

# Global Watch

## June 2012

### CONTENTS

#### § Japanese Economy

##### *1. Overview of the economy*

The Moderate Trend toward Improvement Is Continuing. .... 1

##### *2. Topic of the month*

Members of the Baby Boom Generation about to Retire in Large Numbers  
..... 3

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without notice.



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## §Japanese Economy

### *1. Overview of the economy*

#### **The Moderate Trend toward Improvement Is Continuing.**

*By Shinichiro Kobayashi, Senior Economist*

Although trends in external demand are weak, domestic demand is continuing to be firm, and the economy is showing moderate improvement. However, looking ahead, it appears that we will have to pay close attention to the risk that the economy may enter a period of stagnation temporarily.

During the January-March quarter of 2012, the real GDP (second preliminary estimate) rose 1.2% over the previous quarter (or +4.7% at an annualized rate), the third consecutive quarterly increase. This latest data confirmed again that the economy, mainly domestic demand, has been on an improving trend since the beginning of the year.

The drivers of firm domestic demand are personal consumption and public investment. Consumption is showing moderate improvement, but the April survey of households indicated that real consumer spending (of households with two persons or more) decreased 0.8% from the previous month, but remains at a high level. Sales of automobiles are continuing to be favorable, and high rates of expansion compared with the same period of the previous year are being recorded, in part because of the rebound from the steep drop in sales that followed the Great East Japan Earthquake last year. In addition, total cash compensation per capita in April advanced 0.8% over the same period of the previous year, for the third consecutive monthly gain, and regularly scheduled wages were up 0.3% over the previous year for their second consecutive monthly increase. If this rising trend continues, it will provide support for consumer spending. Public investment is also expanding as indicated by the steady gains in the amount of public construction contracted, as the effects of the government's third 2011 supplementary budget are beginning to be felt in full. Judging from these recent trends in domestic demand, there is a strong possibility that real GDP growth for the April-June quarter will continue to be firm.

On the other hand, the contribution of external demand to real GDP in the January-March quarter was only +0.1 percentage point. Real exports in April rose a sharp 6.3%, but there is a possibility that this figure reflected a reactionary increase following relatively weak trends in recent prior months. Therefore, as in previous months, we do not believe that exports are gaining momentum. In addition, the index for exports in volume terms (after seasonal adjustment) was up by only a small margin of 0.8%.

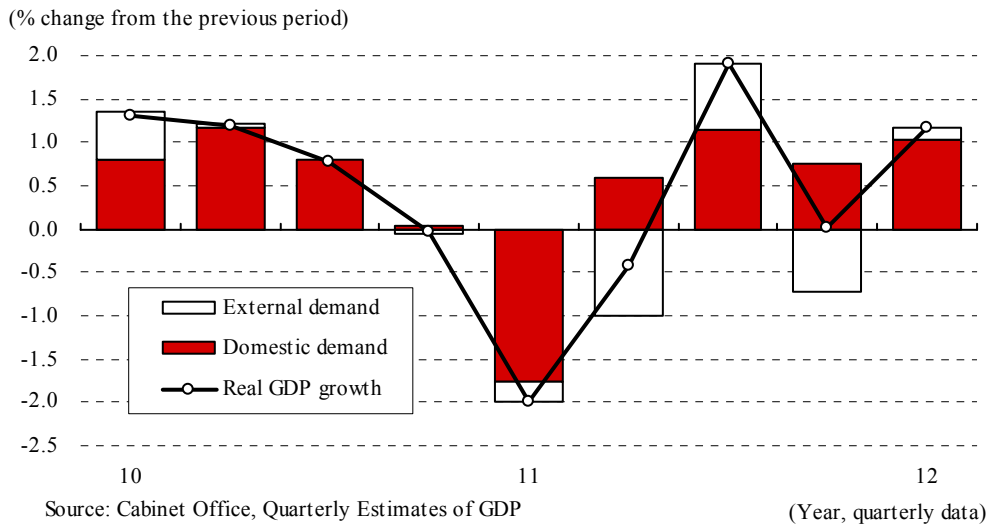
The marginal increase of 0.2% over the previous month in the index of industrial production in April and other indicators suggest that the momentum of production activity in the manufacturing sector is weakening. According to the forecast index of industrial production, output may drop 3.2% from the previous month in May, but even if the forecast for an increase of 2.4% in June proves to be correct, industrial production will decrease 0.8% quarter-to-quarter in the April-June period. This means that industrial production during this period will experience its first decline in four quarters.

The reason for the decline in the forecast index of industrial production in May is that the outlook is for production cutbacks in a number of industries. Among these, the transportation equipment industry, which includes automobiles, was scheduling a major 13.6% reduction in output. Much of the recent increase in automobile production and sales can be accounted for by the favorable performance of eco-friendly car sales, which has been stimulated by the revival of subsidies for purchases of these types of vehicles. However, when the budgetary allocation of 300 billion yen is exhausted, these subsidies are scheduled to be terminated. As a result of strong sales of automobiles, there is a possibility that this allocation may be used up by mid-July. To avoid an unintended piling up of inventories thereafter as sales decline, corporations in the automobile industry are believed likely to be restraining production.

What will be necessary to compensate for the decline in automobile sales in Japan will be a recovery in exports. On the contrary, however, conditions in overseas economies are showing an even more-pronounced weakening of momentum. Amid this operating environment, there are concerns about the risk of stagnation in the world economy following a reignition of the fiscal and monetary crises in Europe. If the weakness in Japan's exports is continuing when automobile production and sales peak out, there is a risk that the trend toward economic recovery may pause temporarily. At present, that risk is increasing gradually.

(2012.6.8)

Chart 1: Trends in Real GDP Growth



## 2. Topic of the month

### Members of the Baby Boom Generation about to Retire in Large Numbers

*By Miki Ohata, Economist*

About five years ago, analysts were calling attention to what they called the “2007 Problem.” They were referring to the large number of the members of the baby boom generation<sup>1</sup> who would be reaching 60 years of age and retiring. According to National Census issued by Japan’s Ministry of Internal Affairs and Communications, the number of persons belonging to the baby boom generation in 2005 was 6.78 million (accounting for about 5.3% of the total population). There were concerns that if all these baby boomers retired from the labor market, this would create a shortage of labor. However, in fact, a serious shortage of labor did not occur. Following the revision of the Law Concerning Stabilization of Employment of Older Persons, the percentage of employed persons<sup>2</sup> between the ages of 60 and 65 increased, and this proved to be a major support for labor market stability.

Chart 2 shows the ratio of employed workers from 60 to 64 years of age. From April 2006 onward, companies increased the age for mandatory retirement and introduced employment arrangements that enable seniors to continue to work. As a result, the employment

<sup>1</sup> Persons born during the period 1947 to 1949

<sup>2</sup> Ratio of employed persons in each population category

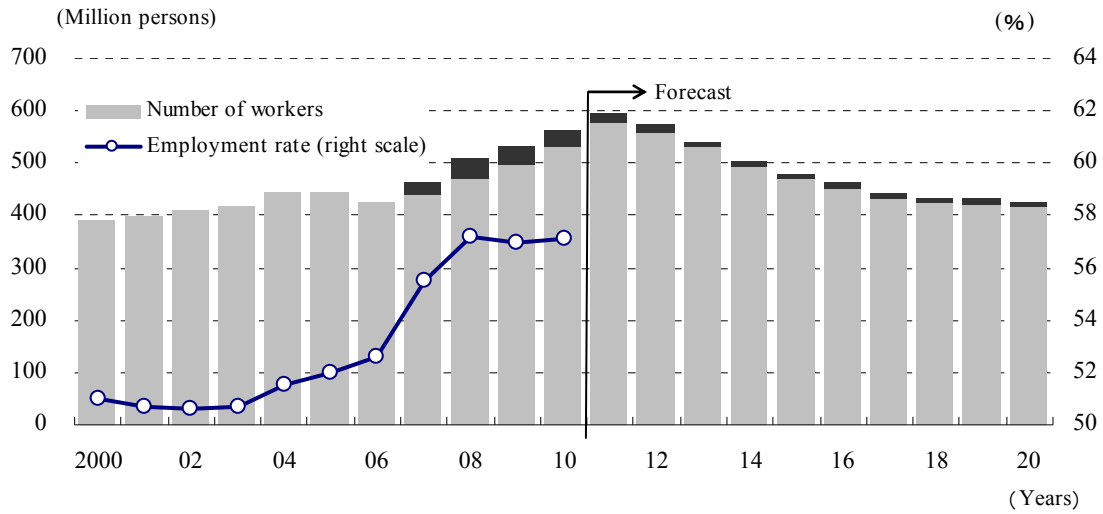
ratio of persons in this age category, which stood at about 50% in the first half of the 2000s, rose substantially to 55.5% in 2007 (representing a 2.9 percentage point increase over the previous year). At present, this is in excess of 57%. As a result of these various measures to keep seniors on the job, it is estimated that the number of persons in the age 60-to-64 category rose by an accumulated total of about 1.7 million persons between 2006 and 2010.

This year, members of the baby boom generation are beginning to reach 65. We are again hearing concerns expressed about the “2012 Problem,” which refers to the impending exiting from the workforce of large numbers of the baby boom generation whose retirement has been postponed by the raising of the mandatory retirement age and other measures. The ratio of workers in the 65-and-above age category is lower than the ratio for the 60-to-64 age category, and a decline in the number of workers belonging to the baby boom generation seems to be unavoidable. However, the number of baby boom generation workers, which stood at about five million in 2005, is viewed as having declined to about 3.8 million in 2010, implying that the overall impact on the labor market is gradually diminishing. Moreover, since the percentage of the population 60 years of age and older is expected to continue to rise, provided the employment ratio of these workers does not drop suddenly, there is a strong possibility that the number of workers 60 and older will gradually decline (Chart 3).

Therefore, even if those baby boomers reaching 65 actually retire in larger numbers than before, the impact on the labor market is not expected to be major. Instead, the labor population is viewed as likely to decline, in line with the trend toward smaller families and the demographic aging of the population. Notwithstanding this, however, the demand for labor in Japan has dropped sharply in the aftermath of the collapse of Lehman Brothers, and unemployment rates remain high. Under these circumstances, from the perspective of the labor market as a whole, the possibility seems to be low that there may be a serious labor shortage because of the retirement of senior workers, including those of the baby boom generation.

(2012.6.8)

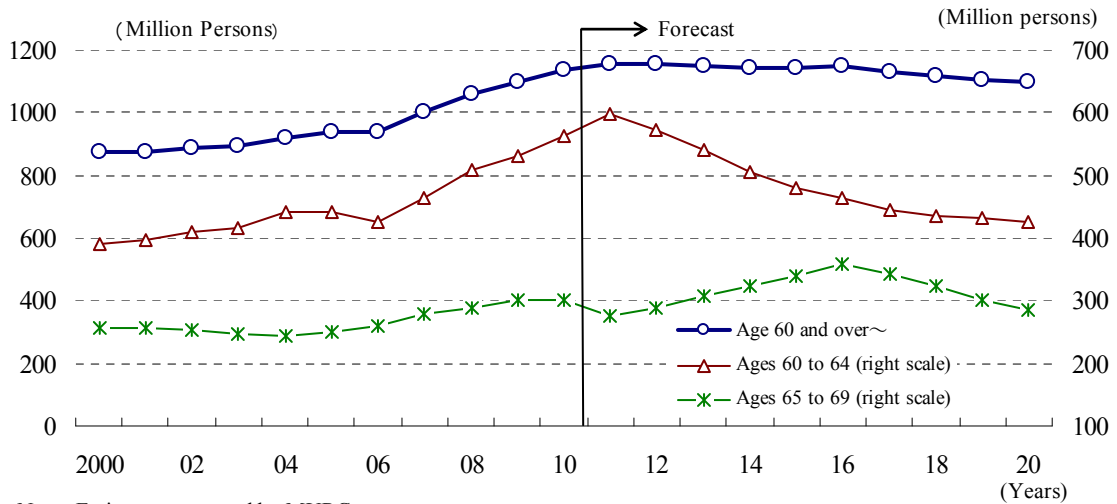
**Chart 2: Number of Workers and Employment Rates (Age 60-to-64 Category)**



Note: The black area at the top of the bar graph is the increase in employment due to measures to extend the employment of senior workers (Estimated by MURC).

Sources: Ministry of Internal Affairs and Communications, Labor Force Survey; National Institute of Population and Social Security Research, Population Projections for Japan: 2011 to 2060

**Chart 3: Employment Rates (Age 60 and Over Category)**



Note: Estimates prepared by MURC

Sources: Ministry of Internal Affairs and Communications, Labor Force Survey; National Institute of Population and Social Security Research, Population Projections for Japan: 2011 to 2060