

Recent Economic Developments

- Monthly Economic Report, May 26 2021 -

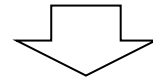
June 4, 2021

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

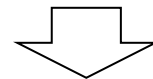
March

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



April

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



May

The Japanese economy shows weakness in some components further, 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>

| | March | April | May |
|---|---|---|---|
| Private consumption | Private consumption has been in a weak tone recently. | Unchanged | Private consumption shows weakness further recently, especially in service spending.(↓) |
| Business investment | Business investment is showing movements of picking up recently. | Business investment is picking up.(↑) | Unchanged |
| Exports | Exports are increasing at a slower pace recently. | Exports are increasing at a slower pace.(→) | Exports continue to increase moderately.(→) |
| Industrial production | Industrial production is picking up. | Unchanged | Unchanged |
| Corporate profits | Corporate profits are picking up as a whole, while weakness is seen in non-manufacturers due to the influence of the infectious disease. | Unchanged | Unchanged |
| Firms' judgments on business conditions | Firms' judgments on current business conditions show movements of picking up, although some severe aspects remain. | Unchanged | Firms' judgments on current business conditions appear to be pausing for picking up, while some severe aspects still remain.(↓) |
| 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>

March

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. However, full attention should be given to the movement of infections would affect the domestic and foreign economy. Also attention should be given to the effects of fluctuations in the financial and capital markets.

April

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 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.

May

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 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.

(Unchanged)

<Policy stance>

(Monthly Economic Report, May 26, 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.

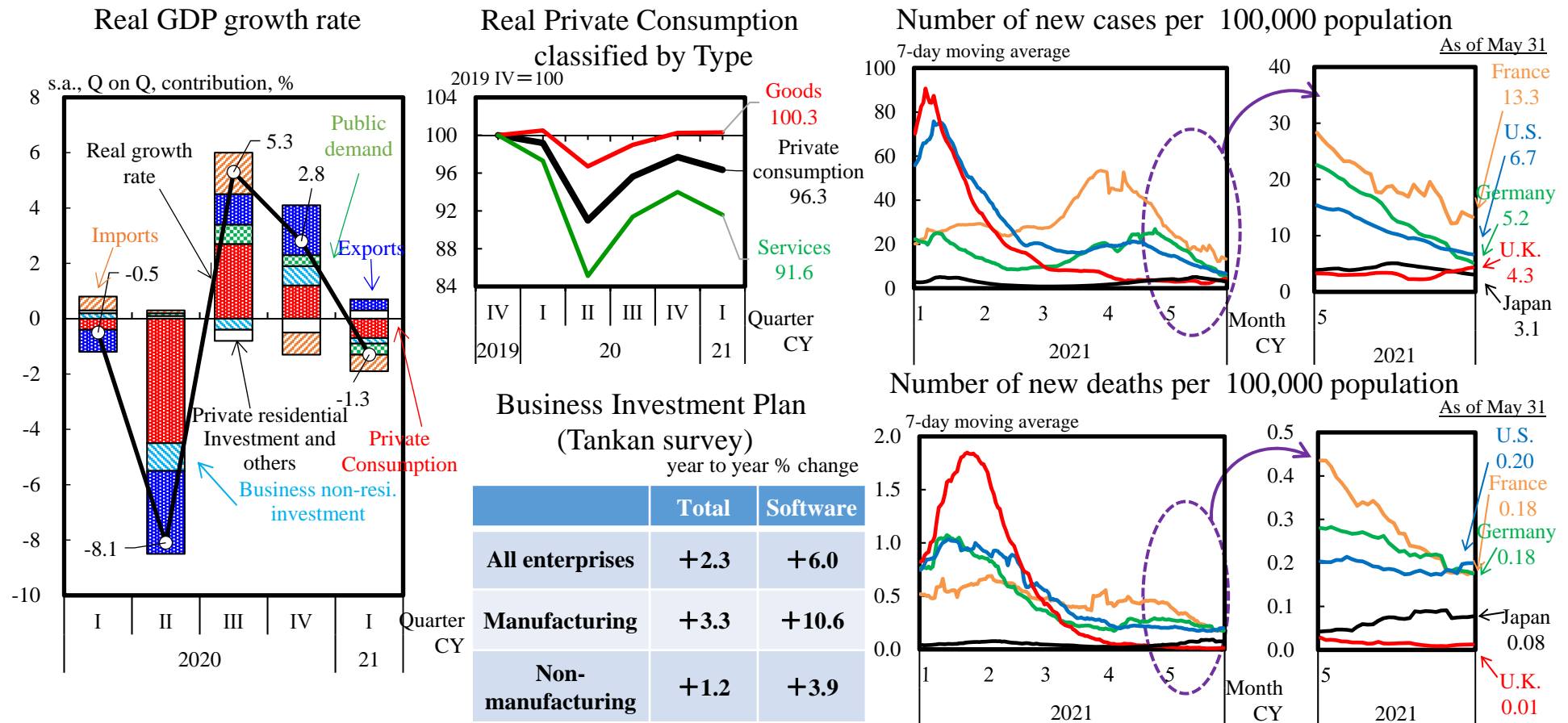
The Government implements the state of emergency measures in designate 10 prefectures and priority measures such as for prevention of the spread of disease in designate 9 prefectures in accordance with the mended Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response, and will thoroughly continue to implement measures prioritizing prevention of the spread of infections, and 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 the FY2020 third supplementary budget and the FY2021 budget swiftly and properly, and 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 Government will decide the "Basic Policies for Economic and Fiscal Management and Reform 2021", etc. by June, in order to build up a robust economy, through such measures as promoting green and digital fields and raising the revenues of people living in rural areas, with the post-COVID-19 era in mind, while prioritizing tackling of countermeasures against the Novel Coronavirus and vaccination, and to come up with solutions to long-standing issues, including countermeasures against the declining birthrate.

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: Jun. – Mar. 2021 & Situation of infectious diseases —

- The real GDP growth rate for the Jan. – Mar. 2021 period decreased by 1.3% for the first time in three quarters. Private consumption turned negative, as goods spending have continue to hold firm but services spending was weak due to the declaration of second state of emergency. Exports has been increasing as overseas economies recovered.
- Although business investment decreased from the previous quarter, investment plan is projected to increase in FY2021 with particularly high growth in software investment according to the BOJ Tankan survey (March). This shows the potential resilience of the Japanese economy.
- Considering the increase in the number of people infected with the coronavirus variant strains, in April, a third state of emergency was declared, mainly in large cities. However, the number of new cases and new deaths per 100,000 population in Japan remains low by international standards.

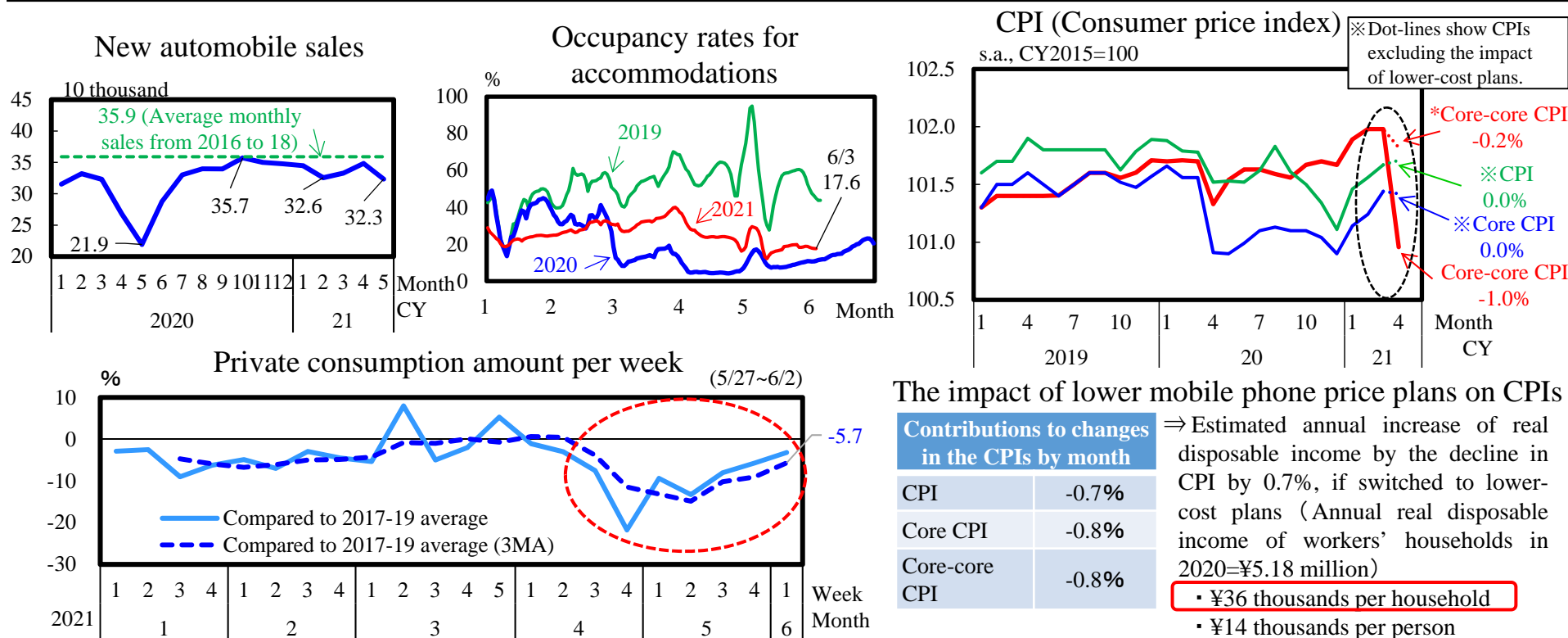


Source: Cabinet Office, Bank of Japan, WHO, CEIC

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

— Private consumption & prices —

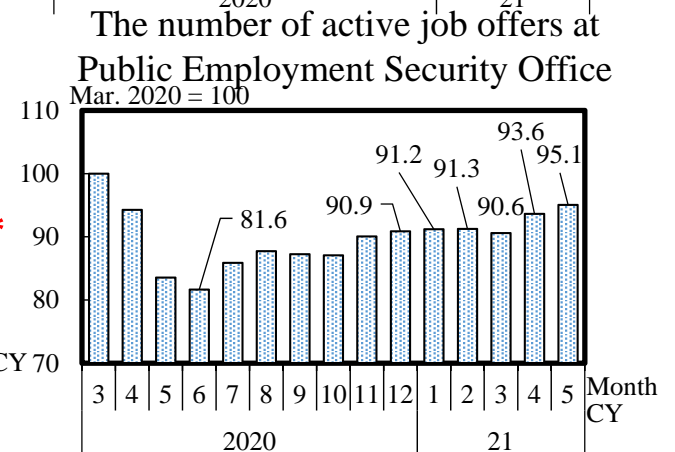
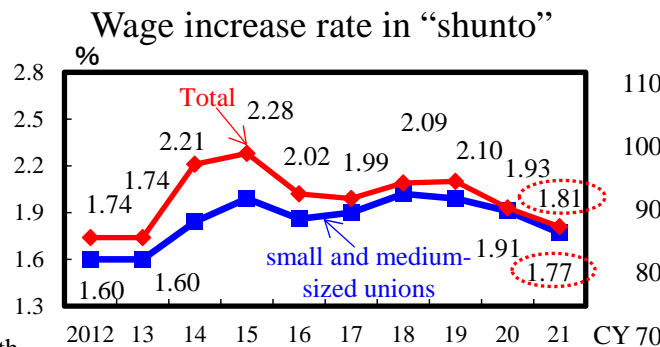
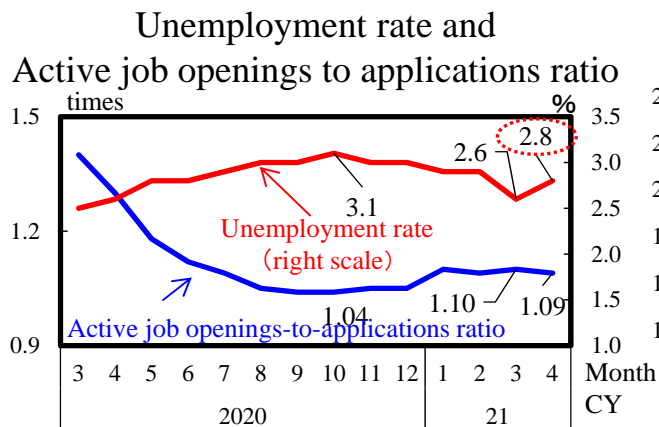
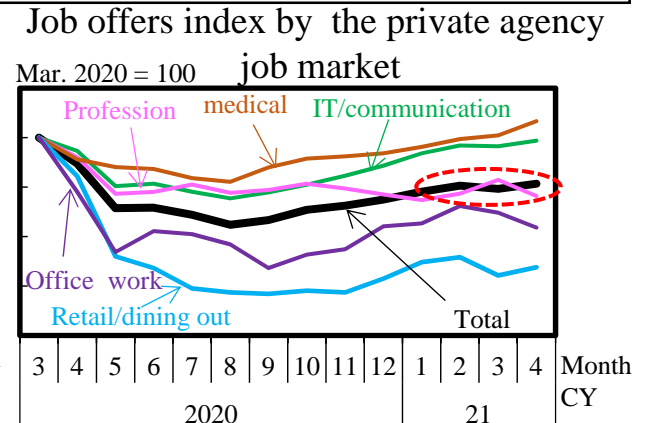
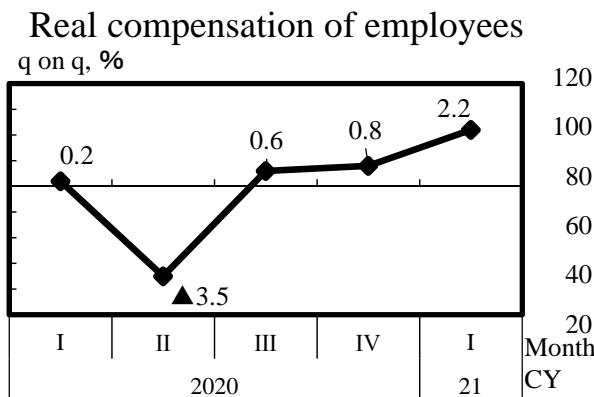
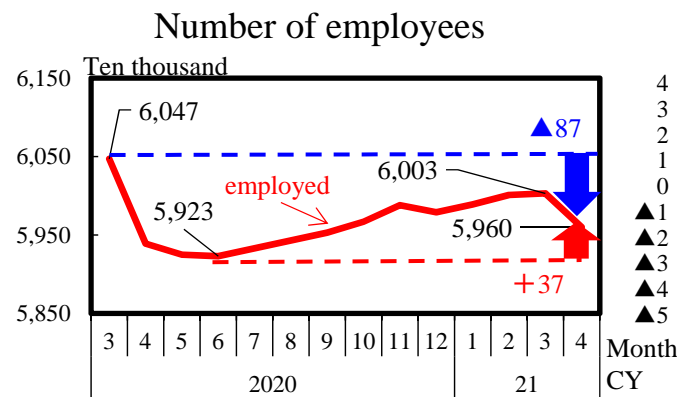
- Goods spending holds firm and services spending remains weak in April. For example, new automobile sales are almost flat. On the other hand, the occupancy rate for accommodations is declining, although there are some fluctuations.
- From late April to mid-May, the negative deviation of weekly consumption from the average for 2017-19 has been widening. As a whole, private consumption shows weakness further recently, especially in service spending. Looking ahead, consumption is expected to recover once mobility restrictions are lifted given the progress of vaccination and the convergence of infectious spread.
- CPIs fell in April due to the cuts in mobile phone fees by major carriers. However, this decline is different from a deflationary situation where prices decrease continuously, triggered by the imbalance between supply and demand. Excluding the impact of lower mobile phone price plans, the core-core CPI is flat. An estimated increase in real disposable income for a household switching to lower-cost plans may contribute to boost private consumption in the future.



Sources: Japan Automobile Dealers Association; Japan Light Vehicle and Motorcycle Association; Kyushu Economic Research Center; Macromill, Inc; Ministry of Internal Affairs and Communications; Cabinet Office.
CPIs exclude the direct effects of the consumption tax increase, free early childhood education and nurseries, and the Go to Travel Campaign. Core CPI excludes fresh food prices, and core-core CPI excludes fresh food and energy prices.

— Employment Situation —

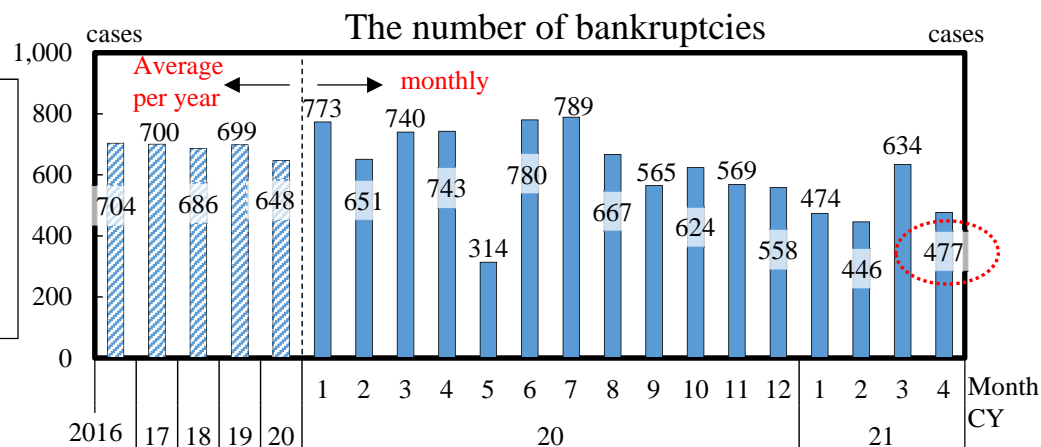
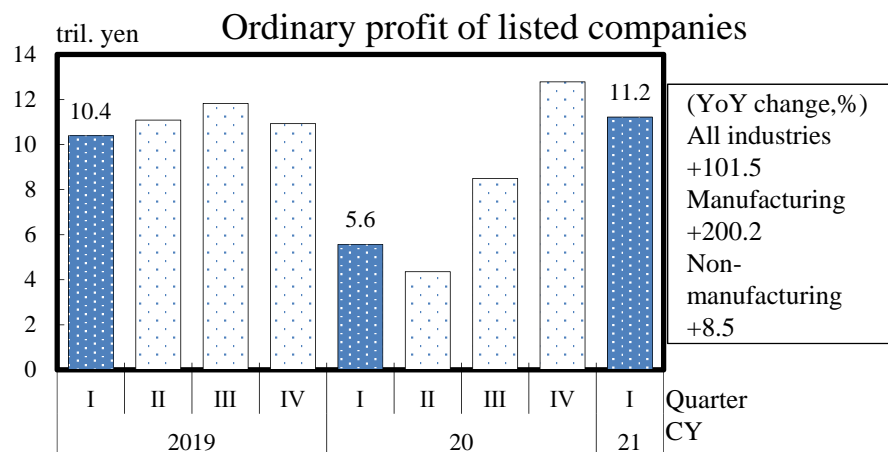
- The number of employees had been increasing since June last year, but it decreased by 430,000 from March to April and is 870,000 fewer than March last year. The unemployment rate was at 2.8% in April thanks to employment adjustment subsidy. The active job openings-to-applications ratio shows movement of picking up, but is lower than the level last year.
- On the other hand, the real compensation of employees increased by 2.2% in the Jan.-Mar. period for the third consecutive quarter.
- According to RENGO, despite the difficult situation, wage increases in “shunto” (spring wage negotiation) were 1.81% in total and were 1.77% in small and medium-sized unions, lower than last year (1.93%, 1.91%) but higher than in 2012 and 2013.
- The number of job offers at the private and public agencies appears to be pausing for picking up. Overall, the employment situation shows steady movements but the trend is weak.



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

— Trends in Business Activities —

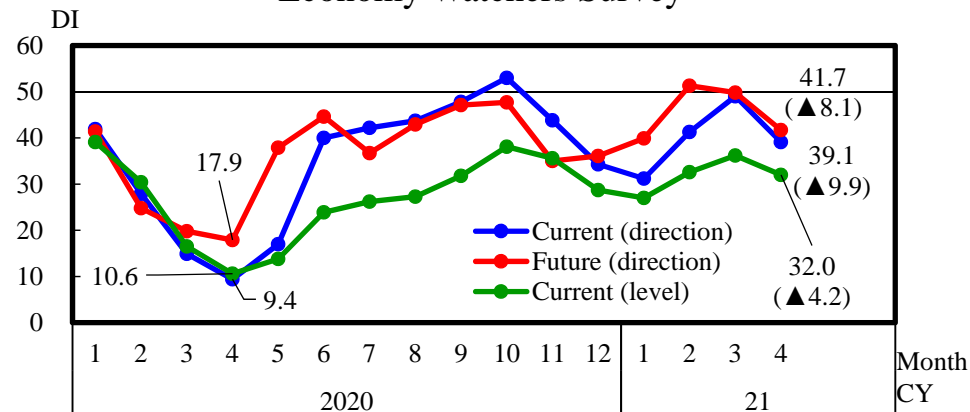
- Corporate profits are picking up as a whole largely driven by manufacturers. Manufacturers' profits have surged thanks to the recovery in automobile production, while in non-manufacturers, weakness is mainly seen in land and air transportations sectors.
- The number of corporate bankruptcies is decreasing with the government's financial support. On the other hand, due in part to the declaration of third state of emergency, in the Economic Watchers Survey in April, the current judgment fell for the first time in three months and the future judgment also fell for the second consecutive month. Firms' judgments on current business conditions appear to be pausing for picking up, while some severe aspects still remain.



Ordinary profit by sector (Jan.-Mar. period 2021)

| | Sector | YoY contrib. | Background |
|-------------------|--------------------------|--------------|---|
| Manufacturers | Transportation Machinery | +57.8 | Recovery of automobile production |
| | Electrical Machinery | +32.7 | DX; strength in entertainment businesses |
| | Oil and coal products | +29.1 | Valuation gains of price surge in resources |
| Non-manufacturers | Wholesaling | +15.6 | Market recovery of iron resources |
| | Air transportation | ▲4.1 | Decrease in the number of users |
| | Land transportation | ▲12.7 | Decrease in the number of users |

Economy Watchers Survey



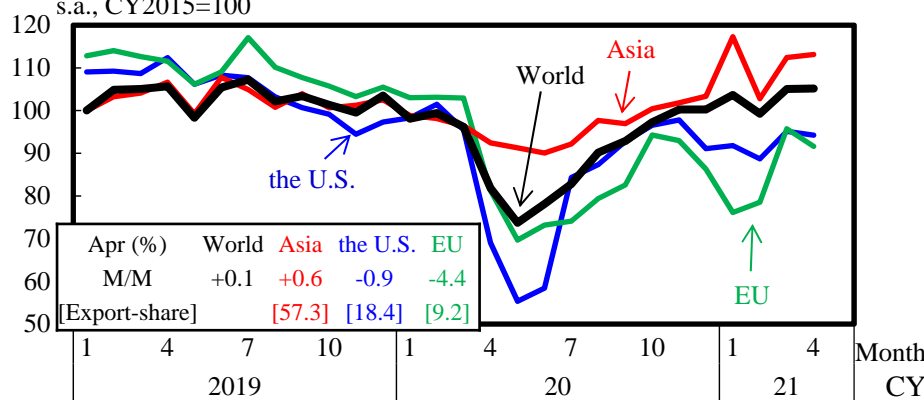
Figures in parentheses indicate the difference from the previous month.

Source: NIKKEI NEEDS, Tokyo Shoko Research, Cabinet Office.

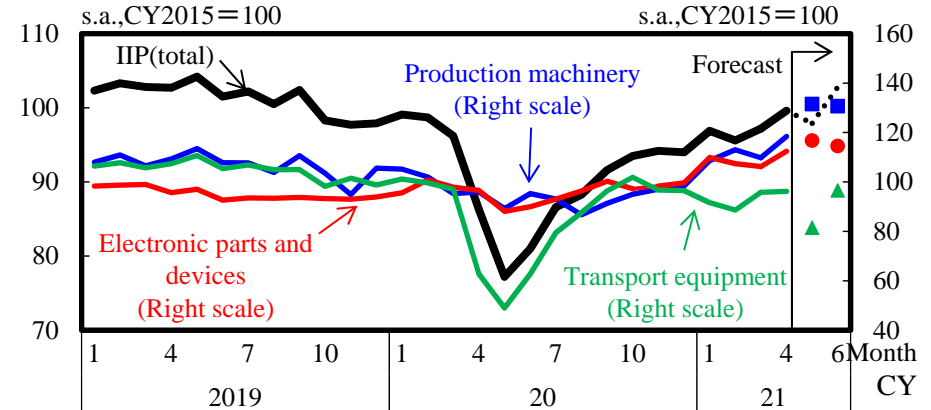
– Export & Production –

- On the back of the recovery in overseas economy, exports continue to increase. Exports of ICT-related goods and capital goods are on increasing trend. It is expected that the U.S. and Chinese economies recover lead to the continuous increase in exports.
- Industrial production is picking up, mainly led by Electronic parts and devices, particularly by strong demand for 5G-related products and Production machinery. Regarding machine tool orders such as machining centers, both domestic and foreign demand continues to increase, and the growth in these sectors are likely to be expected. However, as for automobile production, full attention should still be given to the impact of supply constraints on semiconductor products, which are in short supply worldwide.

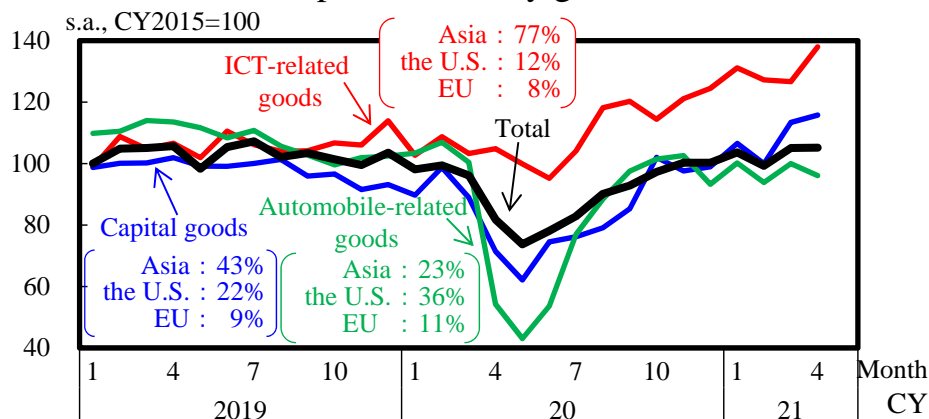
Export volume by region



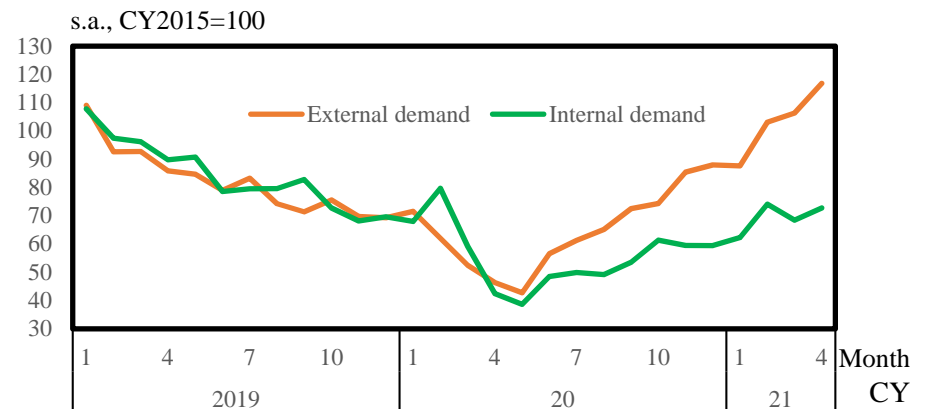
Production by industry



Export volume by goods



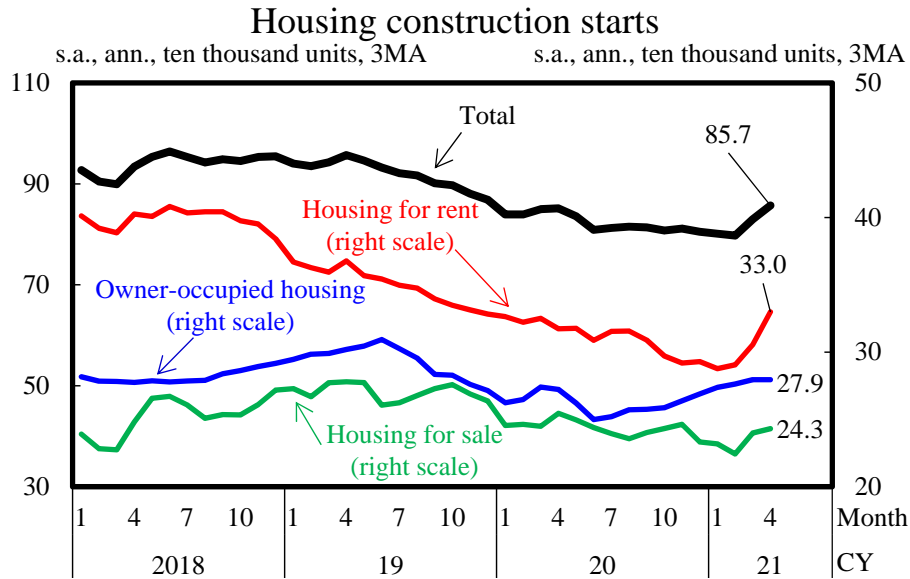
Machine tool orders



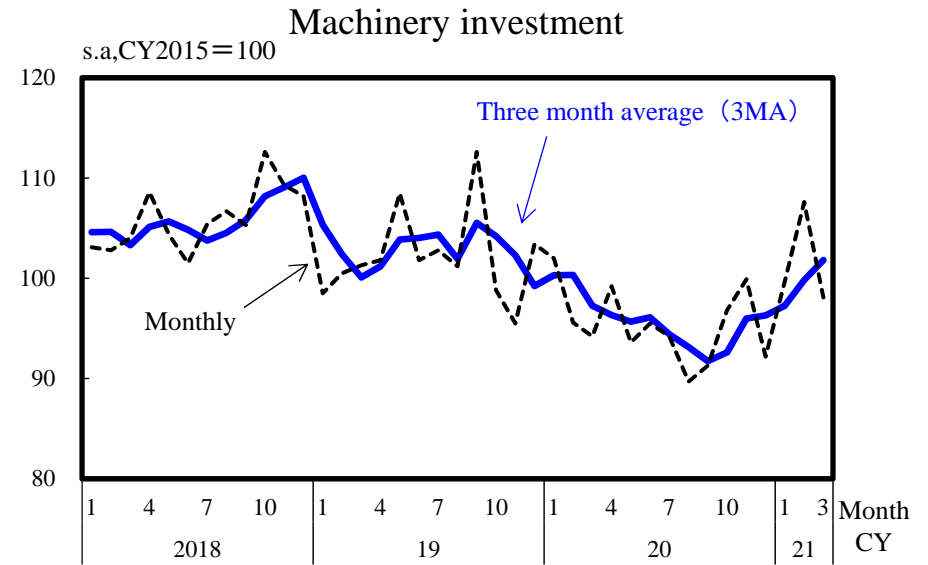
Sources: Ministry of Finance, Ministry of Economy, Trade and Industry, Japan Machine Tool Builders' Association

Reference

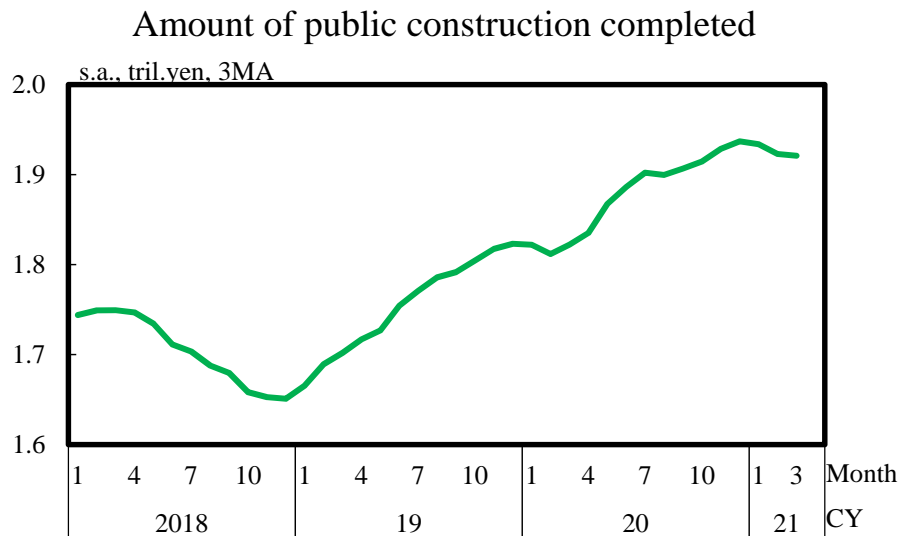
Housing investment is almost flat.



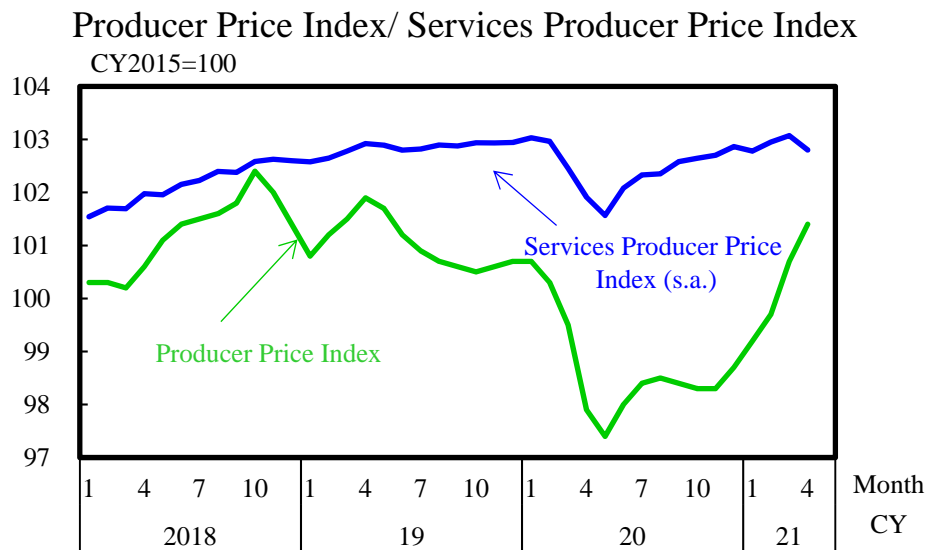
Business investment is picking up.



Public investment holds firm at a high level



Producer prices are rising moderately.



Source: Ministry of Land, Infrastructure, Transport and Tourism, Ministry of Economics, Trade and Industry, Bank of Japan.
 Note: Producer price index and services producer price index exclude the direct effects of the consumption tax increase.