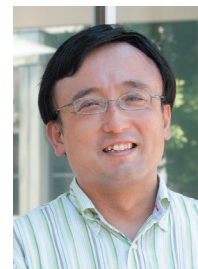


Has the Economy Already Slowed Down?



Author Nobuo Iizuka

By Nobuo Iizuka

First Worsening Since January 2013

The Indexes of Business Conditions are indexes that the Cabinet Office puts together by consolidating indexes that are important and react sensitively to the economy, such as production and employment, with the aim of understanding the state of the economy. The most closely watched index is the “Coincident Index” which moves almost together with the economy, and it is formulated by consolidating the nine economic indicators shown in the *Table*. It is characterized by many production-related indicators.

Chart 1 shows the trend in the Coincident Index since 2000. The shaded section shows the recession period, and it can be seen that the period when the Coincident Index shows relatively large volatility coincides with the recession. On the other hand, because the Coincident Index fluctuates up and down in very small movements, it is rather difficult to determine whether the decline in the Coincident Index matches the recession.

The Cabinet Office has thus set a standard that automatically determines the economic phase and is releasing it together with the Diffusion Index. For the first time since November 2014, in January 2019, “Signaling a possible turning point” was indicated. This is determined clerically. It shows that the peak of the economic cycle was most likely to have been in the few months before January 2019. To be more precise, if it meets the following two criteria: (1) backward moving average for seven months was in negative territory and the range of negative territory (accumulated for one month, two months or three months) is greater than or equal to one standard deviation, and (2) the difference between this month and the previous month is in negative territory.

Moreover, the Coincident Index (preliminary value) for March 2019, which was released on May 13, 2019, showed the first “Worsening” since January 2013. This indicates the possibility of a recession. To be more concrete, it met the following two conditions: (1) three-month backward moving average has basically been declining for more than

three months, and (2) the difference between this month and the previous month was negative.

The Determination of Business-Cycle Peak & Trough

Such movement in the Composite Index has prompted private sector economists to strongly consider that the economy has already entered a recession phase. It is suggested that the economy peaked in the fall of 2018. The government has stated that the current economic expansion began with the trough in December 2012, still continuing in January 2019, and therefore likely that it is the longest economic expansion since the end of World War II. But it now appears it did not mark the longest postwar economic expansion.

Indeed, an automatic conclusion for the Diffusion Index of “Signaling a possible turning point” was indicated in September 2012 for the previous recession which peaked in April 2012 and troughed in November 2012, and “Worsening” from October 2012 to January 2013. If this was applied to the current economic cycle, there is a possibility that it entered a recession in the fall of 2018.

But determining the peaks and troughs of economic cycles differs from the automatic conclusions of the Diffusion Index, and something called the “Historical DI” is calculated and used for

TABLE

Individual indicators for Coincident Index

Index of Industrial Production (Mining and Manufacturing)
Index of Producer’s Shipments (Producer Goods for Mining and Manufacturing)
Index of Producer’s Shipment of Durable Consumer Goods
Index of Non-Scheduled Worked Hours (Industries Covered)
Index of Producer’s Shipment (Investment Goods Excluding Transport Equipment)
Retail Sales Value (Change From Previous Year)
Wholesale Sales Value (Change From Previous Year)
Operating Profits (All Industries)
Effective Job Offer Rate (Excluding New School Graduates)

Source: “Indexes of Business Conditions”, Cabinet Office

consideration. Peaks and troughs for the nine economic indicators that compose the “Coincident Index” are determined, then the ratio of the indicators that are heading towards a peak from a trough is calculated. Peak is when this ratio is lower than 50% compared with the previous month, and trough when it exceeds 50%.

However, there are other conditions that need to be met to recognize the peaks and troughs of an economic cycle. Thus, the area surrounded by the dotted line (from April 2014 to February 2016) in *Chart 1* was not recognized as a recession although Historical DI continued to be below 50%. The narrow range of the decline in the Coincident Index also did not meet the standard, but it was also based on the worsening of the business condition Diffusion Index (DI) in the Bank of Japan’s quarterly Short-term Economic Survey of Principal Enterprise in Japan (Tankan survey).

Will Business Sentiment in the Non-manufacturing Sector Hold Out?

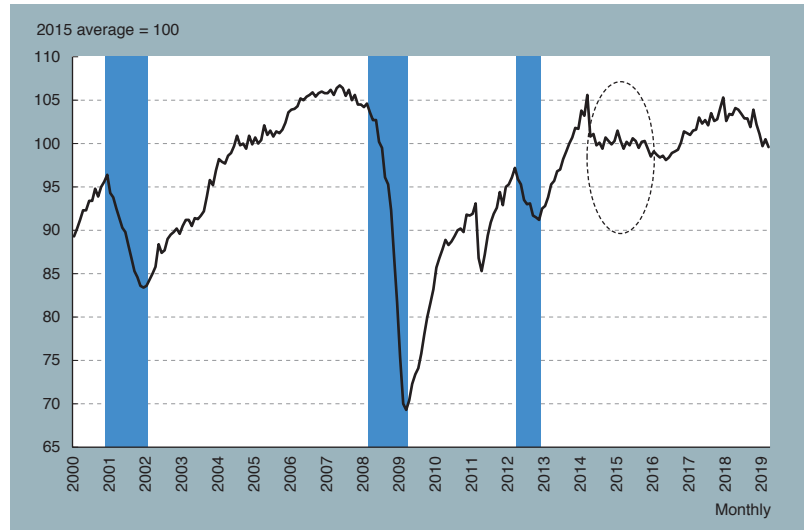
Chart 2 shows the trend in the Diffusion Index up until the March 2019 survey. In the March 2019 survey, the DI for the entire manufacturing industry dropped to 7 from 16 in the December 2018 survey. This coincides with the movement of the Indexes of Business Conditions.

However, the DI for the entire non-manufacturing industry remained flat at 15 for both the December 2018 survey and the March 2019 survey. As a result, the DI for all industries dropped only by four points from 16 in the December 2018 survey to 12 in the March 2019 survey.

During the aforementioned period when a recession was not determined, the DI for the entire manufacturing industry declined from 10 in the March 2014 survey to nearly zero in the June 2016 survey. But because the DI for the entire manufacturing industry remained in a flat zone, the decline in the DI for all industries remained gradual.

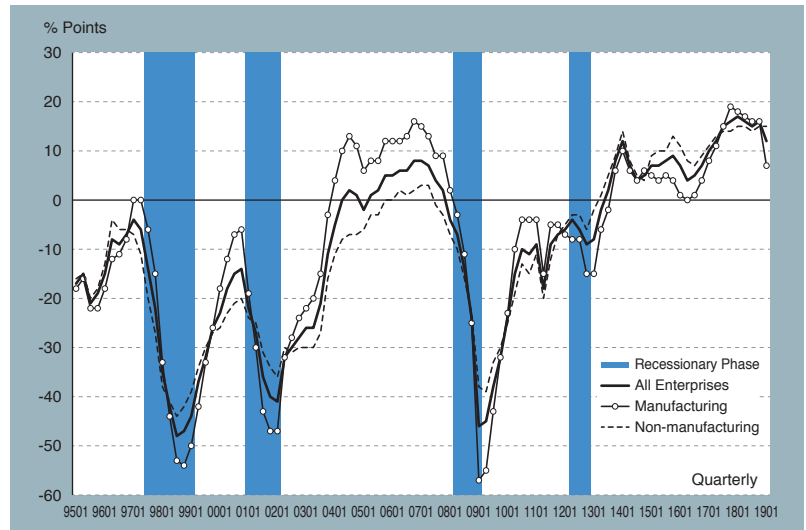
The June 2019 survey results, which will be available at the time this article is published in July 2019, should reveal whether these movements in the non-manufacturing sector are robust, or if the drop in the manufacturing industry has not spread yet. In fact, on April 18, 2019, Executive Acting Secretary-General Koichi Hanyuda of the Liberal Democratic Party, who is considered to be a close aide to Prime Minister Shinzo Abe, stated that the June 2019 Tankan will have an impact on whether the Consumption Tax rate will be raised

CHART 1
Trend in Coincident Index



Note: Shaded areas show recession phase.
Source: “Indexes of Business Conditions”, Cabinet Office

CHART 2
Trend in business condition DI



Source: Tankan (Bank of Japan)

or not.

Note: This article is written based on the information that was available as of May 13, 2019.

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ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion ¥)	Rate of increase over previous year/term (%)	Amount (trillion ¥)	Rate of increase over previous year/term (%)		
2010	492.0	4.2	500.4	2.2	15.6	-1.0
2011	491.5	-0.1	491.4	-1.8	-2.8	-0.3
2012	498.8	1.5	495.0	0.7	0.6	-0.1
2013	508.8	2.0	503.2	1.7	-0.3	0.4
2014	510.7	0.4	513.9	2.1	2.0	2.6
2015	516.9	1.2	531.3	3.4	-1.2	0.5
2016	520.1	0.6	536.0	0.9	0.0	-0.3
2017	530.1	1.9	545.1	1.7	3.1	0.5
2018	534.2	0.8	548.9	0.7	1.1	0.9
2018/2nd Qtr.	536.3	0.6	550.6	0.3	0.8	0.8
3rd Qtr.	532.8	-0.6	547.0	-0.6	-0.7	0.9
4th Qtr.	535.2	0.5	549.7	0.5	1.4	0.9
2019/1st Qtr.	538.2	0.6	554.3	0.8	-2.5	0.8
2018/Sept.	—	—	—	—	-0.1	1.0
Oct.	—	—	—	—	2.0	1.0
Nov.	—	—	—	—	-0.9	0.9
Dec.	—	—	—	—	0.1	0.7
2019/Jan.	—	—	—	—	-2.5	0.8
Feb.	—	—	—	—	0.7	0.7
Mar.	—	—	—	—	-0.6	0.8
April	—	—	—	—	0.6	0.9
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion ¥)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion ¥)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion ¥)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion ¥)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion ¥)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2010	67.4	24.4	60.8	18.0	10.4	18.8	5.9	7.2	7.6	12.8
2011	65.5	-2.7	68.1	12.1	10.0	-3.4	5.9	0.3	7.6	0.0
2012	63.7	-2.7	70.7	3.8	11.2	11.7	6.1	2.5	6.5	-14.7
2013	69.8	9.5	81.2	14.9	12.9	15.6	6.8	12.0	7.0	7.7
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	7.6	8.4
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	8.0	5.3
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	8.0	-0.0
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	8.7	8.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	9.2	6.4
2018/2nd Qtr.	20.2	7.5	19.4	7.5	3.7	3.0	2.2	7.2	2.3	8.1
3rd Qtr.	20.2	2.9	20.7	12.4	3.8	-0.4	2.2	11.9	2.2	2.7
4th Qtr.	21.2	1.3	22.4	11.2	4.3	4.8	2.5	21.7	2.4	5.1
2019/1st Qtr.	19.2	-3.9	19.7	-2.0	3.9	4.3	2.2	4.2	2.4	2.6
2018/Sept.	6.7	-1.4	6.6	7.1	1.3	-0.6	0.7	3.2	0.7	-4.5
Oct.	7.2	8.2	7.7	20.0	1.4	11.6	0.9	34.4	0.8	7.7
Nov.	6.9	0.1	7.7	12.5	1.4	1.6	0.8	8.1	0.7	3.8
Dec.	7.0	-3.9	7.1	1.9	1.4	1.6	0.9	23.9	0.8	3.9
2019/Jan.	5.6	-8.4	7.0	-0.8	1.1	6.9	0.8	7.5	0.7	-2.5
Feb.	6.4	-1.2	6.1	-6.5	1.3	2.0	0.7	5.6	0.8	2.5
Mar.	7.2	-2.4	6.7	1.2	1.4	4.4	0.7	-0.1	0.9	7.3
April	6.7	-2.4	6.6	6.5	1.4	9.6	0.7	2.3	0.8	-2.6
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/ the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		¥/\$ rate (averaged during the term)
					Trade balance (trillion ¥)	Current balance (trillion ¥)	
2010	0.5	0.52	5.1	2.8	9.5	19.4	87.8
2011	-0.2	0.65	4.6	2.7	-0.3	10.4	79.8
2012	-0.9	0.80	4.3	2.5	-4.3	4.8	79.8
2013	-0.2	0.93	4.0	3.6	-8.8	4.5	97.6
2014	0.5	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.6	112.2
2018	1.4	1.61	2.4	2.9	1.2	19.2	110.4
2018/2nd Qtr.	1.7	1.61	2.4	3.1	1.1	5.0	109.1
3rd Qtr.	0.9	1.62	2.4	2.9	0.1	5.7	111.5
4th Qtr.	1.5	1.62	2.4	2.5	-0.6	2.6	112.9
2019/1st Qtr.	-0.8	1.63	2.5	2.3	0.2	6.1	110.2
2018/Sept.	0.7	1.63	2.4	2.8	0.3	1.8	111.9
Oct.	1.1	1.62	2.4	2.7	-0.3	1.3	112.8
Nov.	1.7	1.63	2.5	2.3	-0.5	0.8	113.4
Dec.	1.5	1.63	2.4	2.4	0.2	0.5	112.4
2019/Jan.	-0.6	1.63	2.5	2.3	-1.0	0.6	109.0
Feb.	-0.7	1.63	2.3	2.4	0.5	2.7	110.4
Mar.	-1.3	1.63	2.5	2.4	0.7	2.8	111.2
April	-0.1	1.63	2.4	2.6	-0.1	1.7	111.6
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion ¥)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion ¥)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount to Asia (excluding China) (trillion ¥)	Imports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion ¥)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion ¥)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2010	5.8	5.5	24.7	29.5	14.1	22.0	13.1	27.8	13.4	17.3
2011	6.4	10.1	23.8	-3.9	15.7	11.7	12.9	-1.4	14.6	9.2
2012	6.6	3.6	23.3	-1.8	16.3	3.3	11.5	-10.8	15.0	2.7
2013	7.6	15.2	25.2	8.1	18.3	12.6	12.6	9.7	17.7	17.4
2014	8.2	6.8	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	8.6	5.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	8.2	-5.5	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.8	7.4	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	9.7	11.0	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2018/2nd Qtr.	2.3	9.1	7.1	6.1	4.7	6.4	4.0	11.9	4.5	3.5
3rd Qtr.	2.5	11.7	7.3	4.0	4.9	5.6	4.0	7.2	4.8	5.7
4th Qtr.	2.6	9.1	7.4	-1.5	5.3	8.7	4.3	0.5	5.4	4.5
2019/1st Qtr.	2.4	-1.1	6.6	-6.3	4.9	-4.1	3.4	-7.5	4.6	0.2
2018/Sept.	0.8	0.8	2.5	2.3	1.5	1.2	1.3	-1.7	1.6	4.3
Oct.	0.9	10.2	2.5	6.3	1.9	18.6	1.5	9.0	1.9	16.2
Nov.	0.9	15.1	2.4	-3.2	1.8	7.2	1.4	0.3	1.9	4.2
Dec.	0.8	2.0	2.4	-6.9	1.7	0.8	1.4	-7.0	1.6	-6.3
2019/Jan.	0.8	-3.2	2.0	-10.9	1.6	-4.9	1.0	-17.4	1.8	5.7
Feb.	0.7	0.5	2.2	-5.2	1.6	-5.8	1.1	5.6	1.3	-15.8
Mar.	0.8	-0.5	2.5	-3.4	1.7	-1.6	1.3	-9.4	1.5	11.0
April	0.8	10.6	2.3	-1.6	1.5	3.9	1.2	-6.3	1.6	5.9
Sources	"Trade Statistics of Japan", Ministry of Finance									