

Global Watch June 2016

1. Overview of the Japanese Economy: Remains Roughly Flat with Weak Trends in Some Areas

By Shinichiro Kobayashi, Senior Economist

The economy is judged to continue to be basically flat, and weakness is in evidence in some sectors.

The real GDP in the January-March quarter of 2016 (second preliminary estimate) rose 0.5% over the previous quarter (1.9% growth at an annualized rate), thus moving back to the positive range for the first time in two quarters. However, personal consumption, government consumption, and some other GDP components held firm because of the positive effects of the leap year, and this boosted the overall growth rate. On average, the economy continues to be basically flat.

Recently, sign of weakness have become conspicuous in the corporate sector, and performance trends, in particular, have become severer. According to the *Financial Statements Statistics of Corporations* in the January-March quarter, ordinary income decreased 6.8% from the previous quarter, the third consecutive quarterly decline. The margin of decline in the manufacturing sector has been the most substantial because of the impact of the strengthening of the yen.

GDP data show a decline in real private capital investment in the January-March quarter, but corporations still have ample cash on hand. Accordingly, on average, capital investment is expected to continue to show a rising trend and provide support for the economy. However, orders for machinery and equipment (private sector, excluding shipping and electric power), which are a leading indicator for capital investment, showed a sharp decline of 11.0% compared with the previous month in April. Therefore, there is a possibility that the pace of increase in capital investment may be moderate for the time being.

Exports continue to lack strength. In April, real exports turned downward, falling 1.6% from the previous month and, on average, are moving within a narrow range. Exports to the United States, principally automobiles and other products, are holding firm, but exports to the rest of Asia are weak, reflecting the trend toward deceleration in the economy and the slump in demand for smartphones.

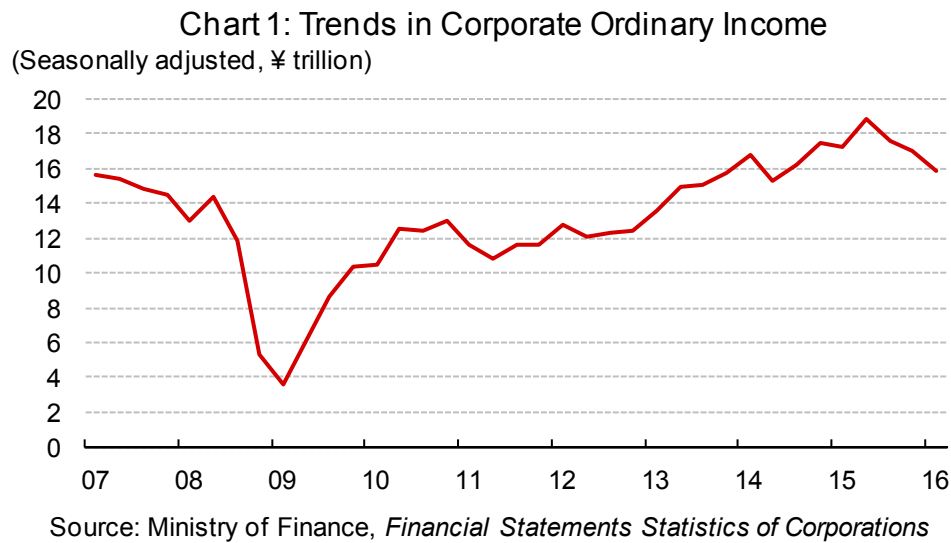
On the other hand, although the index of industrial production (preliminary estimate) in April was expected to

decline from the previous month because manufacturers of automobiles and other products had to suspend production after the earthquakes in Kumamoto, the decline in automobile production was smaller than expected, and other industries, such as chemicals and electric machinery, reported steady increases in production. For this reason, industrial production remained on an upward trend, rising a slight 0.3% over the previous month. The surveys of production forecasts for the manufacturing sector call for increases in output in May and June (of 2.2% and 0.3%, respectively). The recent weakness in production is expected to pass as production of automobiles and other goods makes a comeback.

In the household sector, the tightness in the supply and demand balance for labor remains unchanged, and the unemployment rate in April was at a low level of 3.2%, while the ratio of job openings to job seekers in April rose to 1.34 times, as high as during Japan's bubble economy. Amid this economic environment, wages are continuing to show gradual improvement, and total per capita cash compensation of workers (preliminary figure) in March rose 0.3% over the same month of the previous year (with regularly scheduled compensation up 0.2% year on year).

If the improving trend in employment and income conditions continues, this is eventually expected to have a positive effect on consumer spending. According to the *Family Income and Expenditure Survey* (covering households of two or more persons, seasonally adjusted) for April, consumer spending rose 0.2% over the previous month, the third consecutive monthly increase, reflecting the gradual rising trend in consumption levels. Going forward, the improvement in wages and the stability of prices are likely to provide support for consumption. Note that the consumer price index (comprehensive index, excluding fresh food) in April was 0.3% below the same month of the previous year. However, the effects of the decline in raw material prices and the decrease in import prices owing to the high value of the yen will continue, and the declines in consumer prices year on year are likely to continue for the time being.

In addition, as a result of the bottoming out of commodity markets and correction of the overvaluation of the U.S. dollar, the previously pessimistic views about the trends in overseas economies are receding, and this is expected to have a positive impact. Concerns about a downturn in overseas economies due to such factors as the rekindling of turmoil in international financial markets and concerns about trends in overseas economies are lingering. However, moving into the summer months, there should be spreading signs of improvement as the employment and income conditions improve, capital investment remains on a rising trend, and exports also expand along with recovery in overseas economies. Although the pace is moderate, the footholds for improvement in the economy are gradually taking shape, and there are no signs of serious crises that would lead to delaying the timing of the increase in the consumption tax hike. (2016.6.10)



2. Topic of the Month: Average Number of Overnight Stays in Overseas Tourist Trips Decreasing

By Ruriko Toshida, Economist

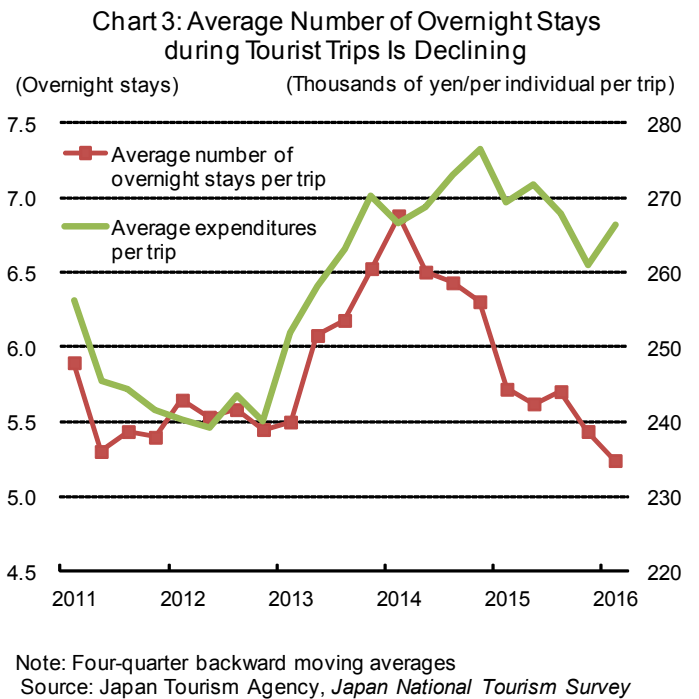
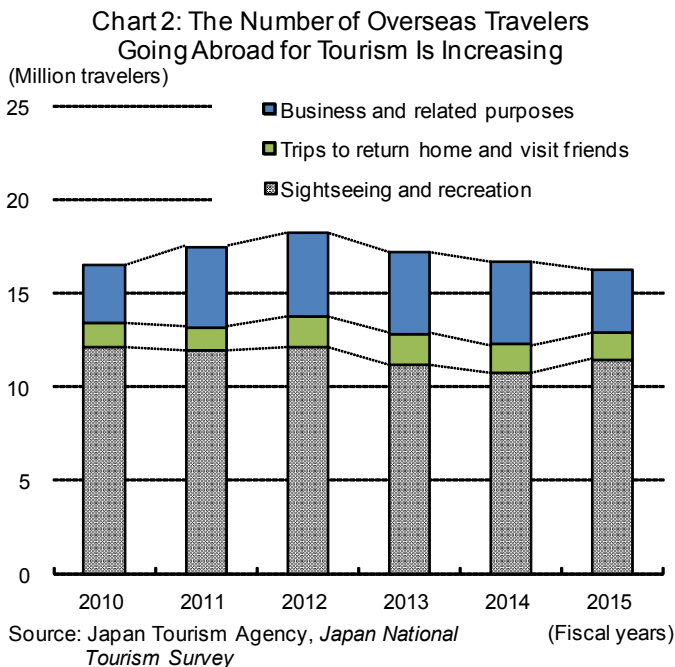
The cumulated number of overseas travelers (from Japan) in fiscal 2015 (where the number of trips is counted as the number of travelers, even when a single individual makes more than one trip) decreased 2.5% from the previous fiscal year for the third consecutive year of declines. However, data on the breakdown by purpose of the trips shows that, while the number of trips for business and related purposes and trips to return home and visit friends, etc., diminished, the number of trips for sightseeing and recreation (hereinafter, tourist trips) rose 6.5% over the previous year (Chart 2). In fiscal 2015, against a background of an increasing trend toward frugality, while personal consumption as a whole tended to stagnate, overseas trips seem to have been unaffected by this trend.

Regarding tourist trips, Chart 3 compares trends in the number of overnight stays per trip and expenditure per trip (hereinafter, trip expenditures). According to this chart, up to about the end of 2013, trip expenditures and the average number of overnight stays were correlated. In part because of the positive effects of Abenomics, consumer confidence was improving, and the length of trips was increasing along with trip expenditures.

However, in and after 2014, trip expenditures and the number of overnight stays per trip began to diverge. Especially during the one-year period of fiscal 2014, although the average number of overnight stays was continuing to decline, trip expenditures were on an increasing trend. Then, in fiscal 2015, trip expenditures reached a peak of about ¥270,000 (per trip) and have begun to decline, but compared with the decline in the number of overnight stays per trip, the level of expenditures is still high. To cite specific numbers, in fiscal 2015,

the average number of overnight stays per trip was 5.24, and this figure has fallen to the level prevailing before the Abenomics policies were introduced. On the other hand, expenditures per trip are about ¥20,000 higher than at that time.

The divergence between these two indicators means that the expenditures per overnight stay are increasing. We can cite two causes that might account for this, and they are (1) that the cost of lodging has gone up and (2) tourists are spending additional amounts for services. If we remember that, after Abenomics was introduced, the yen declined sharply in value, cause (1) above seems the likelier explanation. If this is the case, a scenario comes to mind in which tourists who are going on overseas trips are taking ¥270,000 as the upper limit on their travel budget and are making ends meet by shortening their stays. It appears that they are not embarking on overseas trips in as carefree a mood as we might suppose. (2016.6.10)



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