

## Economic Report

## Global Watch September 2016

### 1. Overview of the Japanese Economy: Remains Virtually Flat

By Shinichiro Kobayashi, Principal Economist

The economy remains virtually flat. Although some positive movements have emerged, these have been insufficient to confirm that the economy is moving out of the narrow range where it has been fluctuating.

The real GDP growth rate in the April-June quarter (second preliminary estimate) was adjusted upward to +0.2% (+0.7% at an annualized rate) from growth of only +0.0% (+0.2% at an annualized rate) in the first preliminary estimate. The April-June figure marks the second consecutive quarter of positive real GDP growth, and, while the economy remains virtually flat, it is thought likely to be gradually emerging from the narrow range where it has been fluctuating.

On the other hand, while industrial production has reached bottom, we cannot make the judgment that it has moved into a recovery phase. Industrial production in July (confirmed figure) decreased 0.4% from the previous month, but this was far below the +2.4% called for by surveys of industrial production forecasts. Production of transportation equipment, which is experiencing a comeback, and output of electronic components and devices and certain other products that are mainly linked to smartphone production are rising; however, the weakening of production in some industries, including chemicals, is restraining overall growth in output. According to surveys of industrial production forecasts, companies are looking to make major increases in output in August, pushing planned figures up to 4.2% over the previous month (followed by a decline of 0.7% in September plans). However, in view of the large gap between planned and actual production in August and the continued high level of inventories, the risk that industrial production will continue to be virtually flat, even after reaching bottom, will continue.

Real exports in August rose 1.2% month to month, but, on average, exports are continuing to be virtually flat, moving within a narrow range.

Capital investment in the corporate sector continues to lack strength. According to real GDP data for the April-June quarter (second preliminary estimate), capital investment decreased 0.1% from the previous quarter and continues to be basically flat. Corporate performance, mainly in the manufacturing sector, is deteriorating, and there is a possibility that companies are becoming even more cautious about making new investments. However, according to the *Financial Statements Statistics of Corporations*, in the April-June quarter, ordinary

income (seasonally adjusted) rose above the previous quarter, and this and other factors suggest corporate performance may be reaching bottom. Corporate orders for machinery and equipment (private sector, excluding shipping and electric power) in July rose 4.9% over the previous month, thus continuing for a second month the robust trend evident from the 8.3% rise in this indicator in June. Judging from these data, a major downturn in performance will probably be avoided.

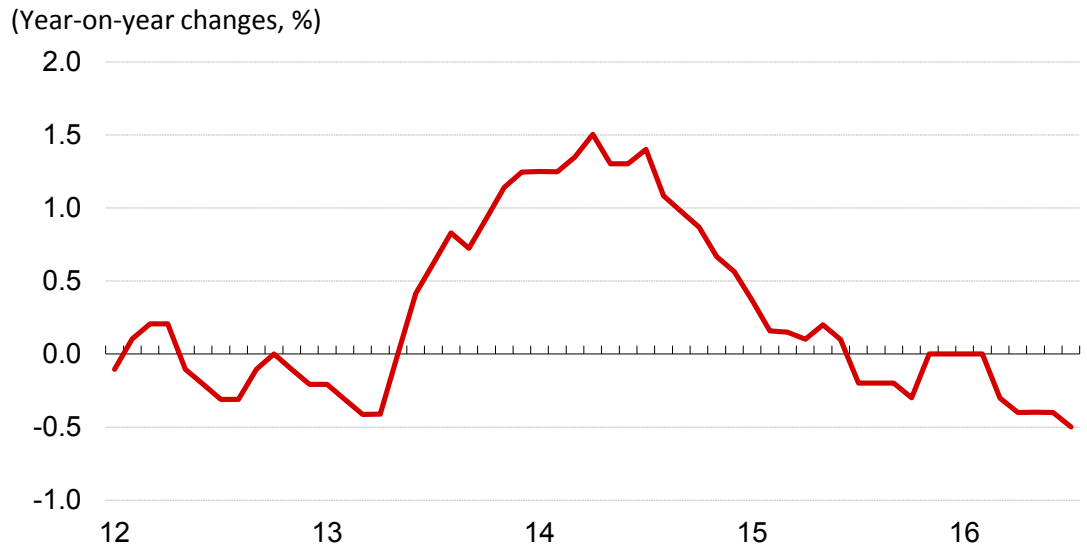
In the household sector, the supply and demand balance for labor remains tight, and the unemployment ratio in July declined to 3.0%, the lowest level since May 1995. In addition, the ratio of job openings to job seekers rose to 1.37, the highest level since August 1991. However, these favorable movements are just not bringing increases in wages. In July, total per capital cash compensation of workers (confirmed figure) increased 1.4% over the same level of the previous year, but this was because non-scheduled wage payments, including summer bonuses, rose 4.2% year on year. This rate of increase is expected to decrease again after August.

Despite these trends, real expenditures in the July *Survey of Family Income and Expenditures* (covering households of two or more persons, seasonally adjusted) rose 2.5% over the previous month, the first increase in two months. These and other indicators suggest that there are firm trends in personal consumption in some areas. In addition, the consumer price index (comprehensive index, excluding fresh food) in July stood 0.5% below the level of the same month of the previous year, suggesting that price movements may provide a tailwind and give some impetus to consumer spending.

In real terms, total cash compensation has risen to 2.0% higher than the levels of the previous year for six consecutive months. Judging from the weakening of rates of increase in wages due to the spring labor offensive, the deterioration in corporate performance, and other factors, there is a possibility that wages may remain virtually flat for the time being. However, there is a strong likelihood that consumer prices will remain below the levels of the previous year because of the effects of the decline in resource prices and decrease in import prices owing to the appreciation of the yen. These developments are expected to give a boost to real incomes and provide support for consumer spending.

In addition, other positive factors will be the gradual improvement in exports along with recovery in the world economy and the emergence, around the end of the current fiscal year, of the expected positive impact of the government's supplementary budget for fiscal 2016. Without a clear growth driver in the economy, it will probably be difficult to anticipate a sudden rise in the pace of improvement in the economy, but, even so, from the July-September quarter of 2016 onward, real rates of growth in GDP are expected to remain basically positive, and the economy will quite likely break out of the current flat narrow range where it has been fluctuating for some time and begin to show a moderate improving trend. (2016.9.27)

**Chart 1: Trends in the Consumer Price Index  
(Comprehensive Index, Excluding Fresh Food)**



Source: Ministry of Internal Affairs and Communications,  
*Consumer Price Indexes*

(Monthly data)

## 2. Topic of the Month: Rising Exports of Cosmetics Products

By Ruriko Toshida, Economist

Exports of Japan's chemical products are increasing. The export quantum index for all exports has been virtually level since the latter half of 2015, but, the export quantum index of chemical products, which reached a low point in the fall of 2015, have bottomed out and begun to rise (Chart 2).

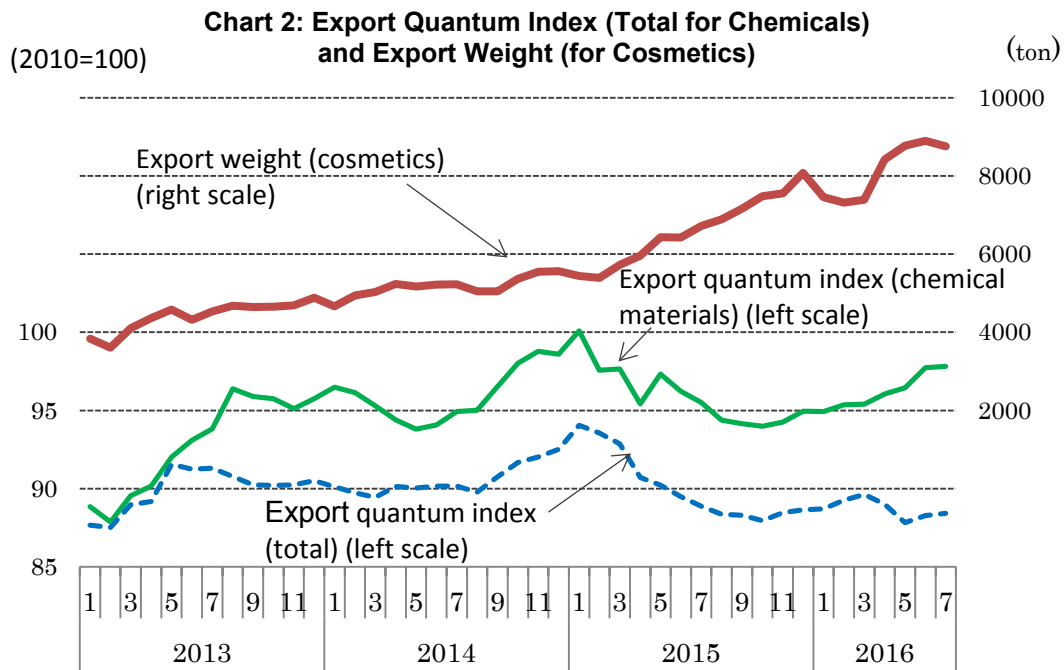
What kinds of chemical exports have been rising? According to the *Trade Statistics of Japan* (Ministry of Finance), among chemicals, in addition to compounds and plastic products, medical products and cosmetics are also included. These items are counted in different ways, and it is difficult to compare the composition of the increase in terms of quantity alone. Turning from quantitative to value terms, chemical element compounds, which were the principal chemicals exported in the past, have been adversely affected by deterioration in market conditions and have, therefore, contributed to the substantial decline (Chart 3).

On the other hand, essential oils and perfumes as well as medical products have contributed to maintaining positive contributions. Through about 2012, when exports in value terms of these items had been below the previous year's levels and they, like other items were contributing to negative growth, beginning in about 2014, they began to increase robustly and contribute to expansion, and, without being affected significantly by market conditions, were seen to begin to contribute to export growth because of price stability and increases in unit

quantitative terms.

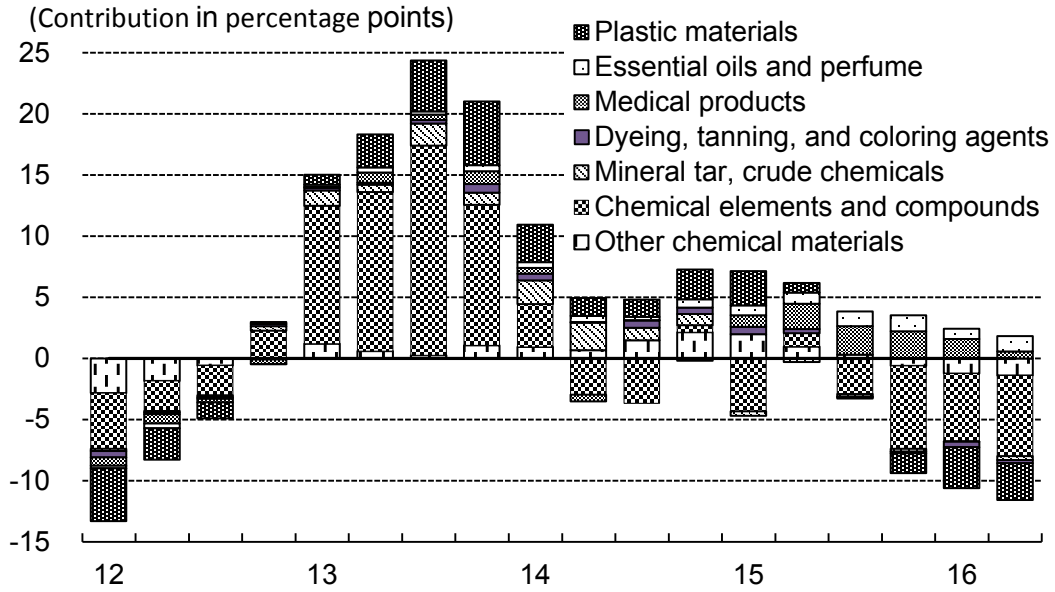
The rise in the export weight index for cosmetics, which was shown in Chart 2, is just one example. Recently, they have maintained rising trends, and, especially in 2015 and subsequent years, have shown accelerated rates of expansion. Destinations of these exports (export trading partners) include Hong Kong (25.1% share on a value basis), Taiwan (18.4% on this basis), and China (16.0% on this basis). These Asian countries and regions have accounted for more than 80% of these exports. Factors boosting exports include the fact that cosmetics manufacturers are stepping up their sales efforts in Asia, and visitors to Japan have taken these products home and made purchases via the Internet.

Although their share in total exports is only 0.3% (in fiscal 2015, on an export value basis), if consumers continue to support Japanese products, these items may become important export goods. (2016.9.27)



Note: Three-month moving averages (Monthly data)  
 Source: Ministry of Finance, *Trade Statistics of Japan*

**Chart 3: Contribution to Exports in Value Terms (Chemicals)**



Source: Ministry of Finance, *Trade Statistics of Japan* (Quarterly data)

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