

Recent Economic Developments

- Monthly Economic Report, August 27 2020 -

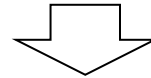
September 3, 2020

**Cabinet Office
Government of Japan**

<Assessment of the current state of the Japanese economy>

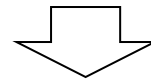
June

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



July

The Japanese economy is still in a severe situation due to the Novel Coronavirus, but it is showing movements of picking up recently.



(Changed)

August

The Japanese economy is still in a severe situation due to the Novel Coronavirus, but it is showing movements of picking up recently.

(Unchanged)

<Assessment of the current state of the Japanese economy>

	June	July	August
Private consumption	Private consumption is showing movements of picking up recently as the state of emergency was lifted.	Private consumption is picking up recently.(↑)	Unchanged
Business investment	Business investment is in a weak tone recently.	Unchanged	Business investment is in a weak tone.(→)
Exports	Exports are decreasing rapidly, due to the influence of the infectious disease.	Exports are bottoming out, although the influence of the infectious disease remains.(↑)	Exports show movements of picking up.(↑)
Industrial production	Industrial production is decreasing, due to the influence of the infectious disease.	Industrial production shows signs of picking up recently in some sectors, although it is decreasing as a whole.(↑)	Industrial production shows movements of picking up in some sectors.(↑)
Corporate profits	Corporate profits are decreasing rapidly, due to the influence of the infectious disease.	Unchanged	Corporate profits are decreasing substantially, due to the influence of the infectious disease.(→)
Firms' judgments on business conditions	Firms' judgments show signs of improvement, although some severe aspects remain.	Firms' judgments shows movements of improvement, although some severe aspects remain.(↑)	Unchanged
Employment situation	Employment situation is showing weakness, due to the influence of the infectious disease.	Unchanged	Unchanged
Prices	Consumer prices are flat.	Unchanged	Unchanged

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

<Short-term prospects>

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.

July

The economy is expected to show movements of picking up, 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 risk that domestic and overseas infections would affect economies. Also, full attention should be given to the economic impact of The Heavy Rain Event of July 2020, and the effects of fluctuations in the financial and capital markets.

August

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while the socio-economic activities will be resumed with taking measures to prevent the spread of infectious diseases. However, attention should be given to the risk that domestic and overseas infections would affect economies. Also, full attention should be given to the effects of fluctuations in the financial and capital markets.

<Policy stance>

(Monthly Economic Report, August 27, 2020)

The Government will make effort toward the reconstruction and revitalization from the Great East Japan Earthquake.

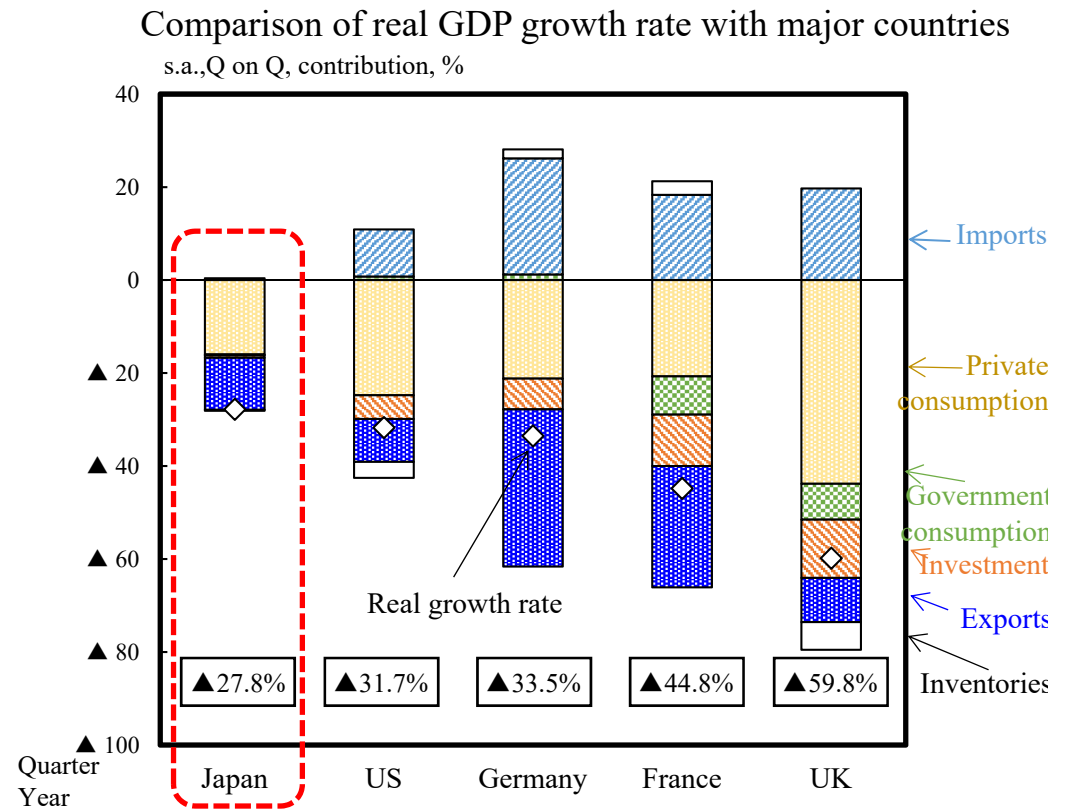
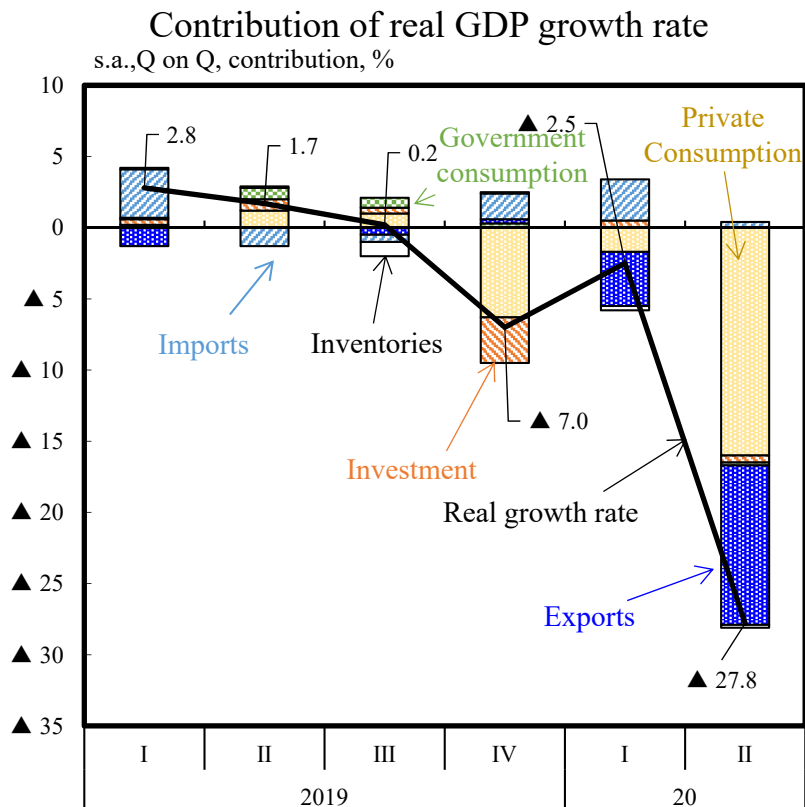
Through balancing the efforts to prevent the spread of the Novel Coronavirus and to increase socio-economic activities and coping with disasters becoming ever more severe and frequent, the Government will thoroughly secure people ' lives, daily lives, employments, and businesses with determination to avoid a return to deflation absolutely. The Government will aim to realize the high-quality economy and society in which everyone can feel growth that we create through building a new normal for everyday life early, as the basic direction of the blueprint of an economy and society in a new future after we overcome the social issues that have been revealed by the recent spread of infections and we will develop an action plan that will clarify the policy objectives and the policy schedule etc. for the major policies by the end of this year, based on the "Basic Policies for Economic and Fiscal Management and Reform 2020 .and so on. The Government will continue to implement the " Emergency Economic Measures to cope with the Novel Coronavirus " including the FY2020 supplementary budget, and the FY2020 second supplementary budget as soon as possible, and carefully examine the status of the disease and the economic trend in Japan and overseas and impact on people's lives, and take flexible actions as needed without delay.

The Government will swiftly implement the "Policy Package towards the Rebuilding of Daily Lives and Livelihoods of the Disaster Victim " compiled on July 30th for the Heavy Rain Event of July 2020.

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.

— GDP: Apr. – Jun. 2020 (First Preliminary) —

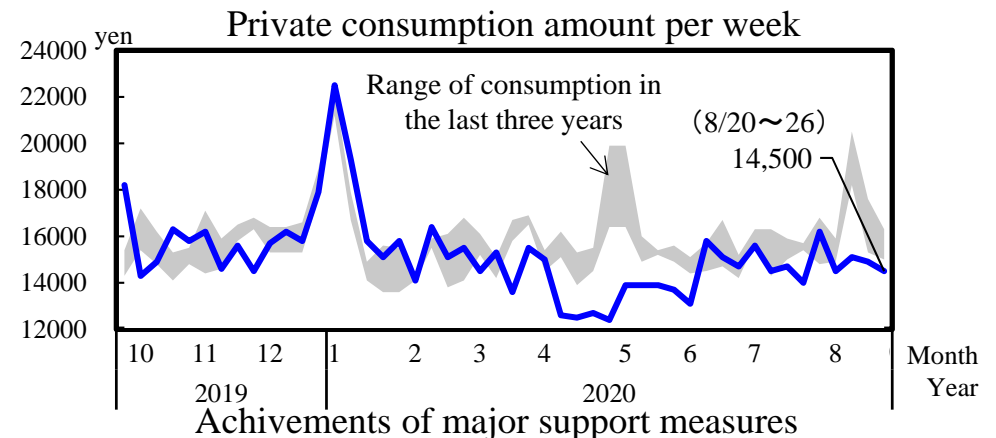
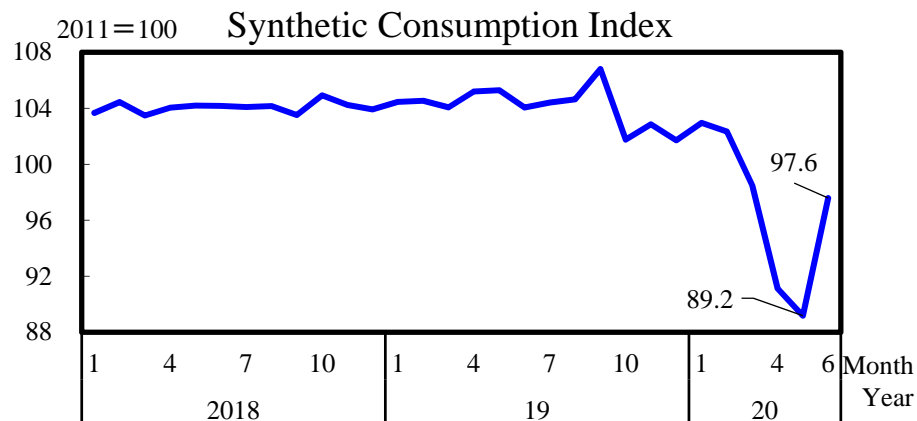
- The real GDP (Gross Domestic Product) for the Apr.- Jun. 2020 period (First preliminary) decreased by -27.8% at an annualized rate for the third consecutive quarter. Private consumption decreased substantially due to the state of emergency in April and May. Exports also decreased substantially due to the impact of the lockdown in Europe and the U.S.
- The real GDP growth rates in major European countries and the U.S. decreased substantially from -30% to -60% at an annualized rate, mainly due to the effects of the lockdown.
- Economic activity in many countries, including Japan, resumed after bottoming out in April and May.



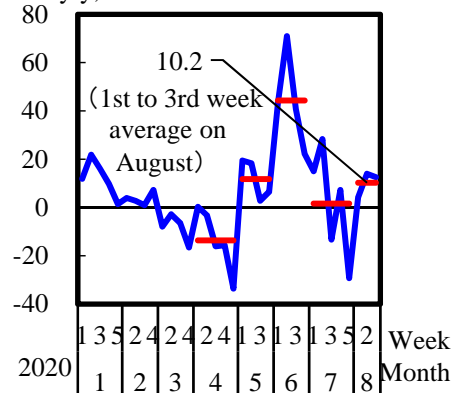
Source: Cabinet Office, United States Department of Commerce, Federal Statistical Office, National Institute of Statistics and Economic Studies, Office for National Statistics
 Note: "Investment" above includes private residential investment, private non-resi. investment and government investment.

— Private Consumption —

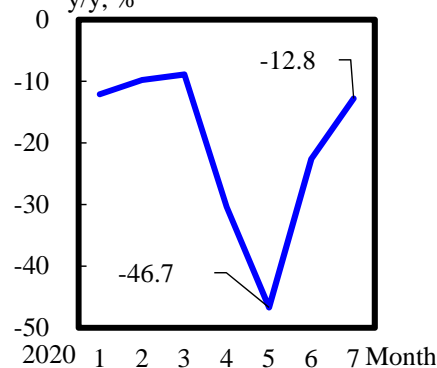
- Private consumption has picked up since the bottom of April and May under the state of emergency. By item, sales of home appliances and the new automobiles sales have been increasing. Thus, spending on goods has increased.
- However, in August, the amount of weekly private consumption including goods and services has remained at a lower level compared to the past three years due to the increase in the number of infected people and unfavorable weather. Under this situation, various support measures such as Special Cash Payments that contribute to the support of consumption are steadily implemented.



Sales of 5 home appliances y/y, %



New automobile sales y/y, %



Achievements of major support measures

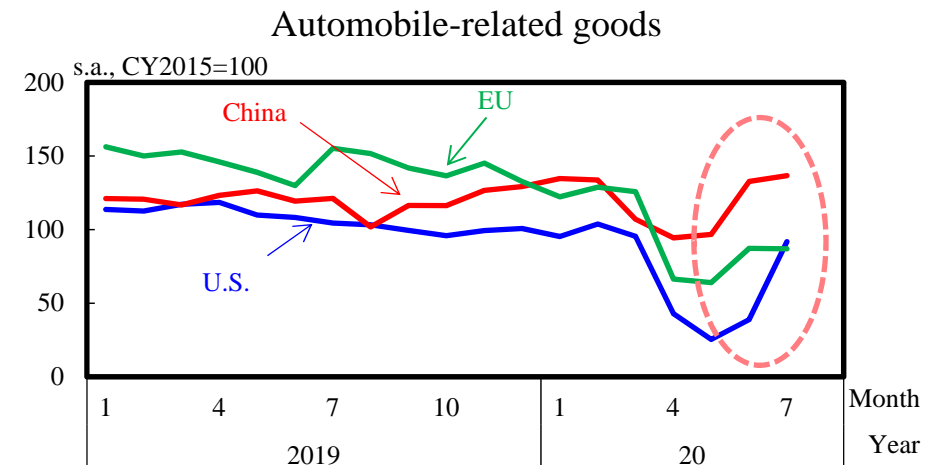
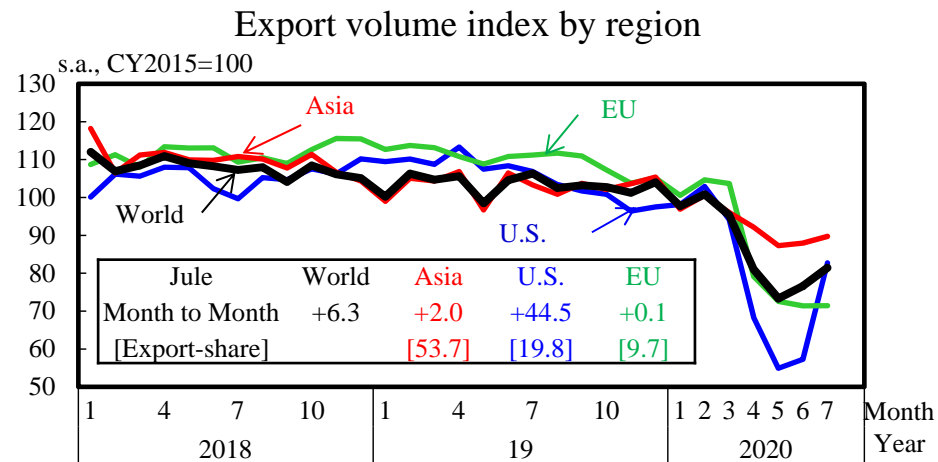
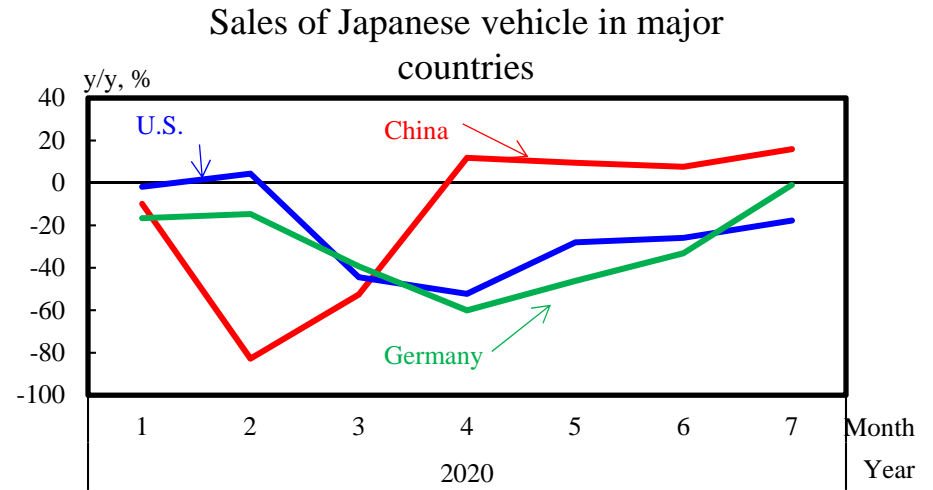
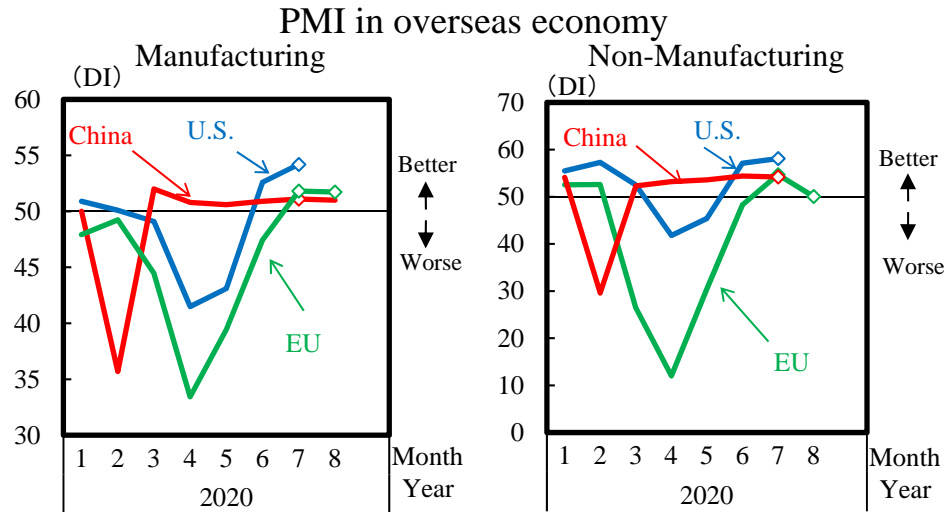
	Budget amount <Trillion yen>	Amount paid (latest survey date) <Trillion yen>	Number of benefits paid or determined to pay
Special Cash Payments	12.9	12.6(8/21)	58million households (98.6%)
Subsidy Program for Sustaining Businesses	5.2	4.0(8/21)	3.1 million
Employment adjustment subsidies	1.6	1.0(8/21)	813 thousand (8/25)
Emergency small amount fund etc.	0.4	0.3(8/15)	924 thousand
Total	22.7	17.9	—

Sources: Cabinet Office.; Ministry of Economy, Trade and Industry; Japan Automobile Dealers Association; Japan Light Motor Vehicle and Motorcycle Association; Macromill Inc.

Note: The budgeted amount in the lower left figure includes administrative costs. The total includes grant for furloughed employees and grant for rent payment.

— Exports —

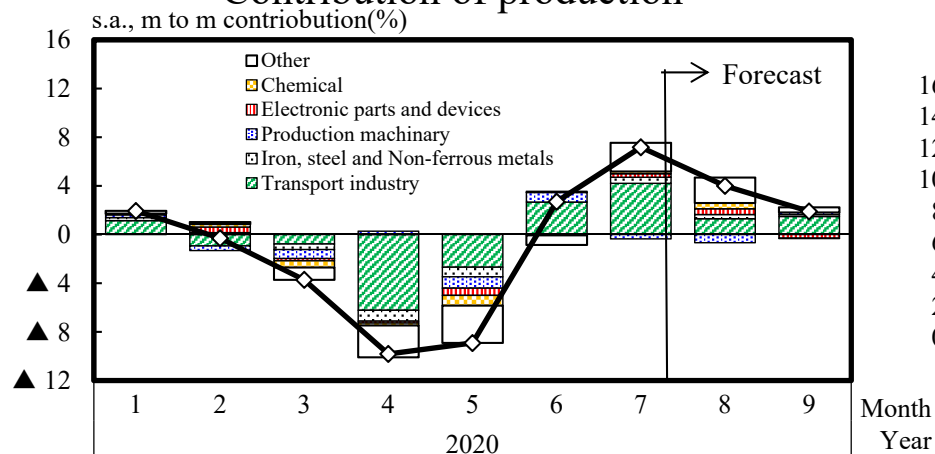
- Exports show movements of picking up, while the resumption of economic activities is progressing in major trading partners.
- Automobile-related goods drive the increase in exports as sales of Japanese vehicles in major countries are recovering.



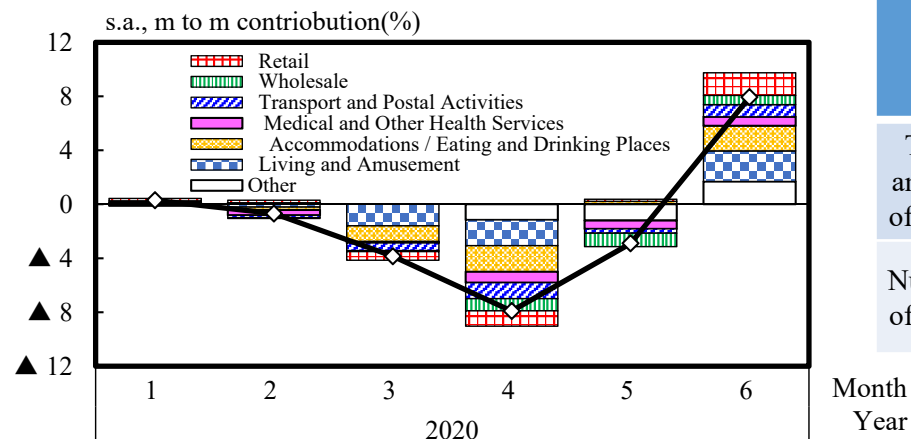
— Trends in Business Activities —

- Production of manufacturing industry in June and July increased in response to the recovery of exports. According to the forecast, production is expected to continue to pick up in August and September. Activity of non-manufacturing industry also grew in June along with the recovery of domestic economic activity.
- However, corporate profits continue to decrease significantly from a year ago. Under these circumstances, cash flow support has been steadily supporting companies.

Contribution of production

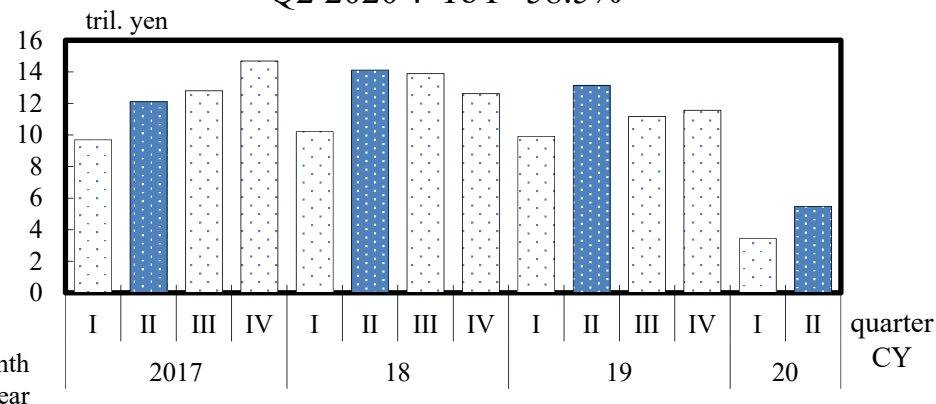


Contribution of Tertiary Industry Activity



Ordinary profit of listed companies

Q2 2020 : YoY -58.5%



Cash flow support from public financial institutions

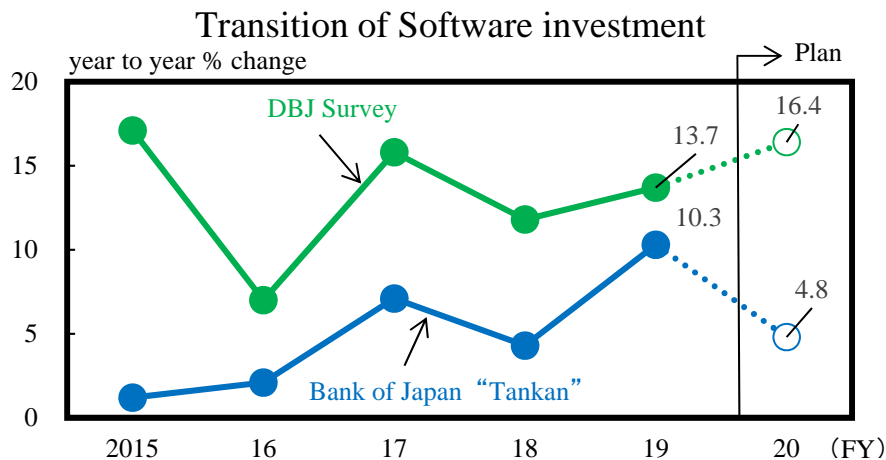
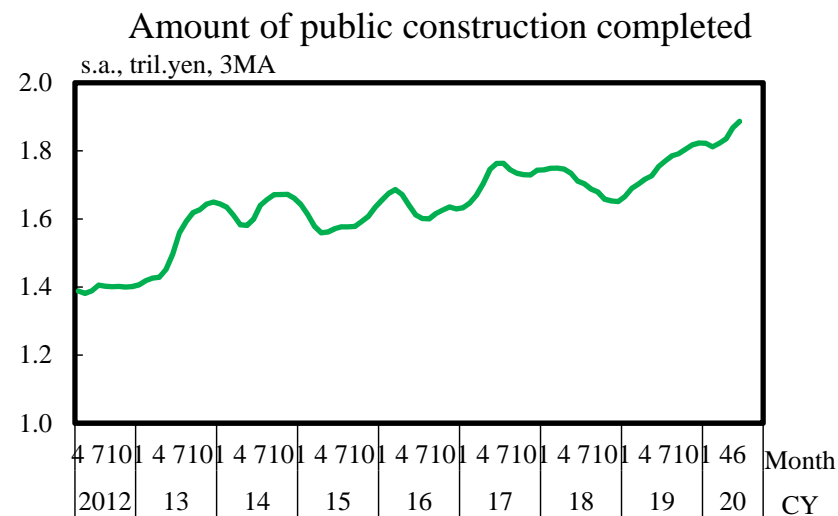
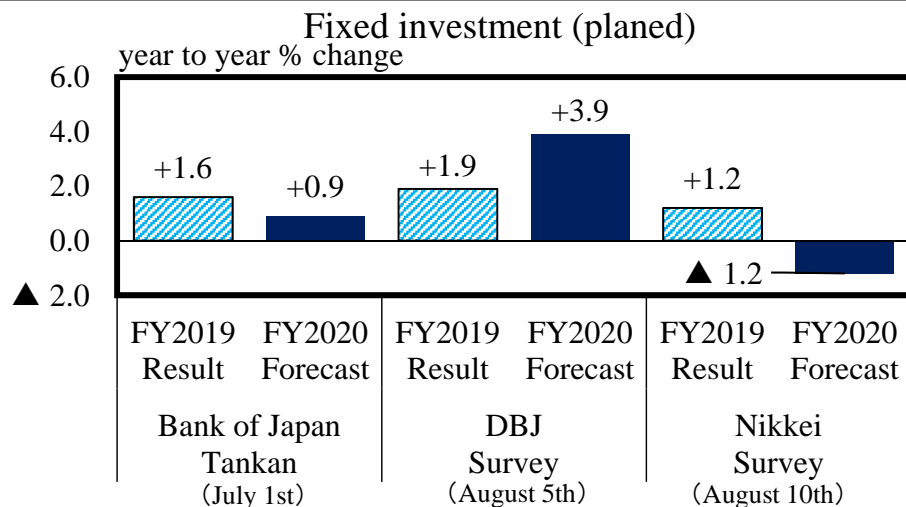
	Japan Finance Corporation	Shoko Chukin Bnak	Private financial institutions	Development Bank of Japan
Total amount of loans	10.5 trillion yen	1.9 trillion yen	12.0 trillion yen	1.9 trillion yen
Number of cases	625 thousand	25 thousand	696 thousand	185

Real interest-free and collateral-free loans:
Approx. 24.4 trillion yen, Approx. 1.34 million pieces

Source: Ministry of Economy, Trade and Industry; NIKKEI NEEDS

— Business investment plan for FY2020 and Public investment —

- The aggregate figure of investment plan for FY2020 suggests that companies are cautious due to the decrease in corporate profits and to the uncertain future. However, the software investment plan for FY2020 still remains on an upward trend.
- Public investment shows steady performance due to the execution of related budgets. It is expected that public investment will continue to support the economy.



Public Works Budget (trillion yen)

FY2019 Supplementary Budget	2.2
FY2020 Initial Budget	7.6
	Temporal and Special Measures 1.0

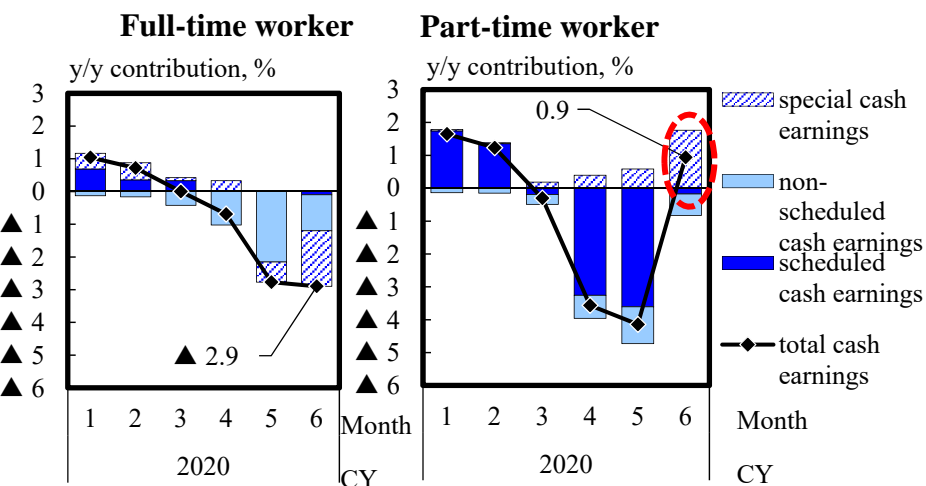
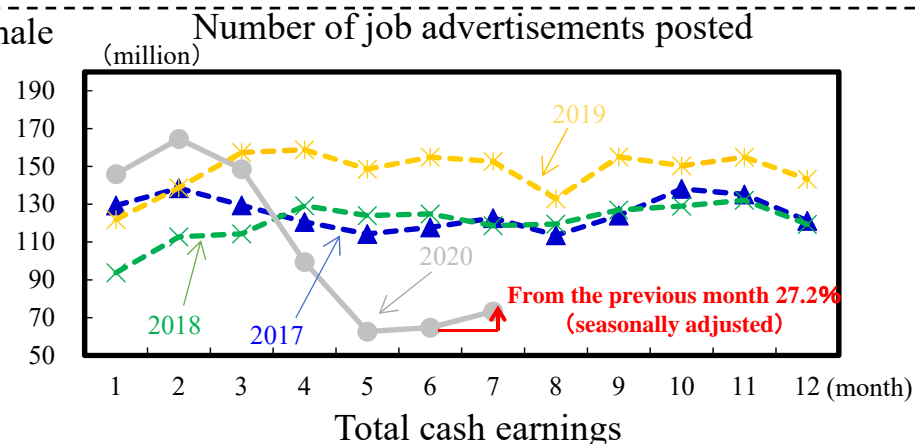
1. Sources :Bank of Japan(BOJ);Tankan, Development Bank of Japan Inc.(DBJ);2020 survey on planned capital spending, Nikkei.
Definition of Fixed Investment. BOJ Tankan; Including Software, excluding land purchasing expenses. DBJ Survey; Excluding Software, including land purchasing expenses.
Nikkei; consolidated bases, including foreign investment. DBJ Survey(Software investment) includes tangible fixed assets related to IT.
2. Source: Ministry of Land, Infrastructure, Transport and Tourism.

– Employment Situation –

- The number of employees has increased by 230,000 between May and July, after a sharp drop in April. Furloughed works decreased by 4.45 million within three months after a significant hike in April. Number of job advertisements posted in July increased from the previous month.
- In June, wages of full-time workers continue to decrease from a year ago. Wages of part-time workers increased due to the contribution of special cash earnings. This reflects the revision of the wage or payment structure of some large firms in response to the changes in the legal framework of labor laws, related to “the equal pay for equal work reform”.

Employment status 2020 (seasonally adjusted) million [] →female

	Employment	The number of employees who laid off work	Unemployed	Unemployment rate	Non-labor force
Mar	67.32 [29.96]	2.00 [1.28]	1.72 [0.69]	[2.5%]	41.80 [26.62]
	↓ (-1.07)	↓ (+4.52)	↓ (+0.06)		↓ (+0.94)
Apr	66.25 [29.26]	6.52 [3.90]	1.78 [0.68]	[2.6%]	42.74 [27.30]
	↓ (+0.04)	↓ (-1.51)	↓ (+0.19)		↓ (-0.21)
May	66.29 [29.47]	5.01 [3.03]	1.97 [0.75]	[2.9%]	42.53 [27.02]
	↓ (+0.08)	↓ (-2.34)	↓ (-0.03)		↓ (-0.10)
Jun	66.37 [29.51]	2.67 [1.55]	1.94 [0.75]	[2.8%]	42.43 [26.94]
	↓ (+11)	↓ (-60)	↓ (+2)		↓ (-17)
Jul	66.48 [29.33]	2.07 [1.16]	1.96 [0.83]	[2.9%]	42.26 [27.05]
Apr ↓ Jul	+0.23 [+0.07]	-4.45 [-2.74]	+0.18 [+0.15]	+0.3% points	-0.48 [-0.25]

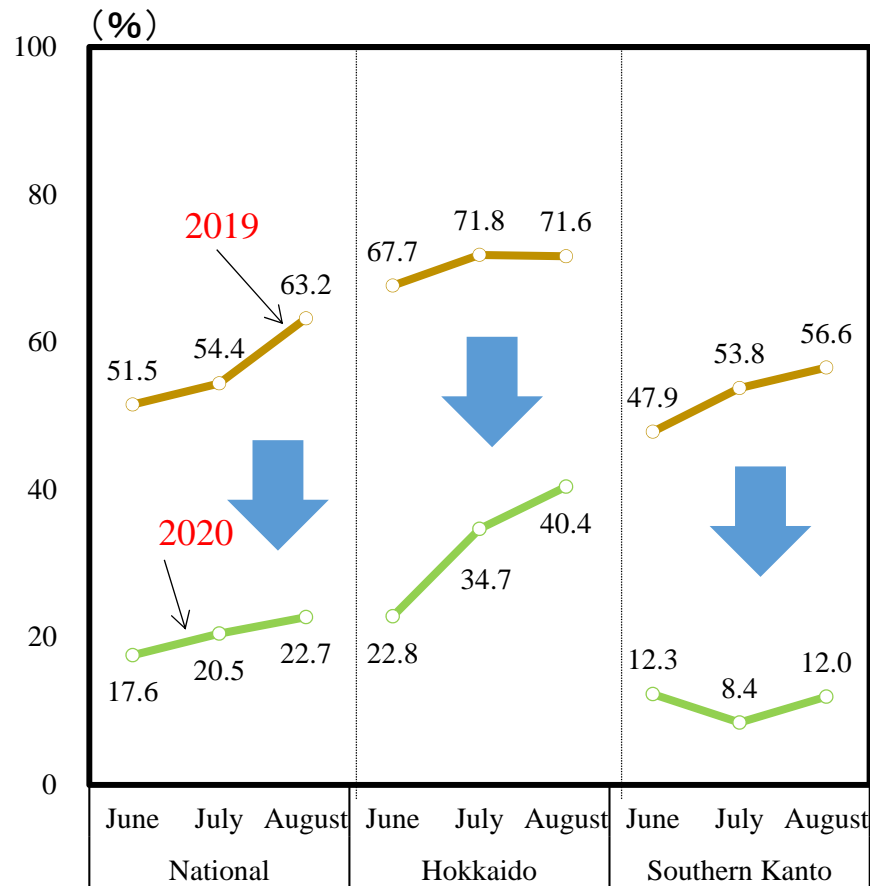


Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications, Association of job information of Japan

— “New normal” for everyday life —

- The accommodation occupancy rates has remained at a low level compared to a year ago. It is necessary to promote the “travelling in the new normal“, and to aim at balancing the prevention of infection, and the socio-economic activities of enjoying travel safely.

Accommodation Occupancy Rates by Region



Travelling in “the New Normal”

It contains basic precautions for preventing infections during travel and notes for each stage of the trip.

Ex)

- Wear a face mask to protect you and people around you.
- Through out your travels, always remember to wash your hands.
- Practice social distancing for your own peace of mind.
- Refrain from conversation while using the public transportation.
- Enjoy food and drink more with less talk.
- Be a smart traveler. Begin the day with a health check.

– “New normal” for everyday life –

- In order to create “the new normal” for everyday life together, businesses will be encouraged to take thorough infection prevention measures in line with industry-specific guidelines while providing support through subsidies for sustaining businesses and making use of private-sector dynamism through deregulation.
- The government will develop an action plan by the end of this year in order to build “the new normal” for everyday life early, including digitization, regional revitalization, investment for human capital and innovation, and realizing inclusive society.

Examples of responses to “the new normal” for everyday life with COVID-19

< Compliance with industry-specific guidelines >

- Businesses are asked to take thorough infection prevention measures in accordance with **industry-specific guidelines**. The gyms that are members of industry associations have not experienced clusters of infections after reopening due to compliance with the guidelines.
- These businesses are supported by **subsidies for sustaining businesses** of up to 2 million yen and other means.

< Deregulation >

- **Permit criteria for road occupation** for restaurants and other businesses will be relaxed until November for **takeout and terrace operations**. Occupancy fees are also exempted for those who also clean up the area.
- Responding an increase in demand for home delivery, **carriage of food and beverages by taxis** is permitted until September (to be continued). **The service of having taxis pick up prescription drugs** is clarified through notification (legally acceptable).

Terrace operation on the road



Delivery by taxi



Developing an action plan

We will develop an action plan for the topics below by the end of this year in order to build “the new normal” for everyday life.

1. Intensive investment and utilization for digitalization
2. Regional revitalization
3. Enhancing investment for human capital and innovation
4. Realizing inclusive society
5. Realizing a vigorous Japanese economy under a new world order

Investment Plan for FY2020.

Development Bank of Japan Inc. Survey
(Large Enterprises)

<Manufacturing>

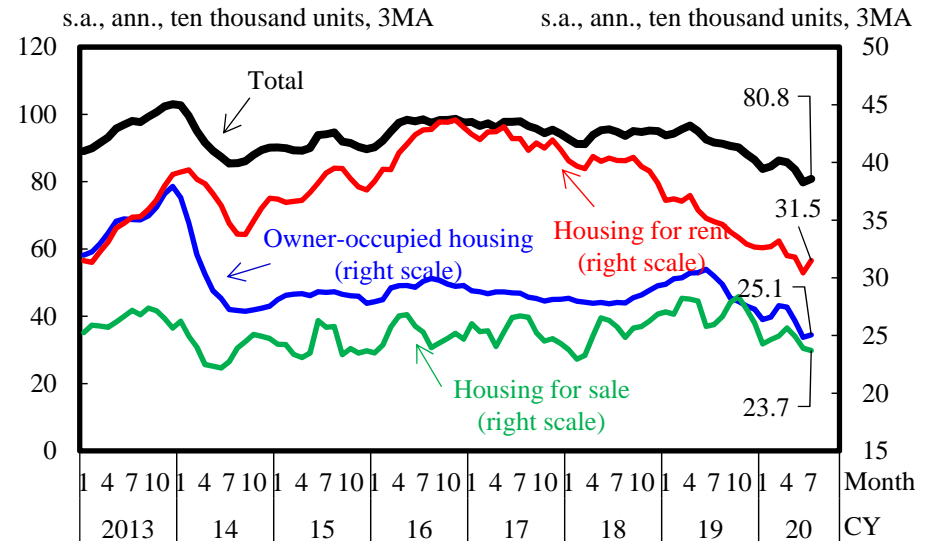
Sectors	y/y	Backgrounds
Chemicals	+ 10.7%	Investment for high functionality materials such as electronic or batteries, and for medical supplies.
Nonferrous metals	+ 33.6%	Investment for expanding capacity for automobile, electronic device, semiconductor etc.
Food & Beverages	+ 9.3%	In addition to rationalization investment, investment for expanding capacity due to expanding demands of health-conscious or ready-made meal.

<Nonmanufacturing>

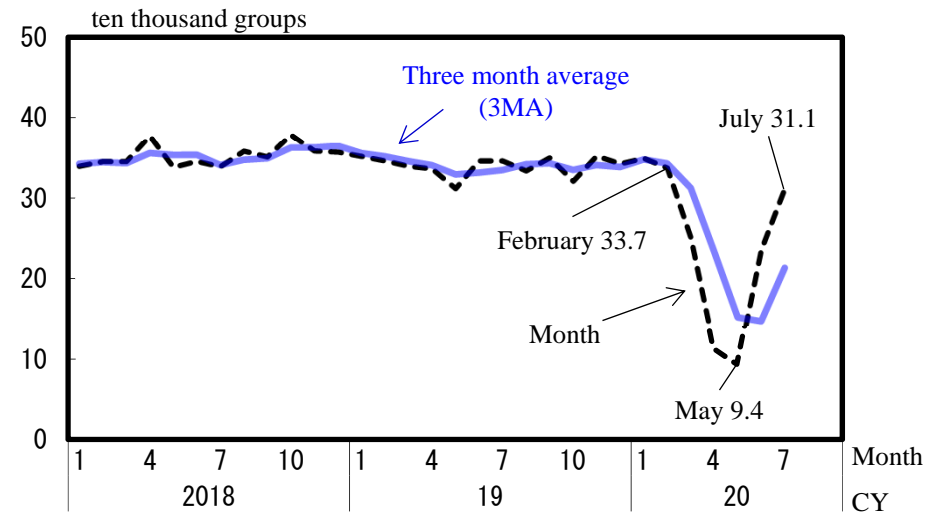
Sectors	y/y	Backgrounds
Electrics	+ 26.0%	Investment of safety measures related to Nuclear power.
Information communication	+ 7.3%	Data center, 5G base station, maintenance of network
Transport	▲ 2.2%	Aggregate figure is expected to decrease due to the investment control on airport or purchasing of aircrafts. However upgrade of speed or safety measures of train, maintenance of logistic facilities is still solid.

Housing investment is in a weak tone.

Housing construction starts



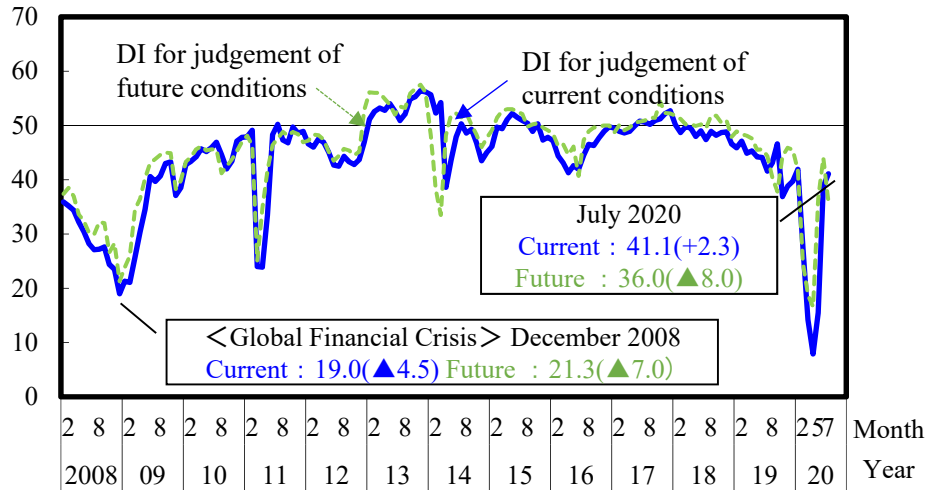
Number of the housing exhibition visitors (couples)



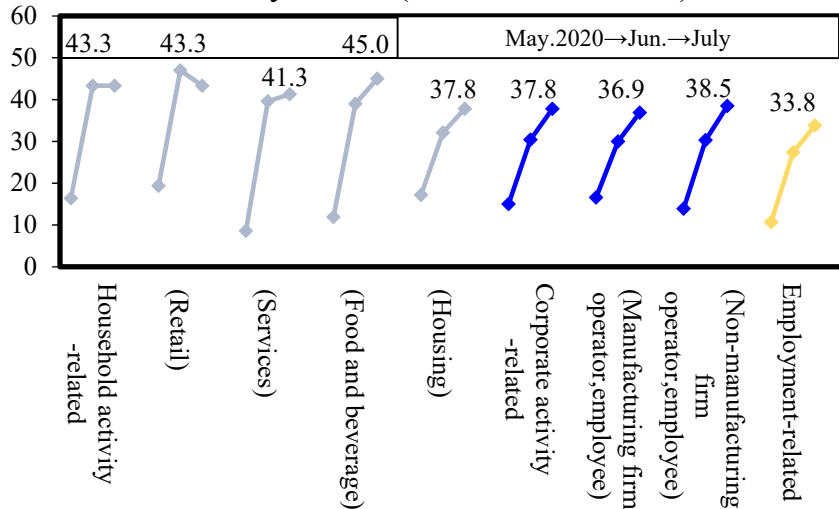
Source: Development Bank of Japan Inc; 2020 survey on planned capital spending. Figures are excluding software investment, including land purchasing expenses. Ministry of Land, Infrastructure, Transport and Tourism. Housing Exhibiter Conference, The Machinami Foundation.

Economy Watchers Survey (Survey period: July 25 to 31)

DI for judgement of current conditions

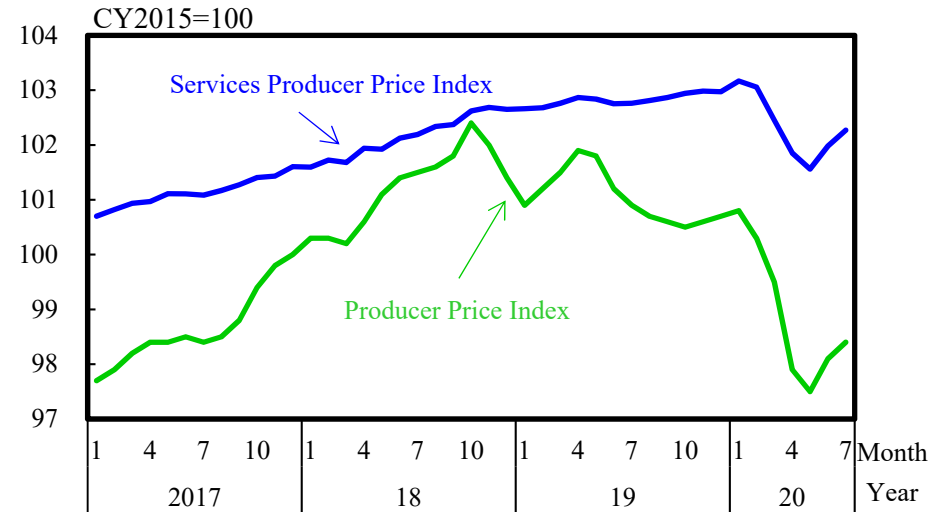


DI by sector (current conditions)

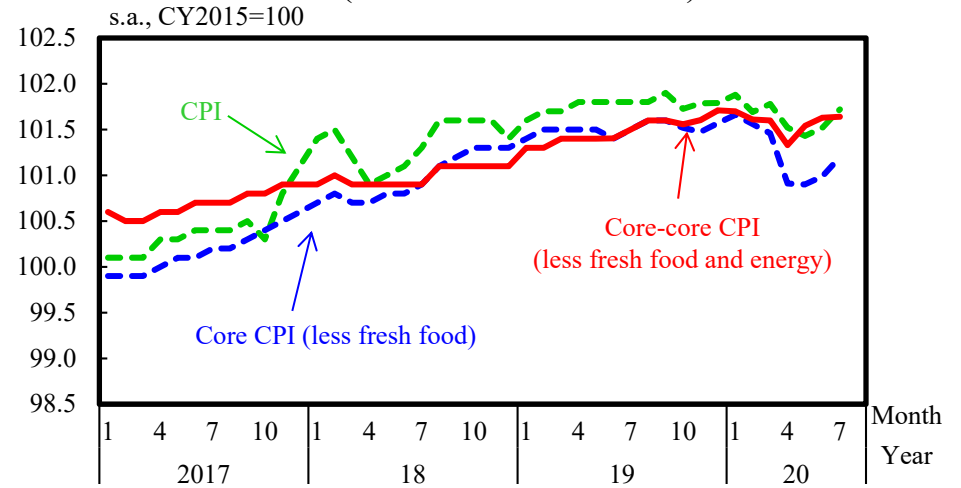


Producer prices are rising moderately recently.
Consumer prices are flat.

Producer Price Index/ Services Producer Price Index



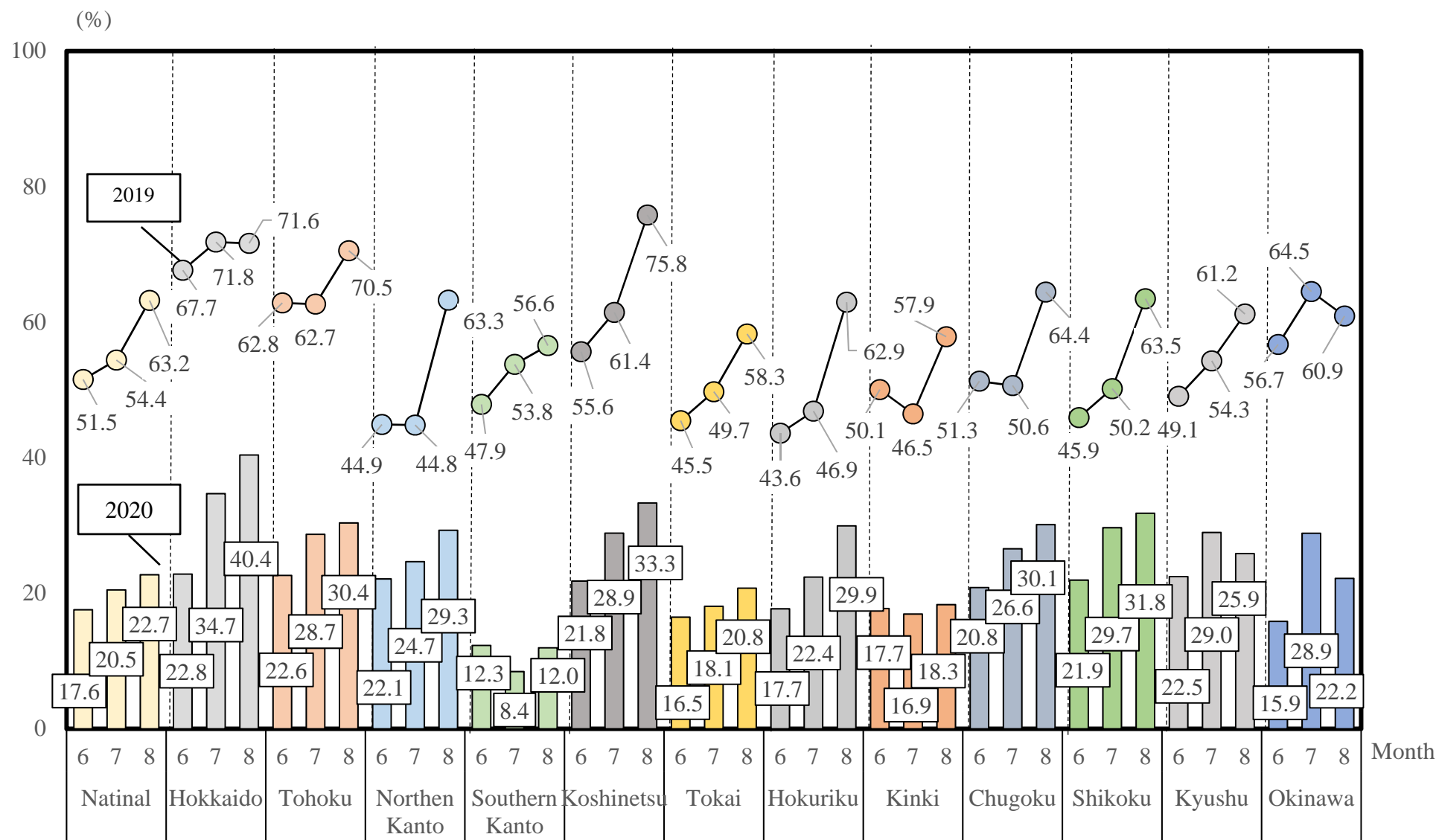
CPI (Consumer Price Index)



Note: The figures in parentheses show the difference from the previous month. Producer price index and services producer price index exclude consumption tax. CPIs exclude the direct effects of the consumption tax increase and free early childhood education and nurseries.

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

Accommodation Occupancy Rates by Region



Source: Kyushu Economic Research Center