

# *Economic Outlook of Japan*

## *The Age of “Wageless Recovery” in Japan and the World*



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## 1, Economic outlook of Japan

The growth has accelerated moderately since 2016 backed by increasing exports and recovery of individual consumption.

## 2, The age of “wageless recovery”

Flattening Phillips curves and declining labor share of income in Japan and the other developed countries.

## 3, The Abe Cabinet will be the longest one after the WWII.

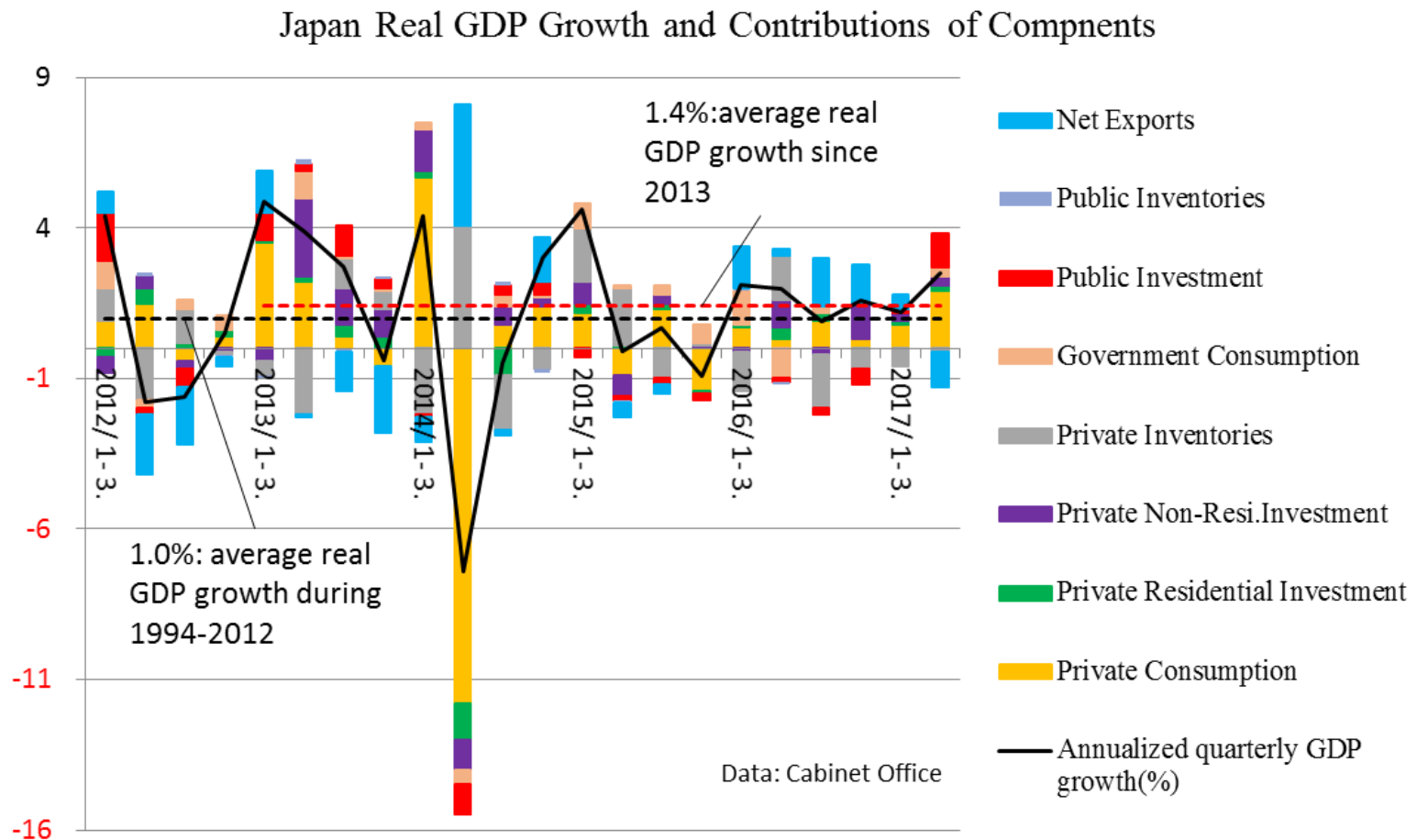
The result and implication of the general election on Oct.22

# 1, Economic Outlook of Japan

The real GDP growth of the 2<sup>nd</sup> quarter of 2017 accelerated to +2.5% from the previous quarter +1.2%(annualized base).

The forecast of annual GDP growth in 2017 is +1.5% and +1.0% in 2018 by JCER.

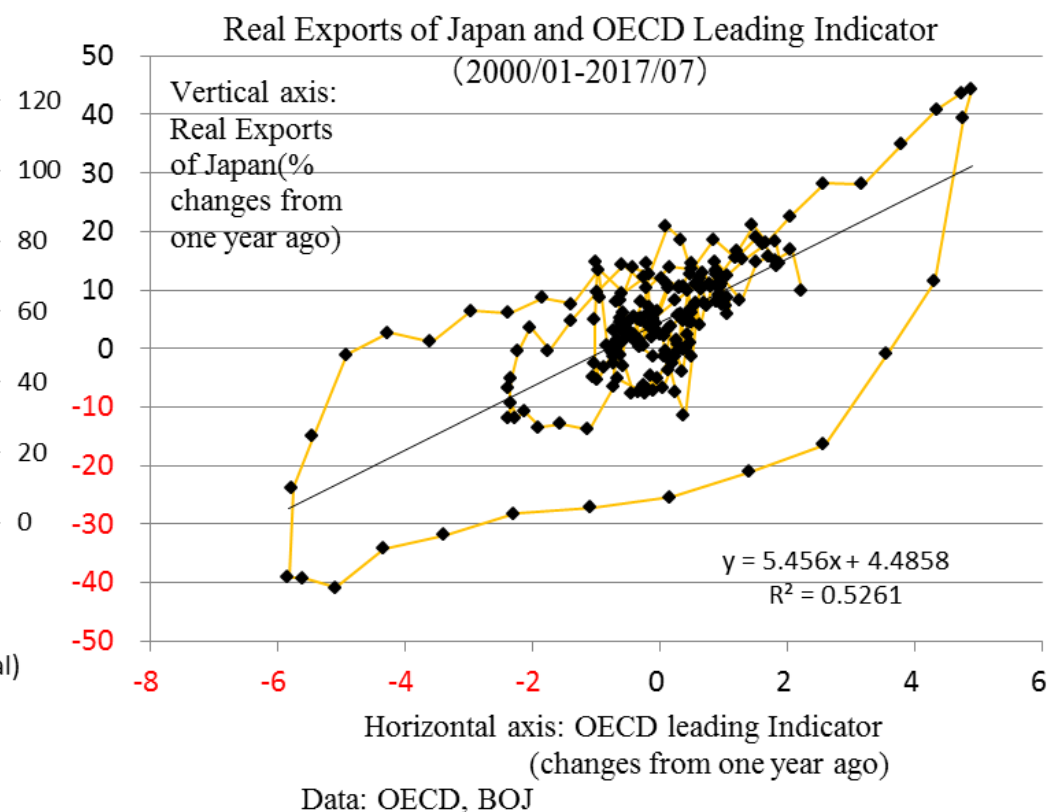
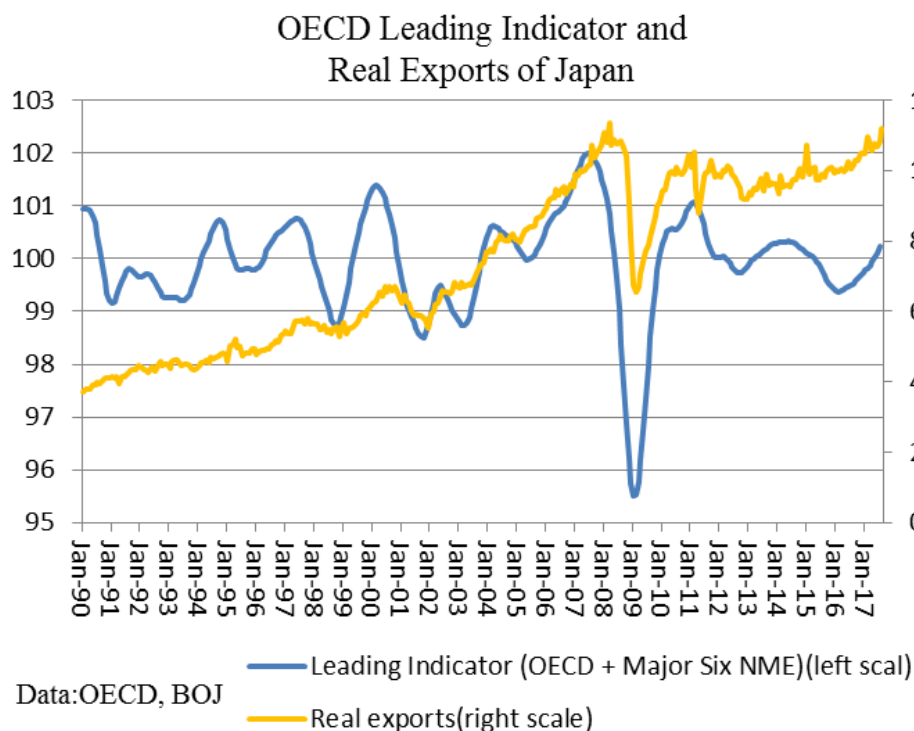
I think, however, there is no reason to expect a weaker growth for 2018 than the average since 2013 (1.4%).



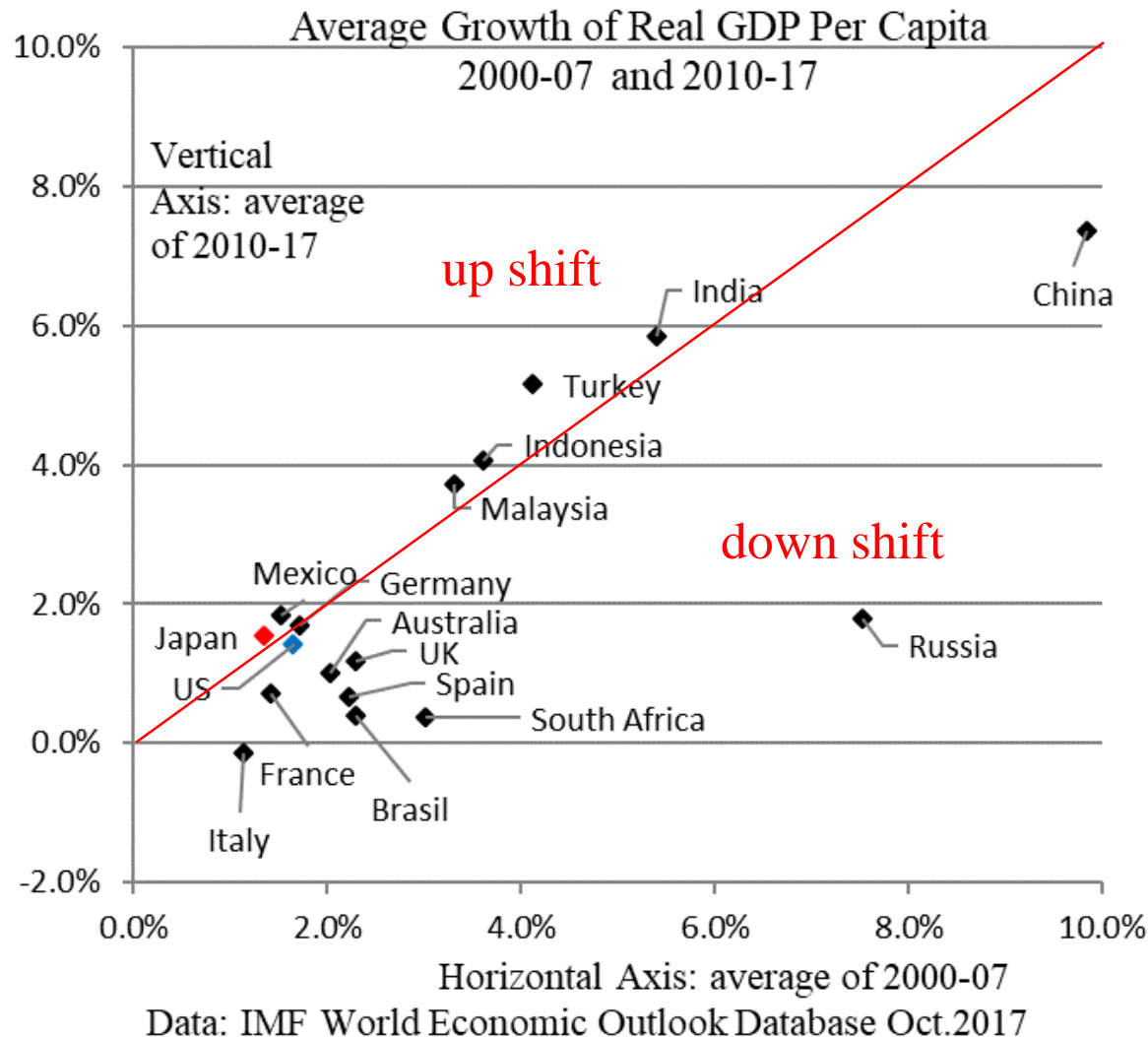
## Following wind from the exports growth since 2016

The average contribution of net exports for real GDP growth was  $+0.6\%$  from 2016/1Q to 2017/2Q while it was only  $+0.1\%$  from 2013/1Q to 15/4Q.

Growth of Japanese exports depends more on overseas economic growth which is reflected on the OECD leading indicator (OECD + six major NME) rather than exchange rate of Yen.



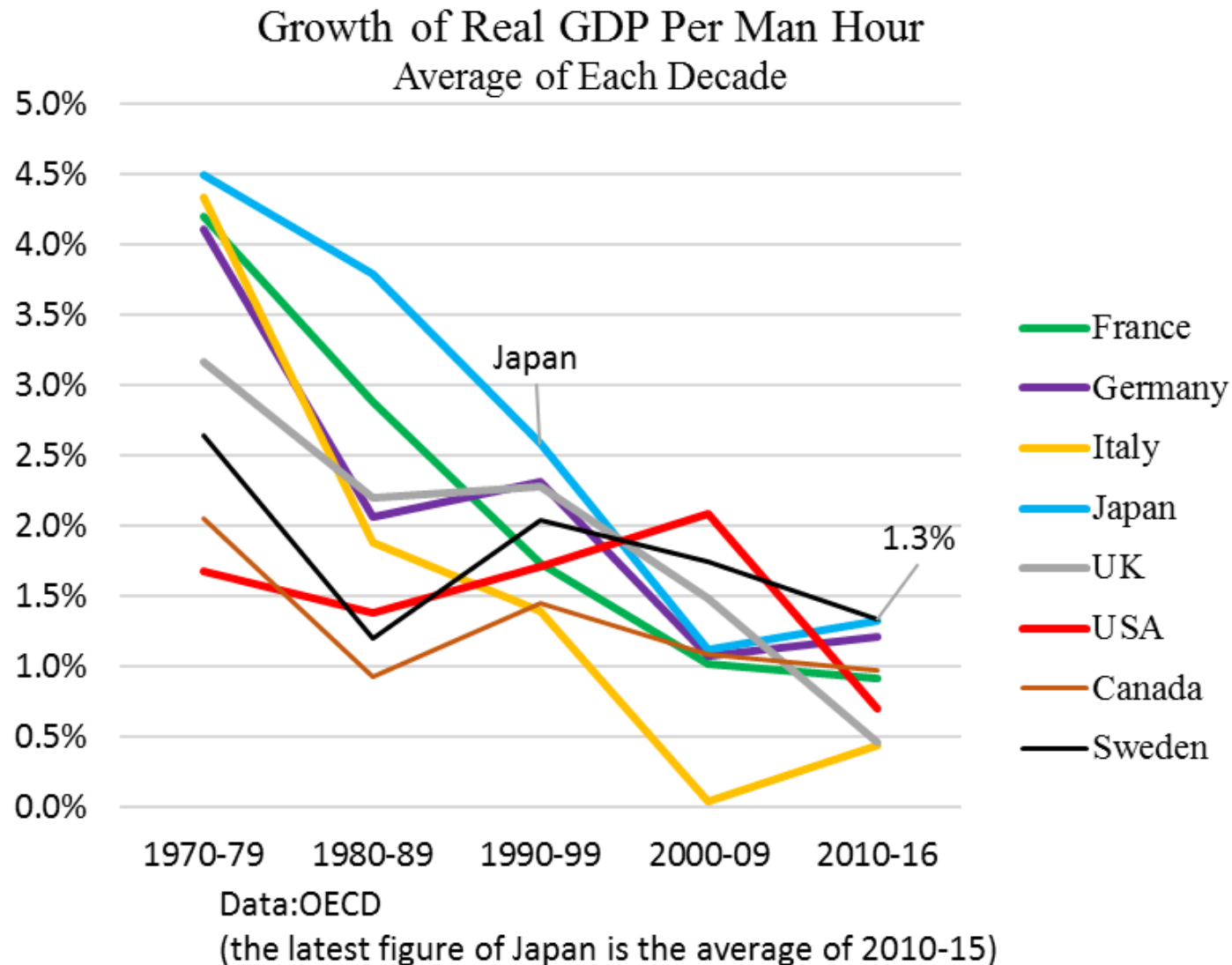
If you look at the average growth of real GDP per capita, you can see more clearly what has changed and what has not changed after the global financial crisis.



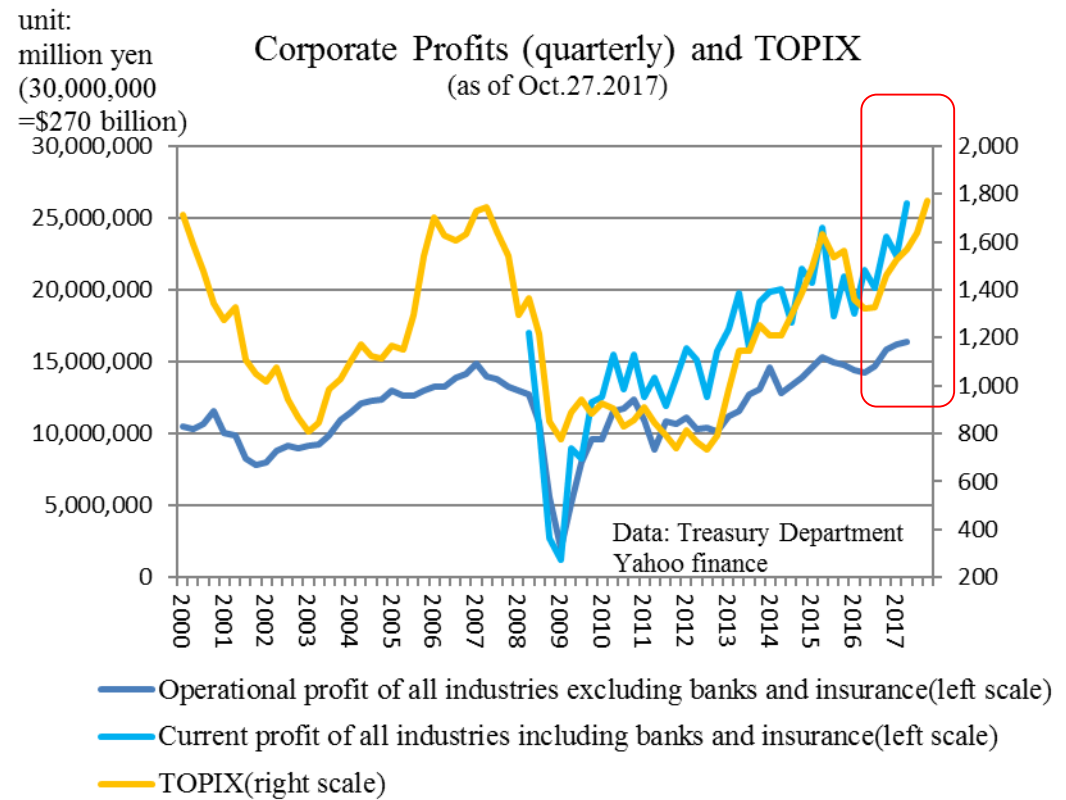
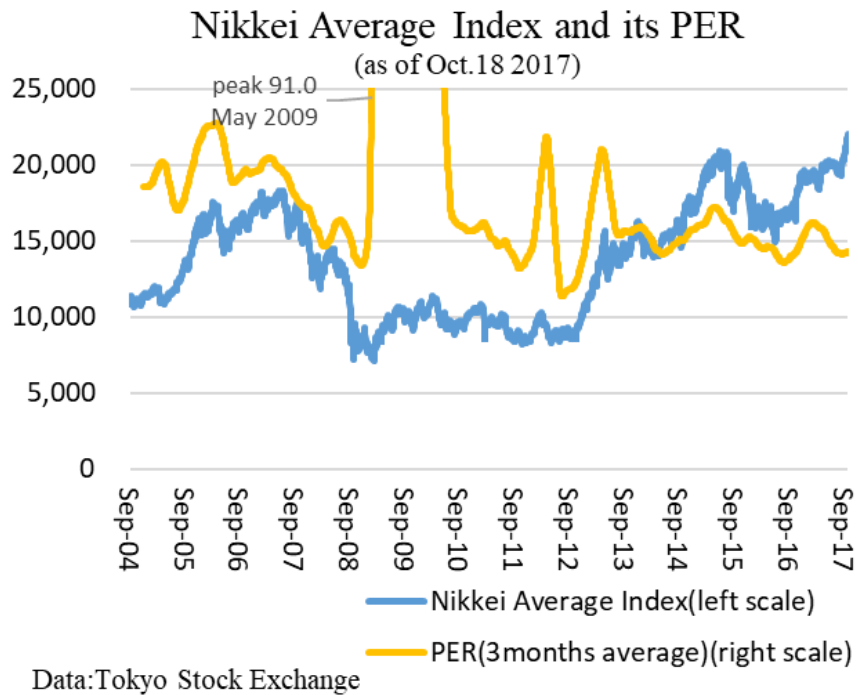
Real GDP Growth per capita		
	average 2000-07	average 2010-17
China	9.8%	7.4%
India	5.4%	5.8%
Turkey	4.1%	5.2%
Indonesia	3.6%	4.1%
Malaysia	3.3%	3.7%
Mexico	1.5%	1.8%
Russia	7.5%	1.8%
Germany	1.7%	1.7%
Japan	1.4%	1.5%
United States	1.7%	1.4%
United Kingdom	2.3%	1.2%
Australia	2.0%	1.0%
France	1.4%	0.7%
Spain	2.2%	0.7%
Brazil	2.3%	0.4%
South Africa	3.0%	0.4%
Italy	1.1%	-0.1%

Growths of 2017 are IMF's forecast as of Oct.2017

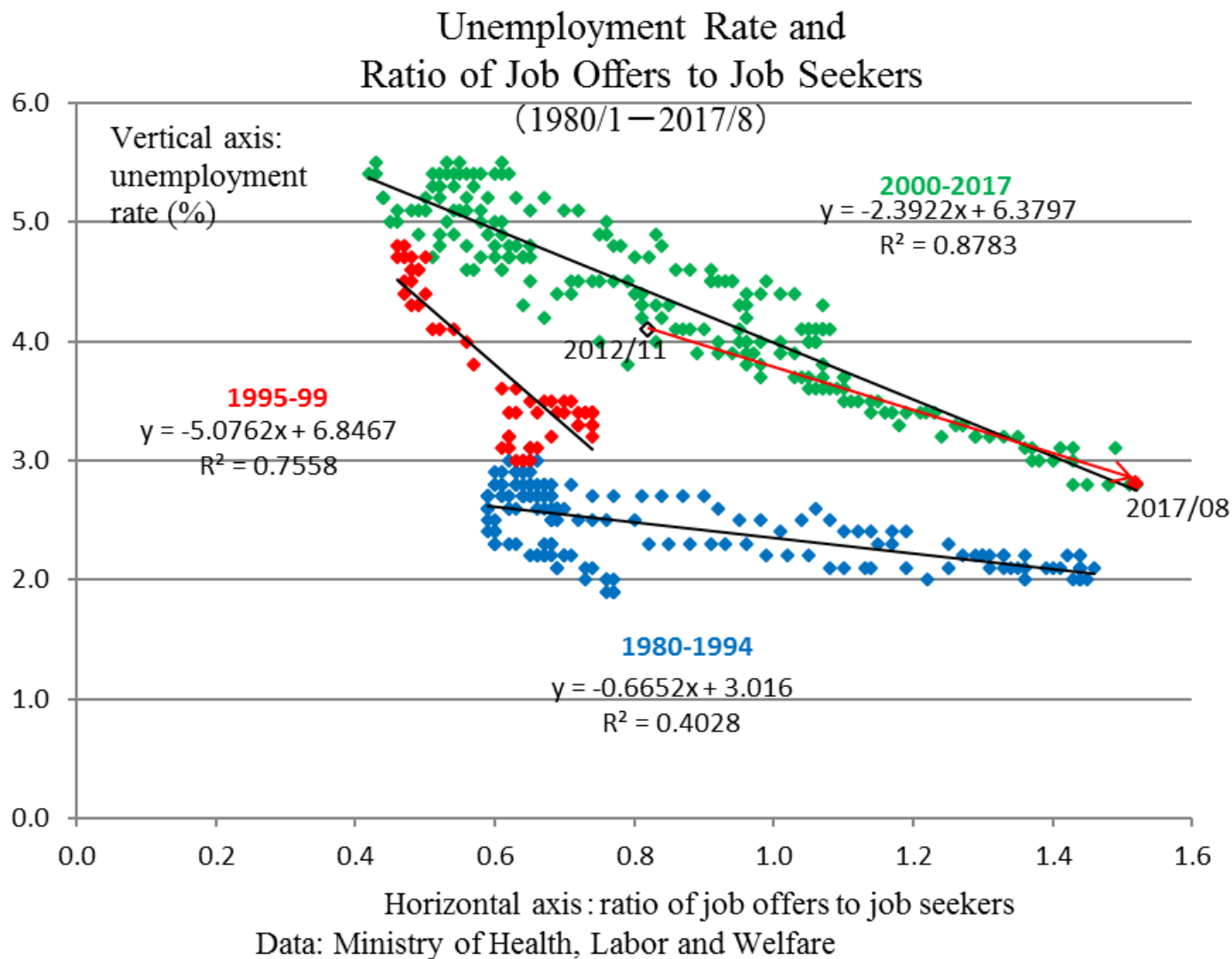
The growth of labor productivity from 2013 to 2015 in Japan is 1.2% which is nearly the same with the average of 2000-12.



The resurgence of stock prices since the 2<sup>nd</sup> half of 2016 has been backed by increasing profits of the corporate sector. The average PER of Nikkei Index has been stable around 15 and there is no sign of overvaluation.



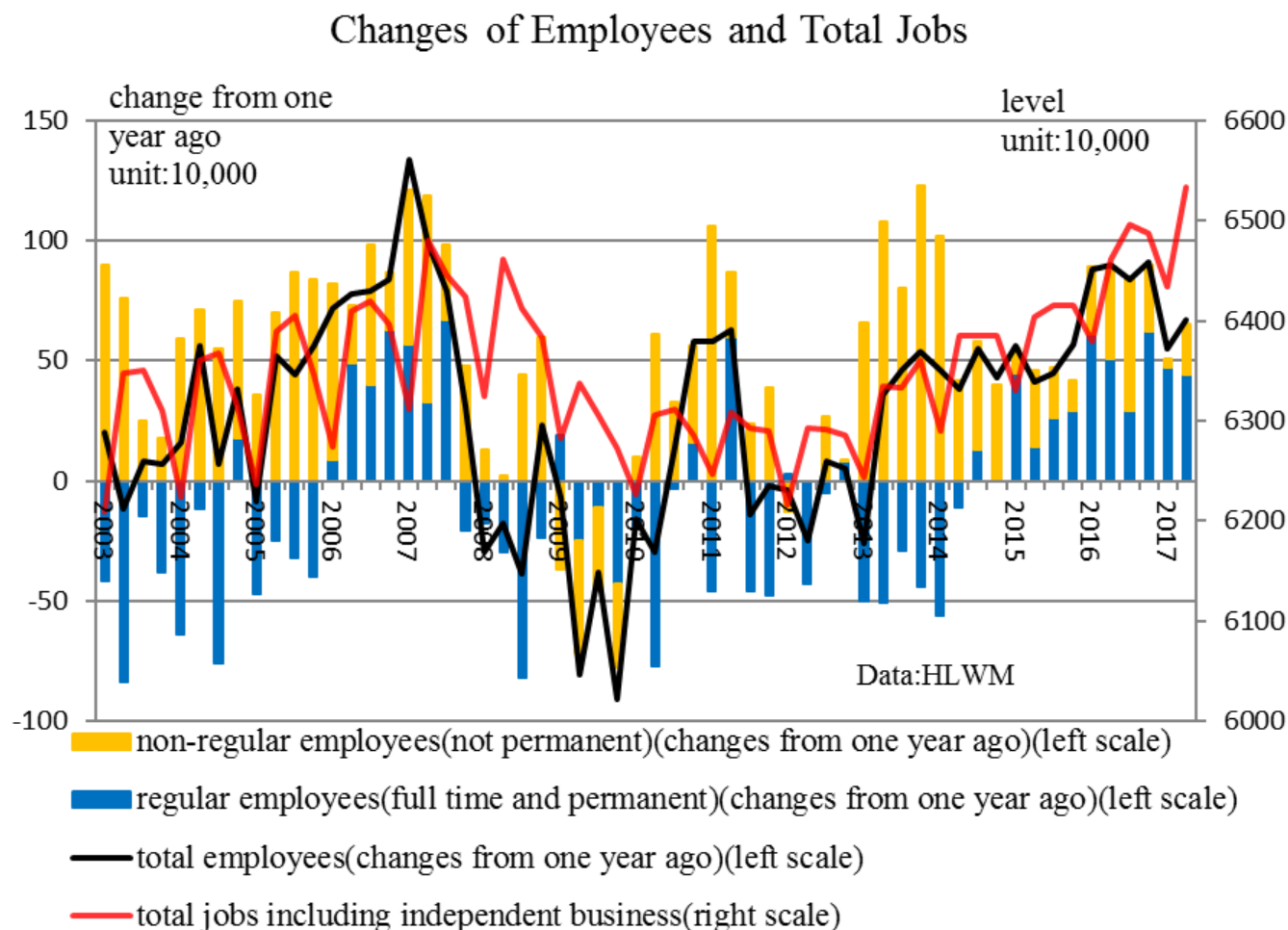
The labor market has been the tightest in the last quarter of a century.



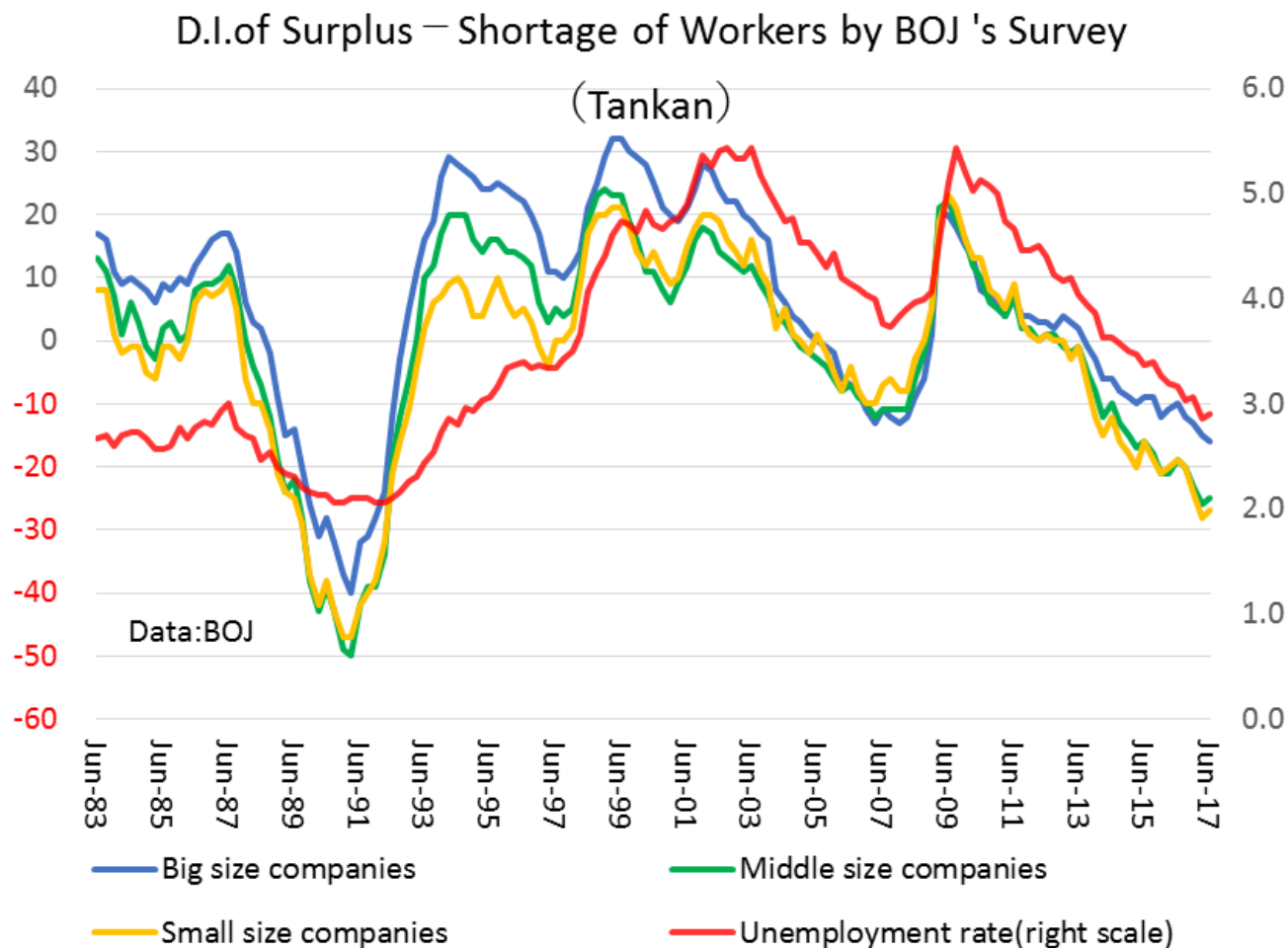


The numbers of total jobs and employees have been increasing since 2013.

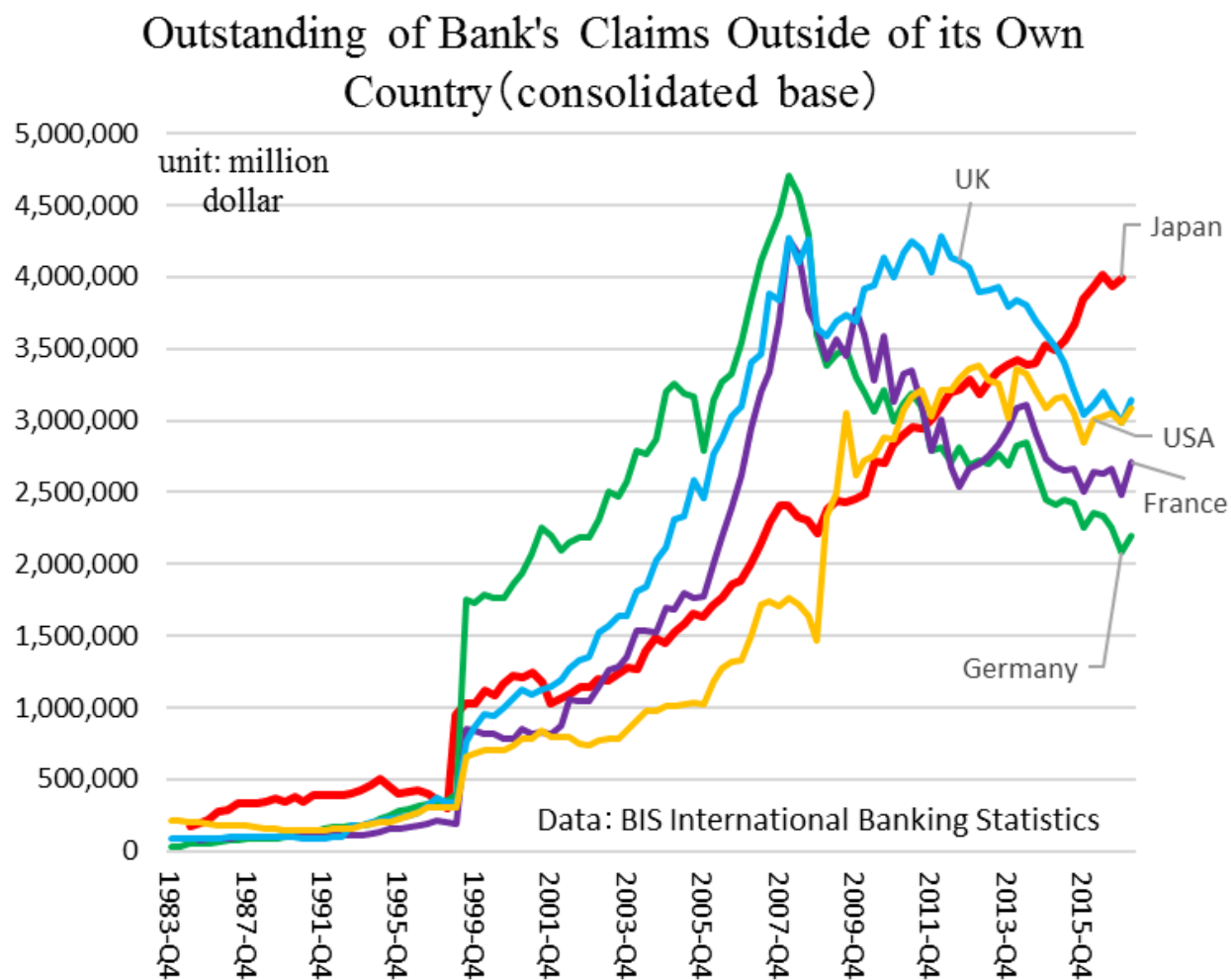
The number of regular employees (full time and permanent contract) decreased in 2013 and 14 probably because the Japanese baby boomers reached their retirement age 65 at that time. Since 2015 the increase of regular employees outpaced that of non-regular employees(most of them are part time workers).



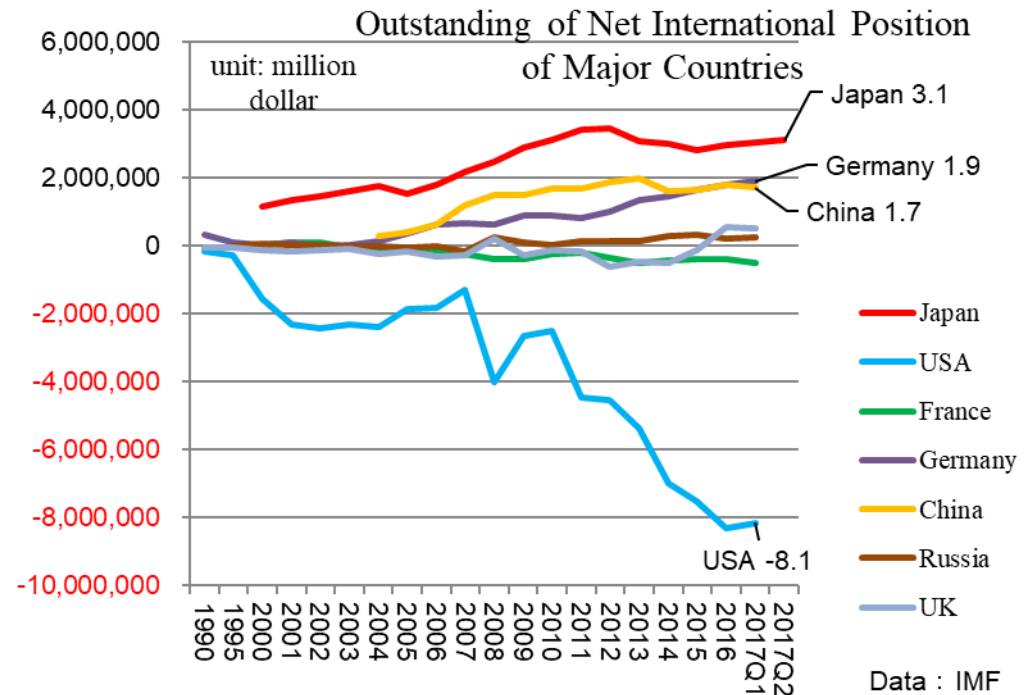
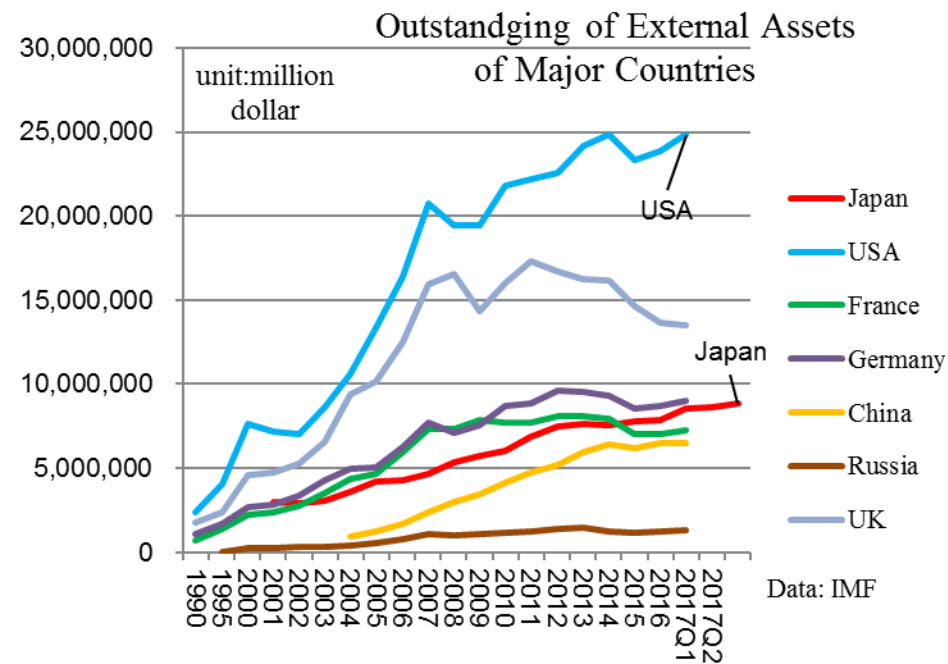
Japan has been facing the biggest shortage of workers since the early 90s.  
But the wage growth is limited so far.



Major Japanese banks are steadily increasing their financial claims overseas.



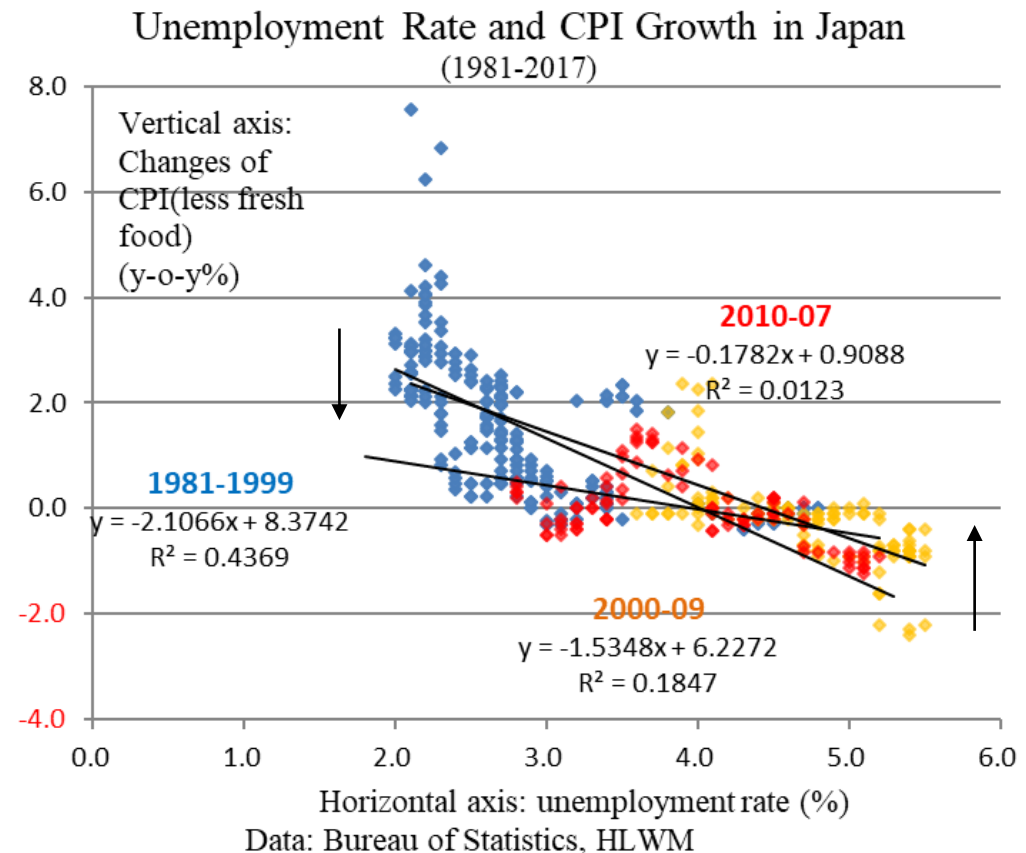
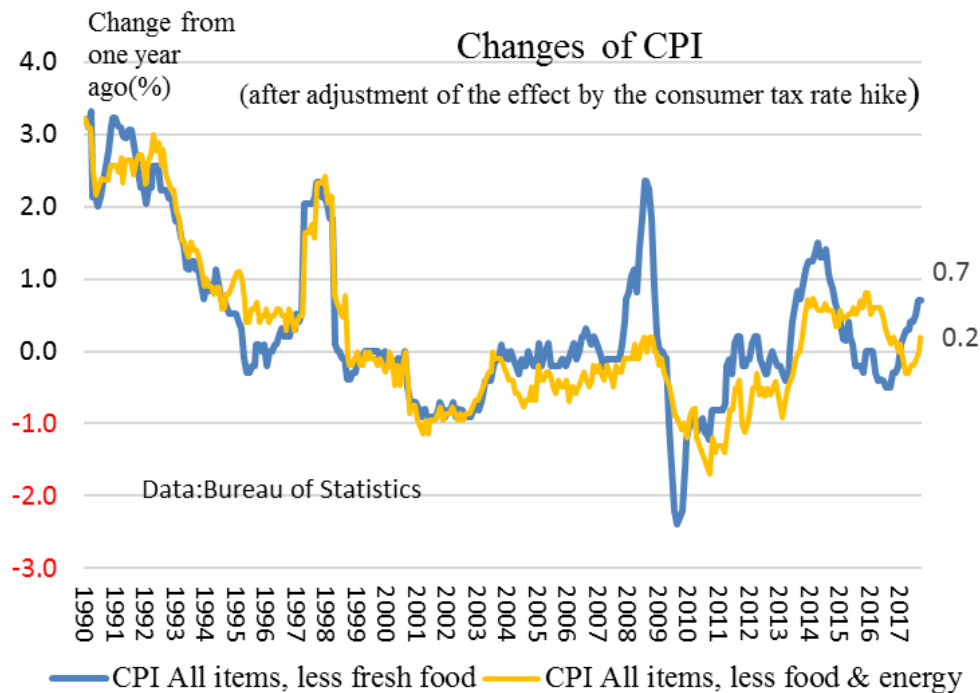
The external assets of Japan is steadily increasing too.



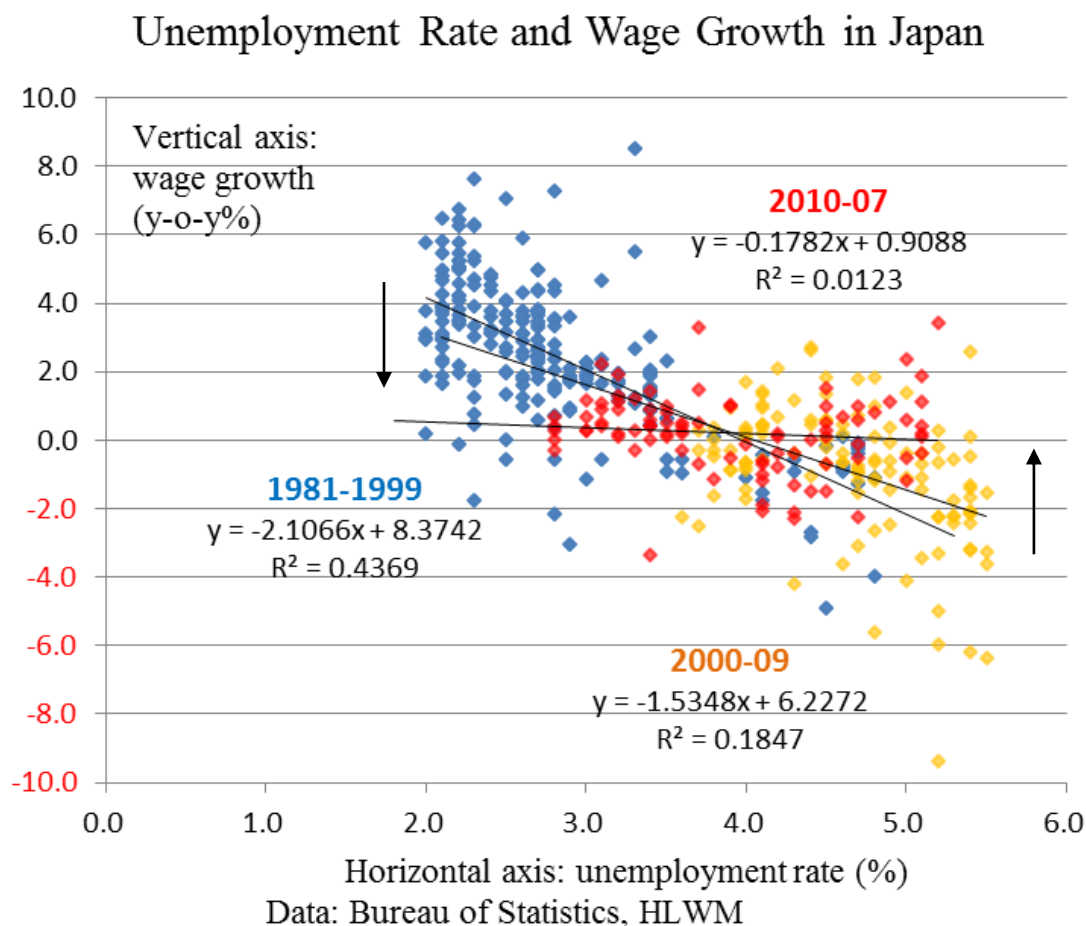
## 2, The age of “wageless recovery”

### Flattening Phillips curves both in Japan and the US

In spite of the lowest unemployment rate in the last quarter of a century and the shortage of workers, the wage growth has remained very low. This is nearly the same phenomenon not only seen in Japan but also in the US and Euro area.



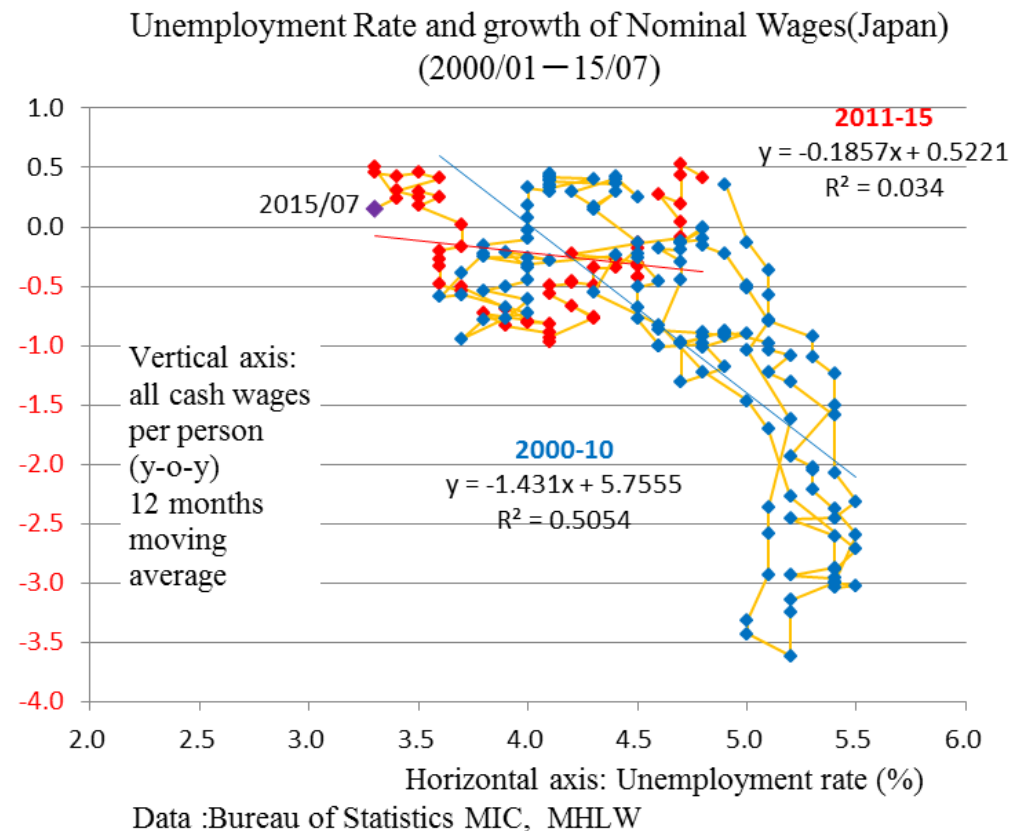
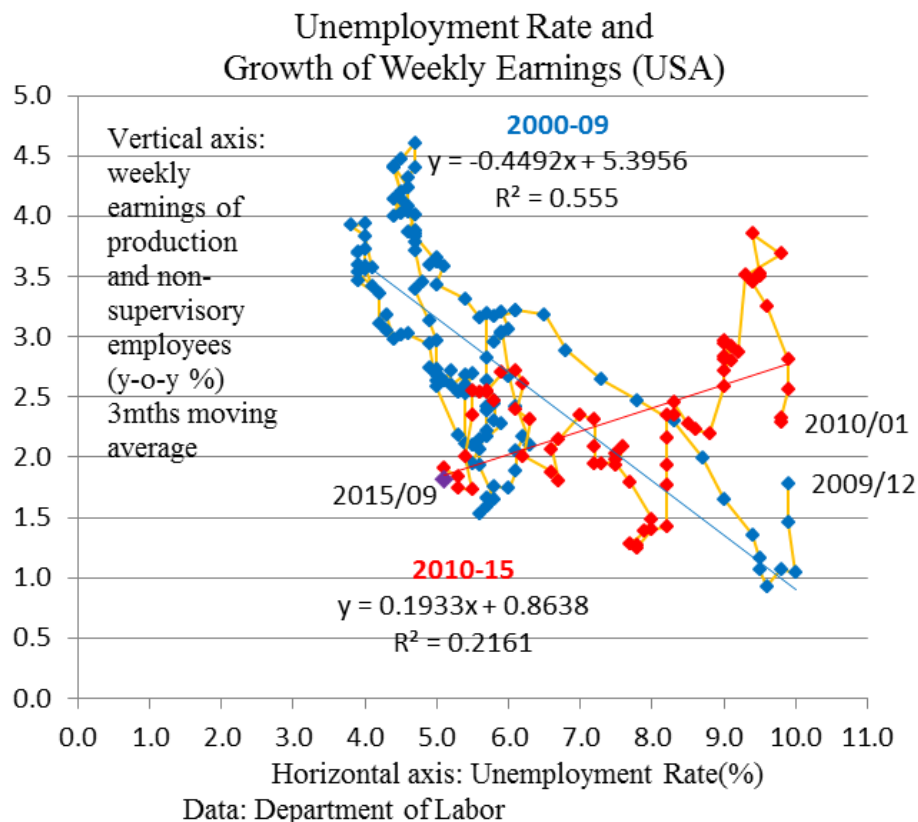
Economists who have advocated very expansionary action both at monetary policy and fiscal policy are still talking that 2% inflation target will be achieved when the growth of wages is going to accelerate as the unemployment rate lowers toward 2%. I predict, however, the CPI growth will be moderately higher (around 1.0%) next year but the 2% target of BOJ appears to be unreachable through 2018.



## Upward rigidity of wages

Despite the continued tightening in the labor market, the wage growth has been sluggish since 2011. It is depressing the consumer spending.

It is very curious almost the same trend can be seen also in the US.

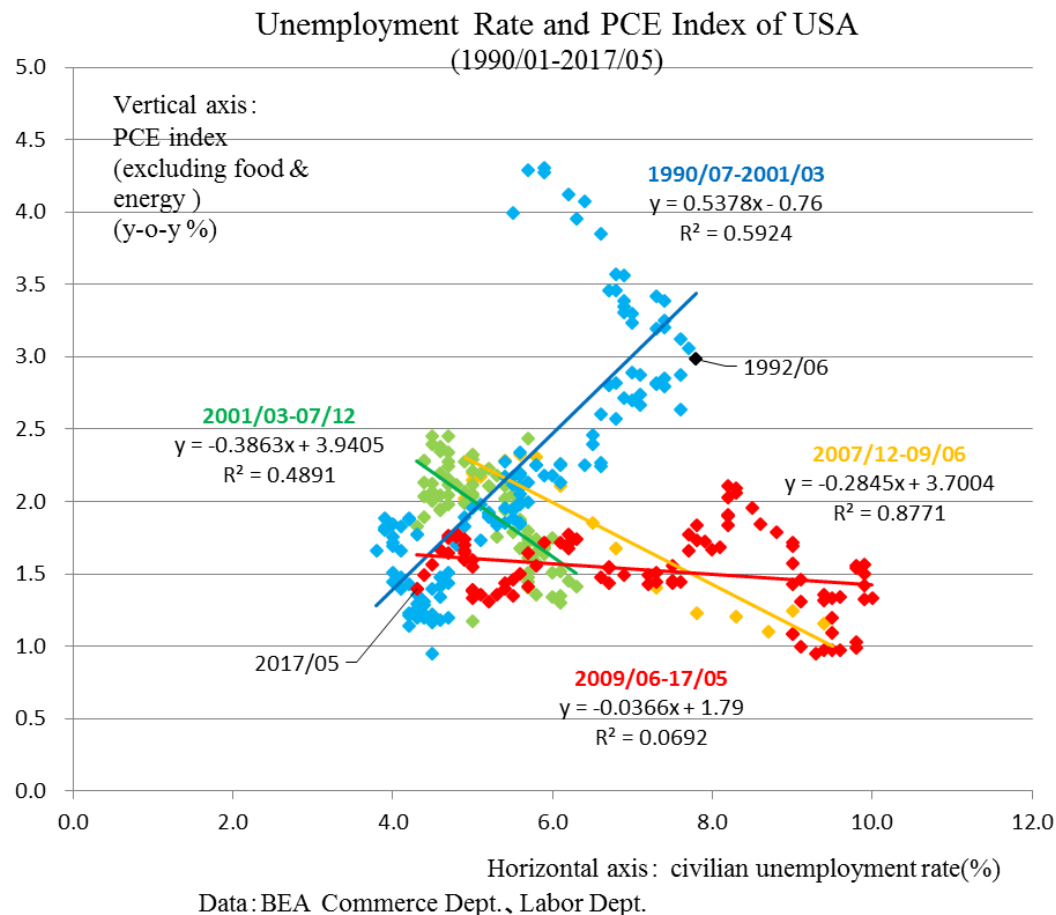
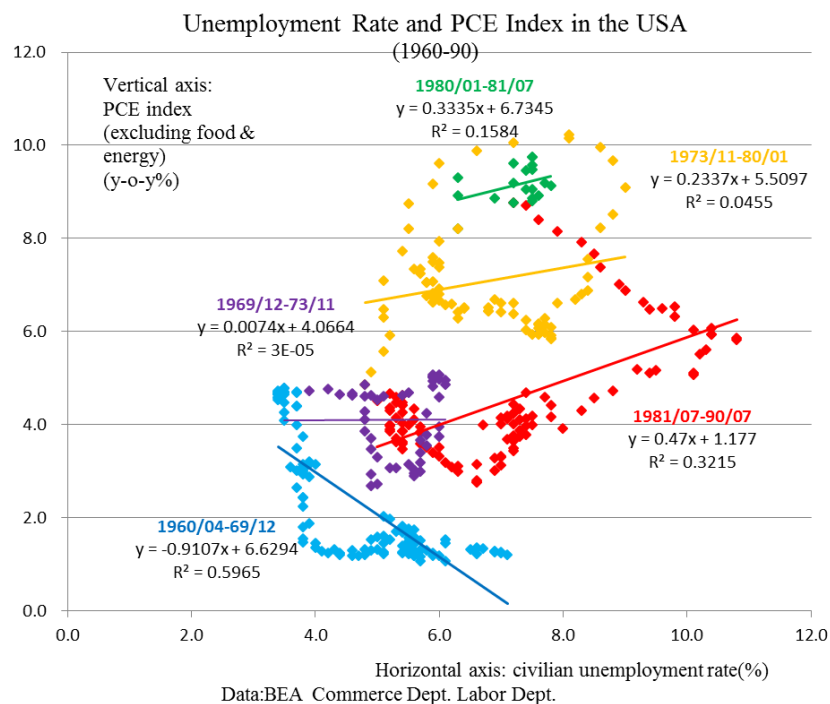


This is the slide when I told about the flattening of Phillips curve on Nov.2015 at the CBE meeting. I suggested the same trend can be seen also in the US.

The Phillips curve has not been stable and the flattening trend is seen after the financial crisis in the US.

A stable negative correlation was seen only in the 1960s and the 2000s.

The periods in the graphs were based on the business cycle.





The lower growth of wage is linked to the declining labor share of income

The labor share of income appeared to have been stable during the latter 80s to the early 2000s. However it shifted downward again in the 2000s.

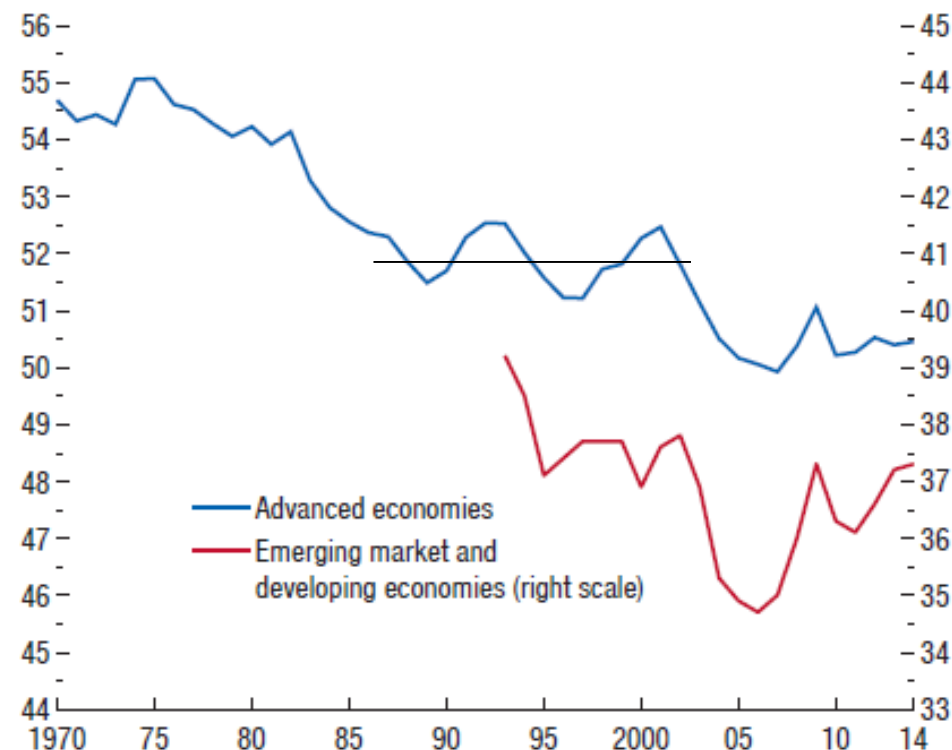
It is generally thought that the driving forces of lower labor income shares are the structural changes related to the rapid advance of technology and the globalization of trade and capital.

“ One way in which technological advancement has affected factor shares is a sharp decline in the relative price of investment goods, which has lowered firm’s cost of capital and therefore has given them strong incentives to replace labor with capital.” (p123)

Quotation and Graph : “Global Financial Stability Report” by IMF, Apr.2017

**Figure 3.1. Evolution of the Labor Share of Income**  
(Percent)

The labor share of income has been on a downward trend in both advanced economies and emerging market and developing economies.



Sources: CEIC database; Karabarbounis and Neiman (2014); national authorities; Organisation for Economic Co-operation and Development; and IMF staff calculations.

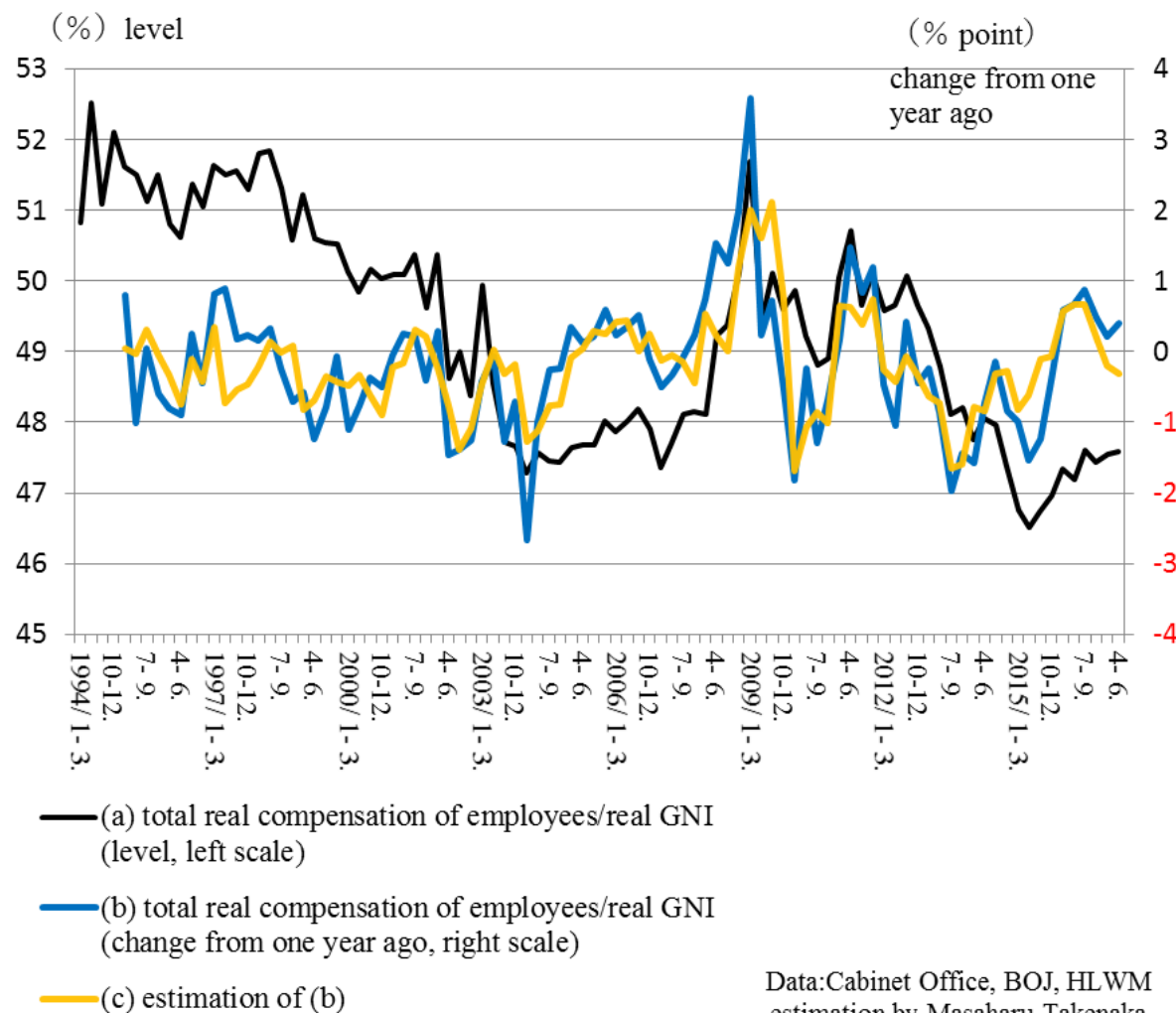
Note: For advanced economies the figure shows averages weighted by nominal GDP in current U.S. dollars. For emerging market and developing economies the figure shows year fixed effects weighted least squares regressions (using nominal GDP weights) that also include country fixed effects. Year fixed effects are normalized to reflect the level of the labor share in 2000.

Changes of the labor income share for the last 2 decades in Japan can be explained significantly by the following 4 variables.

- (1) Composite index of current business(Cabinet Office)
- (2) Real effective exchange rate of Yen (BOJ)
- (3) Real average wage (HLWM)
- (4) Labor productivity (Cabinet Office)

The biggest factor for the lower labor income share in the long-term:  
 growth of wage  
 < growth of productivity

Labor Share in Japan, Actual and Estimation



# Regression statistics of the labor income share at the period 1995/1-3~2017/4-6 in Japan

Regression Statistics	
Multiple R	0.7450844
R Square	0.5551508
Adjusted R square	0.5342167
Standard Error	0.6344156
Observation	90

## ANOVA

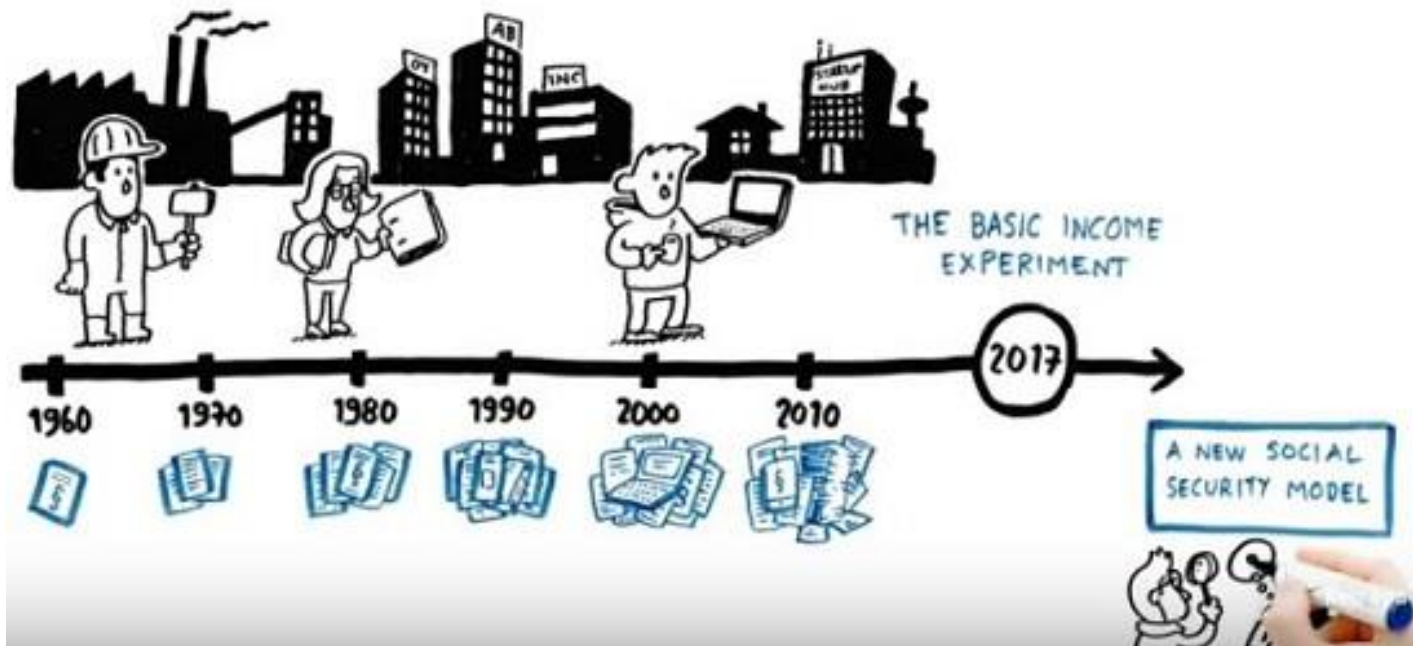
	df	ss	ms	f	Significance F
Regression	4	42.693791	10.673448	26.518997	2.75342E-14
Residual	85	34.211063	0.4024831		
Total	89	76.904854			

		Coefficients	Standard Error	t Stat	P-Value
	Intercept	0.575529	0.1390146	4.1400617	8.147E-05
Composite Index of Current Business(Cabinet Office)	X1	-0.0498109	0.0098041	-5.080627	2.2E-06
Real Effective Exchange Rate of Yen(BOJ)	X2	0.0185794	0.0069091	2.6891135	0.008621
Real Average Wage (HLWM)	X3	0.3098115	0.0498358	6.2166493	1.822E-08
Labor Productivity (Cabinet Office)	X4	-0.4284473	0.0892196	-4.8021676	6.667E-06

All variables are changes from one year ago.

The capitalism appears to be facing a need for a new income distribution system just as it developed social security system and progressive tax system on individual income in the 20 century.

The idea of a basic income is beginning to attract attention also in Japan.



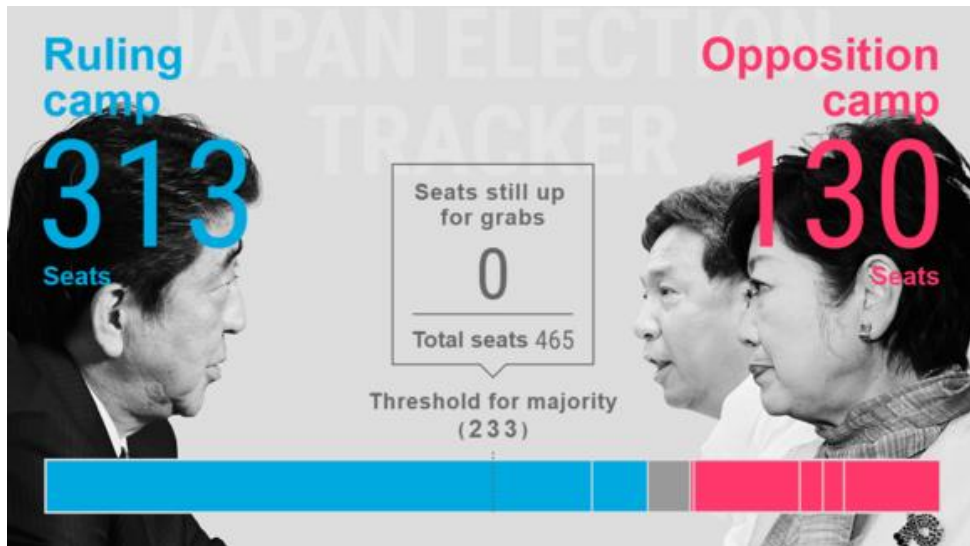
### 3, The Abe Cabinet will be the longest one after the WWII.

Abe's ruling coalition has retained two-thirds majority of the lower house.

The Abe Cabinet will move to change the article 9 of The Constitution of Japan at last.

This will not change Japan's security policy immediately.

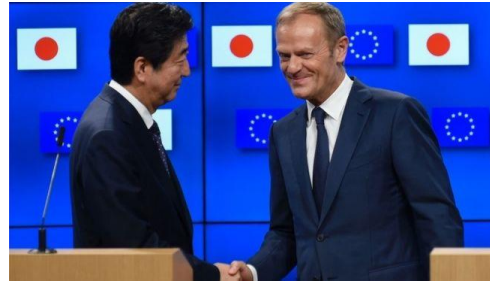
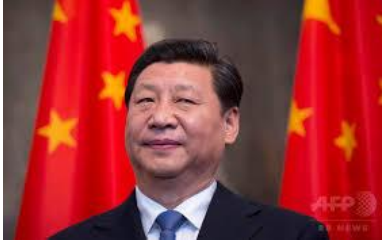
But it could be a significant epoch of the political thought in Japan after the W.W. II.



**Article 9.** Aspiring sincerely to an international peace based on justice and order, the Japanese people forever **renounce war** as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

In order to accomplish the aim of the preceding paragraph, **land, sea, and air forces, as well as other war potential, will never be maintained.** The right of belligerency of the state will not be recognized.

The world is changing toward a new situation we did not expect a few years ago.



Japan and EU have reached a basic accord of EPA. (July 2017)



China is expanding its dominance by the policy of “One Belt, One Road” providing a lip service about free trade.



Abe Cabinet is still pushing for TPP 11 accord without USA.

President Trump withdrew from TPP.  
How is a fate of NAFTA?



PM Abe has been doing very successfully his tough task to support the Liberal Order of the world and to tie up closely with President Trump for the security of Japan and the East Asia.



### Can the Liberal Order Survive?

“If the liberal international order is to survive, leaders and constituencies around the world that still support it will need to step up. **Much will rest on the shoulders of Prime Minister Shinzo Abe of Japan and Chancellor Angela Merkel of Germany**, the only two leaders of consequence left standing who support it. Trump has abdicated responsibility for the world the United States built, and only time will tell the full extent of the damage he will wreak.”

“The Plot Against American Foreign Policy”

“Can the Liberal Order Survive?”

By G. John Ikenberry

Foreign Affairs, May/June 2017



"We are committed to the security of Japan and all areas under its administrative control and to further strengthening our very crucial alliance," Mr Trump said. The statement amounted to a victory for Mr Abe, who came to Washington wanting to develop a sense of trust and friendship with the new US President and send a message that the decades-old alliance was unshakeable in the face of a rising China.

11.Feb.2017

<http://www.abc.net.au/news/2017-02-11/trump-committed-to-us-japan-security-after-abe-meeting/8261620>