

Downside risks to real wages and private consumption from a rise in prices

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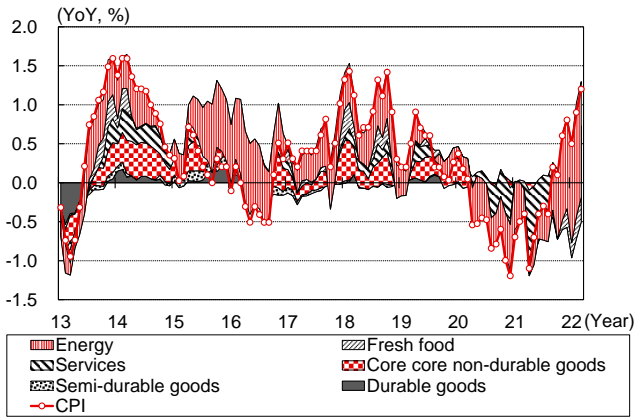
(ORIGINAL JAPANESE VERSION RELEASED ON 2 MAY 2022)

As inflationary pressure rises globally, the rate of price increases in Japan remains at low levels compared with other developed countries. CPI for March stood at 1.2% YoY (Chart 1) – an acceleration from February – and 0.4% MoM (seasonally adjusted). Japan, like other countries, is feeling the effects of the global rise in commodity prices, particularly of energy. However, considering CPI was 8.5% YoY in the US and 7.4% YoY in the Eurozone in March, the gradual pace of the rise in prices in Japan stands out (even when the impact of lower mobile phone charges is factored out).

Nevertheless, it is important to bear in mind that the comparatively low level of price rises does not necessarily mean the negative impacts will be small. In Japan, wage growth is also low, which means the capacity of purchasing power to withstand price rises is limited. Over the long-term, real wage growth has tended to be negative since the latter half of the 1990s. Even though there has not been a significant year-on-year fall in nominal wages from the 2010s, there are many years when the growth of real wages was negative due to price increases (Chart 2, upper). The rise in base pay announced by Rengo (The Japan Trade Union Confederation) last month is 0.62%. When the reduction in mobile phone charges is factored out, the increase in prices is over 2.0% YoY, which continues to eat into household income (purchasing power flow).

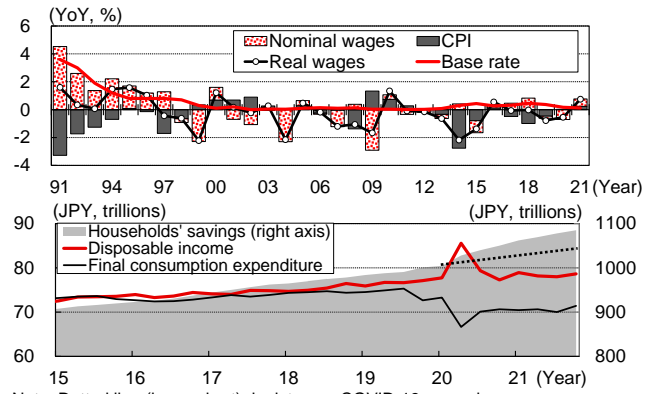
In terms of savings (purchasing power stock), the amount of savings in the household sector is estimated to be around JPY 40 trillion higher than if the pandemic had not occurred. This is because consumption was forcibly restrained by various COVID-19 restrictions and there was a number of benefits resulting from economic policies (Chart 2, lower). However, it is difficult to predict if so-called “revenge consumption” will result in a withdrawal of savings and the main thing to keep an eye on will be the flow of real income. Although consumption of services appears to be recovering in other developed countries as fears about the spread of infection fade, it is important to bear in mind the possibility that the negative impact on real income and consumption from a rise in prices will increase in Japan.

Chart 1: Consumer Price Index



Note: Adjusted for the impact of consumption tax rate hikes
 Source: Ministry of Internal Affairs and Communications,
 MUFG Bank Economic Research Office

Chart 2: Wages, CPI and Base Rate (upper); Household Savings, Disposable Income and Expenditure (lower)



Note: Dotted line (lower chart) depicts non-COVID-19 scenario
 Source: Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and
 Communications, Bank of Japan, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of May.2, 2022

	Fiscal	Fiscal	2021			2021		2022		
	2019	2020	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.7	-4.5	2.4 (7.3)	-2.8 (1.2)	4.6 (0.4)	***	***	***	***	***
Industrial Production Index	-3.8	-9.6	0.2 (19.8)	-1.9 (5.4)	0.2 (0.9)	5.0 (4.8)	0.2 (2.2)	-2.4 (-0.8)	2.0 (0.5)	0.3 (-1.7)
Production										
Shipments	-3.6	-9.8	0.8 (18.6)	-3.3 (3.9)	0.2 (0.0)	5.4 (3.3)	0.2 (2.5)	-1.5 (-1.3)	0.0 (-1.5)	0.5 (-2.5)
Inventory	2.8	-10.0	1.3 (-5.1)	2.3 (0.4)	2.0 (4.9)	1.4 (5.5)	0.1 (4.9)	-0.7 (4.7)	2.1 (7.1)	-0.6 (6.6)
Inventory/Shipments Ratio (2015=100)	112.5	122.9	109.1 [142.1]	114.2 [124.0]	115.6 [114.6]	115.1 [114.2]	114.8 [114.3]	116.4 [109.7]	118.7 [110.4]	118.4 [109.0]
Index of Tertiary Industries Activity	-0.7	-6.8	0.3 (7.8)	-0.5 (0.7)	1.5 (0.8)	0.3 (1.3)	-0.2 (1.3)	-0.2 (2.1)	-1.3 (0.7)	
Domestic Corporate Goods Price Index	0.1	-1.4	2.5 (4.6)	2.2 (6.1)	2.3 (8.8)	0.6 (9.2)	0.2 (8.9)	0.9 (9.2)	0.9 (9.7)	0.8 (9.5)
Consumer Price Index(SA, total, excl.fresh foods)	0.6	-0.4	-0.5 (-0.6)	0.4 (0.0)	0.2 (0.4)	0.2 (0.5)	0.1 (0.5)	0.0 (0.2)	0.4 (0.6)	0.4 (0.8)
Index of Capacity Utilization (2015=100)	98.2	87.3	95.3 [75.3]	90.5 [85.1]	94.7 [92.6]	96.5 [91.9]	96.3 [92.7]	92.8 [95.6]	94.2 [93.5]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.3	-8.8	4.1 (12.6)	1.1 (13.3)	5.1 (6.4)	2.4 (11.6)	3.1 (5.1)	-2.0 (5.1)	-9.8 (4.3)	
Manufacturing	-8.1	-8.5	11.1 (26.5)	7.2 (33.7)	3.1 (23.4)	7.1 (29.4)	3.5 (27.5)	-4.8 (18.7)	-1.8 (22.1)	
Non-manufacturing Excl.Electric Power & Ship building	6.2	-9.0	-0.9 (2.2)	-3.6 (-1.2)	6.8 (-6.4)	-0.5 (-2.1)	0.4 (-10.2)	-1.9 (-7.0)	-14.4 (-10.2)	
Shipments of Capital Goods (Excl.Transport Equipment)	-5.5	-6.6	6.7 (21.4)	-0.7 (19.2)	-1.5 (9.5)	0.6 (9.9)	1.5 (9.7)	1.6 (6.9)	-5.1 (0.8)	1.4 (5.1)
Construction Orders	-5.9	-0.3								
Private	-8.7	-4.9								
Public	-3.2	29.6								
Public Works Contracts	6.8	2.3								
Housing Starts 10,000 units at Annual Rate, SA	88.4 (-7.3)	81.2 (-8.1)	86.5 (8.1)	86.6 (7.2)	85.5 (6.1)	85.1 (3.7)	83.8 (4.2)	82.0 (2.1)	87.2 (6.3)	92.7 (6.0)
Total floor										
Sales at Retailers	-0.4	-2.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-0.4	-4.9	3.6 (7.1)	-4.7 (-1.5)	4.6 (-0.7)	-0.9 (-1.3)	0.2 (-0.2)	-1.2 (6.9)	-2.8 (1.1)	
Propensity to Consume (SA, %)	66.9	61.3	61.7 [54.9]	62.0 [62.5]	64.2 [65.8]	65.2 [66.3]	62.1 [64.7]	64.5 [63.2]	63.4 [63.3]	
Overtime Hours Worked (All Industries, 5 employees or more)	-2.5	-13.9	3.9 (19.1)	-1.1 (7.3)	-0.9 (4.1)	2.3 (5.1)	1.4 (5.1)	-0.6 (4.1)	0.5 (5.1)	
Total Cash Earnings (Regular Employees Only: All Industries, 5 employees or more)	0.0	-1.5								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	96	36	78	66	60	60	59	-67	-72	
Ratio of Job Offers to Applicants (SA, Times)	1.55	1.10	1.11 [1.20]	1.15 [1.05]	1.17 [1.05]	1.17 [1.05]	1.17 [1.06]	1.20 [1.08]	1.21 [1.09]	1.22 [1.10]
Unemployment Rate (SA, %)	2.4	2.9	2.9	2.8	2.7	2.8	2.7	2.8	2.7	2.6
Economy Watcher Survey (Judgment of the present condition D.I.%)	38.7	37.7	41.1 [21.6]	41.7 [44.5]	56.5 [44.1]	56.8 [44.2]	57.5 [35.3]	37.9 [31.9]	37.7 [41.7]	47.8 [48.5]
Bankruptcies (Number of cases)	8,631 (6.4)	7,163 (-17.0)	1,490 (-18.9)	1,447 (-28.4)	1,539 (-12.1)	510 (-10.4)	504 (-9.7)	452 (-4.6)	459 (2.9)	593 (-6.5)

(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 May 2, 2022									
	Fiscal	Fiscal	2021			2021		2022		
	2019	2020	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	-6.0	-8.4	(45.0)	(24.9)	(15.7)	(20.5)	(17.5)	(9.6)	(19.1)	(14.7)
Value	-1.6	1.0	(7.9)	(10.0)	(14.2)	(15.1)	(15.2)	(14.1)	(15.9)	(16.3)
Volumes	-4.4	-9.3	(34.5)	(13.6)	(1.3)	(4.7)	(2.0)	(-4.0)	(2.7)	(-1.4)
Imports (In Yen terms)	-6.3	-11.3	(23.9)	(36.9)	(37.4)	(43.8)	(41.2)	(38.8)	(34.2)	(31.2)
Value	-3.9	-8.2	(17.9)	(27.0)	(35.4)	(35.6)	(39.8)	(32.4)	(35.3)	(31.2)
Volumes	-2.4	-3.3	(5.1)	(7.8)	(1.4)	(6.1)	(1.0)	(4.8)	(-0.9)	(0.0)
Current Account (100 mil. yen)	186,286	162,673	36,631	42,338	17,461	9,142	-2,675	-11,964	16,483	
Goods (100 mil. yen)	3,753	37,770	9,087	-175	-5,947	-4,243	-3,295	-16,043	-1,768	
Services (100 mil. yen)	-17,302	-35,406	-15,793	-10,286	-11,190	-2,018	-3,100	-7,379	-2,035	
Financial Account (100 mil. yen)	204,142	138,276	11,694	54,359	-4,748	4,111	-975	12,313	10,364	
Gold & Foreign Exchange Reserves (\$1mil.)	1,366,177	1,368,465	1,376,478	1,409,309	1,405,750	1,405,754	1,405,750	1,385,932	1,384,573	1,356,071
Exchange Rate (¥/\$)	108.68	106.04	109.48	110.10	113.70	114.13	113.87	114.83	115.20	118.51

3. Financial Market Indicators

	Fiscal	Fiscal	2021			2021		2022			
	2019	2020	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR	
	Uncollateralized Overnight Call Rates	-0.046	-0.031	-0.019 [-0.044]	-0.031 [-0.039]	-0.031 [-0.026]	-0.040 [-0.032]	-0.026 [-0.026]	-0.020 [-0.017]	-0.018 [-0.016]	-0.008 [-0.017]
Euro Yen TIBOR (3 Months)	0.026	-0.054	-0.067 [-0.041]	-0.072 [-0.062]	-0.064 [-0.055]	-0.072 [-0.055]	-0.049 [-0.055]	-0.049 [-0.055]	-0.049 [-0.055]	-0.049 [-0.065]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.005	0.120	0.050 [0.030]	0.065 [0.015]	0.070 [0.020]	0.050 [0.030]	0.070 [0.020]	0.170 [0.055]	0.180 [0.150]	0.210 [0.120]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.720	0.686	0.687 (0.001)	0.686 (-0.001)	0.684 (-0.002)	0.689 (0.000)	0.684 (-0.005)	0.691 (0.007)	0.686 (-0.005)		
The Nikkei Stock Average (TSE 225 Issues)	18,917	29,179	28,792 [22,288]	29,453 [23,185]	28,792 [27,444]	27,822 [26,434]	28,792 [27,444]	27,002 [27,663]	26,527 [28,966]	27,821 [29,179]	
M2(Average)	(2.5)	(6.1)	(7.7)	(4.7)	(4.0)	(4.0)	(3.7)	(3.6)	(3.6)	(3.5)	
Broadly-defined Liquidity(Average)	(1.8)	(4.9)	(6.7)	(5.2)	(4.8)	(4.8)	(4.7)	(4.5)	(4.2)	(4.2)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.1)	(5.9)	(3.0)	(0.7)	(0.7)	(0.6)	(0.6)	(0.5)	(0.3)	(0.5)
	Banks	(2.2)	(5.8)	(2.4)	(0.4)	(0.6)	(0.5)	(0.5)	(0.5)	(0.3)	(0.5)
	City Banks etc.	(1.9)	(6.9)	(0.8)	(-1.4)	(-1.0)	(-1.1)	(-1.2)	(-1.0)	(-1.3)	(-0.9)
	Regional Banks	(4.5)	(4.5)	(3.8)	(2.5)	(2.5)	(2.5)	(2.5)	(2.3)	(2.2)	(2.2)
	Regional Banks II	(-5.9)	(6.1)	(3.6)	(0.0)	(-0.3)	(-0.4)	(-0.3)	(-0.3)	(-0.5)	(-0.6)
Deposits and CDs (Average)	Shinkin	(1.1)	(6.7)	(7.1)	(2.6)	(1.0)	(1.0)	(0.8)	(0.6)	(0.5)	(0.3)
	Total(3 Business Condition)	(2.6)	(8.5)	(7.8)	(5.1)	(4.3)	(4.3)	(3.9)	(3.6)	(3.5)	(3.3)
	City Banks	(3.6)	(9.9)	(7.9)	(5.2)	(4.6)	(4.4)	(4.1)	(3.6)	(3.4)	(3.2)
	Regional Banks	(3.4)	(7.0)	(8.2)	(5.9)	(4.9)	(5.0)	(4.5)	(4.5)	(4.5)	(4.3)
	Regional Banks II	(-5.5)	(6.7)	(5.4)	(0.8)	(-0.3)	(-0.2)	(-0.6)	(-0.7)	(-1.0)	(-1.1)

(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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