

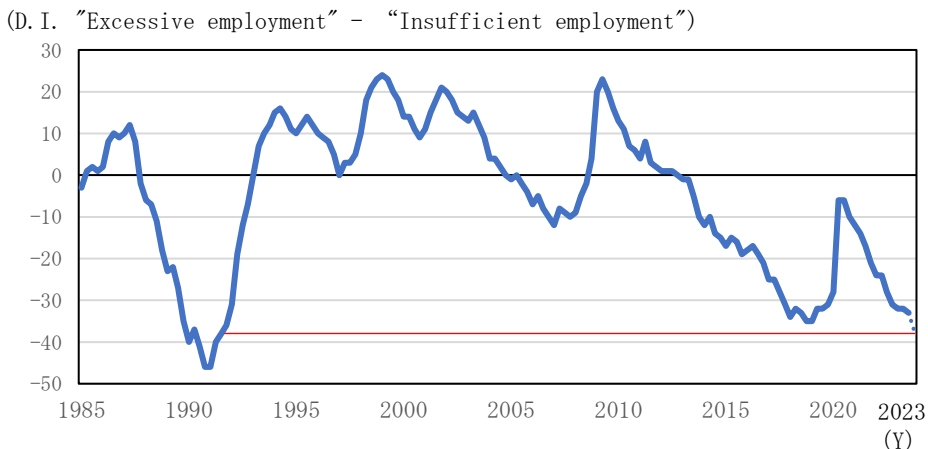
Macroeconomic Policy Management and Japan's Economy Reaching a Turning Point

**Document for
the Council on Economic and Fiscal Policy
December 21, 2023
Cabinet Office**

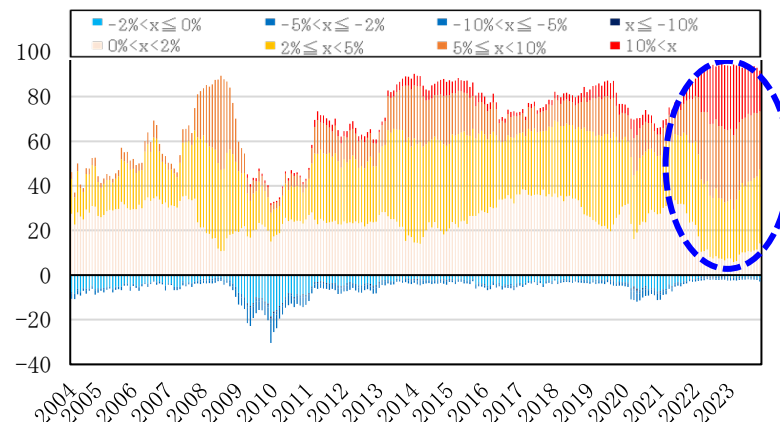
Turning point ① – Changes in Labor Market and Household Economy

- For the first time in 30 years, Japan's economy has a great opportunity to break away from the "cost-cutting economy" of low prices, low wages, and low growth.
- Labor shortages are growing, and wage growth is expected to rise to the highest level in 30 years.
- As households' inflation expectations rise, the proportion of security held by young households is increasing (shifting from savings to investment)

Employment condition diffusion index
~The highest level of shortages in 30 years~



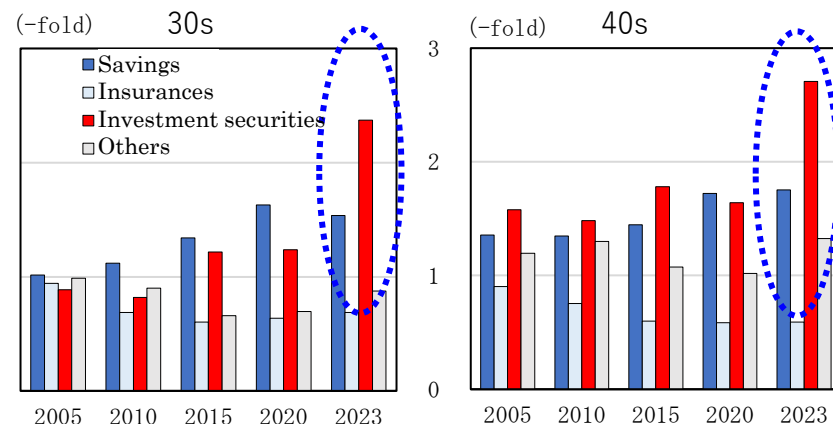
Households' price expectations
~ Unprecedented increase and stabilization ~



Wage growth rate
~The highest level in 30 years~



Growth rate of financial assets (vs. 2002)
~Accelerating trend from savings to investment~



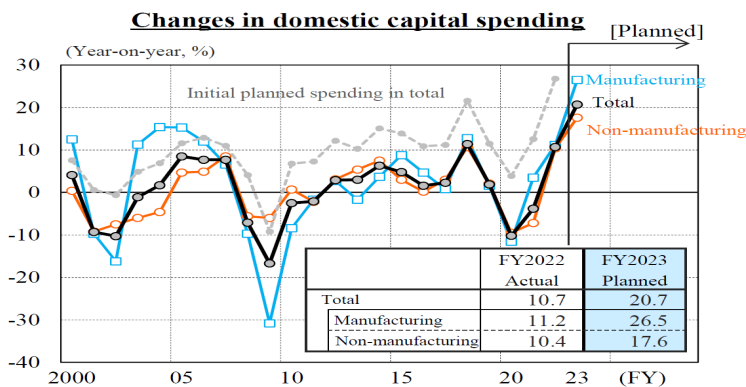
Source: Bank of Japan "Tankan"(Employment condition), Ministry of Health, Labour and Welfare "2023 Survey on Wage Increase", Cabinet Office "Consumer Confidence Survey" (salaried households), and "Family Income and Expenditure Survey (Savings and Liabilities)" (two or more person households).

Note: The DI for employment condition in Q4 2023 is an outlook. The household survey compares data for the April-June period.

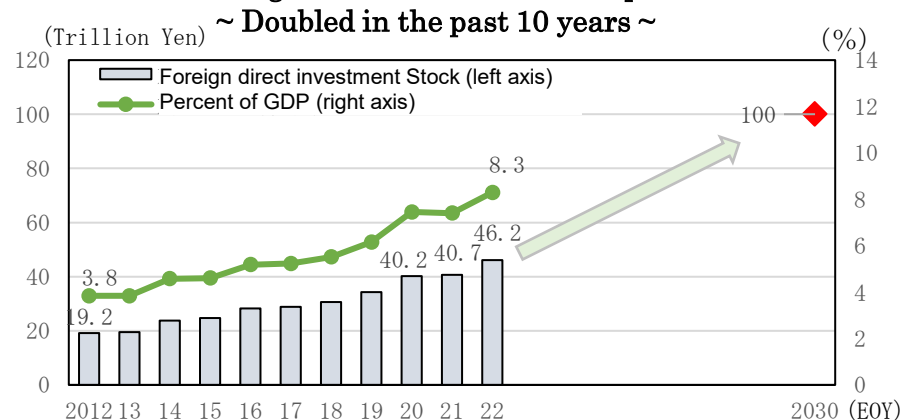
Turning point ② – Changes in Corporate Sector

- In the corporate sector, a significant increase in capital investment is planned, especially in the semiconductor and other manufacturing sectors.
- Sales prices are increasing for the first time since the 1980s.
- Interest in Japan is expected to recover sharply in the future, including an increase in inward direct investment and inbound travel. The movement of people, goods, and money from overseas to Japan is expected to further expand.

Domestic capital investment ~ Planned to increase significantly ~

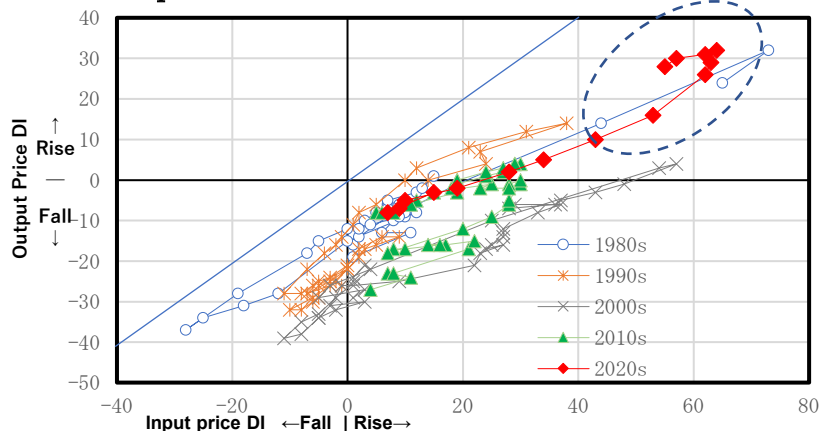


Foreign direct investment in Japan



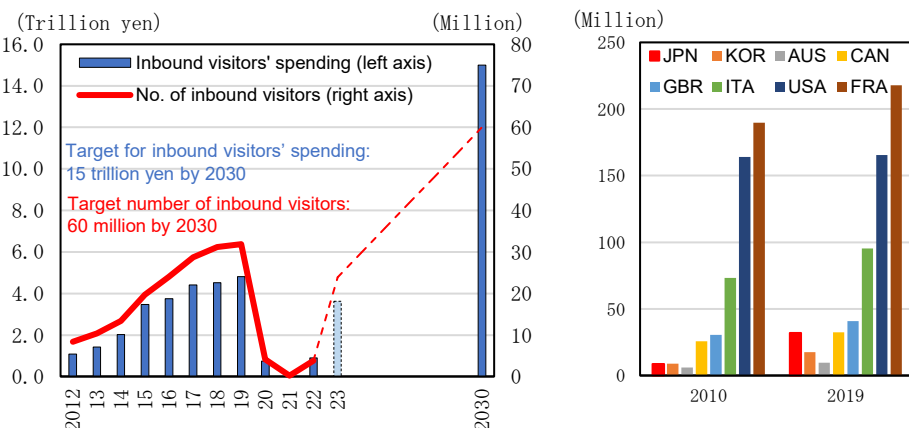
Situation of cost pass-through

~ Sales prices increase for the first time since the 1980s ~



Inbound visitors to Japan

~ The number is increasing with potential for further growth ~

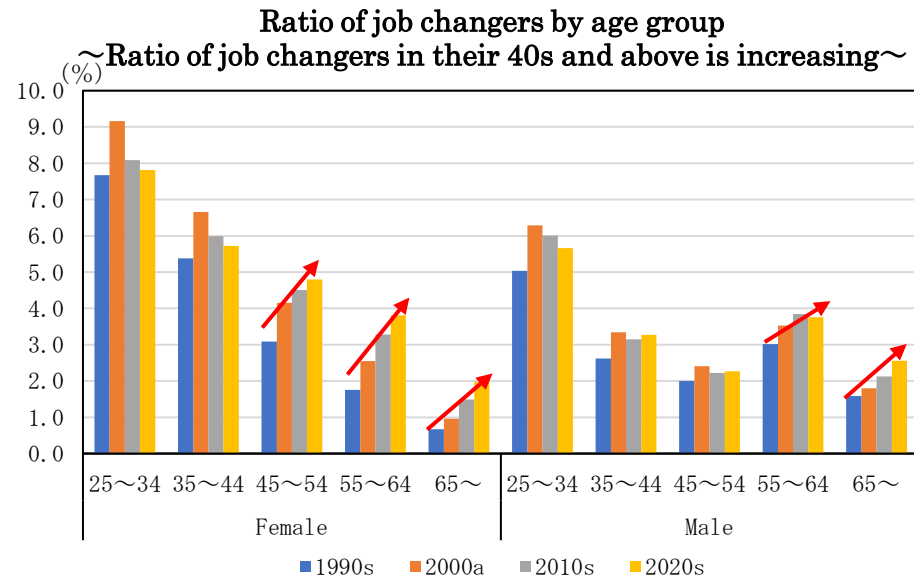
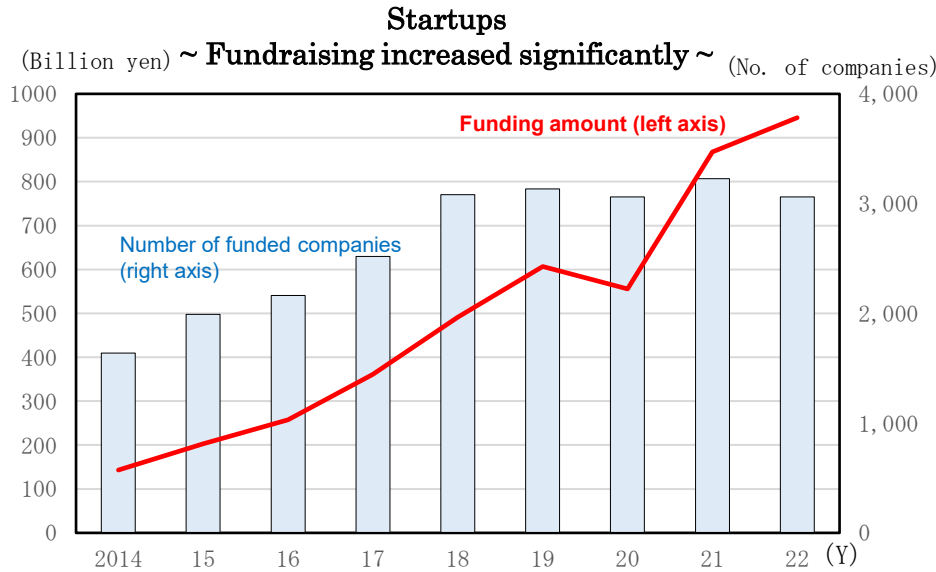


Sources: Development Bank of Japan "Survey on Planned Capital Spending for FY 2023", Ministry of Finance "Balance of Payments Statistics", Cabinet Office "National Accounts", Bank of Japan "Tankan", Japan Tourism Agency "Tourism Statistics", and OECD.stat.

Note: The DIs for input and output prices were from answers for changes from three months ago in the purchase prices of main raw materials (incl. subcontracted processing costs) or main commodities, and in the prices of their own goods and services, respectively. The DIs are calculated by subtracting the percentage of firms that responded that prices "fall" from the percentage of firms that responded that prices "rise." The number of inbound visitors in 2023 is the monthly average through October, converted to an annual value.

Turning Point ③ – Business Dynamism

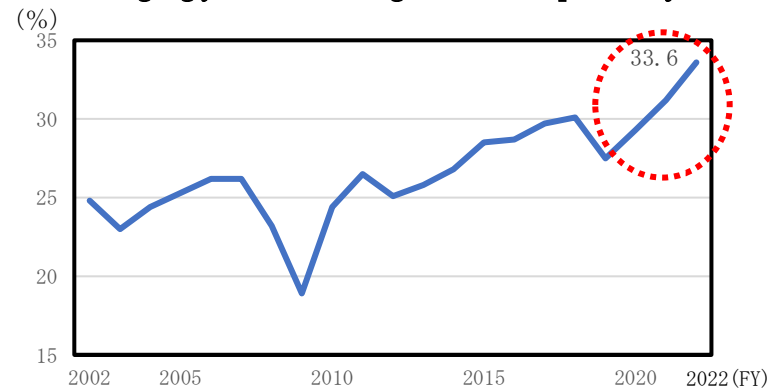
- The amount of funding for start-ups has increased significantly. On the other hand, the age of managers at the time of business closure continues to age, and generational changes may occur rapidly in the future.
- The percentage of those in their 40s and older who changed jobs increased. The percentage of those whose wages rose as a result of changing jobs is increasing.



Age of Business owners at the time of business closure
 ~Aging is progressing, and generational change is an issue~



Percentage of those whose wages increased as a result of changing jobs
 ~The highest in the past 20 years~



Sources: INITIAL "Japan Startup Finance in the First Half of 2023: Domestic Startup Financing Trends" (data as of July 14, 2023), Japan Finance Corporation Research Institute "Survey on Management Retirement and Business Closure (2023 Survey)", Ministry of Internal Affairs and Communications "Labor Force Survey" (Detailed tabulation), and Recruit "Wage Changes at the Time of Job Change".

Note: The 2020s is from 2021 to the third quarter of 2023.

Required Regime Shift

Cost-Cutting Economy

- Rigid wages and prices (social norm)
- Zero interest rates, cost reductions, and situations like a “boiling frog”
- Stagnant consumption and investment, hollowing out of industry, low productivity

New Stage

(Virtuous Circle of Growth and Distribution)

- Wages and prices increase/change (norm shift)
- Positive interest rates, creation of added value (corporate earnings + compensation of employees), activated business dynamism
- Stimulation of consumption through new technologies and services, domestic investment, higher potential growth



- Mutually complementary systems are sticky
- Delayed adaptation to changes in the environment surrounding the Japanese economy

- *Megatrends in the Global Economy*
- *Changes in Global Economic Policies*

“Social Transformation” to simultaneously shift the social norm and solve social issues through “public-private partnerships”

- Lifetime employment system, on-the-job human resource development
- Mandatory retirement at the age of 65, middle- and old-men-centered society
- Large-company-led, main-bank-centered governance
- Public-demand-driven economy and society
- Elderly-centered social security

- Job change, job-based employment, reskilling for all generations
- Lifelong active society, enhancing participation of women, youth, and the elderly
- Startup-driven, stakeholder-centered governance
- Private-demand-driven economy and society, with public-private cooperation and mutual aid
- Healthy society, social security for all generations with well-balanced benefits and burdens

Diffusion of
New Technologies

Digital Transformation(DX),
Data-driven Society

Thorough Evidence-
based Policy Making