

# **Recent Economic Developments**

**- Monthly Economic Report, February 19 2021 -**

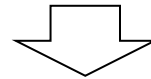
**February 26, 2021**

**Cabinet Office  
Government of Japan**

<Assessment of the current state of the Japanese economy>

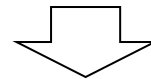
December

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



January

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



February

The Japanese economy shows weakness in some components although it remains in picking up in a severe situation due to the Novel Coronavirus.

**(Unchanged)**

**(Changed)**

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

	December	January	February
Private consumption	Private consumption is picking up as a whole, while weakness can be seen in some sectors.	Private consumption appears to be pausing for picking up.( ↓ )	Private consumption has been in a weak tone recently.( ↓ )
Business investment	Business investment is decreasing recently.	Business investment is starting to level off.( ↑ )	Business investment is showing movements of picking up recently.( ↑ )
Exports	Exports are increasing.	Unchanged	Unchanged
Industrial production	Industrial production is picking up.	Unchanged	Unchanged
Corporate profits	Corporate profits are decreasing substantially due to the influence of the infectious disease, but the rate of decline is becoming smaller as a whole.	Unchanged	Corporate profits are picking up as a whole, while weakness is seen in non-manufacturers due to the influence of the infectious disease.( ↑ )
Firms' judgments on business conditions	Firms' judgments show movements of improvement, although some severe aspects remain.	Firms' judgments on current business conditions show cautiousness recently, mainly among non-manufacturers.( ↓ )	Unchanged
Employment situation	Employment situation shows steady movements in some components such as the number of employees, while weakness remains, 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>

December

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while taking measures to prevent the spread of infectious diseases. However, full attention should be given to the further downside risks to the domestic and foreign economy which are affected by the contraction in the socio-economic activities due to the spread of the infectious disease. Also attention should be given to the effects of fluctuations in the financial and capital markets.

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February

The economy is expected to pick 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 even after the state of emergency is lifted. However, full attention should be given to the further increase in downside risks due to the spread of the infectious diseases in Japan and abroad. Also attention should be given to the effects of fluctuations in the financial and capital markets.

# <Policy stance>

(Monthly Economic Report, February 19, 2021)

The Government will make effort toward the reconstruction and revitalization from the Great East Japan Earthquake and coping with disasters becoming ever more severe and frequent. The Government will thoroughly secure people's lives and livelihoods through protecting employment and keeping businesses with determination to avoid a return to deflation absolutely while taking all possible measures towards prevention of the spread of the Novel Coronavirus. The Government will achieve a strong economic growth again through intensive reforms including regulatory reforms and necessary investments for the new purpose including realizing digitization and green society, based on the "Basic Policies for Economic and Fiscal Management and Reform 2020 " and so on.

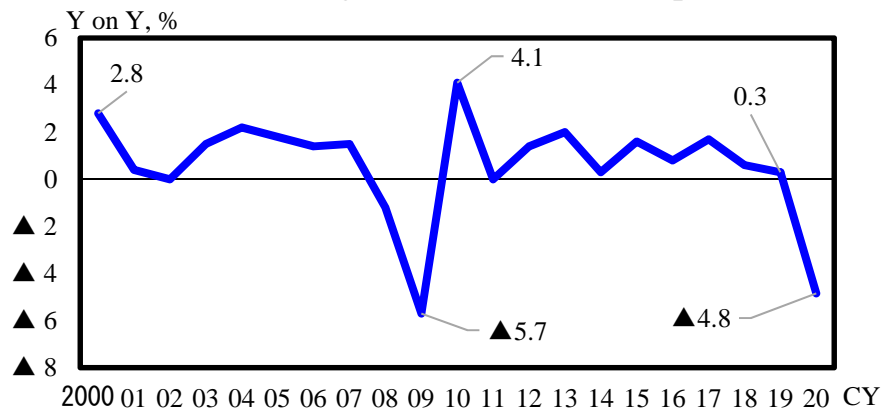
The Government made it 10 prefectures subject to measures under a state of emergency in accordance with the mended Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response since February 8th, extended the duration for which the state of emergency are being implemented until March 7th, on February 2nd. The Government will thoroughly continue to implement measures prioritizing prevention of the spread of infections. The Government will take all possible intensive and efficient support measures for economic impact. Moreover, the Government will achieve a path of economic growth led by private sector through increasing productivity and encouraging continuous wage increases while boldly calling for private investment to growth sectors. The Government will implement "Comprehensive Economic Measures to Secure People's Lives and Livelihoods toward Relief and Hope" etc. and the FY2020 third supplementary budget swiftly and properly, and work for early passage of the FY2021 budget and the related bills. The Government will continue to implement necessary support measures in a timely manner through utilizing reserve fund while paying careful attention to the status of the disease and the economic impact.

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 pay careful attention to the economic impact of the infections and conduct appropriate monetary policy management, and achieve the price stability target of two percent in light of economic activity, prices and financial conditions.

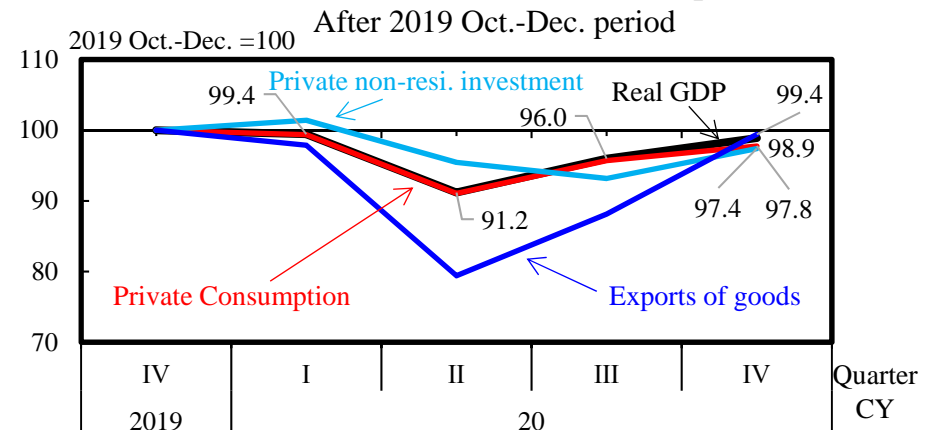
## – GDP: Oct. – Dec. 2020 –

- The real GDP growth rate for 2020 was -4.8%, a significant drop, although not as large as that after the Lehman shock in 2009.
- The real GDP growth rate for the Oct.-Dec. period increased by 3.0% (12.7% annualized) for the second consecutive quarter. In addition to increases in private consumption and exports, private investment also increased for the first time in three quarters. This is a reminder of the potential resilience of the Japanese economy.
- According to the IMF, Japan's real GDP is expected to recover to its pre-Corona level in the second half of 2021.

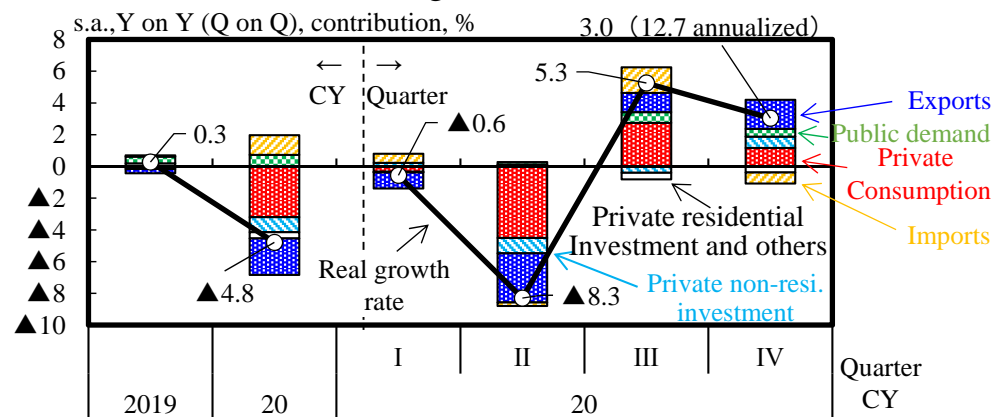
Real GDP growth rate (CY) in Japan



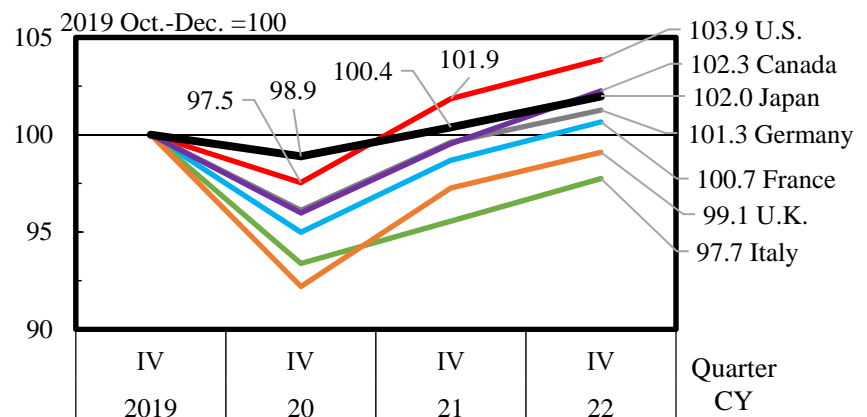
Real GDP and main demand component



Real GDP growth rate



Real GDP in Oct.-Dec. of each year according to IMF

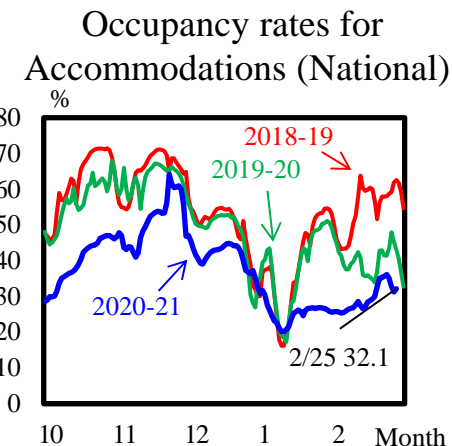
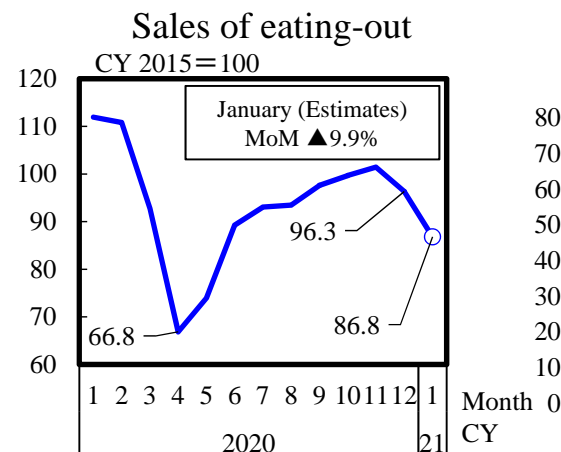
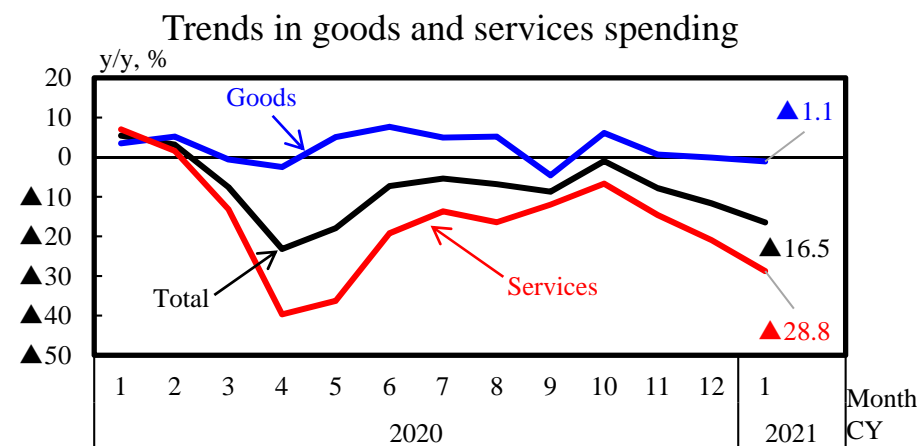
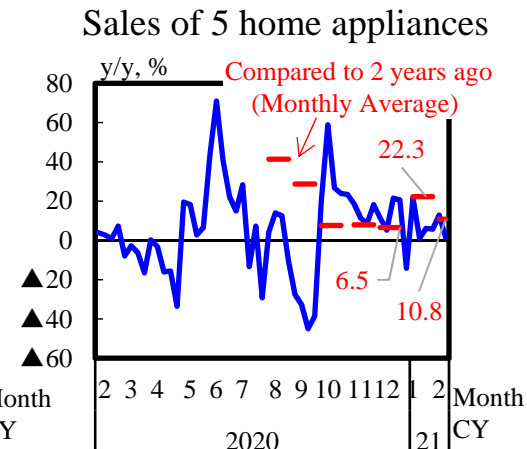
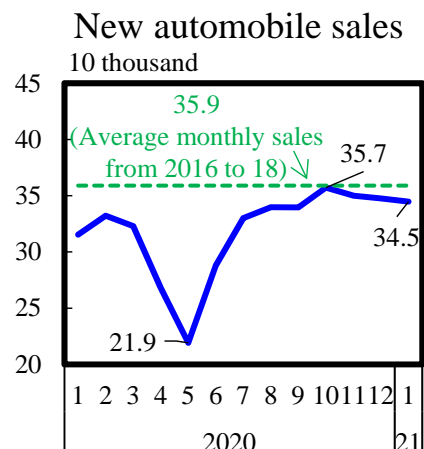
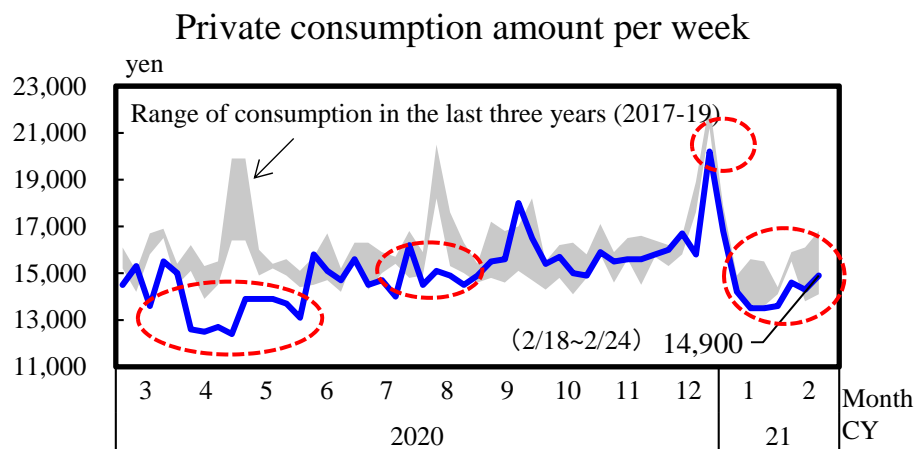


Source: Cabinet Office, International Monetary Fund

Note: "Private residential Investment and others" above includes private non-resi. investment and change in private inventories.

## — Private consumption —

- Weekly consumption spending grew at a certain level during the year-end and New Year, although it was lower than the levels during past three years (2017-19). After that, the state of emergency was issued, and it has been moving near or lower than levels realized during past three years.
- Consumption trends based on card spending show that goods spending holds firm, while service spending is weak. New automobile sales and sales of 5 home appliances remain firm. On the other hand, sales of eating-out decrease further, and the occupancy rates for accommodations has remained weak. Private consumption has been in a weak tone as the whole.

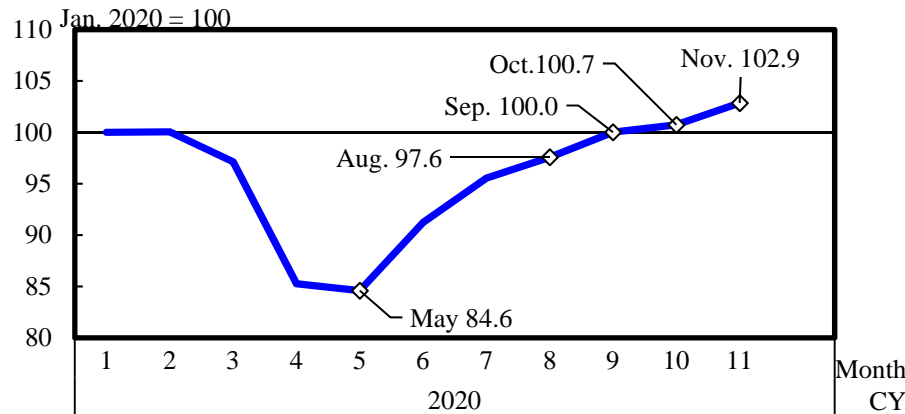


Sources: Macromill, Inc. ; NOWCAST, INC. ; JCB Co. Ltd ; Japan Automobile Dealers Association ; Japan Light Vehicle and Motorcycle Association ; Ministry of Economy, Trade and Industry ; Japan Foodservice Association ; Kyushu Economic Research Center.

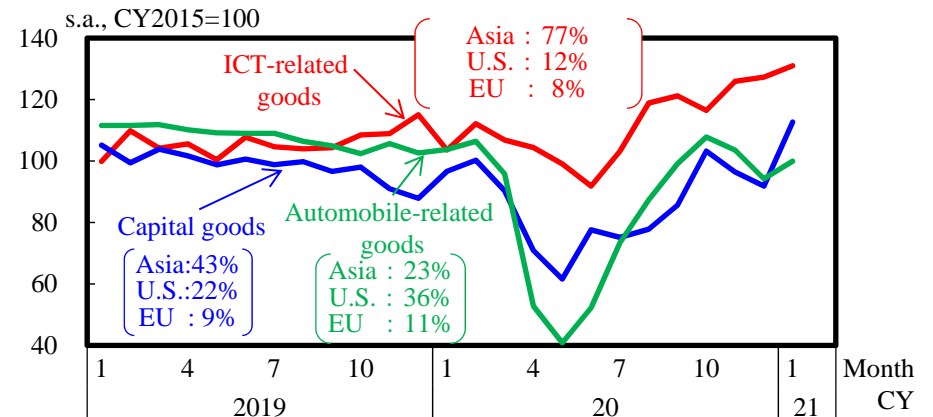
## – Export & Production –

- Japan's exports are also increasing, driven by strong demand from Asia, and have recovered to pre-Corona pandemic levels. While exports of automobile-related goods have lost momentum against the backdrop of recovery in production and inventories around the world, exports of ICT-related goods, which are mainly towards Asia, remain robust.
- Industrial production continues to pick up, centered on electronic parts and devices, which are in strong demand for 5G-related products.

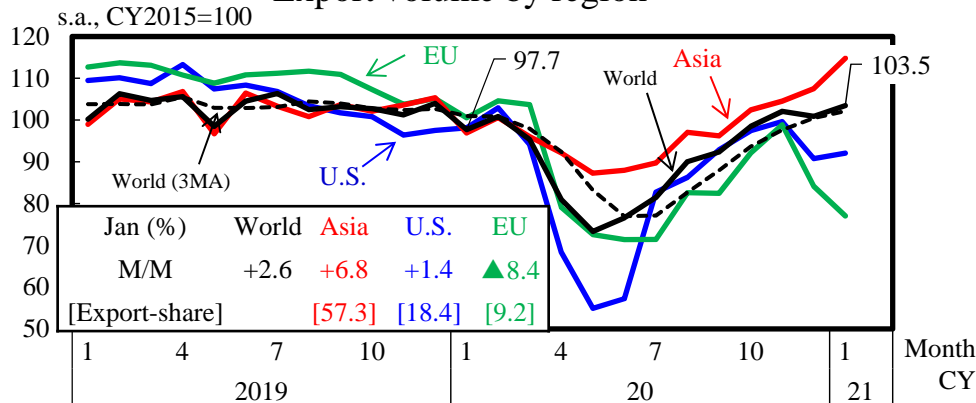
World goods trade



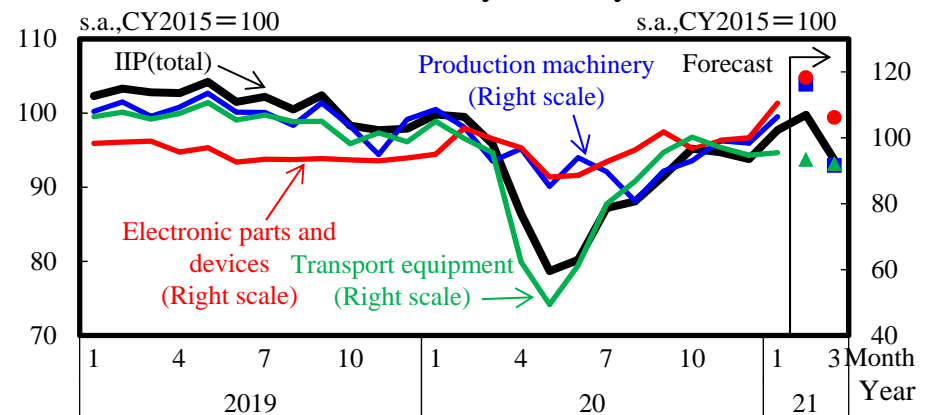
Export volume by goods



Export volume by region



Production by industry



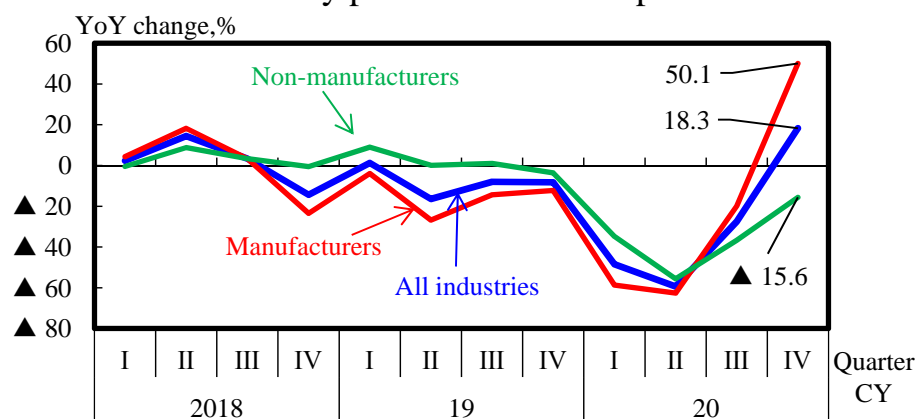
Sources: Ministry of Finance, Ministry of Economy, Trade and Industry



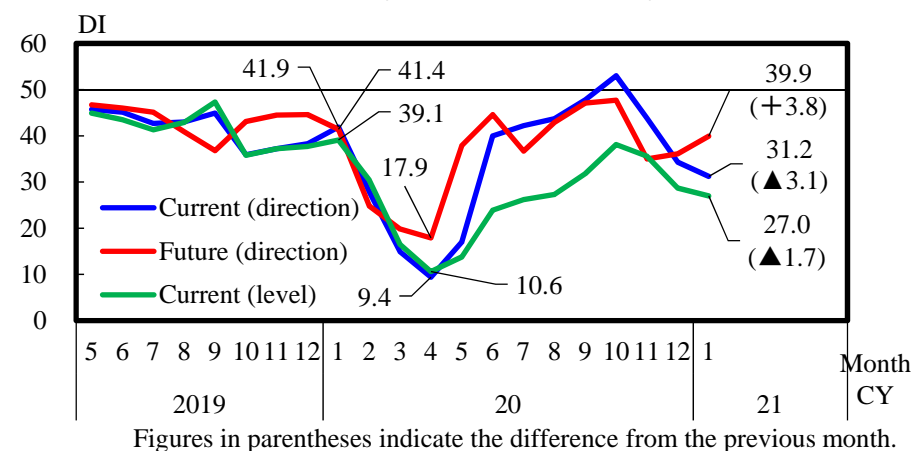
## — Trends in Business Activities —

- Corporate profits are picking up as a whole driven by manufacturers, while weakness can be seen in non-manufacturers. Manufacturers' profits have surged thanks to the recovery in automobile production and 5G related demand, while non-manufacturers in transport and wholesaling & retailing sectors are still in a severe situation.
- The number of corporate bankruptcies is decreasing moderately recently with the government's financial support, although close attention should still be paid on future developments.

Ordinary profit of listed companies



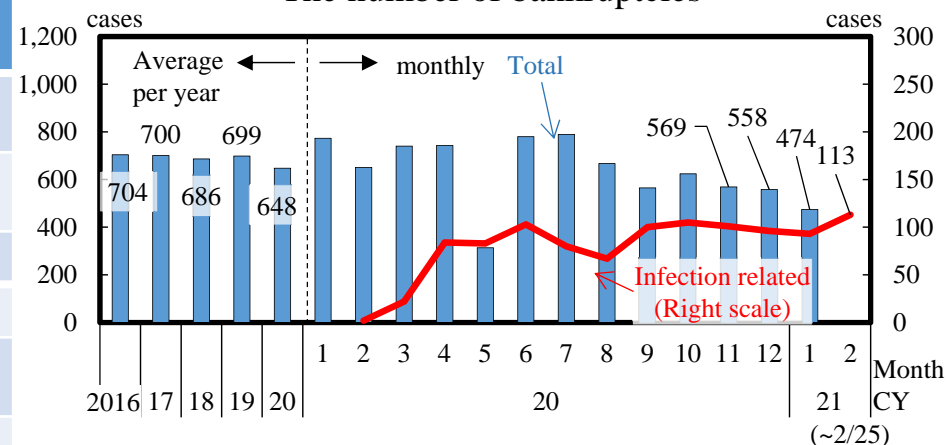
Economy Watchers Survey



Ordinary profit by sector

	Sector	YoY contrib.	Background
Manufacturers	Transportation Machinery	+16.2%	Recovery of automobile production
	Electrical Machinery	+14.7%	5G related demand; strength in gaming and music businesses
	Iron & Steel	+10.5%	Recovery of automobile production
Non-manufacturers	Transportation	▲12.9%	Decrease in the number of travelers
	Wholesaling & Retailing	▲2.6%	Decrease in consumption; deterioration of the commodity market conditions
	Information communication	+1.8%	Strength in gaming and payment service businesses

The number of bankruptcies

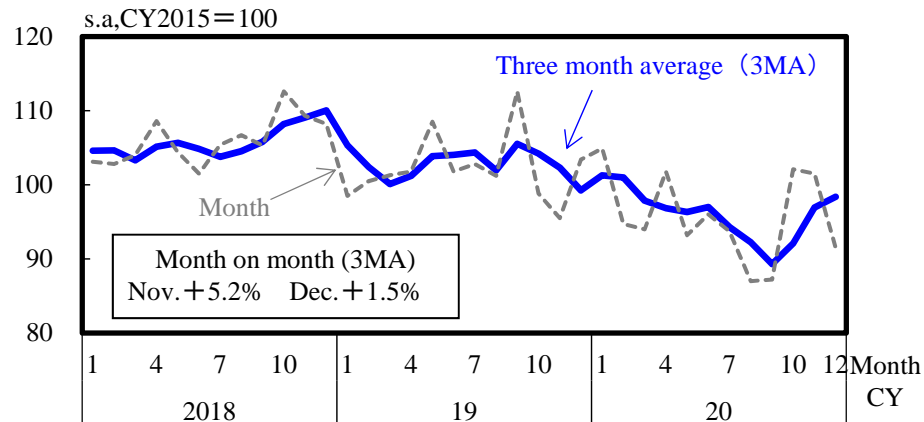


Source: NIKKEI NEEDS, Tokyo Shoko Research, Cabinet Office

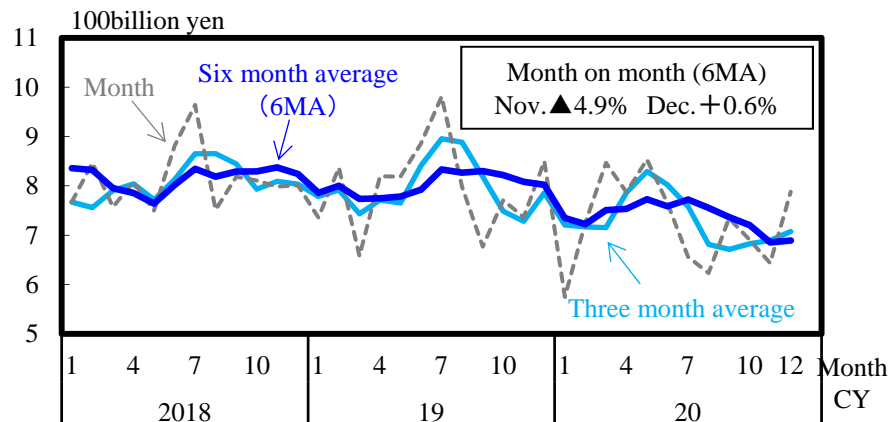
## — Trends in Business investment —

- Business investment is picking up recently as machinery investment has turned upward trends and non-residential investment is bottoming out.
- For the domestic private machinery orders, which is a leading indicator of machinery investment, the orders from manufacturers (ex. Automobile or Production industry) are increasing due to the pick up of production. The orders from non-manufacturers (ex. Telecommunications and Information services) are increasing.

### Machinery investment



### Non-residential investment



### Machinery orders

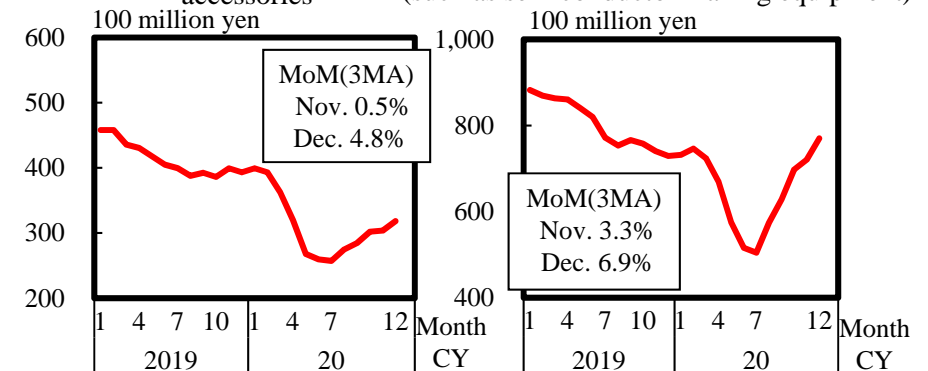
(leading indicator of machinery investment ,three month average)

**Manufacturing : Dec. month on month (3MA) 6.9%**

Automobiles, parts and accessories

Production machinery

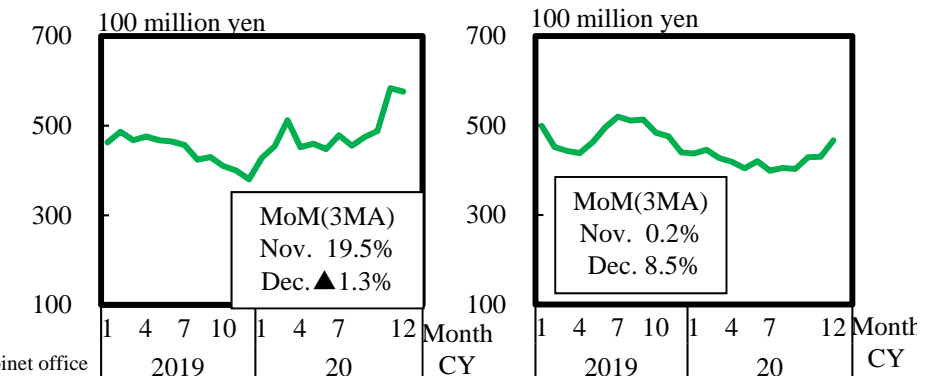
(such as semiconductor making equipment)



**Non-manufacturing : Dec. month on month (3MA) 7.6%**

Telecommunications

Information services



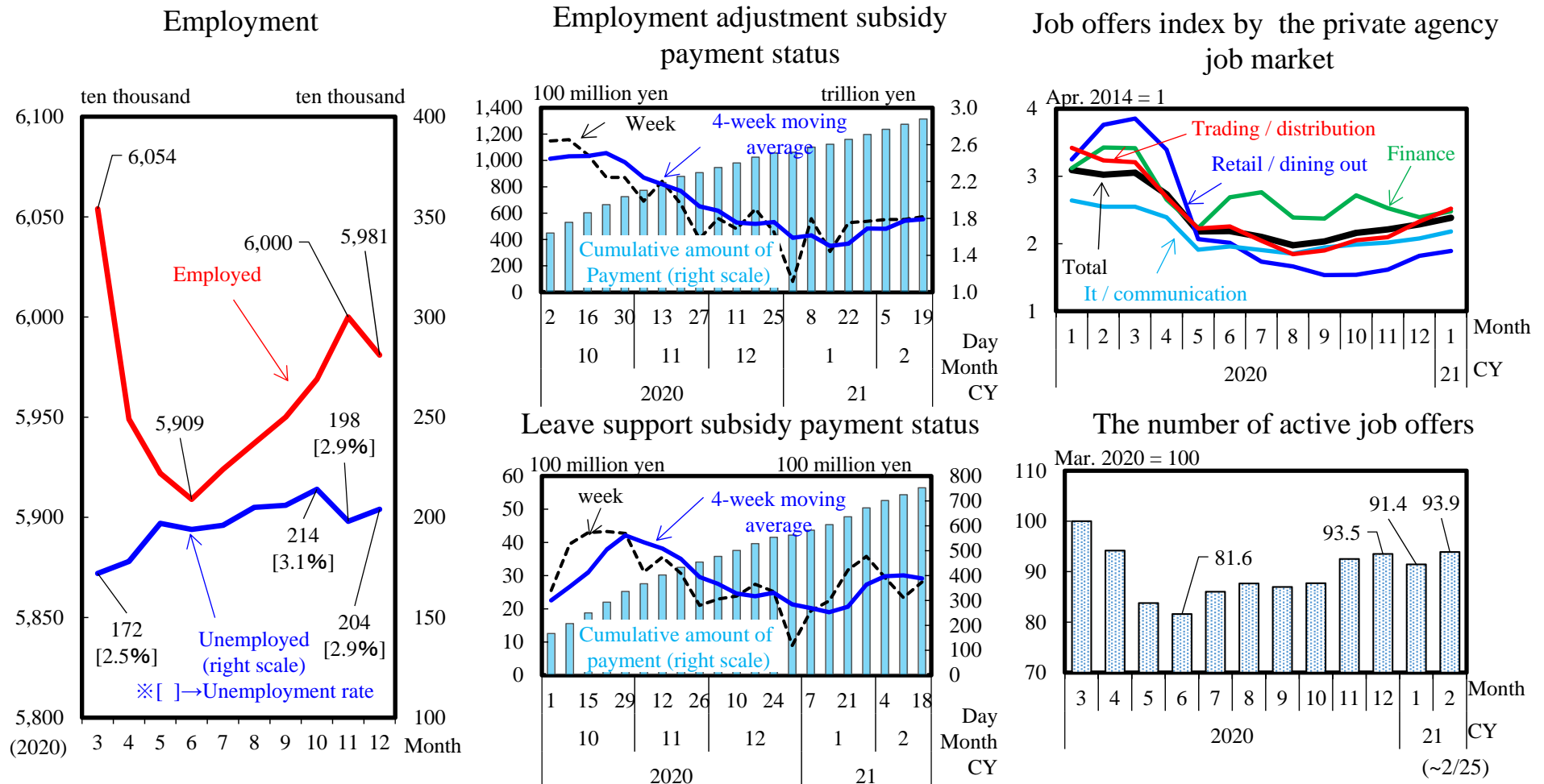
1. Source: Ministry of Economics, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism, Cabinet office

2. The figure of Production machinery (such as semiconductor making equipment) orders is the figure of General-purpose and production machinery orders.

3. Share of investment: Machinery 46%, Structure 25%, Software 10%, R&D 18%

## — Employment Situation —

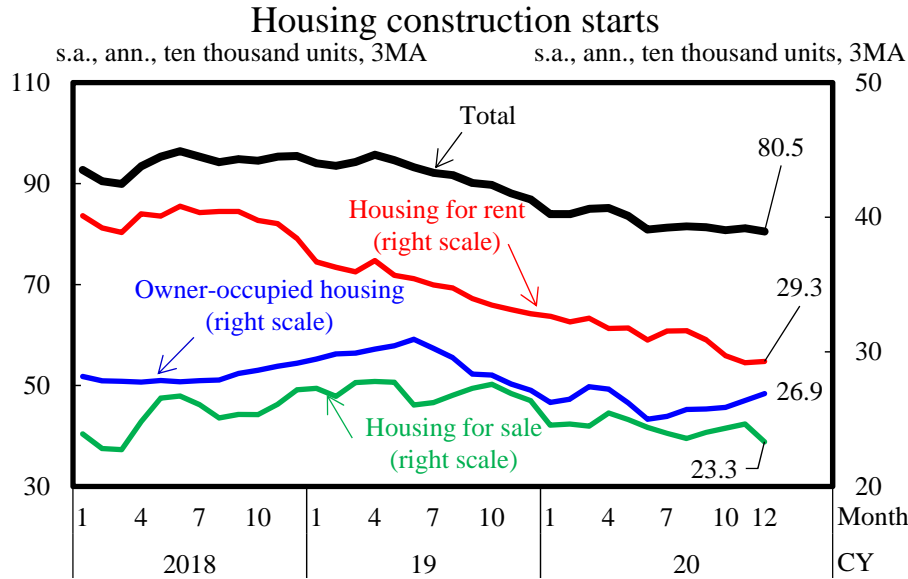
- The number of employees decreased by 190,000 from the previous month in December, but it is on a recovery trend. The level is still below March last year. The unemployment rate has been around 3%.
- Under these circumstances, the amount of employment adjustment subsidy and leave support subsidy which contributes to supporting furloughed workers and alleviating the burden on corporate management caused by the re-spread of infection slightly increase recently.
- There is some resilience in the private agency job market in January and Hello Work jobs in February, however both are below the level of March last year. Overall, the employment situation remains weak.



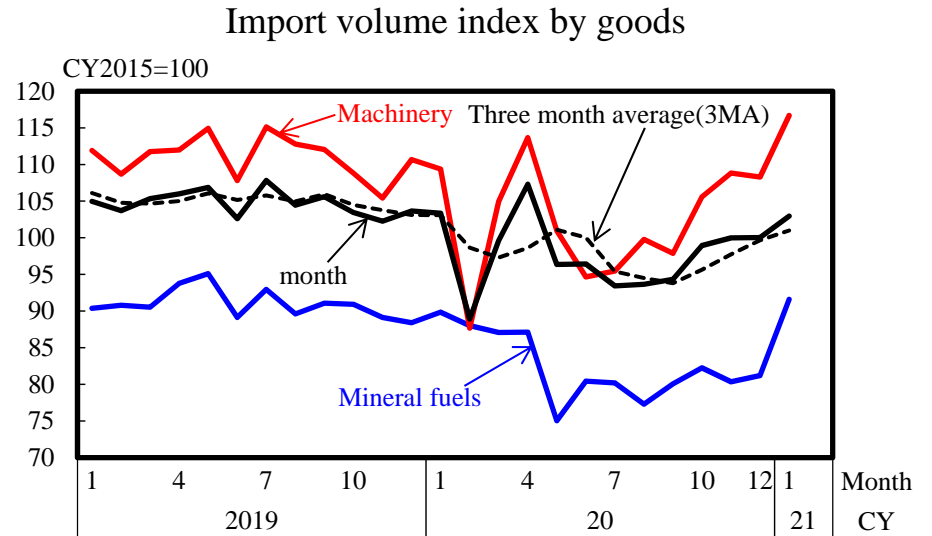
Source: PERSOL CAREER CO., LTD., Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications

# Reference

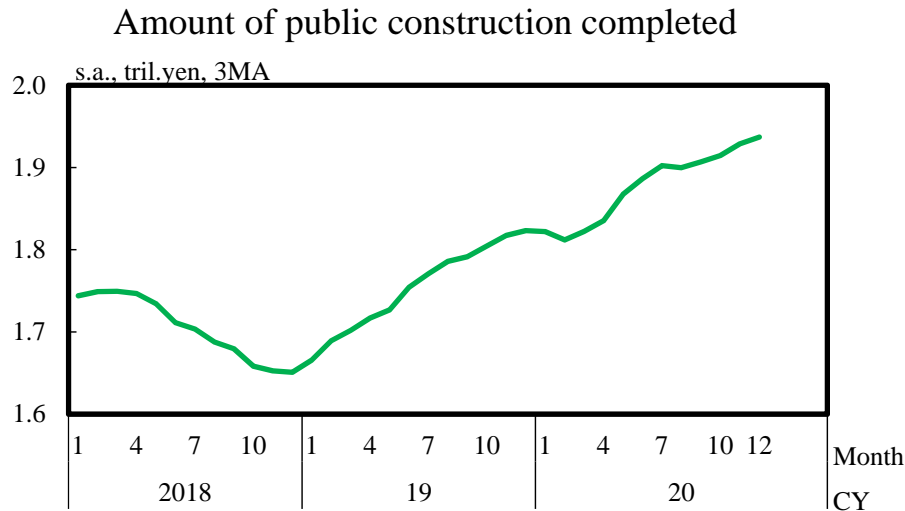
Housing investment is almost flat.



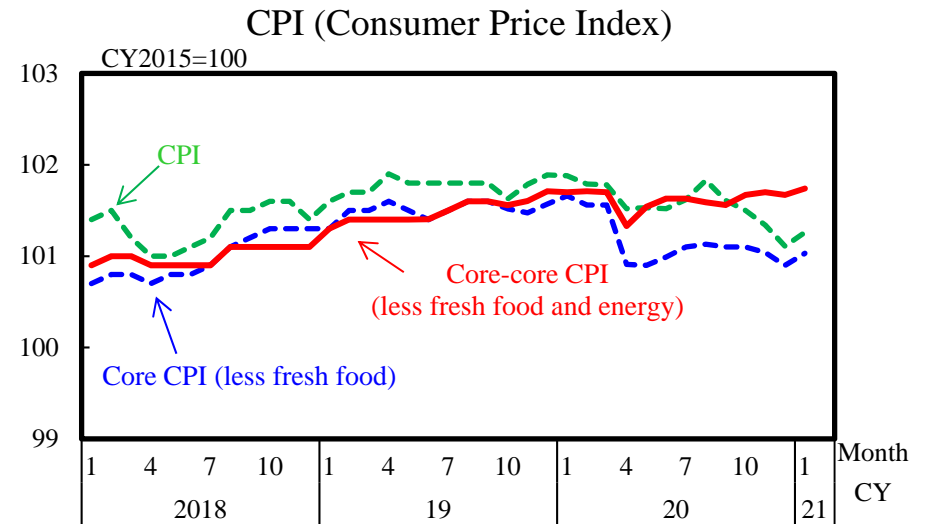
Imports show movements of picking up.



Public investment shows steady performance.



Consumer prices are flat



Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Finance, Ministry of Internal Affairs and Communications, Cabinet Office.

Note: CPIs exclude the direct effects of the consumption tax increase, free early childhood education and nurseries, and the Go to Travel Campaign.