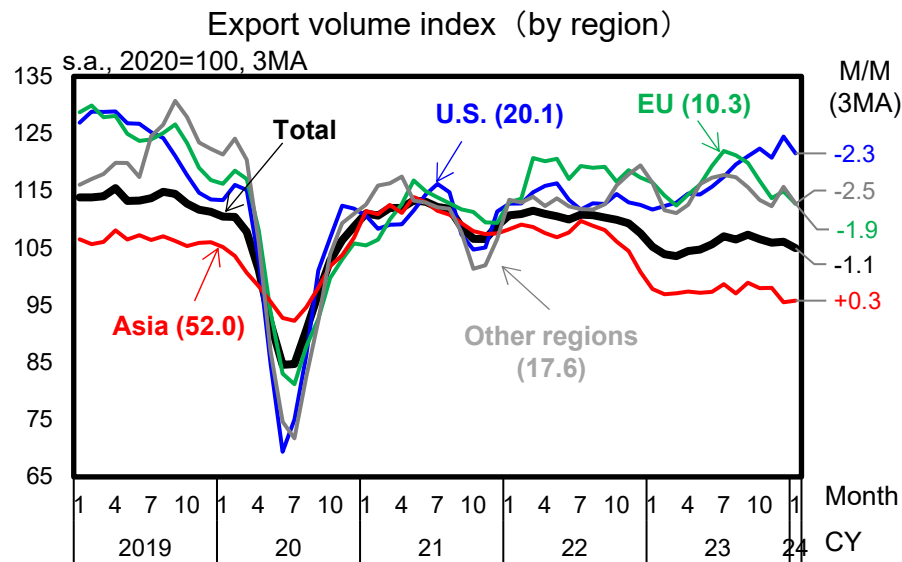
(9-5) Housing construction is in a weak tone.



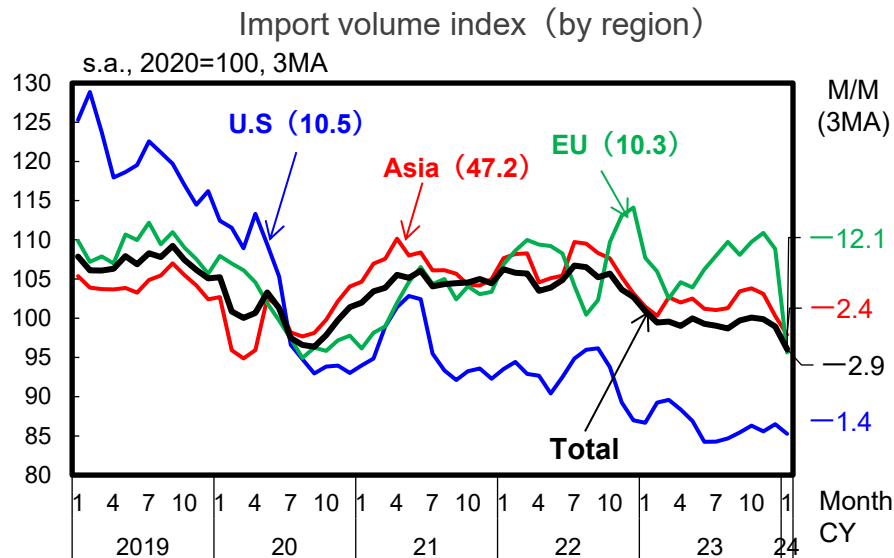


## Reference

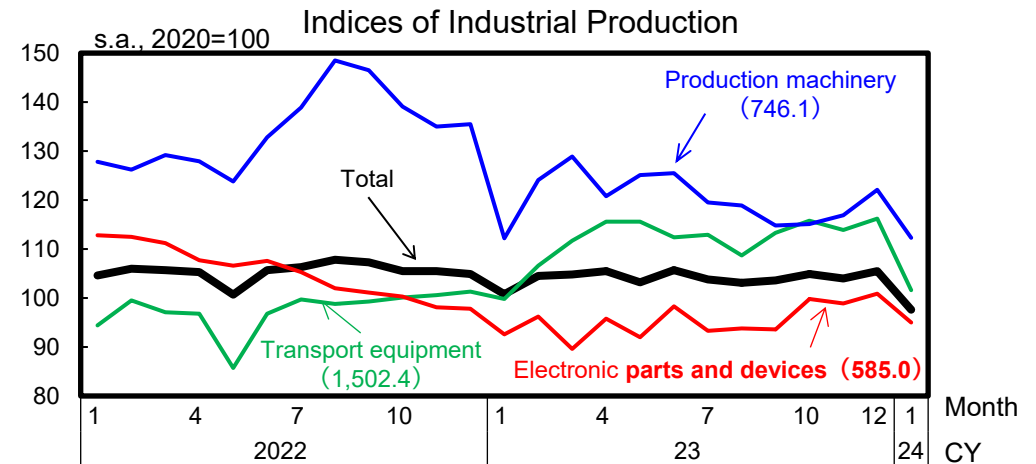
(10-1)Exports appear to be pausing for picking up recently.



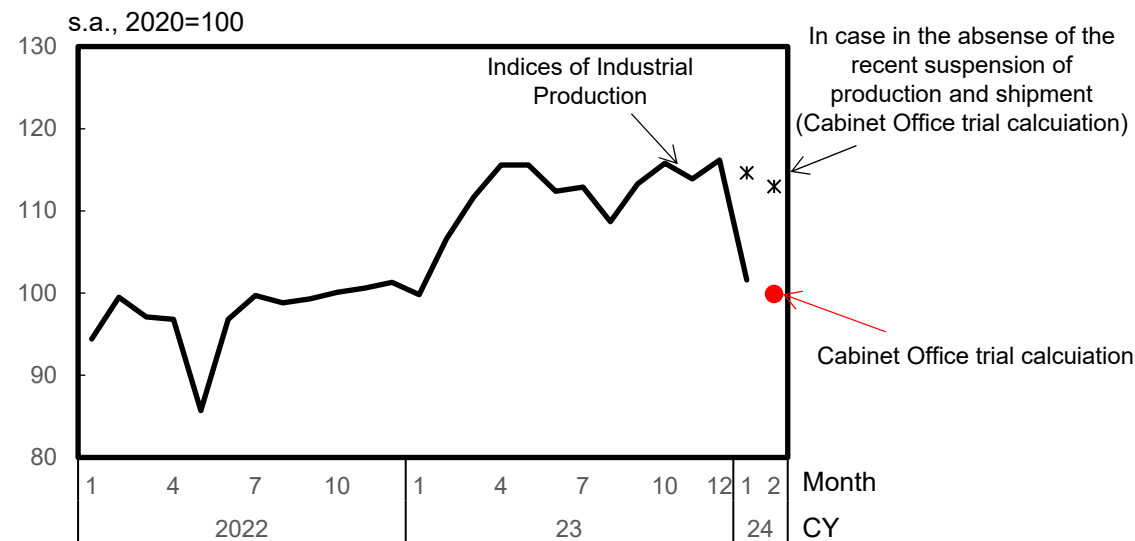
(10-2) Imports are almost flat.



(10-3)Industrial production was on the way to picking up, but manufacturing activities have declined recently due to the effects of suspension of production and shipment by some automotive manufacturers.

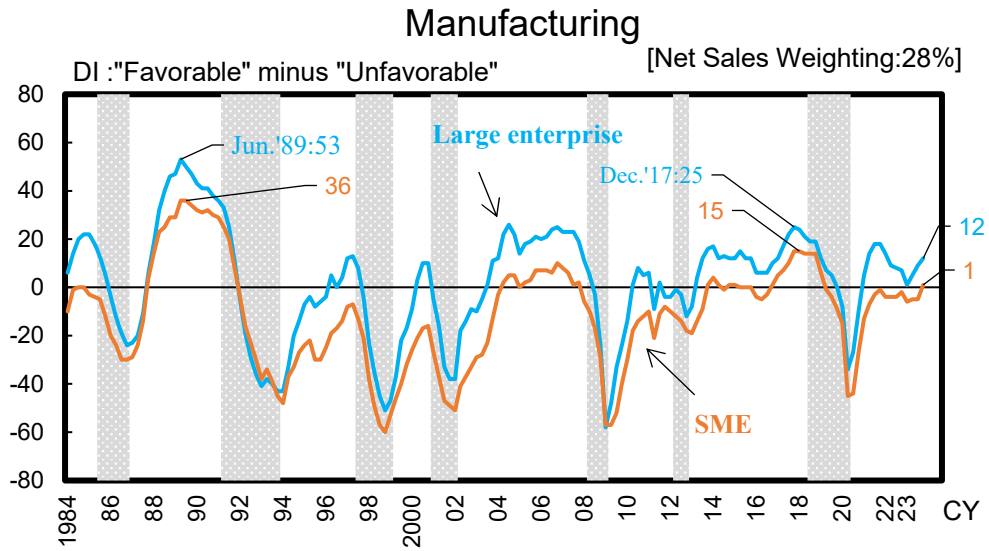
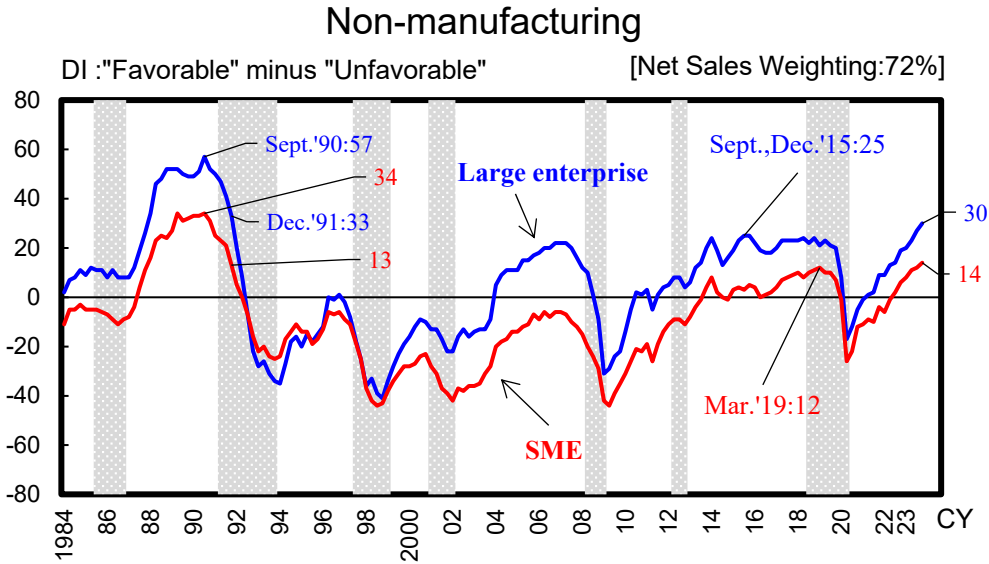


## Indices of Industrial Production of Transport equipment

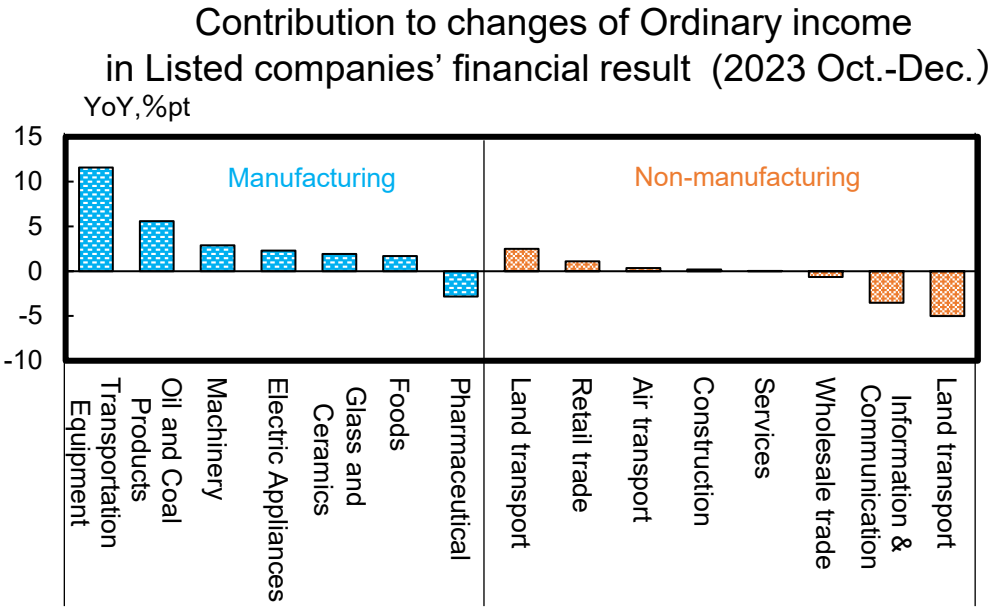
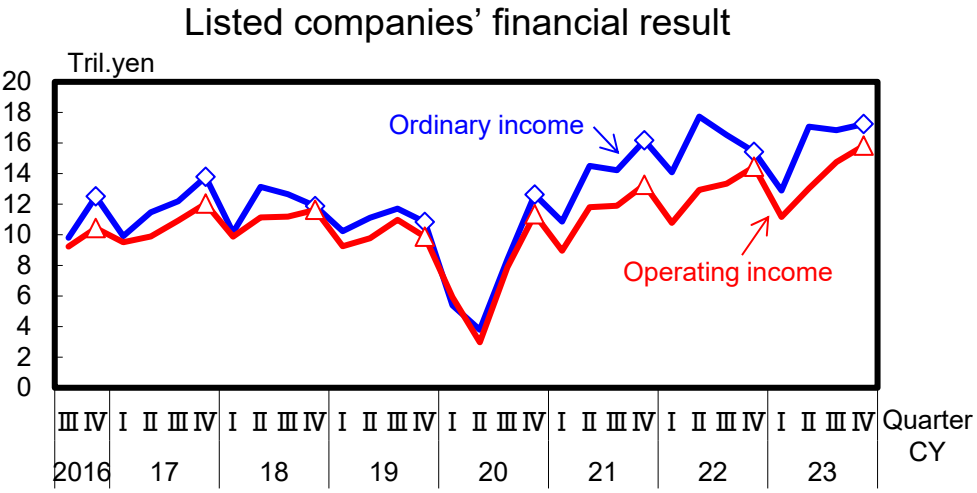


# Reference

(11-1)Firms' judgments on current business conditions are improving.

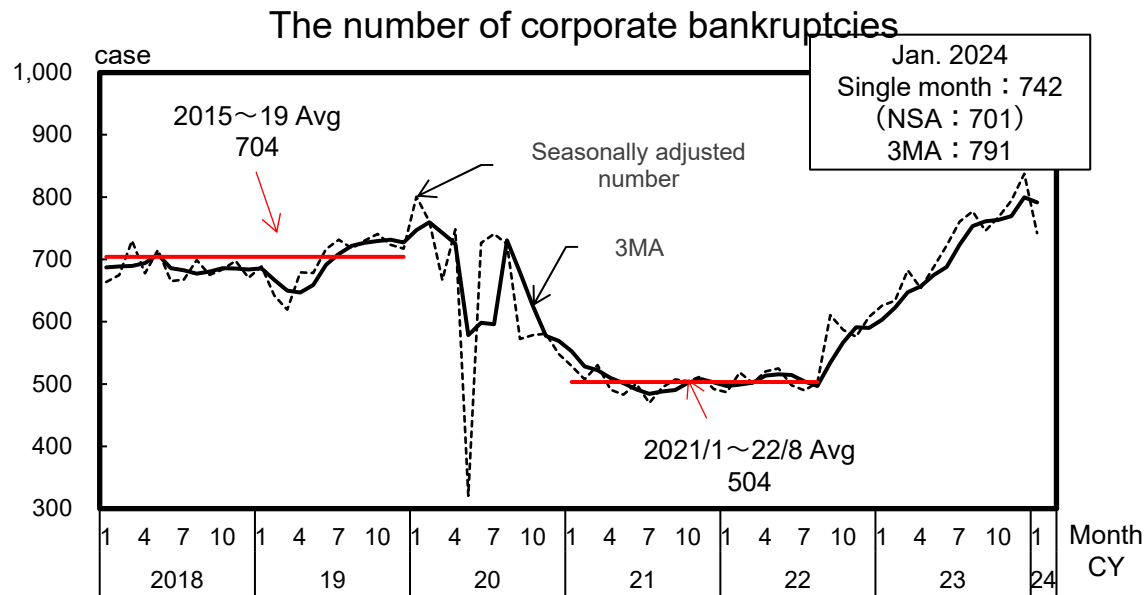


(11-2)Corporate profits are improving as a whole.

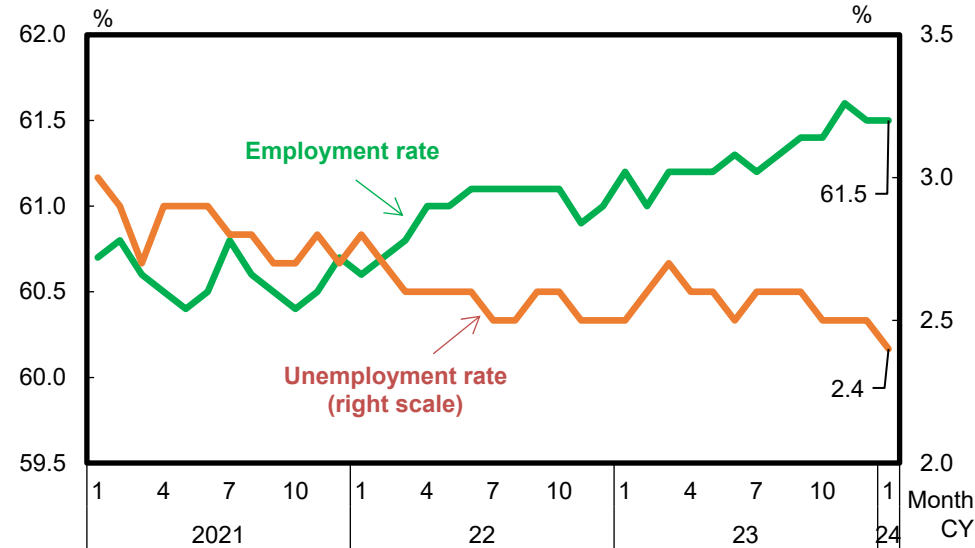




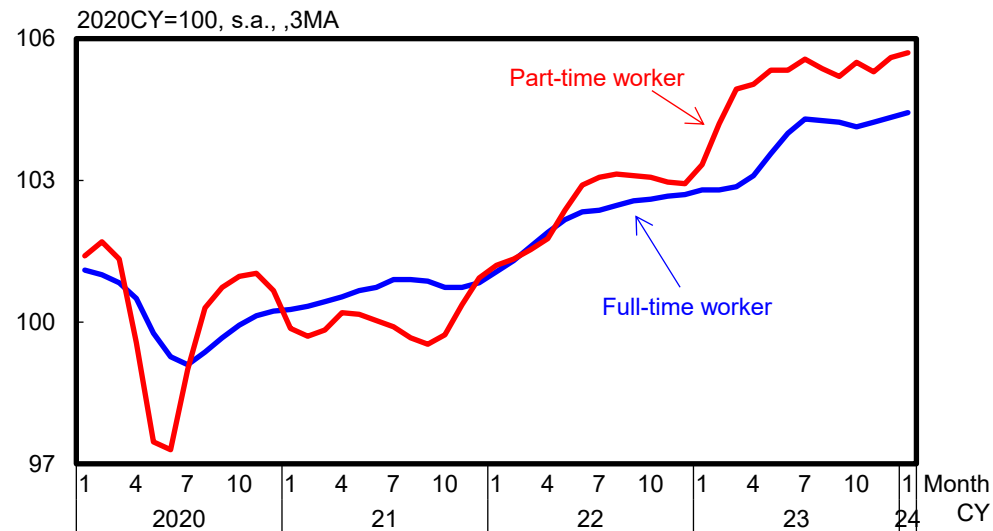
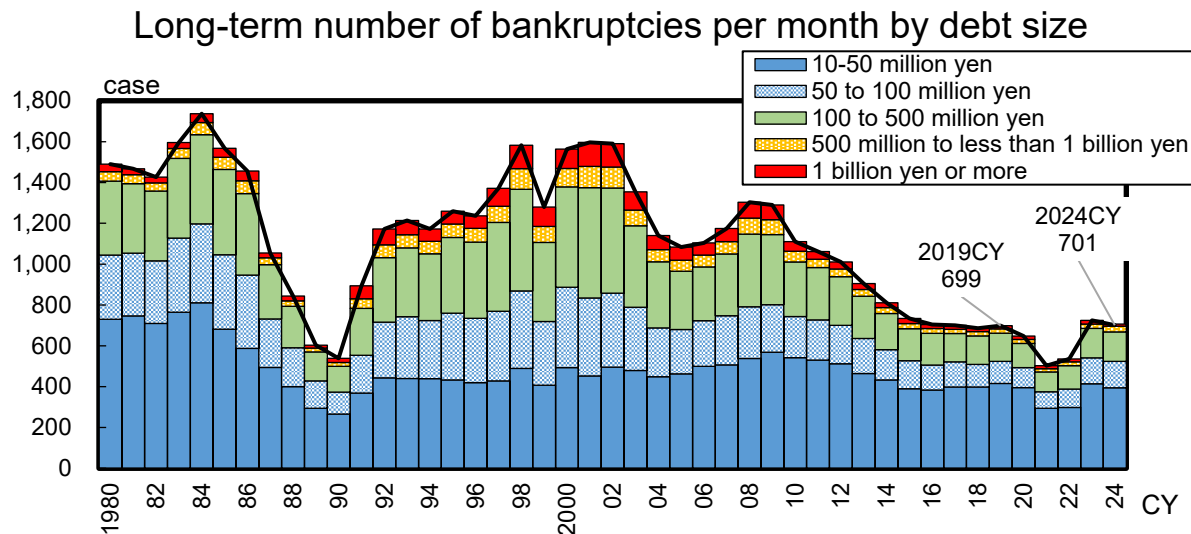
(12-1) The number of corporate bankruptcies appears to be increasing.



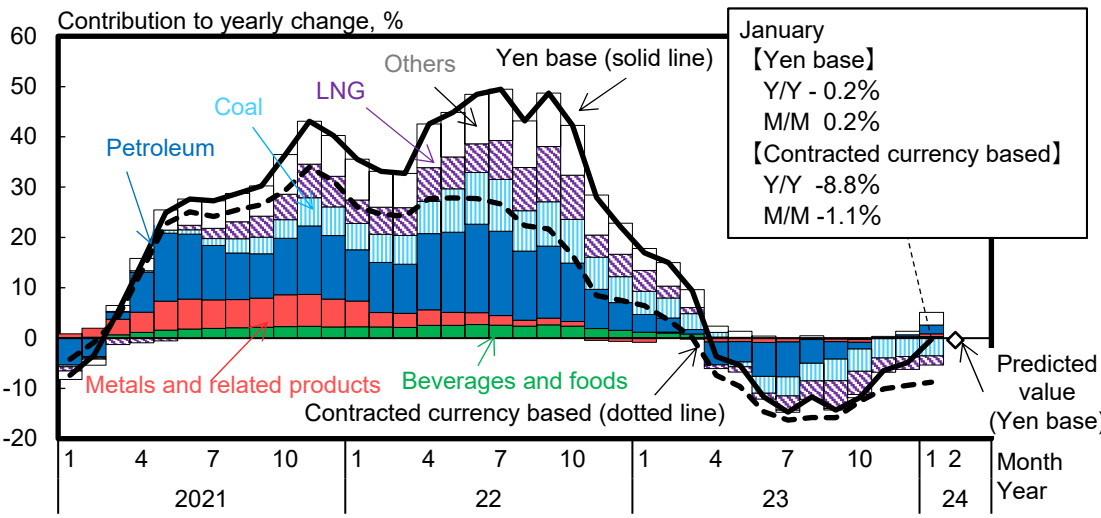
(12-2) The employment situation has shown movements of improvement



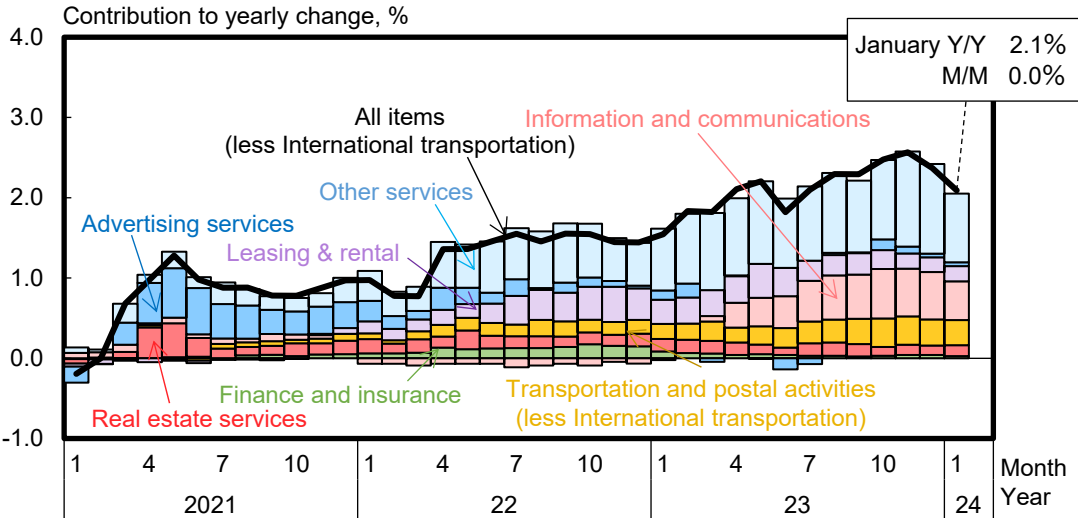
(12-3) Contractual cash earnings are increasing.



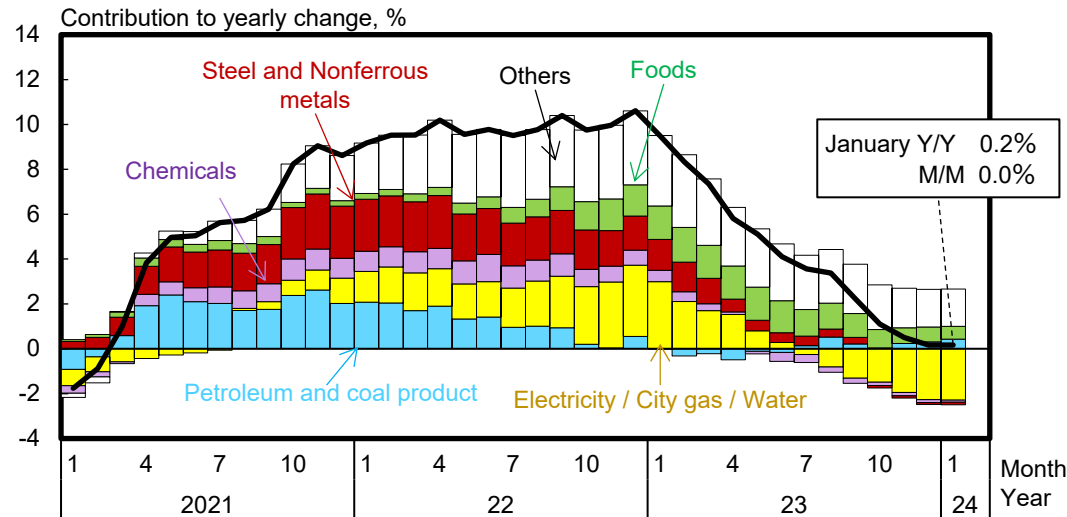
(13-1)The import price index



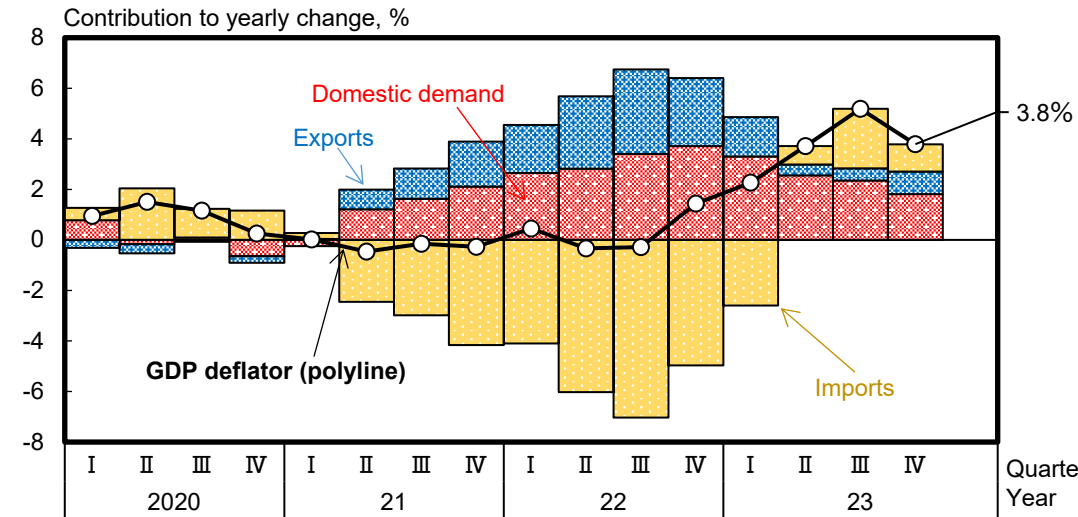
(13-3) Services producer price index



(13-2)Corporate Good Price Index

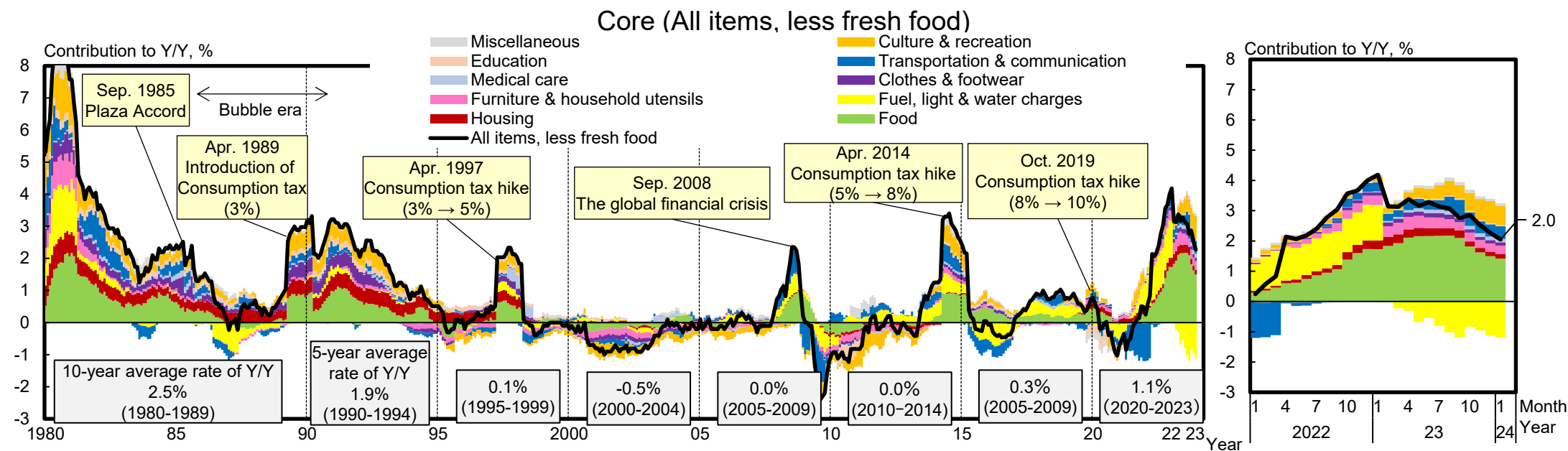


(13-4)GDP deflator

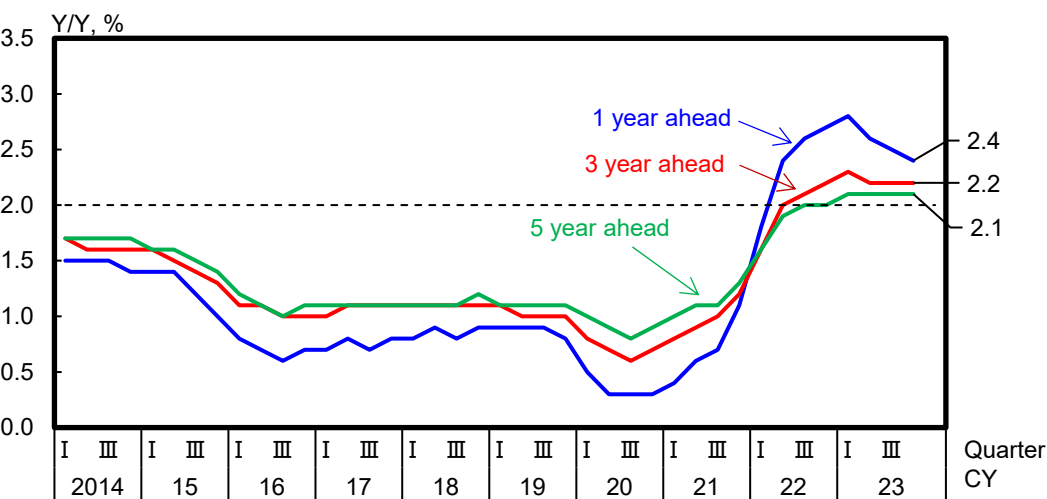


Source : Bank of Japan; Bloomberg; Cabinet Office.  
Note : (figure upper left) Projected values are estimates by the Cabinet Office.  
(figure upper right) Services producer price index Based on excluding international transportation. Figures exclude consumption tax.  
Month-over-month figures are calculated from seasonally adjusted figures by the Cabinet Office.

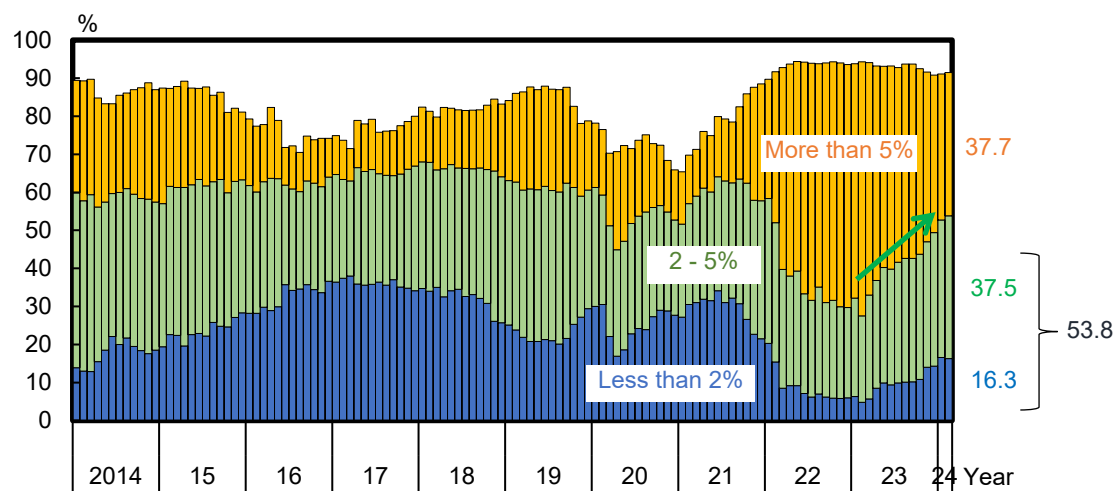
(14-1)Long-Term Transition of Consumer Price Index



(14-2)The Enterprises' Expectation of Consumer Prices



(14-3)The Consumers' Expectation of Consumer Prices a Year Ahead



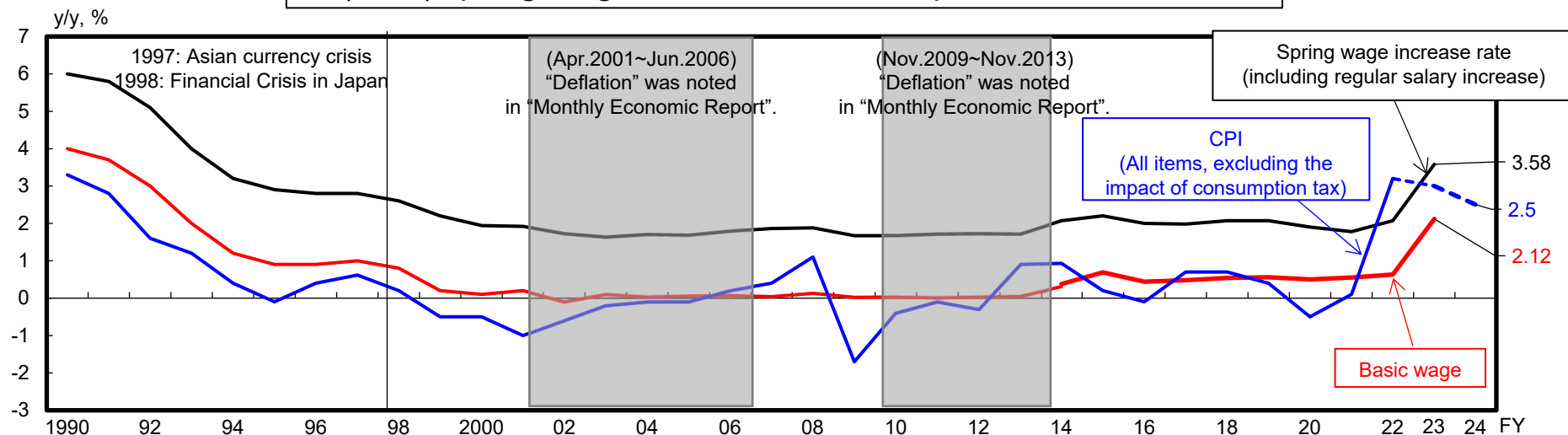
Source: Ministry of Internal Affairs and Communications, Bank of Japan, Cabinet Office.

Note : (figure upper) The average rate of increase excludes the effect of the consumption tax. Since the figures excluding the effect of the consumption tax are not published for the period from April 1989 to March 1990, the rate of increase was calculated excluding the same period.

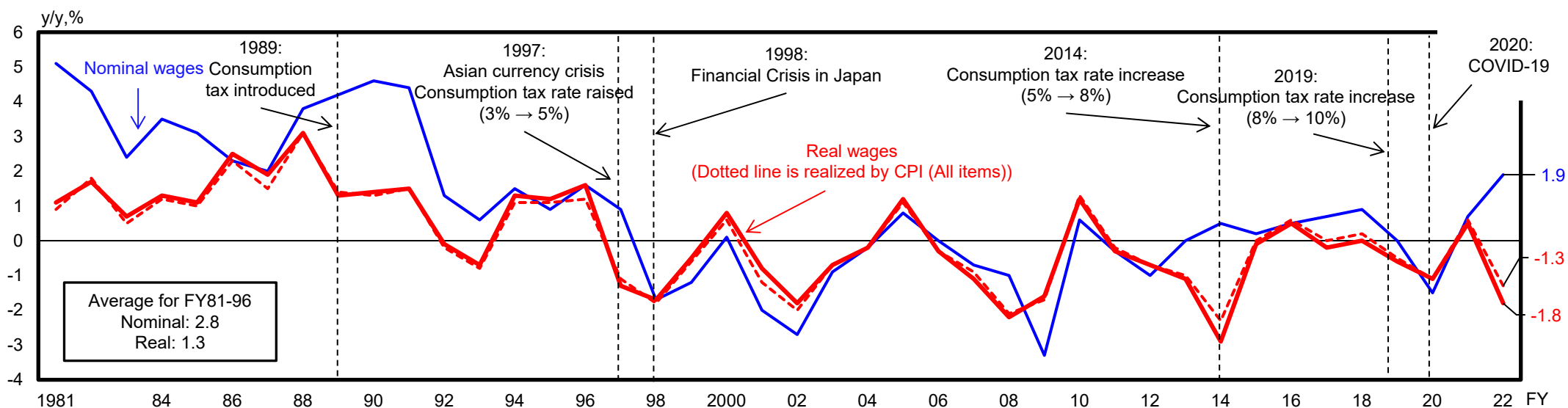
(figure below left) Values for all industries of all sizes. The results of firms' responses to the year-on-year forecast of the CPI in year t are tabulated.

(figure below right) This is a tabulation of households' responses to the question, "What do you think the prices of the items you purchase most often will be in one year's time?"

(15-1) Spring wage increase rate and price increase rate



(15-2) Long-term per capita wage growth rate



Source: Japanese Trade Union Confederation; Central Labor Relations Commission, Japan; Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare

Notes: The bottom figure shows total cash wages for total employment type. The real value is the nominal value realized by the CPI (total excluding imputed rent for owner-occupied houses). The figures for FY1981-1990 are for establishments with 30 or more workers, and those for FY1991 and thereafter are for establishments with 5 or more workers. The average is calculated as the geometric mean of growth rates.