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Global Watch

June 2010

CONTENTS

Mitsubishi UFJ Research and Consulting

Economic Research Department

§Japanese Economy

1. Overview of the economy

The Japanese economy has moved through a phase of improvement to recovery.

By Shinichiro Kobayashi, Senior Economist

The rate of growth in real GDP during the January-March quarter of 2010 was 1.2% on a quarter-to-quarter basis (or 5.0% at an annualized rate), the fourth consecutive quarter of positive growth. The contribution of the external demand to growth was 0.7 percentage point, the fourth quarter of positive contribution from this source, and the contribution of domestic demand was 0.6 percentage point, the second consecutive quarter of positive contribution from this source. In contrast with conditions in the first half of fiscal 2009, when growth was dependent on external demand, the latter half of fiscal 2009 showed a generally better balance between internal and external demand.

Nevertheless, growth during the quarter was still dependent on exports and the positive effects of government policies. Personal consumption especially is expected to continue to be firm for the time being, supported by the effects of policy measures, but when these effects diminish in the latter half of the current fiscal year, the risk of sudden decline will remain. In addition, concerns are continuing about the destabilizing effects on Japan's exports of the growing credit uncertainty in Europe stemming from the financial problems in Greece. Economic recovery is expected to continue for the time being, but the momentum of recovery is expected to diminish gradually.

The Industrial Production Index in April rose 1.3% over the previous month for the second consecutive increase. However, closer examination of the data by industry shows that, with the exception of the output of semiconductor production equipment, which is showing major increases, other sub-sectors in the general machinery category are showing relatively weak trends. Results for the chemical industry, which had initially been a driving force for production, have now declined for three consecutive months. Electronic parts and devices, after reaching a peak in January, have now leveled off and are fluctuating. Also, growth in automobile production has weakened, and output of PCs, mobile phones, and other telecommunications equipment has declined for three consecutive months.

According to results of the Production Forecast survey, output in May and June is expected to rise, and, if the predictions of the output forecast indexes are realized, the outlook is for production in the April-June quarter to increase 2.2% over the prior quarter, for the fifth consecutive quarterly gain. However, the margin of increase will be relatively small (0.4% in May and 0.5% in June), and there is a possibility that the month-to-month figures may begin to show a decline once again.

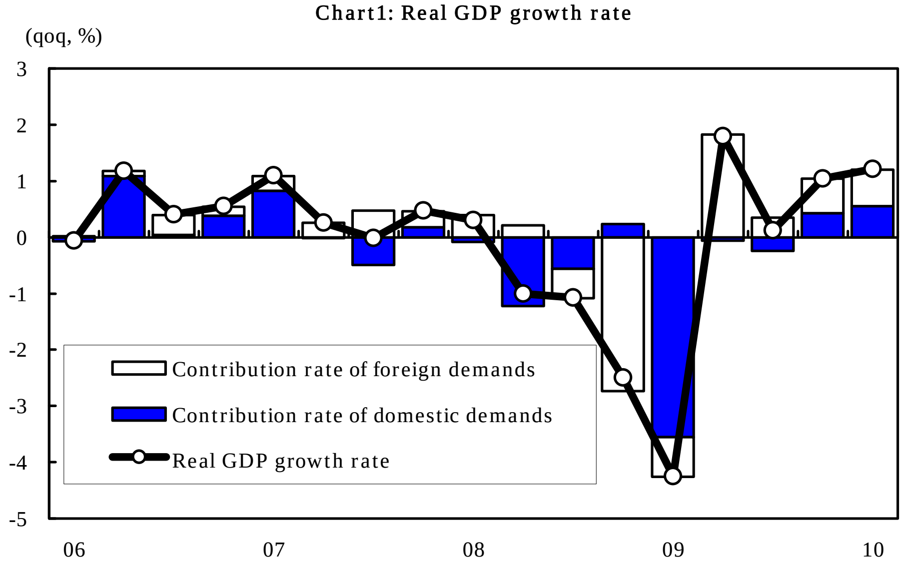
Real exports are sustaining a firm upward trend, as indicated by the 6.6% gain in April over the previous month, the 14th consecutive monthly increase, and other factors. This uptrend in exports is due principally to robust gains in exports to the rest of Asia. Thus far, there have been no direct negative effects of the rising uncertainty in credit markets in Europe on Japan's exports. However, along with credit market uncertainty, the yen has been appreciating and the euro has been weakening. There is a possibility that these currency trends may have a negative impact on Japan's exports going forward.

Employment conditions, even though they have moved out of the worst phase of the downturn, remain harsh, and the unemployment ratio rose to 5.1% in April, the second month-to-month deterioration in this indicator. On the other hand, total cash earnings per capita in April were up 1.5% over the same month of the previous year, the second consecutive year-on-year increase. Also, as the margin of decline in scheduled wages has diminished, unscheduled compensation, mainly in manufacturing, has increased, thus pushing overall wages upward. There is a possibility that the positive benefits of the recovery in production are finally beginning to permeate down to the household sector. Consumer psychology is also continuing to improve, which is also a positive factor for household spending.

Corporate performance, principally in the manufacturing sector, is showing steady improvement. In the January-March quarter, data from the Financial Statement Statistics of Corporations by Industry show that both sales and ordinary profit have now risen for four consecutive quarters. However, corporate sentiment regarding future trends remains cautious. Private capital investment in the January-March quarter decreased 2.6% from the previous quarter for the first time in two quarters, and capital investment in the manufacturing sector declined for the seventh consecutive quarter.

(2010.6.4)

Chart1: Real GDP growth rate



Source: Cabinet Office

2. Topic of the month

Despite increases in overtime hours worked, incomes are not showing full-scale improvement.

By Miki Ohata, Economist

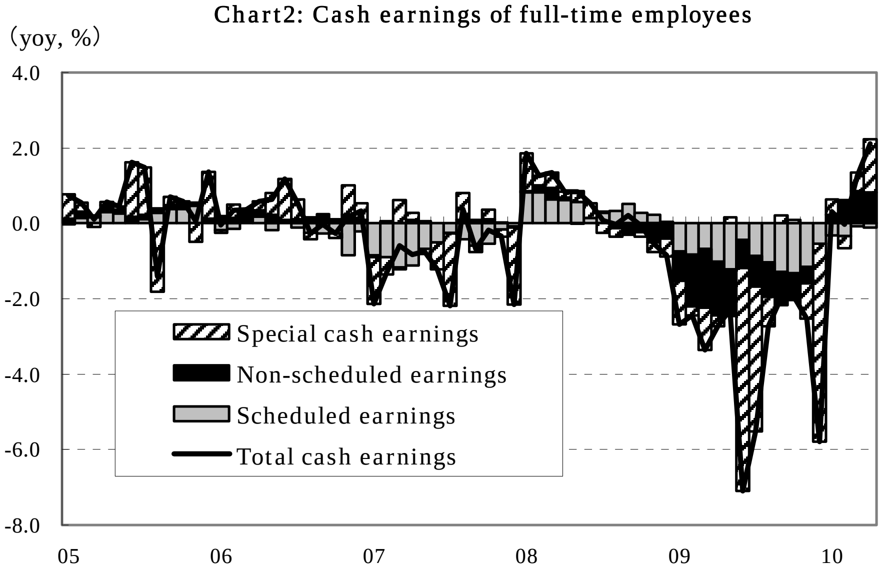
As a result of the sudden downturn in economic conditions following the collapse of Lehman Brothers Holdings, corporations were obliged to reduce wages, mainly by cutting bonuses and restricting overtime hours worked. At present, income conditions are finally improving. Total monthly cash earnings in April (size of establishments: five-or-more persons) were 275,000 yen per worker, which represented an increase of 1.5% from a year earlier, and followed a rise in the previous month. In particular, wages of general workers were up 2.1% from a year earlier, for the fourth consecutive increase, thus showing some sign of improvement (Chart 2). In greater detail, scheduled cash earnings were down 0.4%, thus continuing their decline. However special cash earnings increased, reflecting in part a reaction against the steep declines in the previous year. Moreover, nonscheduled cash earnings rose at double-digit rates in this and previous months.

Non-scheduled cash earnings are increasing because overtime hours worked, which were cut sharply during the post-Lehman economic downturn, have been rising recently. In the case of general workers, overtime hours in April (as calculated by MURC on a seasonally adjusted basis), which dropped to 12.8 hours per worker per month, were up 1.8 hours from their minimum figure in March 2009 during the post-Lehman period (Chart 3). The maximum figure since 1993 was 14.1 hours (in March 2008), therefore overtime hours worked per month may rise by about another one hour. On the other hand, wages per hour worked overtime, which had been on a rising trend since the latter half of the 1990s, have fluctuated around 1,900 yen since about 2005. So, the future leeway for increasing unscheduled cash earnings is only about 2,000 yen per month.

The ratio of unscheduled cash earnings to total cash earnings of general workers was only 5.5% in 2009. Scheduled cash earnings are the main part of payments received. Therefore, a slight increase in overtime hours will not contribute to an improvement in income levels per se. At present, it appears that the income environment is improving compared to the previous year, but households seem to have little feeling that economic conditions are really improving. Accordingly, to realize recovery in income conditions, it will be necessary not only to increase bonuses but also raise scheduled cash earnings.

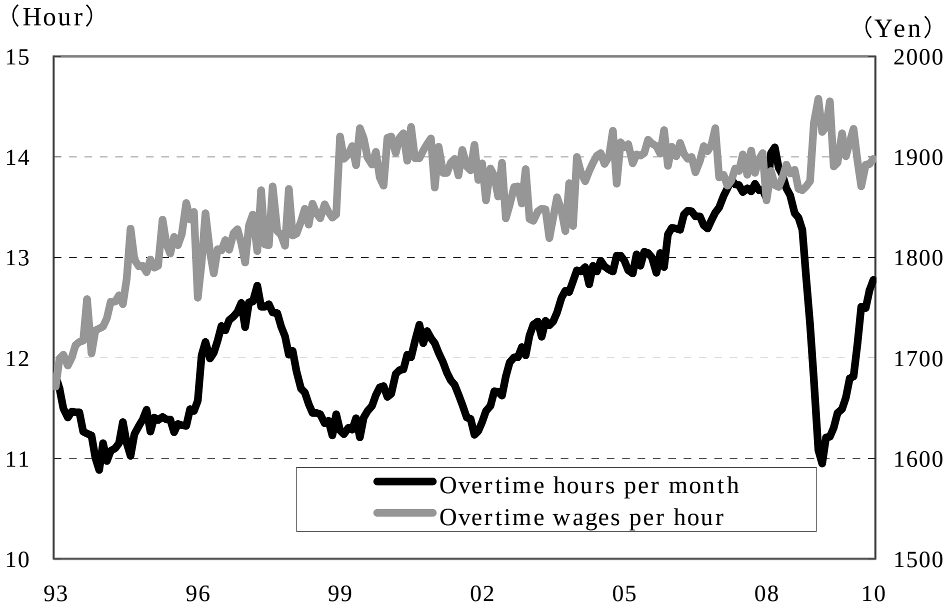
(2010.6.4)

Chart2: Cash earnings of full-time employees



Note: Figures cover establishments with 5 or more employees of all industries.
Source: Ministry of Health, Labour and welfare

Chart3: Overtime working hours and wages



Note: Figures cover establishments with 5 or more employees of all industries.
Seasonal adjustments are carried out by our own with "E-views".
・Overtime hours per month : monthly non-scheduled working hours.
・Overtime wages per hour : non-scheduled cash earnings / overtime hours per month
Source: Ministry of Health, Labour and welfare