

# Country Insight Snapshot

## Japan

September 2018





## OVERVIEW

**OVERALL COUNTRY RISK RATING:** DB2c

**Low risk:** Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.



**Rating Outlook:** Stable

## CORE OUTLOOK

- + The production of nuclear energy has partly resumed.
- + Japan ranks first in the world in terms of local supplier quantity.
- + Monetary policy easing has prevented deflation.
- Japan is exposed to multiple natural disaster risks and the long-term trend may be unfavourable.
- Japan still lags behind most developed countries in terms of female labour participation.
- Extreme monetary easing is difficult to reverse, without precipitating a fiscal crisis.

## KEY DEVELOPMENT

The supply environment has deteriorated as a typhoon paralysed Kansai International Airport, and a 6.7-magnitude earthquake blacked out the whole of Hokkaido island.

### CREDIT ENVIRONMENT OUTLOOK



**Trend:** Improving

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK



**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK



**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK



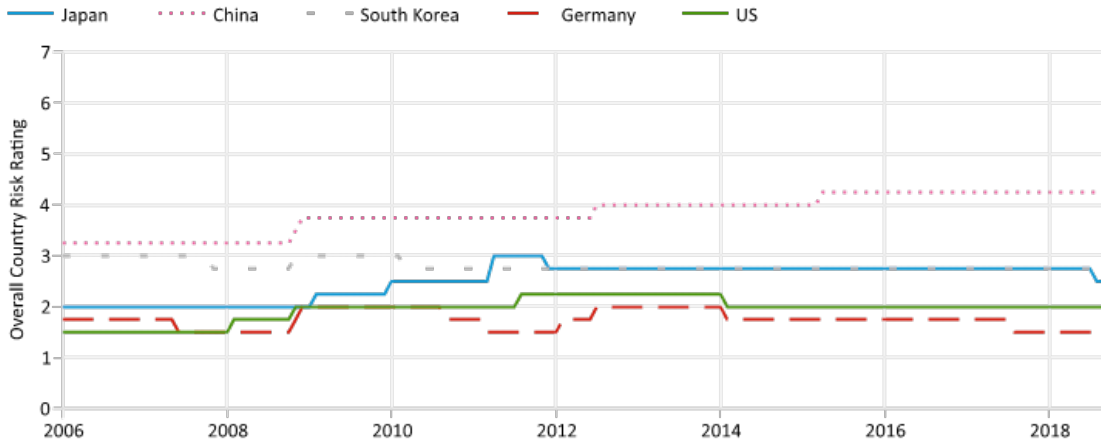
**Trend:** Stable

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

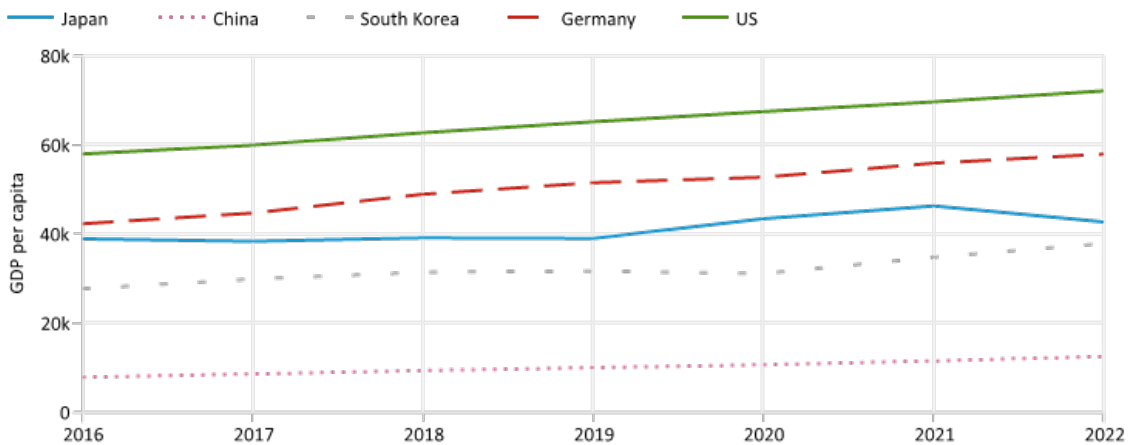
### Rating History and Comparison



Source : Dun & Bradstreet

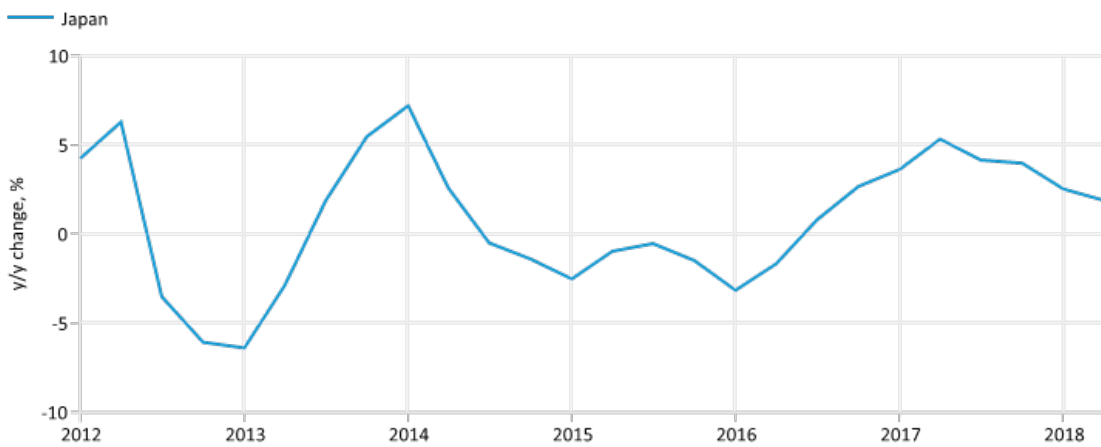
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	3.1	3.9	4.0	3.9	3.5	3.3	3.3	2.8
Govt balance, % GDP	-3.8	-3.7	-4.2	-3.6	-3.2	-2.2	-2.1	-2.0
Inflation, annual avge %	0.8	-0.1	0.5	1.1	1.4	1.5	1.7	1.7
Real GDP Growth, %	1.4	1.0	1.7	1.3	1.4	1.1	1.5	1.0
Unemployment, %	3.4	3.1	2.8	2.6	2.5	2.5	2.9	3.3

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Following on from the record heat and precipitation of the summer, Japan was confronted by two new natural disasters within the same week in September. Our supply environment trend had shifted from 'stable' to 'deteriorating' in July - due to heavy rains across 11 of Japan's prefectures and Typhoon Jongdari's landfall on the island of Honshu.. It had recovered to 'stable' in August, but has since shifted again to 'deteriorating' in the wake of the typhoon's impact on the Kansai region, and the earthquake hitting the island of Hokkaido. Typhoon Jebi's impact will linger, especially for electronics exporters dependent on air freight and tourism in the Kansai region, which includes Japan's second metropolis of Osaka. However, Dun & Bradstreet is not anticipating that its Japanese partner Tokyo Shoko Research will conduct a DUNS-level analysis on the typhoon's impact. The Hokkaido earthquake impact is likely to be larger and more enduring, and data of company-level impacts still remains to be collected as of mid-September.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: OA

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: OA

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-90 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-1 month

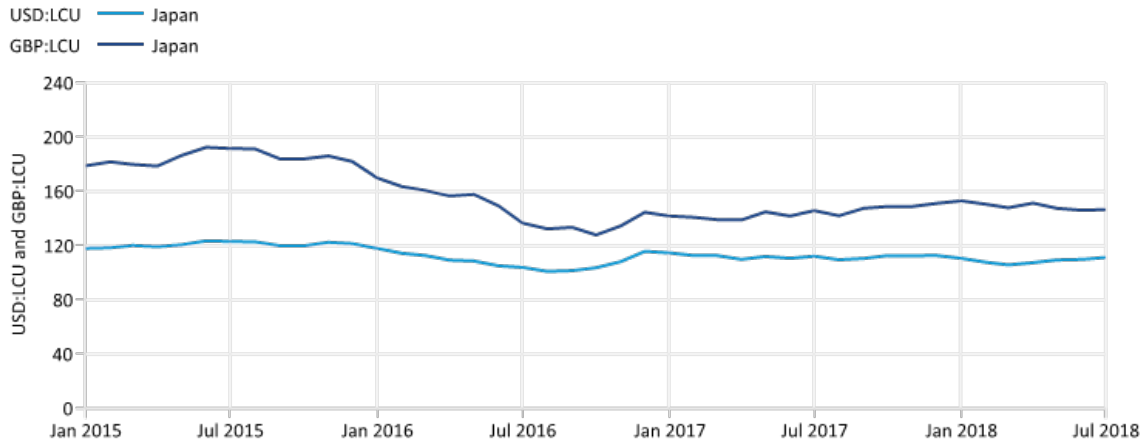
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-1 month

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



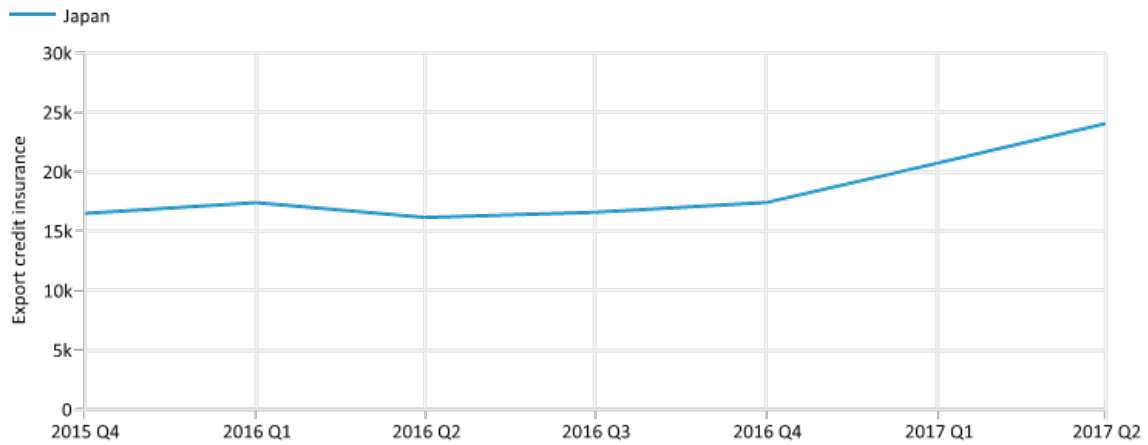
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Japanese yen*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm; part of the increase going into 2017 is due to changes in methodology.*



## RISKS AND OPPORTUNITIES

### Business Continuity

#### *Typhoon and earthquake hit*

In September, Typhoon Jebi was the strongest typhoon to make landfall in Japan for 25 years. Over 1.0m households lost electricity, amid storm winds of over 210 km/hour. But the most prominent impact on Japan's supply chains will be the part-closure of Kansai international airport (KIX). The third-busiest airport nationally for passenger traffic (29m journeys in April-March 2017-18), especially for low-cost budget airlines connecting to Asia, it is also key to air freight and handles as much as 10% of Japan's exports by value. The typhoon slammed the 2,591-tonne oil-product tanker, that had earlier supplied the airport with jet fuel, into the combined rail/road bridge connecting the airport to the mainland, inundating one of its two runways despite five metre sea walls built up higher in 2004.

The typhoon also caused the temporary shutdown of multiple refineries across central and western Japan with a combined daily throughput of 880,000. The outage of the runway and full use of the bridge could affect tourism and the electronics industry for weeks at least. Air freight in Japan had already been affected in July by the temporary grounding of Nippon Cargo Airlines' fleet due to issues with its maintenance record.

The same week of September saw a 6.7-magnitude earthquake hit Japan's northern island of Hokkaido. Accounting for 3.6% of GDP, with a population of 2.9m, Hokkaido suffered an island-wide blackout lasting at least two days that was unprecedented in offlining an entire regional grid. The main thermal plant Hokkaido has relied on since the 2011 tsunami, was near the epicentre, and shut down - triggering all other online power plants on the grid to follow suit, and forcing the Tomari nuclear plant (offline since 2012) to rely on back-up generators to maintain its cooling ponds. The island accounts for 20% of Japan's farming and fisheries industry. However, the earthquake also caused local steel, paper and refining capacity to shut down and Toyota ceased operations at 16 of its national plants due to shortages of parts due to its Hokkaido plant being affected.

### Long-Term Economic Potential

#### *Natural hazards underline vulnerability*

After catastrophe modeller AIR estimated the July floods in western Japan, the worst rain disaster since 1989, would bring insurance claims of USD2.6-4.0bn, the Hokkaido earthquake damage is likely to be of a larger magnitude - at JPY4-5trn (USD36-45bn) - according to Dai-ichi Life, and thus eclipse the 2016 Kumamoto earthquake. The government's annual budget of JPY350bn for contingencies had already been half-exhausted as of September. The 2018 typhoon season was exceptionally prolific, tying with 1994's figure of 18. After the hottest summer on record since 1946, with summer temperatures 1.7 degrees centigrade over those normally seen, air saturated with moisture saw Japan's regions face precipitation of 133-177% of normal levels. The question remains over whether long-term climate change processes could increase the severity and frequency of the natural hazards affecting Japan.



## COUNTRY PROFILE AND STATISTICS

### Overview

Japan consists of four main islands (Hokkaido, Honshu, Shikoku and Kyushu) and a large number of smaller islands, and lies southeast of the Korean Peninsula. Much of the country is mountainous, with a small (but significant) forested element; usable land is intensively settled and developed. The climate varies from tropical in the south to cool temperate in the north. It is exposed to a variety of natural disasters risks as a result of its location.

Japan's GDP is still the third-largest in the world. Privileged by its security relationship with the US and by Cold War importance, Japan grew rapidly after 1945. However, in the aftermath of the 1980s 'bubble economy' land and real estate prices slumped by 80%, unemployment rose, and there were deep recessions in 1998 and 2002 after the working age population ceased growing.

Japan is already an involuntary pioneer in gauging the effects of an ageing society. Meanwhile, the even income distribution and universal sense of middle-class identity for which Japan was famous are disappearing, owing to reduced government redistribution of income between regions.

### Key Facts

Key Fact	Detail
Head of state	Emperor AKIHITO
Capital	Tokyo
Timezone	GMT +09-00
Official language	Japanese
Population (millions)	126.7
GDP (USD billions)	4,874.1
GDP per capita (USD)	38,455
Life expectancy (years)	83.6
Literacy (% of adult pop.)	99.9
Surface area (sq km)	377,910

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	2.0	0.4	1.4	1.0	1.7
Nominal GDP in USDbn	5,158	4,854	4,396	4,952	4,874
Nominal GDP in local currency (bn)	503,176	513,876	531,986	538,521	546,561
GDP per Capita in USD	40,504	38,188	34,620	39,001	38,455
Population (year-end, m)	127.3	127.1	127.0	127.0	126.7
Exchange rate (yr avge, USD-LCU)	97.6	105.9	121.0	108.8	112.1
Current Account in USDbn	46.4	36.4	136.5	194.0	195.8
Current Account (% of GDP)	0.9	0.7	3.1	3.9	4.0
FX reserves (year-end, USDbn)	1,237.2	1,231.0	1,207.0	1,188.3	1,232.2
Import Cover (months)	15.5	14.9	17.9	18.5	17.7
Inflation (annual avge, %)	0.3	2.8	0.8	-0.1	0.5
Govt Balance (% GDP)	-7.9	-5.6	-3.8	-3.7	-4.2

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	1.3	1.4	1.1	1.5	1.0
Nominal GDP in USDbn	4,925	4,891	5,418	5,775	5,330
Nominal GDP in local currency (bn)	552,095	560,452	568,920	577,539	586,260
GDP per Capita in USD	39,243	39,124	43,520	46,389	42,808
Population (year-end, m)	125.5	125.0	124.5	124.5	124.5
Exchange rate (yr avge, USD-LCU)	112.1	114.6	105.0	100.0	110.0
Current Account in USDbn	190.0	170.0	180.0	190.0	150.0
Current Account (% of GDP)	3.9	3.5	3.3	3.3	2.8
FX reserves (year-end, USDbn)	1,244.6	1,257.0	1,269.6	1,282.3	1,295.1
Import Cover (months)	18.2	17.6	16.2	16.2	16.2
Inflation (annual avge, %)	1.1	1.4	1.5	1.7	1.7
Govt Balance (% GDP)	-3.6	-3.2	-2.2	-2.1	-2.0

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Japan	China	S. Korea	Germany	US
Income per Capita (USD)	39,243	9,462	31,479	49,033	62,824
Country Population (m)	125.5	1,415.0	51.2	82.3	326.8
Internet users (% of population)	92.0	53.2	92.7	89.6	76.2
Real GDP Growth (% p.a., 2018 - 2027)	-0.5 - 1.2	4.5 - 6.5	1.5 - 3.0	1.8 - 3.0	1.8 - 2.5

Source : Various sources/Dun & Bradstreet





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