

Japan may post a current account deficit for the first time in 8 years

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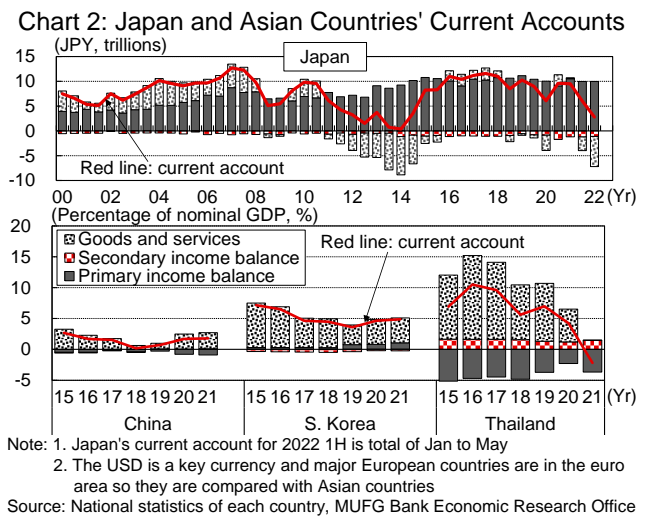
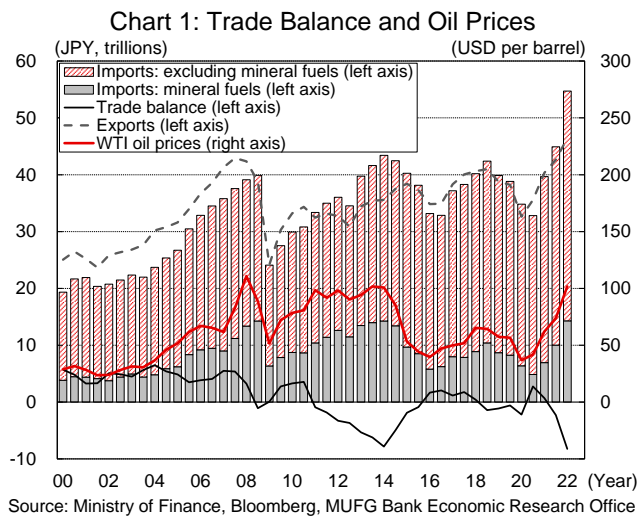
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(ORIGINAL JAPANESE VERSION RELEASED ON 29 JULY 2022)

Japan's trade balance for the first half of 2022 published by its Ministry of Finance showed a deficit of JPY 8.2 trillion – the largest ever half-year deficit (Chart 1). This was due to an increase in imports owing to the huge rise in commodity prices and JPY depreciation. In June, the trade deficit was a massive JPY 1.9 trillion and the balance of payments (released on 8th August) is likely to show the first current account deficit since March 2014.

That being said, we do not believe that the temporary deficit in the current account itself should be considered a significant problem at this time. Japan's self-sufficiency rate for energy and food is low and the country remains in an unstable situation where it is strongly affected by changes in international commodity prices. However, if markets settle down, it is thought that Japan's deficit will start to shrink again. In fact, there are concerns about the future of the global economy due in part to aggressive monetary policy tightening in the US and Europe. As a result, downward pressure on oil prices and commodity indices has started to build. In addition, it is important to note that there have been no significant changes to Japan's income balance and that it remains stable owing to an increase in foreign direct investment. Japan's balance of payments has long since shifted from a trade surplus, which it held up until around the 1990s, to a surplus in its primary income balance, which includes interest and dividends arising from external credit and debt (Chart 2, upper). Japan's trade balance experiences cyclical movements caused by fluctuations in foreign exchange and commodity prices as well as economic developments in Japan and overseas among other factors. It appears these cyclical movements are being levelled out to a certain extent by its income surplus. Japan's economy has a distinctive structure where it is supported by huge net external assets, which sets it apart from other industrialised countries in Asia (Chart 2, lower).

If we look at this from a different perspective, however, the net external assets resulting from an accumulation of current account surpluses is the reflection of the scarcity of domestic investment opportunities, which have led Japan's private sector to increase foreign direct investment and foreign securities investment for higher returns than in Japan. While rising inflation has become a focal point globally, the reason why Japan's inflation rate has remained low (in a negative sense) is the slow growth of wages, and the main reason for low wage growth is sluggish domestic investment. A point to keep an eye on going forward will be whether or not the first current account deficit in a long while will trigger an interest in these kinds of structural issues in Japan.



Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of July 29, 2022

	Fiscal	Fiscal	2021		2022	2022				
	2020	2021	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
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)	2.0 (0.5)	0.3 (-1.7)	-1.5 (-4.9)	-7.5 (-3.1)	8.9 (-3.1)
Production										
Shipments	-9.8	4.6	-3.3 (3.9)	0.2 (0.0)	0.5 (-1.8)	0.0 (-1.5)	0.6 (-2.4)	-0.3 (-4.6)	-4.1 (-3.1)	4.6 (-3.3)
Inventory	-10.0	6.8	2.3 (0.4)	2.0 (4.9)	1.0 (6.8)	2.1 (7.1)	-0.4 (6.8)	-2.3 (4.1)	-0.9 (3.8)	2.1 (4.4)
Inventory/Shipments Ratio (2015=100)	122.9	114.3	114.2 [124.0]	115.6 [114.6]	118.2 [109.7]	118.7 [110.4]	119.4 [109.0]	116.0 [108.3]	119.6 [109.6]	118.4 [109.4]
Index of Tertiary Industries Activity	-6.8	2.3	-0.5 (0.7)	1.5 (0.8)	-1.0 (0.3)	-1.7 (0.0)	1.5 (-0.6)	1.2 (0.8)	0.8 (3.6)	
Domestic Corporate Goods Price Index	***	7.0	2.1 (5.8)	2.3 (8.4)	2.1 (9.2)	0.9 (9.4)	0.9 (9.3)	1.4 (9.9)	0.1 (9.3)	0.7 (9.2)
Consumer Price Index(SA, total, excl.fresh foods)	-0.4	0.1	0.4 (0.0)	0.2 (0.4)	0.5 (0.6)	0.4 (0.6)	0.4 (0.8)	0.2 (2.1)	0.1 (2.1)	0.2 (2.2)
Index of Capacity Utilization (2015=100)	87.3	93.5	90.5 [85.1]	94.7 [92.6]	93.2 [95.4]	94.2 [93.5]	92.7 [97.0]	92.7 [97.5]	84.2 [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)	-9.8 (4.3)	7.1 (7.6)	10.8 (19.0)	-5.6 (7.4)	
Manufacturing	-8.5	26.7	7.2 (33.7)	3.1 (23.4)	0.8 (24.2)	-1.8 (22.1)	7.1 (28.8)	10.3 (29.3)	-9.8 (14.6)	
Non-manufacturing Excl.Electric Power & Ship building	-9.0	-3.4	-3.6 (-1.2)	6.8 (-6.4)	-8.1 (-7.1)	-14.4 (-10.2)	11.0 (-5.6)	8.9 (10.3)	-4.1 (0.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.6	12.8	-0.7 (19.2)	-1.5 (9.5)	0.0 (4.4)	-5.1 (0.8)	1.7 (5.5)	1.9 (-2.5)	-4.2 (-1.9)	7.4 (0.4)
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)	87.2 (6.3)	92.7 (6.0)	88.5 (2.4)	82.8 (-4.3)	84.5 (-2.2)
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)	-2.8 (1.1)	4.1 (-2.3)	1.0 (-1.7)	-1.9 (-0.5)	
Propensity to Consume (SA,%)	61.3	62.8	62.3 [62.8]	64.1 [65.8]	64.5 [64.8]	63.4 [63.3]	65.3 [67.9]	67.5 [65.9]	64.2 [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)	0.5 (5.1)	2.7 (3.8)	4.1 (5.7)	-2.4 (5.2)	
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	-71	-77	-74	-63	
Ratio of Job Offers to Applicants (SA, Times)	1.10	1.16	1.15 [1.05]	1.17 [1.05]	1.21 [1.09]	1.21 [1.09]	1.22 [1.10]	1.23 [1.09]	1.24 [1.10]	1.27 [1.13]
Unemployment Rate (SA,%)	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.5	2.6	2.6
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]	37.7 [41.7]	47.8 [48.5]	50.4 [39.0]	54.0 [37.8]	52.9 [46.5]
Bankruptcies (Number of cases)	7,163 (-17.0)	5,980 (-16.5)	1,447 (-28.4)	1,539 (-12.1)	1,504 (-3.2)	459 (2.9)	593 (-6.5)	486 (1.9)	524 (11.0)	546 (0.9)

(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 July.29, 2022

	Fiscal	Fiscal	2021		2022	2022				
	2020	2021	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Customs Clearance (Exports in Yen Terms)	-8.4	23.6	(24.9)	(15.7)	(14.5)	(19.1)	(14.7)	(12.5)	(15.8)	(19.3)
Value	1.0	11.8	(10.0)	(14.2)	(15.5)	(15.9)	(16.3)	(17.7)	(20.0)	(21.1)
Volumes	-9.3	10.5	(13.6)	(1.3)	(-0.8)	(2.7)	(-1.4)	(-4.4)	(-3.5)	(-1.5)
Imports (In Yen terms)	-11.3	33.3	(36.9)	(37.4)	(34.7)	(34.2)	(31.4)	(28.4)	(49.0)	(46.1)
Value	-8.2	28.4	(27.0)	(35.4)	(32.9)	(35.3)	(31.4)	(41.1)	(42.3)	(44.2)
Volumes	-3.3	3.8	(7.8)	(1.4)	(1.3)	(-0.9)	(0.0)	(-9.0)	(4.7)	(1.3)
Current Account (100 mil. yen)	162,673	126,515	42,338	17,461	30,085	16,333	25,909	5,011	1,284	
Goods (100 mil. yen)	37,770	-16,187	-175	-5,947	-19,152	-1,862	-1,494	-6,884	-19,512	
Services (100 mil. yen)	-35,406	-48,433	-10,286	-11,190	-11,164	-2,095	-996	-9,653	-1,585	
Financial Account (100 mil. yen)	138,276	96,937	54,359	-4,748	35,632	11,485	12,087	-8,340	-4,312	
Gold & Foreign Exchange Reserves (\$1mil.)	1,368,465	1,356,071	1,409,309	1,405,750	1,356,071	1,384,573	1,356,071	1,322,193	1,329,651	1,311,254
Exchange Rate (¥/\$)	106.04	112.36	110.10	113.70	116.18	115.20	118.51	126.04	128.78	133.86

3. Financial Market Indicators

	Fiscal	Fiscal	2021		2022	2022					
	2020	2021	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	-0.031	-0.024	-0.031	-0.031	-0.015	-0.018	-0.008	-0.012	-0.018	-0.038	
			[-0.039]	[-0.026]	[-0.017]	[-0.016]	[-0.017]	[-0.012]	[-0.017]	[-0.029]	
Euro Yen TIBOR (3 Months)	-0.054	-0.063	-0.072	-0.064	-0.049	-0.049	-0.049	-0.049	-0.049	0.005	
			[-0.062]	[-0.055]	[-0.058]	[-0.055]	[-0.065]	[-0.065]	[-0.065]	[-0.072]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.120	0.210	0.065	0.070	0.210	0.180	0.210	0.215	0.235	0.225	
			[0.015]	[0.020]	[0.120]	[0.150]	[0.120]	[0.090]	[0.080]	[0.050]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.686	0.681	0.686	0.684	0.681	0.686	0.681	0.687	0.686	0.682	
			(-0.001)	(-0.002)	(-0.003)	(-0.005)	(-0.005)	(0.006)	(-0.001)	(-0.004)	
The Nikkei Stock Average (TSE 225 Issues)	29,179	27,821	29,453	28,792	27,821	26,527	27,821	26,848	27,280	26,393	
			[23,185]	[27,444]	[29,179]	[28,966]	[29,179]	[28,813]	[28,860]	[28,792]	
M2(Average)	(8.1)	(5.0)	(4.7)	(4.0)	(3.5)	(3.6)	(3.5)	(3.4)	(3.1)	(3.3)	
Broadly-defined Liquidity(Average)	(4.9)	(5.2)	(5.2)	(4.8)	(4.3)	(4.1)	(4.3)	(4.1)	(3.6)	(3.7)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(5.9)	(1.2)	(0.7)	(0.7)	(0.4)	(0.3)	(0.5)	(0.9)	(0.7)	(1.3)
	Banks	(5.8)	(1.0)	(0.4)	(0.6)	(0.4)	(0.3)	(0.5)	(1.0)	(0.9)	(1.5)
	City Banks etc.	(6.9)	(-0.7)	(-1.4)	(-1.0)	(-1.1)	(-1.3)	(-0.9)	(0.0)	(-0.2)	(0.7)
	Regional Banks	(4.5)	(2.8)	(2.5)	(2.5)	(2.3)	(2.2)	(2.2)	(2.5)	(1.9)	(2.2)
	Regional Banks II	(6.1)	(0.7)	(0.0)	(-0.3)	(-0.5)	(-0.5)	(-0.6)	(-0.9)	(1.6)	(2.0)
	Shinkin	(6.7)	(2.7)	(2.6)	(1.0)	(0.5)	(0.5)	(0.3)	(-0.1)	(-0.4)	(-0.2)
Deposits and CDs (Average)	Total(3 Business Condition)	(8.5)	(5.1)	(5.1)	(4.3)	(3.4)	(3.5)	(3.3)	(3.2)	(2.7)	(2.8)
	City Banks	(9.9)	(5.3)	(5.2)	(4.6)	(3.4)	(3.4)	(3.2)	(3.2)	(2.4)	(2.6)
	Regional Banks	(7.0)	(5.8)	(5.9)	(4.9)	(4.4)	(4.5)	(4.3)	(4.2)	(3.2)	(3.2)
	Regional Banks II	(6.7)	(1.2)	(0.8)	(-0.3)	(-0.9)	(-1.0)	(-1.1)	(-0.8)	(1.6)	(1.7)

(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.

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