

# **Recent Economic Developments**

**- Monthly Economic Report, June 24 2021 -**

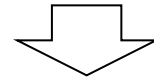
**July 2, 2021**

**Cabinet Office**  
**Government of Japan**

<Assessment of the current state of the Japanese economy>

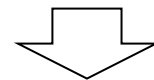
April

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.



June

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

**(Changed)**

**(Unchanged)**

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

	April	May	June
Private consumption	Private consumption has been in a weak tone recently.	Private consumption shows weakness further recently, especially in service spending.( ↓ )	Unchanged
Business investment	Business investment is picking up.	Unchanged	Unchanged
Exports	Exports are increasing at a slower pace.	Exports continue to increase moderately.( → )	Unchanged
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.	Firms' judgments on current business conditions appear to be pausing for picking up, while some severe aspects still remain.( ↓ )	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>

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.

June

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

# <Policy stance>

(Monthly Economic Report, June 24, 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. Furthermore, the Government decided the "Basic Policies for Economic and Fiscal Management and Reform 2021", etc. on June 18th, in order to make intensive investments in four issues, green and digital fields, creation of vibrant communities, and countermeasures against the declining birthrate, and to bring solutions to long-standing problems and achieve a powerful growth.

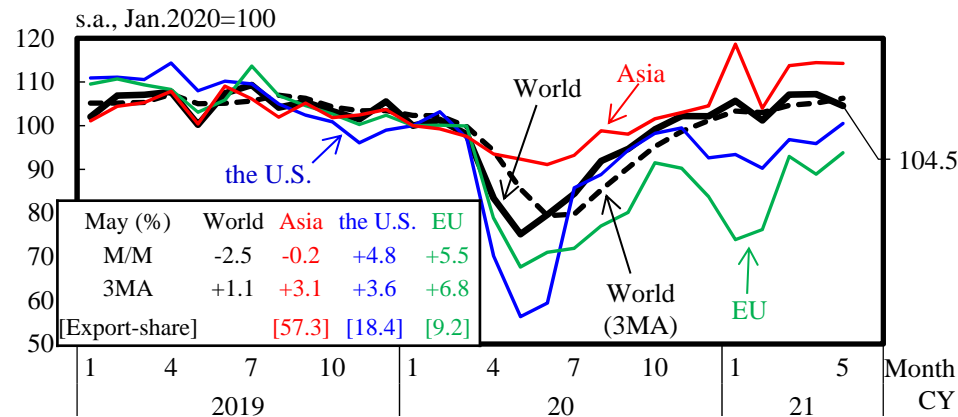
The Government implements the state of emergency measures in Okinawa Prefecture and priority measures such as for prevention of the spread of disease in designate 10 prefectures, after having lifted the state of emergency in 9 prefectures on June 20th. The Government will thoroughly continue to accelerate vaccinations and 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. Moreover, the Government will continue to implement necessary measures in a flexible manner through utilizing reserve fund and conduct flexible macroeconomic policy management to the self-sustaining economic growth without hesitation.

The Bank of Japan decided to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), with a view to continuing to support financing, mainly of firms, on June 18th. 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.

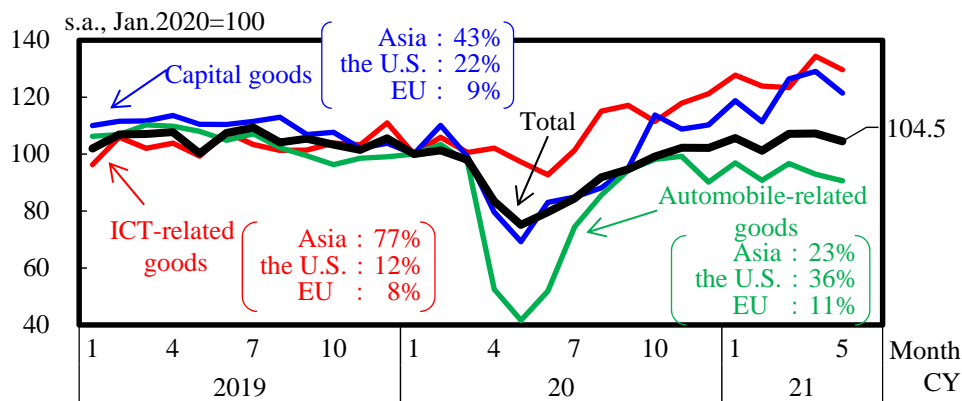
## – Export & Production –

- On the back of the recovery in overseas economy, exports continue to increase moderately. Although exports of automobile-related goods becomes flat, ICT-related goods and capital goods drives the increase in exports.
- Although industrial production decreased in May mainly due to shortage of semiconductors, it is expected to continue to pick up, mainly led by Electronic parts and devices, particularly by strong demand for 5G-related products and production machinery for capital investment. Strong demand for semiconductor products and semiconductor manufacturing equipment is expected to continue for the time being, given that the global semiconductor shipments forecast has been revised upward for 2021 and shipments are expected to increase in 2022 as well.

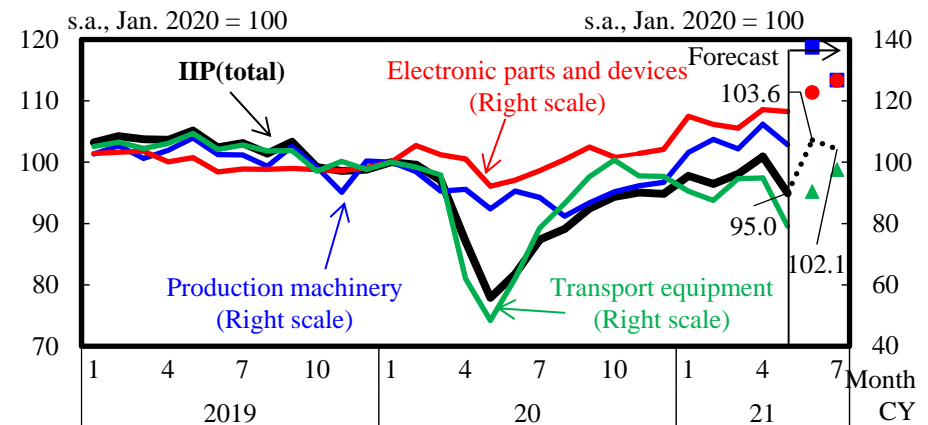
Export volume by region



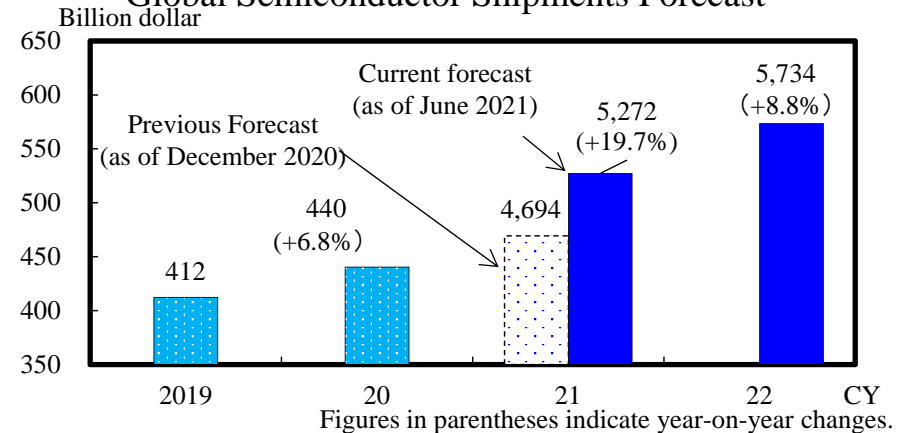
Export volume by goods



Production by industry



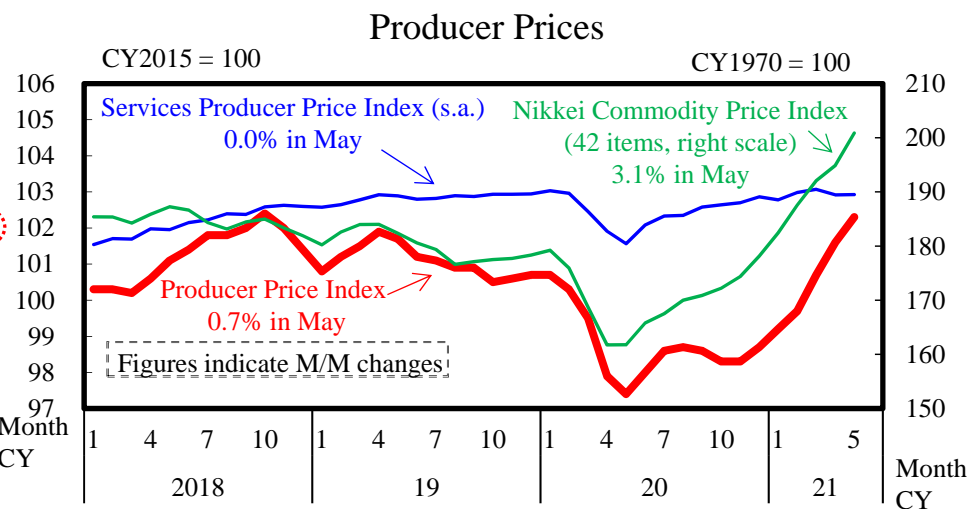
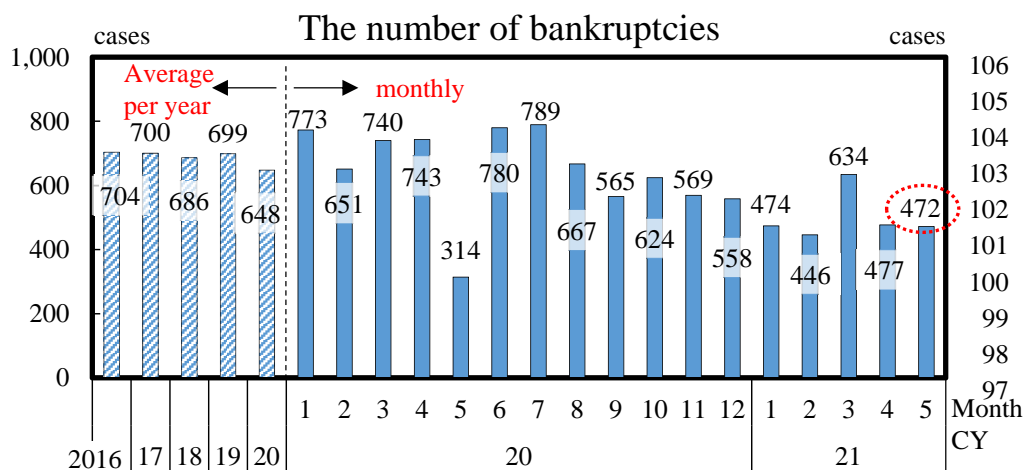
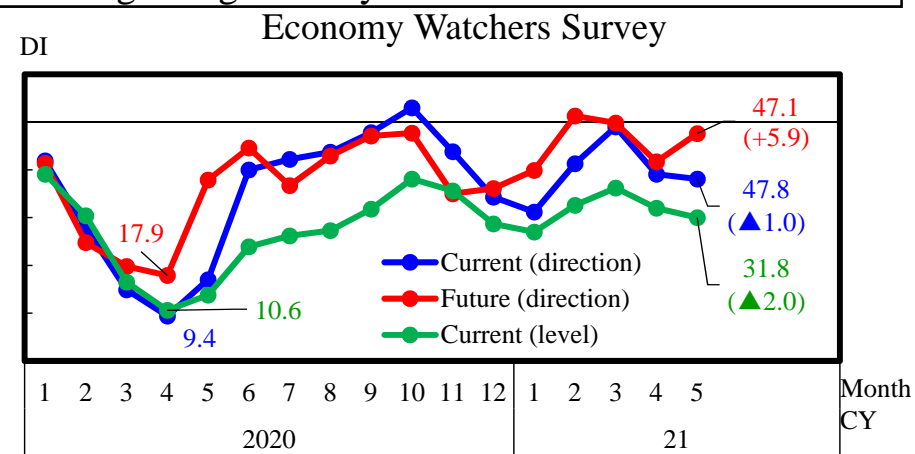
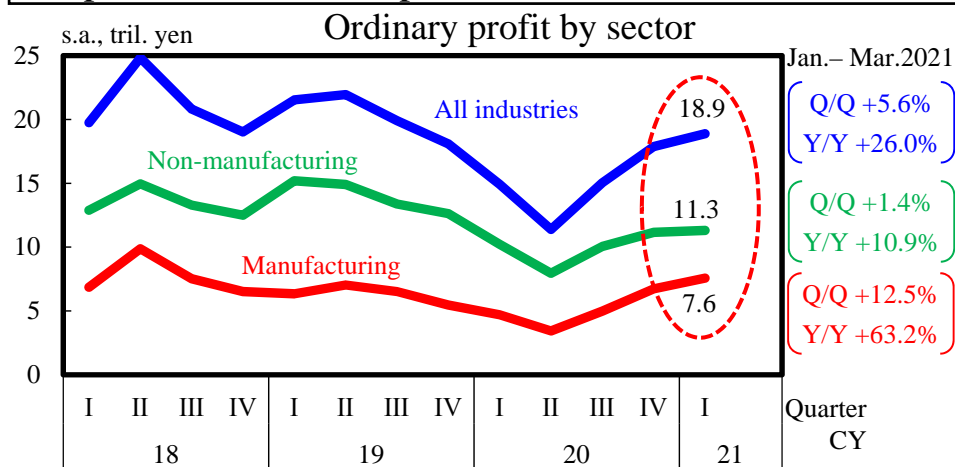
Global Semiconductor Shipments Forecast



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

## — Trends in Business Activities —

- Corporate profits for the first quarter of 2021 increased as a whole largely driven by manufacturers, reflected export and production increase. The number of corporate bankruptcies is a low level with the government's financial support.
- Due in part to the declaration of third state of emergency, in the Economy Watchers Survey conducted in late May, the current level and direction of economic conditions fell slightly. On the other hand, the future judgement rose for the first time in three months, partly due to expectations for progress on vaccination.
- The Producer price Index rose by 0.7% in May from the previous month mainly due to the rise in prices for petroleum and coal products, and non-ferrous metals since the beginning of this year.



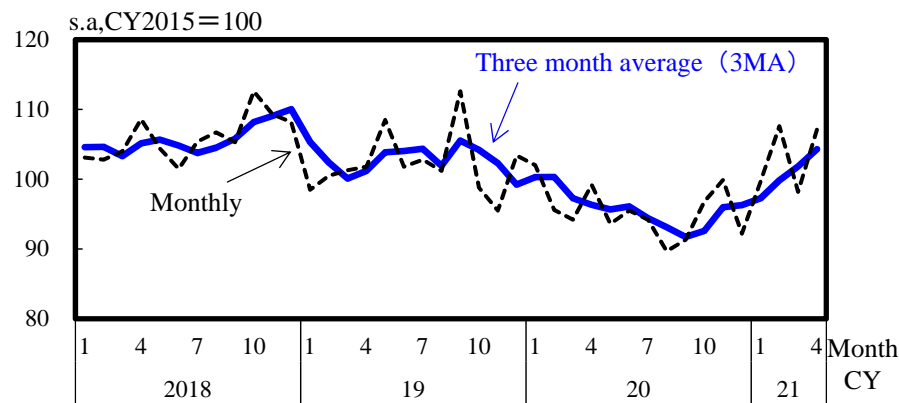
Source: Ministry of Finance, Tokyo Shoko Research, Cabinet Office, Bank of Japan, Nikkei NEEDS.

Note: Producer price index and services producer price index exclude the direct effects of the consumption tax increase.

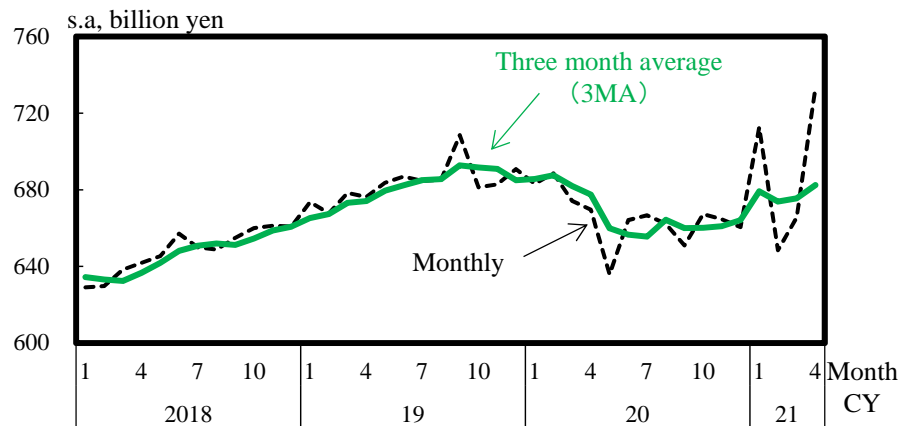
**— Trends in Business investment — (Share of investment: Machinery 46%, Structure 25%, Software 10%, R&D 18%)**

- Machinery investment has been increasing recently thanks to an improvement of corporate profits. Software investment is almost flat.
- According to the Business Outlook Survey (Apr.-Jun. 2021), expectations for growth in business investment in FY2021 remains robust (+7.4% on a year-on-year basis). Notably, strong growth is expected especially in software investment.

Machinery investment



Software investment

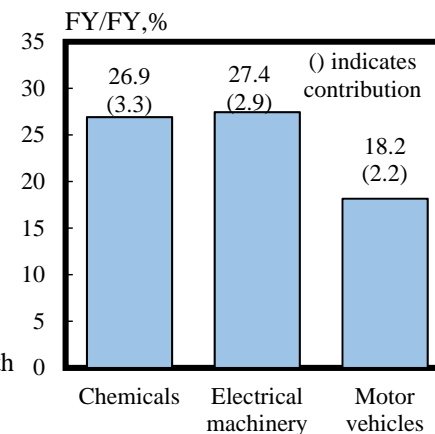


Business Outlook Survey (Apr.-Jun. 2021)  
FY2021 Business investment outlook

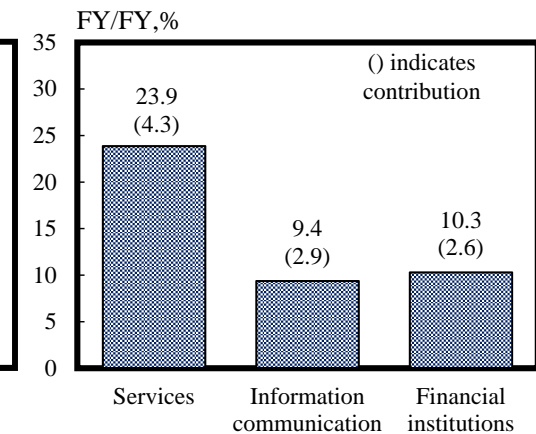
FY/FY, % [ ] :Jan.-Mar. 2021	Investment (incl. software)	Software Investment
All industries	<b>+7.4</b> [+7.6]	<b>+14.4</b> [+14.9]
Manufacturing	+10.7 [+7.9]	+22.0 [+18.3]
Non-manufacturing	+5.8 [+7.4]	+12.6 [+14.1]

FY2021 Software investment outlook (by industry)

Manufacturing



Non-manufacturing



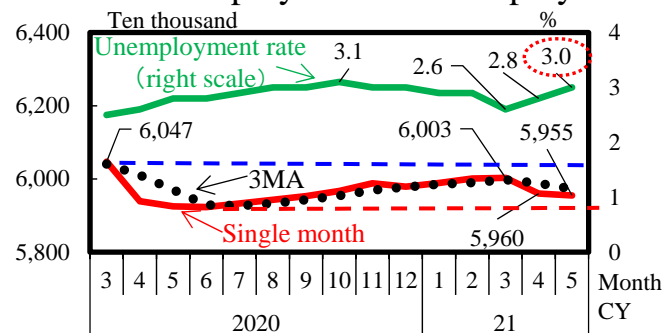
Source: Ministry of Economics, Trade and Industry, Ministry of finance



## — Employment Situation —

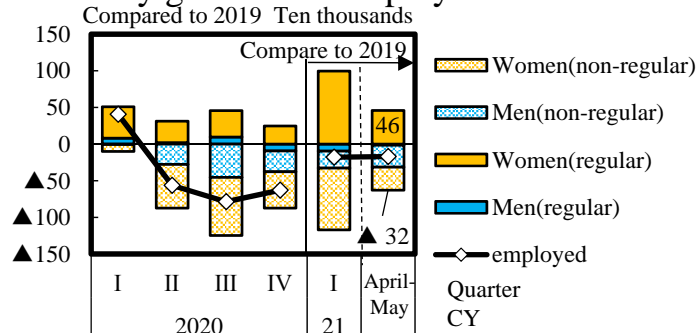
- The unemployment rate in May rose for two consecutive months, although there is an effect of employment adjustment subsidies. The number of employees has been increasing since June 2020, but decreased by 430,000 in April and by 50,000 in May as well. On average in April and May, the number of women in non-regular employment has decreased by 320,000 compared to 2019, while the number of women in regular employment has increased by 460,000 compared to 2019, and an increasing trend in regular employment continues in response to the introduction of equal pay for equal work.
- In April, wages showed movement of picking up primarily due to an increase of scheduled cash earnings. According to RENGO, despite the difficult situation, major companies agreed to raise monthly wages by 1.79% and SMEs decided to raise them by 1.74% in annual, which is “shunto” (spring wage negotiations), higher than in 2012 and 2013. Summer bonuses are expected to be lower than the level of last year, but still higher than that of 2012 and 2013.
- Recently, the number of job offers at Public Employment Security Office shows some movement of picking up, albeit at a modest pace. Overall, the employment situation remains weak.

Number of employees and Unemployment rate



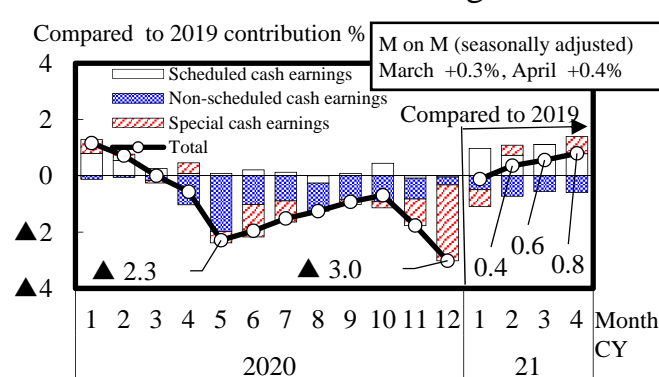
Number of employees

by gender and employment status

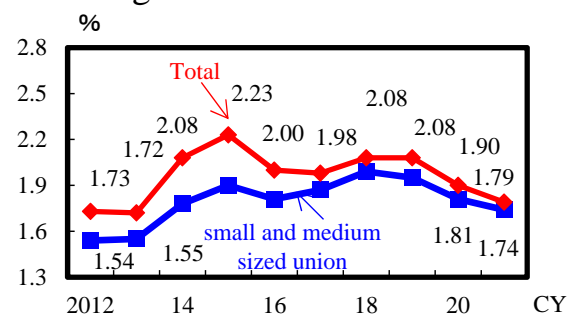


Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications, Nikkei Inc, RENGO

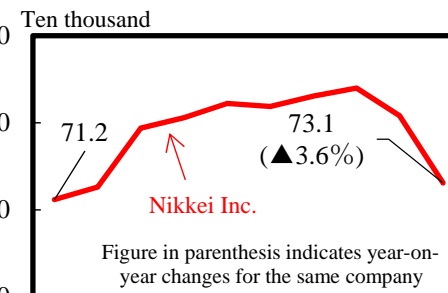
Total cash earnings



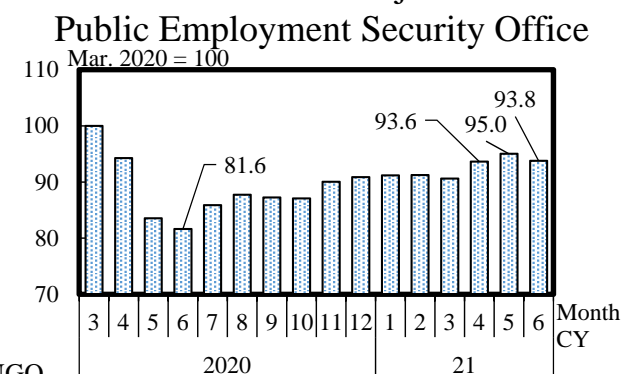
Wage increase rate in “shunto”



Summer Bonus



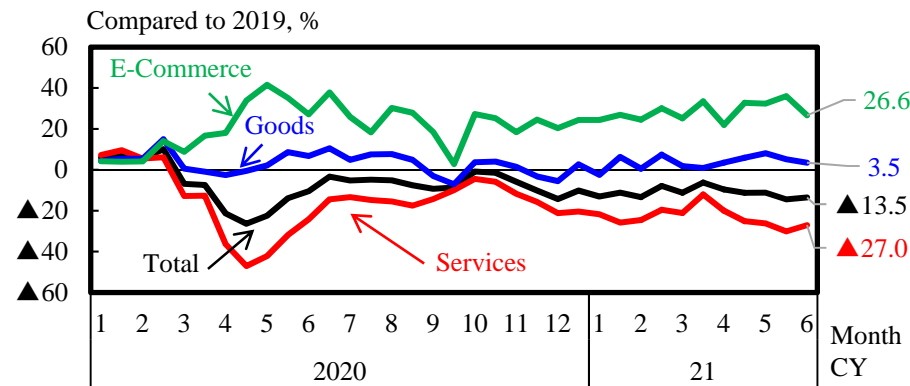
The number of active job offers at Public Employment Security Office



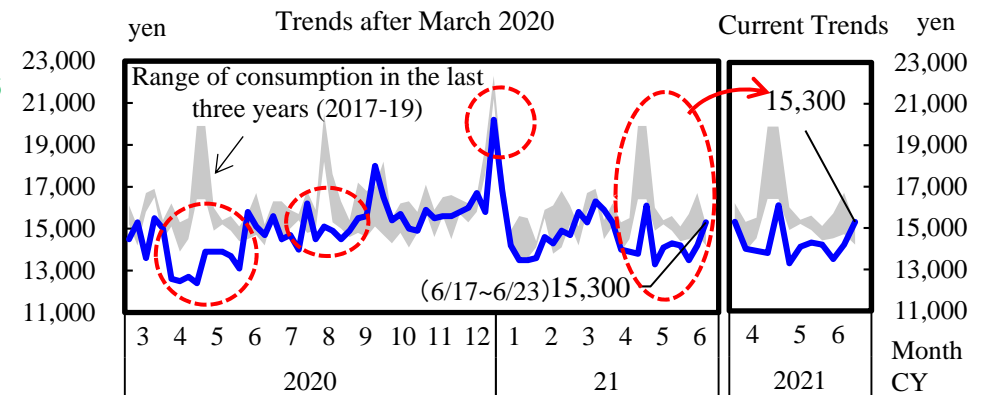
## – Private consumption & Housing construction –

- Consumption trends based on card spending in May show that E-Commerce remains robust, while others remains stagnant especially in service spending. According to the sales data, supermarket sales hold firm due to stay-at-home demand. Sales of eating-out continues to fall, especially in pubs and taverns.
- From the latter half of May to the middle of June, weekly consumption remained below the range of 2017-19. As a whole, private consumption remains weak, especially in service spending.
- Housing construction has shown a firm trend recently driven by construction of rental apartments.

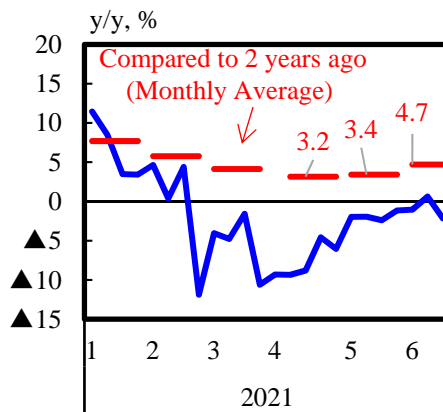
Trends in goods and services spending



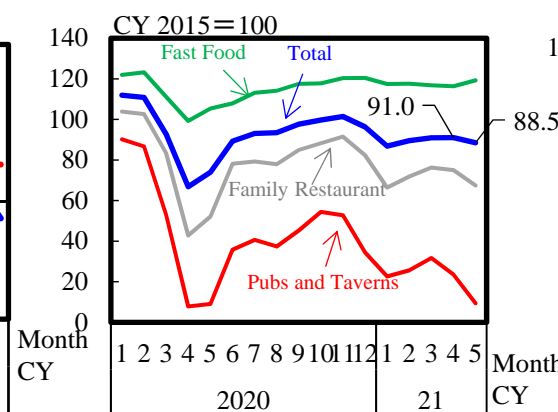
Private consumption amount per week



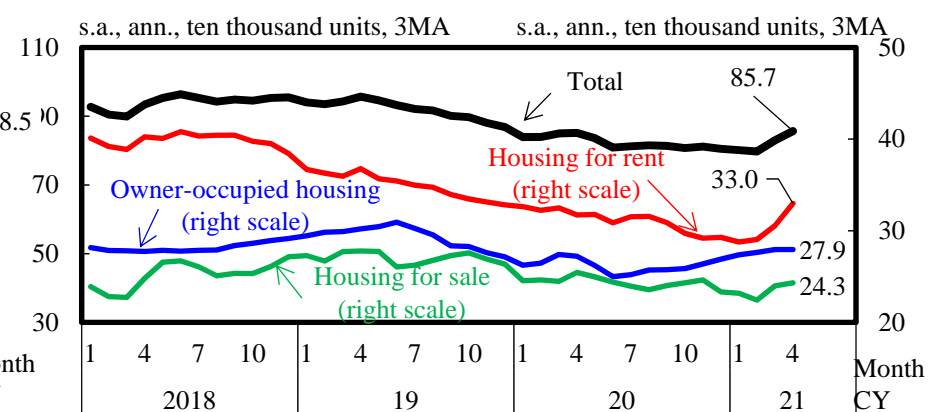
Sales at supermarkets



Sales of eating-out



Housing construction starts

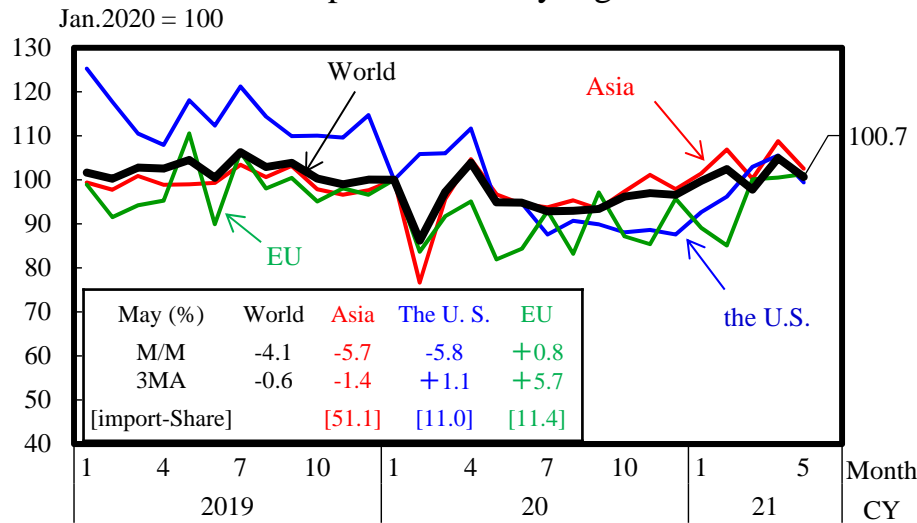


Sources: NOWCAST, INC. ; JCB Co. Ltd ; Ministry of Economy, Trade and Industry ; Japan Foodservice Association ; Macromill, Inc. Ministry of Land, Infrastructure, Transport and Tourism

# Reference

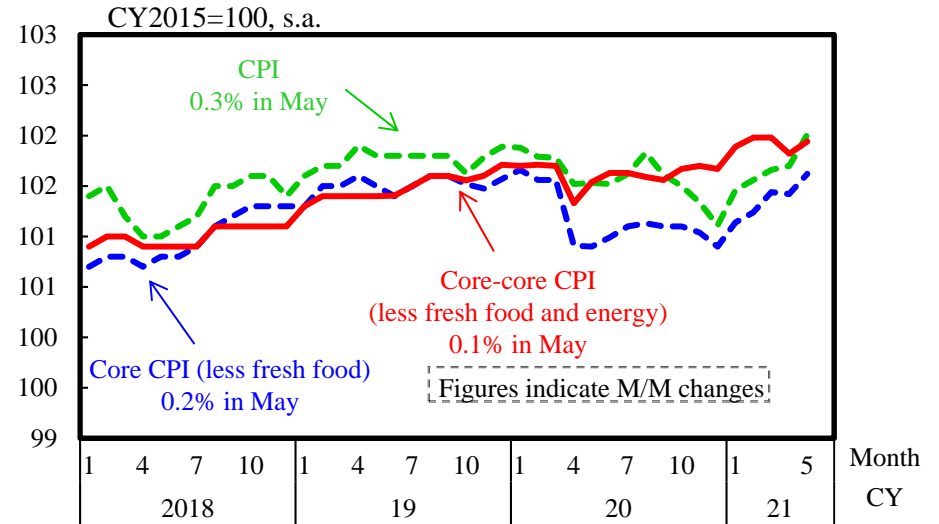
## Imports show movement of picking up.

Import volume by region

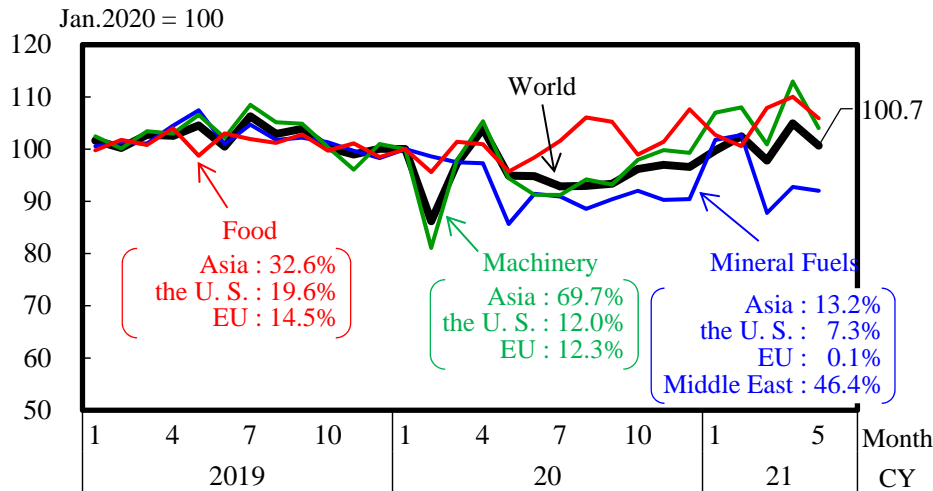


## Consumer prices are flat.

CPI (Consumer Price Index)

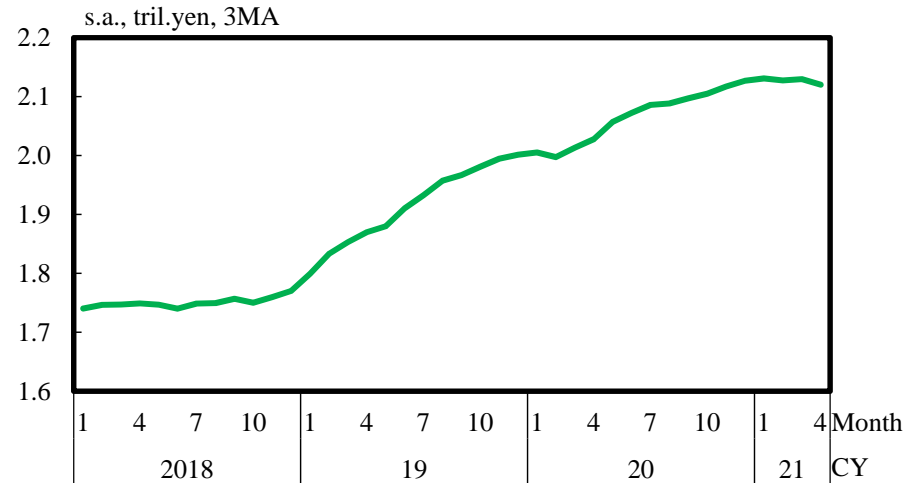


Import volume by goods



## Public investment holds firm at a high level

Amount of public construction completed



Source: Ministry of Land, Infrastructure, Transport and Tourism, 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.