

Recent Economic Developments

- Monthly Economic Report, June 19 2020 -

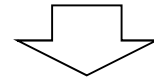
June 29, 2020

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

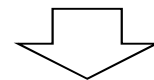
April

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.



June

The Japanese economy is still in an extremely severe situation due to the Novel Coronavirus, but it almost stopped deteriorating.

(Changed)

(Changed)

<Assessment of the current state of the Japanese economy>

	April	May	June
Private consumption	Private consumption is decreasing rapidly, due to the influence of the infectious disease. (↓)	Unchanged	Private consumption is showing movements of picking up recently as the state of emergency was lifted.(↑)
Business investment	Business investment is almost flat.	Business investment is in a weak tone recently. (↓)	Unchanged
Exports	Exports are decreasing recently, due to the influence of the infectious disease. (↓)	Exports are decreasing rapidly, due to the influence of the infectious disease. (↓)	Unchanged
Industrial production	Industrial production is decreasing, due to the influence of the infectious disease. (↓)	Unchanged	Unchanged
Corporate profits	Corporate profits are decreasing rapidly, due to the influence of the infectious disease. (↓)	Unchanged	Unchanged
Firms' judgments on business conditions	Firms' judgments on current business conditions are deteriorating rapidly, due to the influence of the infectious disease. (↓)	Unchanged	Firms' judgments show signs of improvement, although some severe aspects remain.(↑)
Employment situation	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. (↓)	Employment situation is showing weakness, due to the influence of the infectious disease.
Prices	Consumer prices are flat recently.	Consumer prices are flat.	Unchanged

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

<Short-term prospects>

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.

June

The economy is expected to move toward picking up from an extremely severe situation, supported by the effects of the policies while the socio-economic activities will be resumed gradually with taking measures to prevent the spread of infectious diseases. However, attention should be given to the trend of domestic and overseas infections, and the effects of fluctuations in the financial and capital markets.

<Policy stance>

(Monthly Economic Report, June 19, 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.

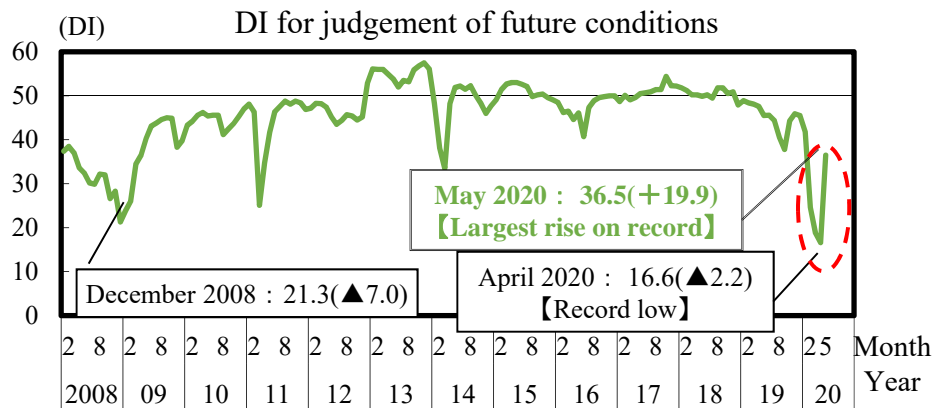
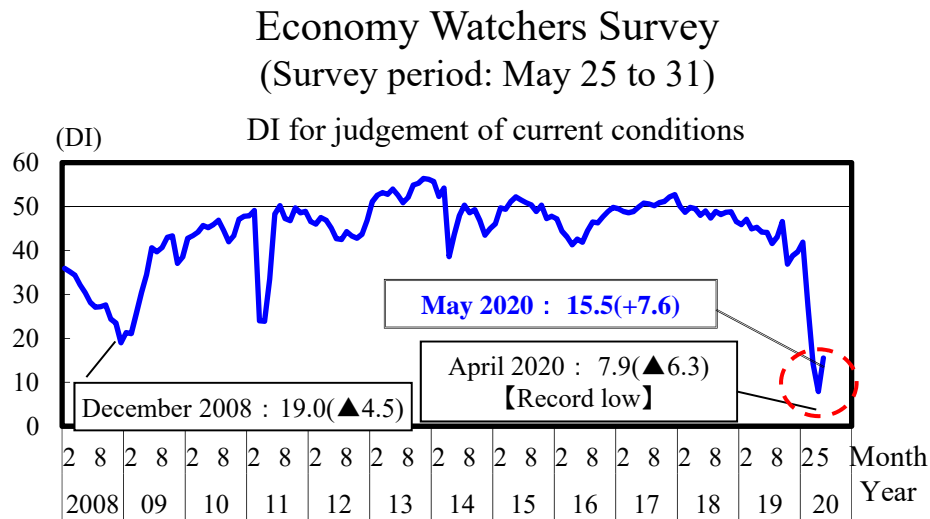
The Government will increase socio-economic activities step-by-step, while continuing to implement measures to prevent the spread of the Novel Coronavirus. Under such situation, the Government will implement the “Emergency Economic Measures to cope with the Novel Coronavirus” (Cabinet Decision on April 20th) including the FY2020 supplementary budget, and the FY2020 second supplementary budget as soon as possible in order to thoroughly secure employments, businesses and daily lives and achieve strong economic recovery and social structural changes.

The Government will decide the “Basic Policies for Economic and Fiscal Management and Reform 2020 (provisional)” etc. by the middle of July in order to lay out the basic direction of the blueprint of an economy and society that Japan should aim for, in response to the changes caused by the Novel Coronavirus to the mindset of the people and the situation of the world.

The Bank of Japan enhances monetary easing 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.

— Business Sentiment —

- Both current and future DI (diffusion index) of “Economy Watchers Survey” rose significantly in May. In particular, future DI is the largest rise on record due to the lifting of the state of emergency declaration.
- The current DI rose in all sectors, particularly in the retail, food and beverage, and services. However, the pace of improvement in the employment-related DI is slow. Comments on the decline in job openings, termination of temporary contracts, and weakness in hiring of new graduates are noticed.

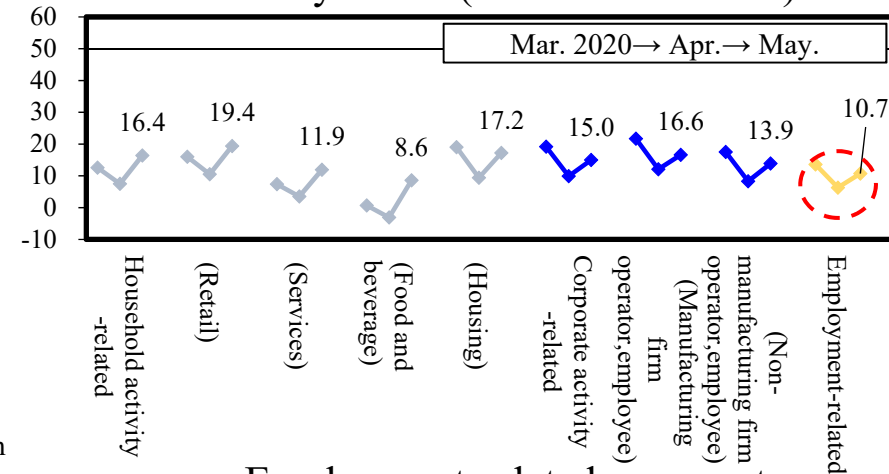


Note: The figures in parentheses show the difference from the previous month.

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

Source: Cabinet Office

DI by sector (current conditions)

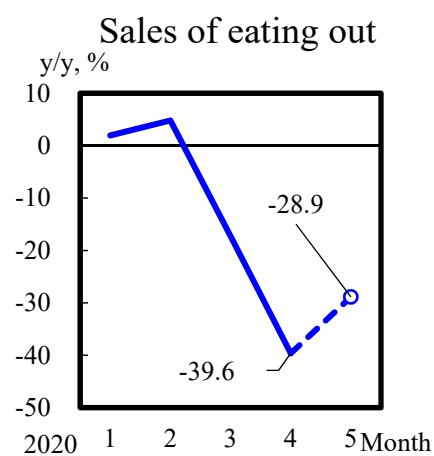
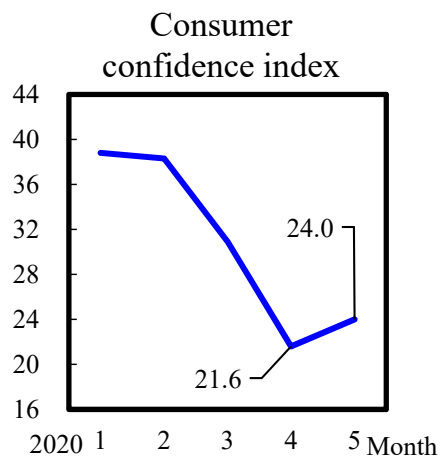
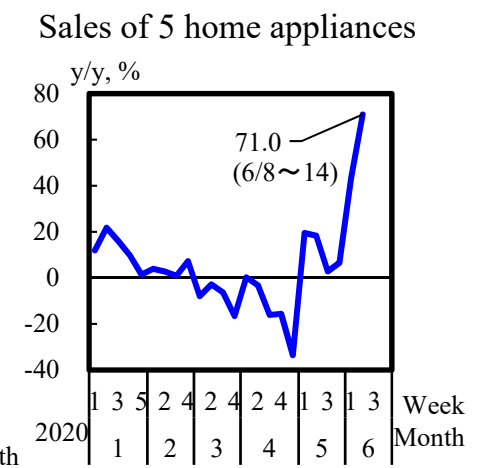
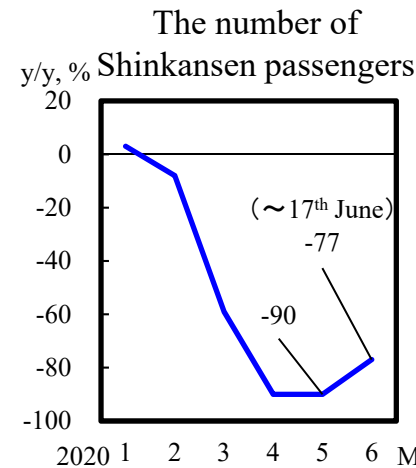
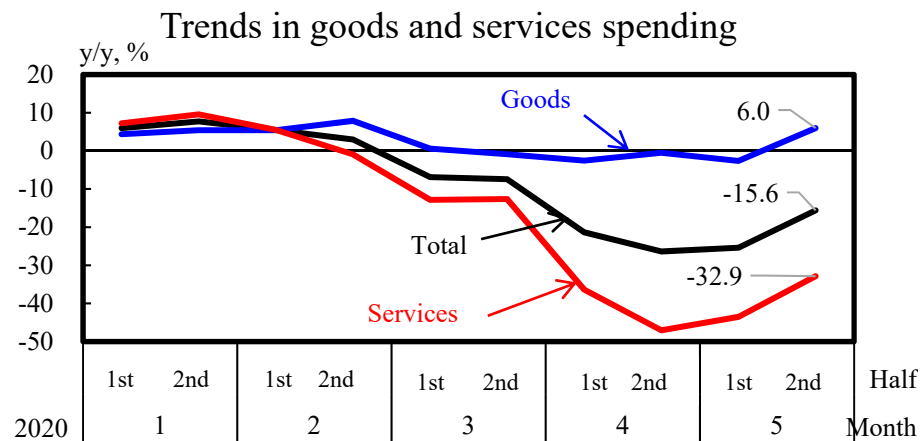


Employment-related comments

	Key comments
× (Bad)	The number of active job openings is declining. By sector, <u>lodging, food and beverage, services, and manufacturing declined significantly.</u> (Tokai, Employment Security Office)
× (Bad)	<u>Some companies will end their contracts at the end of June</u> , while others will renew their contracts through the first half of the year, but the second half of the year is not yet determined. (Kyushu, Temporary staffing company)
× (Bad)	Food and beverage, lodgings, and trading companies, especially those producing women's clothing and shoes, <u>have stopped hiring new graduates</u> due to the downturn. (Tohoku, Temporary staffing company)
□ (Unchanged)	The effects of infectious diseases have appeared in various industries, and the employment environment continues to deteriorate, <u>with many consultations on applications for employment adjustment subsidies.</u> (Chugoku, Employment Security Office)

— Private Consumption —

- Private consumption is showing movements of picking up recently as the state of emergency was lifted. Credit card spending declined from a year ago but the rate of decrease narrowed in the second half of May.
- Although consumer sentiment is still at a low level, it has stopped deteriorating. Sales of eating out and the number of Shinkansen passengers have bottomed out. Sales of home appliances bounced back, while sales of major department stores are gradually picking up.



Sales of major department stores (YoY)

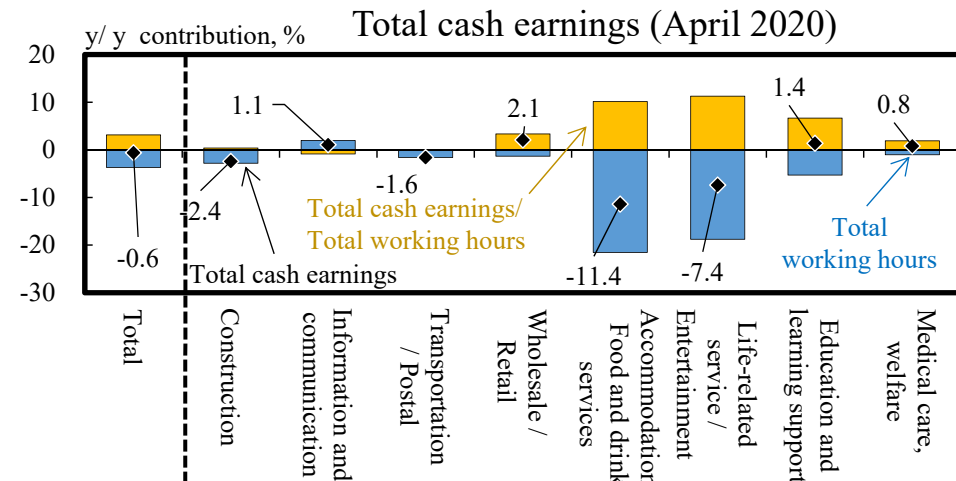
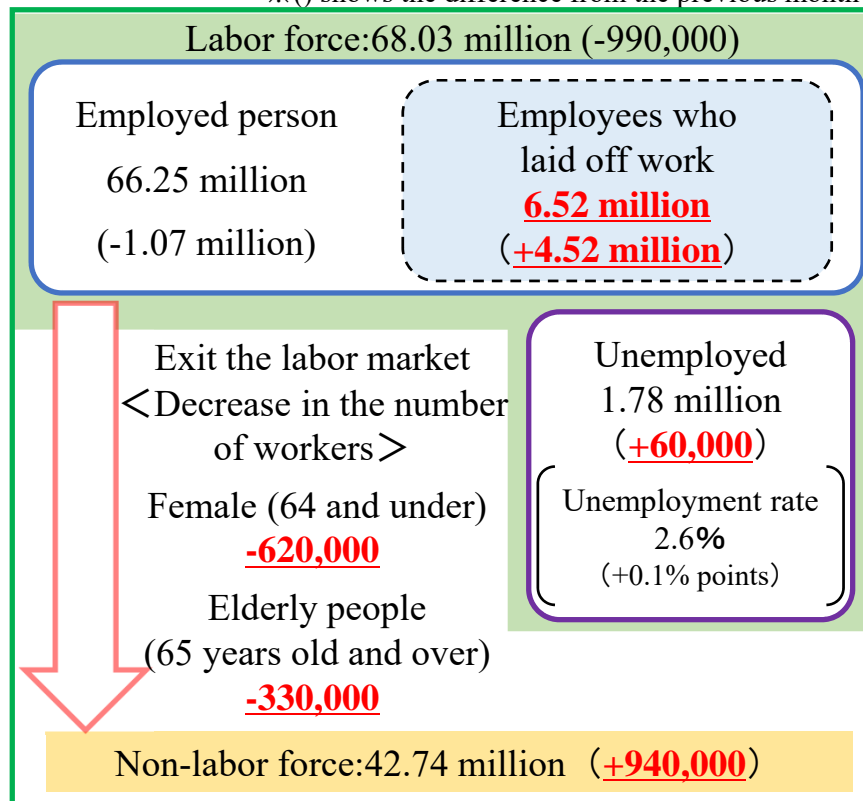
	CY2020	April	May	1st half of June
Company A		-74.6%	-62.8%	-21.4%
Company B		-78.2%	-74.3%	-19.7%
Company C		-80.5%	-69.5%	—
Company D		-91.3%	-91.9%	—
Company E		-76.9%	-71.6%	-31%

— Employment Situation —

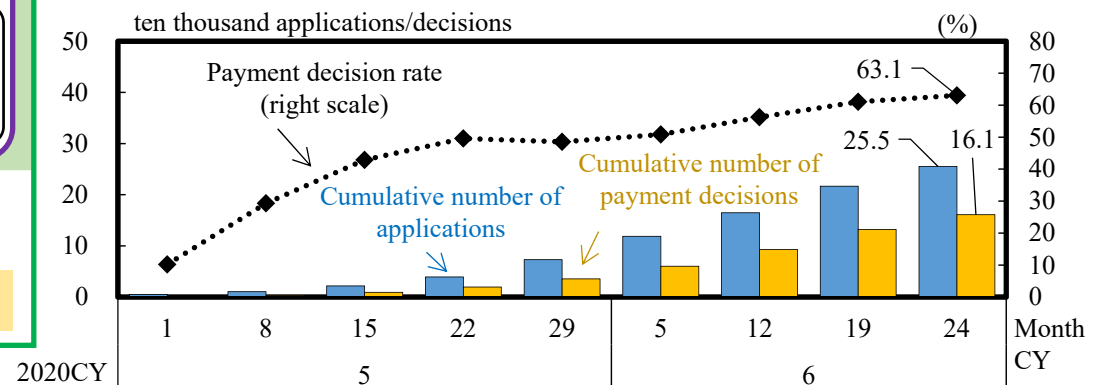
- The number of employees who laid off work increased by 4.52 million in April to 6.52 million. Companies are preserving their workers. Under these circumstances, total cash earnings dropped by 0.6%, as average working hours decreased.
- The number of employed person decreased by 1.1 million while the number of people not in the labor force increased by 0.9 million. One-third of those is elderly and the rest is female. It is important to let them return to the labor force as the socio-economic activities will be resumed gradually.

Employment status in April 2020 (seasonally adjusted)
Population over 15 years old: 110.77 million (-50,000)

※() shows the difference from the previous month



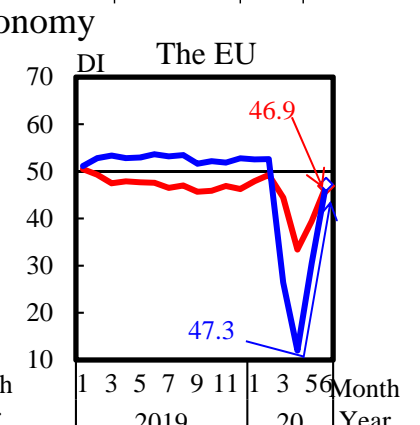
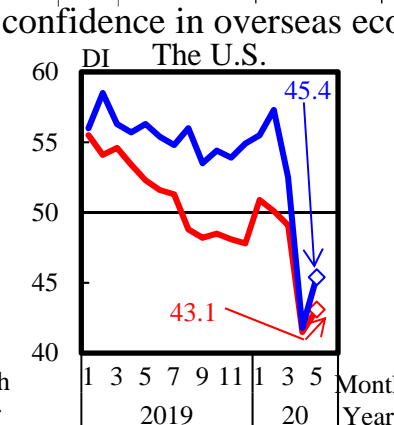
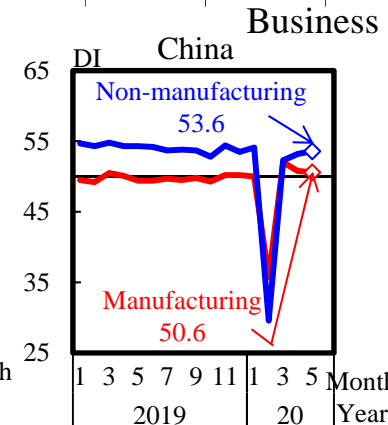
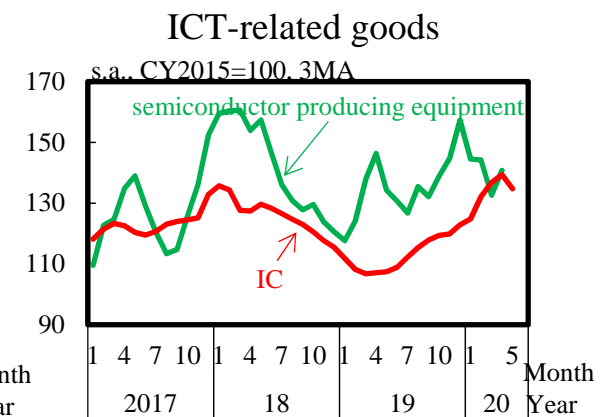
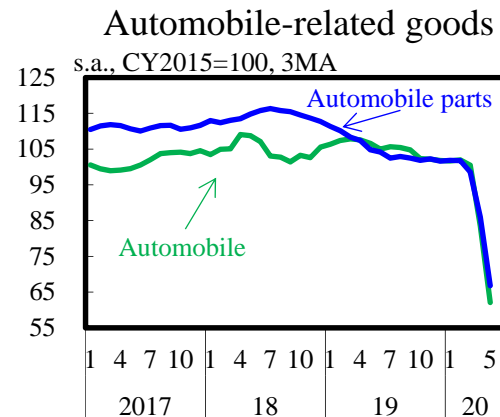
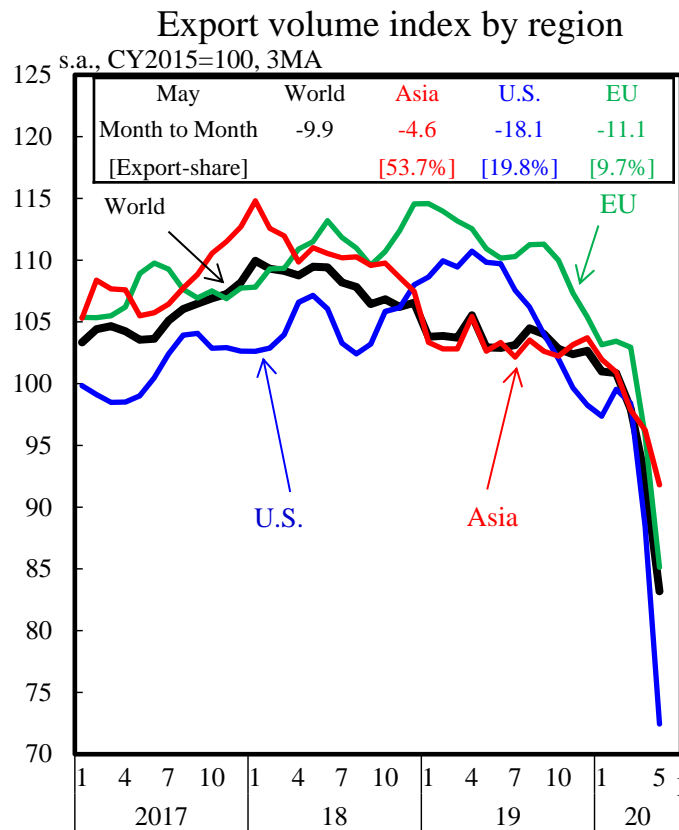
Employment adjustment subsidy payment status



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

- Export -

- Goods exports mainly to the U.S., and the EU, are rapidly decreasing, due to the decrease in overseas demand. Automobile-related goods exports dropped significantly.
- On the other hand, ICT-related goods exports are steadily increasing thanks to a strong demands for 5G and data centers. The demand for semiconductor producing equipment is also steady.
- Business confidence in China has been improving for three months, and those in the U.S. and the EU also improved in May. However, the prospects are highly uncertain all over the world, due to risks including the second or third wave of the spread of the infectious disease. Attention should be given to overseas economies, which define the future exports from Japan.

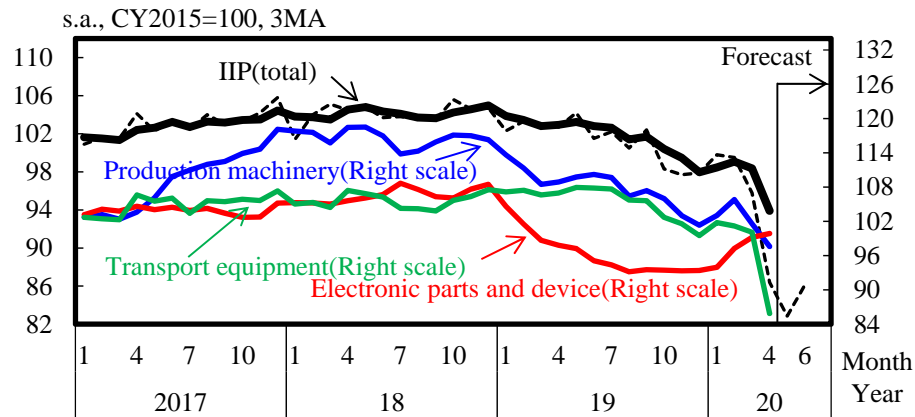


Sources: Ministry of Finance, National Bureau of Statistics of China, Institute for Supply Management, and IHS Markit

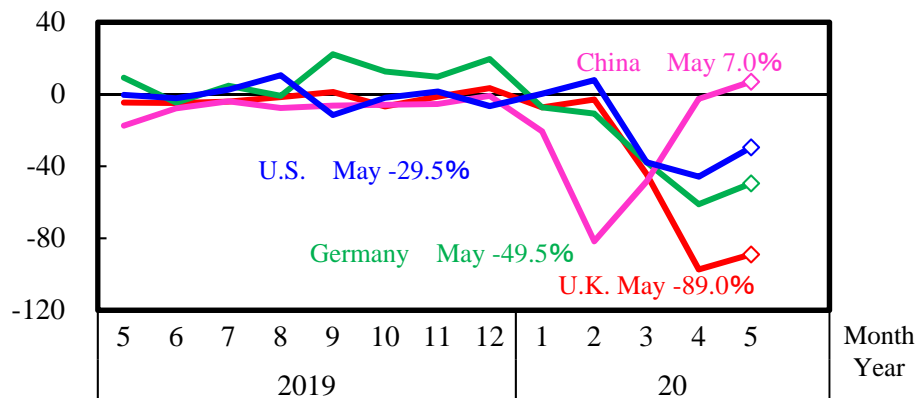
- Automobile Production -

- Industrial production is decreasing due in part to significant decrease in exports. Transport equipment including automobile is weak. However, automobile sales in major countries are picking up in May.
- The local production ratio by Japanese automobile companies is high in Asia, and low in Europe and the US. Therefore, exports of automobile parts to Asia and exports of vehicles to Europe and the U.S. will start to pick up. Domestic automobile production is expected to bottom out in May and pick up in June.

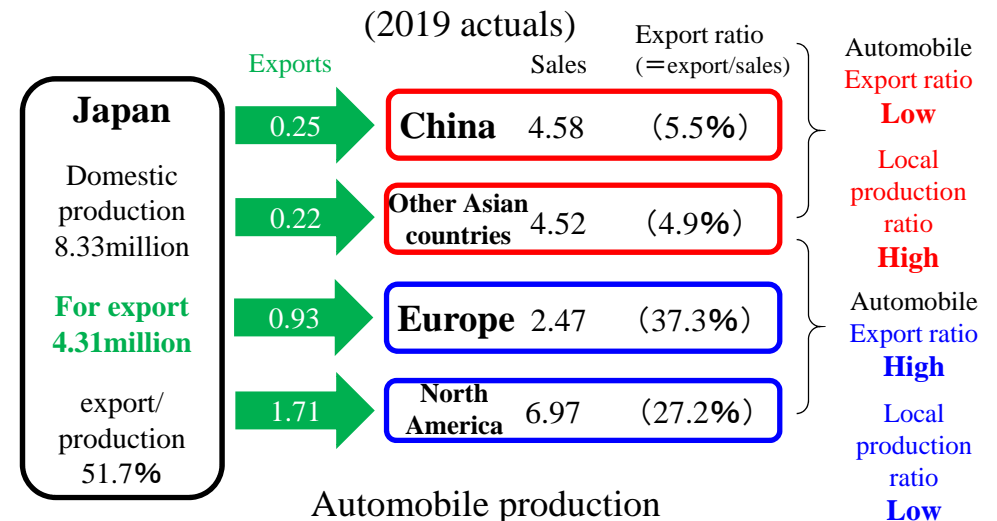
Production by Industry



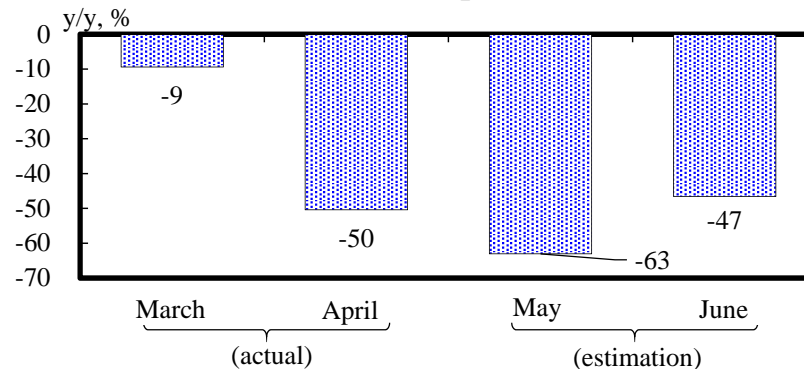
y/y, % Major countries' sales of automobile



Sales and export structure of Japanese automobile companies



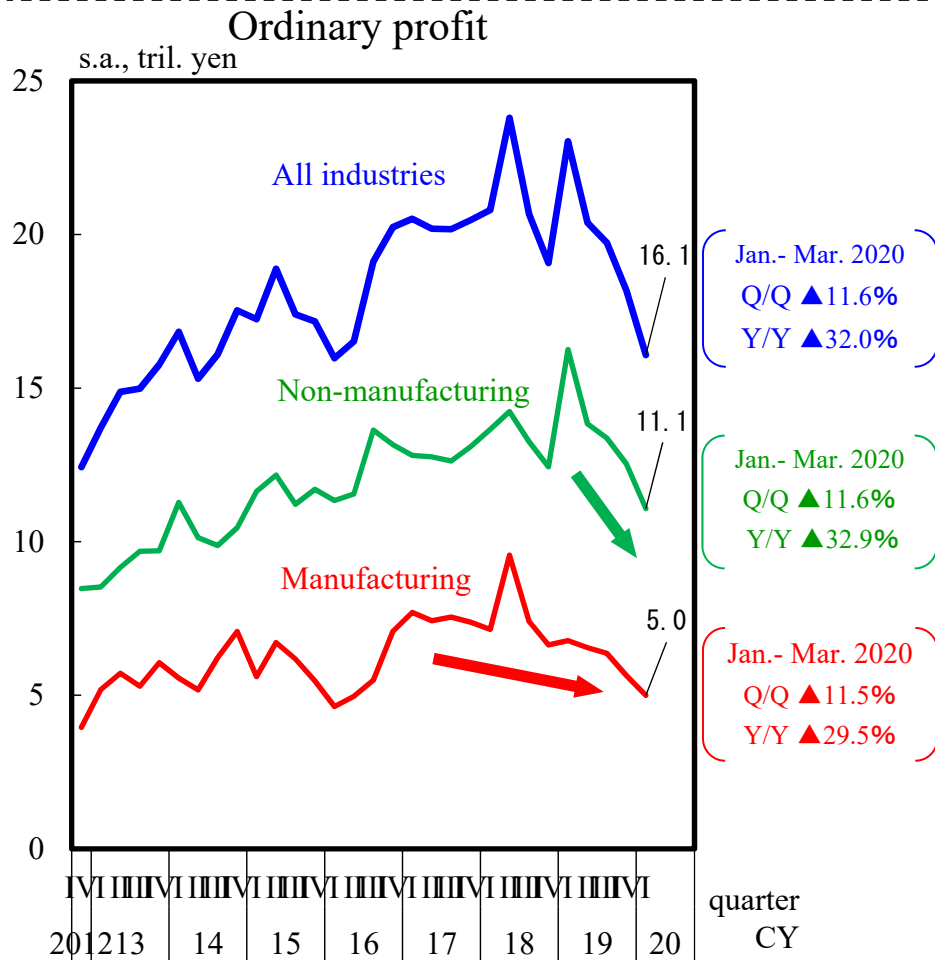
Automobile production



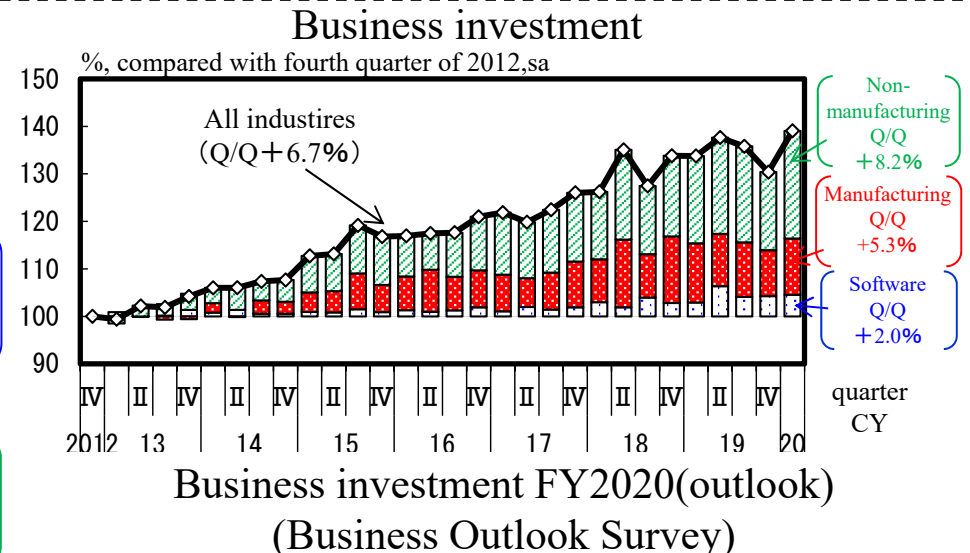
Sources: Ministry of Economy, Trade and Industry, Japan Automobile Manufacturers Association, Ministry of Finance, JNTO, CAAM, KBA, SMMT, United States Department of Commerce, MarkLines

— Trends in Business Activities —

- Since sales have declined in domestic and overseas economies due to the influence of the infectious disease, corporate profits have decreased rapidly.
- Investment in the first quarter of 2020 has increased. A part of planned investment in the previous quarter would be postponed as the Typhoon Hagibis took away an investment opportunity. The investment plan of large corporation, especially software investment in FY2020 are solid, however, the aggregate figure suggest that companies are cautious.



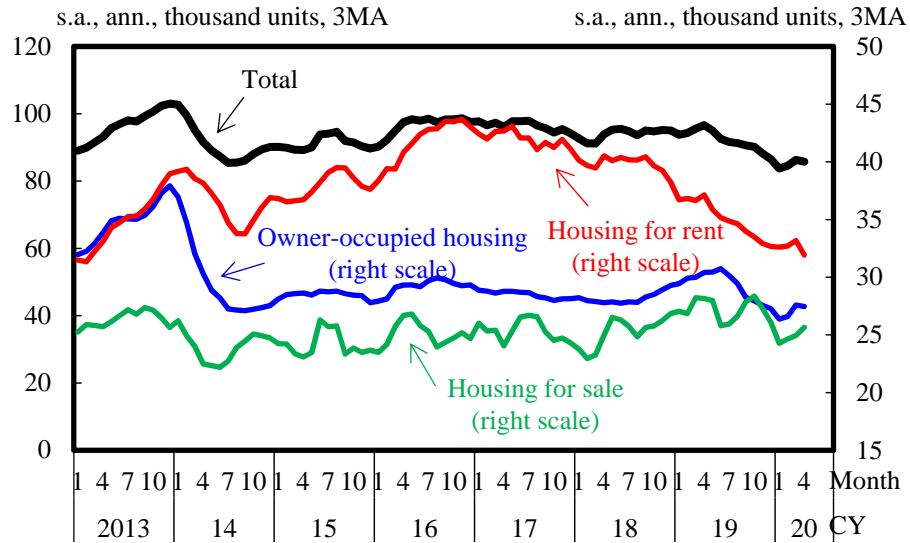
Source: Ministry of Finance



		FY/FY,%	Investment (incl. software)	Software Investment
Total	All industries		-4.4	3.8
	Manufacturing		-1.9	7.3
	Non-manufacturing		-5.8	2.9
Large corporation	All industries		5.9	8.2
	Manufacturing		9.3	12.8
	Non-manufacturing		3.5	7.0

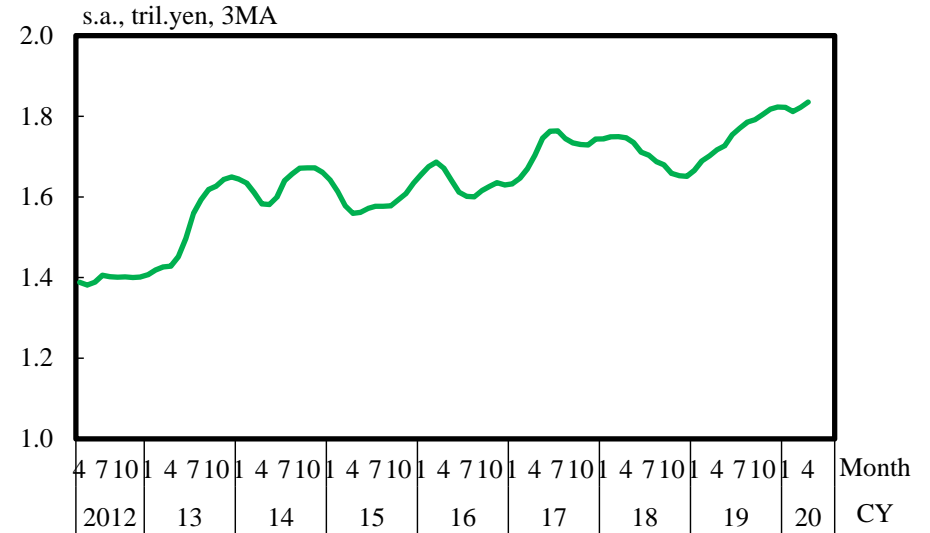
Housing investment is in a weak tone.

Housing construction starts

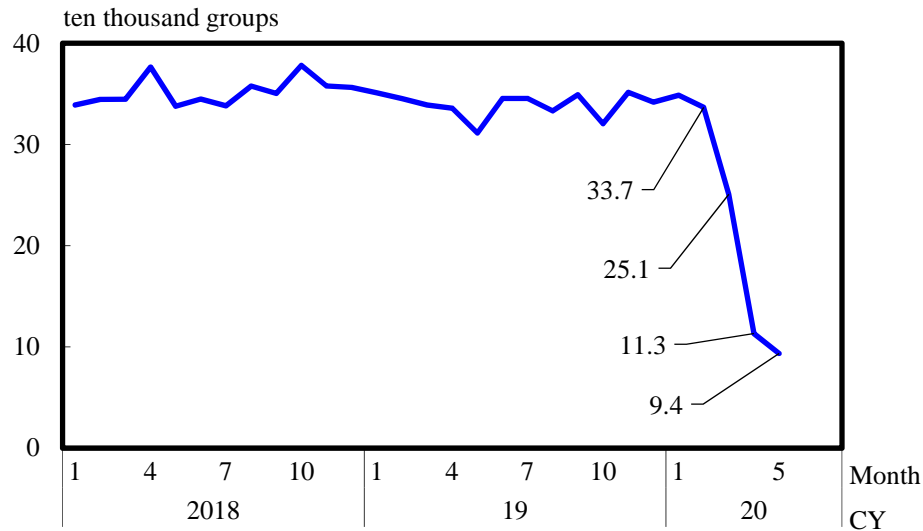


Public investment holds firm.

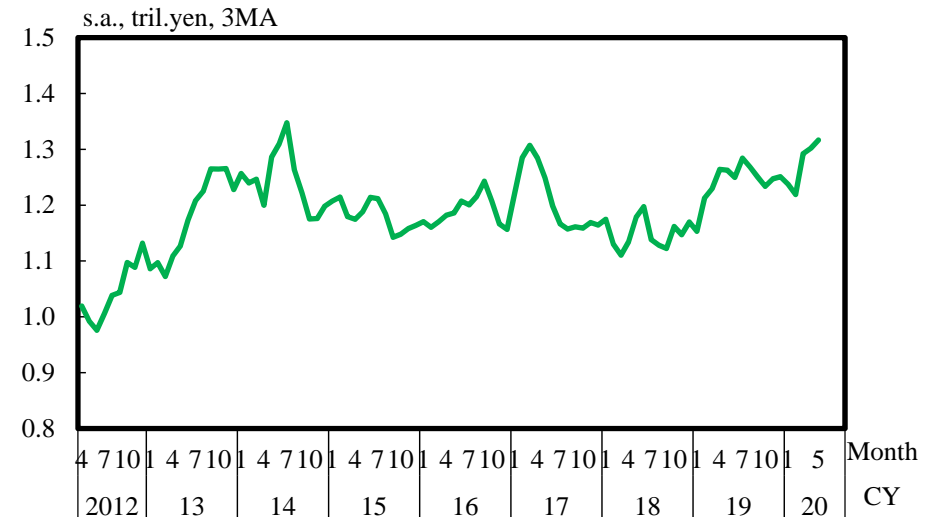
Amount of public construction completed



Number of the housing exhibition visitors (couples)



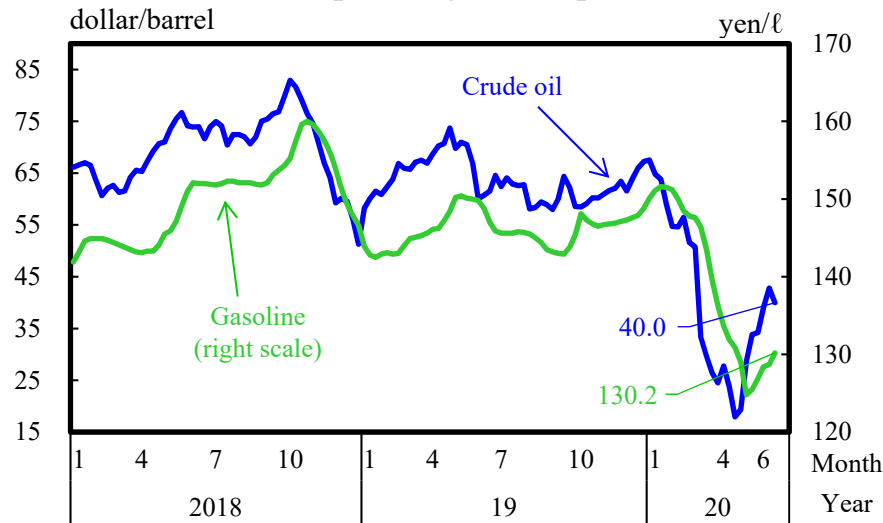
Contracted value of public construction



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

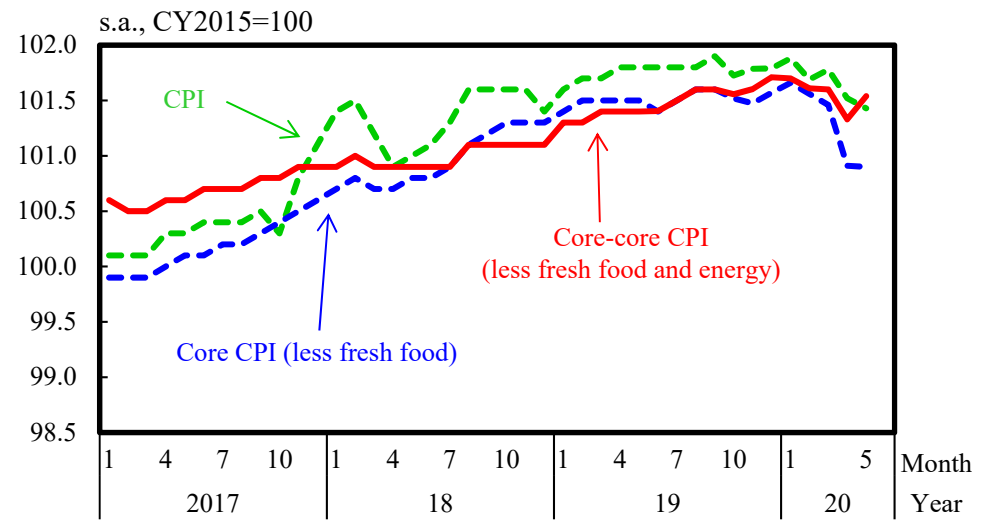
Producer prices are declining.

Crude oil prices/ gasoline prices

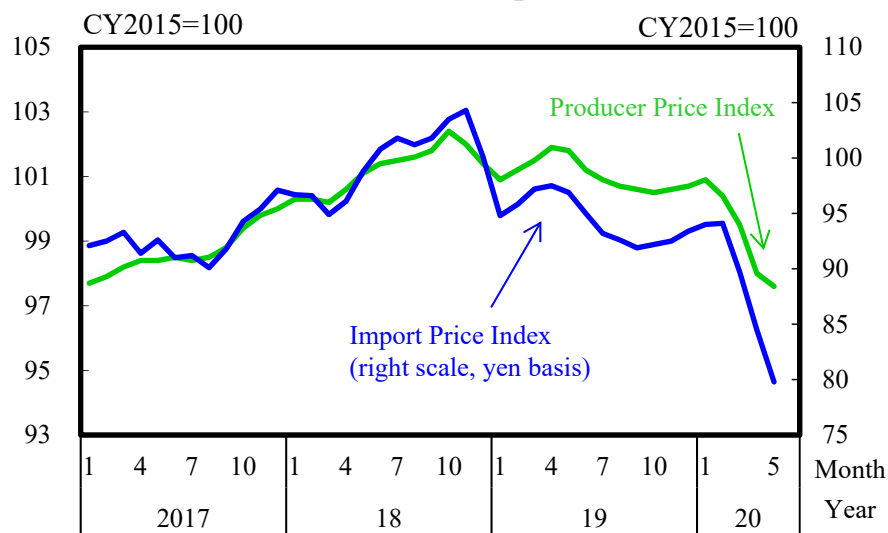


Consumer prices are flat.

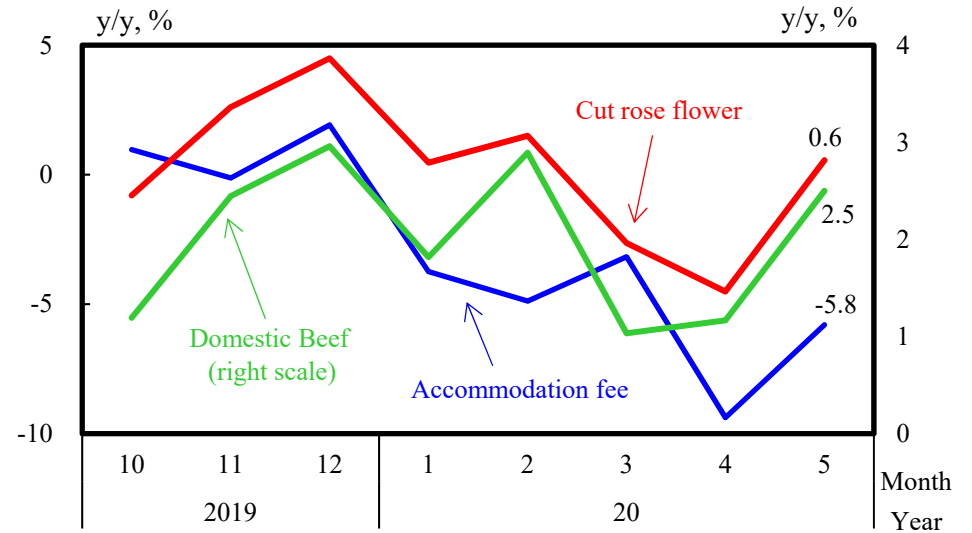
CPI (Consumer Price Index)



Producer Price Index/ Import Price Index



Price trends of individual items in CPI



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

Note: Producer price index excludes the direct effects of the consumption tax increase. CPIs exclude the direct effects of the consumption tax increase and free early childhood education and nurseries.