



# Annual Report on the Japanese Economy and Public Finance 2019

(Report by Minister of State for Economic and Fiscal Policy)

## — Japanese Economy in the New Reiwa Period — Summary

July 2019

Cabinet Office, Government of Japan

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This material has been tentatively prepared to explain the Annual Report on the Japanese Economy and Public Finance. For quotations and other purposes, please refer to the text of the Annual Report on the Japanese Economy and Public Finance.

# Chapter 1: Current State of Japanese Economy and Challenges to Address

- The Japanese economy continues to be on a moderate recovery path, centering on domestic demand. However, it is necessary to bear in mind that some export and production activities are weak dented by China's economic slowdown.
- Sluggish exports are due mainly to decreases in exports to China since 2018, as global demand for IT-related goods has lost steam and China's economy has slowed. Some production has slumped on weak exports. Worldwide semiconductor shipments are expected to decline in 2019 and the adjustments of demand for IT-related goods are likely to continue for some time to come.
- China's economic slowdown has an adverse effect on manufacturing of production machinery, electronic parts and devices, etc. whose overseas shipment ratios are high.

Chart 1 Real GDP Growth Rate

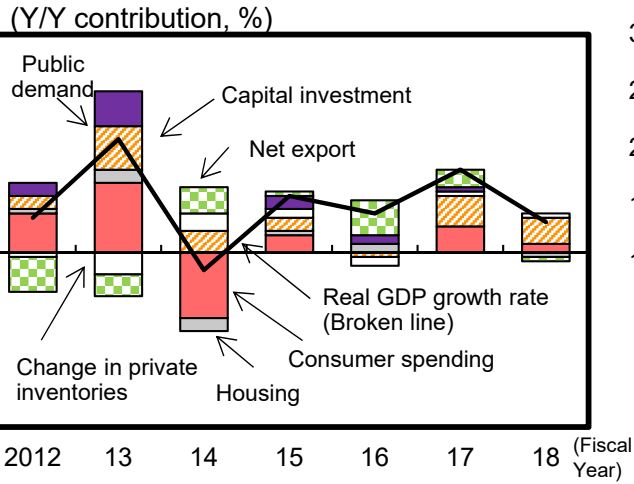


Chart 3 Japan's Exports to China

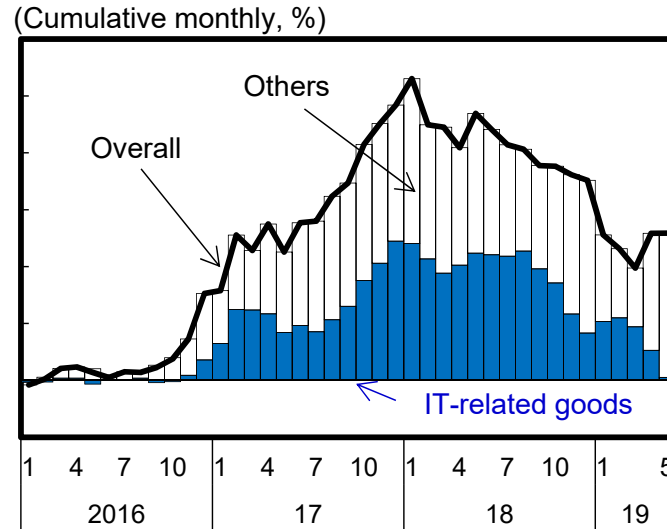


Chart 5 Overseas Shipment Ratios by Industry

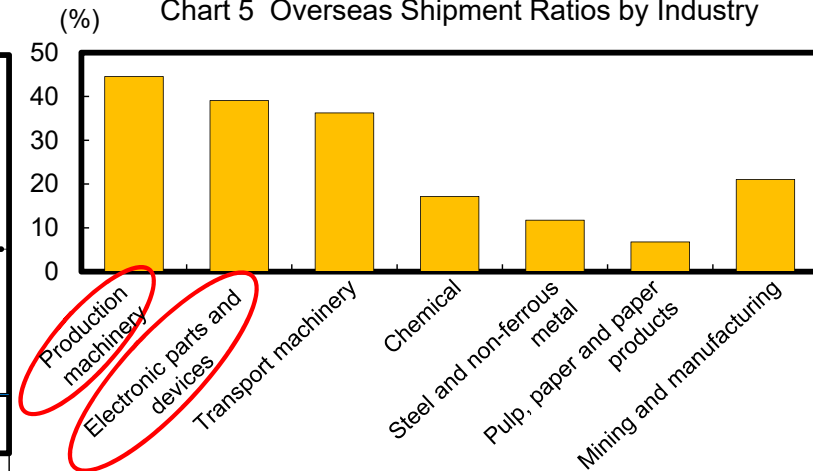


Chart 2 Japan's Exports and Production

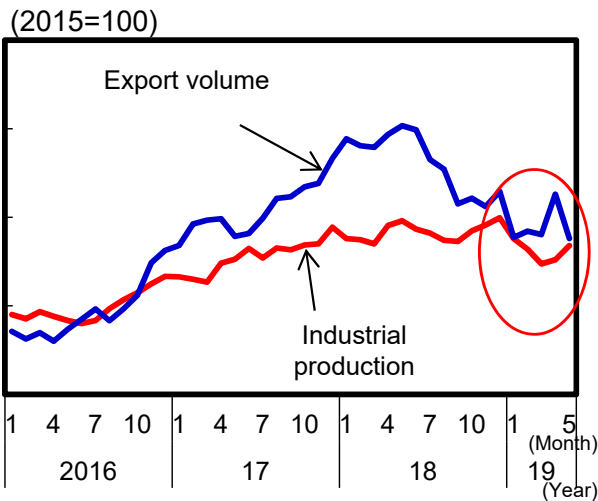


Chart 4 Outlook for Worldwide Semiconductor Shipments

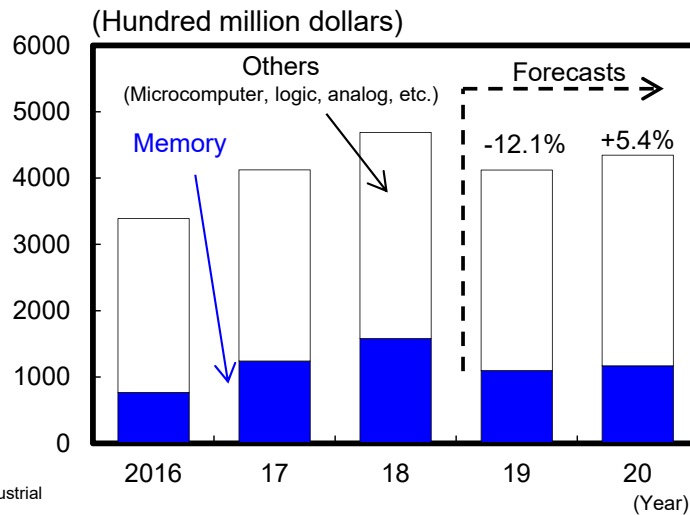
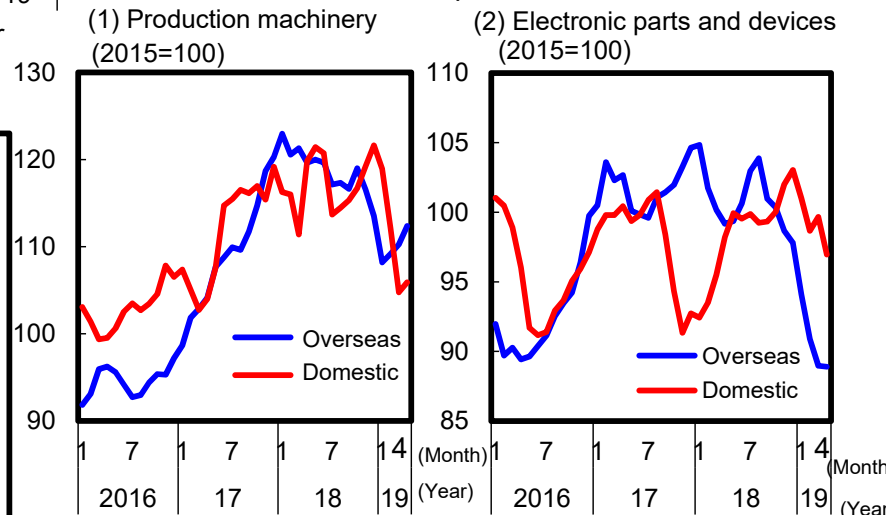


Chart 6 Major Industries' Domestic and Overseas Shipments



(Notes)  
 Chart 1: Compiled based on System of National Accounts, Cabinet Office.  
 Charts 2 and 3: Compiled based on Foreign Trade Statistics, MoF and Indices of Industrial Production, METI. Seasonally adjusted by Cabinet Office. 3-month moving average.  
 Chart 4: Compiled based on Semiconductor Market Forecast, WSTS.  
 Chart 5: Compiled based on Breakdown of Mining and Manufacturing Shipments, 2015, METI.  
 Chart 6: Compiled based on Breakdown of Mining and Manufacturing Shipments, METI. Seasonally adjusted. 3-month moving average.

- The gradual increase in capital investment is attributable partly to high corporate profits and increasing sense of labor shortage.
- However, as a decline in export reduces capital investment mainly in manufacturing industries, we need to keep an eye on overseas economic trends.
- While the production-age population dwindles, the number of workers has increased thanks to the progress of women's and elderly people's participation in the workplace, then real total wage income of employees continues to grow. So consumer spending remains on a recovery track. However, with young people spending less, the pace of consumer spending growth is slower than that the overall employment and income environment improves.

Chart 7 Trend in Capital Investment

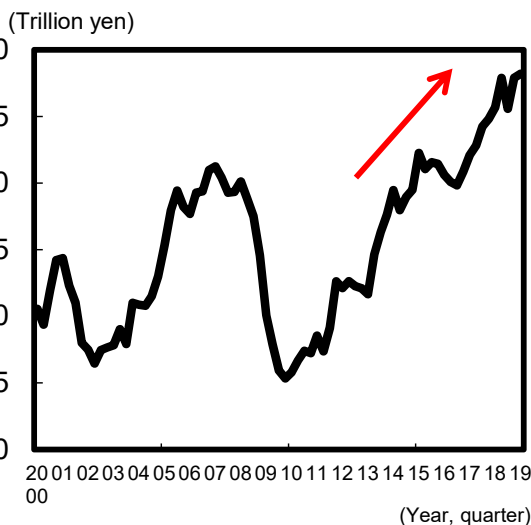


Chart 9 Sense of Labor Shortage and Trend in Capital Investment

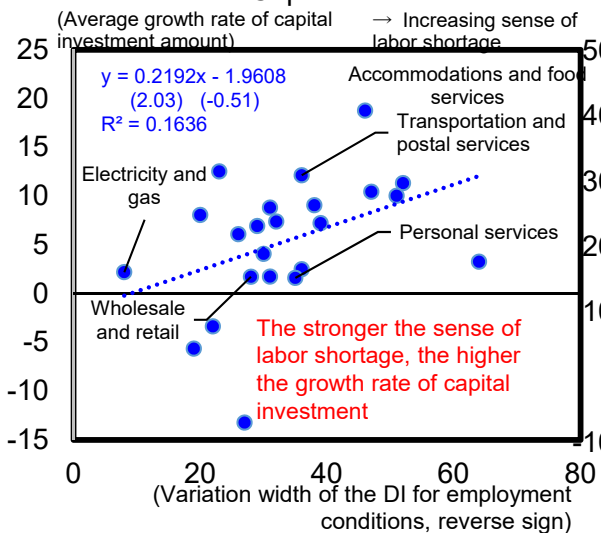


Chart 11 Total Number of Workers

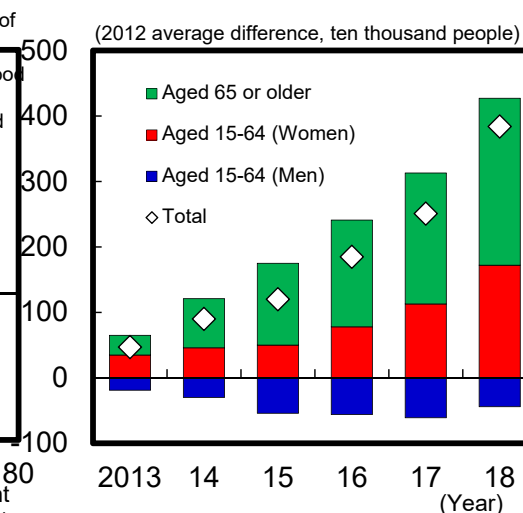


Chart 13 Real Private-sector Final Consumption Expenditure

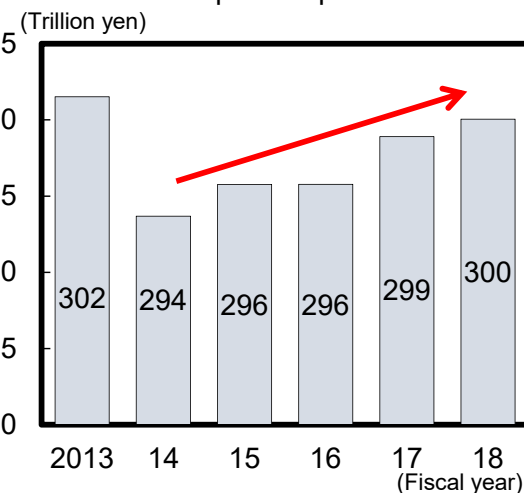


Chart 8 Trend in Corporate Earnings

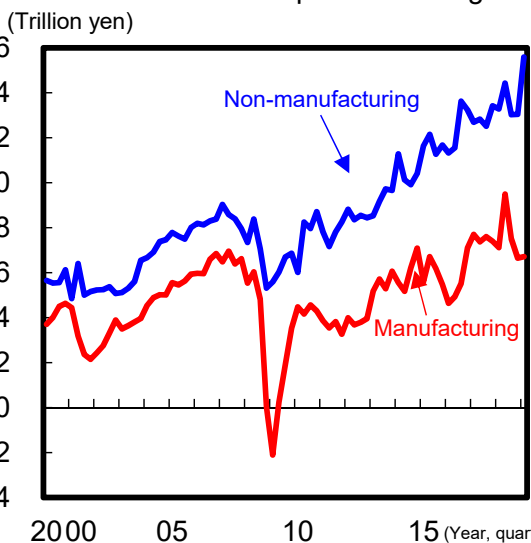


Chart 10 Effect of Export on Capital Investment



Chart 12 Real Total Wage Income of Employees

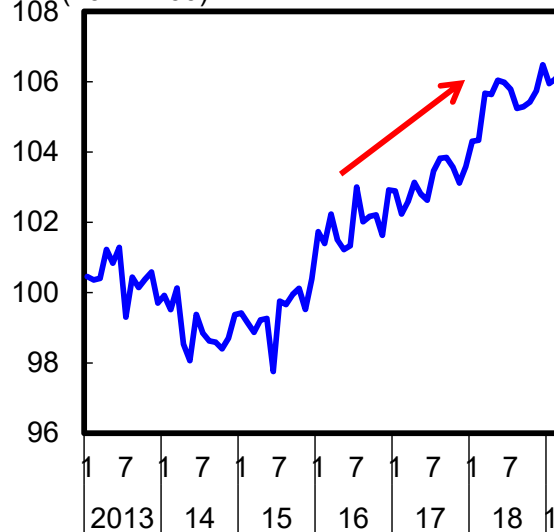
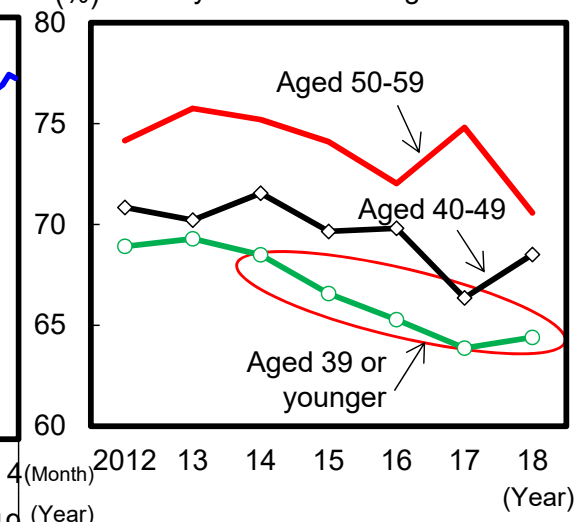


Chart 14 Average Propensity to Consume by Householder Age



(Notes) Charts 7 and 8: Compiled based on Financial Statements Statistics of Corporations by Industry (Quarterly), MoF and Jan.-Mar. 2019 GDP Estimates (the 1st preliminary), Cabinet Office.

Chart 9: Compiled based on Short-term Economic Survey of Enterprises in Japan, BoJ.

Chart 10: Compiled based on Corporate Statistics, MoF, and Real Export Price Index and Short-term Economic Survey of Enterprises in Japan, BoJ. The signs \*\*\* and \*\* denote the 1% and 5% levels, respectively and indicate that the result has statistical significance.

(Notes)

Chart 11: Compiled based on Labor Force Survey (Detailed Tabulation), MIC.

Charts 12 and 13: Compiled based on Labor Force Survey, MIC, System of National Accounts, Cabinet Office and Monthly Labour Survey, MHLW.  
Chart 14: Compiled based on Family Income and Expenditure Survey, MIC. Figures for workers' households with two or more members.

- In order to increase consumption on a sustainable basis, it is necessary to stabilize the employment and income environment not only at present but also for the future. Furthermore, reducing the burden of education expenditure and shortening work hours are considered effective measures for increasing young people's spending.
- People, chiefly young people, are highly motivated to buy full self-driving cars, while mainly working women, to buy housekeeping robots.
- Further enhancement of Society 5.0 initiatives are expected to stimulate consumer spending.
- Cashless payment increases the convenience of consumers and helps business operators to increase productivity. Nearly half of consumers frequently use cashless payment systems. It is important to make the advantages of cashless payments well known to consumers who do not use cashless payment systems at present.

Chart 15 Environmental Changes Required to Increase Consumption (Ratio of Respondents)

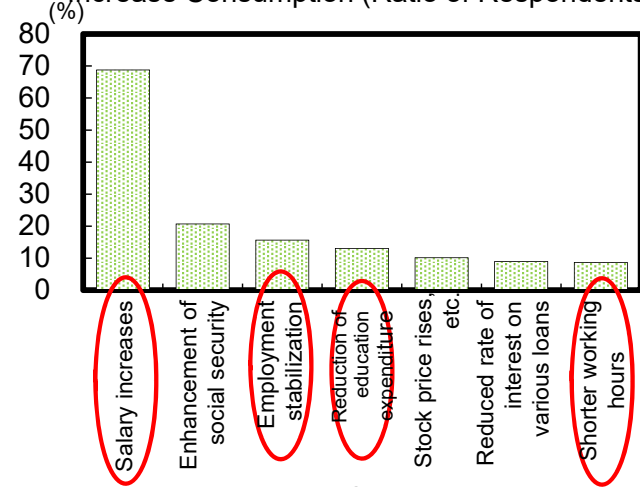


Chart 17 Intention to Buy Full Self-driving Cars and Housekeeping Robots (%)

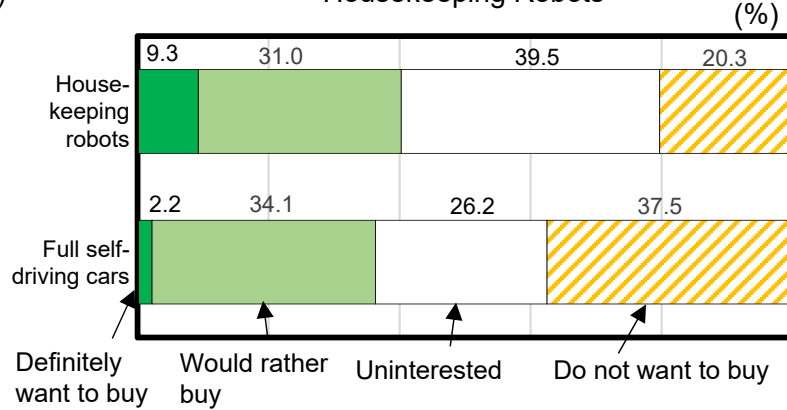


Chart 19 Trend in Cashless Payments (%)

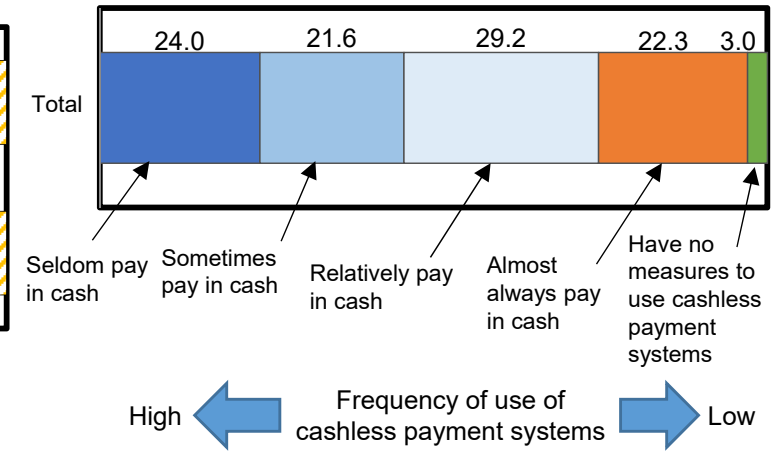
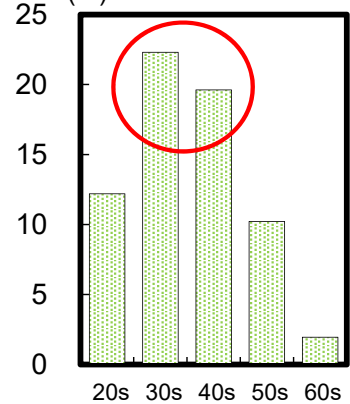


Chart 16

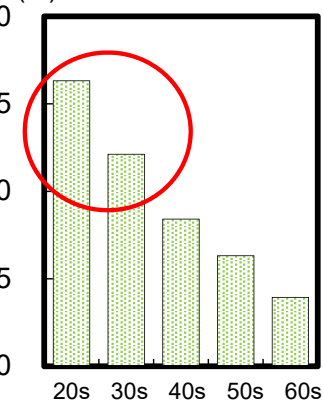
Chart 18

Chart 20 Ratio of Consumers Who Frequently Use Cashless Payment Systems (%)

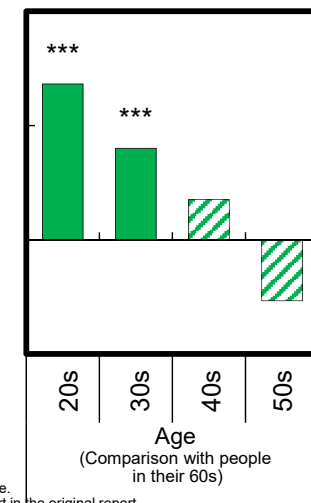
(1) Ratio of respondents who say that in order to increase consumption, it is necessary to reduce education expenditure (%)



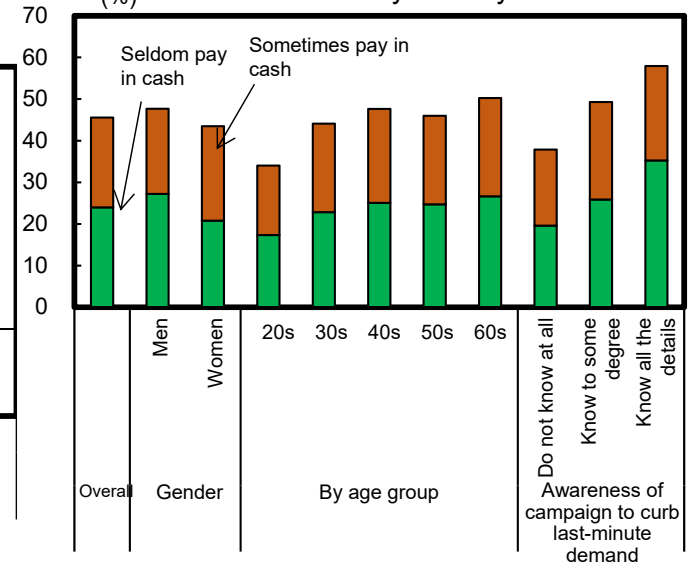
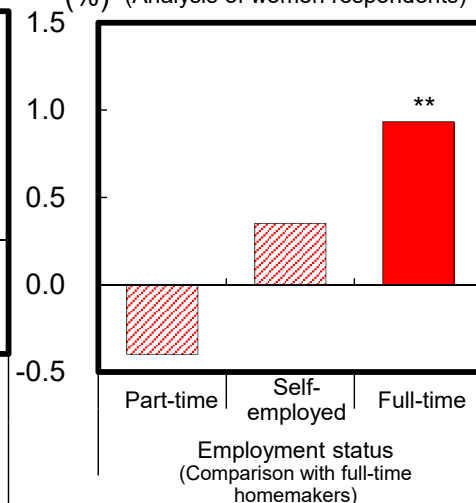
(2) Ratio of respondents who say that in order to increase consumption, it is necessary to shorten working hours (%)



(1) Motivation to buy full self-driving cars (%)

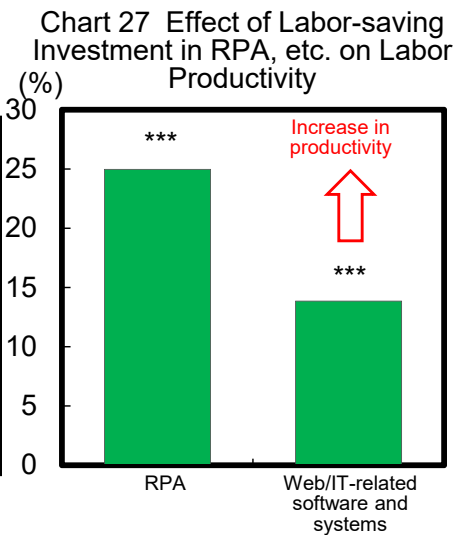
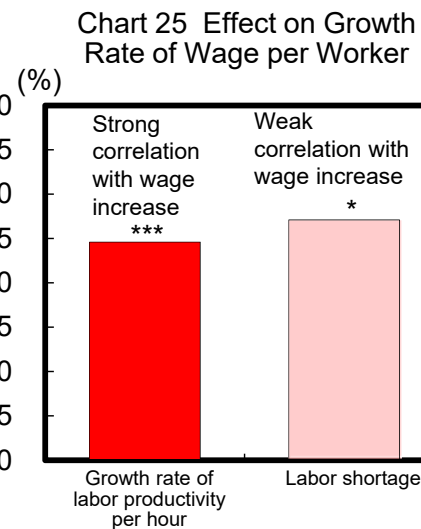
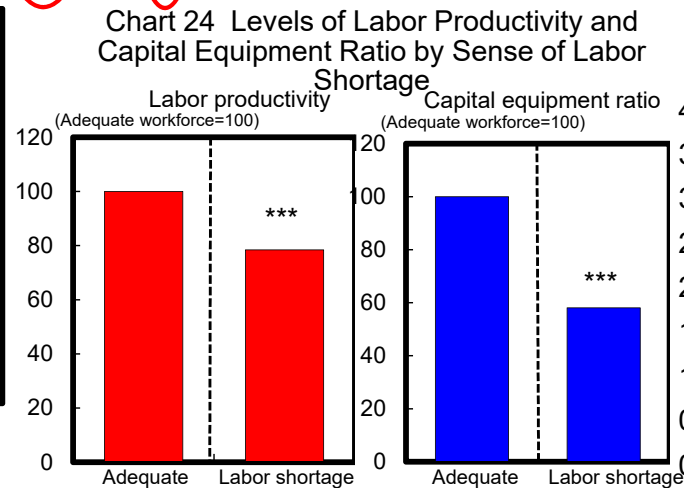
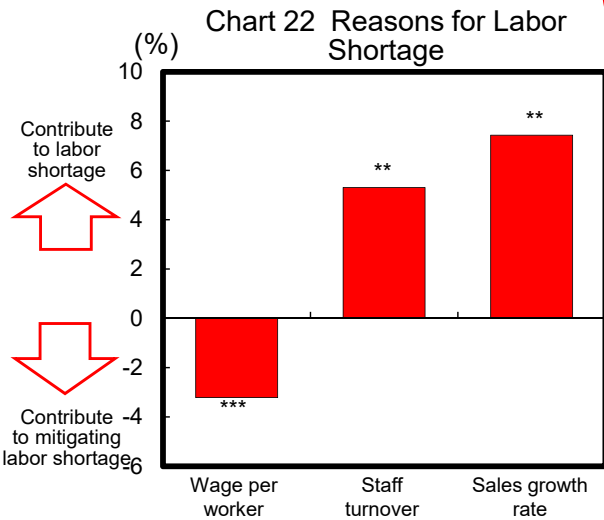
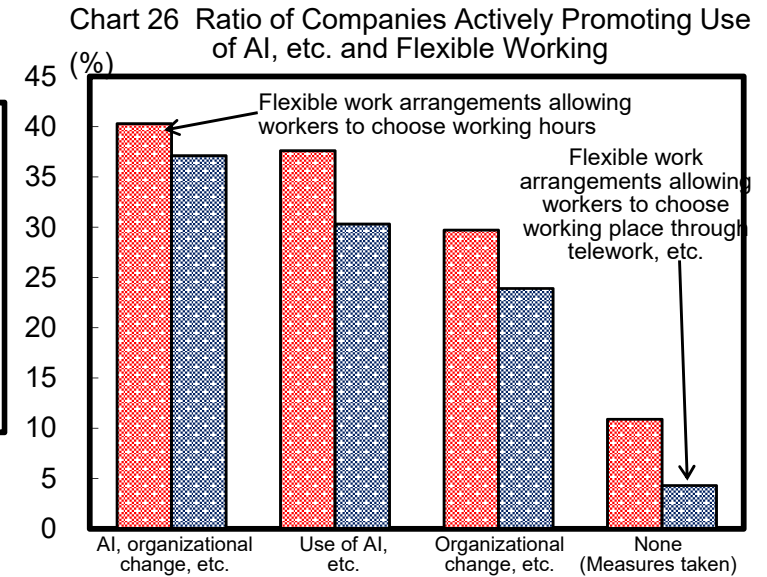
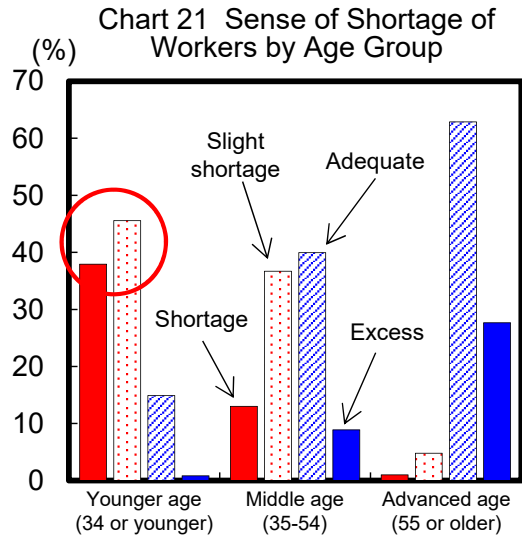


(2) Motivation to buy housekeeping robots (%) (Analysis of women respondents)



(Notes)  
 Charts 15-20: Compiled based on Questionnaire Survey concerning Consumers' Behavioral Change, Cabinet Office.  
 Chart 17: The response classification is partially different from that of the actual survey. For details, refer to the chart in the original report.  
 Chart 18: The signs \*\*\* and \*\* denote the 1% and 5% levels, respectively and indicate that the result has statistical significance.

- A survey on companies about a shortage of workers by age group reveals that they find it more difficult to hire young workers. Companies whose sales are growing and those with high staff turnover as well as those paying low wages have a higher sense of workforce shortage.
- The major solution to labor shortage is to secure employees by increasing employment and improving the working conditions. Only about 20% of companies with a labor shortage make labor-saving investments. Greater sense of labor shortage comes with lower labor productivity and a lower capital equipment ratio. It is crucial to raise labor productivity, thereby mitigating the workforce shortages and achieving wage growth.
- Companies which are active in introducing AI, etc. allow their employees to choose more flexible work styles. It is important to enhance Society 5.0 initiatives including RPA that has a significant impact on labor productivity and actively promote labor-saving investments and flexible working.



(Notes)  
 Charts 21-25 and 27: Compiled based on Survey on Corporate Awareness of Diversified Workforce, Cabinet Office.  
 Chart 26: Compiled based on Survey on Corporate Awareness of Work Style, Education, Training, etc., Cabinet Office.  
 Charts 22, 24, 25 and 27: The signs \*\*\*, \*\* and \* denote the 1%, 5% and 10% levels, respectively and indicate that the result has statistical significance.

- Primary fiscal balance as a ratio to GDP shows that fiscal deficits shrank thanks largely to an increase in tax revenues.
- Impacts by the consumption tax hike on the economy will be limited to about 2 trillion yen due mainly to measures to make preschool education free. The government will also implement new economic stimulus measures worth 2.3 trillion yen to respond to the consumption tax hike.
- In developed countries, prices are less likely to go up despite labor market improvement and monetary easing measures are maintained owing to weaker performance in some economies.

Chart 28 Primary Fiscal Balance of National and Local Governments as Ratio to GDP

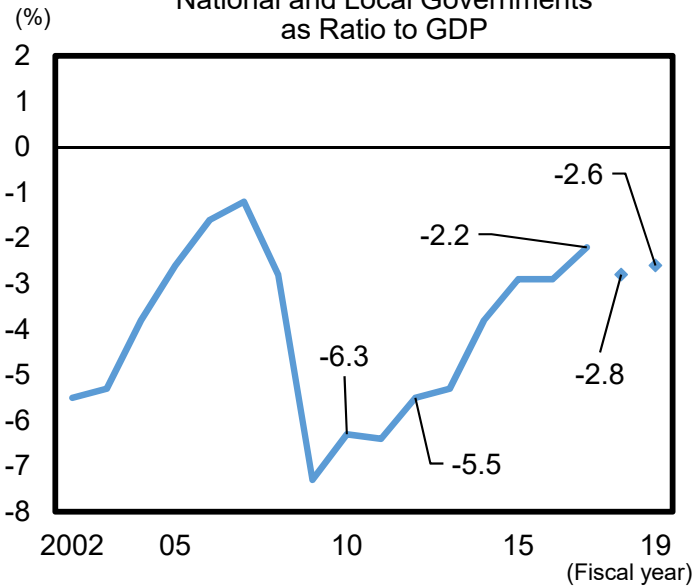


Chart 30 Factors Affecting Changes of Primary Fiscal Balance as Ratio to GDP

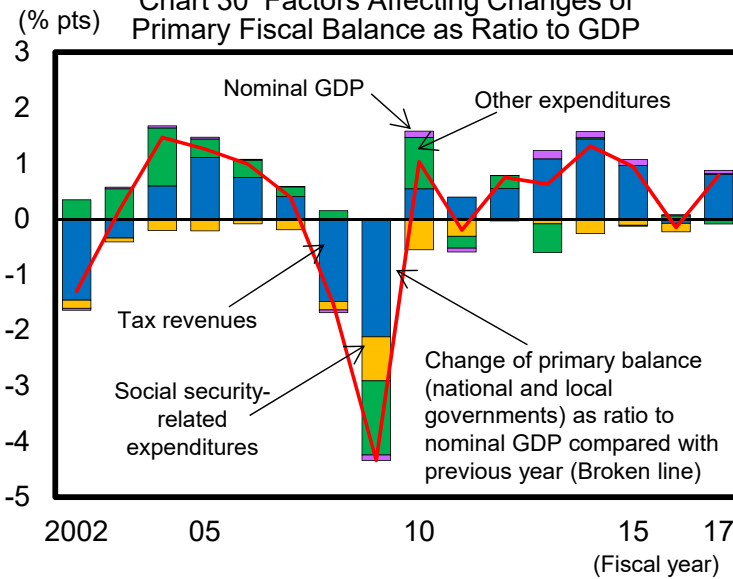


Chart 31 Policy Interest Rates

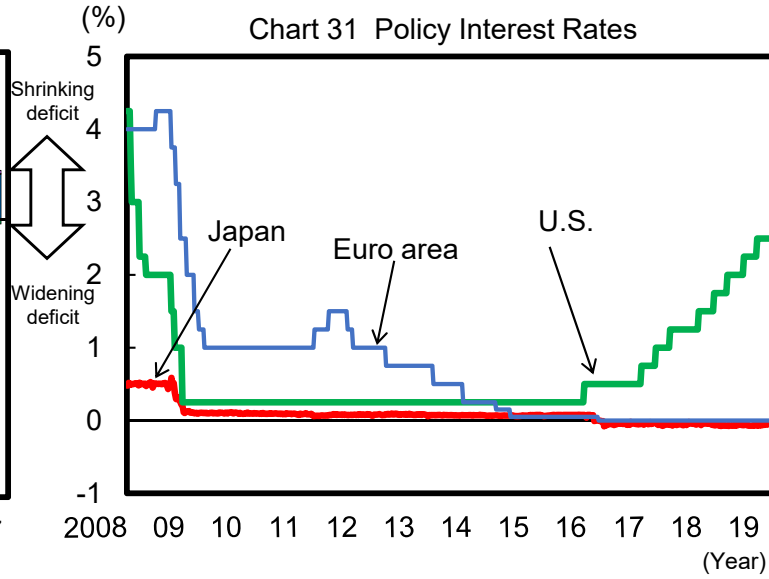


Chart 29 Impacts by Consumption Tax Hike and Responses Thereto

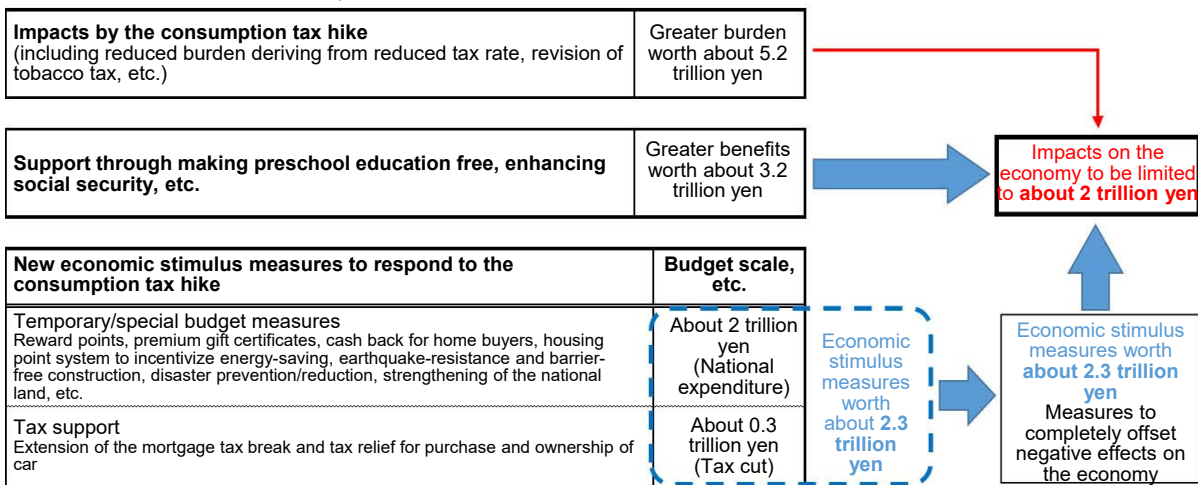
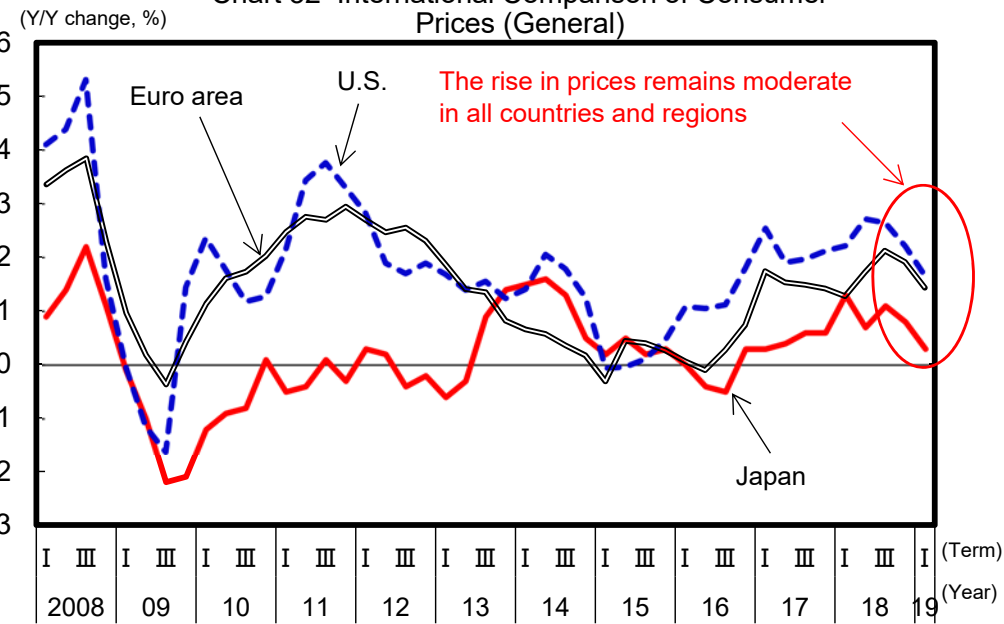


Chart 32 International Comparison of Consumer Prices (General)



(Notes)  
 Charts 28 and 30: Compiled based on Annual Report on National Accounts for 2017 and Estimates of Medium- to Long-term Economy and Fiscal Policy (submitted to Council on Economic and Fiscal Policy on January 30, 2019), Cabinet Office.  
 Chart 29: Compiled based on the meeting of Council on Economic and Fiscal Policy (December 20, 2018).  
 Chart 31: Compiled based on data provided by BoJ, FED, ECB and Bloomberg.  
 Chart 32: Compiled based on Consumer Price Index, MIC, Bureau of Labor Statistics "Current Employment Statistics" and "Consumer Price Index" and Eurostat.