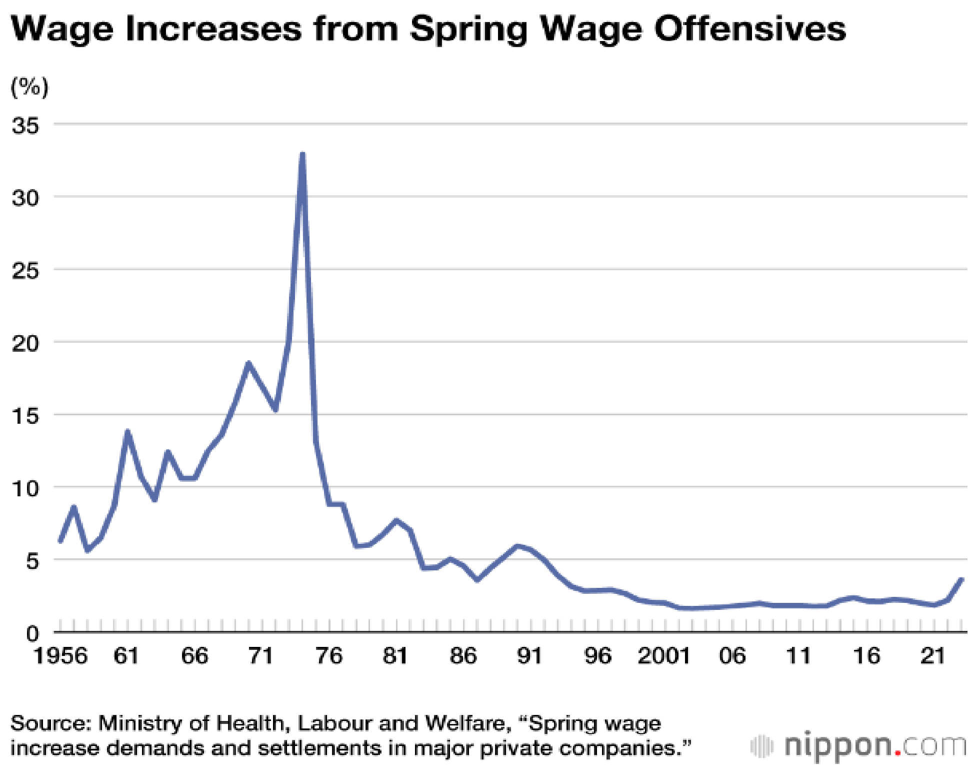
AFTER RISING IN Q2, JAPANESE PROFITS FELL BACK IN Q3.

This is the last country to have its Q3 profitability investigated. Having analysed Germany, the UK, China and the USA, only Germany had a rise in the rate of profit due to a sharp rise in the degree of exploitation of German workers. In Japan the opposite happened, profits fell back compared to Q2.

I will begin with wages or total employee renumeration. On the surface it appears that for the first time in a generation Japanese workers gained a substantial pay rise in this year's shuntō, as detailed in this interesting article: *"The spring wage offensive of 2023 achieved a wage increase at a rate that had been unseen for some time. In the final figures published by Rengō, the Japanese Trade Union Confederation, on July 3, the wage increase rate was 3.58%, a record high since the 3.90% increase of 1993."* But before we get carried away the median pay rise was much smaller: "*In the spring wage offensive of 2023, the increase of the base pay component was a lower 2.12%."* This is below the 2023 rate of inflation and certainly less than the nominal rise in National Income.

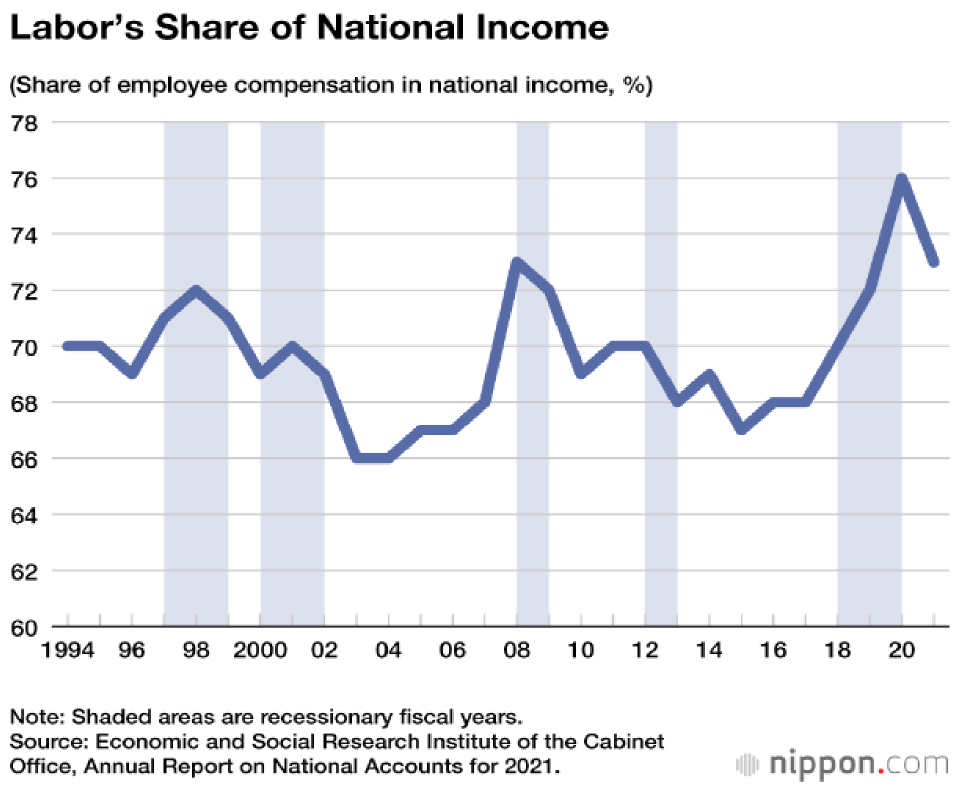
The history of these spring negotiations can be seen in this graph below. We note that as Japan moved into its lost decade after the property bubble burst at the end of the 1980s it was Japanese workers who paid the cost with annual wage rises falling well below 5%. Only in 2022 - 2023 was there an uptick.

Graph 1.



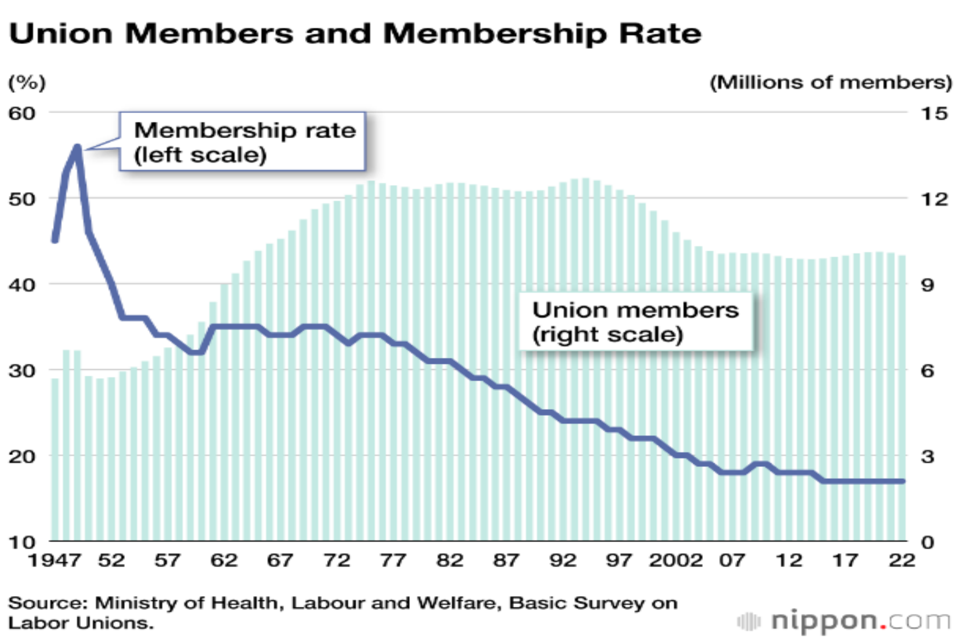
However, despite these paltry increases, Japanese workers enjoy a larger share of national income compared to the other G7 countries. Interestingly enough it rose in the second half of the twenty twenties and despite falling recently, it remains above its pre-2008 level. For example in the USA labour's share of National Income was only 57%.

Graph 2.



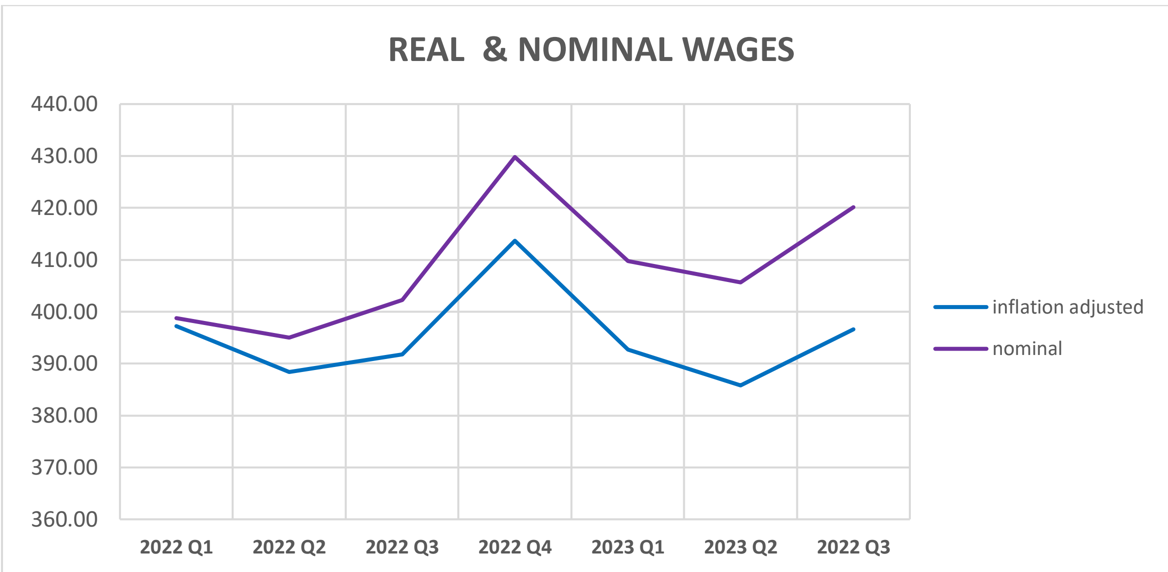
And this has come about despite the fall in trade union membership in common with the other advanced capitalist economies.

Graph 3.



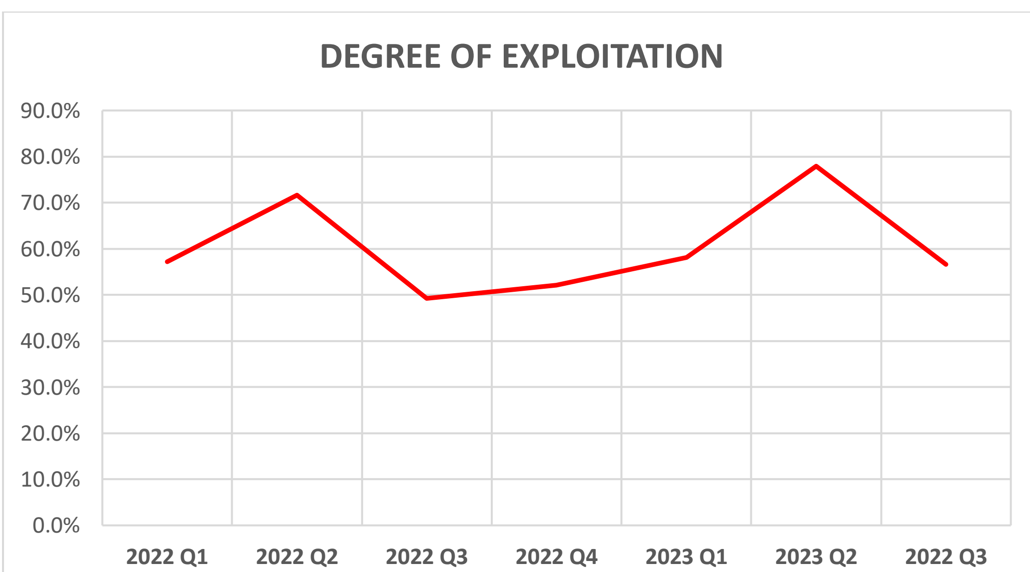
The question that arises is what is happening now. To answer that question I have used the data supplied by the [Ministry of Finance Japan](#) covering Industry including real estate, and which has been updated to include Q3. We shall start by examining what has happened to real wages rather than to nominal wages. I have used the Consumer Price Index to deflate nominal wages which have increased by 6% over the course of 21 months. On the other hand once deflated, real wages are no higher than they were at the beginning of 2022 though they are up one and a quarter percent year on year.

GRAPH 4.



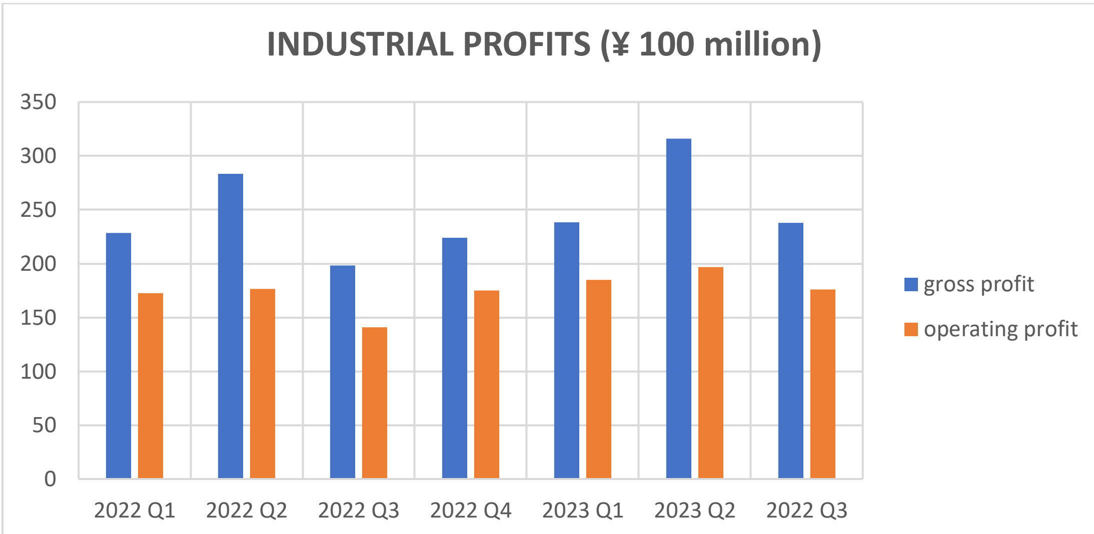
As a result of the quarterly increase in wages there was a corresponding fall in the degree of exploitation bringing it back to levels founds at the start of 2022. Taking the whole of 2022 the average degree of exploitation was 57.6% rising to 64.2% in 2023, up by a tenth. It is unusual for such a high degree of exploitation to be associated with profits having such a low share of National Income. (Graph 2.)

Graph 5.



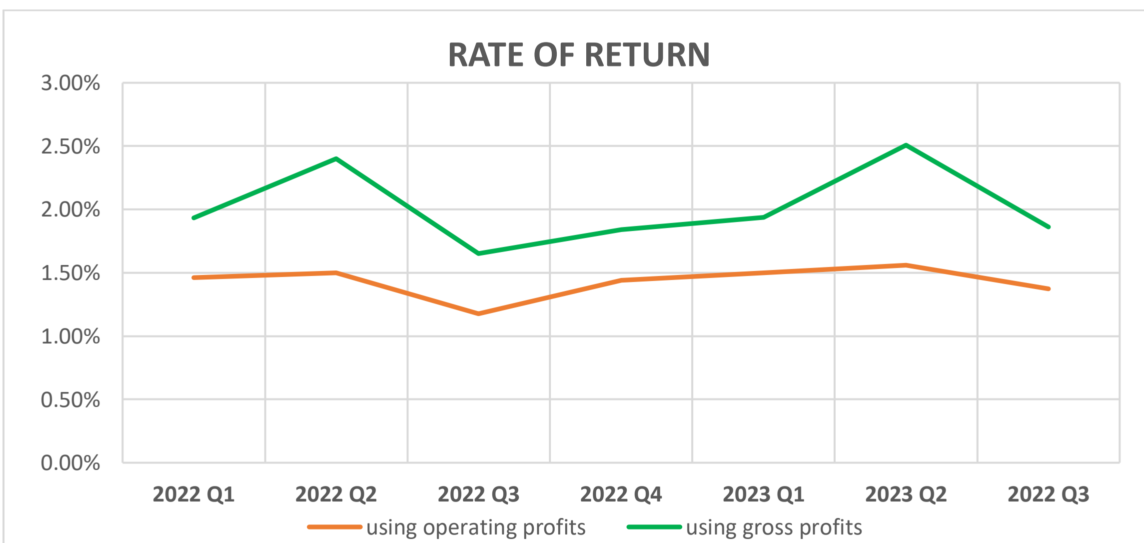
The fall in the degree of exploitation meant that nominal profits fell during the quarter. Operating profits in real terms are now below that in 2022. In seems that Q2 2023 with its uplift did not usher in a new trend, but instead was an aberration.

Graph 6.



And as it is nominal profits that form the numerator in the rate of return, this quarterly fall led to a quarterly fall in the rate of return. Please note this rate of return is based on fixed capital plus inventories, that is the totality of constant capital. Most rates of return use only fixed capital which is incomplete.

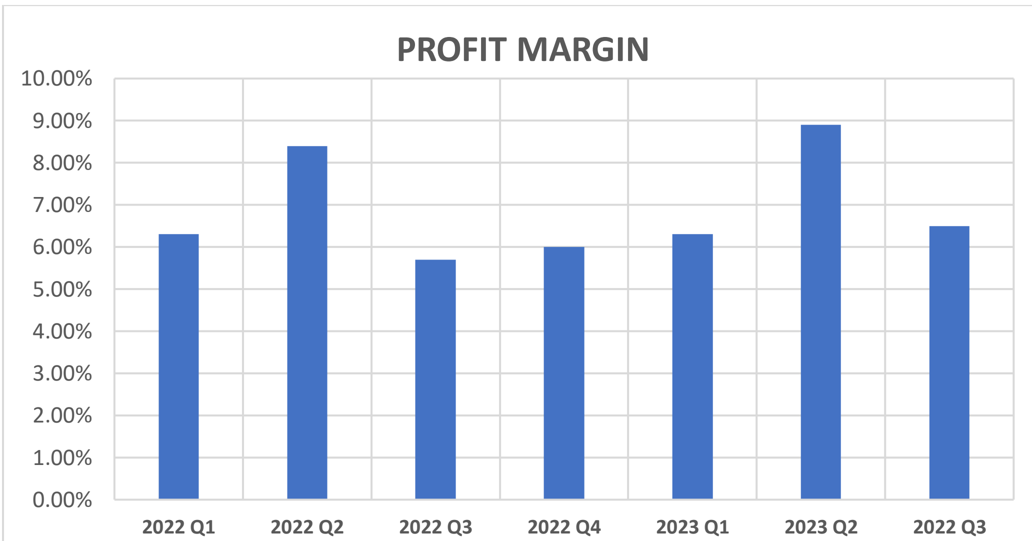
Graph 7.



I would like to make the following important point. The Bank of Japan is criticised for keeping it's zero-rate policy, currently the short-term interest rate is held at -0.1%. The BOJ is and remains the outrider amongst central banks. But when we look at the rate of return which is only 1.5%, or lower, were we to include variable capital, the behaviour of the Bank, previously inexplicable, now becomes explicable. The BOJ has no choice but to repress the cost of capital given the low rate of profit.

In line with a rate of profit lower than found in the other G7 countries, the profit margin too is lower. For comparison purposes this rate is based on total sales (or Gross Output) not GVA. On this basis the Q3 US profit margin at 8% is less than 2% higher than in Japan. The rates of profit though vary considerably. This is not due to variations in the crude composition of capital when using fixed capital as the numerator and annual employee compensation as the denominator. In the USA the composition is 270% vs 250% for Japan. It is due to the difference in the mass of profits alone. Compared to the profit for all corporations in the USA, the total Industrial profit in Japan is just 16% that of the USA, while its economy is 28% the size of the USA when measured in current dollars. Clearly the profits generated in the USA by *the magnificent seven* or as I call them the 7 brothers, makes a difference.

Graph 8.



The outlook.

These are the latest results of the [Ministry of Finance survey of business conditions] and expectations. Generally Japanese capitalists were marginally more optimistic about their prospects than the previous survey in Q2. Despite real falls in sales and especially profits, their intention to invest remained robust!

4. Sales (compared with the previous year) (%) FY 2023
All industries 2.7 (Author's note, still below the rate of inflation)
Manufacturing 3.2
Non-manufacturing 2.4

5. Ordinary profits (compared with the previous year) (%) FY 2023
All industries -3.9
Manufacturing -10.7
Non-manufacturing -1.4

6. Software and investment in plant and equipment (compared with the previous year) (%) FY 2023
All industries 12.3
Manufacturing 16.4
Non-manufacturing 10.4

The Bank of Japan Tankan survey which can be found here was slightly down in Q3 with the majority of respondents continuing to report *not so favourable conditions.* Japanese machine orders a leading indicator for investment rose in September but were still 2.2% down on the year. Retail sales fell unexpectedly in October for a second month, this time by a sizeable 1.6% the biggest fall this year. And finally Japanese exports in October ticked down from their elevated high in September.

Turning to the macro picture. The Japan Centre for Economic Research expects GDP to decline this quarter. In addition, the third quarter was revised sharply down this Friday. *"Gross domestic product contracted at an annualized 2.9% in the three months through September from the previous quarter as households reined in spending, revised figures from the Cabinet Office showed Friday." "The updated figure marked the deepest drop since spring 2020 and compared with a preliminary reading of minus 2.1% and consensus estimates of a slightly narrower contraction."* The downward trend continued through October: "*Real household spending in Japan posted an eighth straight annual drop in October, down 2.5 percent after a 2.8 percent dip in September amid high costs for daily necessities and general lack of purchasing power."* This fall back is bound to continue past October as worker income fell again. "*Average real income of households with salaried workers posted a 13th straight year-over-year drop, down 5.2 percent in October (down 1.5 in nominal terms) after falling 5.8 percent in September (down a nominal 2.4 percent). Real income for the main bread-earner fell for a 10th straight month while real income for the average spouse posted a sixth straight drop."*

But deteriorating conditions were not limited to Japan alone. All the major economies, particularly the European economies, are trending down. If this appears not to be the case in some countries, it is simply the result of base effects kicking in, aka the global economy weakened in the fourth quarter last year which has deflated comparisons. Japan which had appeared to buck the trend has now joined the global trend.

Conclusion.

Having entwined itself with the US embargoes on China, Japan is paying a high price for its support. These embargoes are disrupting the whole Asian economy because China is the focus of this economy. This is also aggravating the downward trend in the global economy

The Japanese economy weakened in the third quarter which is consistent with the Industrial data released by the Japanese Ministry of Finance upon which the graphs are based. Given the deterioration in October's data, the likelihood of another contraction in Q4 has increased, meaning that the Japanese economy could already be in recession despite the repression of interest rates and a resulting weak Yen boosting exports.

Brian Green, 11th December 2023.

Time permitting I will prepare an annual rate of return for Japan going back at least 20 years and try to prepare turnovers as well.