The Japanese Economy: Stagnation, Recovery, and Challenges

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JAPAN’S NOMINAL GDP IS RISING AFTER DECADES OF STAGNATION
JAPAN’S GROWTH PERFORMANCE HAS BEEN DISAPPOINTING

<table>
<thead>
<tr>
<th>Trend growth rate by decade</th>
<th>Real GDP</th>
<th>Real GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1969</td>
<td>9.6</td>
<td>8.5</td>
</tr>
<tr>
<td>1970-1979</td>
<td>4.2</td>
<td>3.0</td>
</tr>
<tr>
<td>1980-1989</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>1990-1999</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>2000-2009</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>2010-2016</td>
<td>0.9</td>
<td>1.1</td>
</tr>
</tbody>
</table>

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<tr>
<th>Trend growth rate by era</th>
<th>Real GDP</th>
<th>Real GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-2016</td>
<td>3.3</td>
<td>2.8</td>
</tr>
<tr>
<td>1960-1994</td>
<td>5.1</td>
<td>4.3</td>
</tr>
<tr>
<td>1995-2016</td>
<td>0.8</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Sources: World Bank; author's calculations
CORE INFLATION IS STILL LOW

Source: Macrobond
MUTED WAGE GROWTH HAS KEPT CORE INFLATION VERY LOW

Japan, Employees' Cash Earnings and Core CPI
Smoothed

Source: Macrobond
JAPAN’S POPULATION IS DECLINING

Source: Macrobond
PRIVATE CONSUMPTION HAS RISEN AT A MODEST PACE

Japan. Private Consumption Integrated Estimates, Constant Prices, SA, Index

Source: Macrobond
GRADUAL RECOVERY IN FIXED CAPITAL FORMATION

JPN Real Private & Real Public Gross Fixed Capital Formation

Source: Macrobond
JAPANESE CORPORATIONS HAVE PLENTY OF CASH

Source: Macrobond
JAPANESE CORPORATE PROFITS HAVE PICKED UP

Japan, Income Approach, Entrepreneurial Income, Current Prices, JPY

Source: Macrobond
MACHINE ORDERS HAVE MODERATELY PICKED UP

Japan Private Business Fixed Investment & Machinery Orders

Source: Macrobond
JAPAN’S SHARE OF GLOBAL EXPORTS HAVE FALLEN MARKEDLY

USA, China, Japan, Germany, France, South Korea, & Hong Kong, Share of Global Exports

Source: Macrobond
MODERATE RECOVERY IN MOTOR VEHICLE EXPORTS

Japan, Exports, Motor vehicles
Seasonally adjusted

Source: Macrobond
Electronics exports have declined noticeably since 2008.
Persistent fiscal deficits have led to...
... ELEVATED GOVERNMENT DEBT RATIOS

Japan, Government Debt Ratios

Source: Macrobond
LONG-TERM INTEREST RATES ON GOVERNMENT BONDS ARE LOW

Japanese Government Bonds (JGB), Bid, Yield

Source: Macrobond
THE BOJ HAS PURSUED LOW POLICY RATES

Source: Macrobond
THE BOJ SUBSTANTIALLY EXPANDED ITS BALANCE SHEET SINCE 2011
THE EVOLUTION OF THE JAPANESE YEN

Japan, Spot Rates, Yen per Dollar

USD/JPY

Source: Macrobond
THE UNEMPLOYMENT RATE IS VERY LOW

Japan, Unemployment Rate, SA

Source: Macrobond
LFPR HAS RECENTLY RISEN DUE TO A HIGHER FEMALE PARTICIPATION
POLICY CHALLENGES

- Japan enjoys a **high standard of living**, social stability, cohesion, and a remarkably low unemployment rate. However, Japan has suffered for decades from low growth, low inflation/deflation, and muted wage growth. Its population is declining and aging rapidly.
- Going forward, Japan needs to continue to raise its **productivity** to ensure increased prosperity. Artificial intelligence, robotics, and other technological advances could lift productivity.
- Policy measures to raise **public and private investment** to enhance Japan’s productive capacity, human capital and the capabilities of its workforce would be beneficial.
- **Japanese corporations need inducements to invest** in Japan. Corporations have plenty to cash but are reluctant to invest.
POLICY CHALLENGES

• **Policies to support effective demand and growth in real disposable income could overcome low inflation and deflationary trends.** Accommodative monetary policy has kept JGBs’ interest rates low, but has not been to attain a core inflation of 2.0% on a sustained basis.

• **The Japanese economy could benefit from openness to immigrants.** The presence of foreign workers would address shortages of workers and boost effective demand.