

Recent Economic Developments
- Monthly Economic Report, July 19 2021 -

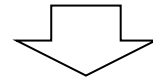
July 29, 2021

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

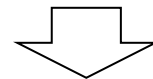
May

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.



July

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(Unchanged)

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<Assessment of the current state of the Japanese economy>

	May	June	July
Private consumption	Private consumption shows weakness further recently, especially in service spending.	Unchanged	Unchanged
Business investment	Business investment is picking up.	Unchanged	Unchanged
Exports	Exports continue to increase moderately.	Unchanged	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 appear to be pausing for picking up, while some severe aspects still remain.	Unchanged	Firms' judgments on current business conditions show movements of picking up, although some severe aspects 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	Employment situation shows steady movements in some components such as job offers, while weakness remains, due to the influence of the infectious disease.(→)
Prices	Consumer prices are flat.	Unchanged	Unchanged

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

<Short-term prospects>

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

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July

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<Policy stance>

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

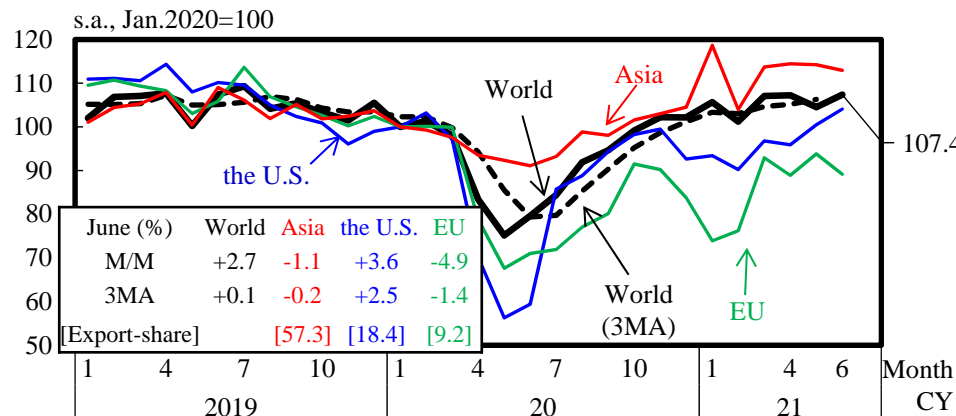
The Government implements the state of emergency measures in designate 2 prefectures and priority measures such as for prevention of the spread of disease in designate 4 prefectures, and will thoroughly continue to accelerate vaccinations and implement measures prioritizing prevention of the spread of 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 according to circumstances and conduct flexible macroeconomic policy management to the self-sustaining economic growth without hesitation, while paying careful attention to the status of the disease and the economic impact.

The Bank of Japan decided a preliminary outline of a new fund-provisioning measure, through which it provides funds to financial institutions for investment or loans that they make to address climate change issues, on July 16th. 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.

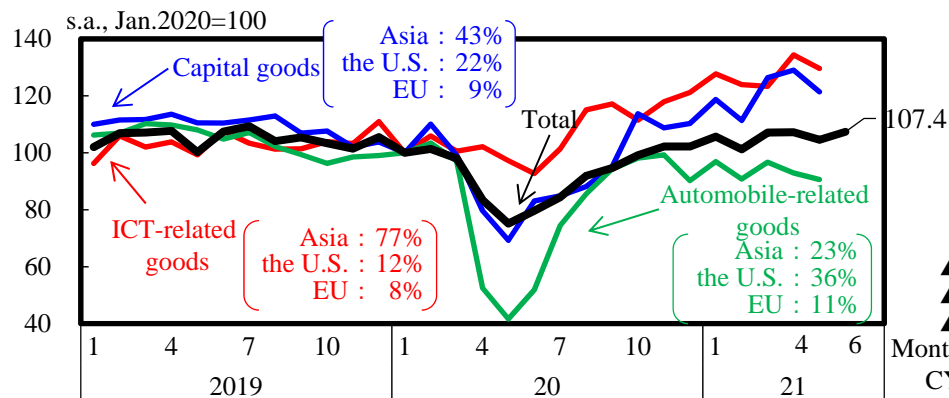
– Export & Production –

- On the back of the recovery in overseas economy, exports continue to increase moderately. Automobile-related goods, whose production has been adjusted due to the effects of semiconductor shortages, have remained flat, but ICT-related goods and capital goods drives the increase in exports.
- Industrial production declined in May, though it is expected to increase according to the forecast. The pick-up will continue, led in particular by electronic parts and devices thanks to strong demand for 5G-related products and production machinery for capital investment. Orders for machine tools such as machining centers are also on the rise both for domestic and overseas. For the time being, both exports and production are expected to increase.

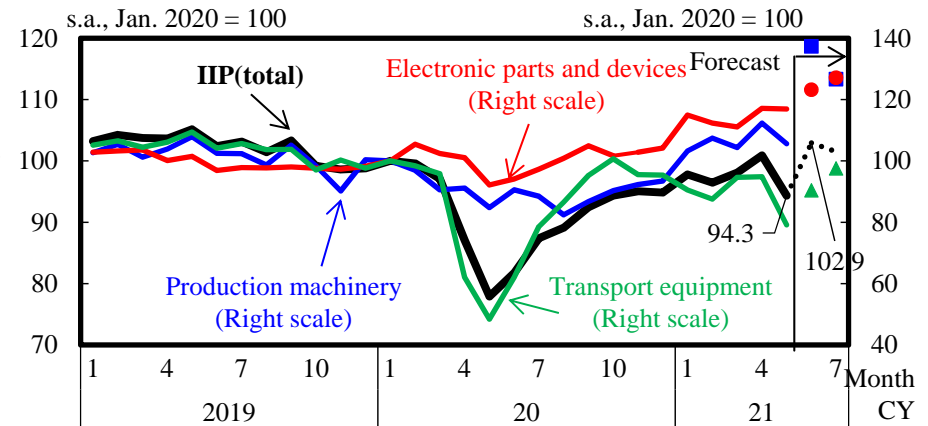
Export volume by region



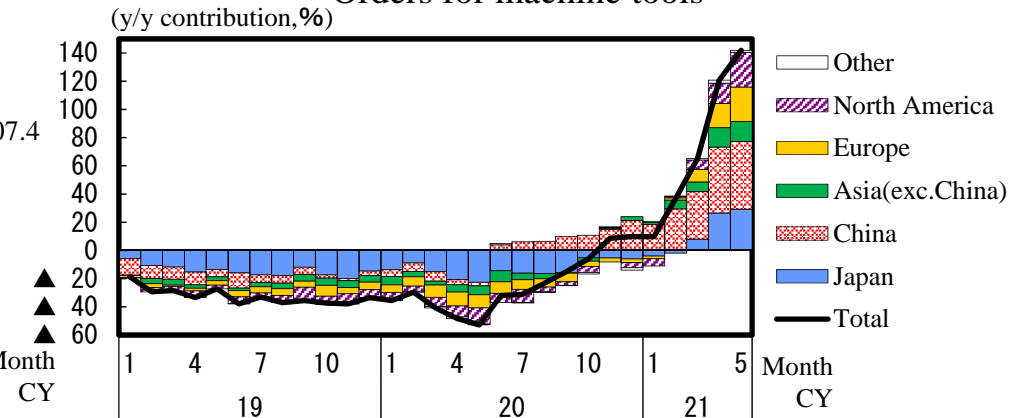
Export volume by goods



Production by industry



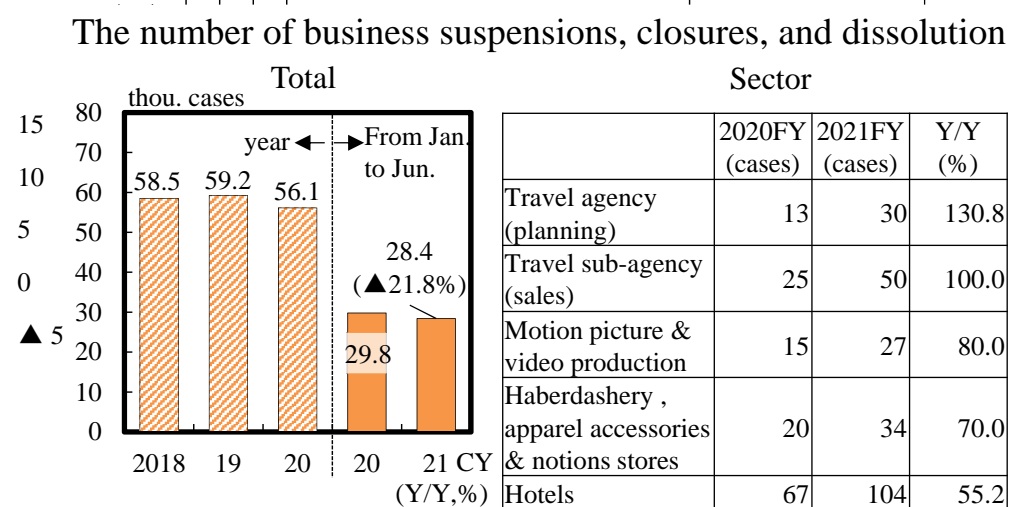
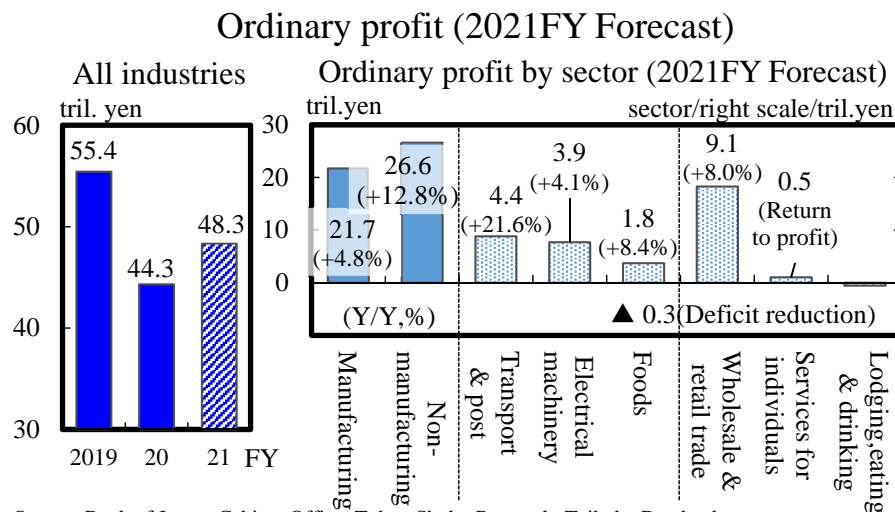
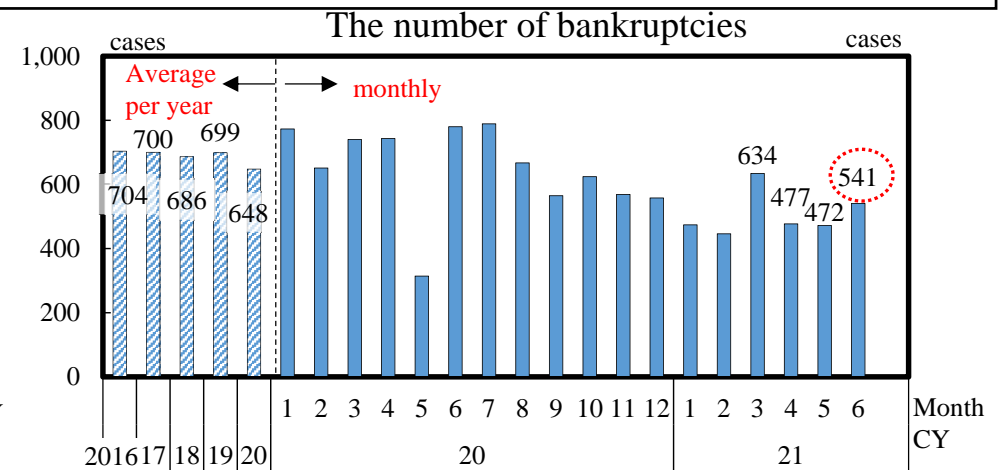
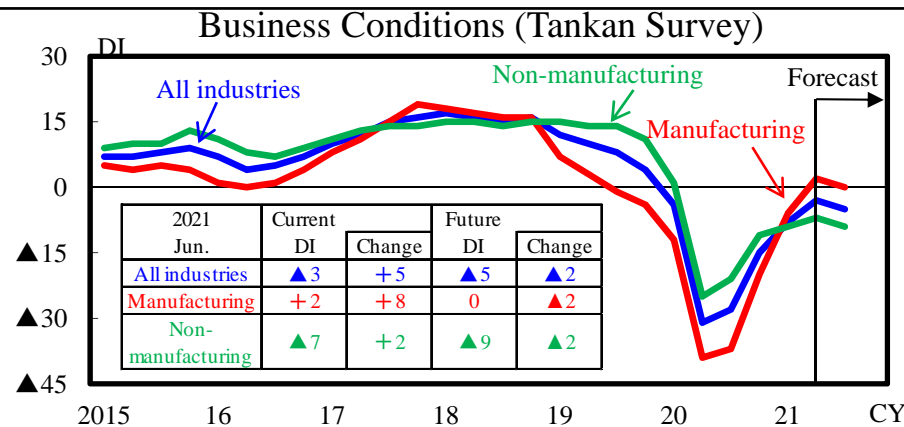
Orders for machine tools



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

— Trends in Business Activities —

- According to the BOJ June Tankan survey, firms' judgments on current business conditions show movements of picking up, largely driven by manufacturing which turned to positive for the first time in two years, reflecting growth in exports and production. In FY2021, both corporate profits in manufacturing and non-manufacturing are expected to increase.
- The number of corporate bankruptcies remains at a low level with the government's financial support. The number of business suspensions, closures, and dissolutions, which has been more than 50,000 per year on average, is about 28,000 in the period from Jan. – Jun. of this year, although that remains at the lower level than the same period last year. The number in tourism sector has increased from last year.

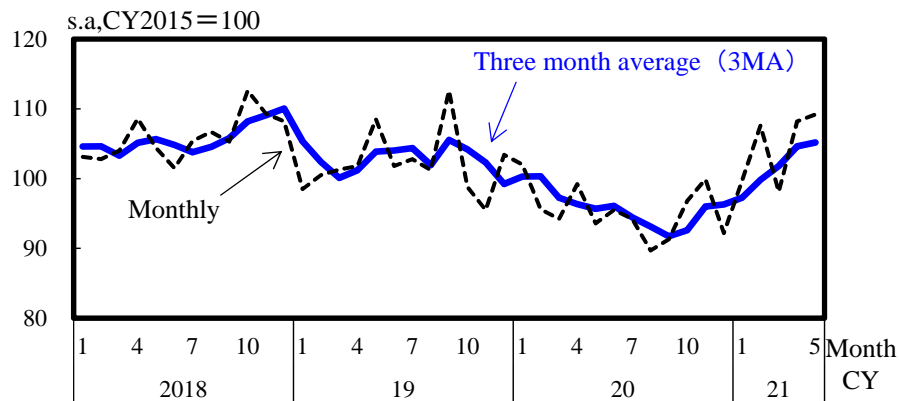


Source: Bank of Japan; Cabinet Office; Tokyo Shoko Research; Teikoku Databank

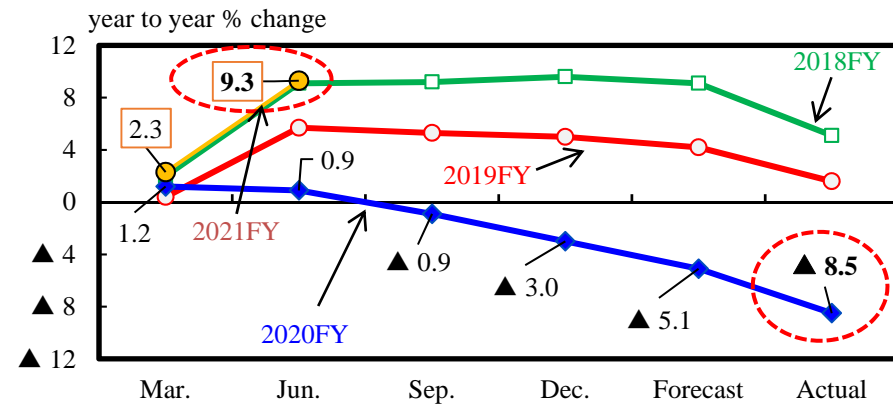
— Trends in Business investment — (Share of investment: Machinery 46%, Structure 25%, Software 10%, R&D 18%)

- Business investment is picking up, mainly led by machinery investment. Machinery orders also show movements of picking up.
- Business investment decreased in FY2020, but it is expected to increase substantially by 9.3% in FY2021. Notably, strong growth (+14.7%) is expected in software investment. In addition, R&D investment is also expected to increase.

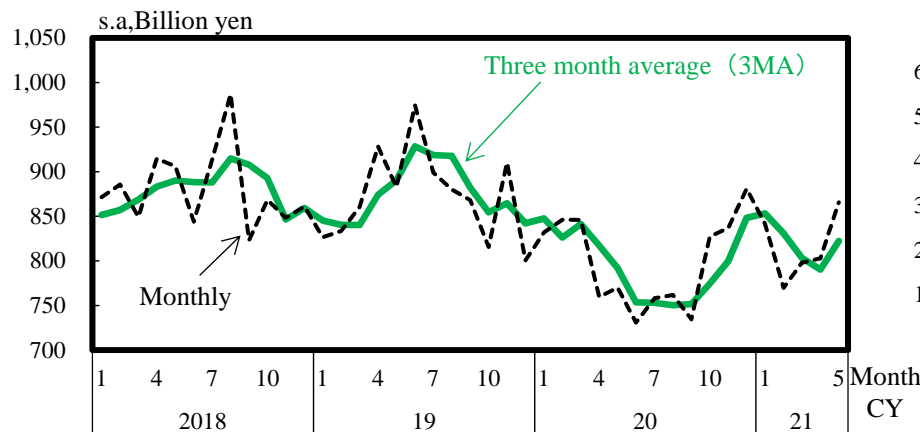
Machinery investment



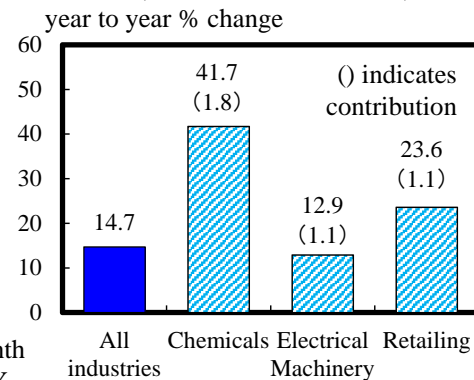
Business Investment Plan (Tankan survey)



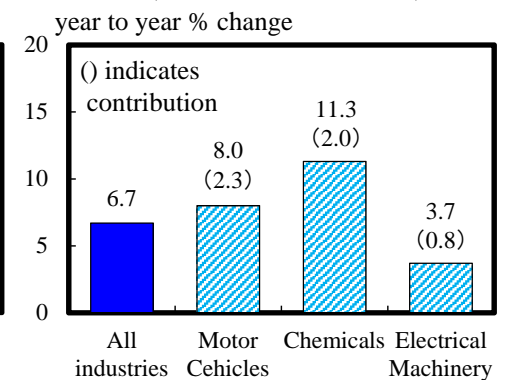
Machinery orders (exc. volatile orders)



Software investment (2021FY Forecast)



R&D investment (2021FY Forecast)

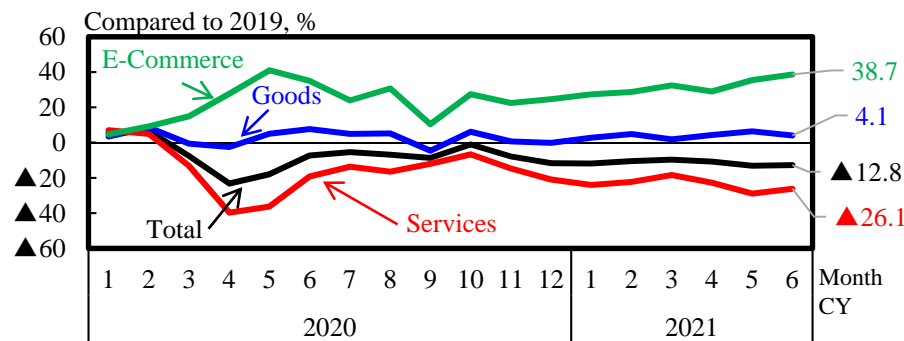


Source: Ministry of Economics, Trade and Industry, Cabinet Office, Bank of Japan

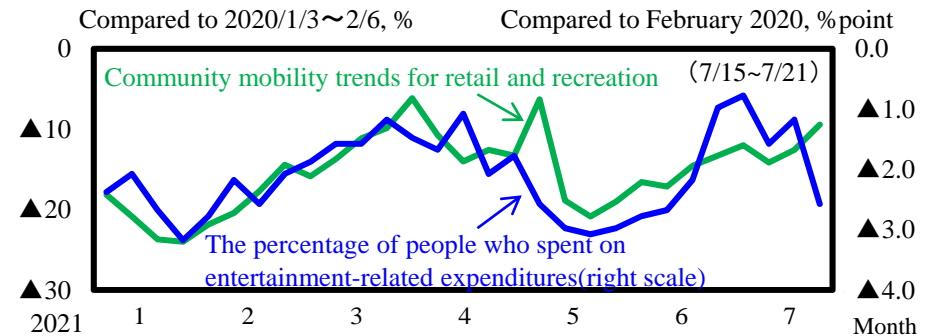
— Private consumption —

- Consumption trends based on card spending in June show that goods spending is positive compared to 2019, while service spending remains stagnant.
- According to the sales data, sales of 5 home appliances remains basically flat compared to 2019, albeit with some fluctuations. Sales of eating-out continues to fall as a whole, especially in pubs and taverns. On the other hand, the Community mobility trends for retail and recreation and the ratio of people who spent on entertainment such as movies and concerts have shown signs of picking up since June.
- The current level of weekly consumption is below the range of 2017-19, partly due to poor weather conditions. As a whole, private consumption remains weak, especially in service spending.

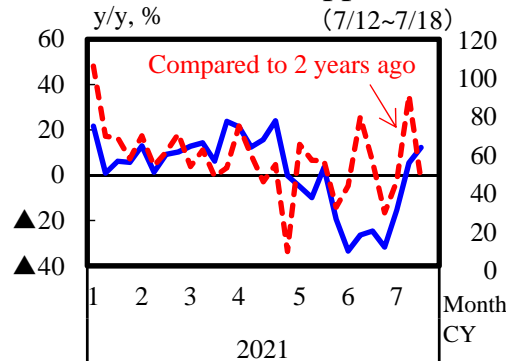
Trends in goods and services spending



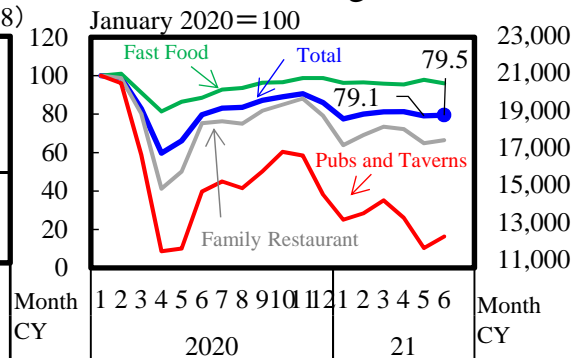
Community mobility trends for retail and recreation and entertainment-related expenditures



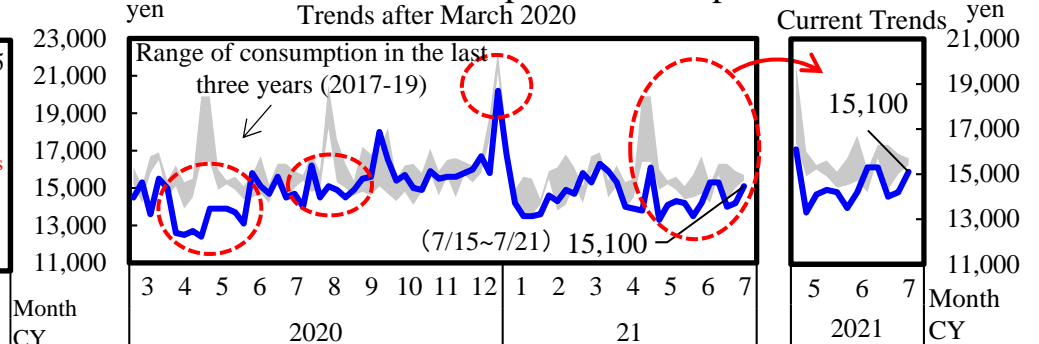
Sales of 5 home appliances



Sales of eating-out



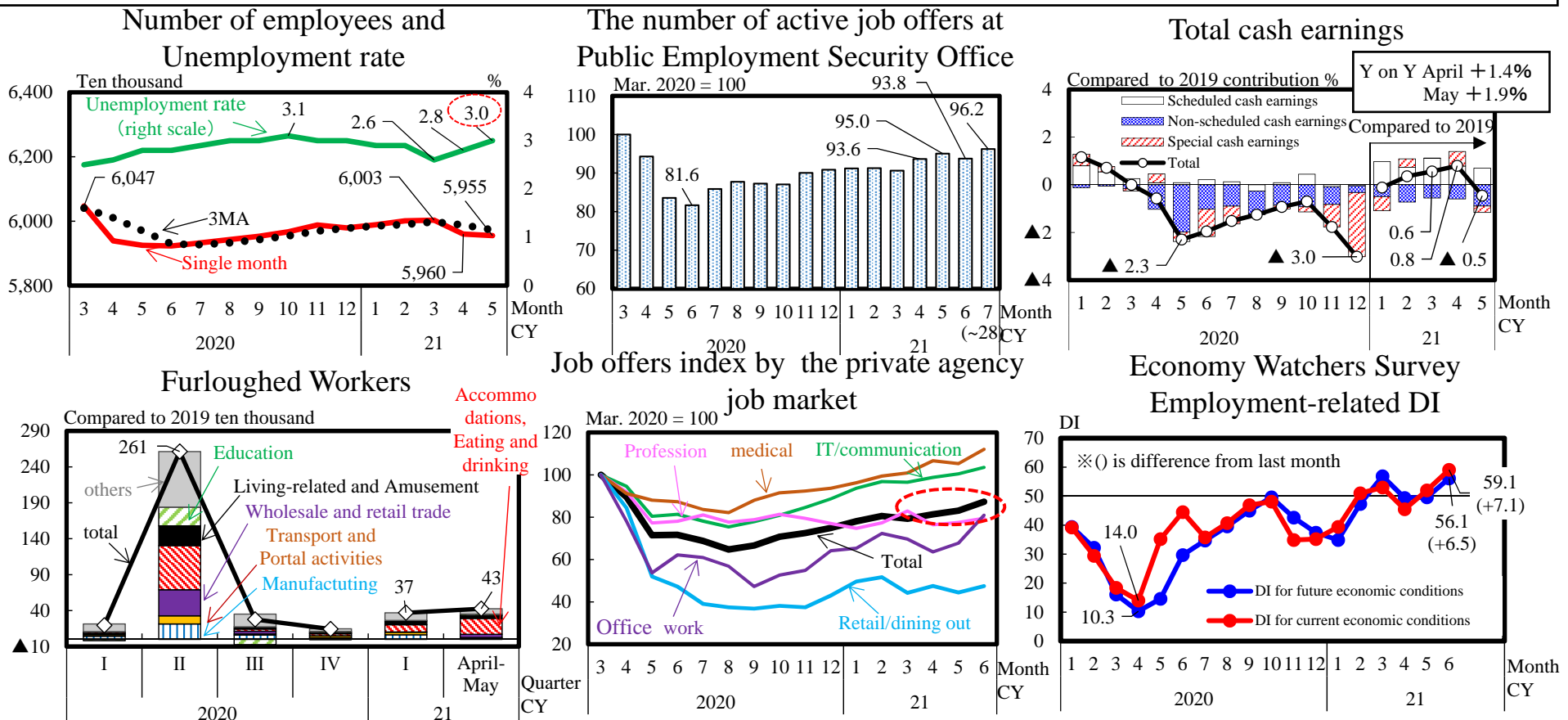
Private consumption amount per week



Sources: NOWCAST, INC. ; JCB Co. Ltd ; Ministry of Economy, Trade and Industry ; Japan Foodservice Association ; Google LLC; Macromill, Inc.

— Employment Situation —

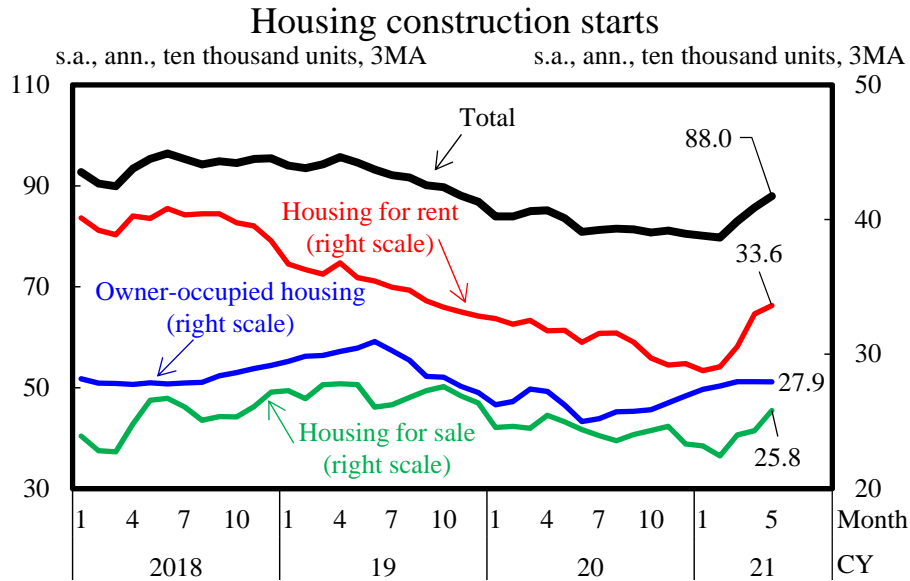
- The number of employees has been increasing since June 2020, but now remains almost flat. Unemployment rate rose for two consecutive months and 3.0% in May. The number of furloughed workers in April to May was a slight increase from January to March, mainly accommodations, eating and drinking.
- Looking at the number of job offers at public and private agencies, the trend of job offers, which is strongly consistent with the economic situation, continues to pick up. Wages have been positive year-on-year basis, but compared to 2019, total cash earnings decreased slightly in May due to a decrease in overtime hours because of the declaration of a state of emergency.
- On the other hand, the employment-related DI of the Economy Watchers Survey is on an improving trend. On the whole, the employment situation remains weak with some components showing steady movements.



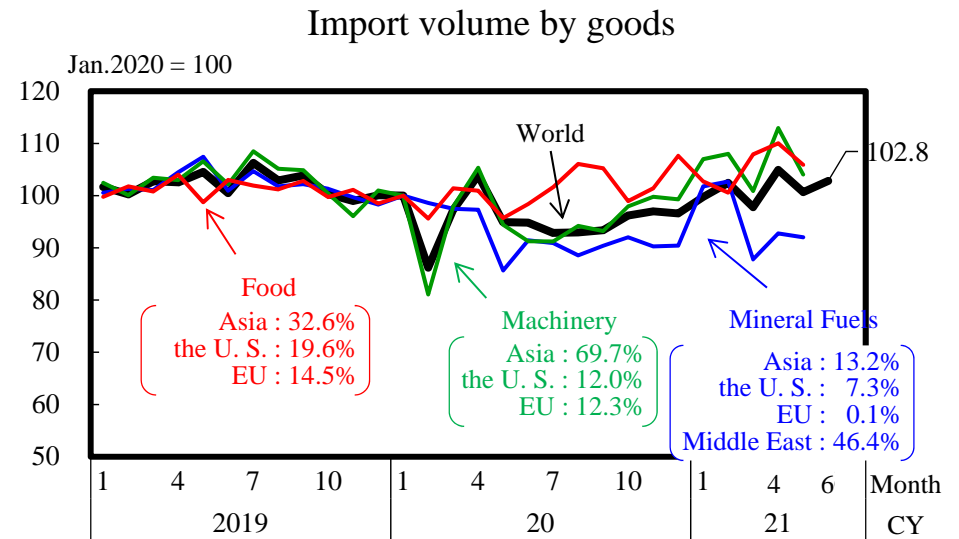
Source: PERSOL CAREER CO., LTD, Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications, Cabinet office.

Reference

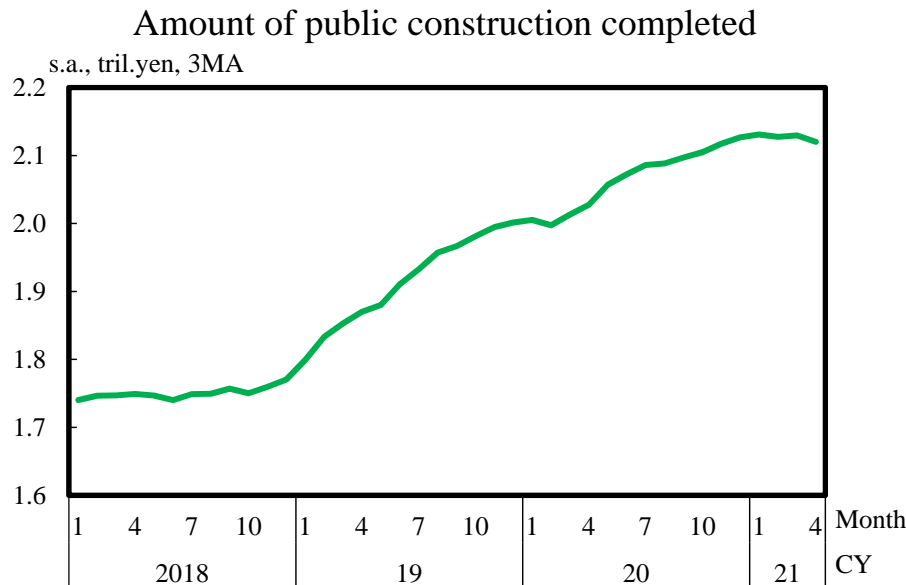
Housing investment has shown a steady undertone.



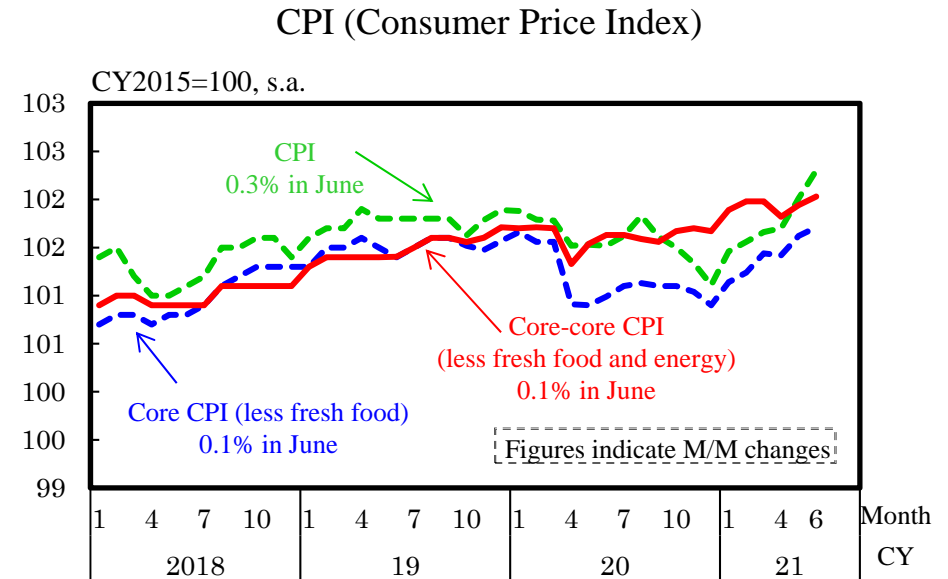
Imports show movement of picking up.



Public investment holds firm at a high level



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.