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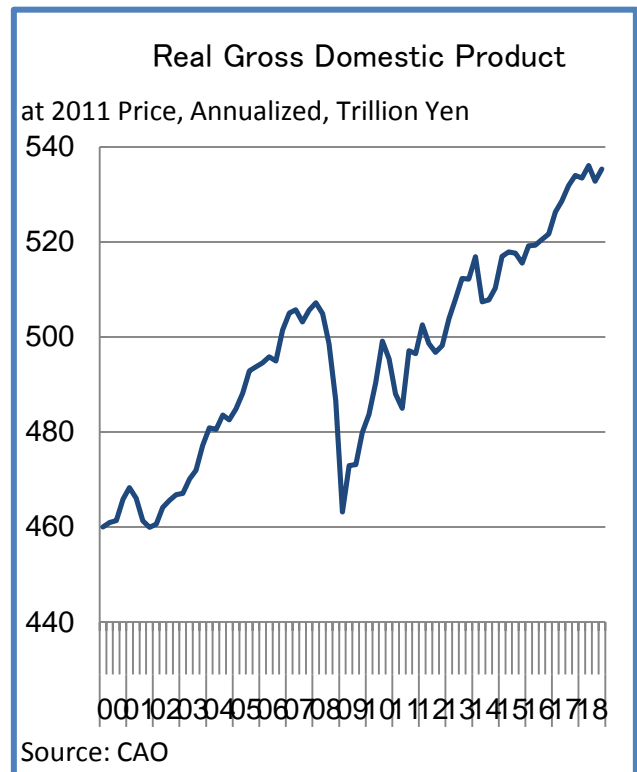
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Return to Positive Growth

Real GDP in the fourth quarter of 2018 was up 0.5% (1.9% annualized) from the previous quarter. With the impact of natural disasters having ceased, the economy recovered from the negative growth in the third quarter of 2018.

Both private consumption* and private non-residential fixed investment – two major components of domestic private demand – increased, and almost all demand items saw increases. (*All subsequent references to GDP demand items are in real terms unless otherwise indicated.)

Private consumption grew 0.4% from the previous quarter, which can be attributed mainly to spending on trips, automobiles, etc. In addition, against the background of the change in the household structure such as an increase in the numbers of single-person households and double-income households, spending on home-meal replacements, eating out, etc., increased, and this seems to have supported consumption. While the number of inbound foreign tourists temporarily fell below the previous year's level due to the impact of natural disasters, it began



increasing again toward the end of last year. In the end, the number of foreigners visiting Japan reached a record high of over 30 million in 2018.

Private non-residential fixed investment marked a moderately large increase of 2.7% from the previous quarter. According to the Financial Statements Statistics of Corporations, nominal investment grew 8.8% in the manufacturing industry and 0.2% in the non-manufacturing industry (excluding

Real Gross Domestic Product (GDP)				
	at 2011 Price, Calendar year			
	2018	2018		
		4-6	7-9	10-12
	y/y%	q/q%	q/q%	q/q%
Real Gross Domestic Product	0.8%	0.5%	-0.6%	0.5%
Private Consumption	0.4%	0.6%	-0.2%	0.4%
Private Housing Investments	-5.7%	-2.0%	0.6%	1.1%
Private Non-Resi. Fixed Investments	3.9%	2.5%	-2.6%	2.7%
Public Investments	-3.2%	-0.7%	-2.3%	-1.7%
Government Consumption	0.8%	0.1%	0.2%	0.7%
Exports of Goods & Services	3.1%	0.4%	-1.4%	1.0%
(less) Imports of Goods & Services	3.3%	1.3%	-0.7%	2.7%

Source: CAO



financial and insurance sectors) from the previous quarter, respectively. These increases seem to be partly due to a reaction to the declines in the previous quarter. A Bank of Japan's Short-Term Economic Survey of Enterprises in Japan ("Tankan" survey) shows that capital investment for FY2018 is expected to grow 10.4% year on year in all industries as of March 2019, with the manufacturing industry anticipating a particularly large year-over-year increase of 11.1%. For now, private non-residential fixed investment can be expected to continue to grow.

Private housing investment increased 1.1% from the previous quarter, recording growth for two consecutive quarters. The number of new housing starts was up 0.5% from the previous quarter at 955,000 annually.

Exports of goods and services grew 1% from the previous quarter, turning around from a decline of the third quarter. According to real exports calculated by the Bank of Japan, exports of intermediate goods and automobile-related goods grew considerably. However, exports to China, especially those of information-related assets, weakened. On the other hand, imports of goods and services grew 2.7% from the previous quarter. Since the increase in exports fell below that of imports, net exports contributed to cutting real GDP growth by 0.3% points from the previous quarter.

As described above, most of the demand items saw quarter-over-quarter growth, while public investment was down 1.7% from the previous quarter, marking the sixth straight quarter of declines. Meanwhile, the FY2018 second supplementary budget (2.7 trillion yen) was passed in February 2019, and spending related to public works projects in the initial budget for FY2019 was increased by 15.6% from the previous fiscal year. Given these, public investment is expected to turn around in the future. Government consumption continued to moderately grow, up 0.7% from the previous quarter.

The averages of forecasts by private economists of real GDP growth compiled by an ESP Forecast survey (April 2019) show that real GDP will grow year on year by 0.5% in 2019 and in 2020, respectively. In December 2018, the Cabinet Office officially acknowledged that the economic expansion phase that has continued since December 2012 became the second-longest economic boom in postwar Japan by exceeding the 57-month-long Izanagi boom during the high-growth period (from November 1965 to July 1970). At present, the government maintains the view that the current period of economic expansion, which became the longest in postwar Japan in January 2019, might have been continuing up until today, while they have to wait for about a year before officially acknowledging it. As for the future economy, the total unemployment rate stood at 2.4% on average in 2018, which is the lowest level in 26 years since 1992 at 2.2%. Amid such a situation where employment and income environments continue to be improved, moderate recovery centering on domestic demand is expected to continue going forward.

Increasing Time Spent on the Internet and Its Impact

Due to the spread of mobile devices and other IT devices, the enhancement of their functionality, and the decline of communication costs, all people from children to adults now can easily use IT devices anytime and anywhere around the world and feel familiar with such devices. According to a survey by the Ministry of Internal Affairs and Communications, the time spent on the Internet has increased in almost all generations in Japan in recent years¹. In particular, the survey found that people in their 10s and 20s spent longer time on the Internet than on TV. According to another survey by the Cabinet Office, 39.4% of elementary school students, 61% of junior high school students and 82.6% of high school students spend more than 2 hours on the Internet a day on average².

¹ "2018 White Paper on Information and Communications in Japan" July 2018

² "Fact-finding Survey on Internet Use Environment of Young People for Fiscal 2018" March 2019



Meanwhile, an increasing number of people spend too much time on the Internet and/or games and become addicted to them, while there are traffic accidents and injuries caused by smartphone use while walking or driving. This situation is seen as a problem. In March 2019, a revision bill of the Road Traffic Act was passed, which specifies stricter penalties against drivers who use mobile phones or smartphones while driving automobiles and motorized bicycles.

These problems are not limited to Japan. In recent years, there has been global concern over the addictive aspect of the Internet and the impact of excessive Internet use on physical and mental health, as reflected in new terms like “digital drug” and “Internet addiction disorder.” Among cases where the causal relationship is obvious is an increase in the numbers of near-sighted people and patients with esotropia (esotropia is a condition where both eyes turn inward and do not return to normal alignment), caused by looking at the screen of a device from a close distance. In addition, more people suffer from such problems as: a lack of exercise mainly due to Internet addiction; bone density decline, obesity and diabetes as a result of inappropriate dietary life and disrupted sleeping hours; and an increase in the number of people becoming reclusive. Furthermore, one study points out a decline of the prefrontal area function that is involved in impulse control.

Internet addiction disorder is a collective name. Specifically, it can be explained as a condition in which a person excessively uses various applications and websites including games, SNS, pornography, videos and online shopping, and the excessive use of the Internet disturbs the person’s daily life. In the past, Internet addiction disorder was almost synonymous with online game addiction, and most of the sufferers were men. However, due to the widespread use of SNS and video streaming sites, an increasing number of women strongly tend to be addicted to the Internet.

Amid such a situation, the World Health Organization in June 2018 defined as a “gaming disorder” the condition where one becomes so obsessed with online games and other contents that the person’s health and daily life are seriously disrupted, and classified it as a mental health disorder. Disorders and addictions under the WHO’s International Classification of Diseases (ICD) are those related to alcohol, drugs, nicotine, gambling, etc., while the revised ICD added gaming disorder to the list. As for the reason why only gaming disorder, not Internet addiction disorder, was included, the WHO explained that at least for the negative effects of game addiction, there is an accumulation of medical evidence necessary for recognizing it as a mental disorder³. The recognition of Internet addiction disorder will continue to be discussed. The revision will be officially adopted at a session of the WHO’s World Health Assembly to be held in May 2019. If adopted, it is expected to take effect in January 2022.

Diagnostic tests to measure the degree of Internet addiction have been devised by experts at home and abroad. For people with serious Internet addiction disorder, medical treatment is provided in some cases. The National Hospital Organization Kurihama Medical and Addiction Center in Kanagawa Prefecture opened Japan’s first medical department specializing in Internet addiction disorder in 2011. Patients aim to improve their lifestyles in an ambulatory setting or by being hospitalized. The number of such medical institutions and counseling facilities has been gradually increasing in Japan, while multiple facilities of this kind exist in other major countries where there is a high interest in Internet addiction disorder.

As a measure to prevent Internet addiction disorder, there is a method called “parental control,” in which parents monitor and control the use of the Internet by their children, using such means as: designating hours and limiting Internet connections; and setting up filtering to restrict access to certain websites. In some countries, governments place restrictions. For example, the South Korean government revised the Juvenile

³ “Why Is There a ‘Gaming Disorder’ But No ‘Smartphone Disorder?’” *The Atlantic*, Jun 28, 2018.



Protection Act in 2011 and prohibits people under 16 years old from playing online games from 0 a.m. to 6 a.m. by law. The French government legally banned the use of mobile phones and other devices by students under 15 years old within schools starting in September 2018.

Major IT companies have officially taken measures to address the situation since around early 2018, with some adding to their devices a function to allow users to visually know the duration and frequency of Internet use. Such moves are referred to in various ways, such as “digital wellbeing” and “digital wellness.” All such functions and measures are aimed at visually showing the duration of Internet use and preventing excessive use of the Internet.

As seen in the changes in WHO’s ICD and laws in certain countries, rules and social trends related to the Internet can be changed. For example, gaming and gambling are similar in that they stimulate the gambling spirit. It is still fresh in our minds that the Japanese government in 2012 banned a certain type of charging systems on online games called “complete gacha” under the Act against Unjustifiable Premiums and Misleading Representations. Furthermore, there are tours and hotels themed on “digital detox.” It is important in the long term to imagine the possible negative effects of products and services on society and establish business models that are good for society and health.

Selected Economic Indicators	Fiscal Year		2018			
	2016	2017	1-3	4-6	7-9	10-12
GDP at current prices (SAAR, Trillion Yen)	536.8	547.4	548.3	550.5	547.5	549.7
Real GDP at 2011 prices (SA, q/q%)	0.9%	1.9%	-0.4%	1.9%	-2.4%	1.9%
Industrial Production Index (SA, 2010=100)	100.6	103.5	103.3	104.5	103.1	105.1
Exports (SA, Trillion Yen)	71.5	79.2	20.2	20.5	20.4	20.3
Imports (SA, Trillion Yen)	67.5	76.8	20.1	20.2	20.9	21.3
Balance on Current Account (SA, Trillion Yen)	21.0	21.8	5.1	5.3	4.5	4.5
Corporate Bankruptcies	8,381	8,367	2,041	2,107	2,017	2,070
Unemployment Rate (SA, %)	3.0%	2.7%	2.5%	2.4%	2.4%	2.4%
Wage Index (SA, 2010=100)	100.6	101.3	102.0	102.4	102.2	102.9
Consumer Prices (y/y%)	-0.1%	0.7%	1.3%	0.6%	1.1%	0.9%
Nikkei Stock Average	17,518	20,960	22,333	22,348	22,624	21,937
Japanese Government Bond Yields (%)	-0.05	0.05	0.06	0.04	0.09	0.09
Foreign Exchange Rate (Yen/ Dollar)	108.3	110.8	108.1	109.1	111.4	112.9

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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