

Economic Report

Global Watch January 2017

1. Overview of the Japanese Economy: Showing Moderate Improvement

By Shinichiro Kobayashi, Principal Economist

The Japanese economy is gradually showing improvement, led by the corporate sector.

Corporate activities are strengthening and are becoming the driving force for the improvement in the economy. First, the rising trend in production has become clear. In November, the index of industrial production (preliminary figure) rose 1.5% over the previous month, and inventories have fallen below the level prevailing in July 2009. The surveys of production forecasts call for increases in December and January (2.0% and 2.2%, respectively). Even after taking into account the recent deteriorating trend in corporate performance, it is now certain that data for the October-December period will show an increase for the third consecutive quarter. The rise in production in the automobile and electronics components/devices industries will continue to boost overall production.

Exports in real terms also rose a firm 3.4% over the previous month in November. This was the fourth consecutive monthly rise, and exports have improved to the level prevailing in August 2008, just before the collapse of Lehman Brothers. As with industrial production, performances of automobiles and smartphone related electronic components and devices were especially favorable.

Moreover, a movement toward improvement in corporate performance has emerged. According to the Bank of Japan's *Tankan* survey for December, the diffusion indexes (Dis) that measure the operating outlook indicate that performance of large non-manufacturing enterprises in industries linked to households are virtually level, but the DIs for large manufacturing corporations are four points higher than in the previous survey, reflecting the rise in international commodity prices and the improvement in external demand.

Private capital investment is increasing moderately. Although investment on a real GDP basis decreased 0.4% from the previous quarter during the July-September period, on average, capital investment is rising. Under the 2008 System of National Accounts (SNA), R&D investments have been newly included in capital investments. As a result, the overall level of capital investments has increased, and these data allow us to confirm that, in actuality, overall capital investments are on a moderately rising trend.

In the household sector, the unemployment ratio in November rose to 3.1%, compared with 3.0% in the previous month, but the ratio of job openings to job seekers rose to 1.41 times, versus 1.40 times in the prior months,

suggesting that employment conditions are continuing to be favorable. Total per capita cash compensation of workers (preliminary figure) in November rose a marginal 0.2% over the same month of the previous year, but scheduled wages rose 0.4% year on year, the 5th consecutive monthly rise, thus evidencing signs of improvement.

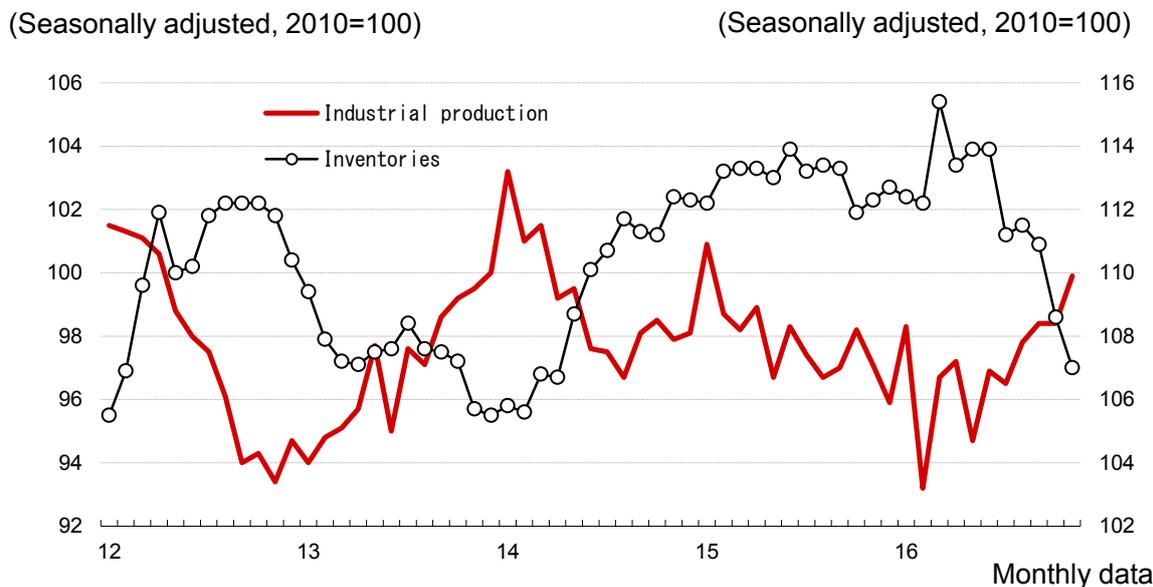
According to the November *Survey of Family Income and Expenditures* (covering households of two or more persons, seasonally adjusted), real consumption is showing some weakness and fell 0.6% from the previous month for the second month-to-month decline. However, in part because of the introduction of new car models, new automobile registrations in December recorded double-digit growth rates year on year for the second consecutive month, indicating a firm trend and giving rise to the belief that consumer spending is moving within a narrow range on average.

Even after the beginning of the New Year, the expectations of expansion in the U.S. economy have continued, and, in financial markets, the “Trump” market has continued, with U.S. stocks rising, the U.S. dollar strengthening, and interest rates increasing. On the other hand, accompanying the rise in the value of the dollar, the currencies of emerging countries have depreciated, and some countries have resorted to raising their interest rates to defend their currencies, thus bringing the risk of a slowdown in the world economy. In addition, there is still deep-rooted concern that extreme statements by the newly elected President Trump may again create turmoil in financial markets and suddenly wipe away positive expectations about the world economy. At present, we should not have overly optimistic expectations that the U.S. economy will expand steadily and will be a driving force for the world economy under the new Trump administration.

Going forward, the rates of increase in wages in Japan are likely to remain moderate, but consumption is expected to show continuing moderate improvement, as real incomes rise along with price stability and an increase in the number of employed persons. In addition, since exports are expected to continue to strengthen along with recovery in the world economy, the Japanese economy is likely to show moderate improvement. Moreover, the positive effects of the implementation of the supplementary budget for fiscal 2016 will strengthen approaching the fiscal year-end. However, there is a possibility that the positive effects of the rise in automobile production and the increase in exports of smartphone-related products will run their course during the year, and a sudden rise in the pace of improvement is unlikely. In addition, the risk of a downturn in the world economy remains, if turmoil in financial markets returns and concerns about a deterioration in the world economy rise.

(2017.1.26)

Chart 1: Indexes of Industrial Production and Inventories



Source: Ministry of Economy, Trade and Industry, *Indexes of Industrial Production*

2. Topic of the Month:

New Job Openings for Regular Workers Increase along with a Movement to Restrain Long Working Hours

By Ruriko Toshida, Economist

When economic conditions improve, corporations respond with such measures as extending the working hours of existing employees, increasing the number of workers, and increasing production capacity. For these reasons, thus far, the number of new job openings for regular workers and the number of hours worked have been basically correlated (Chart 2). However, recently, movements in these two indicators have tended to diverge. The number of new job openings for regular workers has continued on an upward trend since the first half of 2015. In November 2016, the number of new job openings for regular workers was 551,466 persons (seasonally adjusted), the highest level since July 2007. In contrast, actual working hours were approximately level in 2015, and beginning in 2016, they have shown a moderate decline. There appears to be a gradually emerging consensus among corporations that calls for reducing working hours, and, therefore, rather than increasing working hours, the number of workers should be increased in response to rising demand.

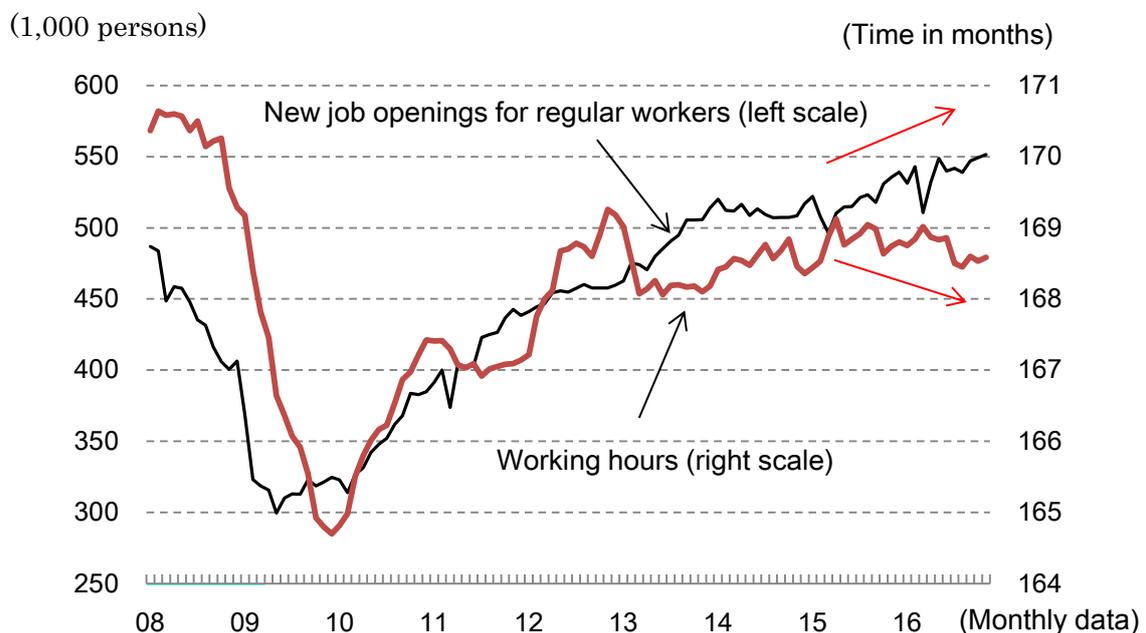
Examination of trends by industry shows that in many sectors, including real estate and goods rental and leasing, and the information and communications industry, when working hours decrease, the number of new job openings for regular workers increases, and it seems that this trend can be seen in a wide range of industries

(Chart 3). On the other hand, although the number of new job openings for regular workers increases, the working hours of existing employees also rises. In the education, learning support industry as well as in the accommodations, eating and drinking services industry, there is a possibility that growth in the labor force may not be able to keep up with the pace of growth in demand.

Note that there are also industries where companies are making up for declining working hours of general workers with increases in the hiring of part-timers. For example, in the real estate and equipment rentals industries as well as the living-related and personal services and amusement services, and other sectors, the working hours of general workers are declining; on the other hand, the number of new job openings for part-timers is rising steadily.

Under the “Work Style Reform” advocated by the administration of Prime Minister Shinzo Abe, one of the issues under discussion is how to correct the practice of working long hours. Moreover, during the latter half of fiscal 2016, interest in Japanese society regarding correcting excessively long working hours increased. For this reason, in the years ahead, it may continue to be difficult to lengthen working hours, and the trend toward increasing job openings for regular workers and part-timers may be maintained. (2017.1.26)

Chart 2: New Job Openings for Regular Workers and Working Hours (General Workers)



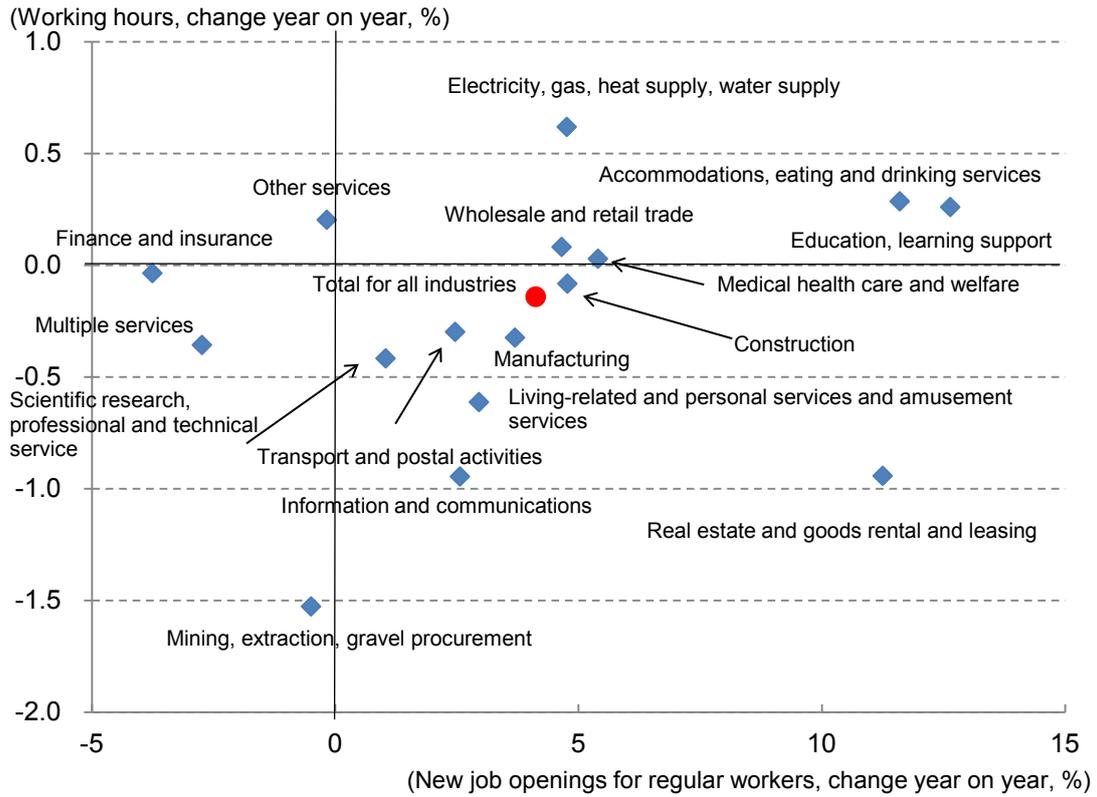
Note 1: Data for new job openings for regular workers are seasonally adjusted (published figures).

Data on working hours are 12-month lagged moving averages.

Note 2: The shaded (blue) area indicates years of recession.

Source: Ministry of Health, Labour and Welfare, *Employment Referrals for General Workers, Monthly Labour Survey*

Chart 3: New Job Openings for Regular Workers and Working Hours (By Industry)



Note: Year-on-year changes from January through November.

Source: Ministry of Health, Labour and Welfare, *Employment Referrals for General Workers, Monthly Labour Survey*

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