

Global Watch

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This is an abstract of our monthly reports on the Japanese Economy.
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Mitsubishi UFJ Research and Consulting

Economic Research Department

Tel: +813 6733-1070

Ex: 9-8707-3434

§ Japanese Economy

1. Overview of the Japanese Economy **Showing Gradual Improvement**

By Shinichiro Kobayashi, Senior Economist

The economy is improving gradually. However, while public investment, housing starts, and certain other indicators are showing robust performances, at present, the trends toward improvement in personal consumption and exports have paused. In addition, the momentum of private capital investment and exports has weakened.

According to the Financial Statements Statistics of Corporations for the July–September of 2013, current profits (seasonally adjusted) decreased 1.6%, the first decline in five quarters. Even so, current profits stood a substantial +24.1% above the same period of the previous year (compared with +24.0% for the April–June quarter), thus maintaining a high level above the previous year, especially in the manufacturing sector.

Along with this improvement in profitability, the diffusion indexes (DIs) of sentiment regarding business conditions among large companies in the manufacturing and nonmanufacturing sectors reported in the Bank of Japan’s Tankan Survey (Short-term Survey of Enterprises in Japan) for December continued to rise (standing at +4 and +6, respectively). Nevertheless, according to forecasts through March 2014, the DIs in both sectors are expected to turn downward (to –2 and –3, respectively), reflecting the deep-rooted sense of caution among corporations regarding the effects of the planned increase in the consumption tax.

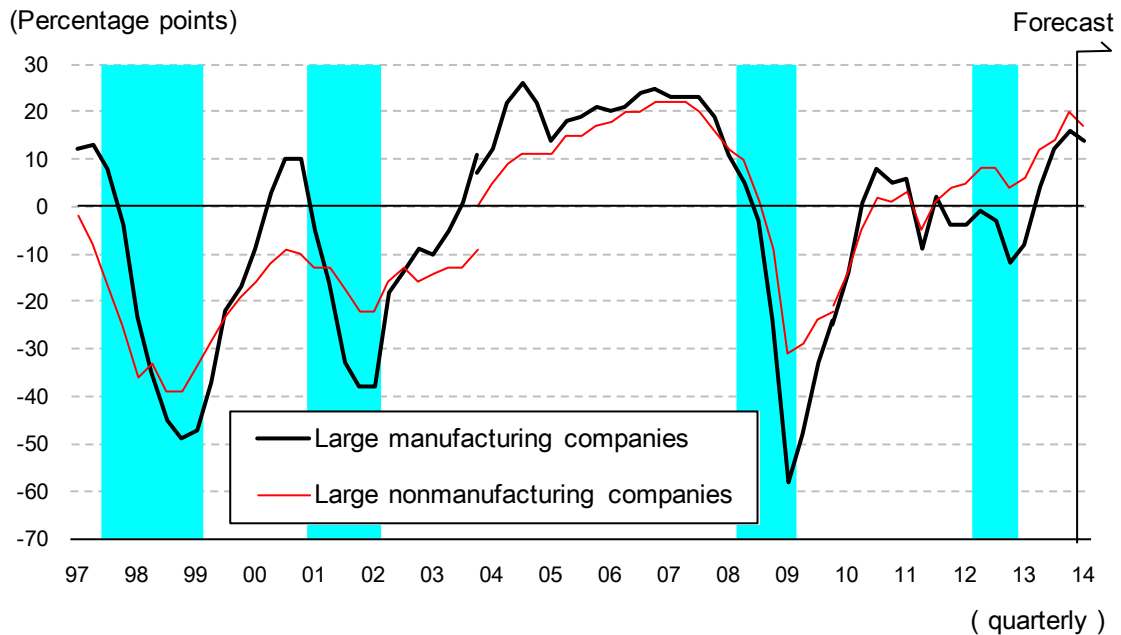
Although production is continuing to recover, the pace of improvement remains gradual. In October, the index of industrial production rose 0.5% above the previous month, but was a substantial 4.7% below the level predicted by the forecast index for production. According to the production forecast survey, companies are continuing to plan for increases in November and December of 0.9% and 2.1%, respectively. If these forecasts prove to be correct, industrial production will rise 2.5% over the previous quarter during the October–December period, representing the fourth consecutive quarter-to-quarter rise. However, the recent trend is for actual production figures to fall below the forecast level by an increasing margin, and there is a possibility that the actual increase in production may be smaller. The factor behind these trends has been the weakening of export growth. The index of exports in unit terms in September fell a significant 3.4% from the previous month. Although this index began to rise again in October, the gain was a relatively small +1.1%.

Growth in private capital investment has also paused. According to the Financial Statements Statistics of Corporations for the July–September quarter, investment took a turn for the worse, albeit marginal, and decreased 0.5% from the previous quarter. Orders for machinery and equipment (private sector, excluding shipbuilding and electric power), which are a leading indicator of investment behavior, rose a firm 6.8% over the previous quarter during the April–June period. Thereafter, during the July–September period, orders showed a high growth rate of 4.3% quarter to quarter and are expected to show firm expansion.

The improvement in employment conditions is continuing. The ratio of job openings to applications rose to 0.98 in October, and the previous declining trend in wages has leveled out, both of which are positive developments for consumer spending. However, the quarter-to-quarter rate of increase in real personal consumption in the July–September period slowed to +0.2%. This and other factors suggest that the temporary momentum propelled by expectations of economic recovery that led to previous robust increases in consumption has dissipated. The factor restraining consumer spending is the growing upward pressure on prices. The consumer price index (CPI) (excluding fresh foods) in October was +0.9% above the same month of the previous year, a higher margin of increase than in September, reflecting higher prices of gasoline and other factors. Moreover, the comprehensive CPI, excluding food and energy, rose to +0.3% year on year, the first increase in about five years. Despite these trends, the strong possibility that winter bonuses will rise above the level of the previous year and the expected surge in demand approaching the end of the fiscal year (in March) prior to the increase in the consumption tax suggest that consumer spending will gain momentum going forward.

In summary, although there are weak trends in some indicators, private–sector demand, including consumer spending and capital investment, are expected to remain firm, and the pace of improvement in the economy is forecast to accelerate approaching the fiscal year-end. However, if it appears that recovery in exports, which is expected to provide support for the economy after the increase in the consumption tax, is delayed, there are concerns that the slump in the economy in the next fiscal year could be serious.(2013.12.17)

Chart 1: Trends in DIs regarding Business Conditions



Notes:

1. The shaded portions in the chart are periods that the Cabinet Office has identified as times of economic downturn. Figures for April through November are estimates prepared by the Research Department of MURC.
2. The sample of companies polled was revised at the time of the March 2004, March 2007, and March 2010 surveys. This is the reason for the discontinuities in the data around those dates.

Source: Bank of Japan, *Tankan (Short-term Survey of Enterprises in Japan)*

2. Topic of the Month

Factors Accounting for Changes in the Number of Unemployed Workers

By Miki Ohata, Economist

In the Labor Force Survey, issued by Japan's Ministry of Internal Affairs and Communications, the number of unemployed persons is calculated by subtracting the number of employed persons from the total labor force population. In order for the number of unemployed persons to decline, it is necessary for (a) the number of employed persons to increase and/or (b) the labor force to decrease. Regarding (b), in recent years, the labor force population has been declining. This has been because of the simultaneous increase in the number of persons retiring from the workforce and decrease in the number of new graduates, both of which are linked with the drop in the birthrate and the demographic

aging of the population. On the other hand, as more and more older persons have returned to or joined the workforce, there has been a rising trend in the number of senior labor force workers.

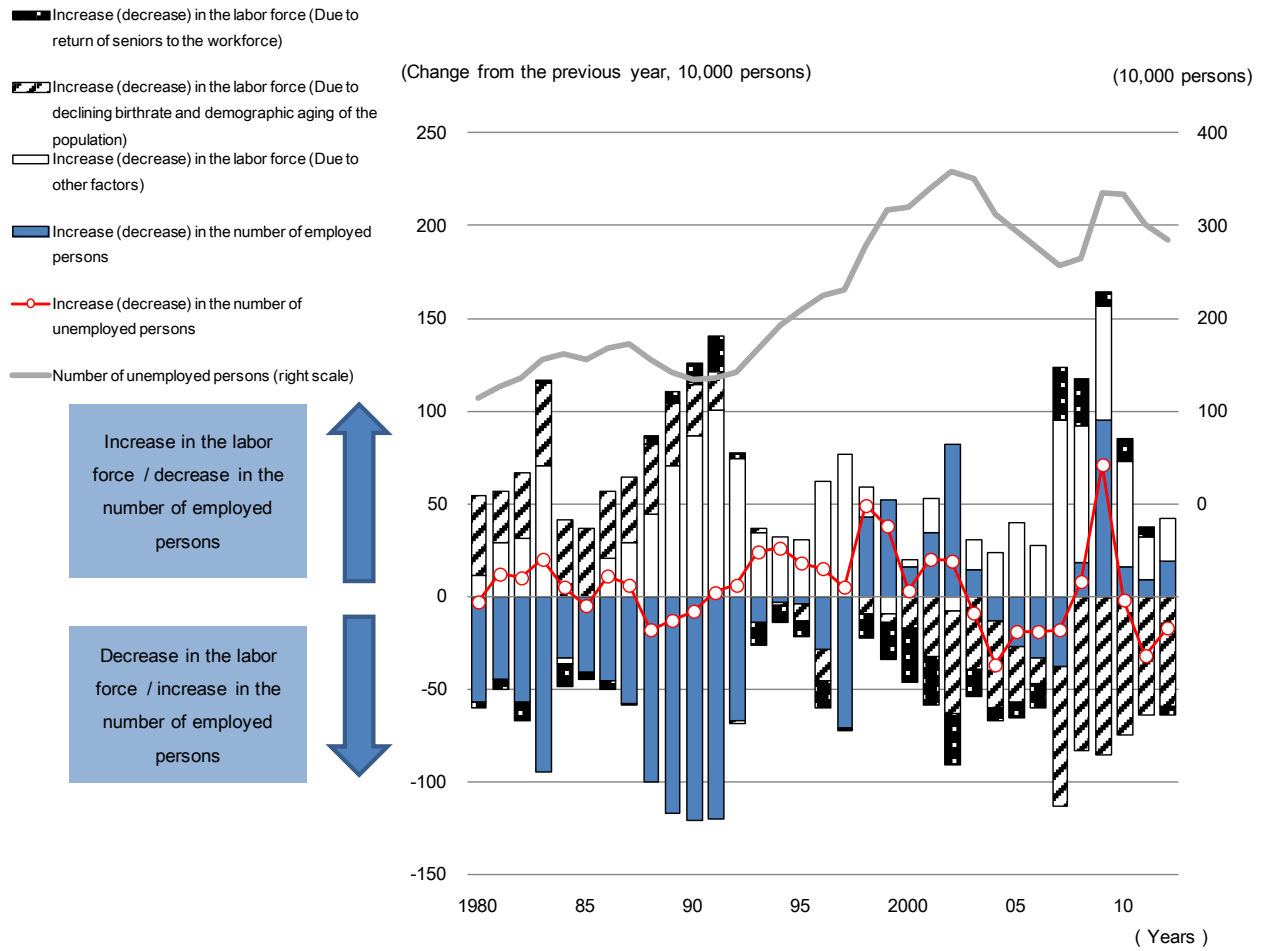
From the 1980s through the early 1990s, the increase in the total labor force was a factor that pushed the number of unemployed persons higher. At the same time, expansion in the economy, mainly during Japan's "bubble" period, brought an improvement in labor conditions. The number of employed persons rose, and the number of unemployed persons was low and stable just over 1.0 million.

However, following the bursting of the bubble, the deterioration in economic conditions has restrained expansion in the number of employed persons. Particularly after the end of the 1990s, a series of bank failures made economic conditions substantially worse. This led to further marked declines in the number of employed persons and an increase in the number of unemployed. On the other hand, as the decline in the birthrate and demographic aging progressed significantly, and the labor force began to decline, this alleviated to some extent upward pressure on the number of unemployed persons, but it was not sufficient to bring a decrease in the number of unemployed persons. The number of unemployed persons showed a rising trend almost consistently throughout the 1990s and reached a historical high of 3.59 million in 2002.

Thereafter, in the middle of the first decade of the 21st century, as the world economy expanded, the Japanese economy entered its longest period of economic growth during the post-World War II period. The number of employed persons rose, and the unemployed population decreased to somewhat more than two million. However, the collapse of Lehman Brothers brought a sudden deterioration in labor conditions, and, along with the ensuing drop in the number of employed persons, in 2009, the number of unemployed persons rose to more than three million again.

At present, the number of unemployed persons is declining, but the factors accounting for this differ from those at the time of the bubble at the end of the 1980s. The entry of seniors into the workforce is a factor pushing unemployment upward because of the resulting rise in the labor force. Nevertheless, the impact of the declining birthrate and demographic aging of the population is become significantly stronger, and the number of people leaving the labor market is increasing. In short, the decline in the number of unemployed persons in recent years is largely due to the decrease in the total labor force population. The number of employed persons has not been increasing very much.(2013.12.17)

Chart 2: Factors Accounting for the Changes in the Number of Unemployed Workers



Note: The impact of the declining birthrate was estimated from changes in trends in the population aged 15 to 59. The impact of the entry (or re-entry) of seniors was estimated as the difference between changes in trends in the number of persons 60 years of age or older and the actual numbers.

Source: Ministry of Internal Affairs and Communications, *Labor Force Survey*