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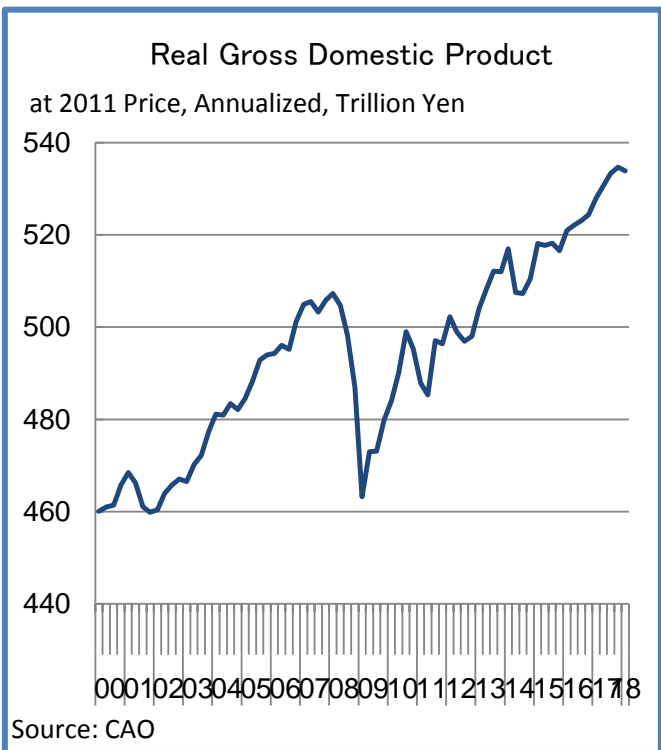
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First Negative Growth in Nine Quarters

Real GDP in the first quarter of 2018 declined 0.2% (0.6% annualized) from the previous quarter. This was the first negative growth in nine quarters, since the fourth quarter of 2015. The decline was a reflection of decreases in private consumption*, private housing investment, and public investment. Meanwhile, there were increases in private non-residential fixed investment and in exports of goods and services. Basically, the majority view is that the first quarter's negative growth is a temporary slowdown and that we will see a continuation of the recovery trend which began in November 2012. The expectation is for continued gradual economic expansion from April-June onward. (*All subsequent references to GDP demand items are in real terms unless otherwise indicated.)

Private consumption decreased 0.1% from the previous quarter. This appears in reaction to the release of new smartphones and strong spending on durable goods such as automobiles during October-December 2017. In addition, leisure spending suffered

and the price of fresh vegetables soared due to the cold wave. Moreover, the ratio of private consumption to employee compensation remained low, similar to 2011 levels. The number of workers reached 65.78 million on average during January-March 2018. This set a new record for the period since 2002, when comparable data became available, and employee compensation increased by 0.7% from the previous quarter in real terms. However, this was apparently still insufficient to boost consumption.



Real Gross Domestic Product (GDP)				
	at 2011 Price, Calendar year			
	2017	2017		2018
	y/y%	7-9	10-12	1-3
		q/q%	q/q%	q/q%
Real Gross Domestic Product	1.7%	0.5%	0.3%	-0.2%
Private Consumption	1.0%	-0.7%	0.3%	-0.1%
Private Housing Investments	2.7%	-1.6%	-2.7%	-1.8%
Private Non-Resi. Fixed Investments	2.9%	1.0%	0.7%	0.3%
Public Investments	1.2%	-2.6%	-0.4%	-0.1%
Government Consumption	0.4%	0.1%	0.1%	0.1%
Exports of Goods & Services	6.7%	2.0%	2.2%	0.6%
(less) Imports of Goods & Services	3.4%	-1.3%	3.1%	0.3%

Source: CAO



Private housing investment decreased 1.8% from the previous quarter, continuing its slump for the third consecutive quarter. There is an oversupply of rentals as well as houses and condominiums for sale. The number of housing starts remained at only 892,000 annually. Construction of rental properties in particular, which had increased due to inheritance tax savings, declined for the fourth consecutive quarter. Single-family dwellings are more affordable than condominiums in housing development projects, and starts of single-family dwellings have been higher than starts of condominiums since July 2017. However, the construction stock on hand in private construction projects has ballooned prior to the Tokyo Olympics, and housing investment will be curbed for a while.

Public investment was down 0.1% from the previous quarter. It grew rather significantly, by 4.7% from the previous quarter, during April-June 2017, but subsequently it declined for three consecutive quarters. The contract amount for public works projects, which is a leading indicator, dropped 12.1% from the previous quarter. In February 2018, the FY2017 supplementary budget was passed, and the national government increased investment-related spending by 1.5 trillion yen. In the FY2018 budget, the investment-related spending was 9.1 trillion yen, the same amount as in the initial FY2017 budget. Public construction might slow in the latter part of FY2018 depending on whether or not a supplementary budget is passed. However, public investment is expected to recover in the coming quarter.

Meanwhile, private non-residential fixed investment increased 0.3% from the previous quarter, marking the sixth consecutive quarter of expansion. According to the Financial Statements Statistics of Corporations, nominal investment in non-manufacturing increased 1.9% from the previous quarter, while nominal investment in manufacturing decreased 3.4%. According to the Tankan survey by the Bank of Japan, capital investment plans for FY2018 increased 7.9% year over year in all industries, with a particularly significant increase of 16.0% in manufacturing. The increase in private capital investment is expected to continue.

Exports of goods and services increased 0.6% from the previous quarter, recording an expansion for the third consecutive quarter, but the growth slowed slightly. According to the real exports/imports calculated by the Bank of Japan, auto-related exports increased. However, information-related and capital goods-related exports decreased. By region, exports to the EU grew, but exports to the US and China were stagnant. Imports increased 0.3% from the previous quarter. Imports grew for the second consecutive quarter due to the contribution of pharmaceuticals, etc. It should be noted that net exports had little effect in boosting real GDP since both exports and imports increased. According to the World Trade Organization (WTO), world trade will continue to grow during 2018 and through 2019, in continuation from its significant recovery in 2017. Moreover, exports will probably remain in an uptrend since continued growth appears likely for the global economy in the future. Meanwhile, sales of smartphones have cooled, and there are signs that growth is topping out in imports of cell phones, which grew by nearly 10 times in the past 10 years.

The averages of private economists' forecasts of the real GDP growth rate compiled by an ESP Forecast survey (July 2018) show growth of 1.0% in 2018 and 1.1% in 2019. There are concerns such as trade friction between the US and China as well as the appreciation of the yen, but the majority view is that the economic slowdown in January-March was temporary and that the global economy remains stable. If positive growth continues in 2019, it will be in line with the eight consecutive years of positive growth from 2000 to 2007 when emerging economies were booming, although the growth rate will be slightly weaker.



Domestic Sales and Exports of Cosmetics Remain Firm

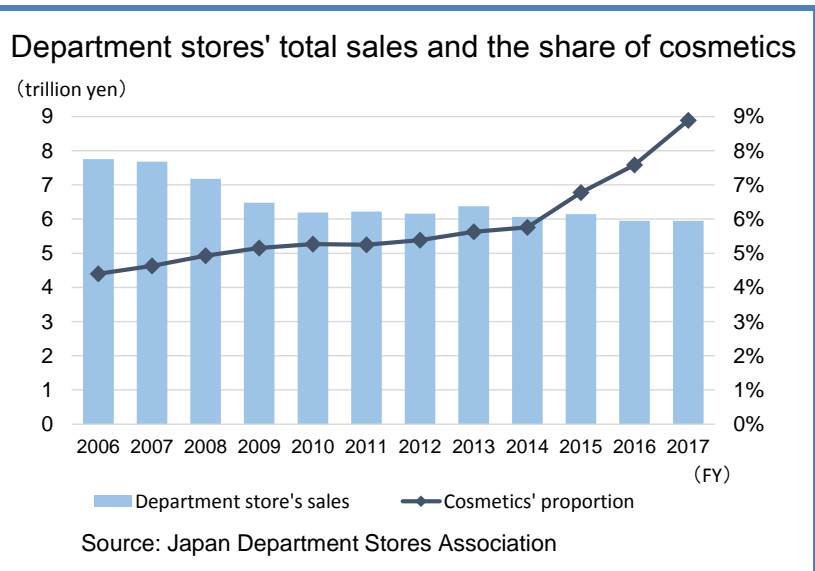
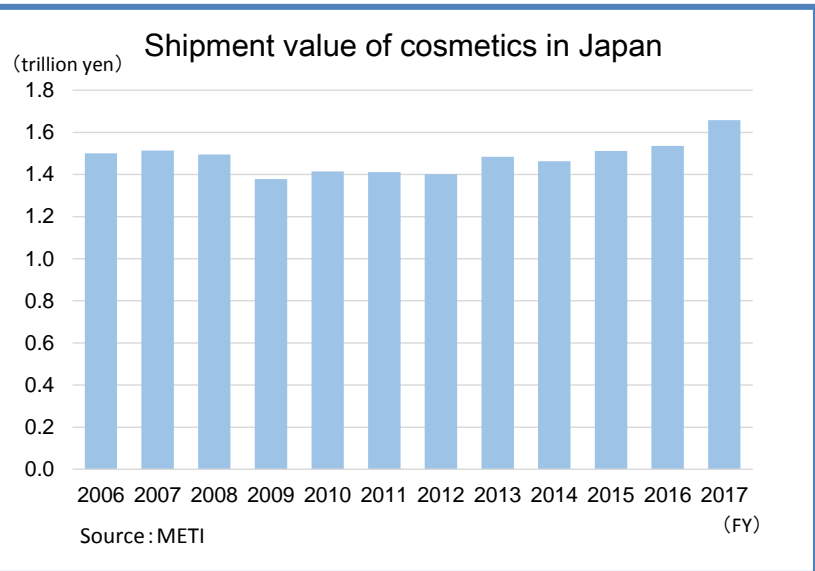
Production of cosmetics is strong. According to the production statistics of Japan's Ministry of Economy, Trade, and Industry, the shipment value of cosmetics (including hair care products, etc.) set a new record in FY2016 for the first time in nine years, following the record of 1,514 billion yen set in FY2007. In FY2017, a new record of 1,658 billion was set. This was led by demand from foreign tourists from Asian countries as well as increased exports, in addition to the gentle recovery in cosmetics purchases by Japanese people as the economic recovery progresses.

The downtrend in total sales continues at department stores nationwide. In 2016, sales were less than 6 trillion yen for the first time in 36 years, and 2017 sales decreased even further. Sales of most items, such as clothing, household items, and food decreased or were flat. Only sales of cosmetics have grown by about 1.5 times in just over 10 years. The percentage of cosmetics in department stores' total sales increased to 9% in FY2017. In contrast, the drugstore market as a whole continues to grow. In FY2017,

cosmetics accounted for 15% of drugstores' total sales of 6.2 trillion yen. According to a survey on inbound tourism consumption by foreign tourists, many foreign tourists purchase UV care products, lip cream, and sheet masks. In a survey by the Japan Tourism Agency, many foreign tourists responded cosmetics and perfumes are the most satisfying products they purchased during their stay in Japan. The reason given, particularly by Chinese respondents, is that the products are made in Japan and are of high quality.

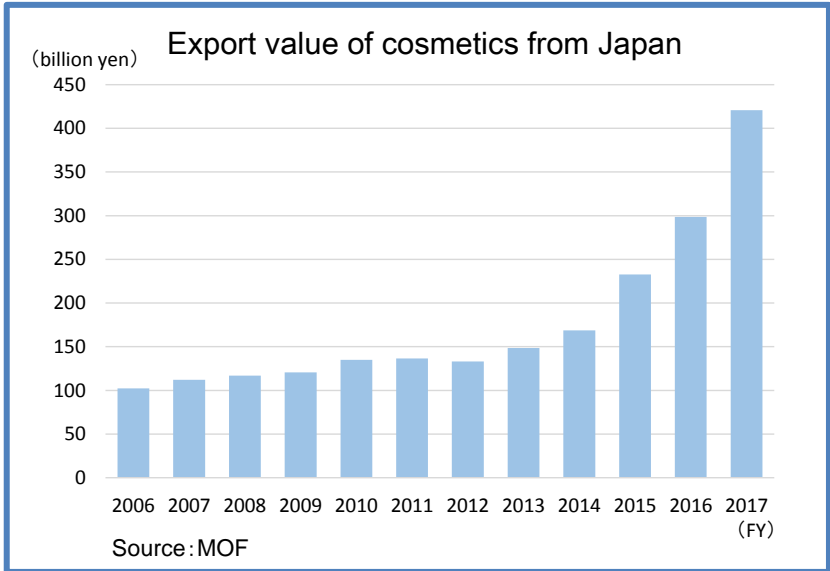
The export value of cosmetics also increased sharply, to 420.8 billion yen in FY2017. The export destinations of Hong Kong, China, Taiwan, and South Korea accounted for 78% of this. The majority of the exports were skincare products such as skin toner and milky lotion, and the high quality and safety of these Japanese products are what make them very popular. These skincare products are not easily influenced by trends, in contrast to make-up products, where US and European brands tend to be preferred. Recently, exports to Singapore, Thailand, and Vietnam as well as the US and Europe are growing, and further growth is expected.

Cosmetics constitute 0.5% of Japan's total exports (FY2017). This is small compared to automobiles at





15.3% and semiconductors etc. at 5.1%. However, the export value of many machinery items is still below the records set prior to the global financial crisis. Cosmetics industry requires advanced technology for production and meets the needs of customers. It may be a good example for Japanese manufacturers to seek further growth in global markets.



Selected Economic Indicators

	Fiscal Year		2017			2018
	2016	2017	4-6	7-9	10-12	1-3
GDP at current prices (SAAR, Trillion Yen)	539.4	548.7	545.5	549.6	550.9	548.7
Real GDP at 2011 prices (SA, q/q%)	1.2%	1.6%	0.5%	0.5%	0.3%	-0.2%
Industrial Production Index (SA, 2010=100)	98.5	102.5	101.8	102.3	103.9	102.5
Exports (SA, Trillion Yen)	71.5	79.2	19.0	19.7	20.4	20.1
Imports (SA, Trillion Yen)	67.5	76.8	18.8	18.7	19.6	19.8
Balance on Current Account (SA, Trillion Yen)	21.0	21.7	5.0	5.8	5.9	4.6
Corporate Bankruptcies	8,381	8,367	2,188	2,032	2,106	2,041
Unemployment Rate (SA, %)	3.0%	2.7%	2.9%	2.8%	2.7%	2.5%
Wage Index (SA, 2010=100)	100.6	101.3	100.8	101.1	101.2	102.2
Consumer Prices (y/y%)	-0.1%	0.7%	0.4%	0.6%	0.6%	1.3%
Nikkei Stock Average	17,518	20,960	19,520	19,873	22,182	22,333
Japanese Government Bond Yields (%)	-0.05	0.05	0.04	0.05	0.05	0.06
Foreign Exchange Rate (Yen/ Dollar)	108.3	110.8	111.1	111.0	113.0	108.1

Note: SAAR means Seasonally Adjusted Annual Rate. SA means Seasonally Adjusted.

q/q% means %change from a quarter earlier. y/y% means %change from a year earlier.

Source: CAO, METI, MOF, Tokyo Shoko Research, MIC, MHLW, Nihon Keizai Shimbun, CEIC, BOJ

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