

Recent Economic Developments

- Monthly Economic Report, May 28 2020 -

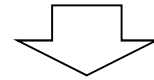
June 5, 2020

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

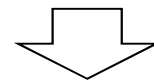
March

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



April

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



May

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

(Changed)

(Changed)

<Assessment of the current state of the Japanese economy>

	March	April	May
Private consumption	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. (↓)	Unchanged
Business investment	Business investment is almost flat.	Unchanged	Business investment is in a weak tone recently. (↓)
Exports	Exports are in a weak tone.	Exports are decreasing recently, due to the influence of the infectious disease. (↓)	Exports are decreasing rapidly, due to the influence of the infectious disease. (↓)
Industrial production	Industrial production remains in a weak tone.	Industrial production is decreasing, due to the influence of the infectious disease. (↓)	Unchanged
Corporate profits	Corporate profits are in a weak tone mainly among manufacturers.	Corporate profits are decreasing rapidly, due to the influence of the infectious disease. (↓)	Unchanged
Firms' judgments on business conditions	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. (↓)	Unchanged
Employment situation	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. (↓)	Employment situation shows some weak movements further, due to the influence of the infectious disease. (↓)
Prices	Consumer prices are flat recently.	Unchanged	Consumer prices are flat.

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

<Short-term prospects>

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.

May

An extremely severe situation is expected to remain due to the influence of the infectious disease for the time being, although the socio-economic activities will be resumed gradually with taking measures to prevent the spread of infectious diseases. Also, attention should be given to the effects of fluctuations in the financial and capital markets.

<Policy stance>

(Monthly Economic Report, May 28, 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 extended the duration for which the state of emergency in accordance with the amended Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response were being implemented until May 31st, on May 4th. The Government had decided to lift the state of emergency in all prefectures by May 25th. The Government will increase socio-economic activities step-by-step, while continuing to implement measures to prevent the spread of infections. Under such situation, the Government will implement the “Emergency Economic Measures to cope with the Novel Coronavirus” (Cabinet Decision on April 20th) including the FY2020 supplementary budget as soon as possible in order to make effort towards preventing the spread of infections, thoroughly secure employments, businesses and daily lives, and achieve strong economic recovery and social structural changes after the end of contagion. The Government will submit the FY2020 second supplementary budget (Cabinet Decision on May 27th) to the Diet swiftly and work for early passage of it.

The Bank of Japan decided enhancement of monetary easing further on April 27th and introduction of a new fund-provisioning measure on May 22nd with a view to doing its utmost to support financing mainly of firms and maintaining stability in financial market. 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: Jan. – Mar. 2020 (First Preliminary) —

- The real GDP (Gross Domestic Product) for the Jan.-Mar. 2020 period (First preliminary) decreased by 0.9%(or at an annualized -3.4%) from the previous quarter.
- Domestic demand is weak. Private consumption decreased due to the voluntary restraint from the end of February, and exports decreased mainly due to the loss of the inbound demand.
- The Japanese economy is worsening rapidly in April and May after the declaration of a state of emergency, and the GDP for the next quarter is expected to be even more severe.

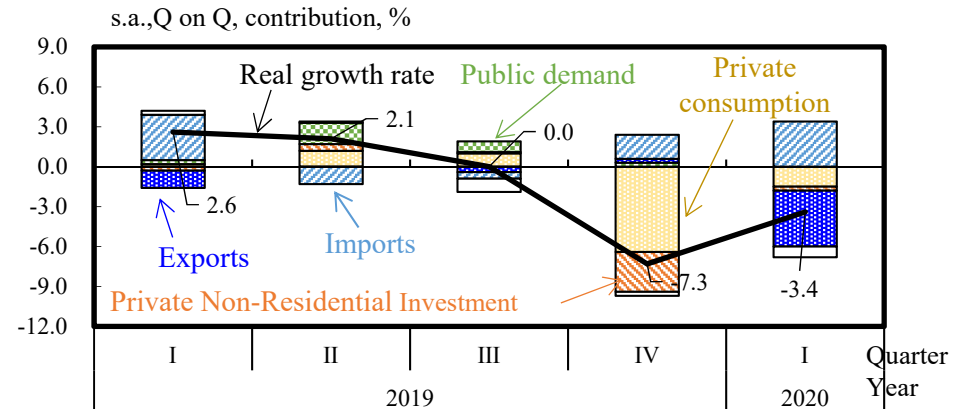
Changes and contributions to changes in real GDP
(seasonally adjusted)

	FY2017	FY2018	2019				2020
			I Jan. - Mar.	II Apr. - Jun.	III Jul. - Sep.	IV Oct. - Dec.	I Jan. - Mar.
Real GDP growth rate [at annual rate]	1.9	0.3	0.6 [2.6]	0.5 [2.1]	0.0 [0.0]	-1.9 [-7.3]	-0.9 [-3.4]
Domestic Demand (Contributions)	(1.5)	(0.4)	(0.1)	(0.8)	(0.3)	(-2.4)	(-0.7)
Private Demand (Contributions)	(1.4)	(0.2)	(0.1)	(0.4)	(0.1)	(-2.5)	(-0.7)
Private Consumption	1.1	0.1	0.1	0.5	0.4	-2.9	-0.7
Private Non-Residential Investment	4.3	1.7	-0.5	0.9	0.2	-4.8	-0.5
Private Residential Investment	-1.4	-4.9	1.5	-0.3	1.2	-2.5	-4.5
Changes in Private Inventories (Contributions)	(0.2)	(0.0)	(0.1)	(0.0)	(-0.3)	(0.0)	(-0.0)
Public Demand (Contributions)	(0.1)	(0.2)	(0.1)	(0.4)	(0.2)	(0.1)	(-0.0)
Public Investment	0.5	0.6	2.3	1.7	1.0	0.5	-0.4
Net Exports (Contributions)	(0.5)	(-0.1)	(0.5)	(-0.3)	(-0.2)	(0.5)	(-0.2)
Exports	6.4	1.7	-1.8	0.2	-0.6	0.4	-6.0
Imports	3.9	2.5	-4.5	1.8	0.7	-2.4	-4.9
Nominal GDP growth rate [at annual rate]	2.0	0.1	1.1 [4.6]	0.6 [2.5]	0.4 [1.6]	-1.5 [-6.0]	-0.8 [-3.1]
GDP Deflator <Year on Year>	<0.1>	<-0.2>	<0.2>	<0.4>	<0.6>	<1.2>	<0.9>

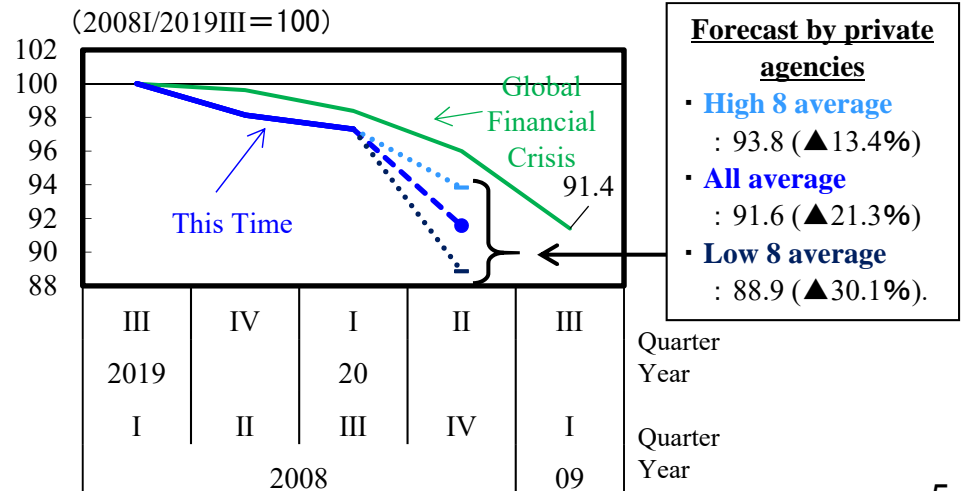
Note: Quarterly data is quarter-to-quarter change. The figures on the lower right in parentheses indicate the annual rate of change from the previous quarter.

Source: Cabinet Office.

Contribution of real GDP growth rate

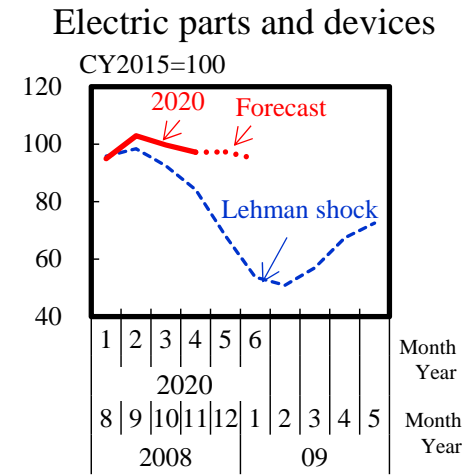
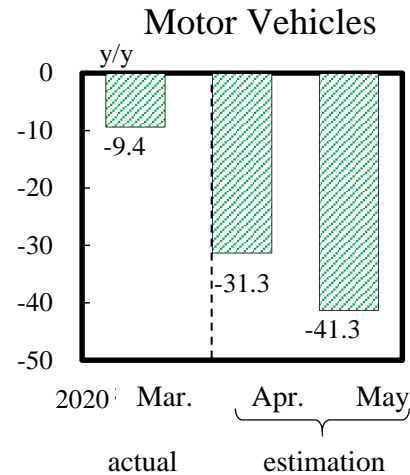
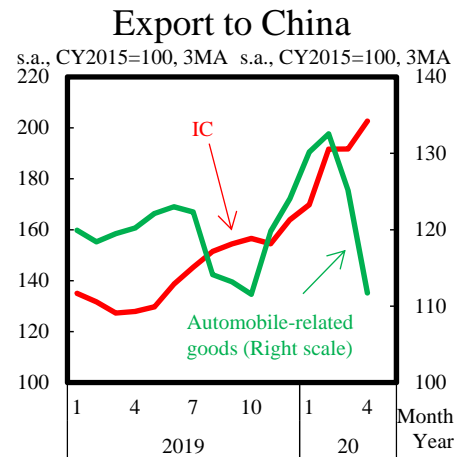
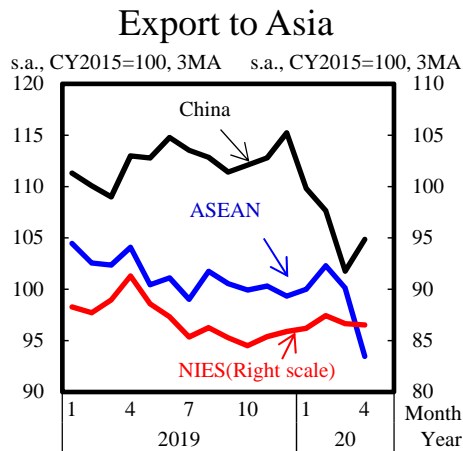
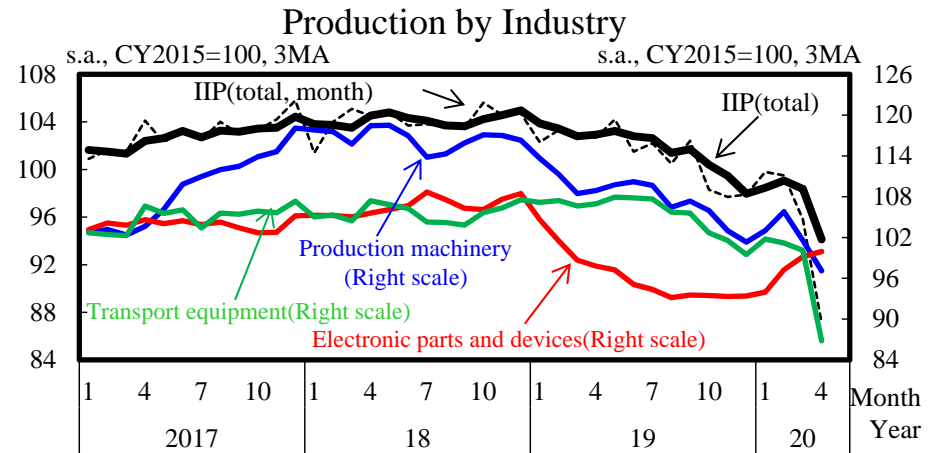
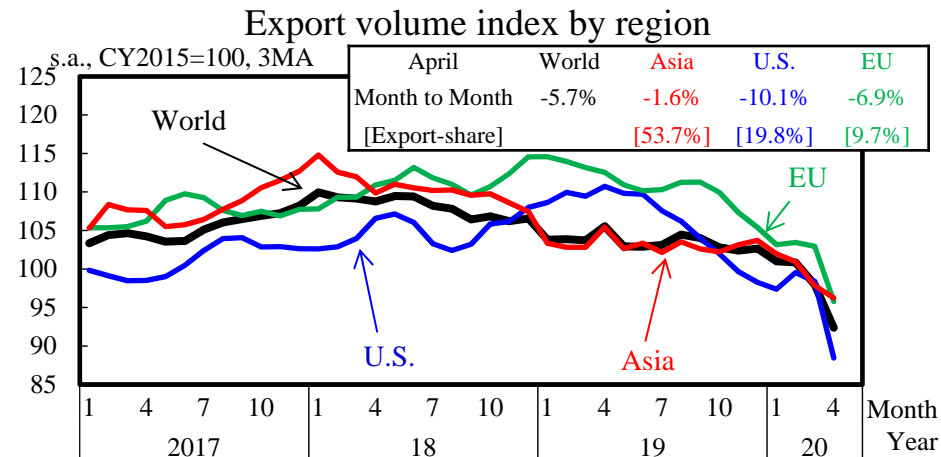


Comparison of Real GDP with the Global Financial Crisis



- Export & Industrial Production -

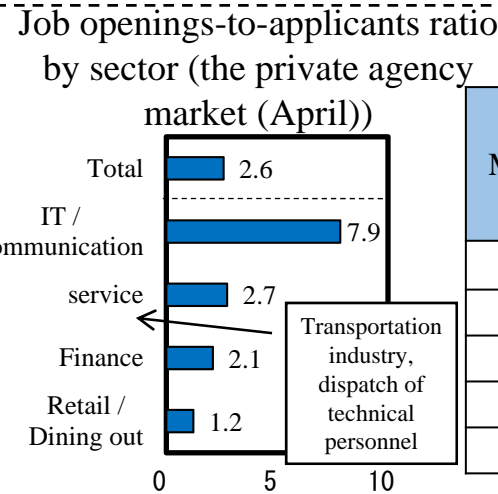
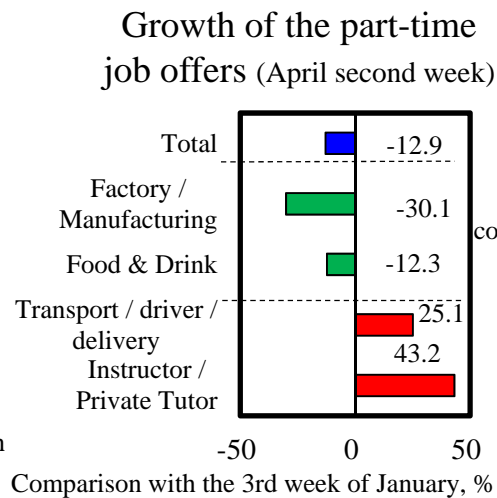
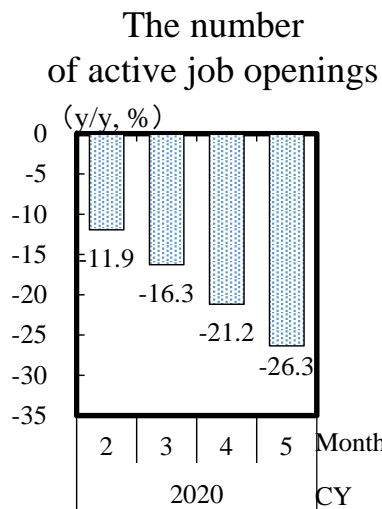
- Goods export is rapidly decreasing. However, export to China increased in April thanks to the strength of ICT-related goods demand. On the other hand, Automobile-related goods export dropped significantly.
- Industrial production is decreasing due to weak internal and external demand. The number of motor vehicle production is decreasing substantially. On the other hand, the production of electric parts and devices are picking up due to strong demand.



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

— Employment Situation —

- The total number of active job openings is falling but some types of jobs are increasing. Therefore, resolving the employment mismatch is important. Some companies and labor unions try to resolve mismatches through labor-transfer through intra- or inter-firm cooperation.
- The employment adjustment subsidy is effective to protect employment.
- About 2% wage growth will be achieved through the annual wage negotiation in spring, which should support the future income environment



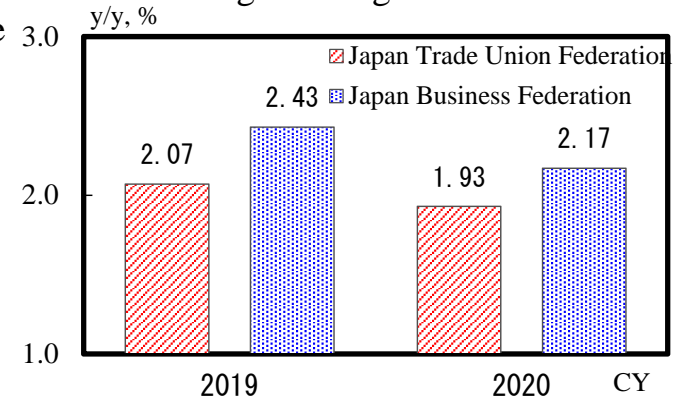
Employment adjustment subsidy payment status

May	Cumulative number of applications	Cumulative number of payment decisions	Payment decision rate (%)
1	5,119	522	10.2
8	10,534	3,087	29.3
15	21,592	9,258	42.9
22	39,185	19,435	49.6
27	57,750	29,414	50.9

Example of intra-company labor movement / inter-company business alliance

- A general retail company A temporarily transfer workers in the apparel section to the food section to resolve mismatches.
- A taverns company B signed a seconded contract with food retail company C to accommodate laid-off employees.
- The labor union D bridges the personnel demand information among the affiliated company based unions to resolve mismatches among them.
- It has become difficult for foreign technical interns scheduled to come to Japan in April, so that workers in the local tourism industry are temporarily engaged in the agricultural sector.

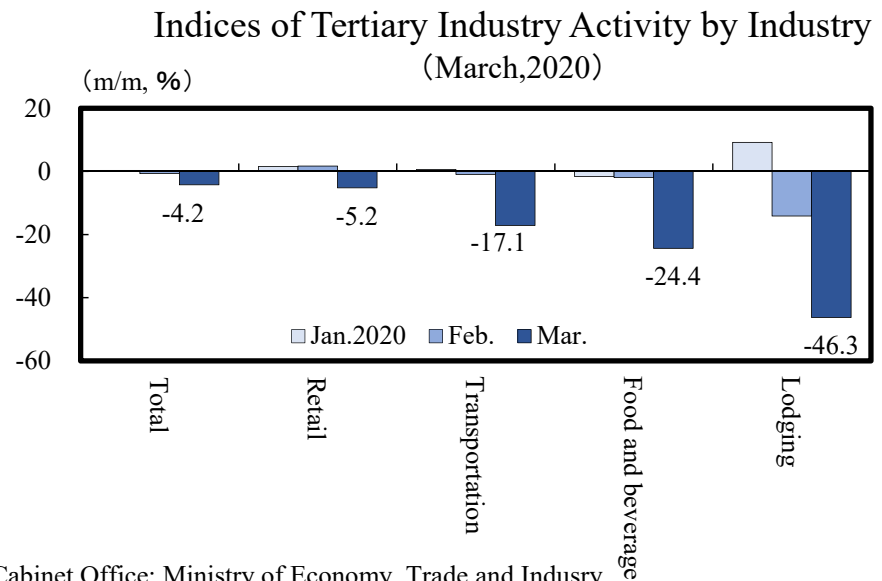
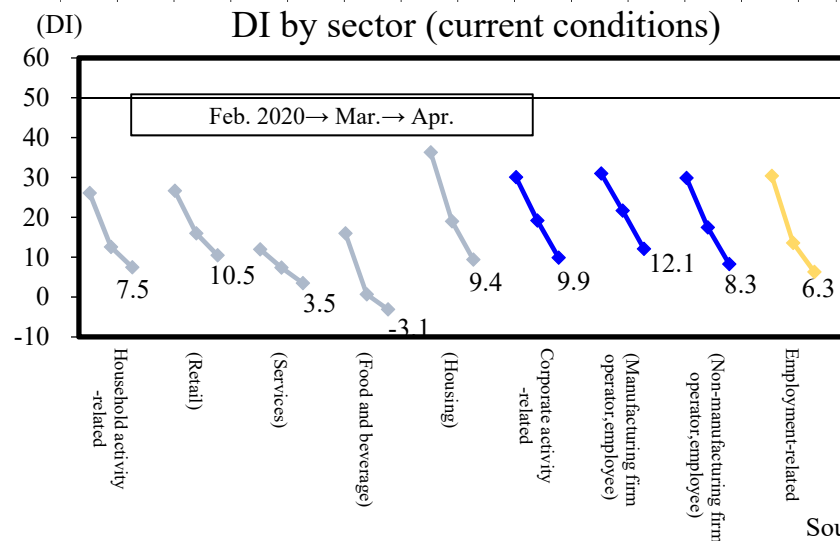
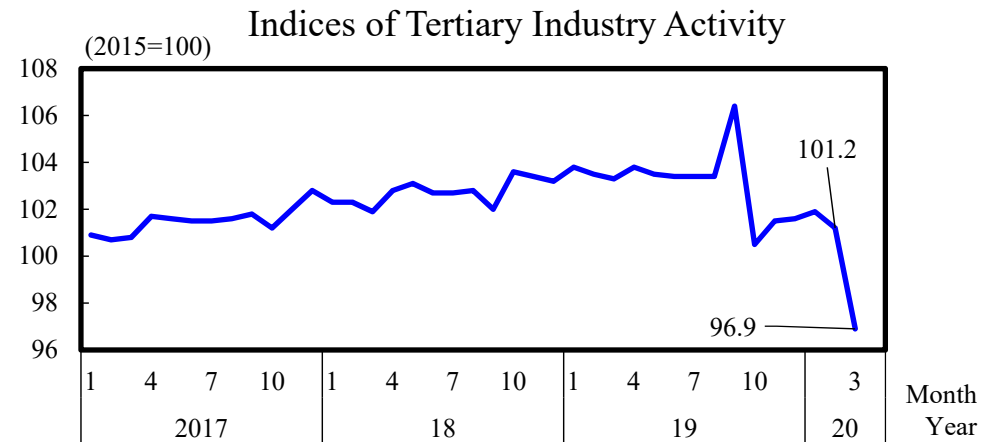
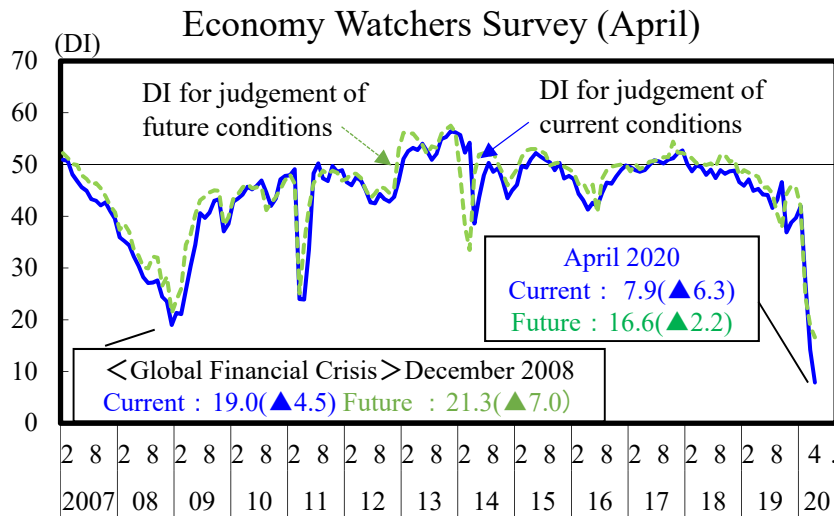
The agreed wage increase rate



Source: Ministry of Health, Labor and Welfare; DIP Corporation ; PERSOL CAREER CO., LTD ; Japan Trade Union Federation ; Japan Business Federation

— Business sentiment and Production of Non-Manufacturing Industries —

- 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, particularly in non-manufacturing sectors such as food and beverage, and services.
- Indices of Tertiary Industry Activity also fell sharply in March due to the voluntary restraint. By industry, the decline was particularly large in the lodging, food and beverage, and transportation industries.

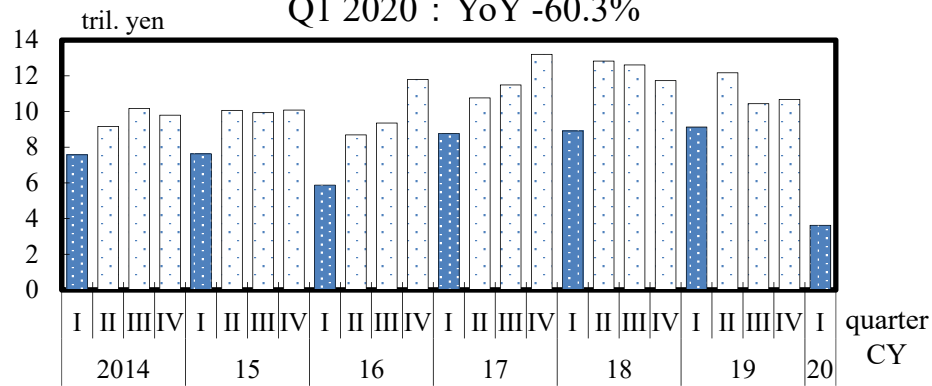


Source: Cabinet Office; Ministry of Economy, Trade and Industry.

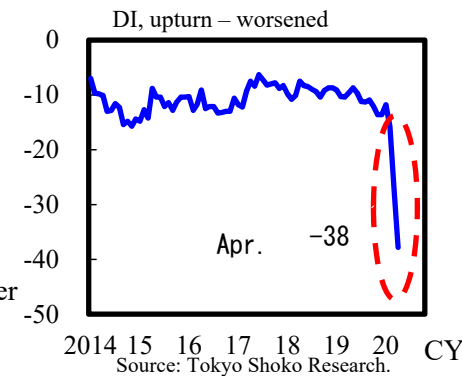
— Trends in Business Activities —

- Corporate profits are decreasing rapidly, due to the influence of the infectious disease in Q1 2020. Both manufacturing and non-manufacturing firms are in a difficult situation due to the decrease in domestic and overseas sales.
- Financial position of SMEs is rapidly deteriorating, while strong public support is being implemented. The number of bankruptcies in April was suppressed as a whole, but the number of infection related bankruptcies increased.

Ordinary profit of listed companies
Q1 2020 : YoY -60.3%



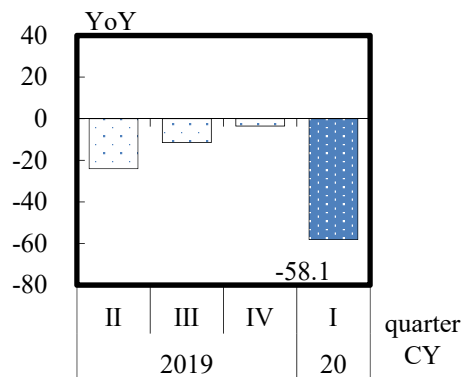
Financial position of SMEs
DI, upturn – worsened



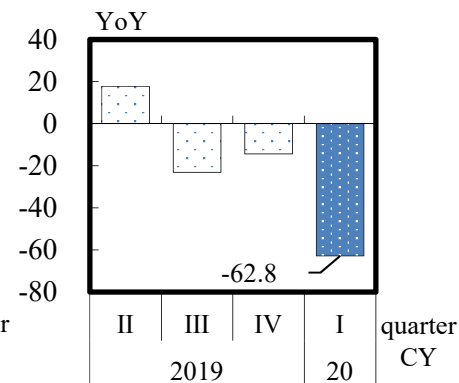
Financial support from public financial institutions (cumulative)

	May 7th	May 27th
Public financial institutions	4.2 tril. yen	6.7 tril. yen
Private financial institutions (interest free loan)	47 bln. yen	2.3 tril. yen

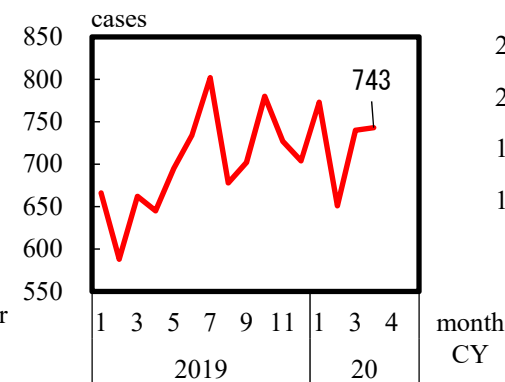
Manufacturing



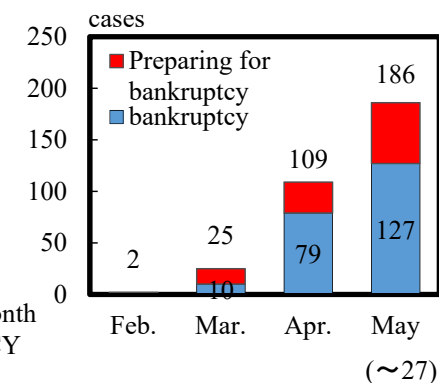
Non-manufacturing



The number of bankruptcies



The infection related bankruptcies (cumulative)



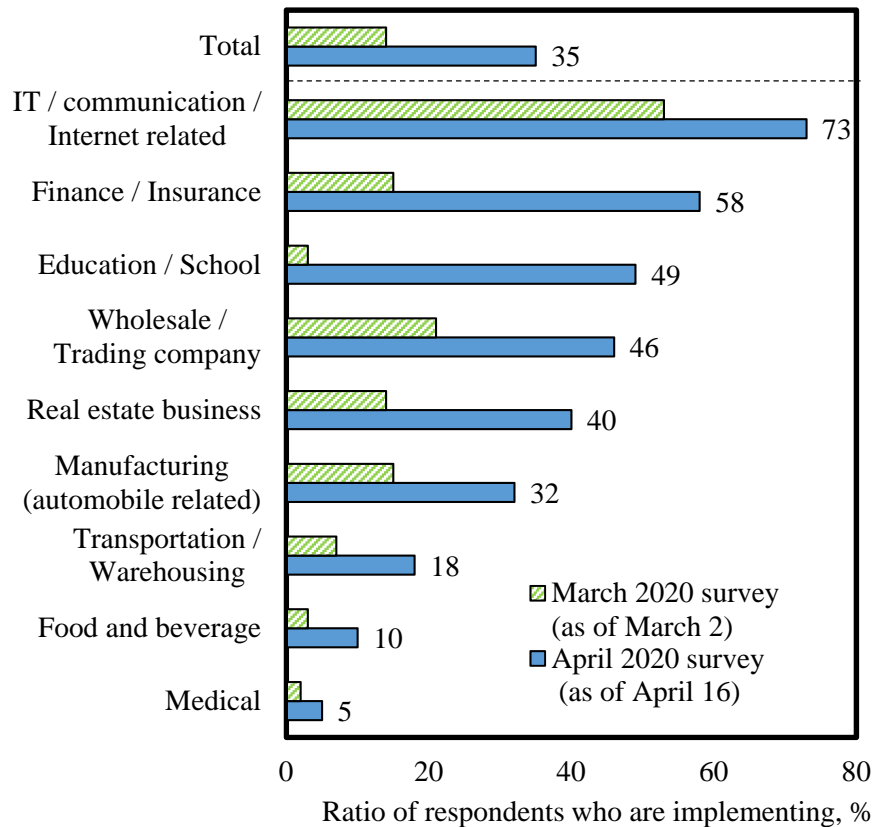
Source: NIKKEI NEEDS

Source: Tokyo Shoko Research.

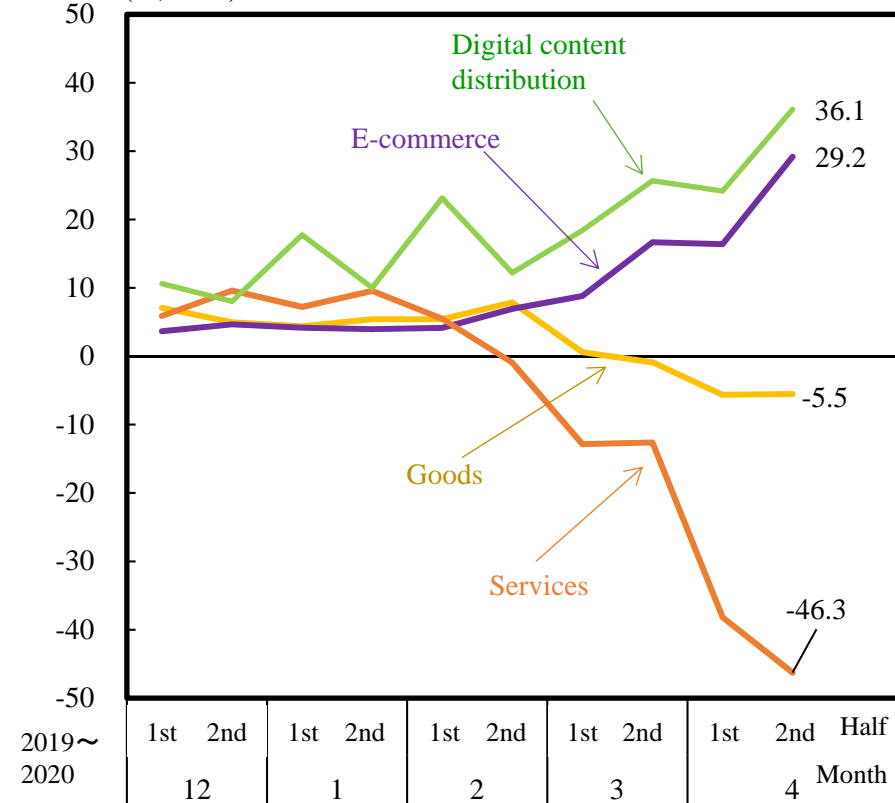
– Changes in Working-style and Consumption Behavior –

- Telecommuting and teleworking are expanding widely, in order to achieve the prevention of the spread of infection, and continuation of business activities simultaneously.
- Due to refraining from going out, spending on goods and services is in a severe situation as a whole. Spending at home, such as purchase through e-commerce and digital content distribution, increases.
- It is important to resume economic activity by creating a new life-style through the further spread of telecommuting and teleworking, and e-commerce under taking infection prevention measures in various industries.

Status of working from home / telework
(Ratio of respondents who are implementing)

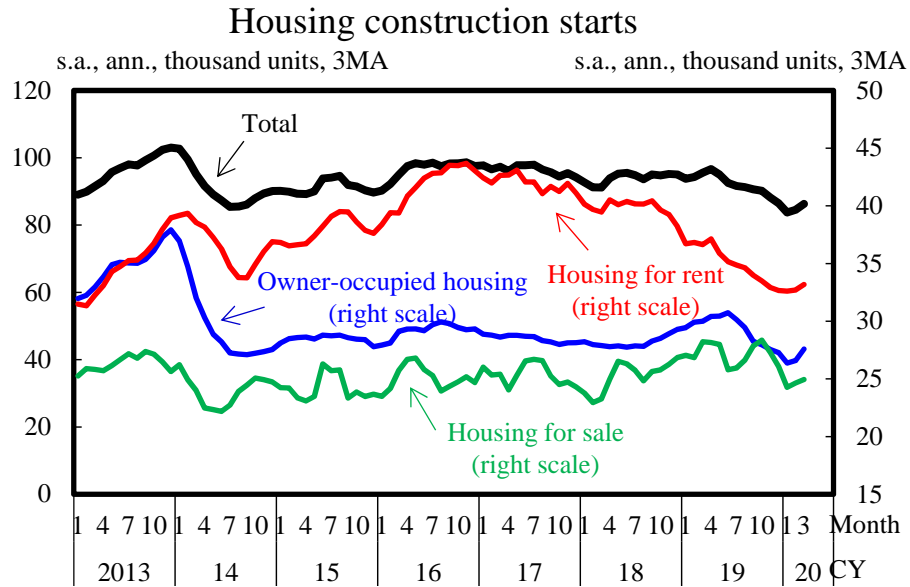


Trends in goods and services spending
(%, YoY)

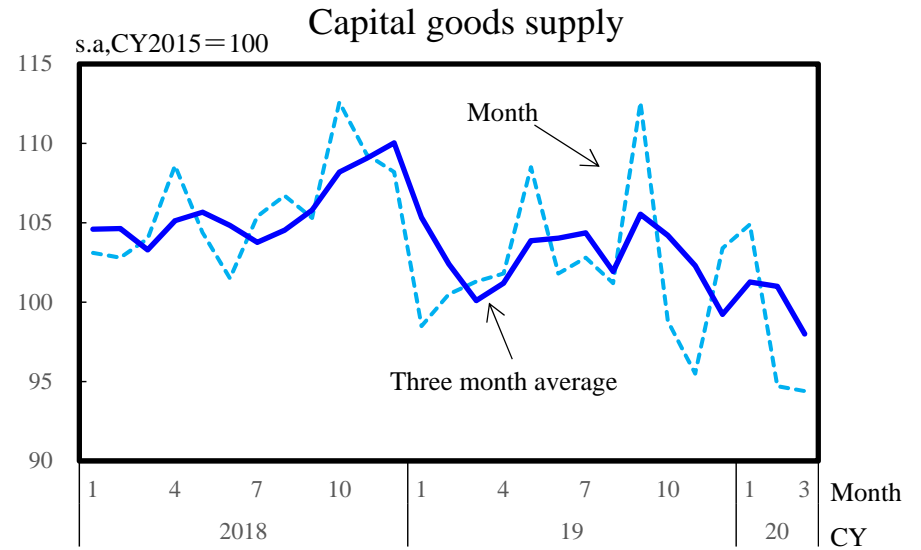


Sources: LINE Research.; NOWCAST, INC.; JCB Co., Ltd

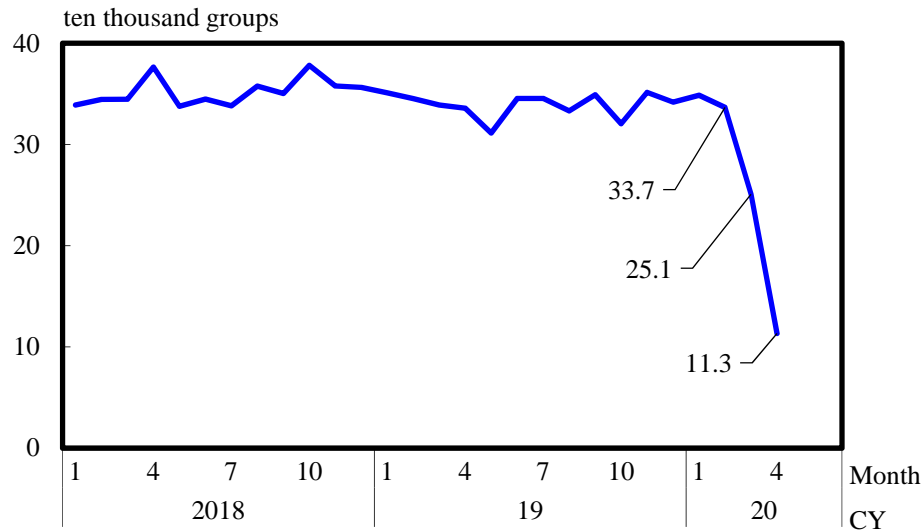
Housing investment is in a weak tone.



Business investment is in a weak tone recently.

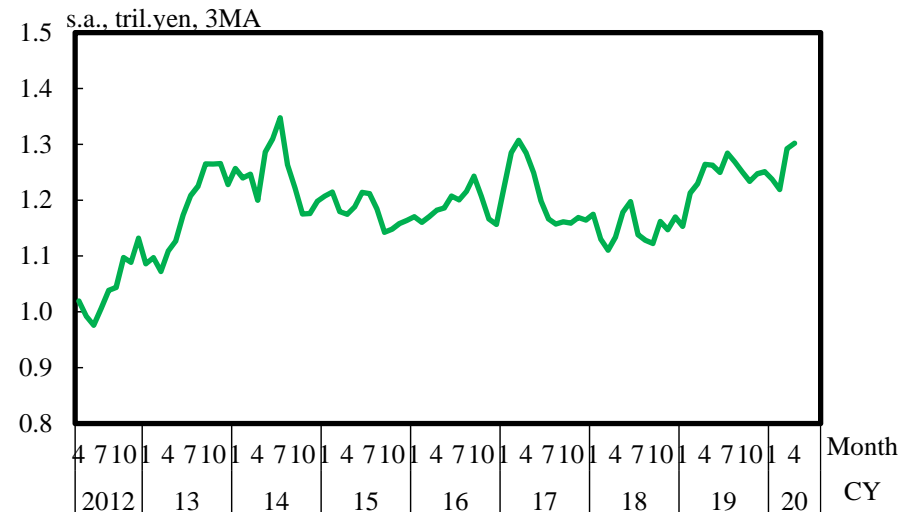


Number of the housing exhibition visitors (couples)



Public investment holds firm.

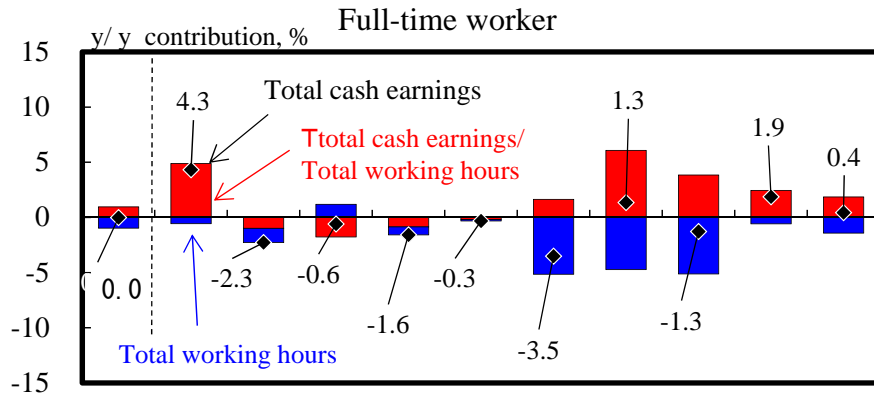
Contracted value of public construction



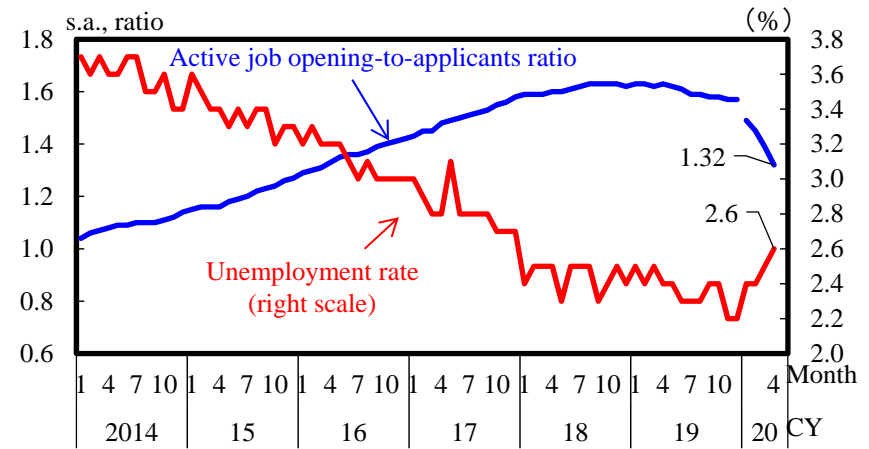
Source: Ministry of Land, Infrastructure, Transport and Tourism. Housing Exhibiter Conference, The Machinami Foundation. Ministry of Economy, Trade and Industry,

Employment situation: Weakness is increasing due to the influence of the infectious diseases.

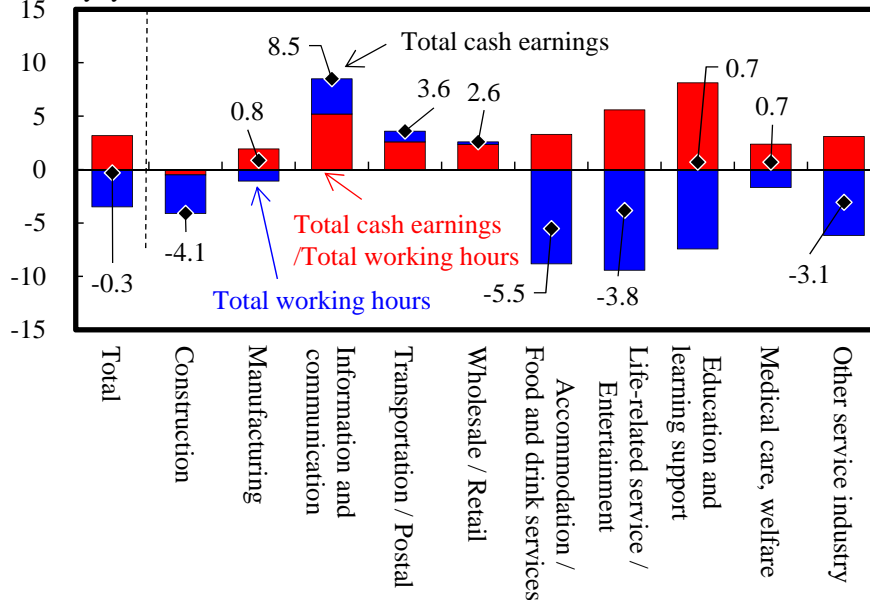
Total cash earnings (March 2020)



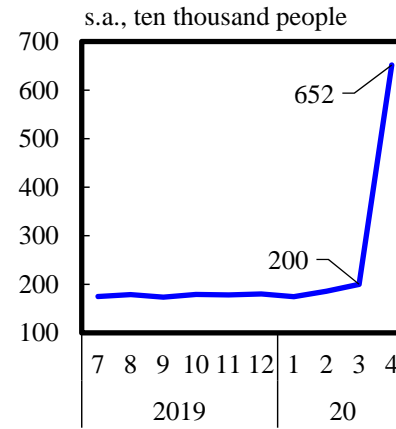
Unemployment rate and active job opening-to-applicants ratio



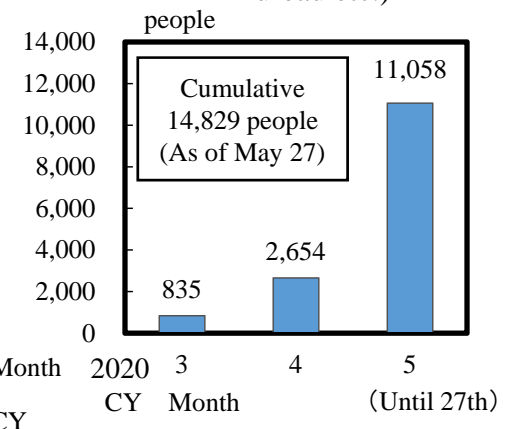
Part-time worker



Number of employees who laid off work



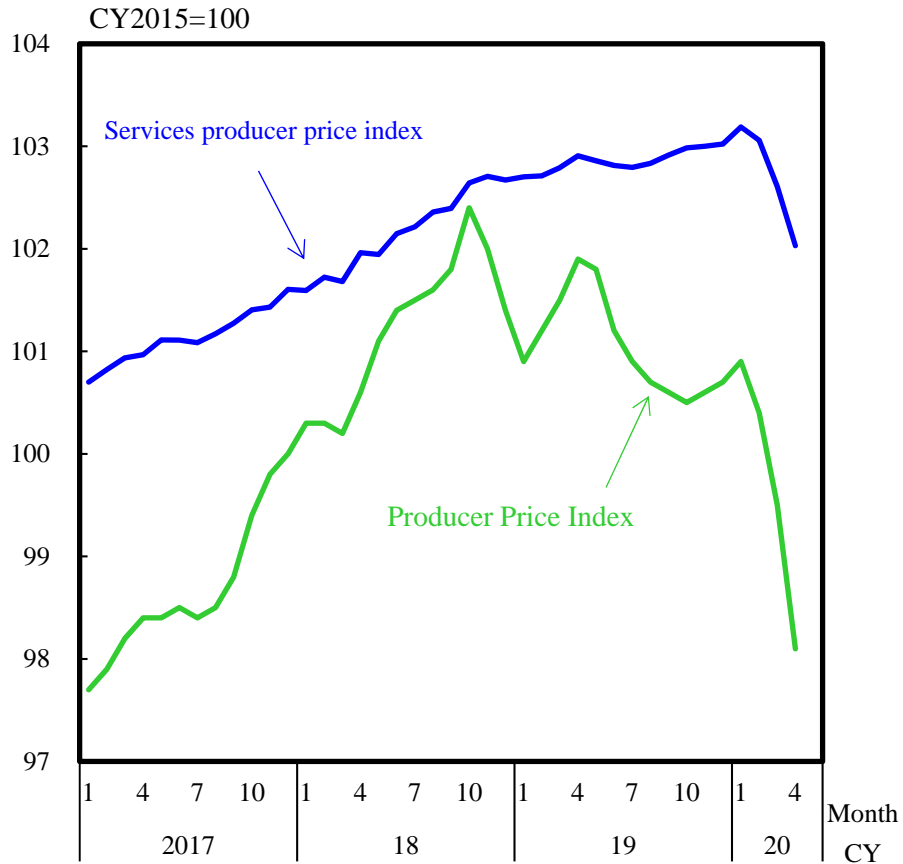
Expected number of workers for dismissal (Information through Labor Bureau etc.)



Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications

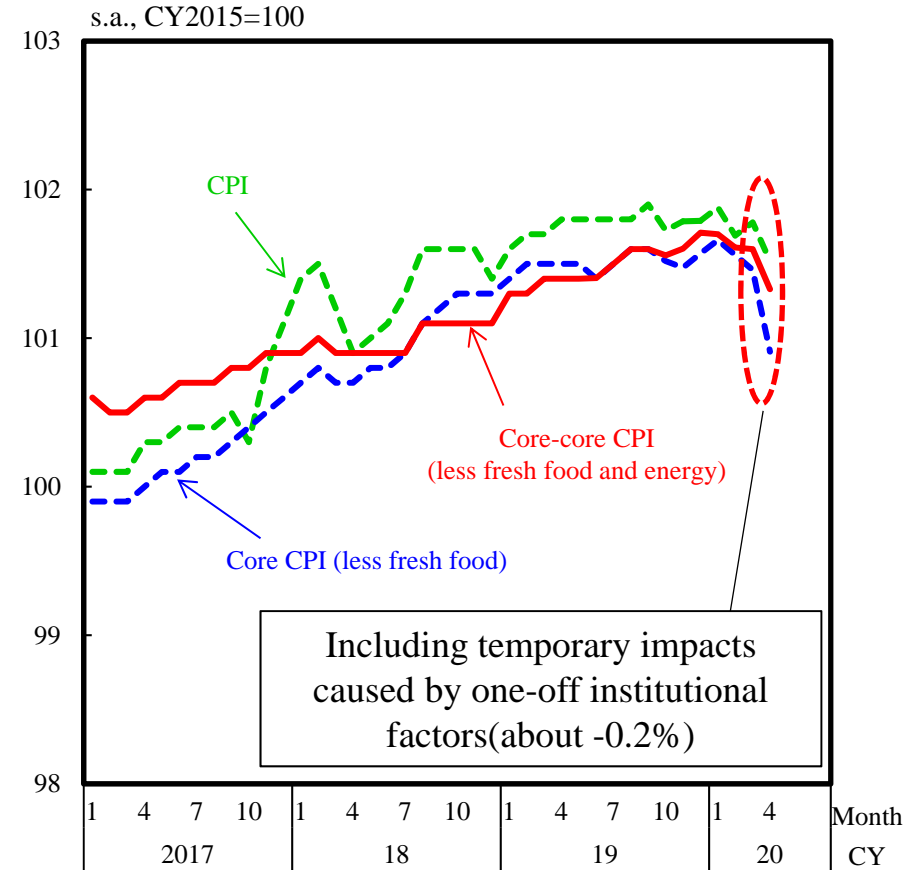
Producer prices are declining.

Producer Price Index/ Services Producer Price Index



Consumer prices are flat.

CPI (Consumer Price Index)



Note: CPIs are estimates by the Cabinet Office, which exclude the direct effects of the consumption tax increase and free early childhood education and nurseries.

Drops in April 2020 include temporary impacts caused by one-off institutional factors such as the free higher education program and reduction of automobile insurance charges. Producer price index and services producer price index exclude consumption tax.

Source: Bank of Japan; Ministry of Internal Affairs and Communications; Cabinet Office