

**Economic Report**

## Global Watch July 2016

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

By Shinichiro Kobayashi, Senior Economist

The economy continues to be basically flat, and weakness has emerged in some sectors.

The sector of the economy that remains weak is manufacturing production. According to data on industrial production (preliminary estimates), the surveys of industrial production forecasts for the manufacturing sector were predicting growth in the index of output of 2.6% over the previous month in May, but instead, the index declined 2.3% from the previous month. In the surveys of production forecasts for June and July, the index is expected to rise for two consecutive months (+1.7% in June and +1.3% in July), because of a comeback in automobile production and other factors. Although this implies that the manufacturing sector may gradually be escaping from its recent weak performance, concerns remain that actual figures may fall below the forecast figures.

Both private capital investment and exports lack robustness. Although corporate performance is deteriorating, corporations still have ample cash, and the rising trends in capital investment, mainly for maintaining and replacing equipment, are expected to continue. However, orders for machinery and equipment (private sector, excluding shipping and electric power), which are a leading indicator for private investment, decreased 1.4% in May, suggesting the sharp drop in orders reported in April (–11.0%) is continuing. As a consequence, the rate of increase in private capital investment is likely to continue to be moderate for the time being. Real exports remain virtually flat, rising only 0.1% over the previous month in May, reflecting the drop in automobile-related production and other factors.

In the Bank of Japan's *Tankan* Survey for June, the diffusion index (DI) of corporate sentiment among large manufacturing companies remained level at 6 points and the outlook also remained at 6. The fact that further substantial deterioration in corporate sentiment has been held in check is some favorable news about the corporate sector. Although there are concerns about the effect of the appreciation of the yen and performance in the processing industries, such as automobiles, is deteriorating, performance in the basic materials industries is improving because international commodity prices have bottomed out. Nevertheless, the DI for large corporations in the non-manufacturing sector has deteriorated 3 points, to 19 and the DI for the outlook deteriorated 2 points. These and other data suggest that conditions in the corporate sector are not robust. In the non-manufacturing

sector, conditions, mainly in the household services industries such as retailing, lodging, and restaurant services, are deteriorating. There is a possibility that this is due to weakness in personal consumption, and the effects of the diminishing momentum in inbound tourist demand.

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 May rose to 1.36 times, about as high as during Japan's bubble economy. However, these favorable movements have not been reflected in wage increases. In May, total per capita cash compensation of workers (preliminary figure) began to decline and was 0.2% lower than in the same month of the previous year. Therefore, at present, the recovery trend in wages is weak (with regularly scheduled wages down 0.1% year on year in May).

Moreover, the trend toward frugality among consumers continues to be strong, and there are no signs that consumer spending may become active again. According to the *Family Income and Expenditures Survey* for May (covering households of two or more persons, seasonally adjusted), consumer spending decreased 1.5% from the previous month and the trend toward improvement has paused. Also note that the consumer price index (comprehensive index, excluding fresh food) in May was 0.4% below the figure for the same month of the previous year, and the margin of decline is increasing. Since the effects of the decrease in resource prices and the decline in import prices due to the appreciation of the yen will continue going forward, there is a strong possibility that the depressing effects on prices will continue. However, this is believed likely to act as a support for consumption as lower prices will push real incomes upward.

One positive movement is that, as a result of three factors, namely: the bottoming out of commodity prices, the prospects that the timing of the increase in interest rates in the United States will be delayed, and the correction of the overvaluation of the U.S. dollar, the temporary pessimistic views about future directions of overseas economies are receding. Downside risks may remain because of turmoil in international financial markets and the rekindling of concerns about a deceleration of overseas economies accompanying the exiting of the United Kingdom from the EU. However, provided the trends toward improvement in employment and income conditions and the rise in capital investment continue along with improvement in exports in tandem with recovery in overseas economies, movements toward improvement in the economy may spread during the summer. A "comprehensive and bold economic policy" on the scale of a total of ¥10 trillion is likely to be formulated, but the economy does not appear to be under so much pressure that such a policy will be necessary. (2016.7.11)

Chart 1: Index of Industrial Production

(Seasonally adjusted, 2010=100)



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

## 2. Topic of the Month: Trends in Regional Job Openings as Seen from the Perspective of the Ratio of Job Openings to Job Seekers by Place of Employment

By Ruriko Toshida, Economist

In April 2016, the active job openings-to-applicants ratio (seasonally adjusted) in Okinawa Prefecture rose to 1.01 times. This was the first time that all prefectures in Japan reported a ratio of job openings to job seekers of more than 1.00 times. The active job openings-to-applicants ratio we will discuss here is compiled in a different way from the usual ratio for the prefectural level. It is the ratio of job openings to job seekers by place of employment, which has been compiled and made public since February 2005

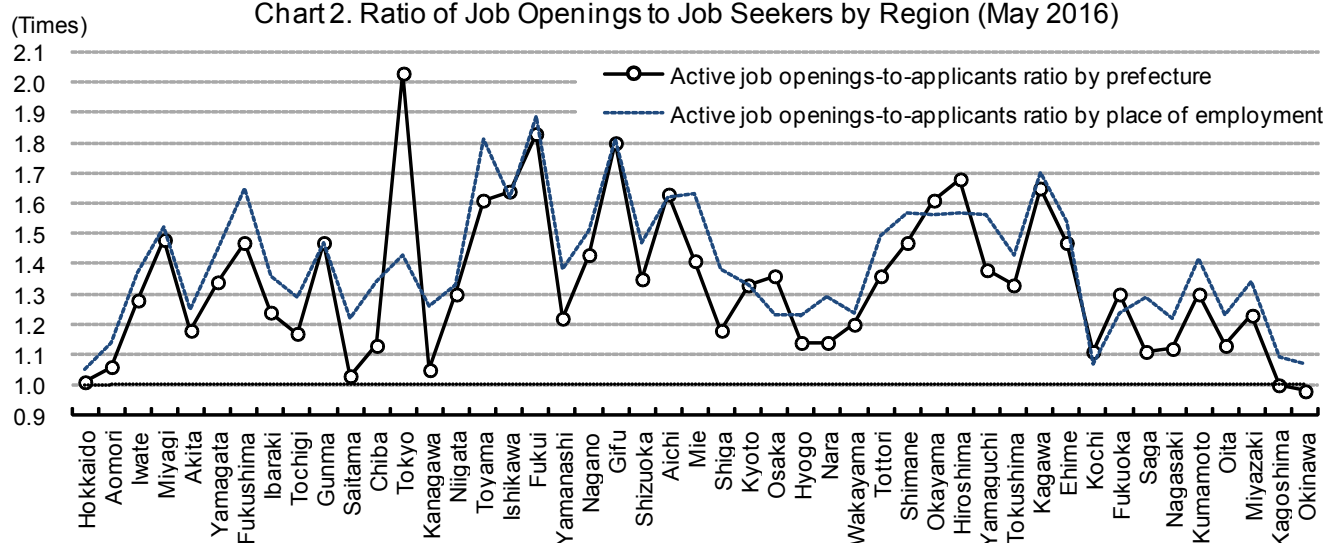
The ratio of job openings to job seekers is the number of active job openings divided by the number of active applications. This ratio for each prefecture is computed using the number of requests for workers that have been received in the Hello Work location (local labor offices) in that prefecture. For this reason, in cases where companies have their head office in Tokyo, their requests for workers in local business locations are all counted as job openings in Tokyo. As a result, since many companies have their head offices in Tokyo, the ratio of job openings in Tokyo to job seekers is much higher than in other prefectures.

On the other hand, since the ratio of job openings to job seekers by place of employment is computed using data on job openings for the region and job seekers located in the same prefecture, it gives a more realistic picture of employment conditions.

If we compare the most recent results, for May 2016, after the exclusion of Tokyo, Osaka, Fukuoka and other prefectures with large urban areas, the ratios by place of employment are higher (Chart 2). In Okinawa Prefecture as well, the ratio calculated with opening and seekers data by prefecture is 0.98, still below the 1.00 level.

If we take Tokyo as an example, the difference between the ratio “by prefecture” and “by place of employment” is that during periods when the ratio is declining the difference is diminishing, and during periods when the ratio is rising, the difference tends to increase (Chart 3). This is believed likely to be due to the fact that when companies with head offices in Tokyo feel they have an excess of workers, they first cancel their job opening requests for workers in regional areas. The reverse is true when companies feel they have a shortage of workers; they gradually make more requests for workers in regional areas.(2016.7.11)

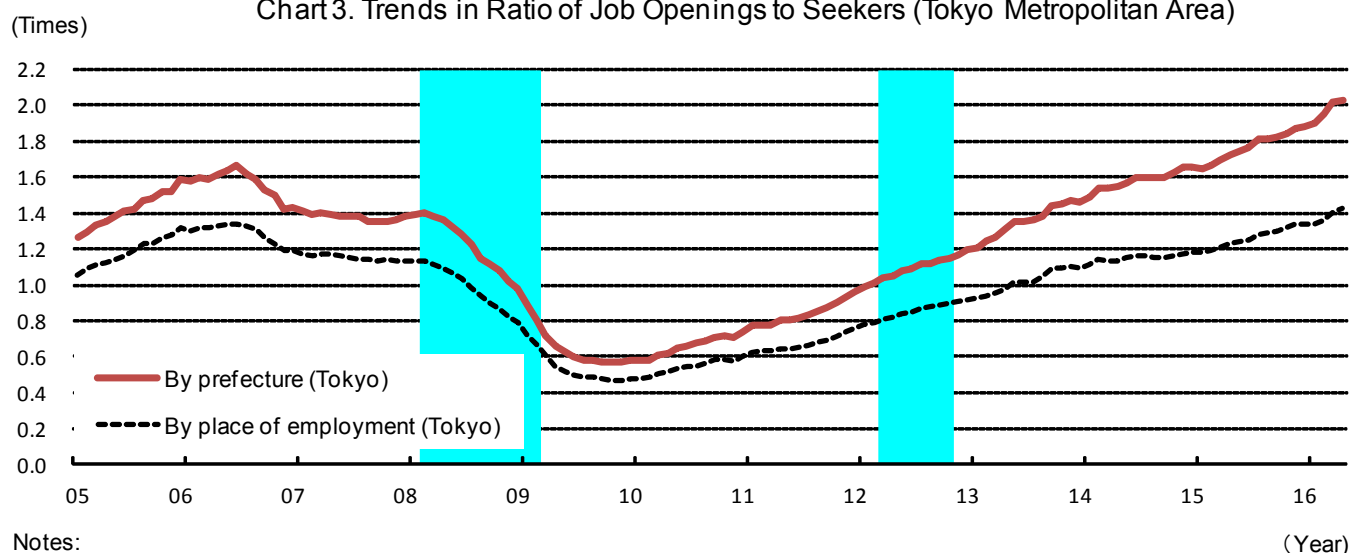
Chart 2. Ratio of Job Openings to Job Seekers by Region (May 2016)



Note: Seasonally adjusted

Source: Ministry of Health, Labour and Welfare, *Status of General Employment Introductions*

Chart 3. Trends in Ratio of Job Openings to Seekers (Tokyo Metropolitan Area)



Notes:

1. Seasonally adjusted

2. Shaded portions are periods of recession

Source: Ministry of Health, Labour and Welfare, *Status of General Employment Introductions*

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