JAPAN IN 2016: SLOW ECONOMIC GROWTH BUT AN AFFLUENT SOCIETY

XING Yuqing

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Executive Summary

1. The Japanese economy grew moderately in the first three quarters of 2016. The fourth quarter's gross domestic product (GDP) is estimated to further rise by more than 1% over the previous quarter; for the year of 2016, real GDP is expected to increase by 1.5%.

2. Japanese inflation remained far below the target of 2%. In the first 10 months of 2016, consumer price index (CPI) decreased in seven months. In particular, CPI in May, July, August and September dropped 0.5% compared with that of last year.

3. In February and October, CPI rose a mere 0.2% and 0.1 respectively. The downward trend of CPI in the first 10 months implies that the Japanese economy was sinking into deflation territory again.

4. In early 2016, the BOJ introduced a negative interest rate policy, which triggered turmoil in Japanese bond market and confusion among Japanese savers. In September 2016, the BOJ shifted its policy to target interest rates instead of the money-printing programme, indicating that Japanese quantitative easing has reached its limit.

5. To coordinate with the expansionary monetary policy, the Abe administration again postponed the second hike of sales tax and rolled out a 28 trillion yen fiscal package, the largest ever in the modern history of Japan.

6. On employment, a tightening labour market has not translated into rapid wage growth. The Japanese government raised average minimum hourly wage to 823 yen, about 3% increase, or 25 yen higher than before, to pressure the private sectors to increase the base salaries of their employees substantially.

7. Trans-Pacific Partnership (TPP) had taken top spot in the government's free trade agreement (FTA) strategy. Trump's rejection of TPP has shocked the Japanese

government. However, this does not mean weakening Japan-US ties or US targeting Japan to fix its trade imbalance.

8. Trump's surprising victory also led to an unexpected positive shock to the Japanese economy. Since the election, Japanese yen has depreciated against the US dollar by more than 10%. A weakened yen is desperately needed to support economic growth.

9. Japanese net foreign assets surged significantly from 179 trillion yen in 2001 to 339 trillion yen in 2015, an important source of the country's income and the dominant factor for Japan's constant maintenance of its current account surplus.

10. Japanese households still maintain very solid balance sheets. In 2015, the average financial assets of Japanese households amounted to 18.1 million yen while the average debt was five million yen and only 38% households had debts.