

Japanese Economic Outlook

Upward Rigidity of Wages and Low Inflation



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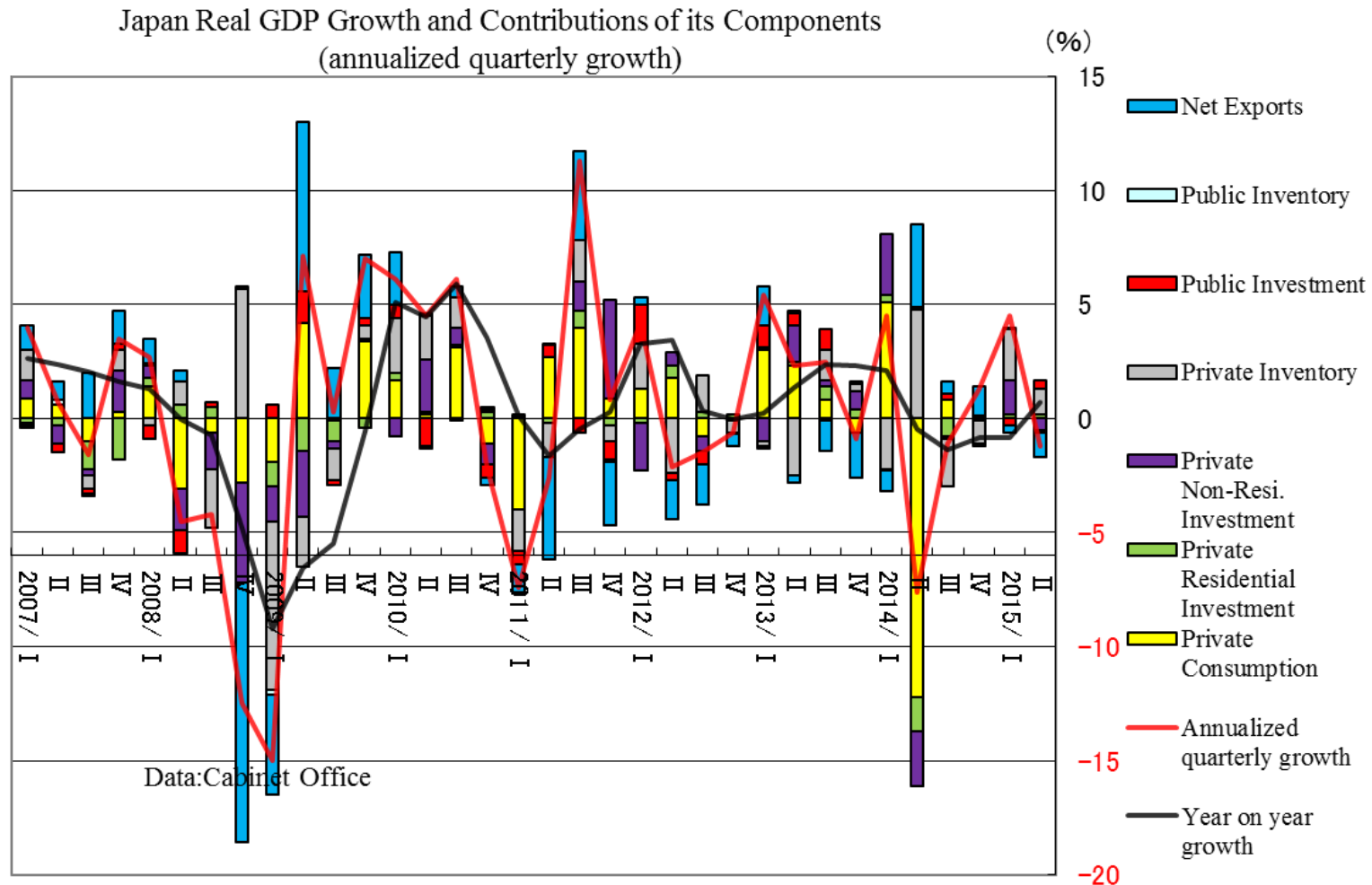
1, Japanese Economic Outlook

Paradox of Sluggish GDP and Robust GNI
Upward Rigidity of Wages and Low Inflation

2, Progress of “Abenomics” and Concerns

1, Japanese Economic Outlook

The real GDP growth of the 2nd quarter 2015 turned to -1.2% from the previous quarter +4.5% and the growth of the 3rd quarter is expected to be around zero due to a weak growth of exports and capital spending. The annual growth will be +0.6% in 2015 and +1.1 in 2016(JCER forecast).

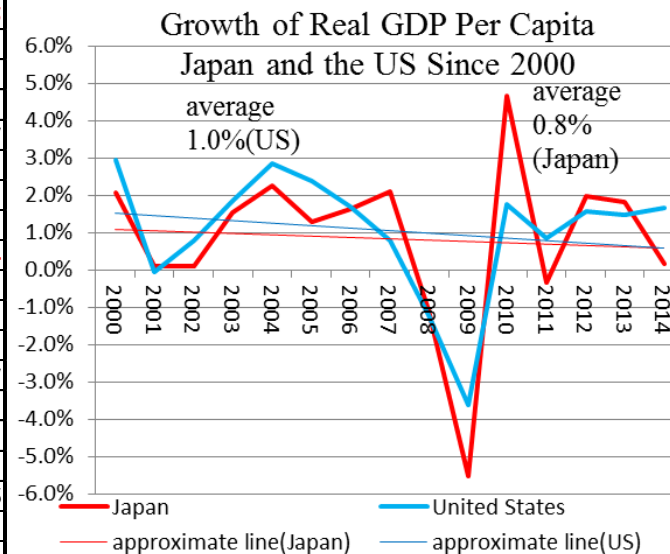


Contributions to Changes in Real GDP (seasonally adjusted series)

(Unit:%)

	Private Consumption	Private Residential Investment	Private Non-Resi. Investment	Private Inventory	Government Consumption	Public Investment	Public Inventory	Net Exports	Annualized quarterly growth	Year on year growth	Chnages from the previous year
2007/ I	0.9	-0.2	0.8	1.3	0.4	-0.1	-0.1	1.1	4.0	2.6	
II	0.6	-0.3	-0.8	0.0	0.5	-0.4	0.2	0.8	0.7	2.4	
III	-1.0	-1.2	-0.3	-0.6	-0.2	-0.2	-0.1	2.0	-1.6	2.0	
IV	0.3	-1.8	1.8	0.9	0.6	0.3	0.0	1.4	3.5	1.6	2.2
2008/ I	1.4	0.4	0.5	-0.3	0.0	-0.6	0.1	1.1	2.7	1.3	
II	-3.1	0.6	-1.8	1.0	-0.8	-1.0	0.0	0.5	-4.5	-0.0	
III	-0.6	0.5	-1.6	-2.6	0.0	0.2	0.0	0.0	-4.2	-0.7	
IV	-2.8	0.0	-4.4	5.7	0.3	0.0	0.1	-11.4	-12.5	-4.8	-1.1
2009/ I	-1.9	-1.1	-1.5	-7.4	0.8	0.6	-0.2	-4.4	-15.0	-9.2	
II	4.2	-1.4	-2.9	-2.2	0.6	1.4	0.0	7.4	7.1	-6.6	
III	-0.1	-0.9	-0.3	-1.4	1.0	-0.2	0.0	2.2	0.3	-5.5	
IV	3.4	-0.4	0.1	0.6	0.3	0.3	0.0	2.8	7.0	-0.6	-5.5
2010/ I	1.7	0.3	-0.8	2.4	-0.5	0.6	0.0	2.3	6.1	5.1	
II	0.2	0.1	2.3	1.9	1.1	-1.2	-0.1	0.1	4.5	4.4	
III	3.1	0.1	0.8	1.3	0.3	0.0	-0.1	0.5	6.1	5.9	
IV	-1.1	0.3	-0.9	0.1	0.3	-0.6	0.1	-0.3	-2.1	3.6	4.7
2011/ I	-4.0	0.1	0.1	-1.8	0.0	-0.6	0.0	-1.2	-7.4	0.1	
II	2.7	-0.2	0.0	-1.5	0.3	0.5	0.1	-4.5	-2.6	-1.6	
III	4.0	0.7	1.3	1.8	0.1	-0.6	0.0	3.9	11.3	-0.4	
IV	0.9	-0.3	4.3	-0.7	0.2	-0.8	-0.1	-2.8	0.8	0.3	-0.4
2012/ I	1.3	-0.2	-2.1	2.0	1.1	1.7	0.0	0.3	4.2	3.3	
II	1.8	0.5	0.6	-2.4	-0.5	-0.3	0.0	-1.7	-2.1	3.4	
III	-0.8	0.3	-0.6	1.6	0.4	-0.6	0.0	-1.8	-1.5	0.3	
IV	0.0	0.2	-0.1	-0.5	0.5	-0.1	0.0	-0.5	-0.6	-0.0	1.7
2013/ I	3.0	0.1	-1.0	-0.2	0.8	1.0	-0.1	1.7	5.4	0.3	
II	2.3	0.2	1.6	-2.5	0.3	0.5	0.1	-0.3	2.3	1.4	
III	0.8	0.6	0.3	1.3	0.0	0.9	-0.1	-1.3	2.5	2.4	
IV	-0.6	0.4	0.8	0.3	0.1	0.0	0.1	-2.0	-0.9	2.3	1.6
2014/ I	5.1	0.3	2.7	-2.2	-0.2	-0.1	0.0	-0.9	4.5	2.1	
II	-12.2	-1.5	-2.4	4.8	0.1	0.1	0.0	3.6	-7.6	-0.5	
III	0.8	-0.8	-0.1	-2.1	0.2	0.3	0.0	0.5	-1.1	-1.4	
IV	0.7	-0.1	0.1	-1.0	0.3	0.0	-0.1	1.3	1.3	-0.8	-0.1
2015/ I	0.9	0.2	1.5	2.2	0.2	-0.3	0.1	-0.3	4.5	-0.8	
II	-1.6	0.2	-0.5	1.1	0.4	0.4	-0.1	-1.1	-1.2	0.7	

Difference of real GDP growth per capita between Japan (0.8%) and the US (1.0%) is narrower than generally imaged.



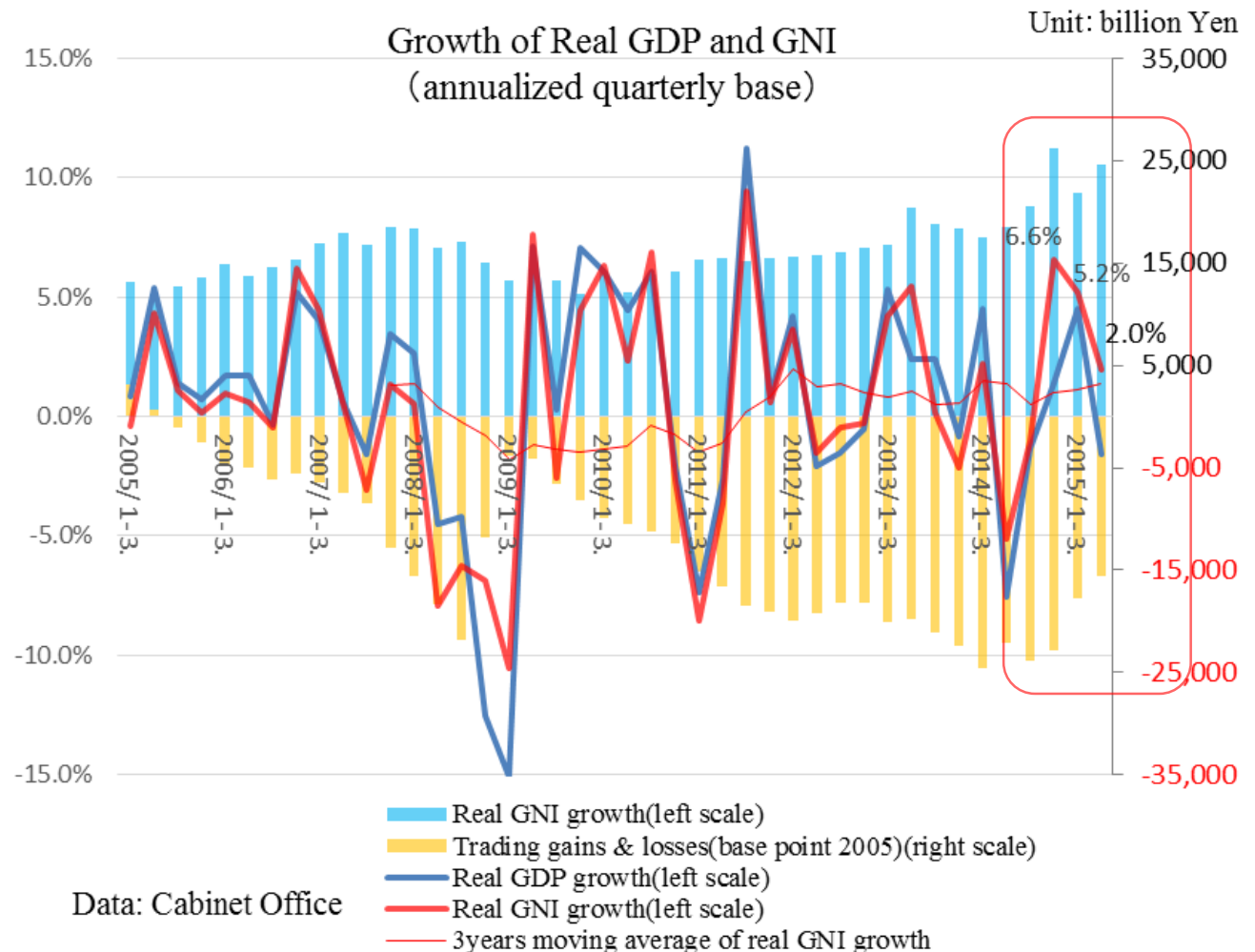
Data: IMF World Economic Outlook Database

If we look at the real GNI(Gross National Income) growth, the current situation is more encouraging. The average real GNI growth since the 1st quarter 2013 when “Abenomics” started is +1.7% (annual base) . It is higher than that of the previous 3 years +1.0%.

Real GNI= Real GDP + trading gains or losses + income balance (real term)

Why the real GNI growth is higher than that of the real GDP ?

- 1) Increase of income balance surplus due to the Yen's depreciation.
- 2) Decrease of trading losses thanks to the sharp decline of the energy and other natural resource prices.



Mixed conditions of the current economic outlook

Positive fields:

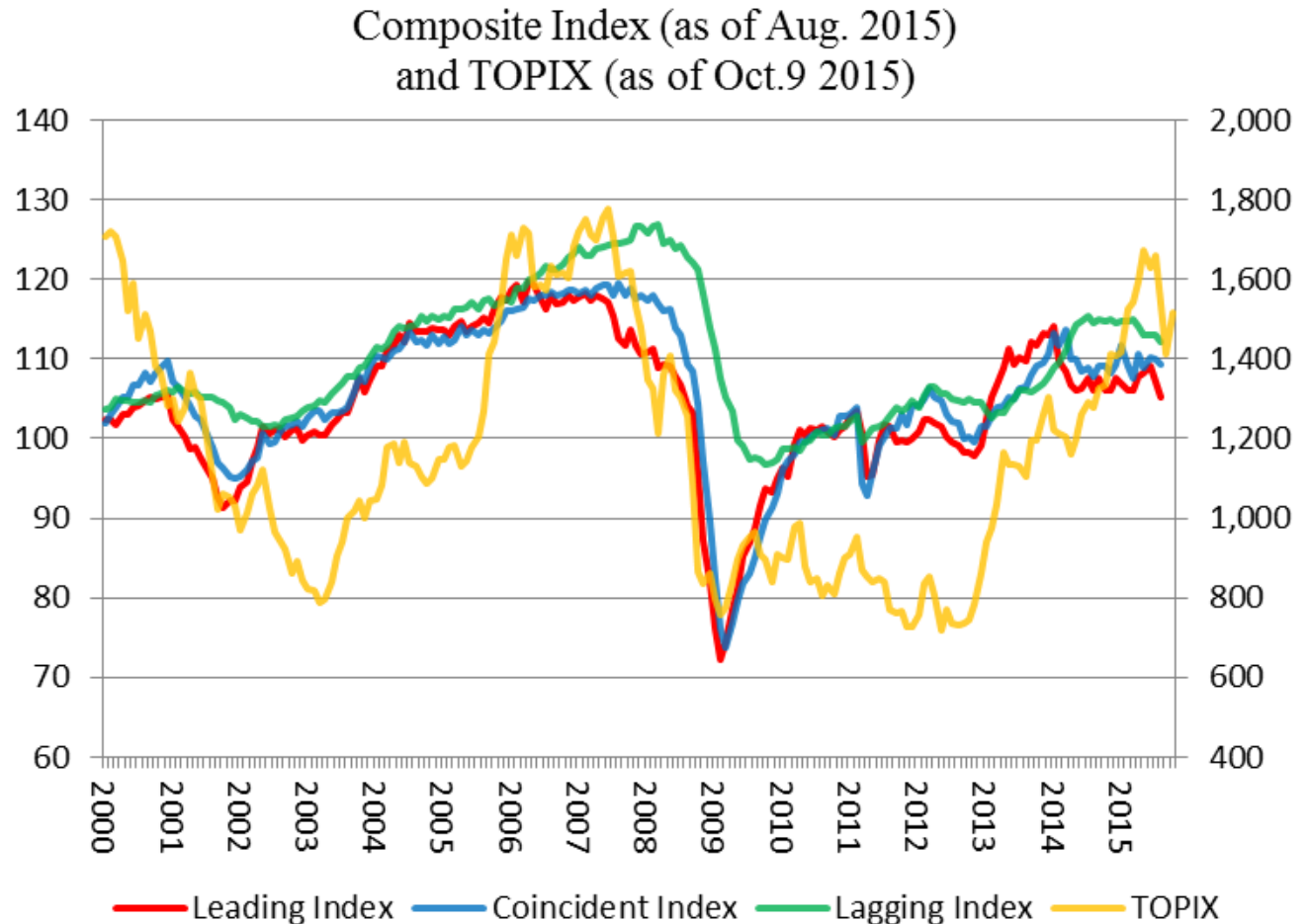
- 1) Corporate profit
- 2) Growth of employment

Negative fields:

- 1) Wages
- 2) Exports
- 3) Capital spending

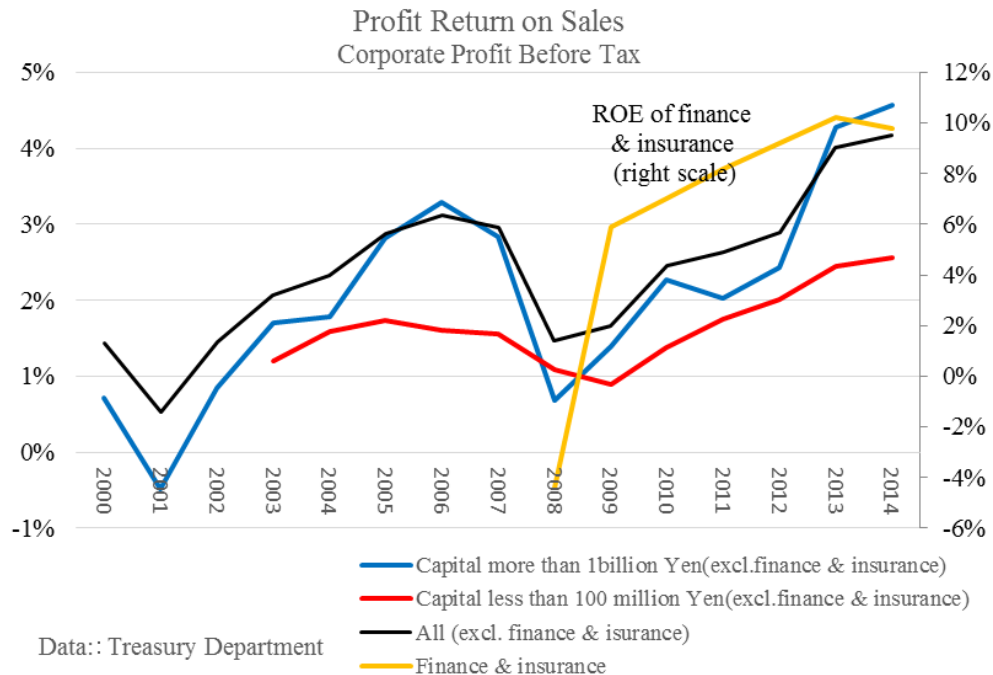
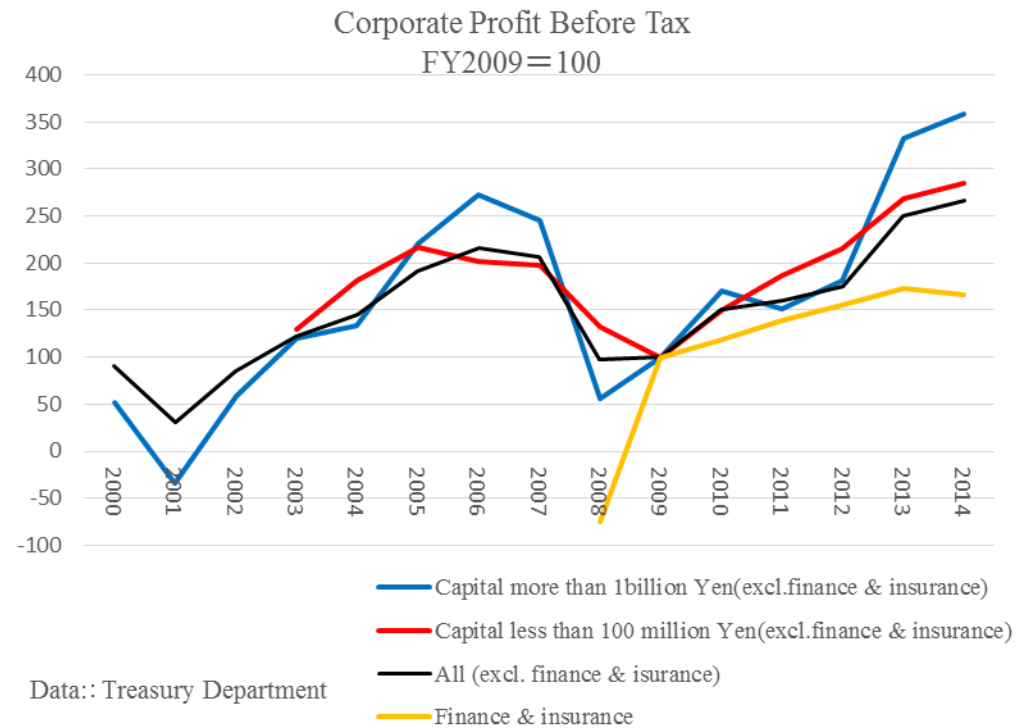
Problem:

Income is not distributed enough from the corporate sector to the households by increasing wages or dividends.

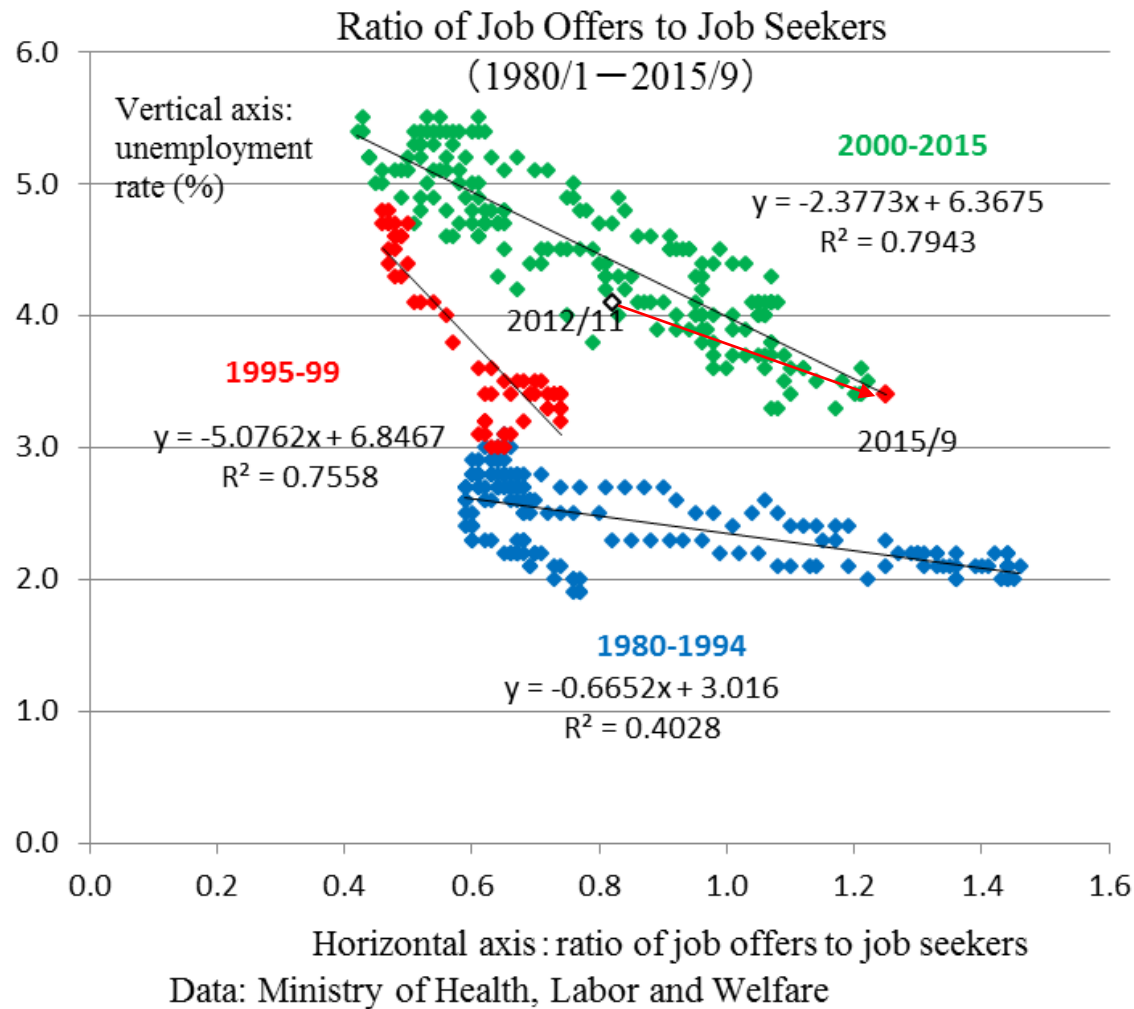


Data: Cabinet Office

Profits of the corporate sector is very robust not only in big companies but also small ones.



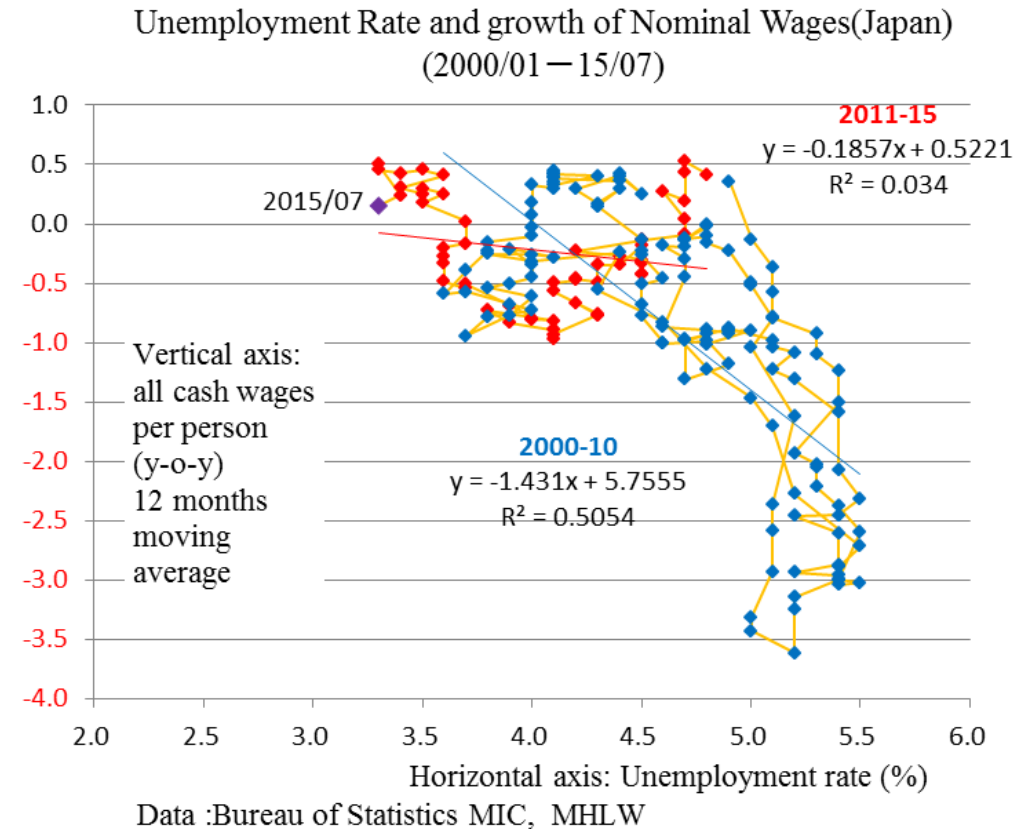
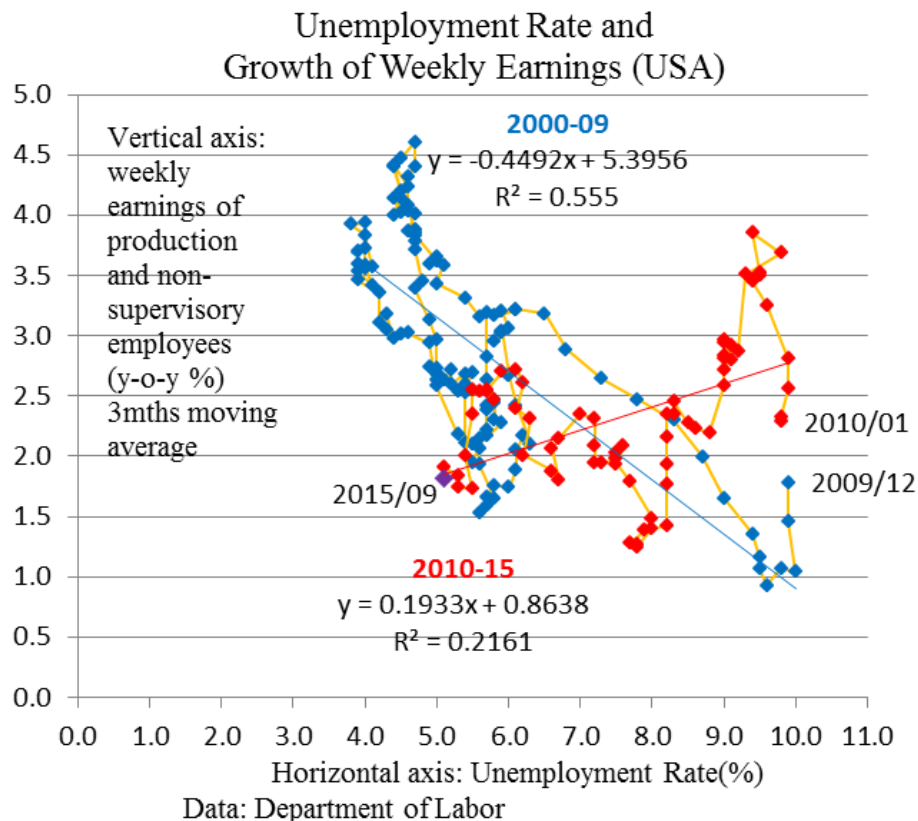
The labor market has improved to the best level in the last 20 years as long as looking at the unemployment rate and the ratio of job offers to job seekers.



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.

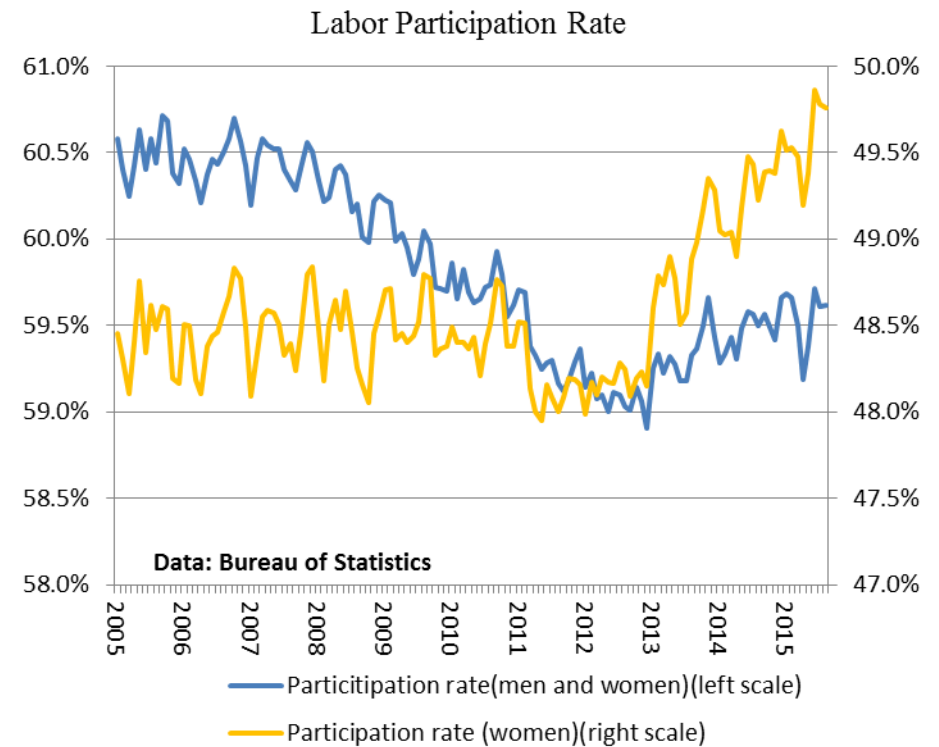
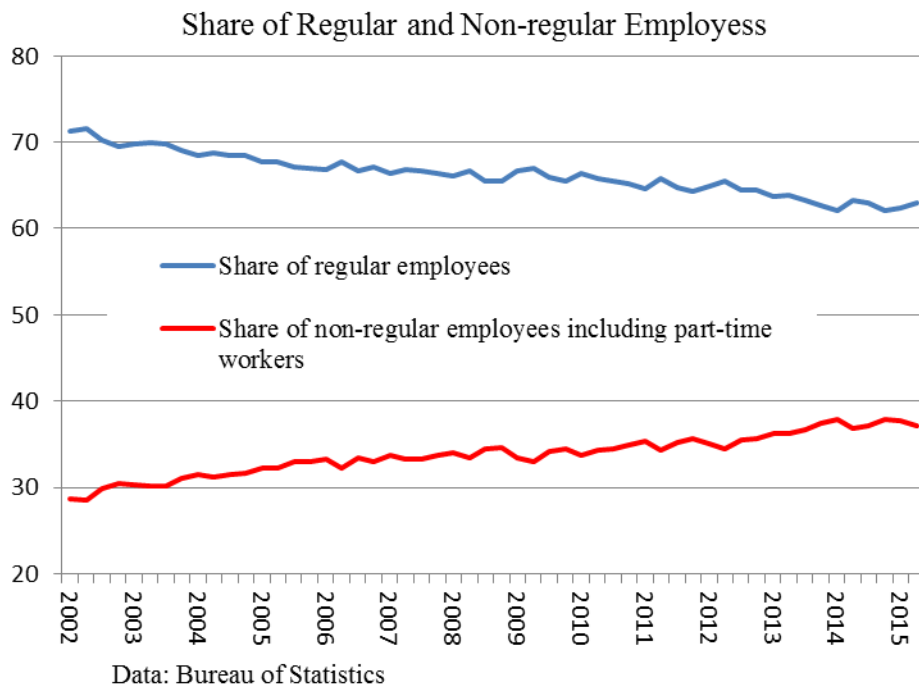
It is very curious almost the same trend can be seen also in the US.



Increase of non-regular employees is a main reason depressing the average wage growth in Japan.

Looking at the last 5 years, the ratio of non-regular employees has increased at the age above 55 years old, especially above 65 years old both of men and women.

Nearly 70% of “non-regular employees” are part-time workers and temporary workers.

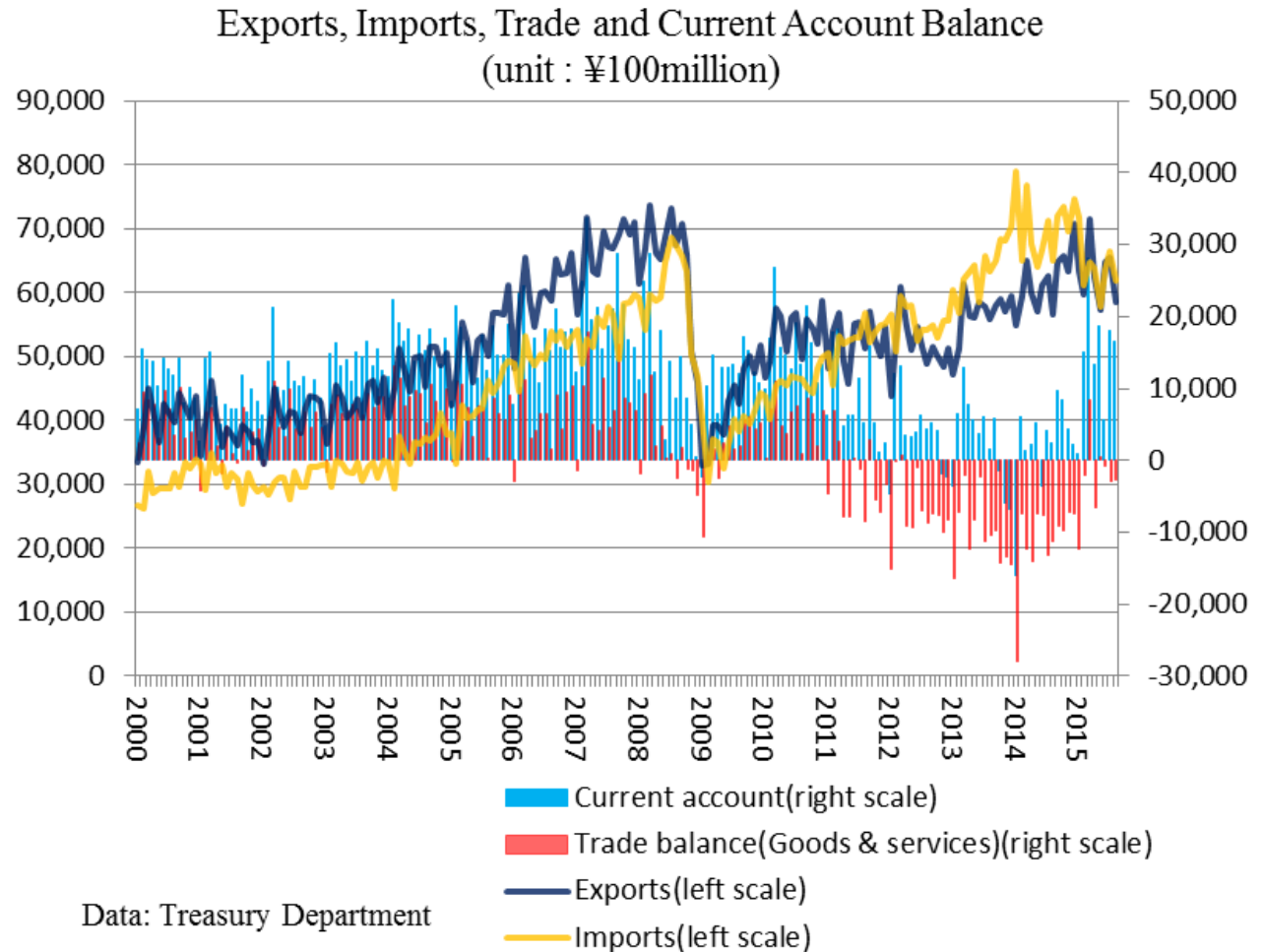


The labor participation rate has been edging up since 2013 in Japan while that of the US is declining.

Deficit of the trade balance has narrowed to the nearly balanced level thanks to a sharp decline of energy and natural resource prices.

The surplus of the current account balance recovered to the level before the mega earth quake in 2011.

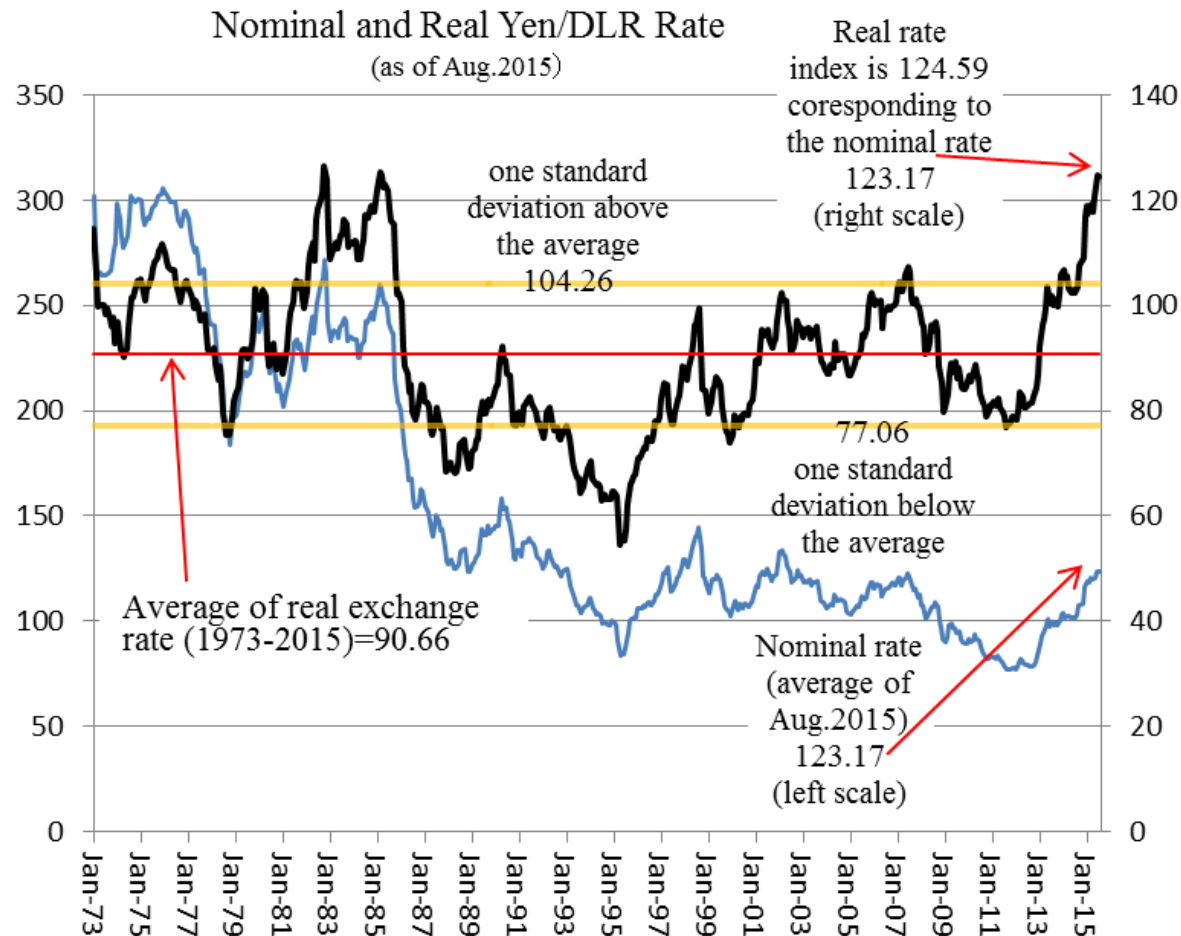
However the growth of exports is sluggish or negative due to a slower growth of the overseas market including China.



Yen is very undervalued around $\$1=120\text{yen}$.

Real exchange rate index of Yen/Dollar is at the same lever in the 1st half of 1980s.

Upward correction of Yen rate appears to be inevitable in the long run.



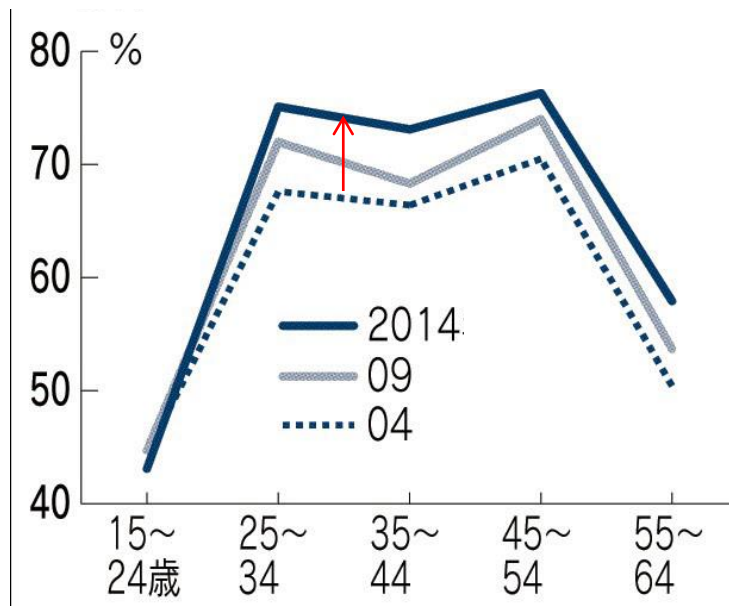
Data: BOJ, Department of Commerce, Department of Labor
PPP is calculated based on the corporate price index(Japan) and the producer price index(USA)

2, Progress of “Abenomics” and Concerns

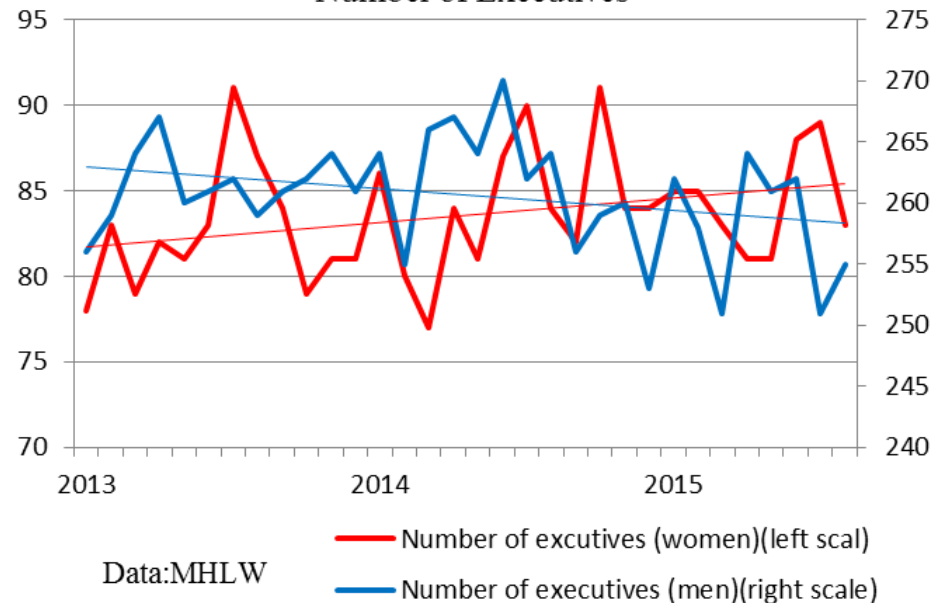
The new 3 targets of Abenomics

- (1) 20 percent increase of GDP to ¥600 trillion (nominal) by the early 2020s
(2% growth in real base and 3% in nominal base) .
- (2) To enhance child-care assistance to push up the total fertility rate to 1.8 from 1.4 of the current level.
- (3) To increase nursing facilities for the elderly to achieve a society where no one need to leave their job to care for their elderly parents.

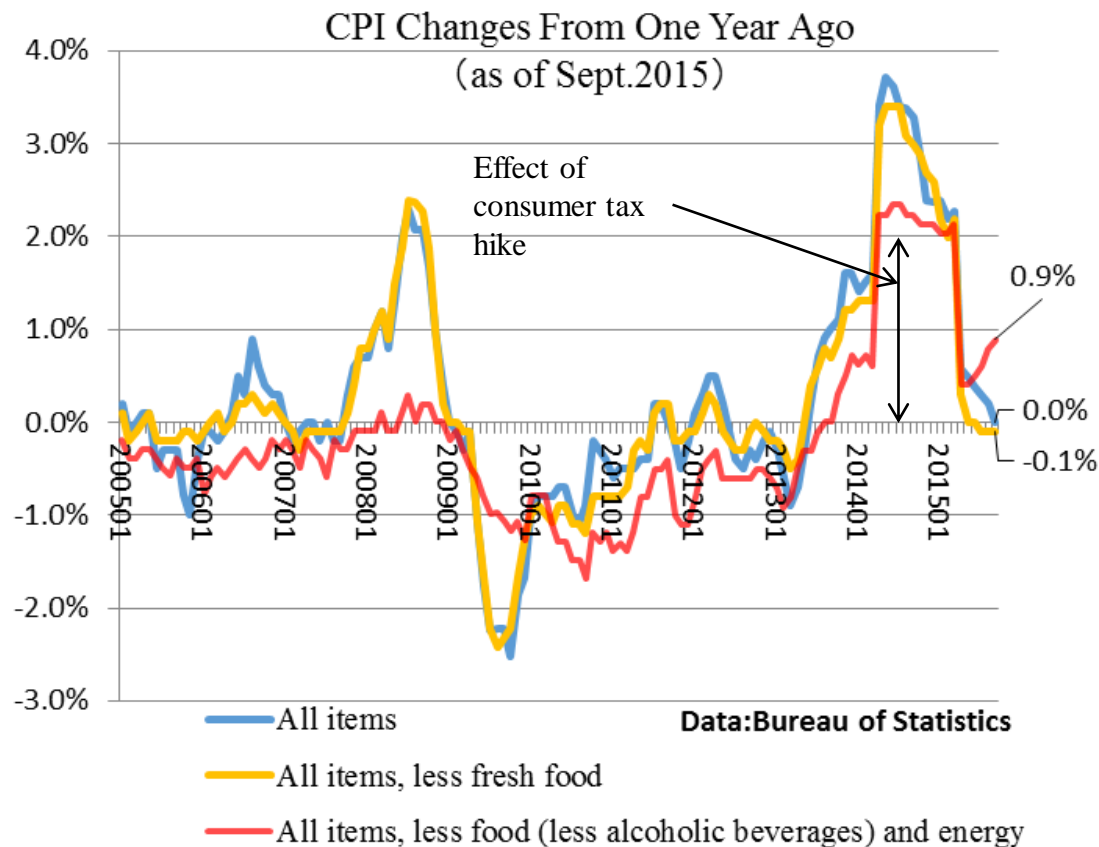
Labor Participation Rate of Women



Number of Executives



The QQE is not enough to achieve the BOJ's inflation target.
A boost of wage growth is necessary.



The BOJ left its stimulus program unchanged Friday even as it downgraded its growth and inflation projections, a tacit recognition of the limits of monetary policy alone.

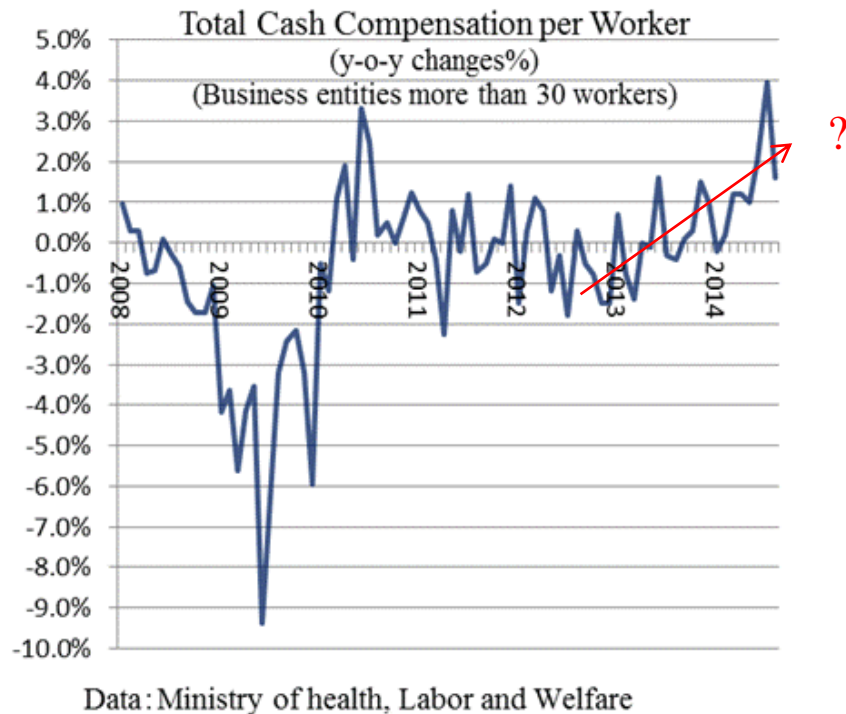
BOJ Gov. Haruhiko Kuroda said the question of whether to expand the central bank's asset purchases required "delicate judgment" of the benefits and risks. Stable inflation of 2%—a key BOJ target—would need to be achieved in a "balanced manner" that includes bigger pay increases by Japanese companies, he said.

Mr. Kuroda has stressed the need for higher wages before.

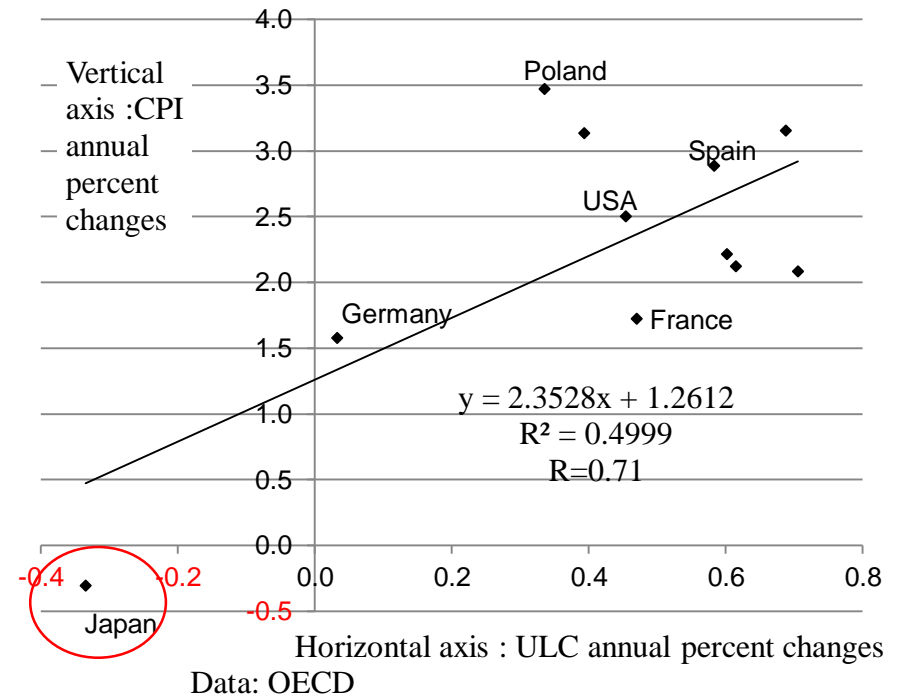
WSJ, Oct.30.2015

This is the slide I showed last year.

Nominal wage growth is another necessary factor for a mild and stable and inflation.
 “Hypothesis of Labor Cost Deflation” by Hiroshi Yoshikawa who is the professor of Tokyo University and the most prominent Keynesian in Japan.
 We see high correlations between the labor cost and CPI changes.



Unit Labor Cost and CPI
 average annual changes during 2000-2011

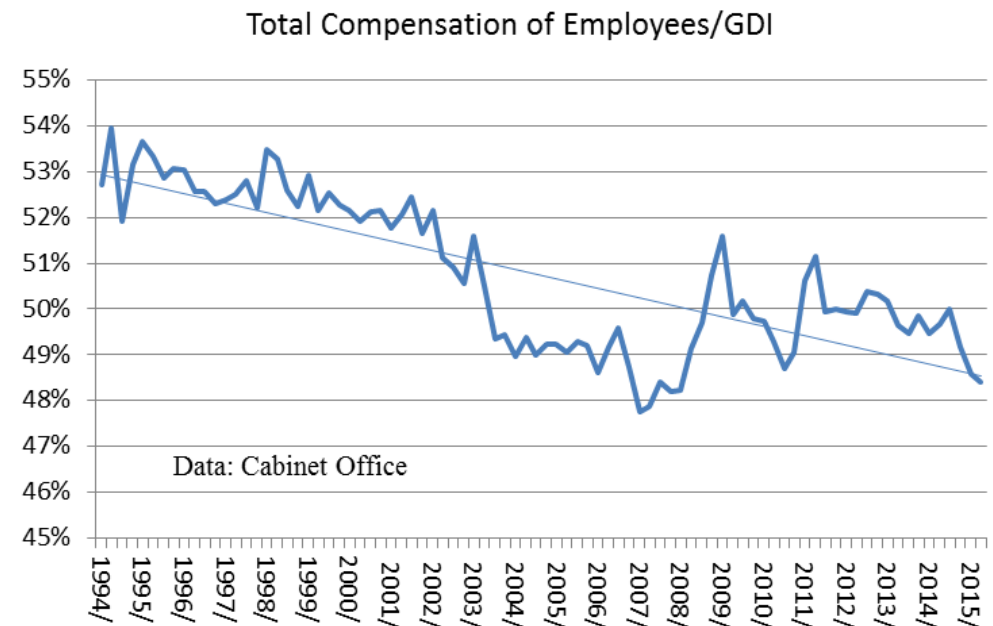
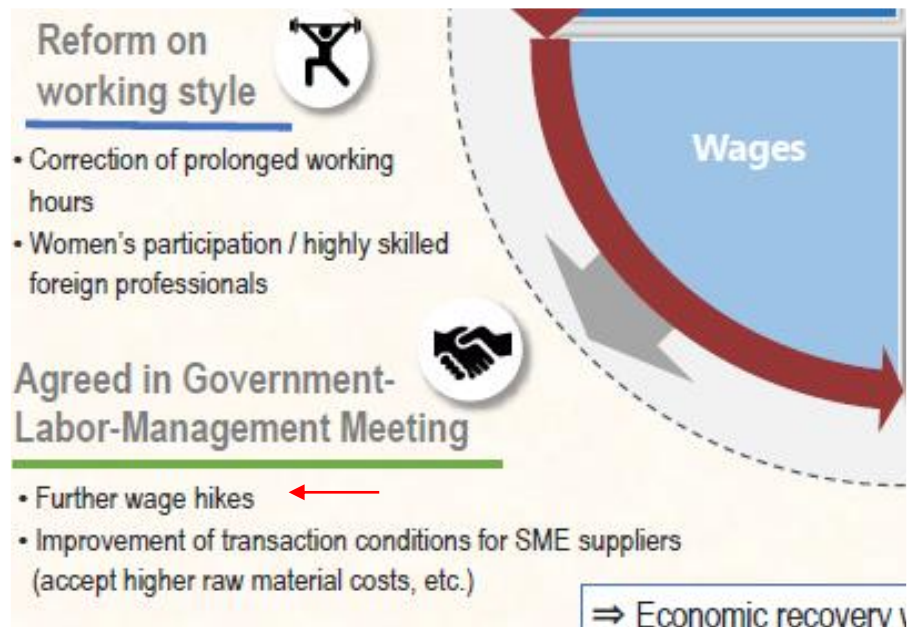


Unit Labor Cost and CPI (2000-2011)

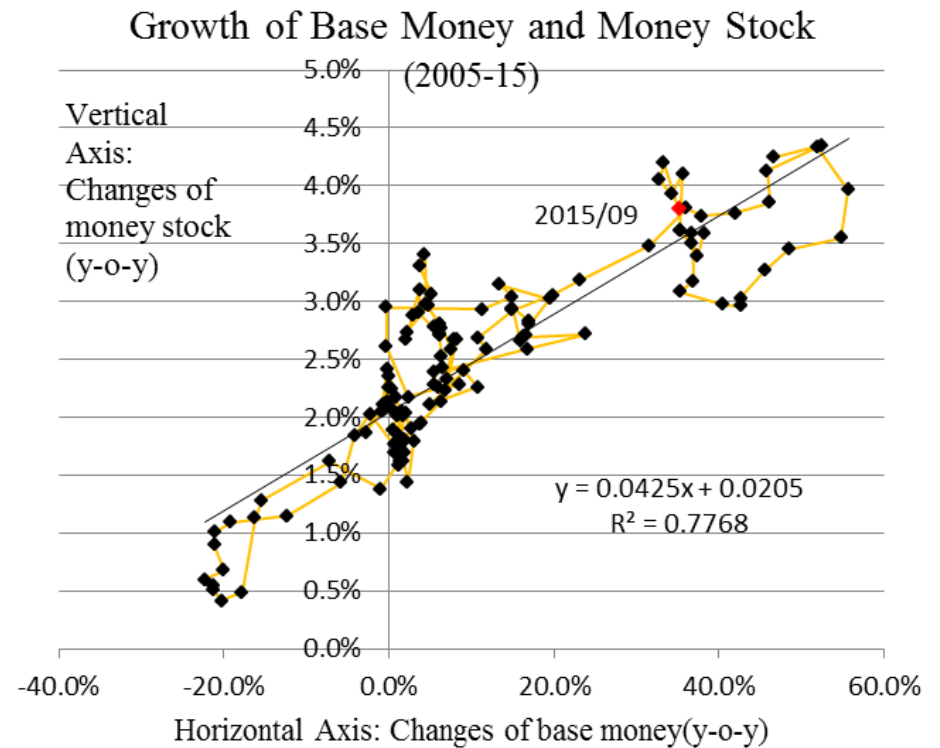
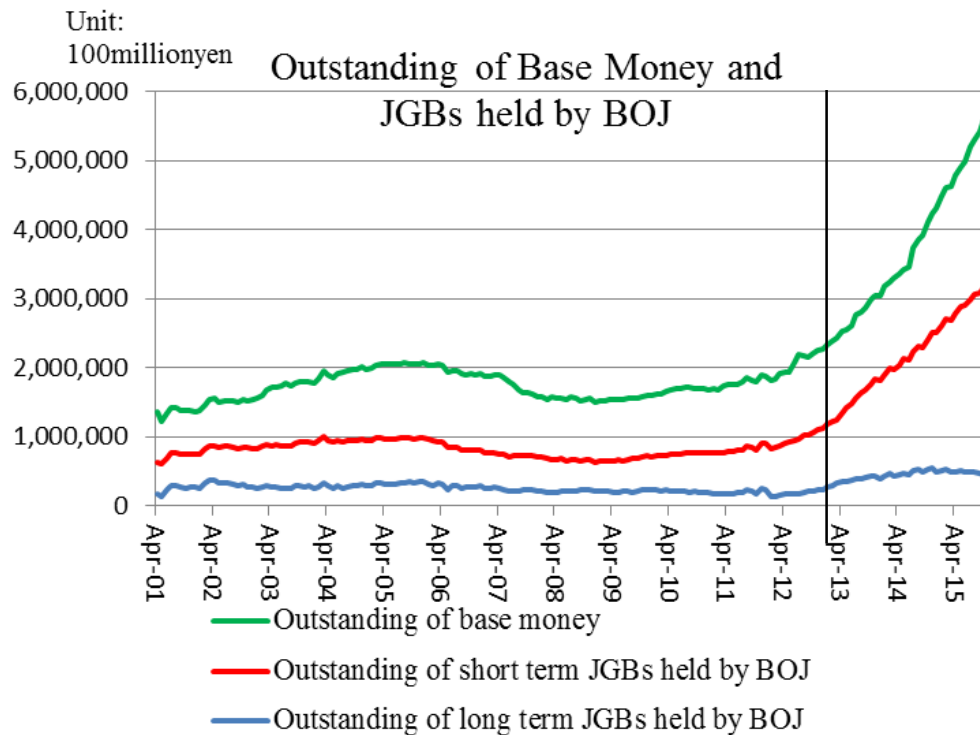
	ULC average annual percent changes	CPI average annual percent changes
Australia	0.69	3.15
Canada	0.62	2.12
France	0.47	1.72
Germany	0.03	1.58
Italy	0.60	2.22
Japan	-0.33	-0.31
Korea	0.39	3.14
Poland	0.34	3.47
Spain	0.58	2.89
United Kingdom	0.71	2.08
United States	0.45	2.50

Data: OECD

Abenomics has been successful in boosting the corporate profit but not the wages.



QQE, however, appears to be working very slowly.
 Money stock is increasing at one tenth of the growth of base money.

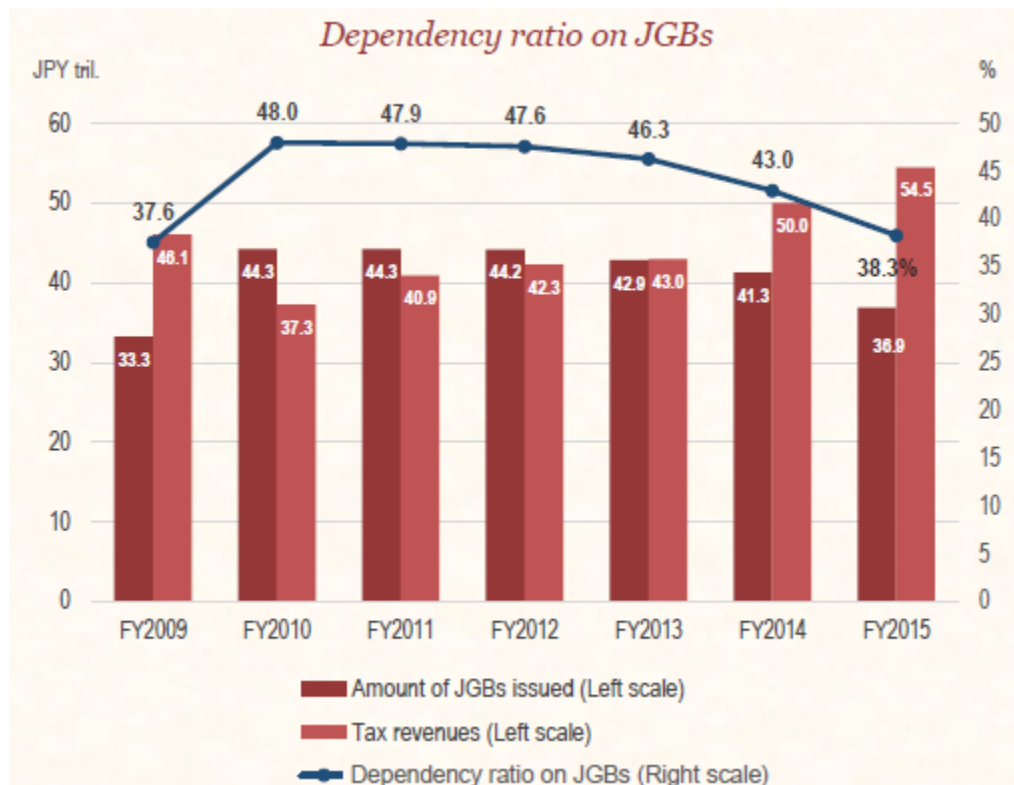


Fiscal consolidation is proceeding. But isn't it too slow?

“Abenomics Is Proceeding”

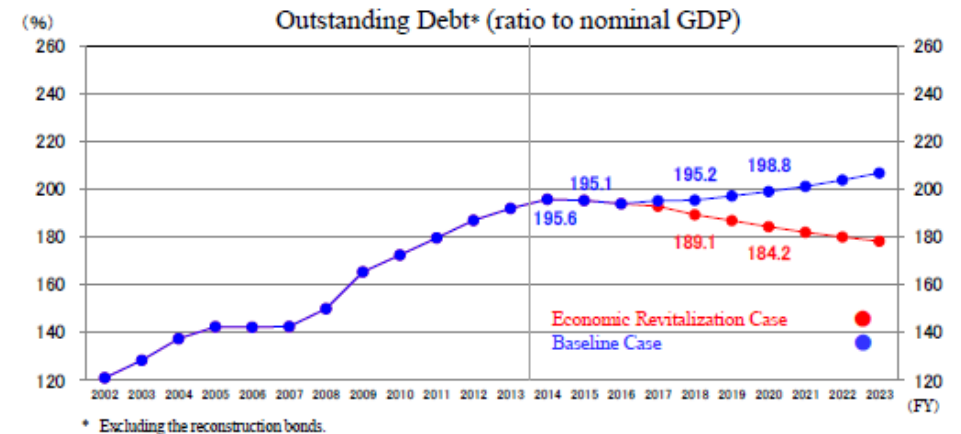
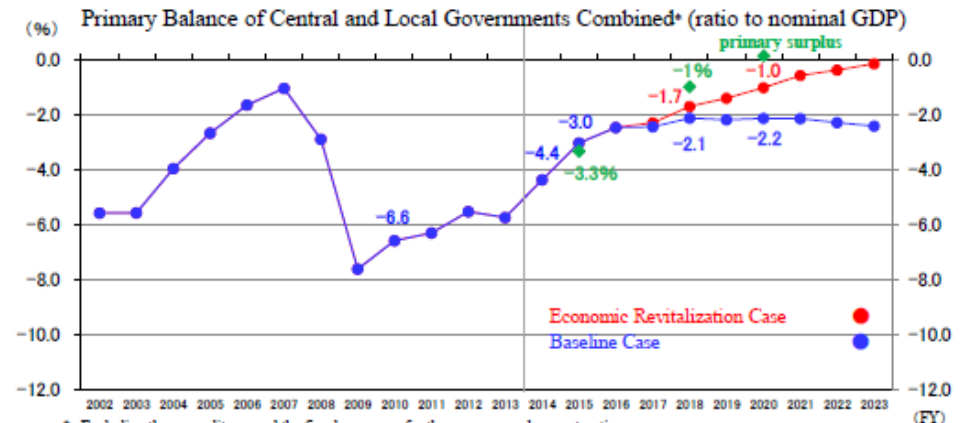
Prime Minister Japan and His Cabinet

Oct.2015



Economic and Fiscal Projections for
Medium to Long Term Analysis

Cabinet Office, July 2015



TPP is expected to boost the structural reform of Japanese economy...

We can't let countries like China write the rules of the global economy.



I don't believe it's going to meet the high bar I have set.



We reached agreement on a new trade deal...

