

# **Recent Economic Developments**

**- Monthly Economic Report, April 23, 2020 -**

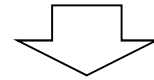
**April 30, 2020**

**Cabinet Office**  
**Government of Japan**

<Assessment of the current state of the Japanese economy>

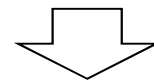
February

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



March

The Japanese economy is in a severe situation, extremely depressed by the Novel Coronavirus.



**(Changed)**

April

The Japanese economy is getting worse rapidly in an extremely severe situation, due to the Novel Coronavirus.

**(Changed)**

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

	February	March	April
Private consumption	Private consumption is picking up.	Private consumption is showing weakness recently, due to the influence of the infectious disease. (↓)	Private consumption is decreasing rapidly, due to the influence of the infectious disease. (↓)
Business investment	Business investment shows weakness in some components, although it is on the increase at a moderate pace.	Business investment is almost flat. (↓)	Unchanged
Exports	Exports are in a weak tone.	Unchanged	Exports are decreasing recently, due to the influence of the infectious disease. (↓)
Industrial production	Industrial production remains in a weak tone.	Unchanged	Industrial production is decreasing, due to the influence of the infectious disease. (↓)
Corporate profits	Corporate profits are in a weak tone, mainly among manufacturers, although they remain at a high level.	Corporate profits are in a weak tone mainly among manufacturers. (↓)	Corporate profits are decreasing rapidly, due to the influence of the infectious disease. (↓)
Firms' judgments on business conditions	Firms' judgments on current business conditions continue increasing cautiousness, mainly among manufacturers.	Firms' judgments on current business conditions are deteriorating, due to the influence of the infectious disease. (↓)	Firms' judgments on current business conditions are deteriorating rapidly, due to the influence of the infectious disease. (↓)
Employment situation	Employment situation is improving.	Employment situation is affected by the infectious disease although it has been improving. (↓)	Employment situation is seen some weak movements lately, due to the influence of the infectious disease. (↓)
Prices	Consumer prices are rising at a slower tempo recently.	Consumer prices are flat recently.	Unchanged

Note: ↑ denotes upward revision and ↓ denotes downward revision.

## <Short-term prospects>

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.

March

A severe situation is expected to remain due to the influence of the infectious disease. Moreover, full attention should be given to the further downside risks to the domestic and foreign economy which are affected by the influence of the infectious disease. Also, attention should be given to the effects of fluctuations in the financial and capital markets.

April

An extremely severe situation is expected to remain due to the influence of the infectious disease. Moreover, full attention should be given to the further downside risks to the domestic and foreign economy which are affected by the influence of the infectious disease. Also, attention should be given to the effects of fluctuations in the financial and capital markets.

# <Policy stance>

(Monthly Economic Report, April 23, 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.

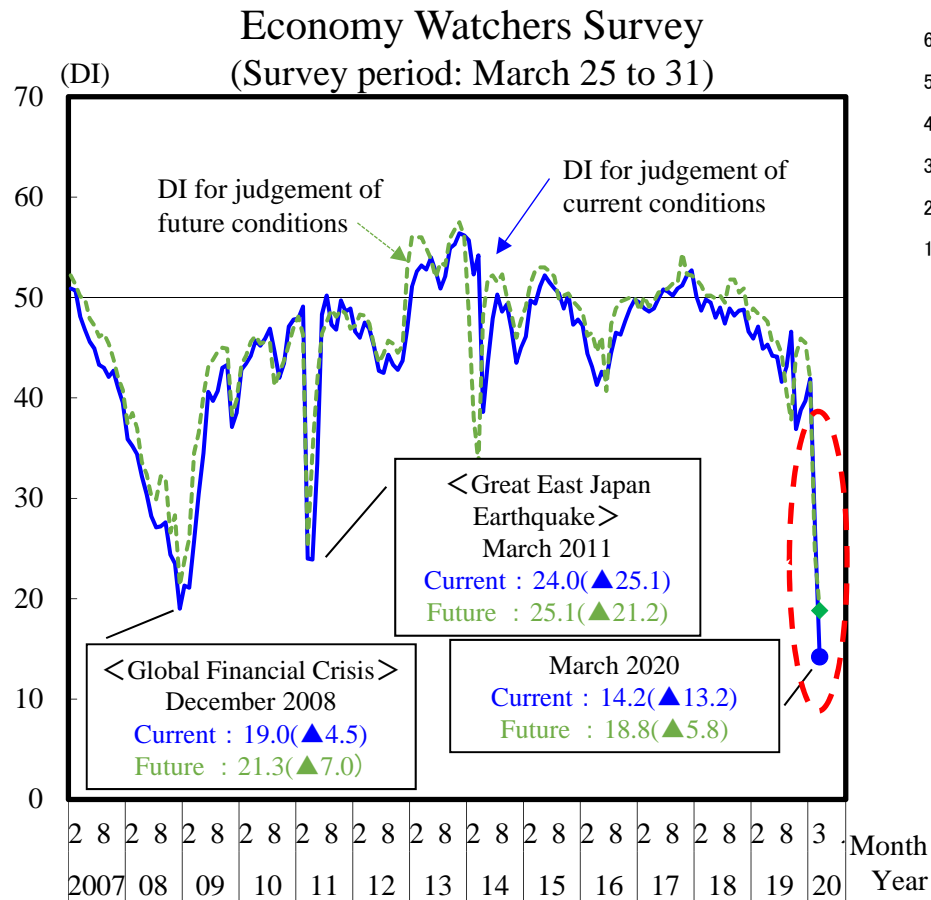
Moreover, in order to create a society in which everyone plays an active role and feels secure, the Government will establish the social security system for all generations.

The Government issued a declaration of a state of emergency in accordance with the amended Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response on April 7th, decided to designate all prefectures subject to measures under a state of emergency on April 16th and the public will work together to strongly advance measures to counter the Coronavirus. Under such situation, the Government will swiftly implement the "Emergency Economic Measures to cope with the Novel Coronavirus ~Thoroughly secure people 's lives and move toward economic revitalization~" (Cabinet Decision on April 7th and Cabinet Decision to change on April 20th) in order to make effort towards the early end of contagion, thoroughly secure employments, businesses and daily lives, and achieve strong economic recovery and social structural changes after the end of contagion. The Government will implement the FY2019 supplementary budget and the FY2020 budget including the temporal and special measures swiftly and steadily, and submit FY2020 supplementary budget to the Diet swiftly and work for early passage of it.

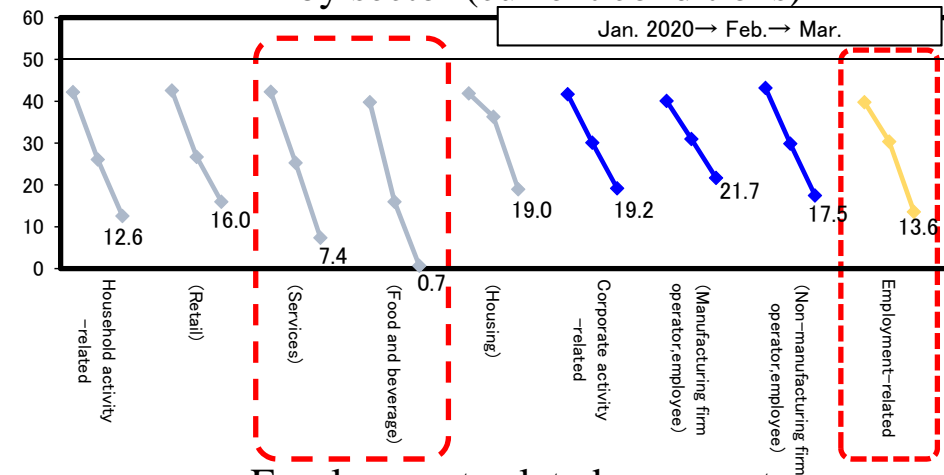
The Bank of Japan enhances monetary easing with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets. The Government expects the Bank of Japan to achieve the price stability target of two percent in light of economic activity, prices and financial conditions.

## — Business Sentiment —

- Due the influence of the infectious disease, both current and future condition DI (diffusion index) of “Economy Watchers Survey” dropped below the lowest recorded at the global financial crisis, suggesting that business is in an extremely severe situation.
- Looking at DIs by sector, bars and restaurants, and the personal services declined significantly, suggesting that they are in a severe situation. Also, employment-related DI dropped considerably, reflecting weakness in the job market.



DI by sector (current conditions)



Employment-related comments

Current conditions	Key comments
▲ (Slightly bad)	The number of customers using the lodging and group bus-related services has decreased, and new graduates have been postponed their entry into the job. In addition to firms in the lodging, retail, travel, and transportation sector, <u>there has been an increase in consultation on employment adjustment subsidy by manufacturers.</u> (Tohoku, Employment Security Office)
▲ (Slightly bad)	<u>Many companies have not been able to proceed with their recruitment activities as planned.</u> (Kyushuu, University staff)
× (Bad)	Production in the manufacturing sector is decreasing and the number of closed factories is on the rise. <u>The job openings and renewal of temporary contracts are affected by slowdown.</u> (Chugoku, Temporary staffing company)

Note: The figures in parentheses show the difference from the previous month.

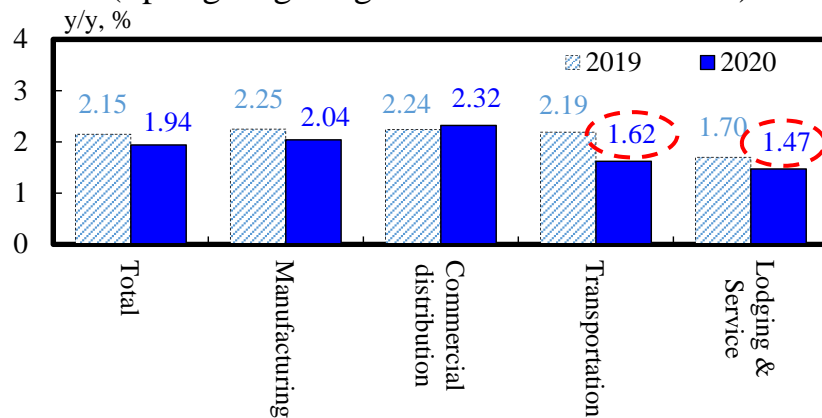
The figures on the left and upper right are seasonally adjusted.

Source: Cabinet Office

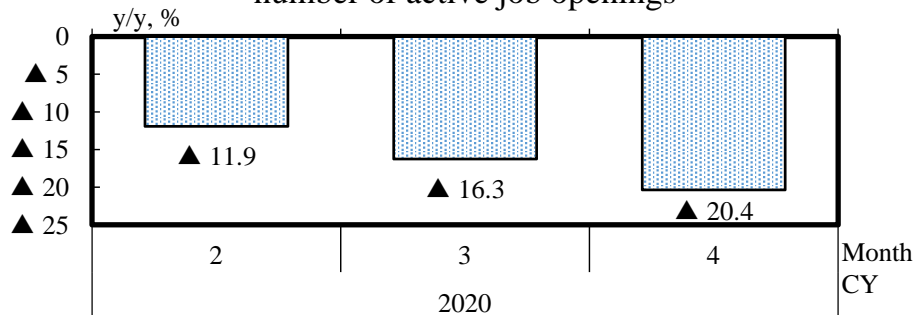
## — Employment Situation —

- The salary will grow at 1.94% due to corporate efforts in a difficult environment. However, the wage growth rate in transportation and lodging & service will be relatively low.
- The year on year growth rate of the number of active job openings declined further in April 2020.
- The employment adjustment subsidy was effective in preserving employment at the global financial crisis. The current key challenge is to let the heavily affected firms in the tourism, eating and drinking, and event-related industries utilize the subsidy. Thorough awareness is required.

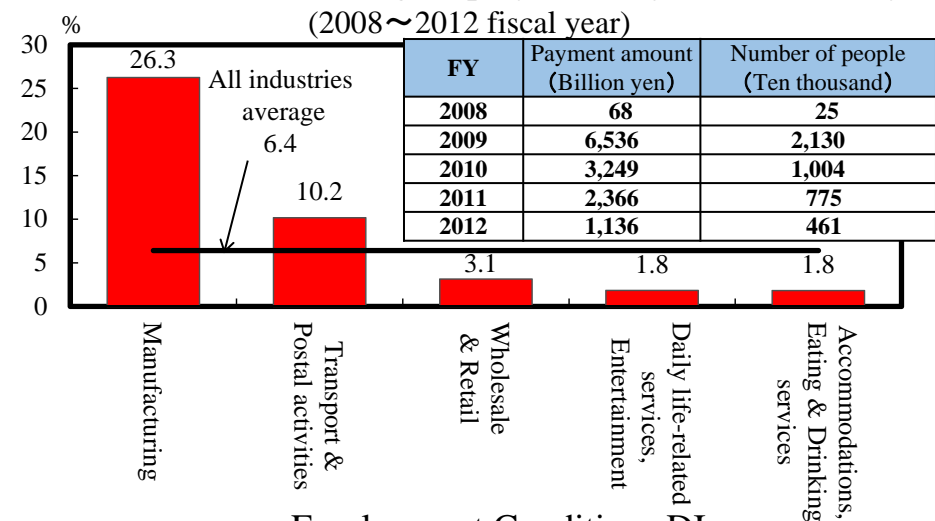
Increase in wages  
(Spring wage negotiations: the third result)



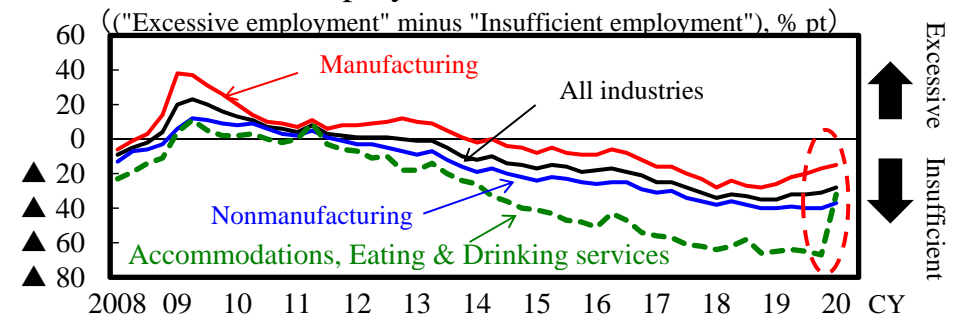
The year on year growth rate of the number of active job openings



Ratio of offices receiving employment adjustment subsidy



Employment Conditions DI

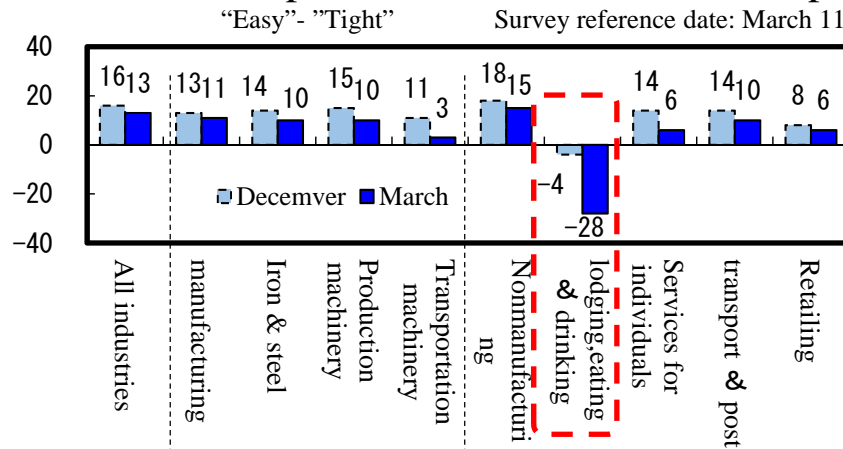


Source: Japanese Trade Union Confederation ; Ministry of Health, Labor and Welfare ; The Japan Institute for Labor Policy and Trading ; Bank of Japan

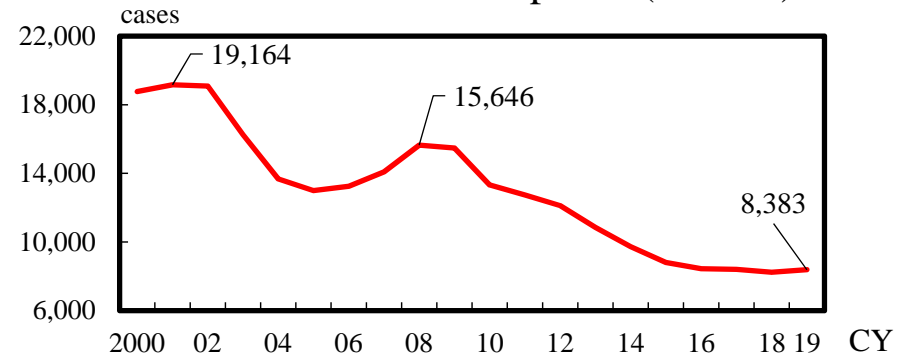
## — Trends in Business Activities —

- Corporate financial position is worse a little compared to a quarter ago. However, DI in the lodging, eating and drinking sector have deteriorated rapidly.
- In March, the share of firms in the red exceeded the share of firms in the black significantly, according to the survey among small enterprises.
- The number of bankruptcies in March did not increase much, however, the number of bankruptcies related to the Novel Coronavirus have been increasing.

Financial position DI (Tankan, all enterprises)

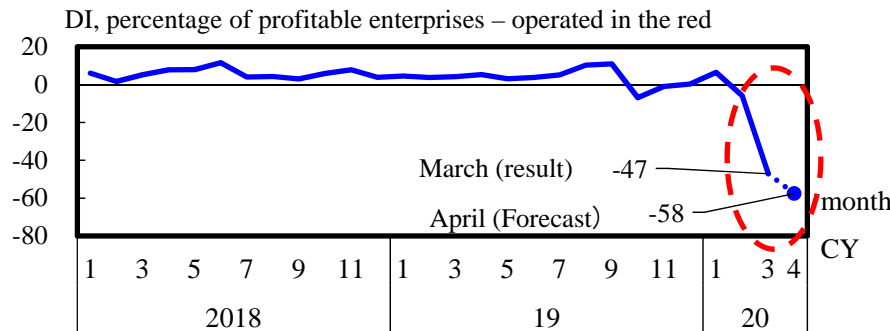


The number of bankruptcies (Annual)



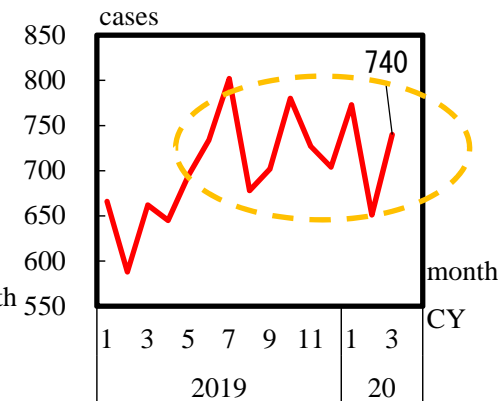
Profitability of small enterprises

Survey period : April 1st to 7th



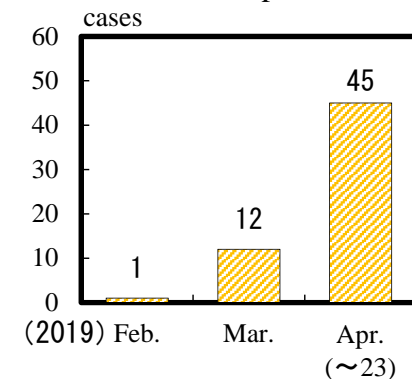
Source: Japan Finance Corporation.

Recent Trends (Monthly)



Source: Tokyo Shoko Research.

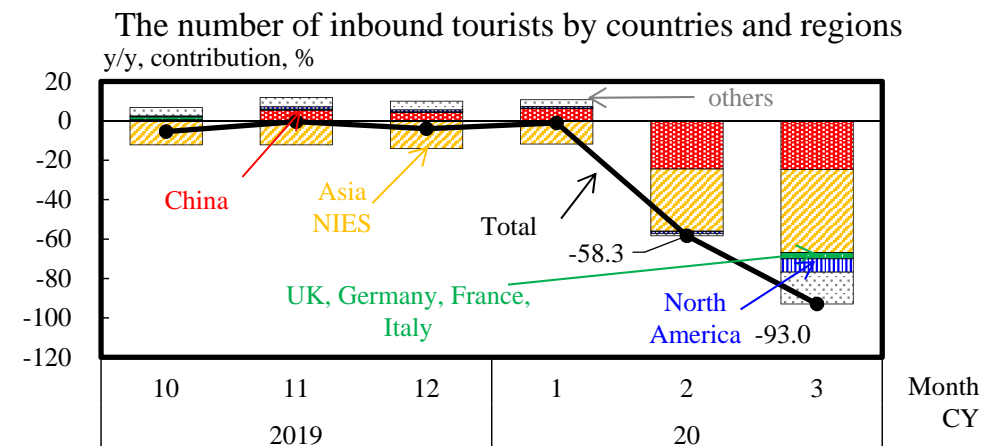
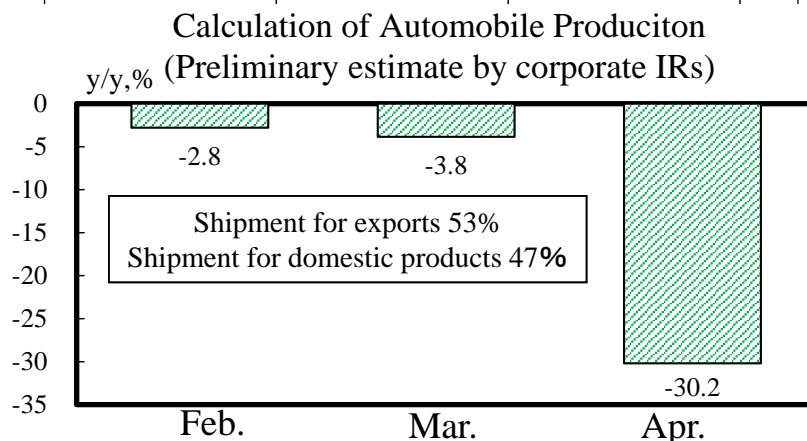
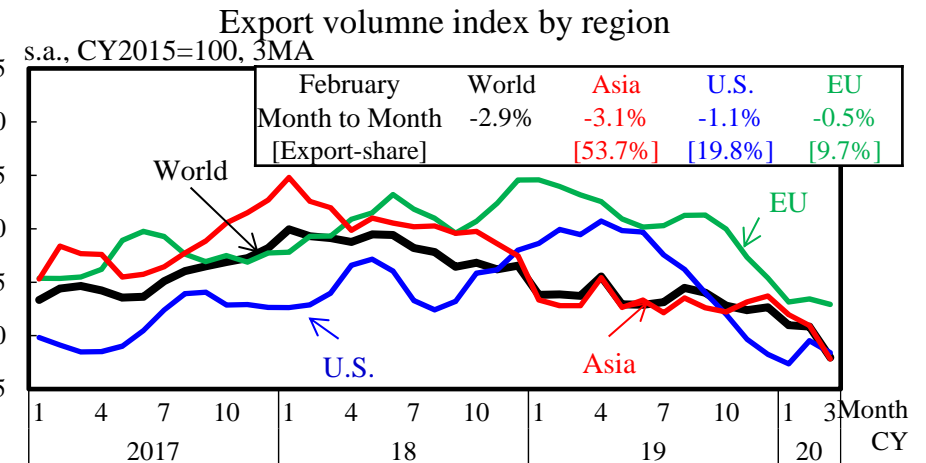
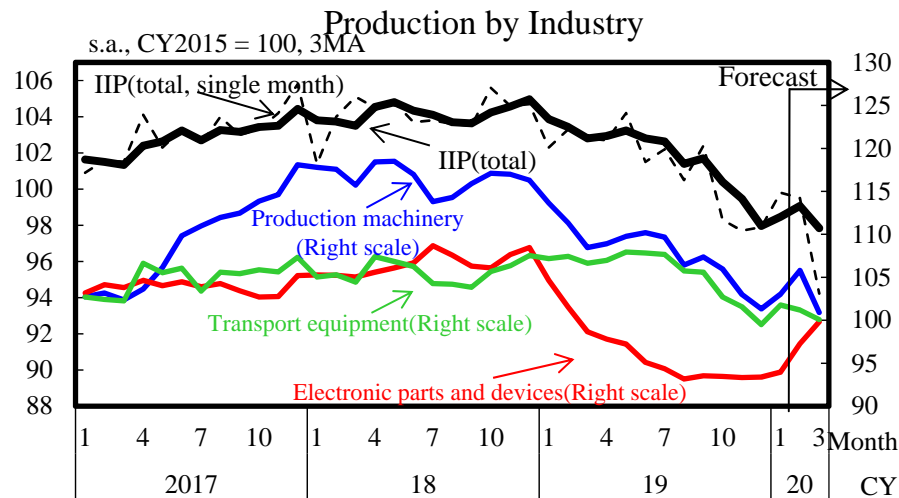
The infection related bankruptcies





## — Industrial Production & Export —

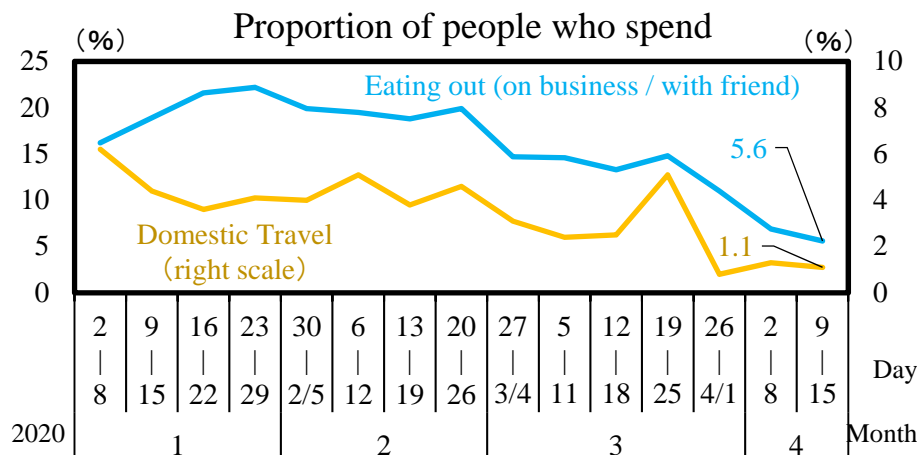
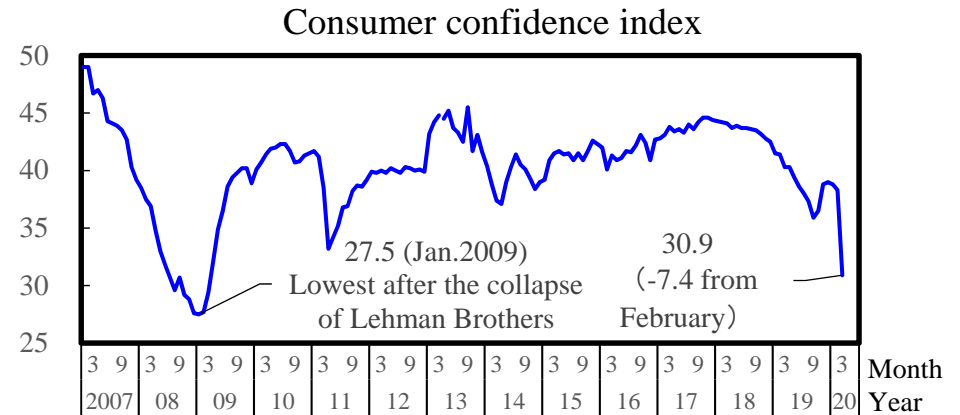
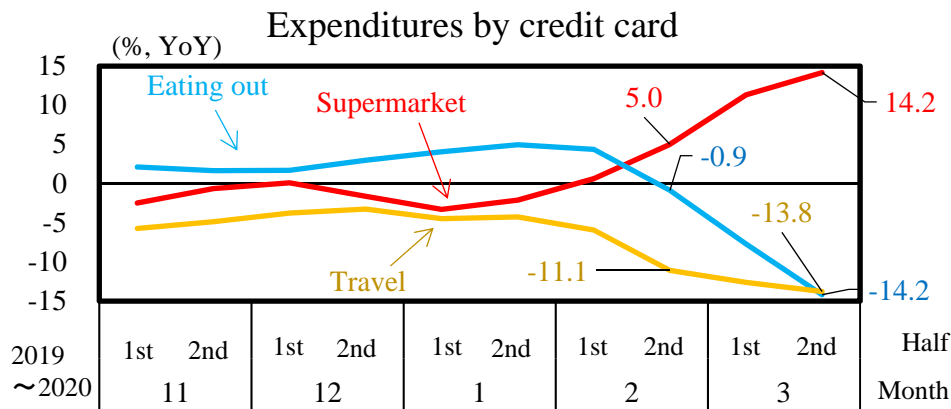
- Production is decreasing, due to the influence of the infectious disease. Automobile production in April will be shrank drastically because of the decrease in demand and the supply constraint of auto parts.
- Export is decreasing, due to the worldwide decrease in demand. Moreover, it will decrease, reflecting the expected fall in automobile production. The number of inbound tourists declined significantly because of the border control measures and other countries' recommendations not to travel abroad.



Sources: Ministry of Economy, Trade and Industry, Japan Automobile Manufacturers Association, Ministry of Finance, JNTO

## — Private Consumption —

- In March, credit card spending in eating out and travel declined further, while spending at supermarkets increased significantly because of stocking up.
- The proportion of people who spend on eating out and travel declined further through mid-April.
- Consumer confidence index in March showed greatest decline ever.
- Due to the refraining from going out, demand for travel during “The Golden Week” declined significantly. The outlook for consumption will continue to be severe.



### Comments on the “The Golden Week” (Economy Watchers Survey)

Assessments of Future conditions	Main Comment
× (Worse)	All the Sakura tour reservations were canceled and the loss was quite large. (Tohoku: Sightseeing spot staff)
□ (Unchanged)	Neither foreign nor domestic tourists will come during the GW holidays. (Northern Kanto: City hotel staff)

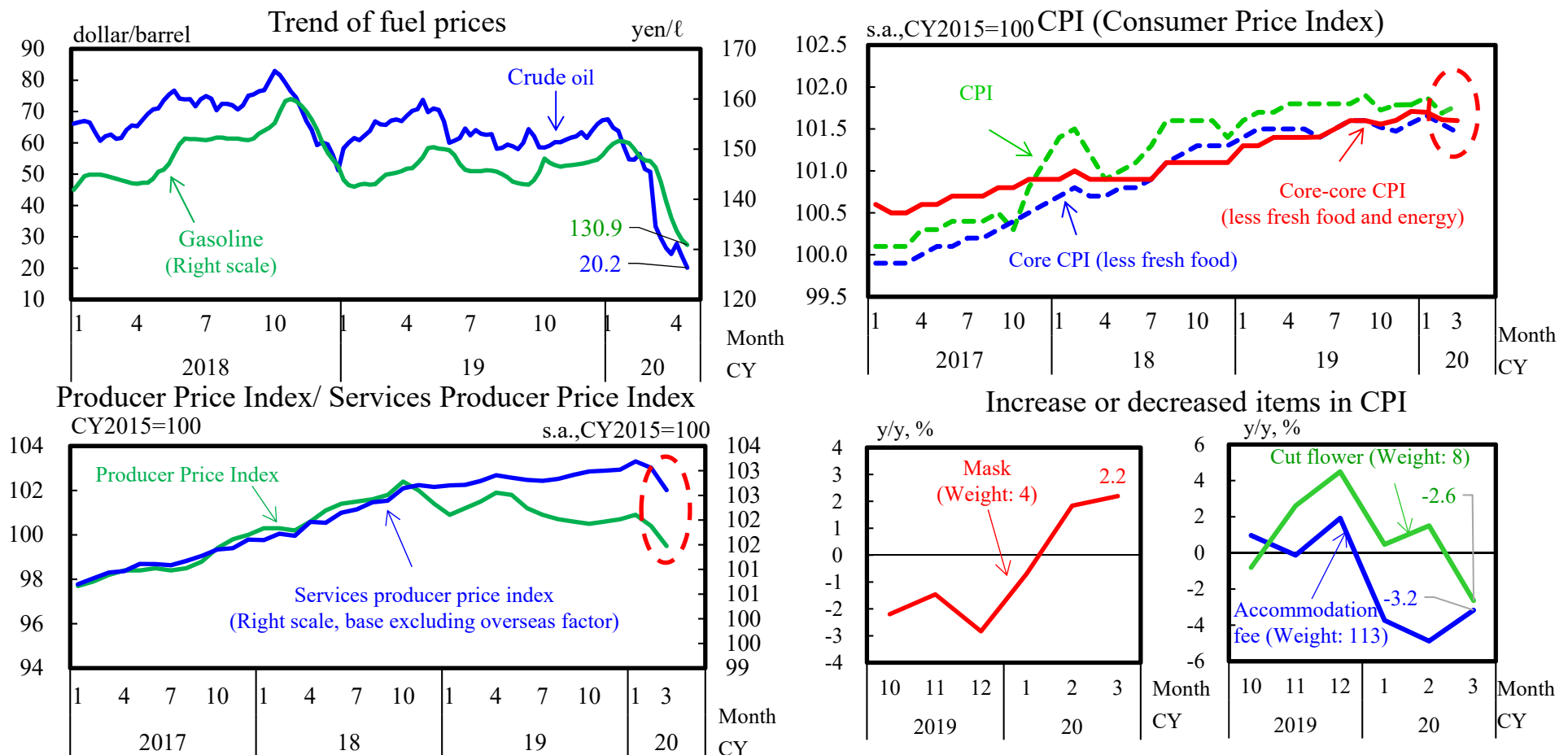
### Railway reservation (4/24~5/6)

Train	YoY
Shinkansen	-91%
Conventional line limited express	-88%
Total	-90%

Sources: Published documents from each JR company; NOWCAST, INC.; Macromill, INC; Cabinet Office

## — Prices —

- The gasoline price dropped due to the decline of crude oil prices recording the lowest level for this year.
- A drop in crude oil prices and weakness in lodging fees by the influence of the infectious disease lowered the price indices among producers.
- Due to the effects of the Novel Coronavirus, increase in demand for masks raised prices, and decrease in demand for accommodations and cut flowers lowered fees and prices.

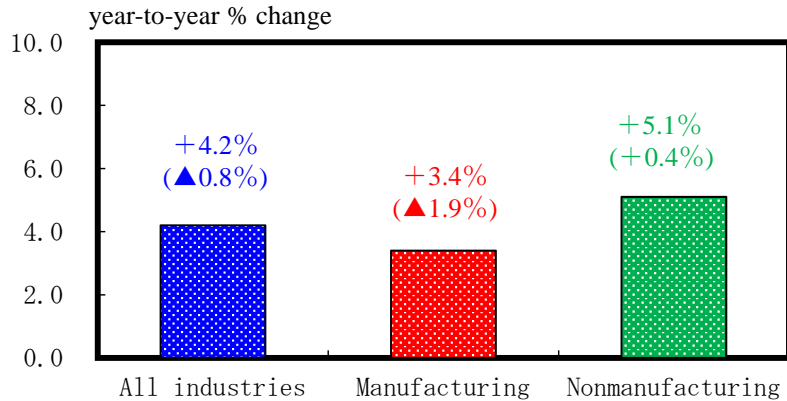


Source: Bank of Japan; Ministry of Internal Affairs and Communications; Agency for Natural Resources and Energy; Nikkei Economic Electronic Databank System; Cabinet Office

Note: CPIs exclude direct effects of the consumption tax increase and free early childhood education and care. Producer price indices exclude consumption tax.

Business investment is almost flat.

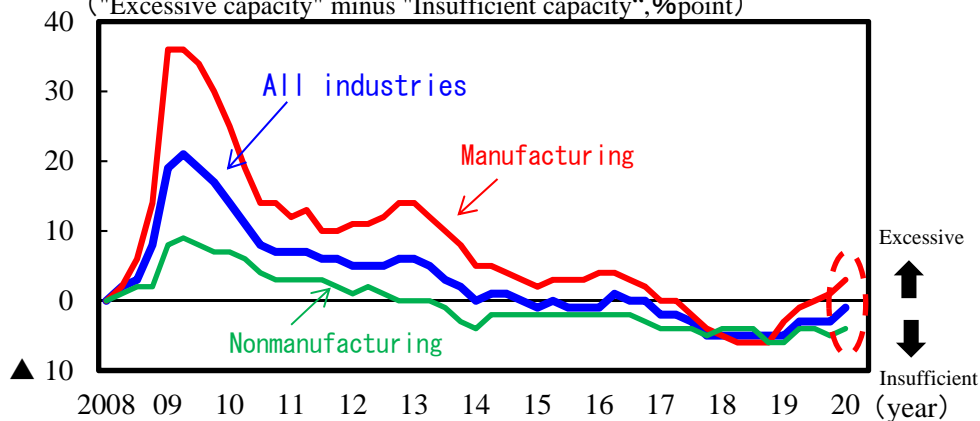
Fixed investment (2019FY)  
(2019FY Forecast of March 2020 Tankan survey)



Fixed investment (2020FY Forecast)  
(All industries) : +1.2%

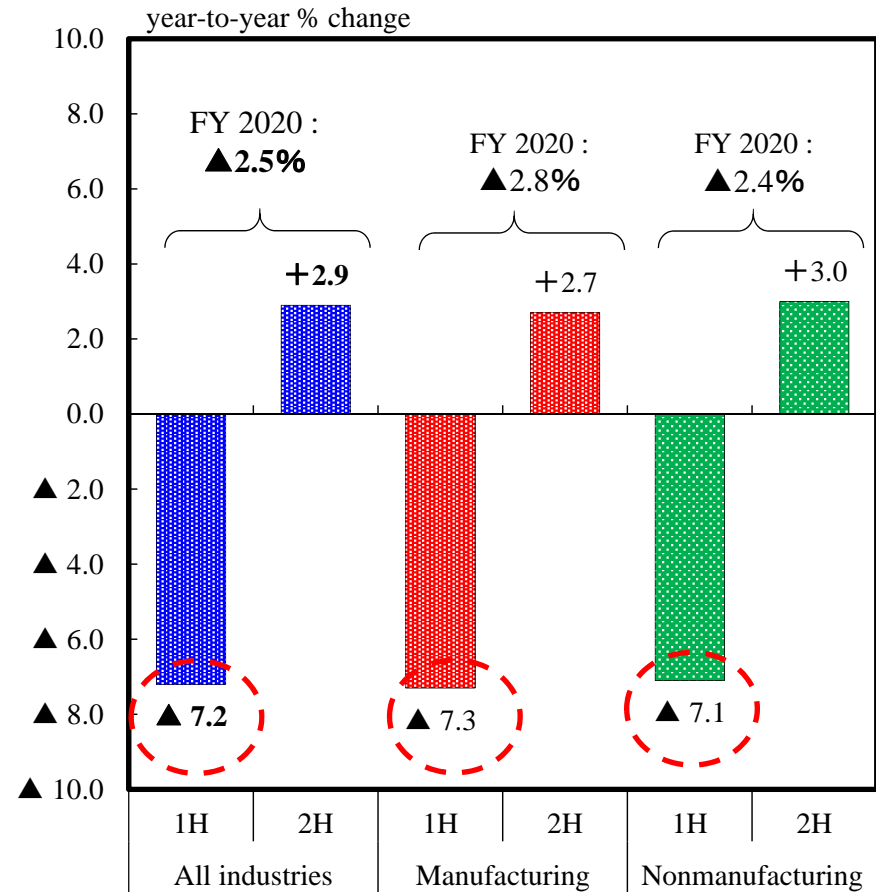
Production Capacity: Diffusion index (Tankan survey)

("Excessive capacity" minus "Insufficient capacity", %point)



Corporate profits are decreasing rapidly, due to the influence of the infectious disease.

Current Profits Plan  
(FY 2020 Forecast Tankan survey)

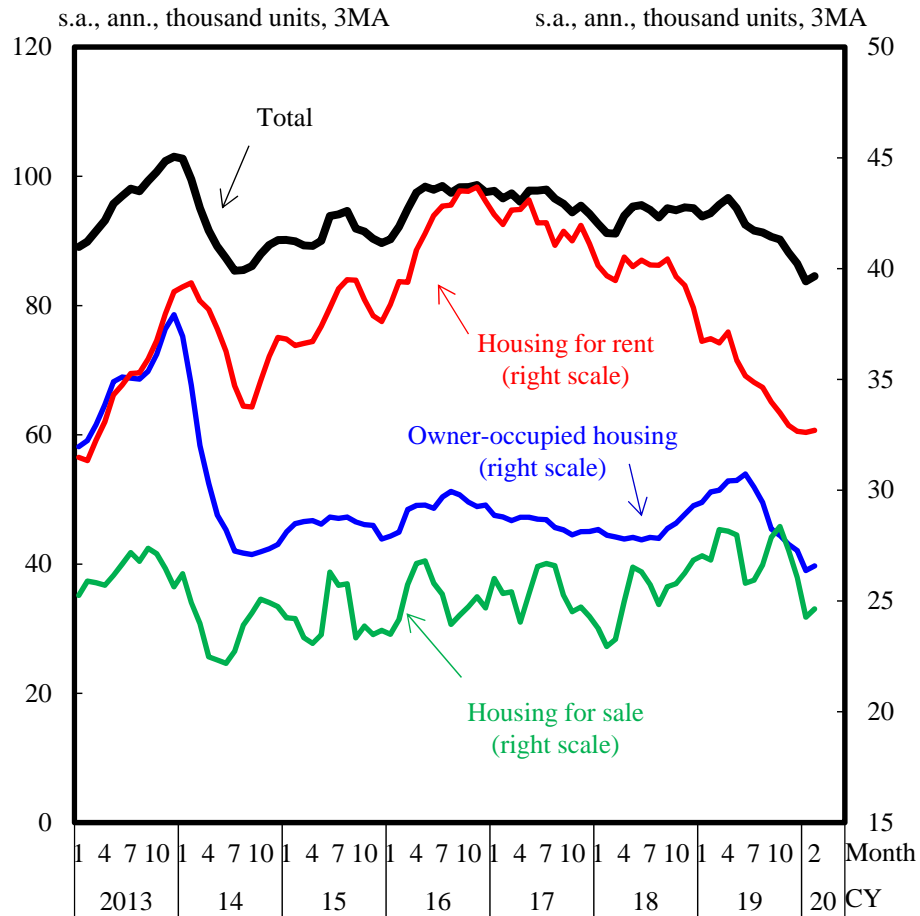


1. Sources: Bank of Japan ; Tankan

2. Fixed investment etc. includes Software, R&D, and Fixed Investment excluding Land Purchasing Expenses. All Enterprises base. Figures in parentheses is revision rate from the 2019Dec survey. Production capacity diffusion index is all enterprises base.

Housing investment is in a weak tone recently.

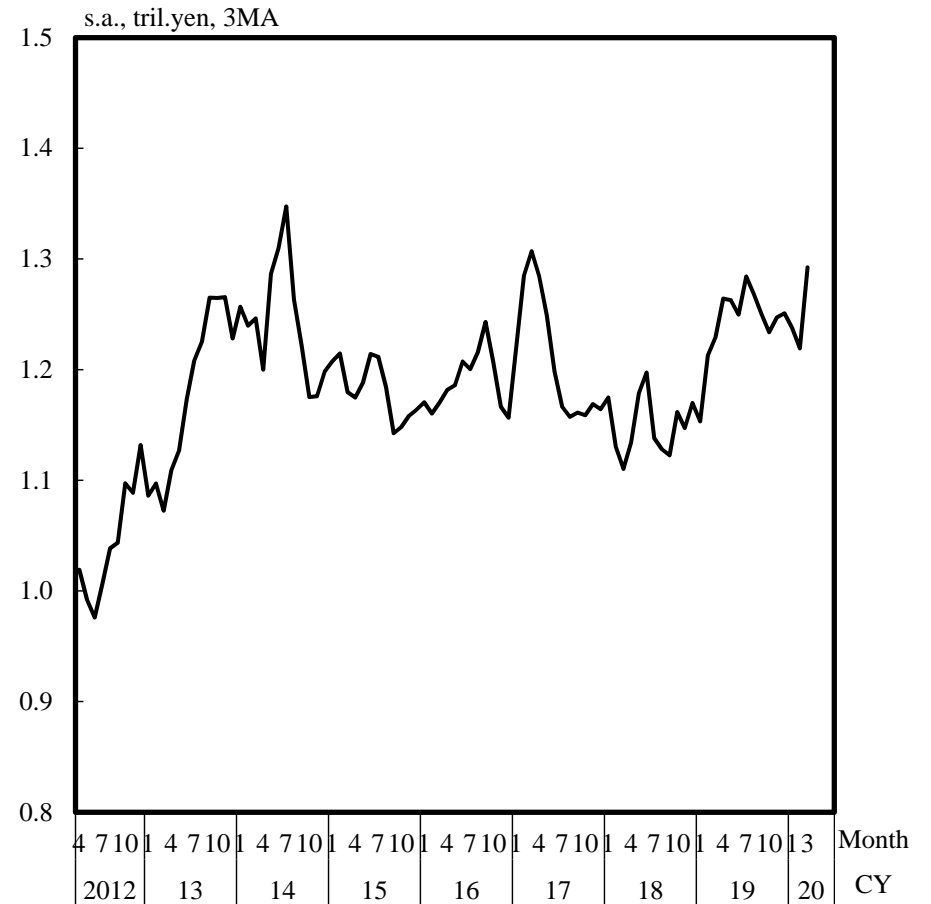
Housing construction starts



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

Public investment holds firm.

Contracted value of public construction



Source: East Japan Construction Surety Co.,Ltd.,etc.