



Annual Report on the Japanese Economy and Public Finance 2018

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

— **White Paper: Toward The Economy of Society 5.0** —

Summary

August 2018

Cabinet Office, Government of Japan

- Chapter 1: Current State of Economic Recovery and Challenges p.2
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- Chapter 3: Changes in Economic Activities toward "Society 5.0" p.9

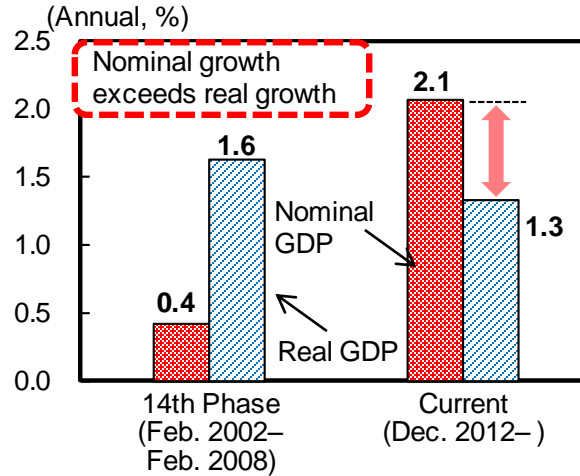
This material has been tentatively prepared to explain the "Annual Report on the Japanese Economy and Public Finance". For quotations and other purposes, please refer to the text of the "Annual Report on the Japanese Economy and Public Finance".

Chapter 1: Current State of Economic Recovery and Challenges

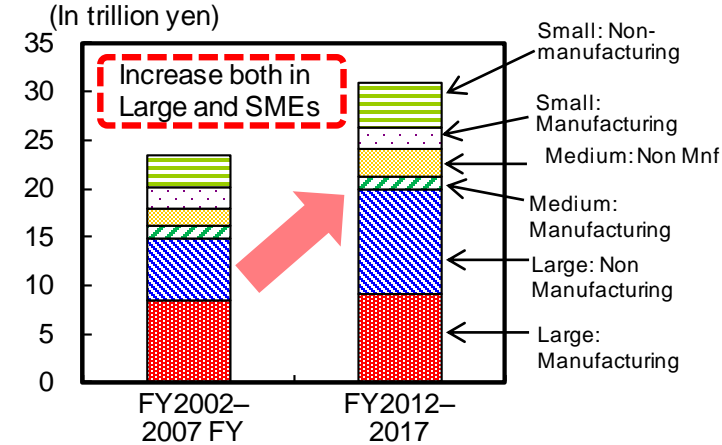
Since the end of 2012, the Japanese economy has been in a moderate recovery, approaching the longest recovery period after WW II.

In the 2000s, the economy recovered amid deflation. In the current recovery phase, **deflation faded** and corporate earnings **increased in broader sectors and all firm size**. Employment conditions are steadily improving. **The GDP gap has turned positive**. Raising the potential growth rate is the next critical challenge.

(1) Nominal and real GDP growth rate

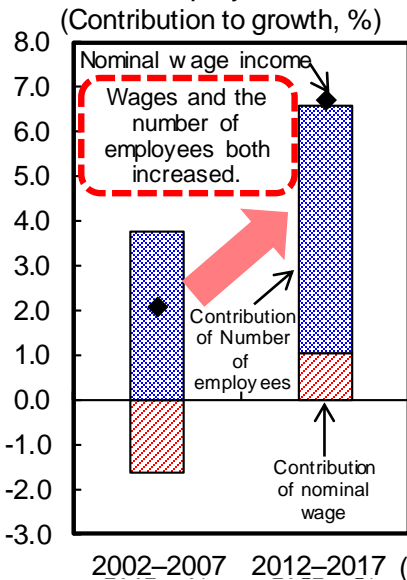


(2) Increase in corporate earnings

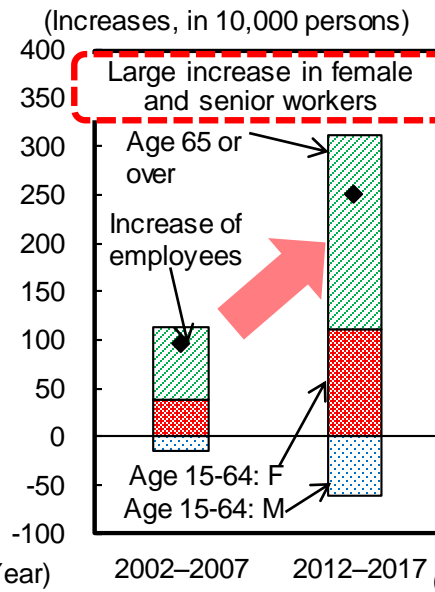


Sources: Cabinet Office, "System of National Accounts"; Ministry of Finance, "Financial Statements Statistics of Corporations by Industry (Quarterly)".

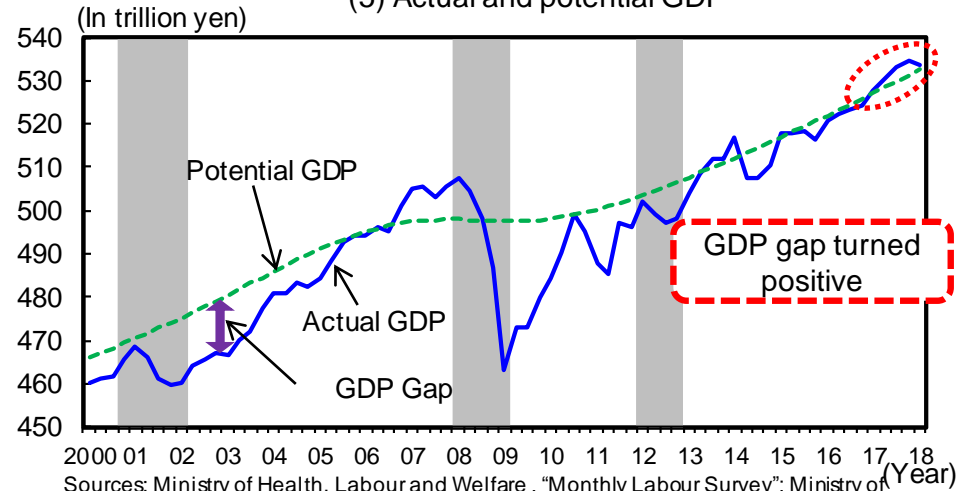
(3) Nominal wage income of employees



(4) Number of employed persons



(5) Actual and potential GDP



Sources: Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Ministry of Internal Affairs and Communications, "Labour Force Survey"; Cabinet Office, "System of National Accounts".

Note: In (5), shaded areas are recession phases.

1-2. Trend and Challenges of Households Sector: Consumption and Structural Changes

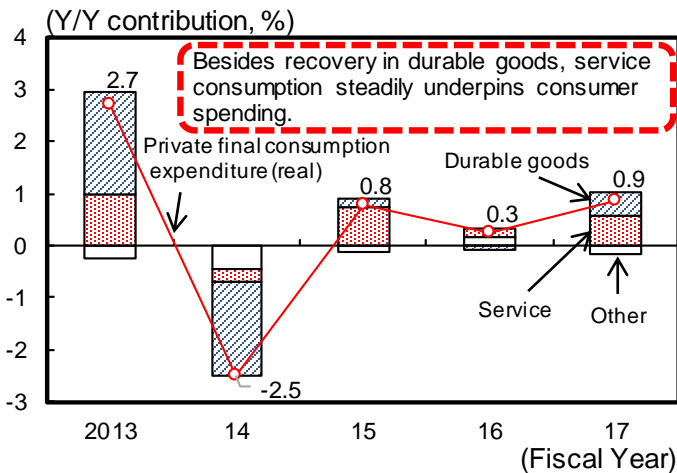
With robust service spending, private consumption is picking up. Large room for increase in internet consumption remains, in particular, among elder users .

Private consumption is picking up. **Service consumption** is especially robust, reflecting structural changes, such as the **increased communication spending** along with the diffusion of mobile phones, and the **growth of spending on food services** driven by increased single-person and double-income households.

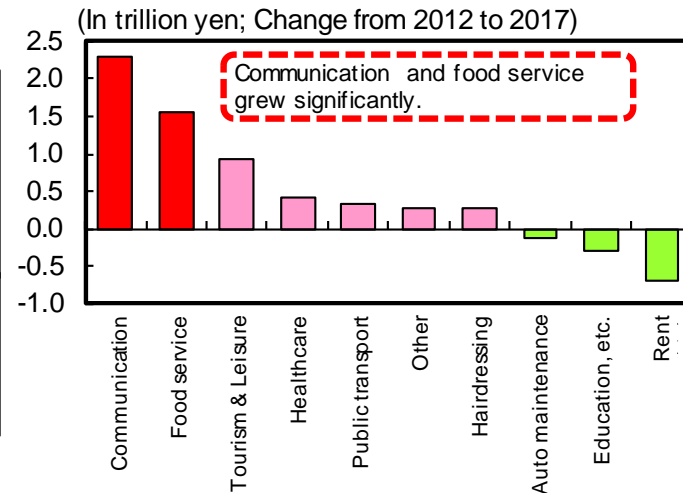
Fewer elderly households shop on the internet. But, focusing only on **the elderly households who online**, the amount of **their online spending is almost the same as those of younger households.**

For clothing, furniture, home appliances, **online shoppers tend to buy lower-priced goods.**

(1) Private consumption by category



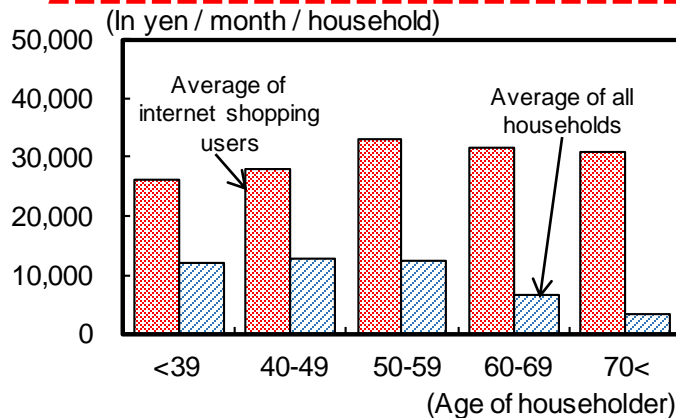
(2) Increase in service consumption by item



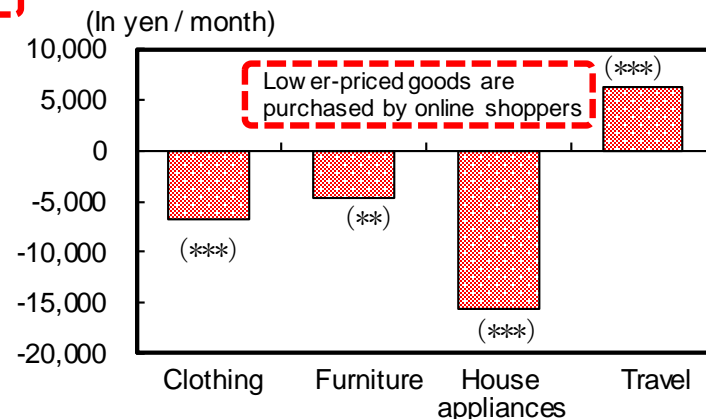
Sources: Cabinet Office, "System of National Accounts"; Ministry of Internal Affairs and Communications, "Family Income and Expenditure Survey".

(3) Internet consumption by age group

Focusing only on the internet shopping users, the amount of spending is almost the same among all age groups.



(4) Difference in spending between internet shopping users and non-users



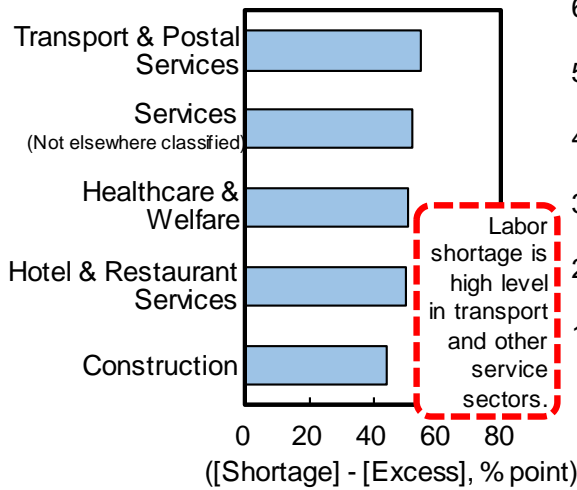
Source: Ministry of Internal Affairs and Communications, "Family Income and Expenditure Survey".

1-3. Trend and Challenges of Corporate Sector: Addressing Labor Shortage

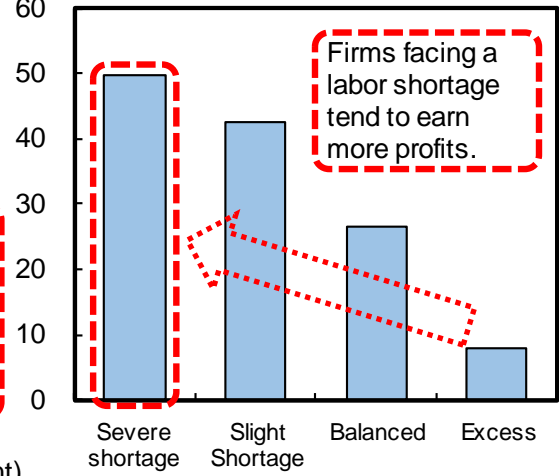
Profitability of firms facing labor shortage tend to be high, though some suffer from a labor shortage. Improvement of productivity is a key challenge to address.

(1) D.I. for labor shortage judgment (Higher-rank sectors)

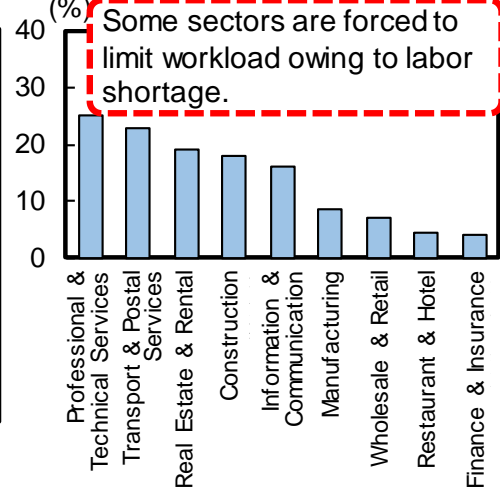
Firms facing labor shortage tend to earn more profits, but some sectors are forced to limit workload owing to labor shortage.



(2) Ordinary profits and firms' judgment on labor shortage (Changes from FY2012 to 2016, %)



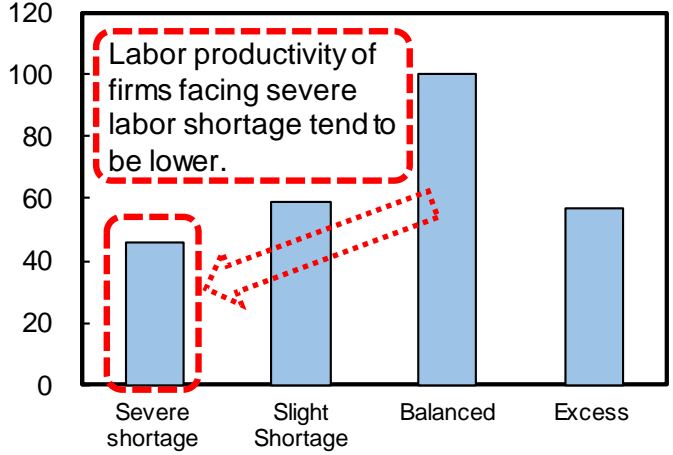
(3) Companies compelled to limit workload owing to labor shortage



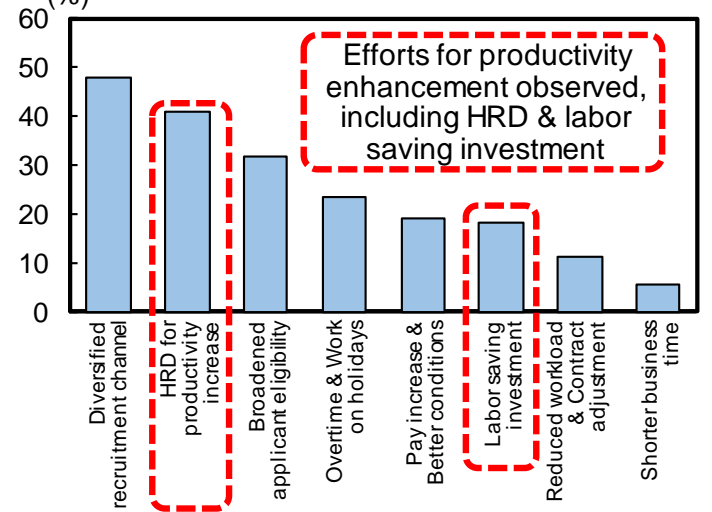
Sources: Ministry of Health, Labour and Welfare, "Survey on Labour Economy Trend"; Cabinet Office, "Attitude Survey of Companies on Work Style and Education & Training".

(4) Labor productivity and firms' judgment on labor shortage (Productivity: that of Balanced=100)

Firms facing severe labor shortage need to increase productivity. More active investment in human capital of employees and for labor saving to raise productivity is crucial.



(5) Firms' efforts to address labor shortage



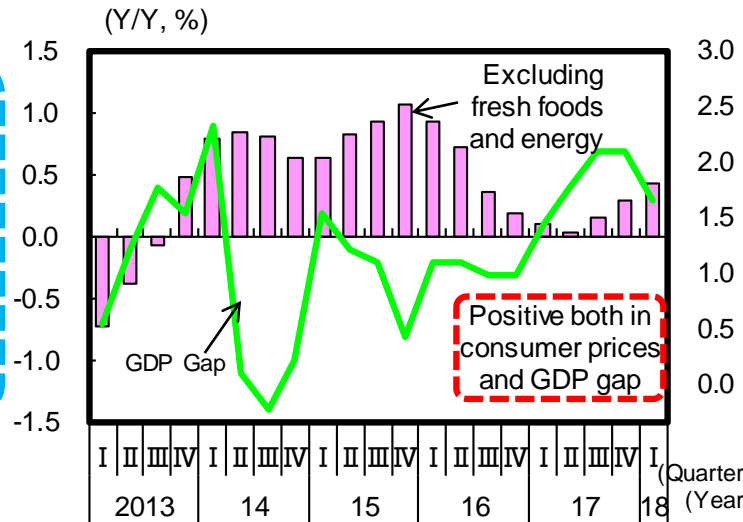
1-4. Challenges to Overcome Deflation and Revive the Economy: Trend of Prices and Wages

Amid a moderate rise in prices, continued wage increases are needed to overcome deflation and revive the economy.

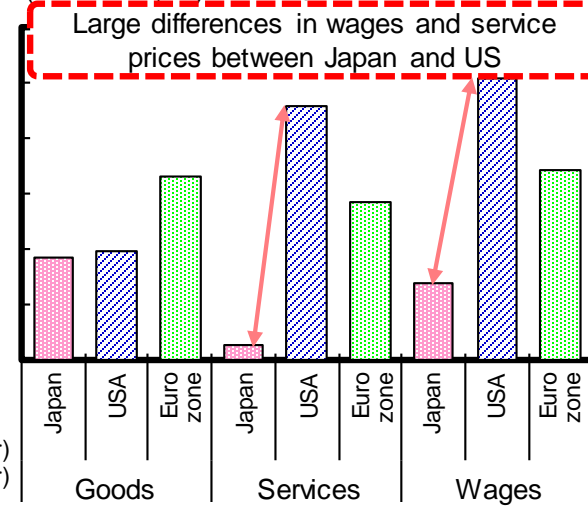
1. Trend of prices

Prices are moderately increasing. International comparison shows little difference in prices of goods while **service prices increase slower in Japan, reflecting lower wage growth.**

(1) Consumer prices and GDP gap



(2) Prices and wages: International Comparison (2017: Y/Y, %)

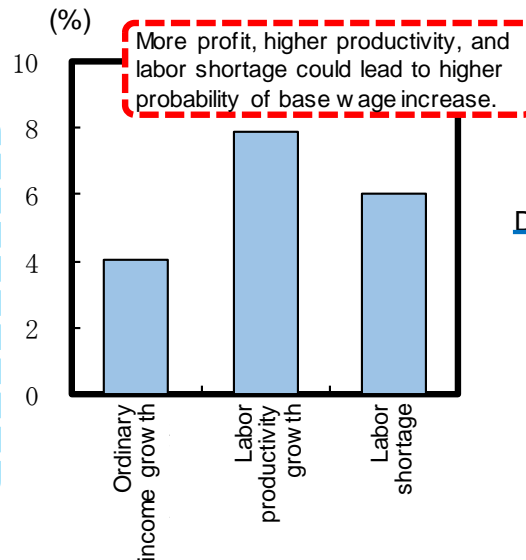


Sources: Cabinet Office, "System of National Accounts"; Ministry of Internal Affairs and Communications, "Consumer Price Index"; Ministry of Health, Labour and Welfare, "Monthly Labour Survey"; Eurostat, "Bureau of Labor Statistics"; etc.
Note: Wages in (2) represent non-farm average of hourly pays.

(3) Analysis on factors which could raise probability of base wage increase

2. Trend of wages

Improved profitability and higher productivity are likely to deliver base wage hike. As the prospect of future business climate influences attitudes of companies toward wage increase, **improving their long-term prospects is also crucial.**



(4) Major reasons for avoiding base wage increase

