

# **Recent Economic Developments**

**- Monthly Economic Report, February 20 2020 -**

**March 4, 2020**

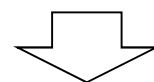
**Cabinet Office  
Government of Japan**

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## <Assessment of the current state of the Japanese economy>

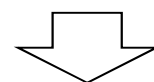
December

The Japanese economy is recovering at a moderate pace, while weakness mainly among manufacturers is increasing further, as exports are continuing in a weak tone.



January

The Japanese economy is recovering at a moderate pace, while weakness mainly among manufacturers is increasing further, as exports are continuing in a weak tone.



February

The Japanese economy is recovering at a moderate pace, while increased weakness mainly among manufacturers is continuing, as exports remain in a weak tone.

**(Unchanged)**

**(Changed)**

## <Short-term prospects>

December

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to situations in overseas economies including the situations over trade issues, the prospect of the Chinese economy and the UK leaving the EU, the effects of fluctuations in the financial and capital markets, and the situations of the consumer sentiment after the consumption tax increase.

January

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to situations in overseas economies including the situations over trade issues, the prospect of the Chinese economy, the UK leaving the EU, and the state of affairs over the Middle East region, the effects of fluctuations in the financial and capital markets, and the situations of the consumer sentiment after the consumption tax increase.

February

Weakness remains for the time being, but the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, full attention should be given to effects of the Novel Coronavirus on the Japanese and overseas economies. Also, attention should be given to situations in overseas economies including the situations over trade issues and the effects of fluctuations in the financial and capital markets.

## <Policy stance>

(Monthly Economic Report, February 20, 2020)

The Government will make its utmost efforts to ensure the economy overcomes deflation and achieve economic revitalization and fiscal consolidation simultaneously, in addition to make effort toward the reconstruction and revitalization from the Great East Japan Earthquake and the restoration and reconstruction from the 2016 Kumamoto Earthquake.

To this end, the Government will strengthen economic growth by boosting potential growth rate and expand virtuous cycle of growth and distribution based on the "Basic Policy on Economic and Fiscal Management and Reform 2019", the "Action Plan of the Growth Strategy" and so on.

Moreover, in order to create a society in which everyone plays an active role and feels secure, the Government will establish the social security system for all generations.

Furthermore, the Government will continue to pay careful attention to the economic trend after the consumption tax rate hike and implement the FY2019 budget including the temporal and special measures steadily.

The Government will swiftly implement "Emergency Measures Regarding the Novel Coronavirus" (February 13th, the Novel Coronavirus Response Headquarters decision), and continue to pay careful attention to its effect on the economy and take all possible measures. The Government will implement "Comprehensive Economic Measures to Create a Future with Security and Growth" and the FY2019 supplementary budget swiftly and steadily to accelerate the restoration and reconstruction of the areas affected by the successive natural disasters, to overcome the downside risks originated from the overseas economies such as the Novel Coronavirus certainly, and to achieve sustainable economic growth led by private sector demand. The Government will work for early passage of the FY2020 budget and the related bills.

The Government expects the Bank of Japan to achieve the price stability target of two percent in light of economic activity, prices and financial conditions.

## — GDP: Oct. – Dec. 2019 (First Preliminary) —

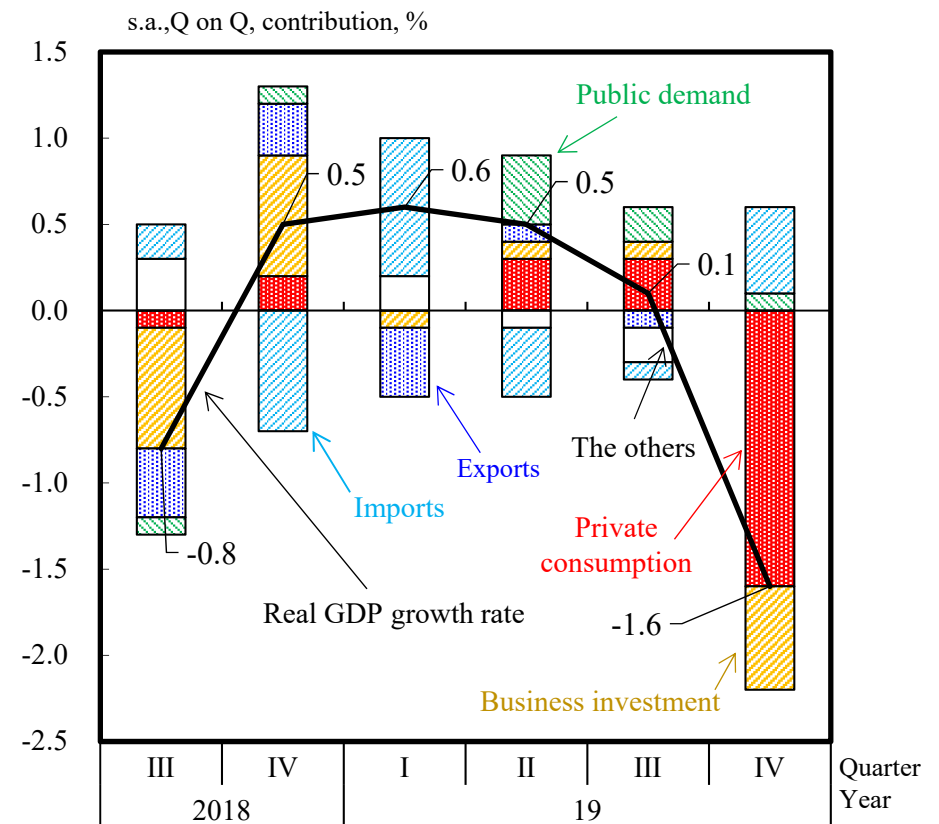
- The real GDP (Gross Domestic Product) for the Oct.-Dec. 2019 period (First preliminary) decreased by 1.6%(or at an annualized -6.3%) from the previous quarter.
- While public demand increased steadily, domestic demand contributed negatively due to the weakness in private demand. Net exports contributed positively due to the weak imports.

Changes and contributions to changes in real GDP  
(seasonally adjusted)

	FY2017	FY2018	2019				
			2018	2019			
			IV Oct. - Dec.	I Jan. - Mar.	II Apr. - Jun.	III Jul. - Sep.	IV Oct. - Dec.
Real GDP growth rate [at annual rate]	1.9	0.3	0.5 [2.1]	0.6 [2.6]	0.5 [1.9]	0.1 [0.5]	<b>-1.6</b> <b>[-6.3]</b>
Domestic Demand (Contributions)	(1.5)	(0.4)	(1.0)	(0.2)	(0.8)	(0.4)	(-2.1)
Private Demand (Contributions)	(1.4)	(0.2)	(0.9)	(0.2)	(0.4)	(0.2)	(-2.2)
Private Consumption	1.1	0.1	0.4	0.0	0.6	0.5	-2.9
Private Non-Residential Investment	4.3	1.7	4.3	-0.5	0.8	0.5	-3.7
Private Residential Investment	-1.4	-4.9	1.7	1.5	-0.2	1.2	-2.7
Changes in Private Inventories (Contributions)	(0.2)	(0.0)	(0.0)	(0.2)	(-0.1)	(-0.2)	(0.1)
Public Demand (Contributions)	(0.1)	(0.2)	(0.1)	(0.0)	(0.4)	(0.2)	(0.1)
Public Investment	0.5	0.6	-1.3	2.1	1.8	1.2	1.1
Net Exports (Contributions)	(0.5)	(-0.1)	(-0.4)	(0.5)	(-0.3)	(-0.3)	(0.5)
Exports	6.4	1.6	1.6	-1.9	0.4	-0.7	-0.1
Imports	3.9	2.2	4.3	-4.3	2.0	0.7	-2.6
Nominal GDP growth rate [at annual rate]	2.0	0.1	0.1 [0.6]	1.2 [4.8]	0.5 [2.1]	0.5 [1.9]	-1.2 [-4.9]

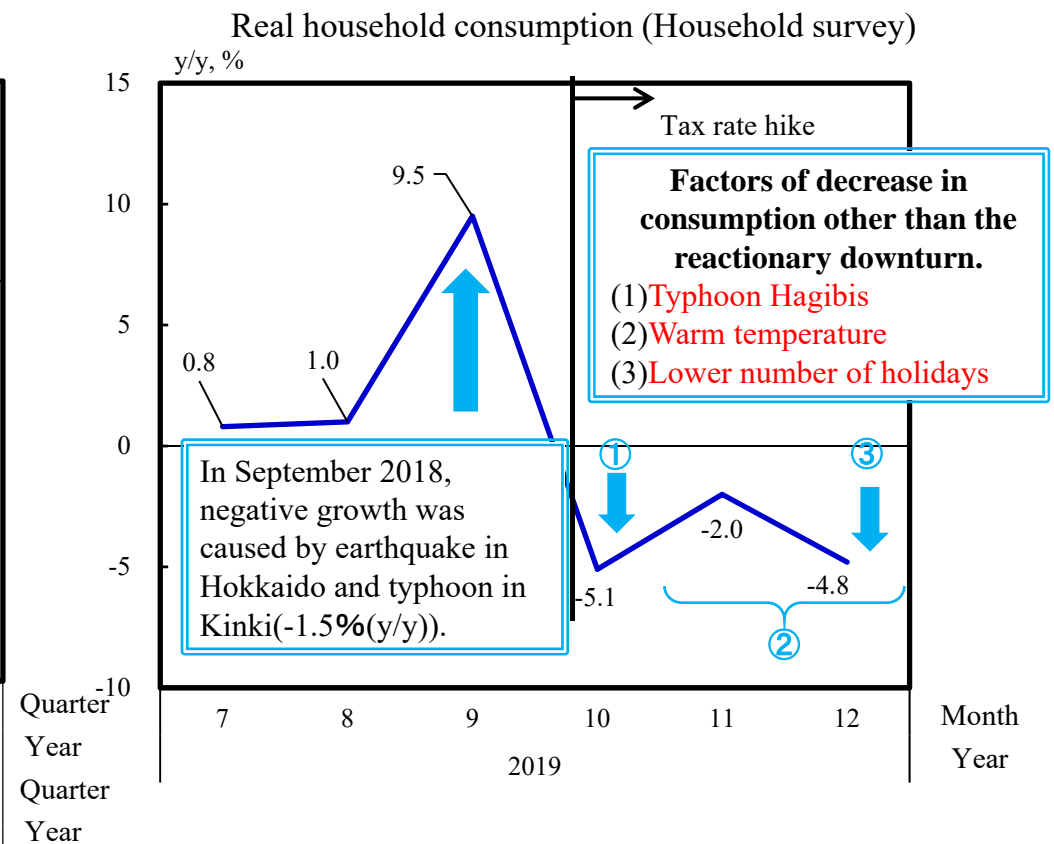
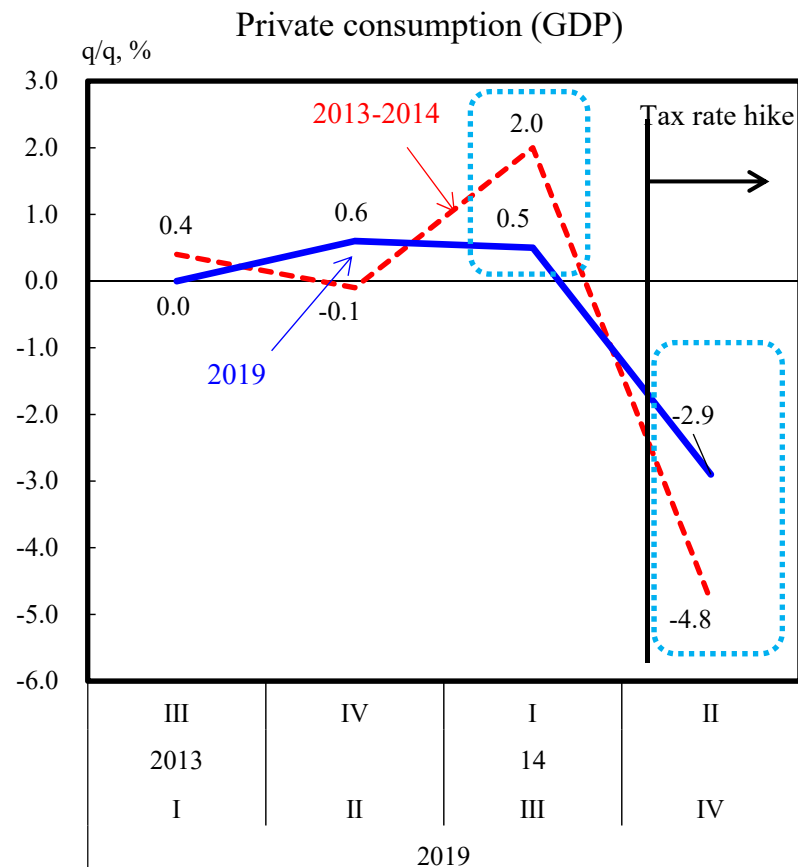
Note: Quarterly data is quarter-to-quarter change.  
Source: Cabinet Office.

Contribution of real GDP growth rate



## – Private Consumption (1) –

- Private consumption decreased by 2.9% with the reactionary downturn due to the consumption tax rate hike. However, the rush demand and its reactionary downturn are likely to be smaller than the case in 2014.
- According to the Household Survey, there are one-off factors which reduced spending.
  - (1) Implementation of planned suspensions of trains and decrease in number of business days due to Typhoon Hagibis,
  - (2) Poor sales of seasonal products due to warm temperatures, and
  - (3) Lower number of holidays (especially on December 23) have caused downward push.

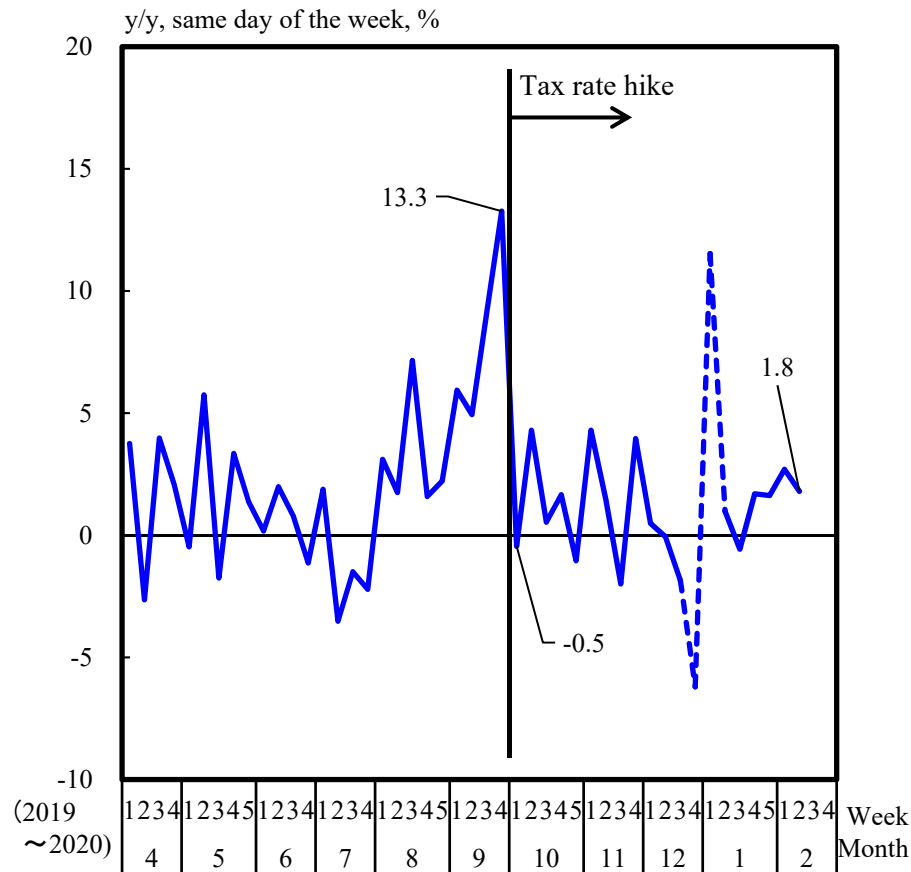


Source: Cabinet Office; Ministry of Internal Affairs and Communications.

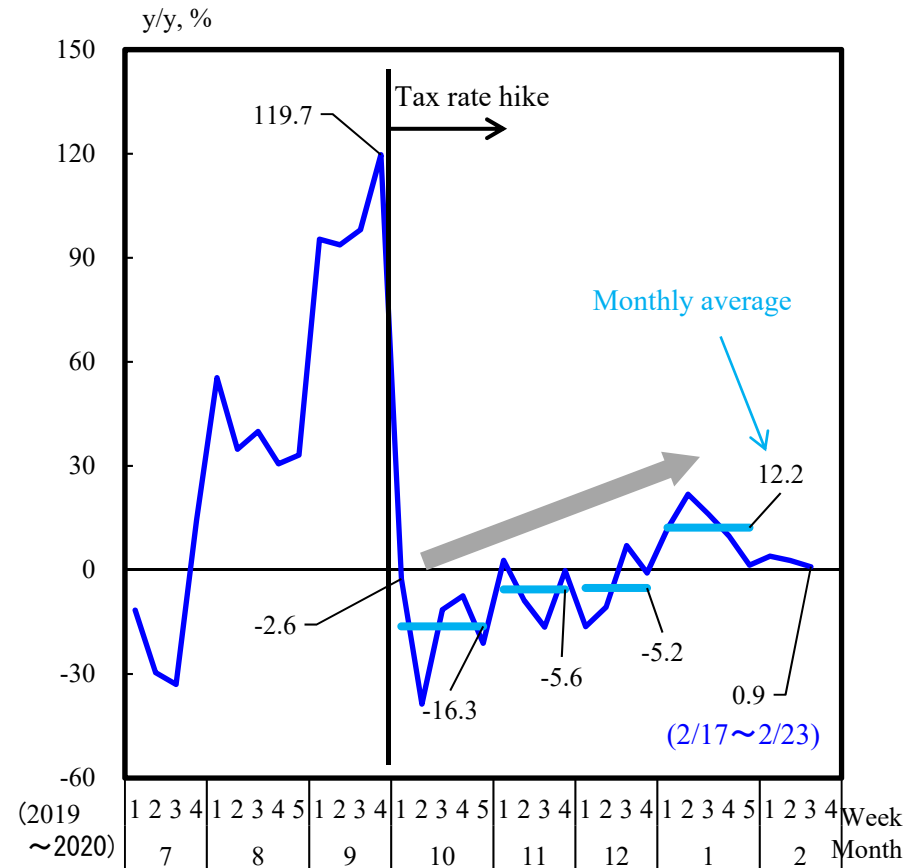
## — Private Consumption (2) —

- Sales at supermarkets show steady performance partly due to the effects of the reduced consumption tax rate.
- Sales of home appliances have been picking up since October, and have been positive since January.

Sales at supermarkets (weekly data)



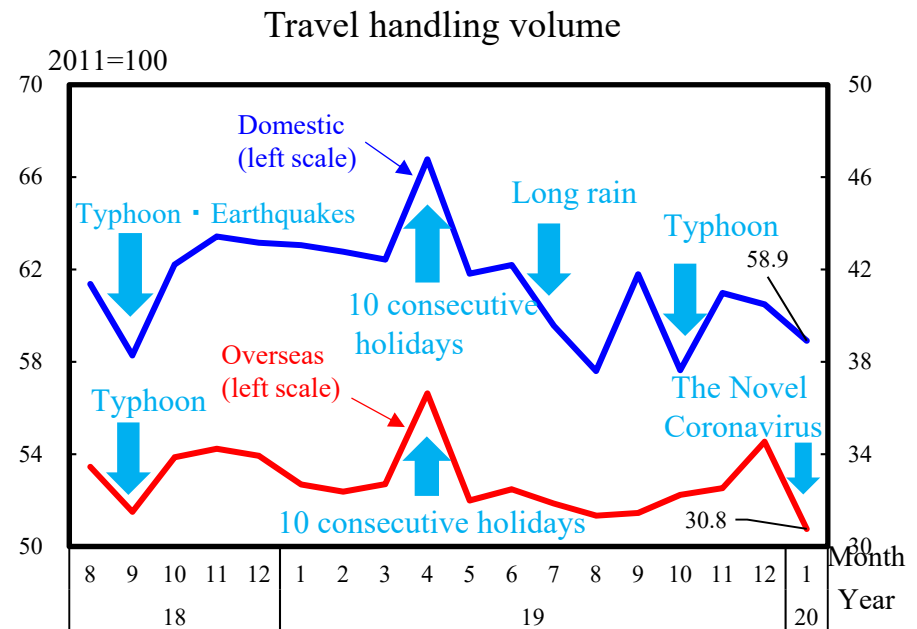
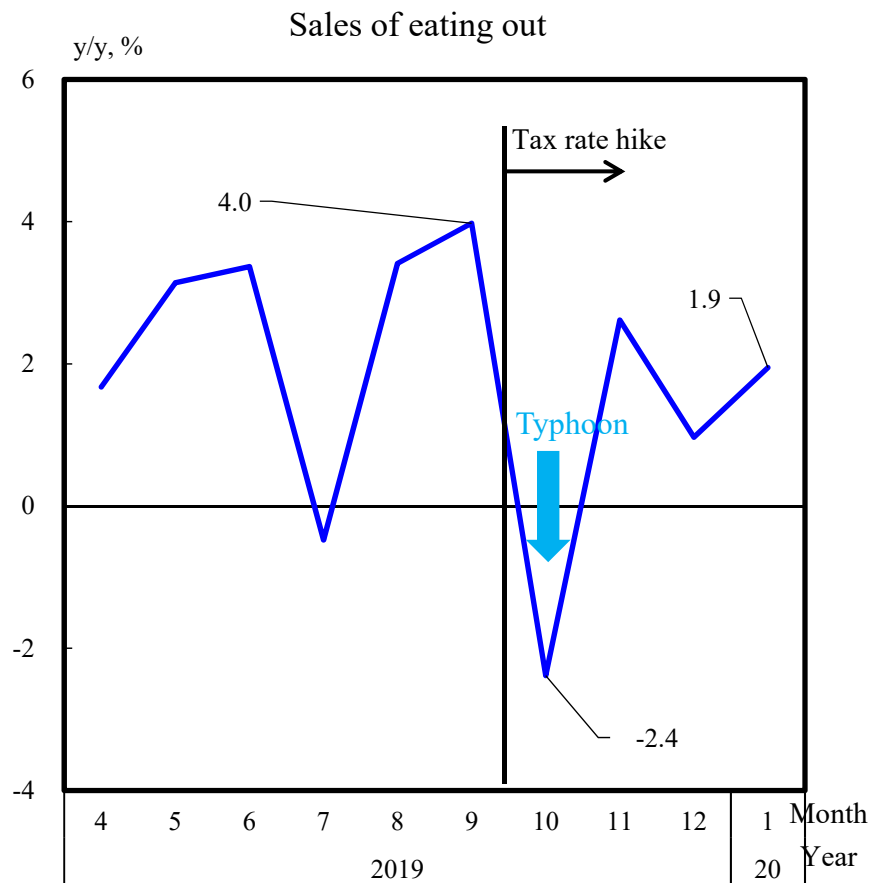
Sales of 5 home appliances (weekly data)



Source: Ministry of Economy, Trade and Industry.

## — Private Consumption (3) —

- It is important to understand the consumption of services, which accounts for more than 50% of private consumption. Sales of eating out declined in October, but after that, have been increasing for the third consecutive month.
- Travel was pushed down by bad weather in summer and Typhoon Hagibis in October, however, the number of travelers during the year-end and New Year holidays increased partly due to favorable calendar effect (Saturday and Sunday, January 4th and 5th).



Year-end and New Year's transportation (2019/12/27-2020/1/5)

	y/y
Railway (Number of passengers)	2.4%
Plane (Number of passengers)	6.7%
Expressway (Number of vehicles used)	4.4%

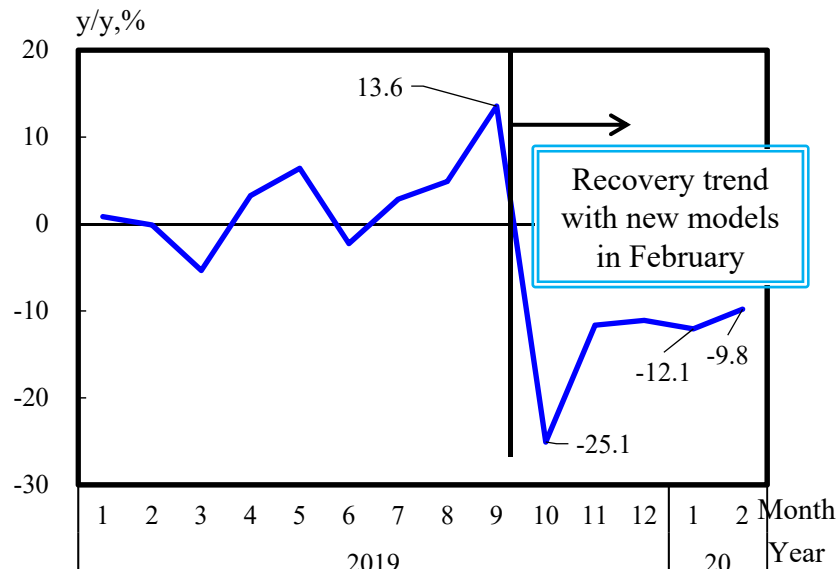
Source: Japan Foodservice Association; Railway Passenger Association ; Cabinet Office



## – Private Consumption (4) –

- Automobile sales continued to decline by double-digits year-on-year after November. However, according to the hearing, there are several one-off factors other than the reactionary downturn due to the consumption tax rate hike. Production and sales of new automobiles that had been suspended due to parts failure, resumed and new models went on sale in February.
- Sales of department stores dealing in high-value items such as jewelry, were affected by typhoons, warm temperature in addition to the reactionary downturn. However, the decline in year-on-year sales growth eased toward the end of the year.

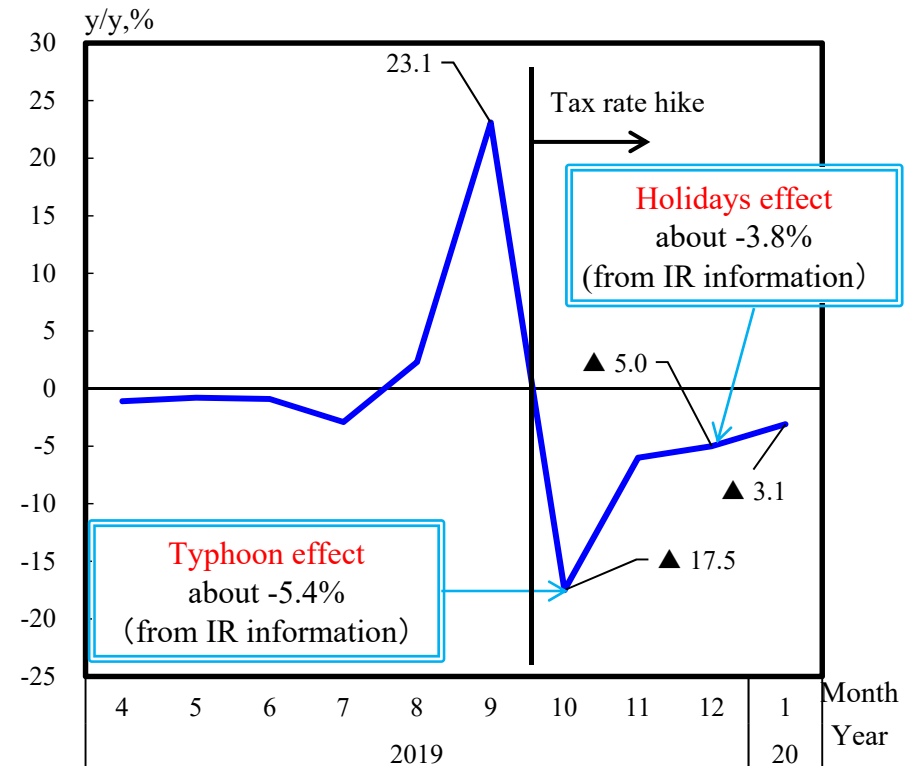
New automobile sales



### **Factors of decline since October (hearing from industry associations)**

- (1) Factors of individual companies (discontinuation of production of some models due to parts failure)
- (2) The number of business days decreased due to typhoons in October.
- (3) Refraining from buying in anticipation of new models after December.

Sales in department stores

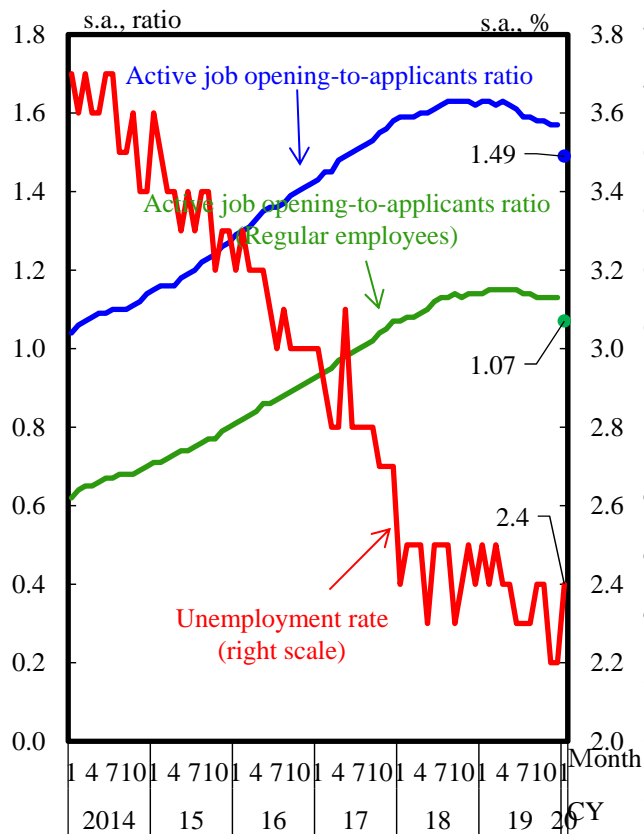


Source: Japan Automobile Dealers Association; Japan Light motor Vehicle and Motorcycle Association; Japan Department Store Association

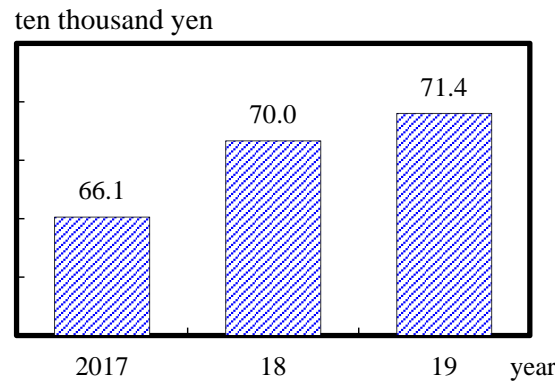
## — Employment Situation —

- Employment situation is improving while labor shortage continues.
- The highest level of wage increases has been achieved for six consecutive years. The 2019 winter bonus is at a high level.
- Both the number of employees and the salary of employees have been increasing. As a result, real wage income of employees has been higher than a year ago.

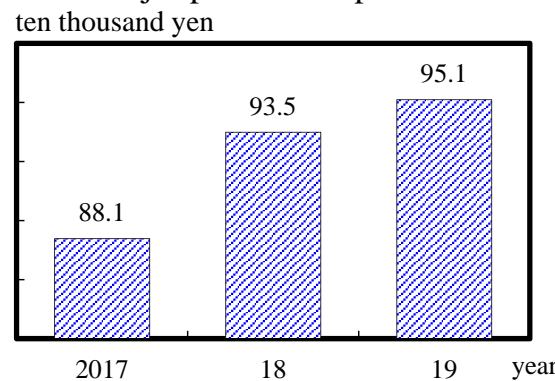
Unemployment rate and active job opening-to-applicants ratio



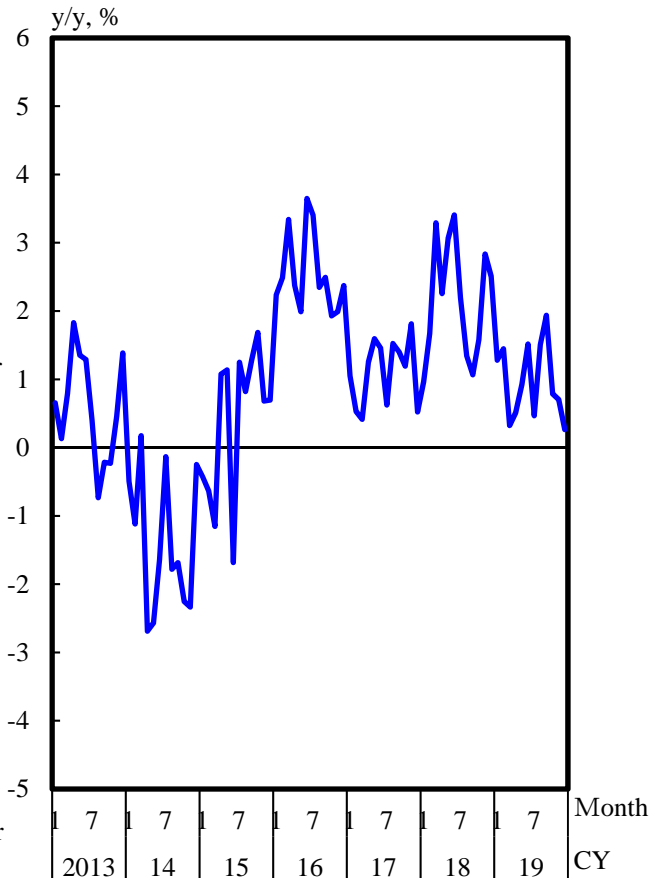
Winter bonus (2,000 unions)



Winter bonus (Major private companies)



Real wage income of employees



Source: Ministry of Health, Labor and Welfare; Japan Business Federation; Japanese Trade Union Confederation; Cabinet Office

## — Private Consumption and Employment Situation —

- Private consumption is picking up while employment and income situation is improving. However, full attention should be given to effects of the Novel Coronavirus on private consumption.
- The analysis of medium- to long-term factors below is also required.

### < Short-term challenges >

Effects of the Novel Coronavirus

### < Medium- to long-term challenges >

#### 1. Structural changes in consumption

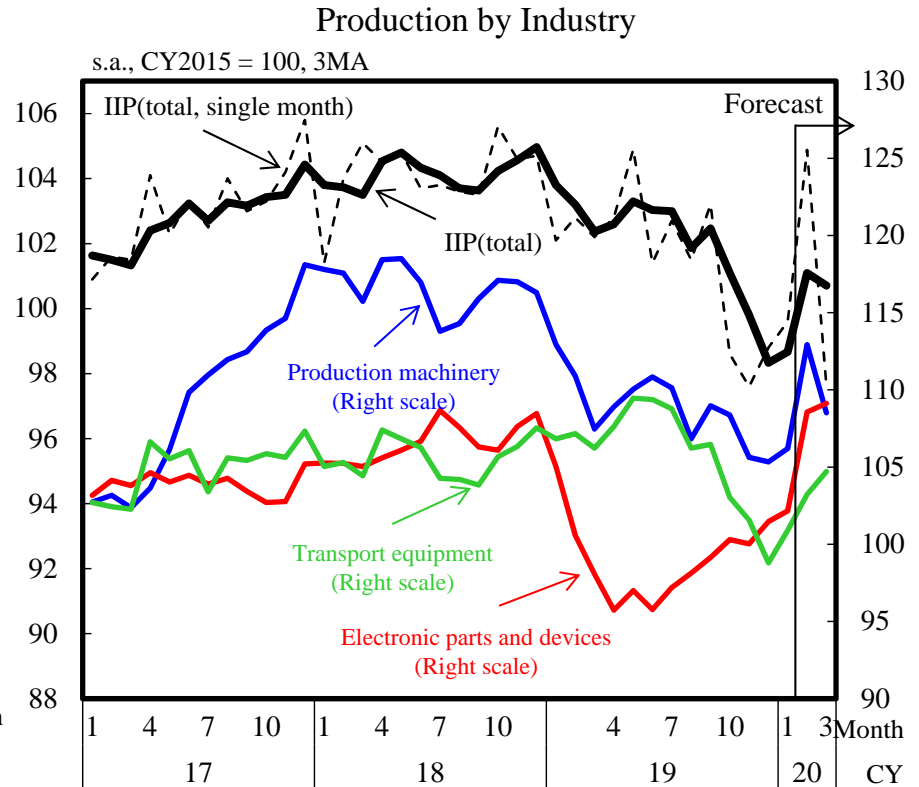
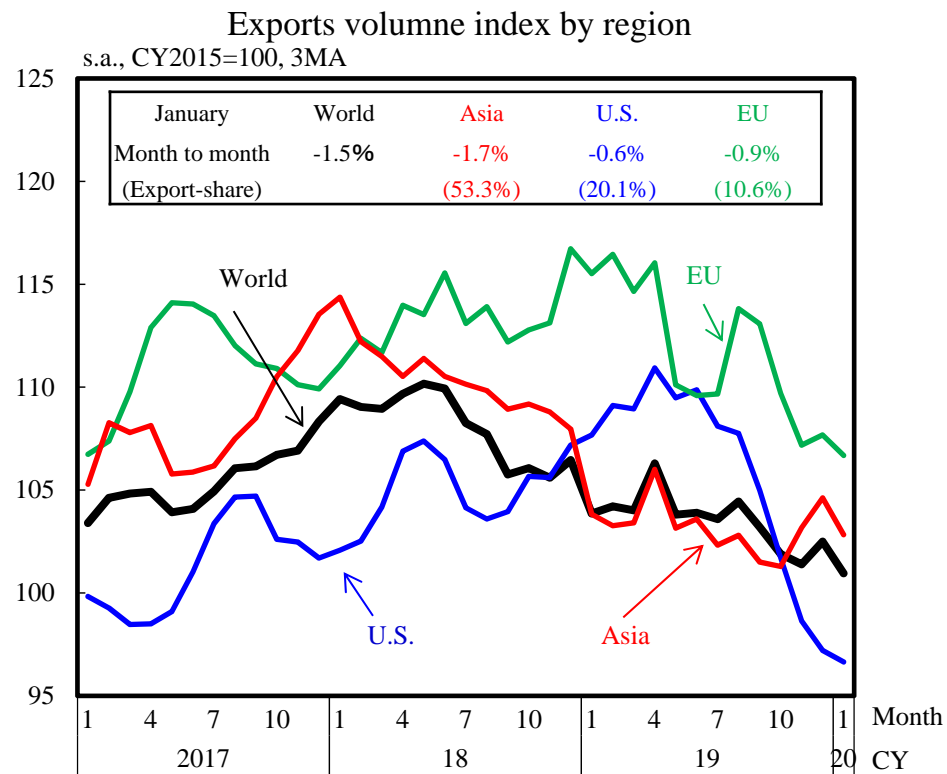
- Increase in elderly households
- Expansion of online sales
- Spread of the Sharing economy

#### 2. Turning point in the automotive market a once-in-a-thousand-year

- Decrease in young people's car purchases
- Spread of the Car sharing

## – Export & Industrial Production –

- Due to the slowdown of overseas economies, exports remain in a weak tone.
- Although exports to Asia, mainly China, showed a sign of bottoming out due to the global restoration of IT related demand until last December, there are new concerns related to the Novel Coronavirus emerged in addition to a fall caused by the Lunar New Year effect.
- Industrial production remains in a weak tone due to weak exports and Typhoon Hagibis, while production of electronic parts and devices are picking up.
- As for short-term prospects, production has been expected to pick up with the restoration of the supply-chain, and growth of semiconductor demand. However, attention should be given to effects of the Novel Coronavirus.

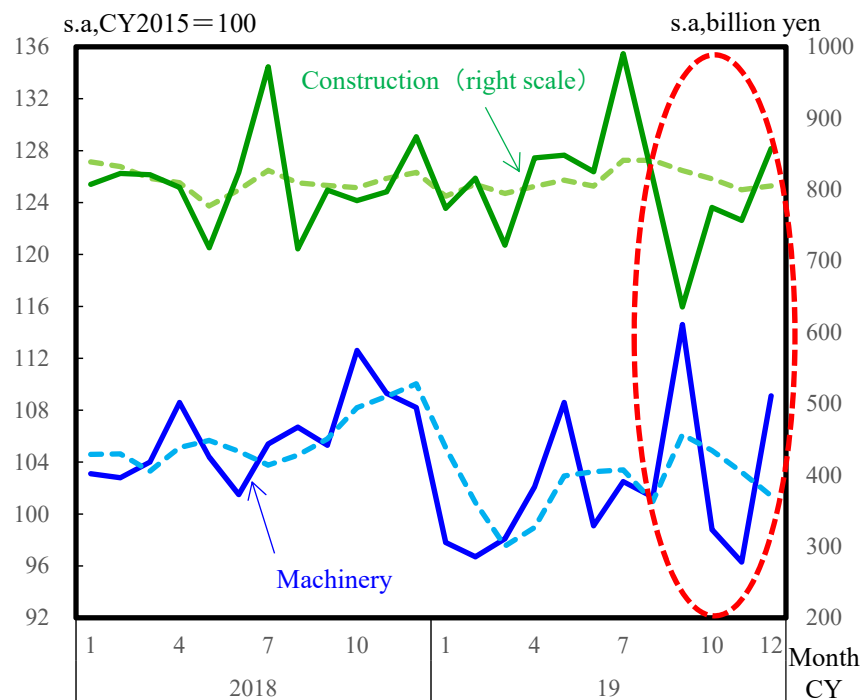


Sources: Ministry of Finance; Ministry of Economy, Trade and Industry

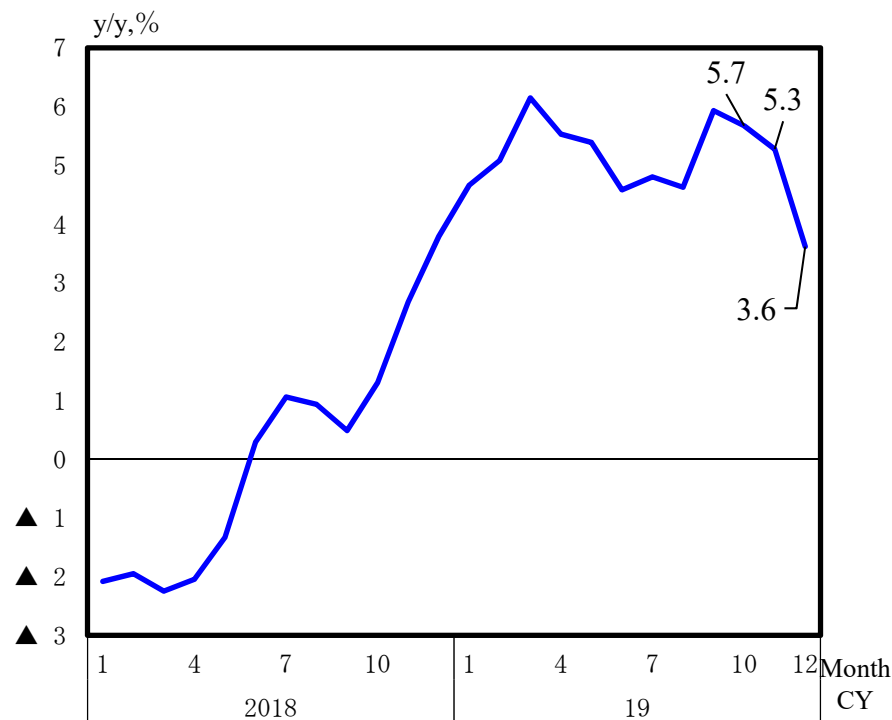
## – Business investment & Corporate Profits (1) –

- Business investment decreased by 3.7% in the October-December quarter. There is a possibility that investment in machinery and construction to enhance production capacity was held back due to the weakness in exports and production. Also, there was an impact of Typhoon Hagibis that delayed the production and shipment of some capital goods.
- Both construction investments and machinery investments are increasing in December.
- Due to the labor shortage, software investment contributing to labor savings has been increasing year-on-year basis, suggesting a response to the Society 5.0.

Machinery and Construction(non-residential)



Software investment

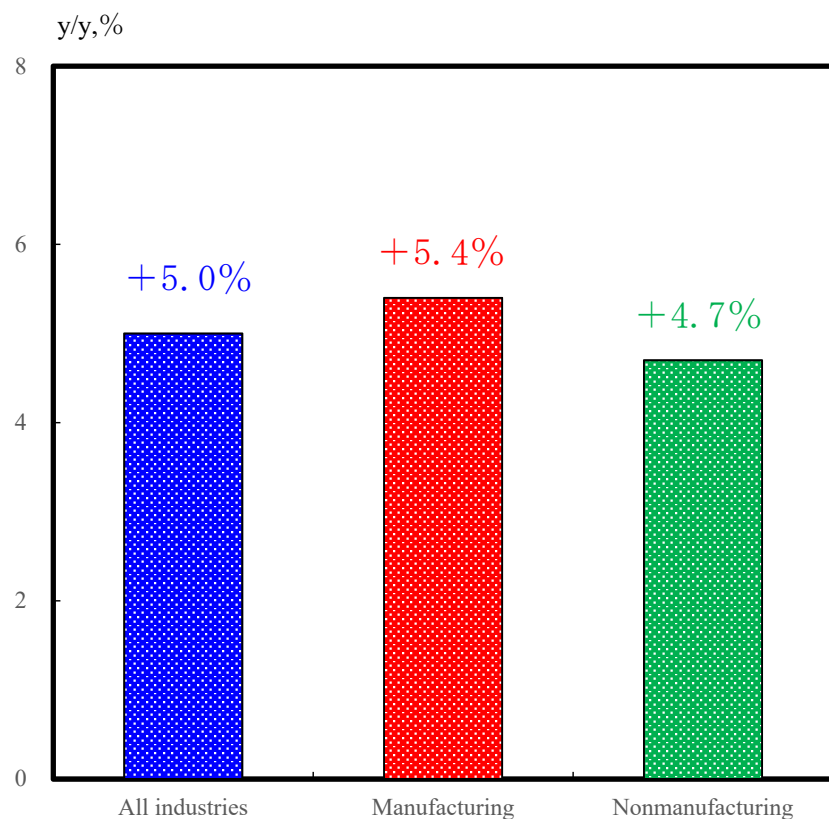


Sources: Ministry of Economy, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism

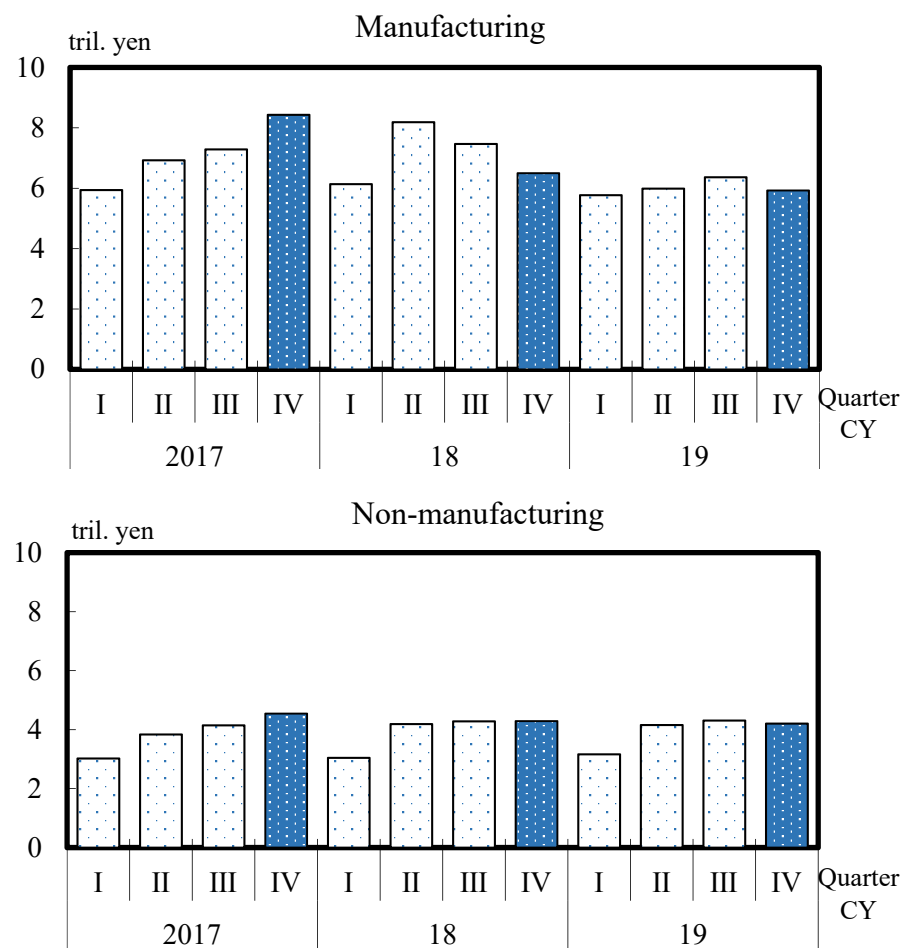
## — Business investment & Corporate Profits (2) —

- Investment in the business investment plan based on the Tankan (December survey) increased 5% year-on-year.
- High level of corporate profits support investments. However, careful attention should be given to the weakness mainly among manufacturers and the effects of the Novel Coronavirus on business activities.

Planned business investment for FY2019 (“Tankan” survey)



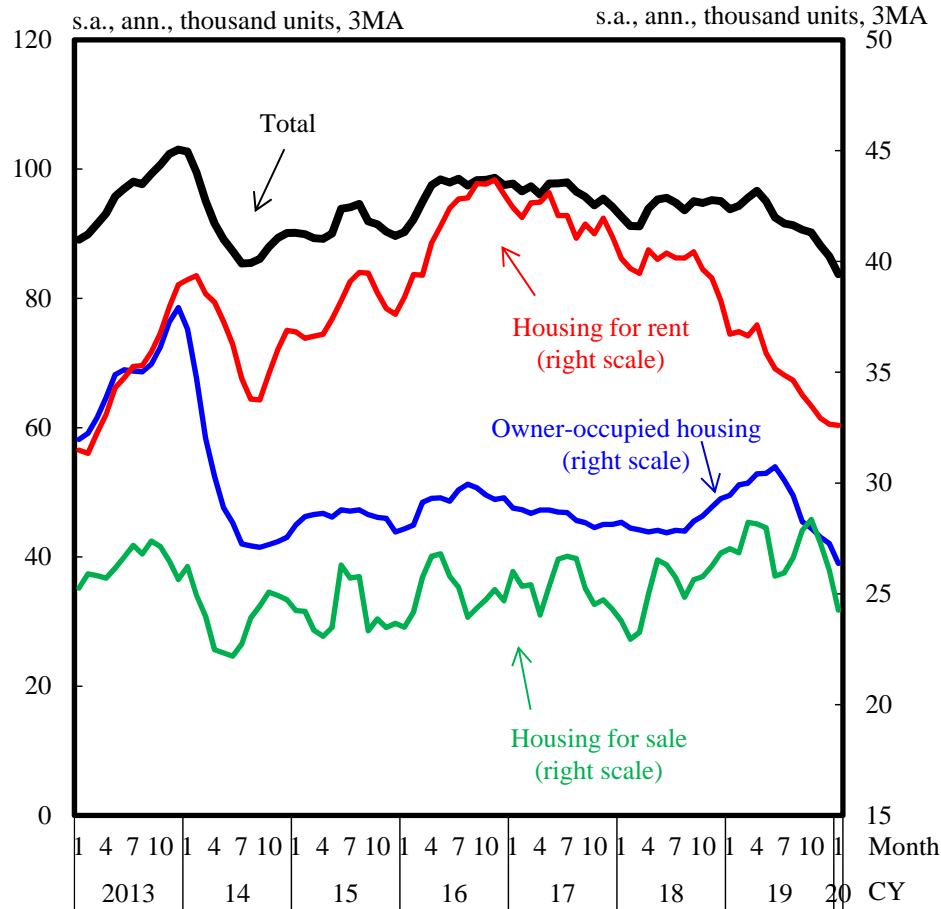
Ordinary profit of listed companies



Source: Bank of Japan, NIKKEI NEEDS

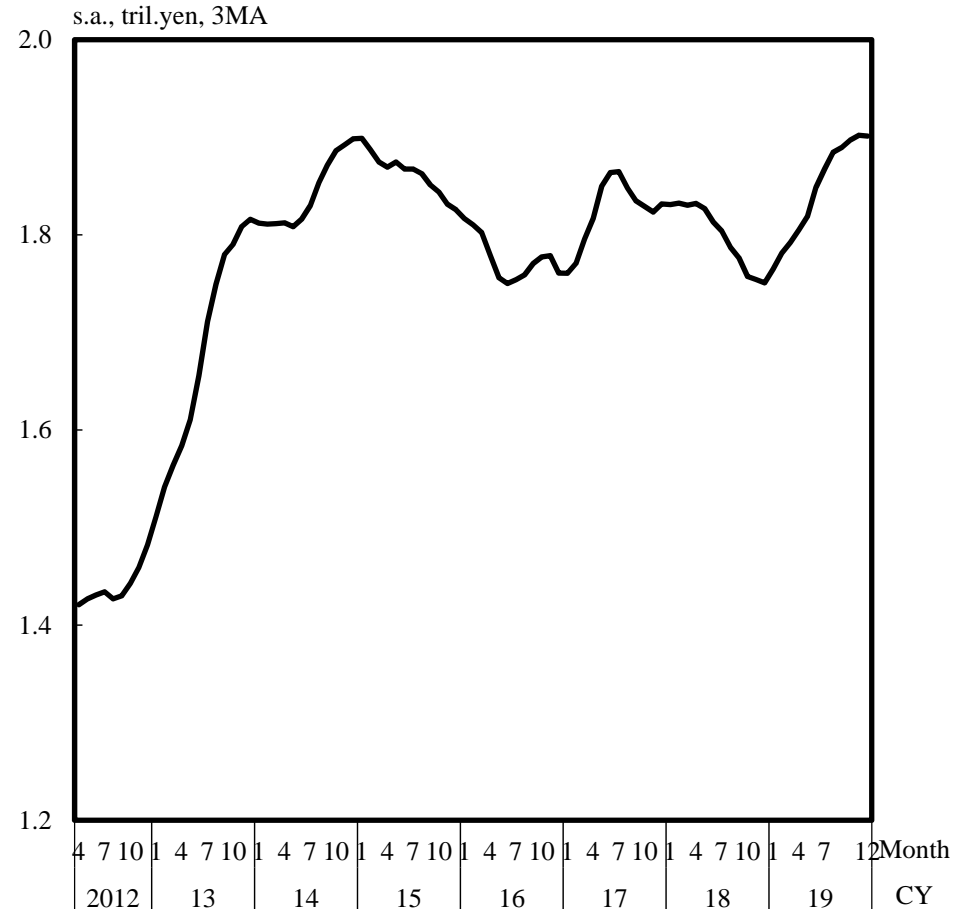
Housing investment is in a weak tone recently.

Housing construction starts



Public investment shows steady performance.

Amount of public construction completed

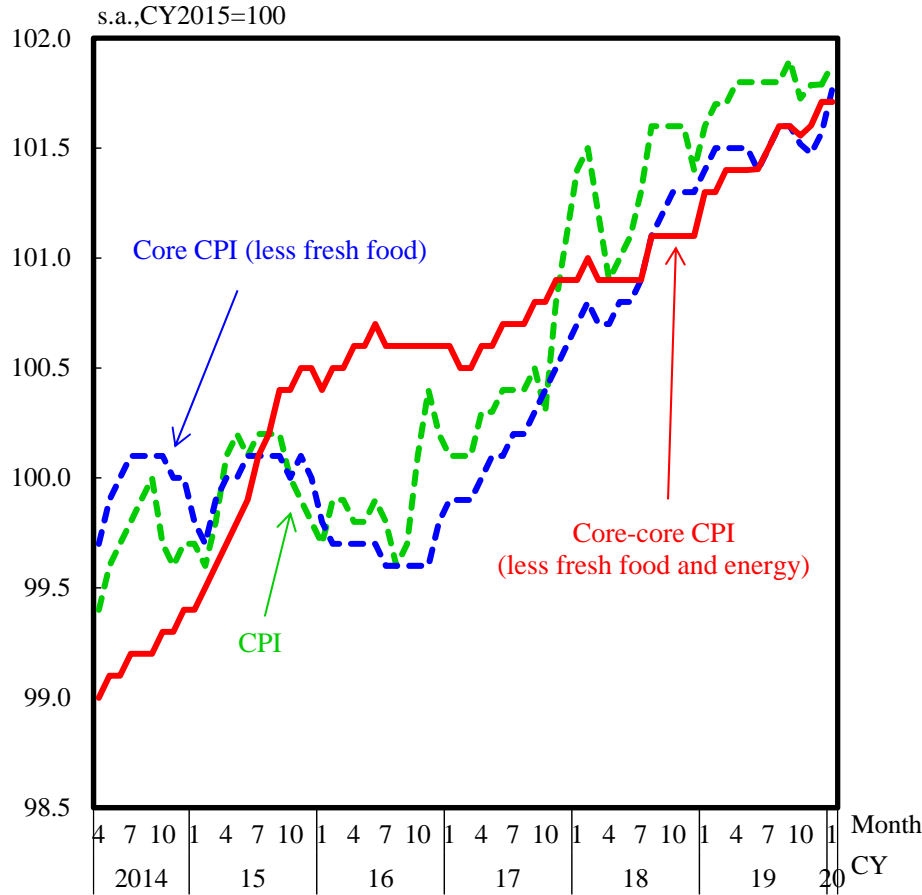


Source: Ministry of Land, Infrastructure, Transport and Tourism.

Consumer prices are rising at a slower tempo recently.

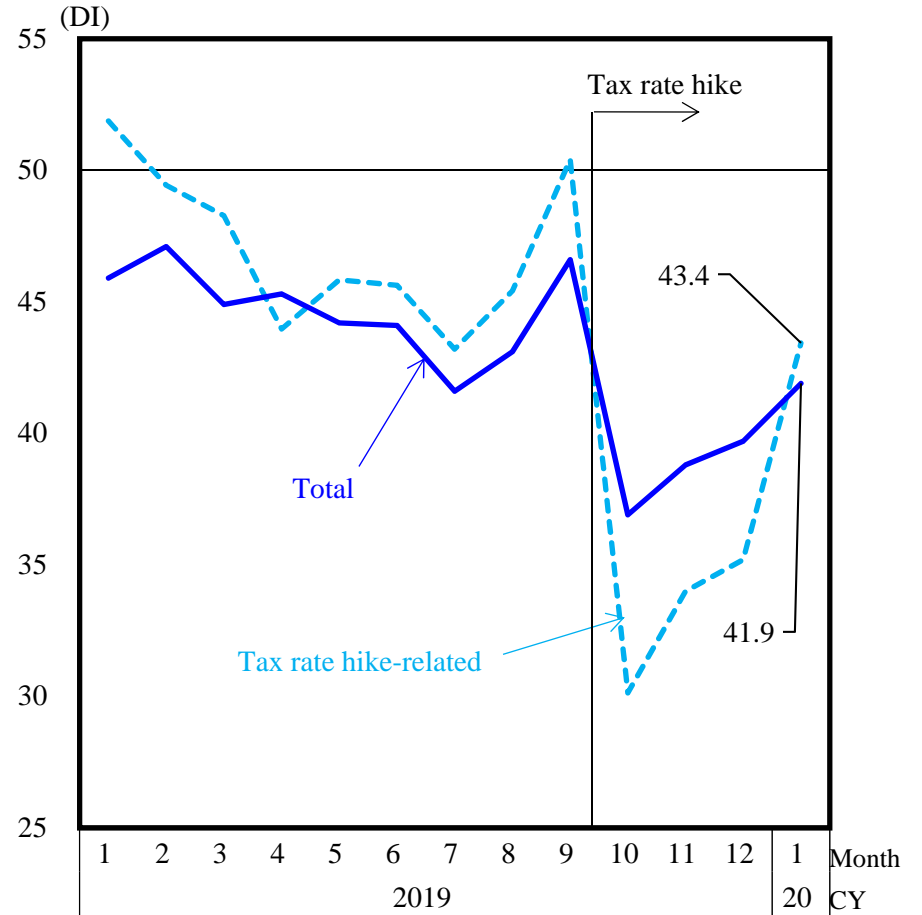
DI of those who comment on the tax rate hike, is above the total DI in January.

CPI(Consumer Price Index)



sources: Ministry of Internal Affairs and Communications.

Economy Watchers Survey



sources: Cabinet Office



# **Economic Impacts of the Novel Coronavirus**

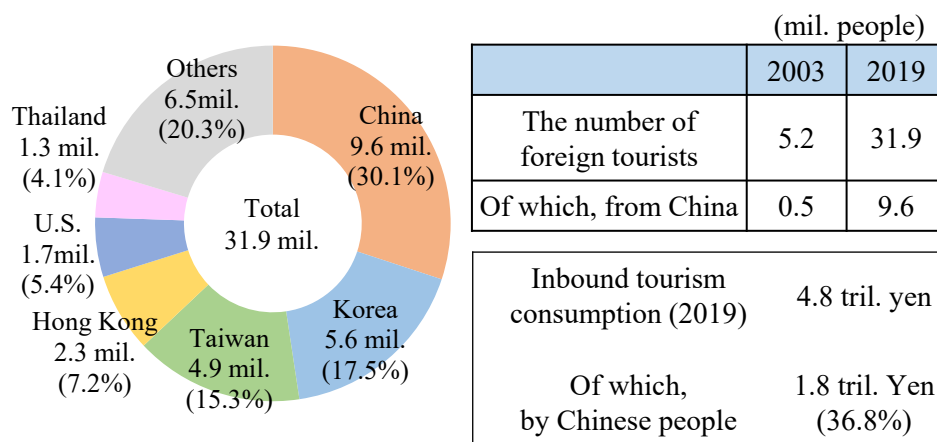
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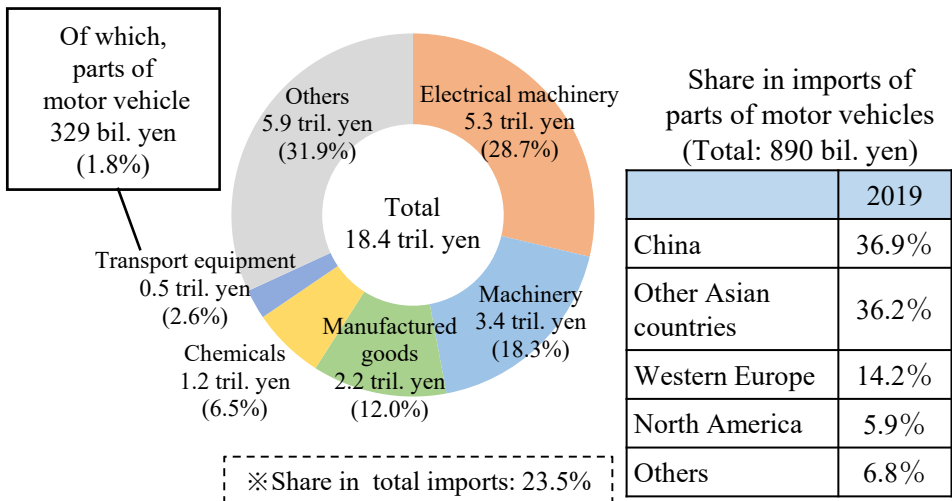
## – Effects of the Novel Coronavirus (1) –

- The effects of the Novel Coronavirus could depress the Japanese economy through the following channels. (1) Decrease in inbound tourism, (2) Decrease in exports especially to China, (3) effects through supply chain, (4) Slowdown in global economy due to slowdown in China, and (5) Precautionary (restrained) response of household consumption.

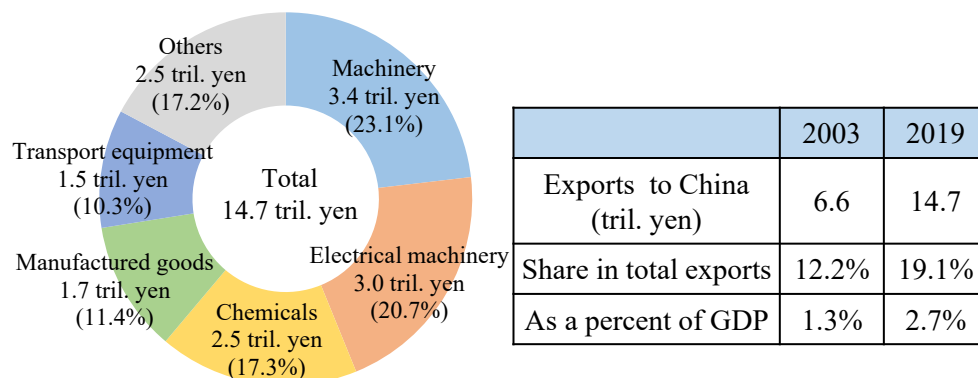
The number of foreign tourists (2019)



Japan's imports from China by products (2019)



Japan's exports to China by products (2019)



Share of the Chinese economy in the world economy

	2018	2003 (spread of SARS)
GDP	15.7%	4.3%
Goods exports	12.8%	5.8%
Goods imports	10.8%	5.2%
Number of Chinese outbound visitors (person-times)	160 mil.	20 mil.

Sources: Ministry of Finance; Japan National Tourism Organization; IMF; National Bureau of statistics of China.  
Notes: SARS is an abbreviation for Severe Acute Respiratory Syndrome.

## — Effects of the Novel Coronavirus (2) —

- According to IR information by large department store groups, a fall in year-on-year sales in January was shrunk. However, February sales dropped due to a decrease in the number of customers (including inbound tourists) that may be due to the Novel Coronavirus.
- Many domestic companies have not yet been able to forecast the effects of the Novel Coronavirus. On the other hand, corporate information shows that production in China has not yet reached full-scale, and transportation and shipping services are not recovered yet.

Sales of major department stores since January (y/y)

	Company A	Company B	Company C	Company D	Company E
Dec.	-5.2%	-4.7%	-4.6%	-1.3%	-4.6%
Jan.	-3.6%	-3.6%	-1.8%	+1.8%	-5.4%
Feb.	-11.7%	-15.3%	-14.3%	-31.6%	-17.9%

Examples of corporate activities

(Car manufacturer A)

- Production will resume at three of the four Chinese factories by February 18. The remaining one factory will be reopened after the 24th. For the time being, all three factories will be operating at about 50% of capacity for the time being.

(Postal service B)

- Since February 10 the aircraft between Japan and China has been significantly suspended, it is expected that it will take more than two weeks to load the cargo destined for China on the aircraft.

(Toy manufacturer C)

- The production and shipment of electronic toys produced in China has been delayed, and the toys are short in Japan.

Note: In the figure on the left, the effect of the shift during the Lunar New Year period (February 4 to 10 in 2019 and January 24 to 30 in 2020) occurred in January and February. In 2020, the Chinese government extended the Lunar New Year period to February 2 to prevent the spread of the Novel Coronavirus.  
Source: IR of individual companies.

## — Economic Impacts of SARS (Severe Acute Respiratory Syndrome) —

- Due to the impacts of SARS, China's nominal growth rate in 2003 declined by 0.5%, and East Asia and Southeast Asia declined by 0.6% (estimates of Asia Development Bank).
- Due to the spread of SARS, the number of foreign visitors to Japan, the number of Japanese departing from Japan, and the sales of domestic travel in Japan decreased sharply from April to June 2003. As a result, private consumption and exports in the Apr.-Jun.2003 showed weaknesses.

### Background of the spread of SARS infection

- On November 16, 2002, the first case was identified in Guangdong, China.
- Infections have spread since mid-February 2003, and WHO advised in April to refrain from traveling to Guangdong, Hong Kong, Beijing, Shanxi and Toronto.
- WHO declared end on July 5 (approximately 8 months after initial case confirmation).

### SARS impact on nominal GDP in 2003

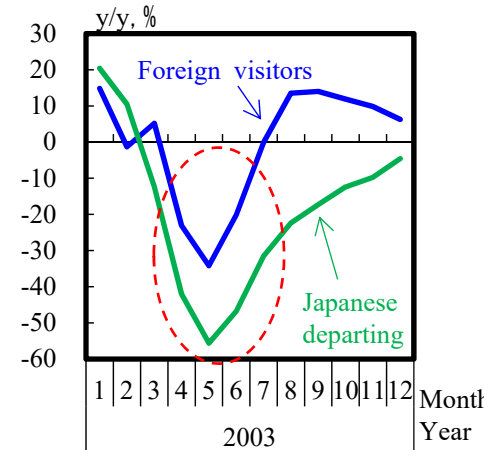
region	billion, USD	GDP ratio
China	-6.1	-0.5%
Hong Kong	-4.6	-2.9%
South Korea	-0.3	-0.1%
Taiwan	-1.3	-0.5%
East Asia and Southeast Asia	-18.0	-0.6%

### The number of SARS patients(November 1, 2002-July 31, 2003)

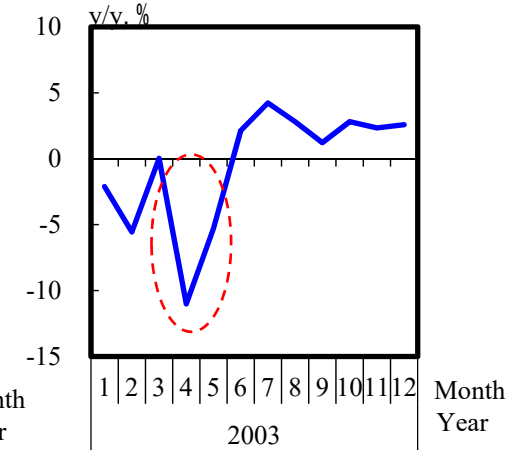
region	infected people	deaths
China	5,327	349
Hong Kong	1,755	299
Taiwan	346	37
Singapore	238	33
Canada	251	43
The others	181	13
Total	8,098	774

Source: Cabinet Office; Japan Tourism Agency; ADB;WHO.

The number of foreign visitors to Japan and the number of Japanese departing



the amount of domestic travel in Japan



Japan's real GDP growth rate

