

## The rise in prices has caused internal and external troubles for the economy

NANA MATSUI, YUKI HASEGAWA  
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.  
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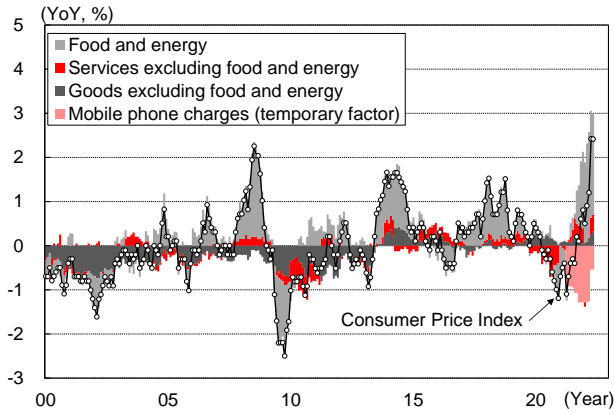
(ORIGINAL JAPANESE VERSION RELEASED ON 30 JUNE 2022)

The consumer price index (including food and energy) rose 2.5% YoY in May due to soaring commodity prices and JPY depreciation, marking the second month where price growth exceeded 2% YoY (Chart 1). It is likely that consumer price growth will stay above 2% for the time being considering oil prices remain at high levels; however, this is still a low level of growth compared with other economies globally and there is still no sign that Japan will make changes to its monetary policy.

Europe and the US are accelerating their monetary policy normalisation due to their high levels of inflation, and the fear of recession has become an issue in financial markets. Although Japan is not normalising its monetary policy, there is a possibility that higher inflation will put downward pressure on the economy as real purchasing power decreases. For example, the Consumer Confidence Index has fallen significantly since the start of the year according to the Cabinet Office's Consumer Confidence Survey. According to the breakdown, "income growth" and "employment" – categories that reflect the labour market situation – have remained above certain levels after recovering from the COVID-19 pandemic, whereas "overall livelihood" and "willingness to buy durable goods" have fallen considerably (Chart 2). Although perceptions of income and employment are close to where they were before the pandemic, there is an increased awareness of high inflation and supply constraints of some home appliances, and we do not expect a substantial improvement in consumer confidence from a rise in wages (real purchasing power will decrease due to cost-push inflation rather than demand-pull inflation). The Cabinet Office's overall assessment of June's result is that the declining trend of confidence looks like it is coming to a halt. Given the correlation between the Consumer Confidence Index and private consumption in recent years, however, this situation warrants close monitoring.

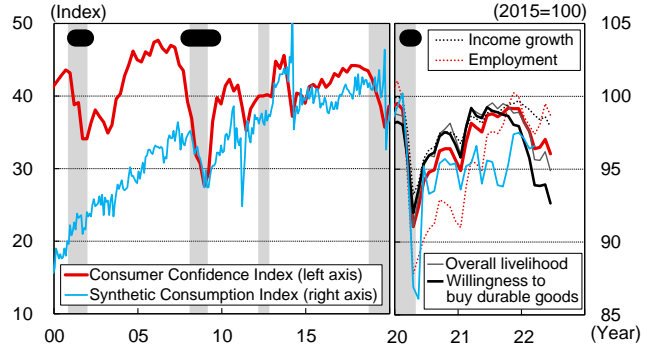
A point to bear in mind is there will likely be downward pressure on the economy in Japan from a rise in inflation, even if monetary policy is not tightened, and high inflation and monetary policy tightening overseas will probably have an impact on the Japanese economy in the future. Looking back to the 1970s, whenever there has been a recession in the US, Japan has also experienced a recession around the same time. Therefore, it will be important to keep in mind that the impact on the Japanese economy through channels like exports will be sizable if overseas economies like the US stall. In terms of continued recovery from the pandemic, it seems that Japanese economies will reach a critical juncture some time during the latter half of this year or into 2023 due to both domestic and overseas factors.

Chart 1: Consumer Prices



Note: Does not include impact of consumption tax hikes  
 Source: Ministry of Internal Affairs and Communications,  
 MUFG Bank Economic Research Office

Chart 2: The Consumer Confidence Index and the Synthetic Consumption Index



Note: 1. Consumer Confidence Index before Dec 2019 is quarterly and from Jan 2020 is monthly  
 2. Shaded areas denote periods of economic recession in Japan. Data between Oct 2018 and May 2020 are provisional figures  
 3. Black ovals denote periods of economic recession in the US  
 Source: Cabinet Office, The National Bureau of Economic Research,  
 MUFG Bank Economic Research Office

Translated by Elizabeth Foster

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Jun.30, 2022

	Fiscal	Fiscal	2021		2022	2022				
	2020	2021	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-4.5	2.2	-3.2 (1.2)	4.0 (0.4)	-0.5 (0.4)	***	***	***	***	***
Industrial Production Index	-9.6	5.8	-1.9 (5.4)	0.2 (0.9)	0.8 (-0.6)	-2.4 (-0.8)	2.0 (0.5)	0.3 (-1.7)	-1.5 (-4.9)	-7.2 (-2.8)
Production										
Shipments	-9.8	4.6	-3.3 (3.9)	0.2 (0.0)	0.5 (-1.8)	-1.5 (-1.3)	0.0 (-1.5)	0.6 (-2.4)	-0.3 (-4.6)	-4.3 (-3.2)
Inventory	-10.0	6.8	2.3 (0.4)	2.0 (4.9)	1.0 (6.8)	-0.7 (4.7)	2.1 (7.1)	-0.4 (6.8)	-2.3 (4.1)	-0.1 (4.6)
Inventory/Shipments Ratio (2015=100)	122.9	114.3	114.2 [124.0]	115.6 [114.6]	118.2 [109.7]	116.4 [109.7]	118.7 [110.4]	119.4 [109.0]	116.0 [108.3]	121.5 [109.6]
Index of Tertiary Industries Activity	-6.8	2.3	-0.5 (0.7)	1.5 (0.8)	-0.9 (0.4)	-0.2 (2.1)	-1.9 (0.0)	1.7 (-0.5)	0.7 (0.3)	
Domestic Corporate Goods Price Index	***	7.0	2.1 (5.8)	2.3 (8.4)	2.1 (9.2)	0.8 (9.0)	0.9 (9.4)	0.9 (9.3)	1.3 (9.8)	0.0 (9.1)
Consumer Price Index(SA, total, excl.fresh foods)	-0.4	0.1	0.4 (0.0)	0.2 (0.4)	0.5 (0.6)	0.0 (0.2)	0.4 (0.6)	0.4 (0.8)	0.2 (2.1)	0.1 (2.1)
Index of Capacity Utilization (2015=100)	87.3	93.5	90.5 [85.1]	94.7 [92.6]	93.2 [95.4]	92.8 [95.6]	94.2 [93.5]	92.7 [97.0]	92.7 [97.5]	[91.9]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-8.8	9.3	1.1 (13.3)	5.1 (6.4)	-3.6 (6.1)	-2.0 (5.1)	-9.8 (4.3)	7.1 (7.6)	10.8 (19.0)	
Manufacturing	-8.5	26.7	7.2 (33.7)	3.1 (23.4)	0.8 (24.2)	-4.8 (18.7)	-1.8 (22.1)	7.1 (28.8)	10.3 (29.3)	
Non-manufacturing Excl.Electric Power & Ship building	-9.0	-3.4	-3.6 (-1.2)	6.8 (-6.4)	-8.1 (-7.1)	-1.9 (-7.0)	-14.4 (-10.2)	11.0 (-5.6)	8.9 (10.3)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.6	12.8	-0.7 (19.2)	-1.5 (9.5)	0.0 (4.4)	1.6 (6.9)	-5.1 (0.8)	1.7 (5.5)	1.9 (-2.5)	-4.4 (-2.2)
Construction Orders	-0.3	1.5								
Private	-4.9	8.2								
Public	29.6	-14.2								
Public Works Contracts	2.3	-8.6								
Housing Starts 10,000 units at Annual Rate, SA	81.2 (-8.1)	86.6 (6.6)	86.6 (7.2)	85.5 (6.1)	87.3 (4.8)	82.0 (2.1)	87.2 (6.3)	92.7 (6.0)	88.5 (2.4)	82.8 (-4.3)
Total floor										
Sales at Retailers	-2.8	1.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-4.9	1.6	-4.7 (-1.5)	5.2 (-0.7)	-1.8 (1.8)	-1.2 (6.9)	-2.8 (1.1)	4.1 (-2.3)	1.0 (-1.7)	
Propensity to Consume (SA, %)	61.3	62.8	62.3 [62.8]	64.1 [65.8]	64.5 [64.8]	64.5 [63.2]	63.4 [63.3]	65.3 [67.9]	67.5 [65.9]	[63.2]
Overtime Hours Worked (All Industries, 5 employees or more)	-13.9	8.2	-1.1 (7.3)	-0.9 (4.1)	2.4 (4.3)	-0.6 (4.1)	0.5 (5.1)	2.7 (3.8)	4.1 (5.7)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-1.5	0.7								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	36	33	66	60	-71	-67	-71	-77	-74	
Ratio of Job Offers to Applicants (SA, Times)	1.10	1.16	1.15 [1.05]	1.17 [1.05]	1.21 [1.09]	1.20 [1.08]	1.21 [1.09]	1.22 [1.10]	1.23 [1.09]	[1.10]
Unemployment Rate (SA, %)	2.9	2.8	2.8	2.7	2.7	2.8	2.7	2.6	2.5	
Economy Watcher Survey (Judgment of the present condition D.I.%)	37.7	45.1	41.7 [44.5]	56.5 [44.1]	41.1 [40.7]	37.9 [31.9]	37.7 [41.7]	47.8 [48.5]	50.4 [39.0]	54.0 [37.8]
Bankruptcies (Number of cases)	7,163 (-17.0)	5,980 (-16.5)	1,447 (-28.4)	1,539 (-12.1)	1,504 (-3.2)	452 (-4.6)	459 (2.9)	593 (-6.5)	486 (1.9)	524 (11.0)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

## 2. Balance of Payments

As of Jun.30, 2022

	Fiscal	Fiscal	2021		2022	2022				
	2020	2021	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Customs Clearance (Exports in Yen Terms)	-8.4	23.6	(24.9)	(15.7)	(14.5)	(9.6)	(19.1)	(14.7)	(12.5)	(15.8)
Value	1.0	11.8	(10.0)	(14.2)	(15.5)	(14.1)	(15.9)	(16.3)	(17.7)	(20.0)
Volumes	-9.3	10.5	(13.6)	(1.3)	(-0.8)	(-4.0)	(2.7)	(-1.4)	(-4.4)	(-3.5)
Imports (In Yen terms)	-11.3	33.3	(36.9)	(37.4)	(34.7)	(38.8)	(34.2)	(31.4)	(28.4)	(48.9)
Value	-8.2	28.4	(27.0)	(35.4)	(32.9)	(32.4)	(35.3)	(31.4)	(41.1)	(42.2)
Volumes	-3.3	3.8	(7.8)	(1.4)	(1.3)	(4.8)	(-0.9)	(0.0)	(-9.0)	(4.7)
Current Account (100 mil. yen)	162,673	126,442	42,338	17,461	30,012	-11,964	16,483	25,493	5,011	
Goods (100 mil. yen)	37,770	-16,507	-175	-5,947	-19,472	-16,043	-1,768	-1,661	-6,884	
Services (100 mil. yen)	-35,406	-47,960	-10,286	-11,190	-10,691	-7,379	-2,035	-1,277	-9,653	
Financial Account (100 mil. yen)	138,276	99,142	54,359	-4,748	37,837	12,313	10,364	15,159	-8,340	
Gold & Foreign Exchange Reserves (\$1mil.)	1,368,465	1,356,071	1,409,309	1,405,750	1,356,071	1,385,932	1,384,573	1,356,071	1,322,193	1,329,651
Exchange Rate (¥/\$)	106.04	112.36	110.10	113.70	116.18	114.83	115.20	118.51	126.04	128.78

## 3. Financial Market Indicators

	Fiscal	Fiscal	2021		2022	2022						
	2020	2021	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY		
Uncollateralized Overnight Call Rates	-0.031	-0.024	-0.031	-0.031	-0.015	-0.020	-0.018	-0.008	-0.012	-0.018		
			[-0.039]	[-0.026]	[-0.017]	[-0.017]	[-0.016]	[-0.017]	[-0.012]	[-0.017]		
Euro Yen TIBOR	-0.054	-0.063	-0.072	-0.064	-0.049	-0.049	-0.049	-0.049	-0.049	-0.049		
(3 Months)			[-0.062]	[-0.055]	[-0.058]	[-0.055]	[-0.055]	[-0.065]	[-0.065]	[-0.065]		
Newly Issued Japanese Government Bonds Yields	0.120	0.210	0.065	0.070	0.210	0.170	0.180	0.210	0.215	0.235		
(10 Years)			[0.015]	[0.020]	[0.120]	[0.055]	[0.150]	[0.120]	[0.090]	[0.080]		
Average Contracted Interest Rates	0.686	0.681	0.686	0.684	0.681	0.691	0.686	0.681	0.687	0.686		
on Loans and Discounts(City Banks)												
(% changes from previous period)			(-0.001)	(-0.002)	(-0.003)	(0.007)	(-0.005)	(-0.005)	(0.006)	(-0.001)		
The Nikkei Stock Average	29,179	27,821	29,453	28,792	27,821	27,002	26,527	27,821	26,848	27,280		
(TSE 225 Issues)			[23,185]	[27,444]	[29,179]	[27,663]	[28,966]	[29,179]	[28,813]	[28,860]		
M2(Average)	(8.1)	(5.0)	(4.7)	(4.0)	(3.5)	(3.6)	(3.6)	(3.5)	(3.4)	(3.2)		
Broadly-defined Liquidity(Average)	(4.9)	(5.2)	(5.2)	(4.8)	(4.3)	(4.4)	(4.1)	(4.3)	(4.1)	(3.6)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin		(5.9)	(1.2)	(0.7)	(0.7)	(0.4)	(0.5)	(0.3)	(0.5)	(0.9)	(0.7)
	Banks		(5.8)	(1.0)	(0.4)	(0.6)	(0.4)	(0.5)	(0.3)	(0.5)	(1.0)	(0.9)
	City Banks etc.		(6.9)	(-0.7)	(-1.4)	(-1.0)	(-1.1)	(-1.0)	(-1.3)	(-0.9)	(0.0)	(-0.2)
	Regional Banks		(4.5)	(2.8)	(2.5)	(2.5)	(2.3)	(2.3)	(2.2)	(2.2)	(2.5)	(1.9)
	Regional Banks II		(6.1)	(0.7)	(0.0)	(-0.3)	(-0.5)	(-0.3)	(-0.5)	(-0.6)	(-0.9)	(1.6)
Deposits and CDs (Average)	Shinkin		(6.7)	(2.7)	(2.6)	(1.0)	(0.5)	(0.6)	(0.5)	(0.3)	(-0.1)	(-0.4)
	Total(3 Business Condition)		(8.5)	(5.1)	(5.1)	(4.3)	(3.4)	(3.6)	(3.5)	(3.3)	(3.2)	(2.7)
	City Banks		(9.9)	(5.3)	(5.2)	(4.6)	(3.4)	(3.6)	(3.4)	(3.2)	(3.2)	(2.4)
	Regional Banks		(7.0)	(5.8)	(5.9)	(4.9)	(4.4)	(4.5)	(4.5)	(4.3)	(4.2)	(3.2)
Regional Banks II		(6.7)	(1.2)	(0.8)	(-0.3)	(-0.9)	(-0.7)	(-1.0)	(-1.1)	(-0.8)	(1.6)	

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in ( ) indicate % changes from previous year.

[ ] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta <rei\_tsuruta@mufg.jp>

Written by Nana Matsui <nana\_matsui@mufg.jp>

Yuki Hasegawa <yuuki\_4\_hasegawa@mufg.jp>

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