

CORPORATE JAPAN'S FORTUNES IMPROVED IN Q2 2024 AND WITH IT THE NIKKEI.

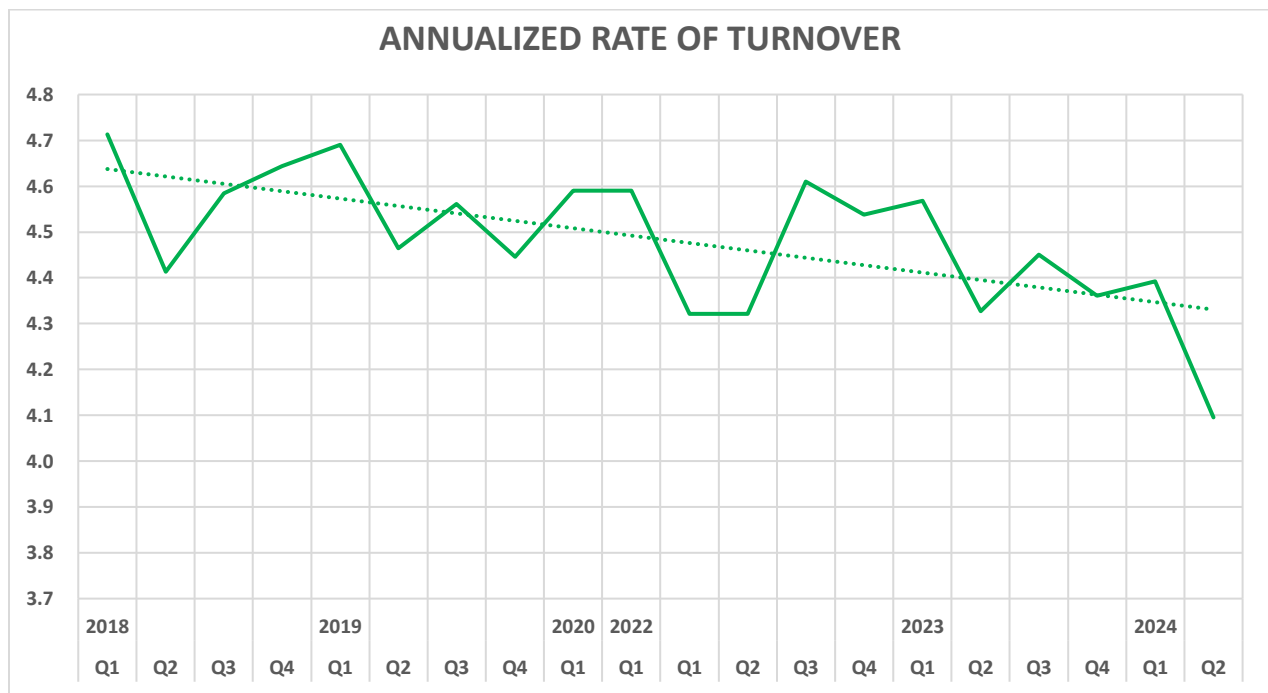
Despite a weaker internal market and the further loss of the Chinese Market, the ability of the Japanese employers to overexploit their workers has led to an improvement in corporate profitability in Q2 2024.

We will begin by examining the Japanese corporate sector which excludes the financial and insurance sectors. The non-financial corporate sector is home to 33.4 million workers, though nothing in the home of capital is permanent. It is also home to 2.1 million senior managers, together they comprise nearly 50% of the population between the ages of [18 and 64](#) employed and unemployed. Thus by examining what transpires in the corporate sector we are dealing with a powerful segment of the Japanese economy.

All data is from the [Policy Research Institute Ministry of Finance](#) Table M1. I have excluded the period when the pandemic was at its height as it would have only obscured the picture and overturned the trends. Thus the period runs from Q1 2018 to Q1 2020 and then from Q1 2022 to Q2 2024. All data and calculations can be found on the accompanying worksheet 'Japan workbook M1 2018 to Q2 2024'.

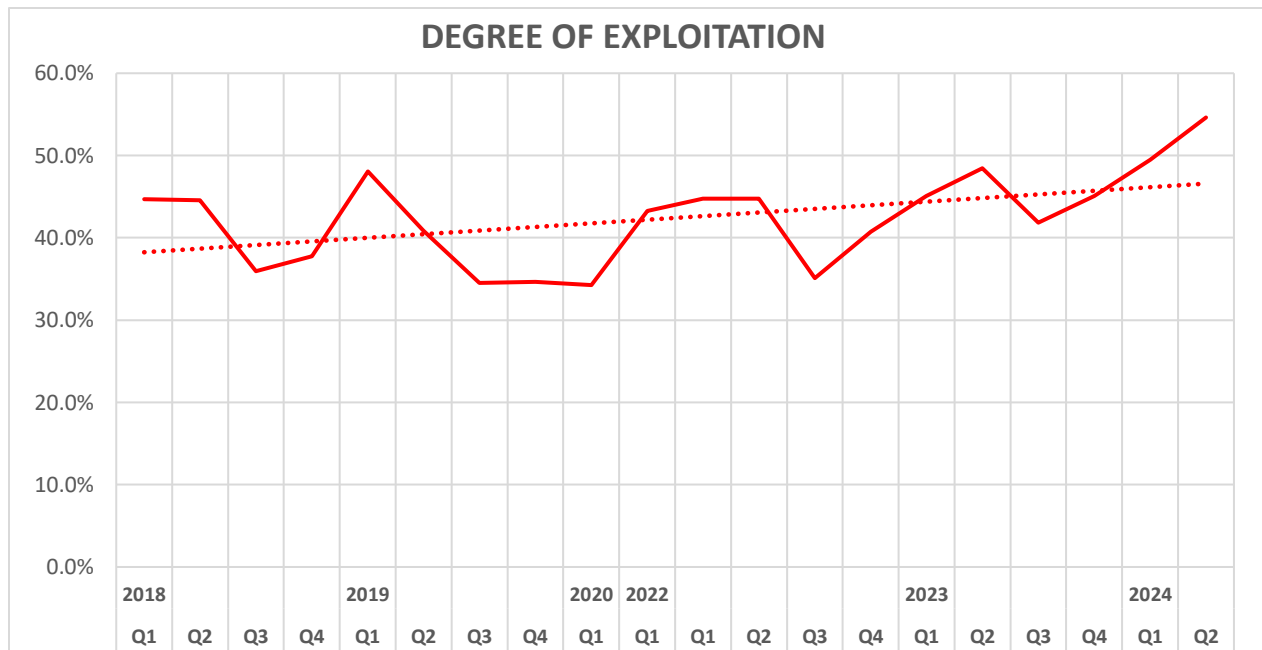
We will begin as always with the rate of turnover. As we can see there was an abrupt and sharp deceleration in the rate of turnover in Q2. This is always an indicator of deteriorating market conditions. It more than reversed the stability in turnover achieved since Q2 2023. In fact Q2 decelerated to its lowest point in the series, a serious warning of problems ahead.

Graph 1.



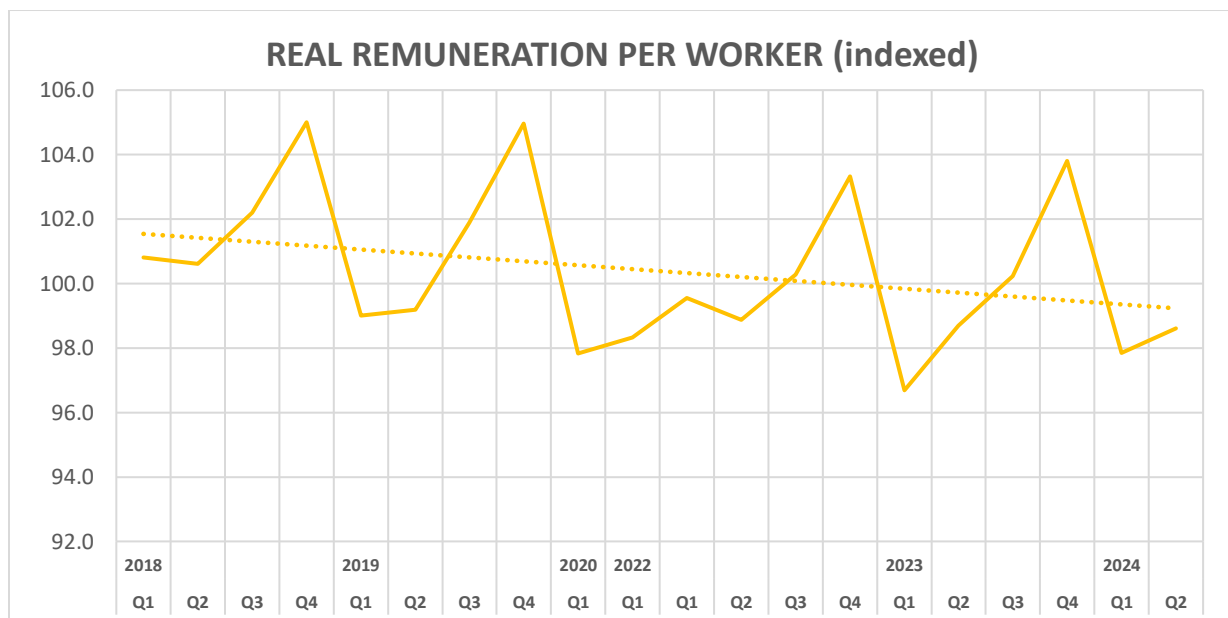
Fortunately for the corporate owners the next graph shows that the degree of exploitation went in the opposite direction. Since Q3 2023 there has been a 3% rise in the degree of exploitation.

Graph 2.



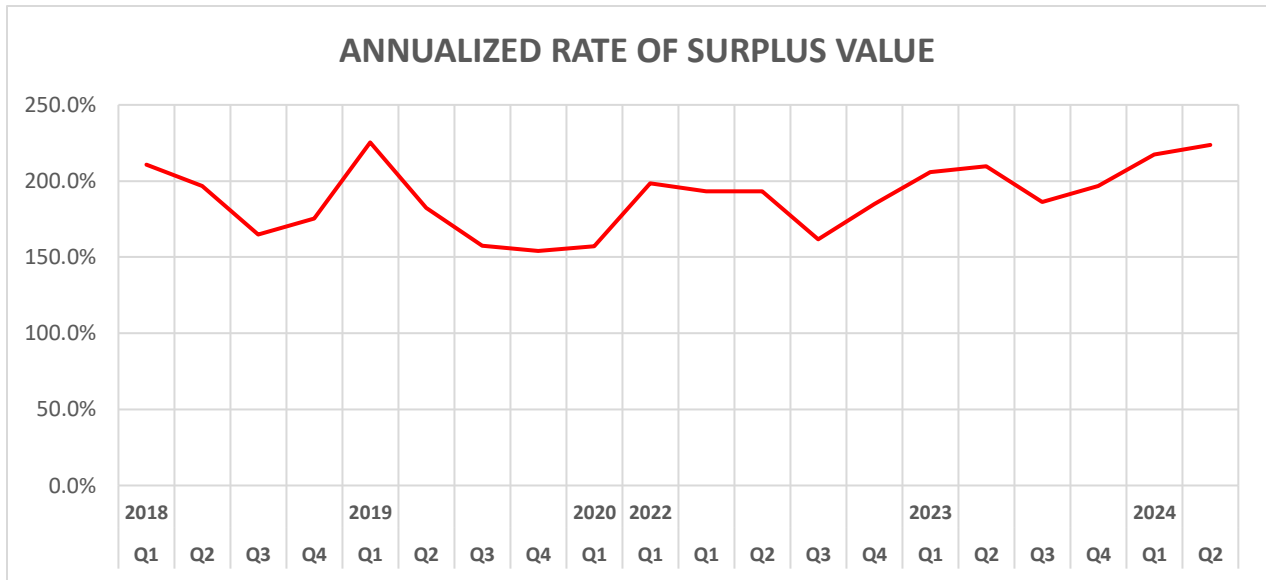
This is entirely due to the success Japanese employers have had in repressing wages. Despite the Japanese media concluding that this year's *shuntō* wage negotiations for workers were positive the corporate data below says otherwise. Compared to the period prior to the pandemic real wages have been depressed by 2.5%. (Real wages are based on nominal wages reduced by the Consumer Price Index [CPI](#).)

Graph 3.



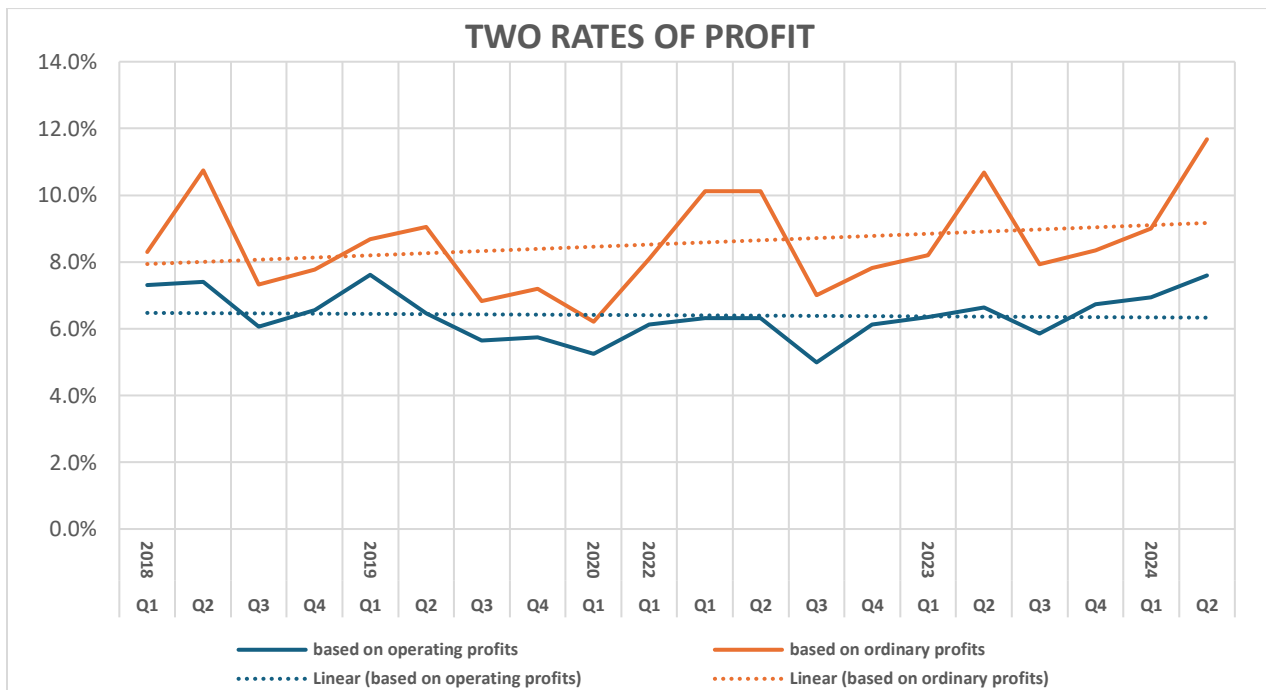
Fortunately for the Japanese employers the rise in the degree of exploitation was sufficient to outweigh the fall in the rate of turnover resulting in an increase in the annual rate of surplus value which feeds profits.

Graph 4.



And as a result of the improvement in the rate of surplus value, the corporate rate of profit was uplifted.

Graph 5.



Both these graphs are based on fixed and circulating capital. But they have different numerators. The first is operating profit, that is the actual in-house profit made from production or trading. Ordinary profits include financial profits from net interest earned and 'other sources' of profit. Whereas the more important operating profit rate has declined slightly over time, that of ordinary profits has increased markedly. In fact the rate reached 11.7% in Q2 the highest of the series. As it is this rate which grabs the headlines, we can now see why the NIKKEI had such a good run until recently.

Graph 6.



And it explains why the Bank of Japan, under pressure from the falling Yen, was confident enough to raise its rate from 0% - 0.1% to 0.25%. The BOJ's decision meant it was the final large central bank to abandon dabbling with negative interest rates. Predictably the Yen strengthened from 160 to the Dollar to 152, and then the bottom fell out of the stock market. Foreign buyers fled the market locking in their Dollar gains, fearful these would be eroded by the rise in the value of the Yen. And they were not only quick footed but right, today the Yen trades at 142 to the Dollar and this will only strengthen as US interest rates are reduced. Up until then borrowing Yen for next to nothing and putting it into the Japanese stock market buoyed by rising profits seemed to be free money all round.

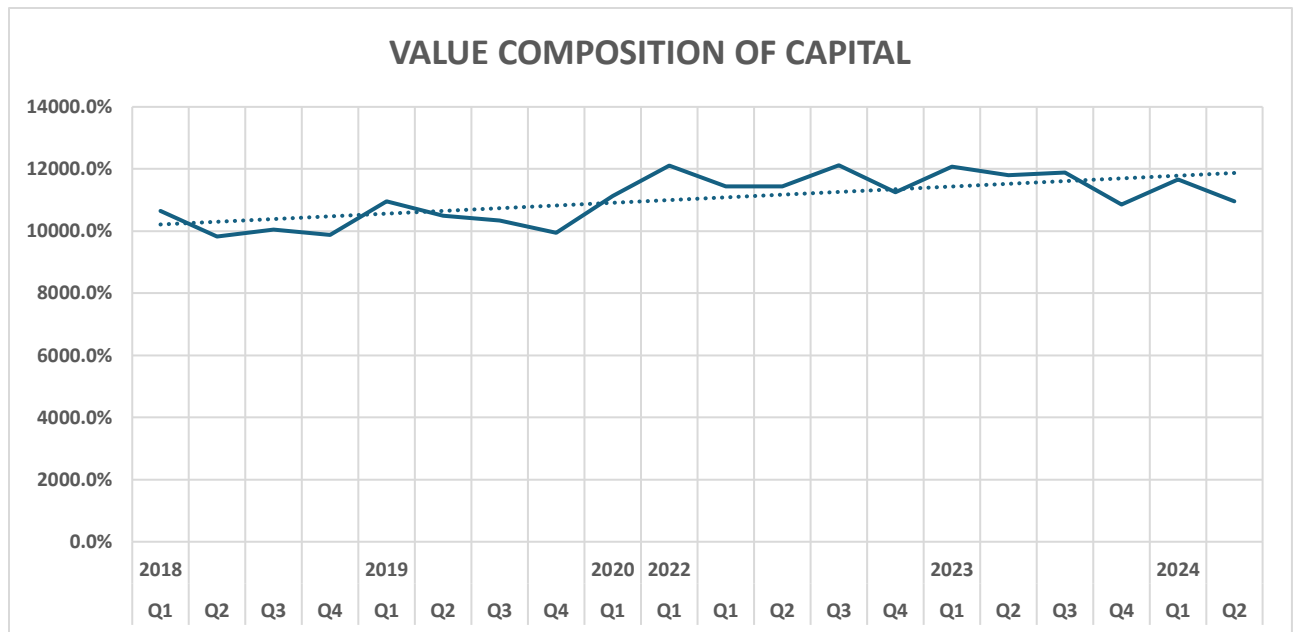
Except no one had anticipated the BOJ being forced to protect the Yen. And no one expected the weak US jobs report in early August. As a result the Nikkei, having recovered all its losses in nominal terms since 1989 for the first time, had its biggest two day loss since 1987 amounting to over 10%. Since then it has recovered half that loss, but as more bad news piles up it has begun to fall once more.

A sharp revision for the Japanese Yen has ramifications for the international money order and speculative markets. Because of the cheap yen it has been the preferred carry currency, aka the currency of speculation. As Marx said cheap money is like pork to the glutton or beer to the alcoholic.. No one is clear over how big this trade is, according to [the Japanese Times](#) it ranges from \$500 billion to many trillions. Generally the size of speculative trades only becomes clear once the markets have crashed, its like measuring the length of the skid mark before the car crash to determine how fast the car was travelling.

Japan and Germany are alike but compared to the US both are unlike.

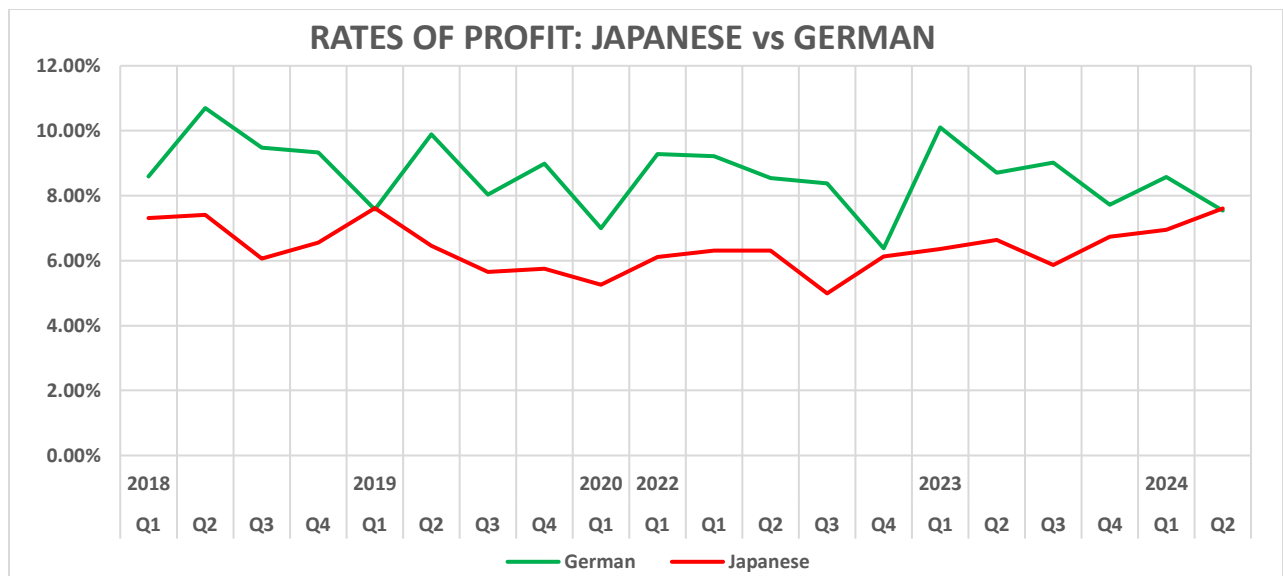
Japan's manufacturing share of GDP in the medium term has been >20%. Not as high as Germany's 24% but much higher than the US share of <11%. Despite manufacturing being slightly lower, Japan has a higher value composition of capital. This is due to a higher stock of fixed capital as well as a smaller share of variable capital due to the faster turnover times found in Japan compared to Germany.

Graph 7.



But it does mean a slightly lower rate of profit for Japan. Interestingly while the German rate of profit has been declining since the beginning of 2023 due to the China effect, the Japanese rate of profit has been rising. As a result they have met up in Q2 2024. Based on leading indicators for the Japanese economy, as well as those for the world economy including China, it is likely that both rates will now decline in concert.

Graph 8.



I am loathe to draw firm conclusions about the equalization of the rate of profit based on just four years. Twenty years would be more powerful. But I will say this; due to the similar compositions of capital, the equalization will be seen just as clearly using the rate of return as it would be using the actual rate of profit. This is in contrast to the USA which has a much more labour intensive economy as befits the Hegemonic

economy with its large rentier class, its dominant financial markets and inflows from the rest of the world, supporting an over large service sector which by definition has a much lower composition of capital.

The outlook.

Here are the latest results of the Bank of Japan's most recent [TANKAN](#) survey.

Table 1.

1. Business Conditions (Continued)

<Ref.> Percentage share of the number of respondents choosing each alternative

%, % points

	March 2024 Survey			June 2024 Survey					
	Actual result			Actual result			Forecast		
	Large Enterprises	Medium-sized Enterprises	Small Enterprises	Large Enterprises	Medium-sized Enterprises	Small Enterprises	Large Enterprises	Medium-sized Enterprises	Small Enterprises
Manufacturing	11	6	-1	13	8	-1	14	7	0
1. Favorable	21	22	20	21	21	19	19	18	17
2. Not so favorable	69	62	59	71	66	61	76	71	66
3. Unfavorable	10	16	21	8	13	20	5	11	17
Nonmanufacturing	34	20	13	33	22	12	27	16	8
1. Favorable	38	29	25	36	29	24	30	22	19
2. Not so favorable	58	62	63	61	64	64	67	72	70
3. Unfavorable	4	9	12	3	7	12	3	6	11

And more consequentially:

Table 2.

2. Supply and Demand Conditions, Inventories, and Prices

% points

		Large Enterprises					
		March 2024 Survey		June 2024 Survey			
		Actual result	Forecast	Actual result	Changes	Forecast	Changes
Domestic Supply & Demand Conditions for Products and Services:	Manufacturing	-11	-9	-10	1	-8	2
	Basic materials	-19	-15	-17	2	-14	3
	Processing	-6	-6	-7	-1	-4	3
	Nonmanufacturing	-1	0	-1	0	-2	-1
Overseas Supply & Demand Conditions for Products:	Manufacturing	-14	-10	-10	4	-6	4
	Basic materials	-21	-17	-14	7	-12	2
	Processing	-10	-6	-6	4	-3	3

In Table 1 we note that 79% of large corporations find present conditions unfavourable rising to 80% for small enterprises. In other words only one fifth of the respondents find business conditions favourable. The results are worse at a granular level. Both domestic and foreign market conditions have deteriorated as evidenced by the results in Table 2.

And the profit outlook for the entirety of 2024 is negative. In fact the June survey revised the outlook down.

Table 3.

Current Profits		year-to-year % change			
		FY 2023		FY 2024	
			Revision rate	(Forecast)	Revision rate
Large Enterprises	Manufacturing	9.1	1.6	-8.8	-3.6
	Basic materials	5.3	11.5	-7.6	12.3
	Processing	10.4	-1.4	-9.2	-8.1
	Nonmanufacturing	15.5	6.3	-8.5	0.7
	All industries	12.2	3.9	-8.6	-1.5
Medium-sized Enterprises	Manufacturing	10.5	8.8	-4.4	10.0
	Nonmanufacturing	13.3	6.9	-4.6	4.6
	All industries	12.4	7.5	-4.6	6.3
Small Enterprises	Manufacturing	12.7	10.3	-6.4	2.4
	Nonmanufacturing	13.2	7.6	-5.8	1.3
	All industries	13.1	8.3	-5.9	1.5
All Enterprises	Manufacturing	9.6	3.1	-8.1	-1.5
	Nonmanufacturing	14.6	6.7	-7.2	1.6
	All industries	12.4	5.1	-7.5	0.2

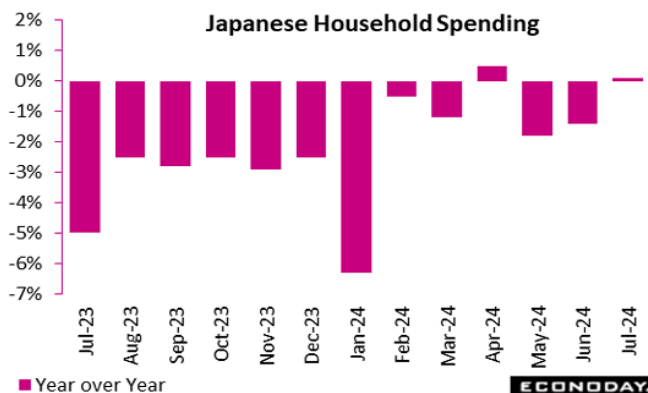
(Note) Revision rates are calculated as the percentage change of the figures between the current and previous survey.

Despite the fall in profitability Japanese investment is forecast to rise, which is consistent with the analysis found above for the entire non-financial corporate sector. This anomalous situation is due to the restructuring of the world economy to reduce reliance on China. It is a very expensive move as relocations add to the mass of capital while depressing profits. Little of this investment is going to increase capacity. These investment intentions can be seen in Table 4 of this cited TANKAN report. As far as the investment in labour power, respondents as shown in Table 5, intend to fire more workers than they will hire.

The METI survey which I have been unable to translate from the Japanese indicates [a 0.9% pull back](#) for production in August followed by a 3.3% plunge in September which would result in production falling for the year following the rise in July. And machinery orders for the July to September period by the [Cabinet Office](#) are expected to decline: *"In the July-September period the total amount of machinery orders was forecasted to decrease by 3.8%..."*

The TANKAN survey on demand outlook within Japan was correct to be cautious. Japanese household spending due to negative real wage growth has been falling all year. This can be seen in this Econoday Report. The small blip upwards in July is largely a base effect considering the near five percent contraction in spending in July 2023.

Graph 9.



Japan's real household spending posted its first year-over-year rise in three months in July but with a sluggish undertone of rising just 0.1 percent, as severely hot and humid weather kept people indoors while demand for air conditioners and beverages skyrocketed.

The core measure of real average household spending (excluding housing, motor vehicles and remittance), a key indicator used in GDP calculation, dipped 0.8 percent after rising 1.3 percent in

June for the first increase in 16 months.

None of the high frequency data suggests that the Bank of Japan will have the confidence to further raise interest rates. But with a weakening US economy raising the prospects for a series of interest rate cuts by the FED, the pressure will be off the BOJ in any case.

Conclusion.

Like Germany, Japan and Singapore are paying a price for the economic war between the US and China. The US is not only concerned with arresting the technical development of China but indisrupting the burgeoning Asian economy. A declining Hegemon is more sensitive to regional economies, especially rising ones, because it recognises their dynamism hastens its decline..

Like Germany, Japan has been politically kidnapped by the USA. Its greedy bourgeoisie has forgotten the harm and pain they caused China three generations ago. They have also forgotten the other lesson of WW1 and WW2 as well, where in 1914-19 Germany prevailed over Russia only to be pulverized by the USSR after 1943.

The same applies to China. China today is incomparably more powerful than it was in the 1930s. And yet Japan draws closer to the USA, entering into one military pact after another, sharing more military logistics and generally forming a hostile military front with the USA. The reason Japan does this is that like Germany it does not fear US economic competition but is petrified by the growth of Chinese competition which by degrees is restructuring the world economy disadvantaging the former imperialist powers. Talk about competition blinding those trapped in the market and disorientating them.

Recently China did two interesting things. Firstly, in response to Japan's bowing to US pressure and announcing more potential restrictions on the [Chinese Chip industry](#), China threatened to damage Japan's car industry by withholding materials and components. This is no idle threat; the automotive industry is Japan's leading industry. This was the stick. The carrot was China agreeing to [remove all restrictions](#) on foreign investment into its manufacturing industry and indicating it intends to reduce more restrictions on other parts of its economy. This is a vote of confidence in Chinese manufacturing showing this industry has come of age, not only being able to compete with the *Best in the West*, but outcompete it.

The Japanese economy limps ahead supported on the backs of its workers which it increasingly exploits as we have seen above. Despite its success in the class war, this is unlikely to be sufficient to sustain the rise in the rate of profit. The outlook for the world economy continues to deteriorate and this won't help. For the first time this includes the US economy which is one of Japan's most important markets especially for cars. What I have been waiting for, a sharp deceleration in the US car market, is well underway with annual light vehicle sales falling to 15.1 million SAAR in August depressed by falling sales of the more expensive SUV's and small trucks. The same can be said for Nvidia chips which is now glutting the world market with units now easily available, in of all places, the Chinese market and at a discount despite all the restrictions. And with a new report showing that [57% of CHATGPT's](#) content is harvested from self-produced information (like home schooling without an adult present), leading to more and more gibberish, the [love affair](#) with these language models is cooling. No wonder those in the know are bailing out of Tech shares.

Around the economic world, soft is hardening and quantity could soon turn into quality. Under these conditions major economies such as Japan and Germany are the ones most at risk.

Brian Green, 9th September 2024.