

# **Recent Economic Developments**

**- Monthly Economic Report, August 26 2021 -**

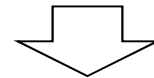
**September 3, 2021**

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

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

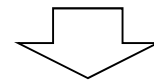
June

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

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



August

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)**

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

	June	July	August
Private consumption	Private consumption shows weakness further recently, especially in service spending.	Unchanged	Private consumption shows weakness further, especially in service spending.(→)
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	Corporate profits are picking up, although some weaknesses remain in non-manufacturers due to the influence of the infectious disease. ( ↑ )
Firms' judgments on business conditions	Firms' judgments on current business conditions appear to be pausing for picking up, while some severe aspects still remain.	Firms' judgments on current business conditions show movements of picking up, although some severe aspects 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.	Employment situation shows steady movements in some components such as job offers, while weakness remains, due to the influence of the infectious disease.(→)	Unchanged
Prices	Consumer prices are flat.	Unchanged	Consumer prices show steady movements recently.(→)

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

## <Short-term prospects>

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.

July

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.

August

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 further increase in downside risks due to the spread of the infectious diseases. Also attention should be given to the effects of fluctuations in the financial and capital markets.

# <Policy stance>

(Monthly Economic Report, August 26, 2021)

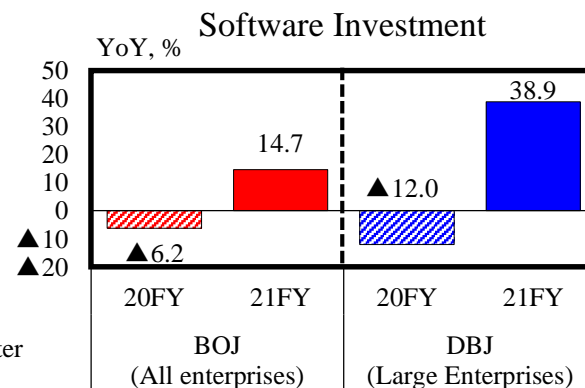
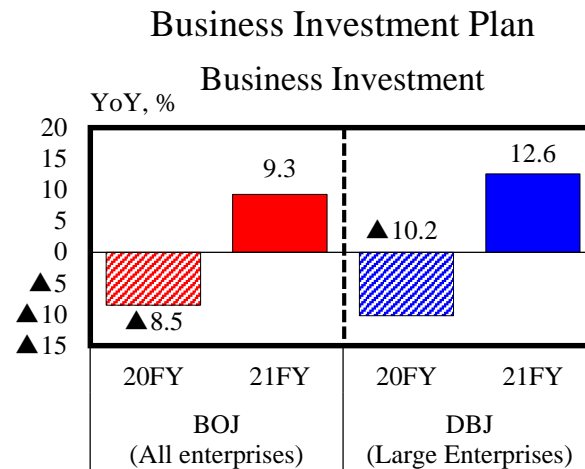
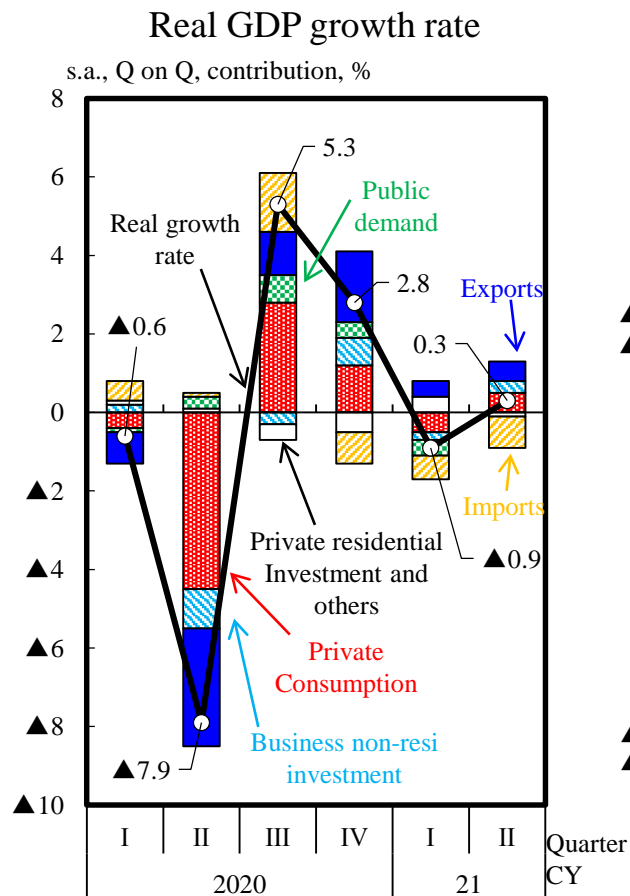
The Government will make effort toward the reconstruction and revitalization from the Great East Japan Earthquake and coping with disasters becoming ever more severe and frequent. The Government will thoroughly secure people's lives and livelihoods through protecting employment and keeping businesses with determination to avoid a return to deflation absolutely while taking all possible measures towards prevention of the spread of the Novel Coronavirus. 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 decided to implement the state of emergency measures in designate 21 prefectures and priority measures such as for prevention of the spread of disease in designate 12 prefectures until September 12, and will proceed with countermeasures under three pillars; enhancement of medical systems, thorough implementation of infection prevention measures, and vaccinations. 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 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 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: Apr. – Jun. 2021 & Business investment plans –

- The real GDP growth rate for the Apr. – Jun. 2021 period increased by 0.3% for the first time in two quarters. Exports has been increased for the four consecutive quarters as overseas economies improved. Private consumption also increased for the first time in two quarters, despite the prolonged self-restraint under the declaration of a state of emergency and other measures.
- Business investment also increased. Looking ahead, business investment in FY 2021 is planned to recover driven by a strong increase in software investment. Firms engage in preparation for a carbon-neutral, and digitalized society which should accelerate economic growth.



### Characteristics of investment plans in main industries (DBJ)

#### Manufacturing (YoY +18.6%)

Industry	YoY	Characteristics
Electrical machinery	+39.1%	Devices for electric vehicles; 5G related investment
Chemicals	+14.9%	High-tech products related to motor vehicles, electronics and medical products
Transportation machinery	+8.5%	Investment related to electric vehicles and autonomous driving

#### Non-manufacturing (YoY +9.7%)

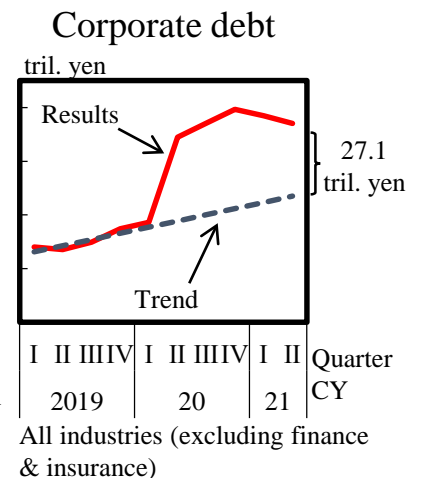
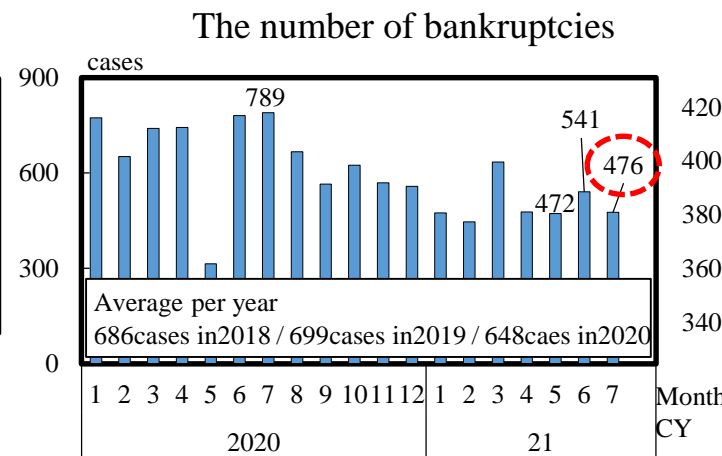
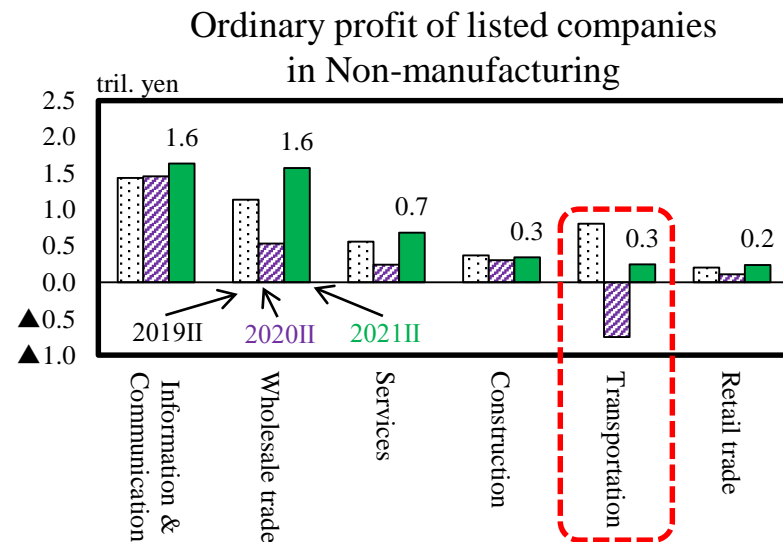
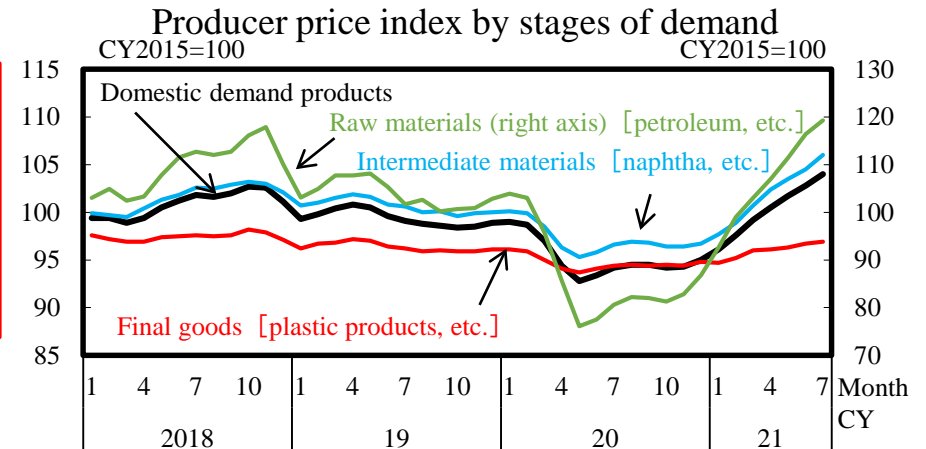
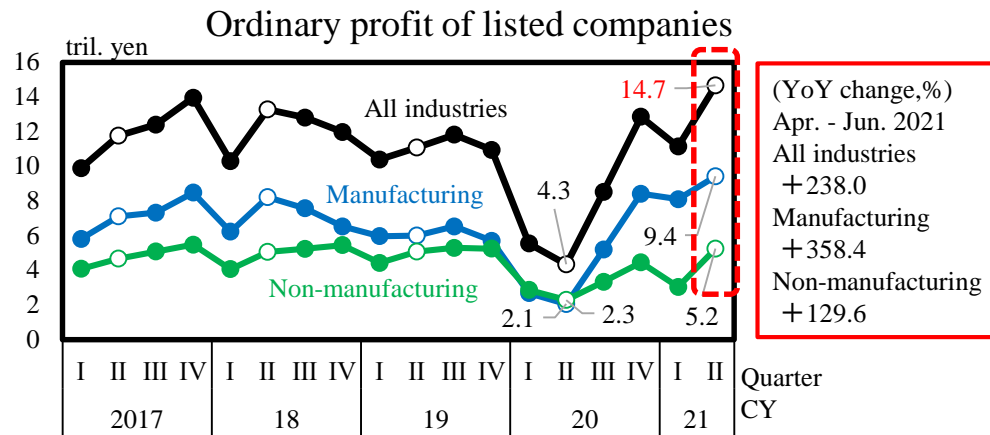
Industry	YoY	Characteristics
Transport	+19.2%	Automation of logistics centers driven by the expansion of E-commerce; investment related to safety measures of railways
Real estate	+7.4%	Logistics facilities and urban development
Wholesaling & retailing	+10.7%	Investment related to contactless self-checkouts and cashless payment systems

Source: Cabinet Office; Bank of Japan; Development Bank of Japan.

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

## — Trends in Business Activities —

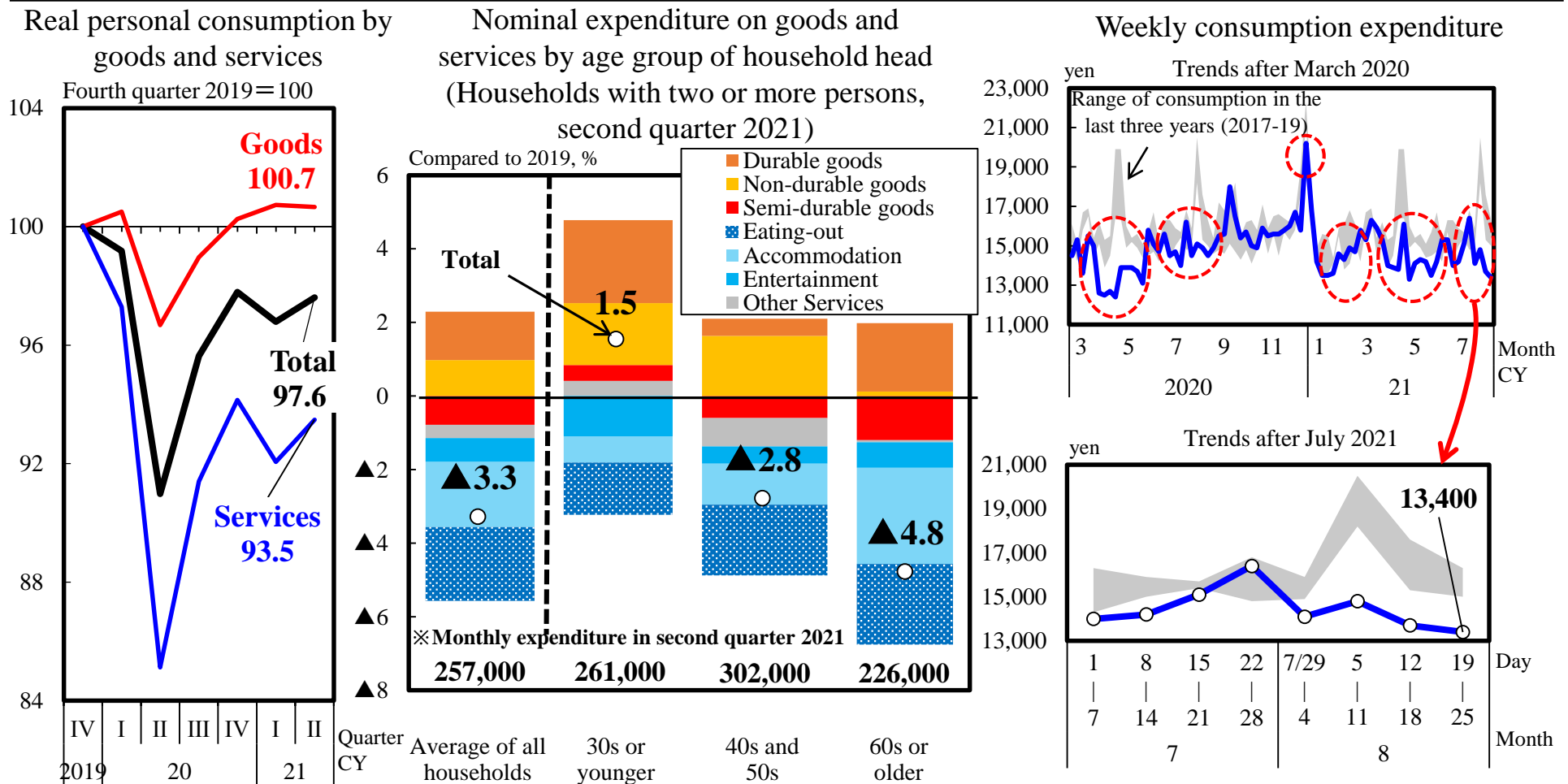
- Corporate profits are picking up. However, the degree of recovery varies by sector in non-Manufacturers. The transportation sector is still below the levels achieved before the COVID-19 outbreak.
- Producer prices have been rising. Raw material prices are surging reflecting global commodity prices, while cost transfer to final goods is limited. Delay in cost transfer may put a negative impact on corporate profits.
- The number of corporate bankruptcies remains at a low level with the government's financial support. However, the level of corporate debt is high, and it is necessary to lift the operating level of the economy.



Source: NIKKEI NEEDS; Bank of Japan; Tokyo Shoko Research

## – Private consumption –

- In 2Q, private consumption spending on goods continued to be firm, while consumption of services increased from the previous quarter, albeit at a low level. Looking at spending growth rate in 2Q from 2019 to Q2 in 2021 by age of household head, the younger consumed relatively more than the average, while the older consumed less.
- Looking at the weekly consumption expenditure since July, the week including the four consecutive holidays in late July was on par with the past three years, but in August, when consumption is normally boosted due to summer vacation, it has been lower than usual this year.



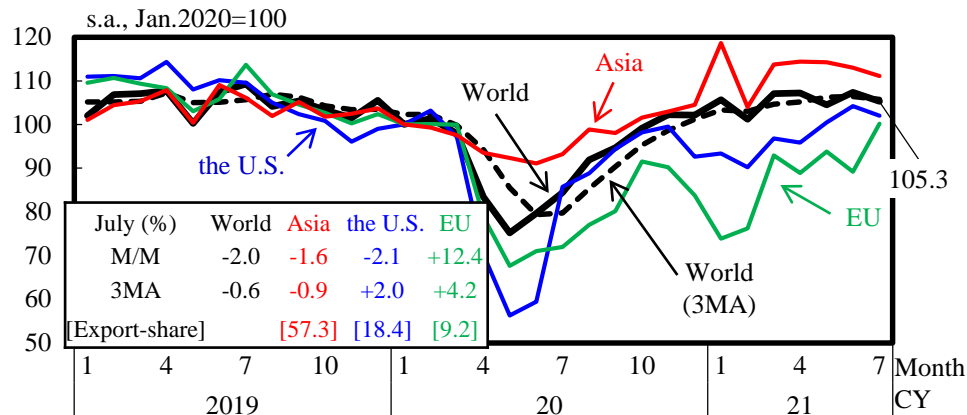
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Macromill, Inc.



## — Export & Production —

- Thanks to the recovery in overseas economy, exports continue to increase moderately. Under these circumstances, manufacturing production is picking up, especially for electronic parts and devices, backed by strong demand for 5G-related products, and production machinery for capital investment.
- However, the spread of the infection in Southeast Asia has caused a shortage of parts supply, and some automakers have announced production cuts in Japan in late August and September. We need to pay attention to the impact of the infectious disease through the international supply chain.

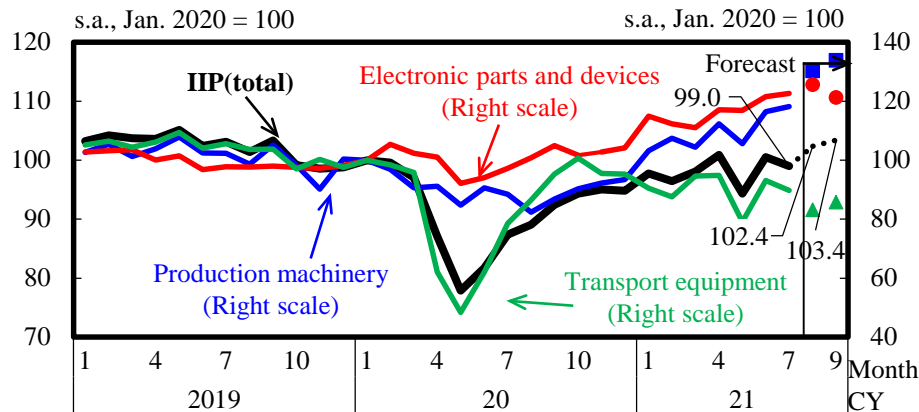
Export volume by region



Parts supply shortage due to spread of infection in Southeast Asia

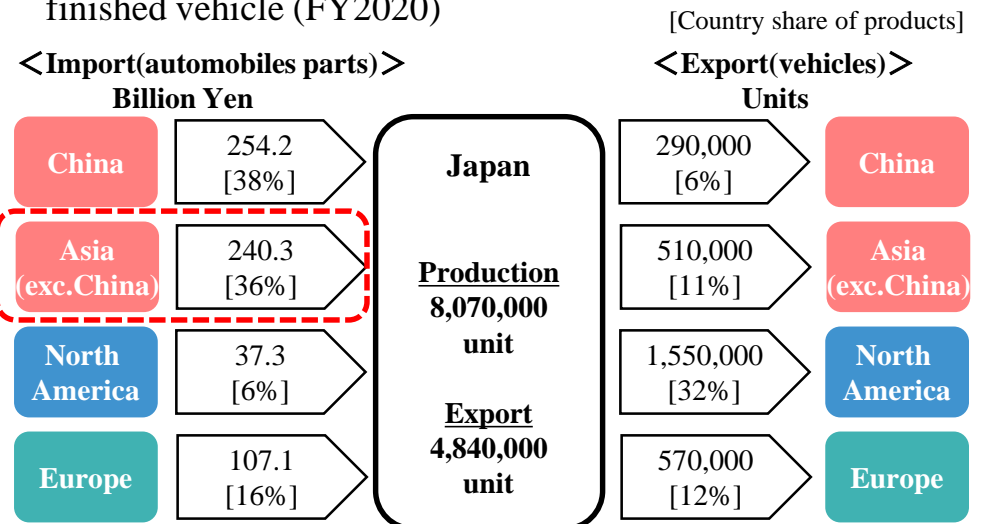
- In Southeast Asia, where the infection is spreading, local production activities have stagnated due to lockdowns and other restrictions.
- Due to the shortage of parts supply from the region, some domestic automakers reduced production in Japan from late August to September.
  - Company A: 27 out of 28 lines in all 14 plants stopped operation for 1 to 28 business days from Aug. 24 to Sep. 30
  - Company B: 4 plants stopped operation for 3 to 17 business days from Aug. 23 to Sep. 27

Production by industry



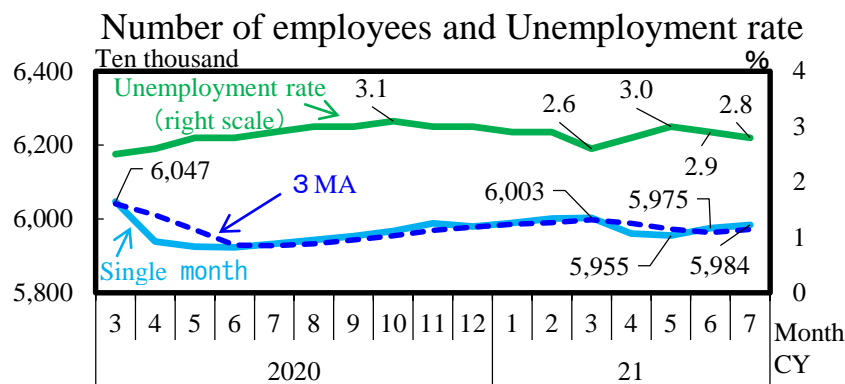
Sources: Ministry of Finance; Ministry of Economy, Trade and Industry

Structure of imports of automobile parts and exports of finished vehicle (FY2020)

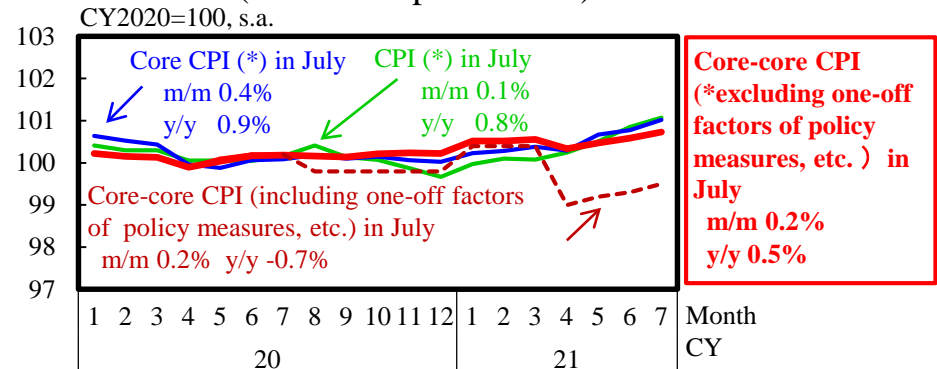
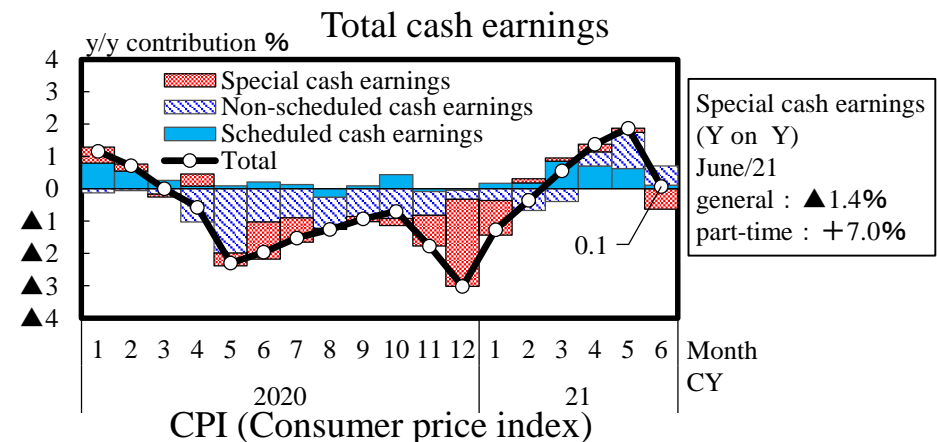
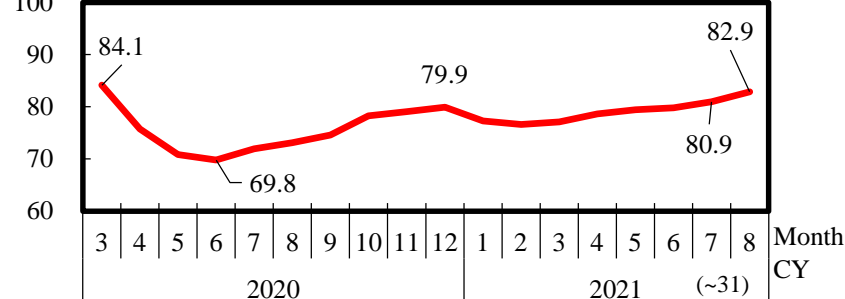


## — Employment Situation & Prices —

- Despite the continued weakness in the employment situation, the number of people employed in June rose by 200,000, and the unemployment rate declined by 0.1 percentage points from the previous month to 2.9%. Although close attention to the impact of the spread of Covid-19 is needed, the number of firms offering job openings via the Hello Work Internet Service is picking up, although it is lower than the record in the same month of 2019.
- Total cash earnings in June increased from a year ago. Although special cash earnings declined, the scheduled and non-scheduled increased. Also, the special cash earnings for part-time workers increased from a year ago, thanks to the implementation of equal pay for equal work.
- CPIs show steady movements recently.



The number of firms offering the active job openings at Public Employment Security Office  
Each month of 2019=100



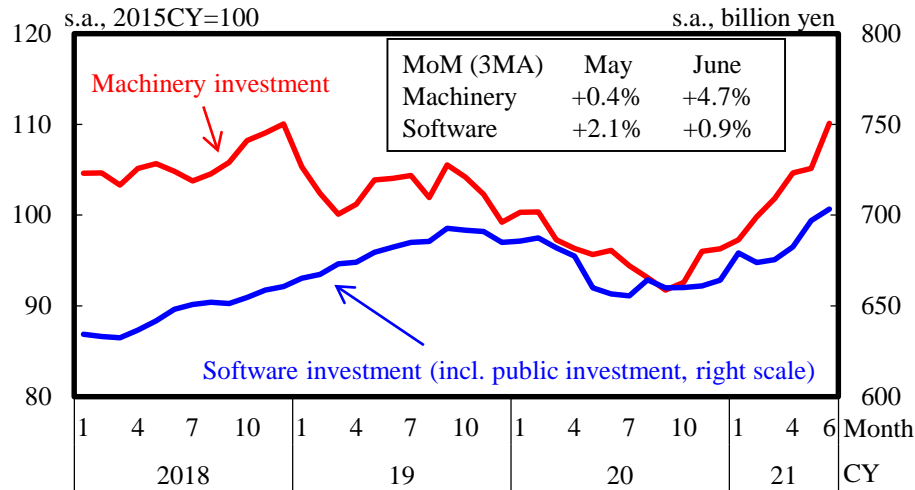
Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications

Note: In CPIs, "one-off factors of policy measures, etc." means the direct effects of the Go to Travel Campaign and a decrease in telephone charges (mobile phone) in April 2021, etc. Core CPI excludes fresh food prices, and core-core CPI excludes fresh food and energy prices.

# Reference

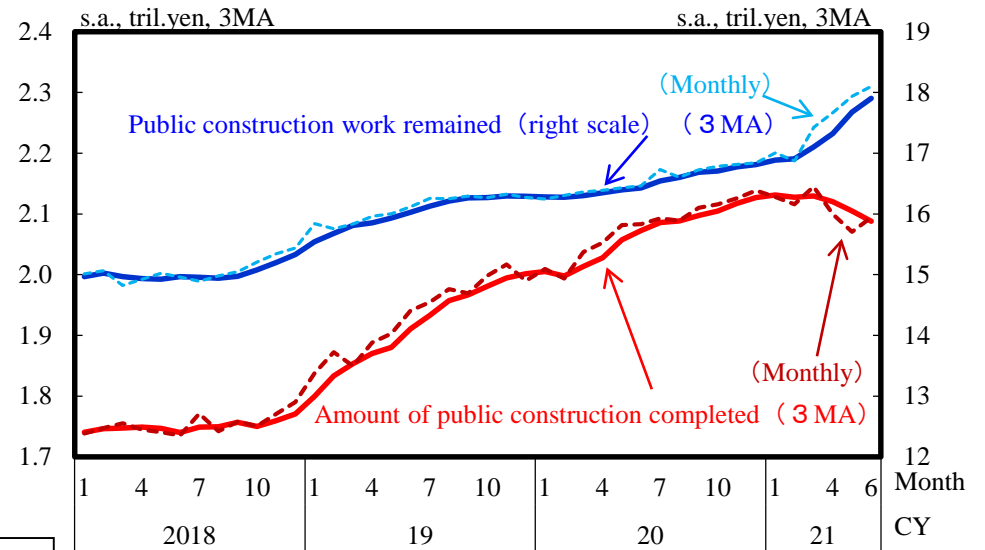
## Business investment is picking up.

### Machinery and Software investment



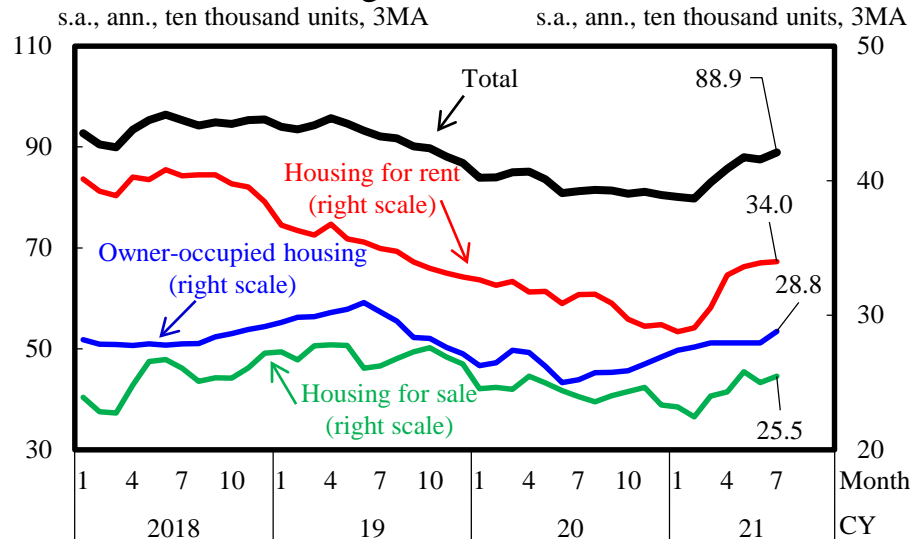
## Public investment holds firm at a high level

### Amount of public construction completed and Public construction work remained

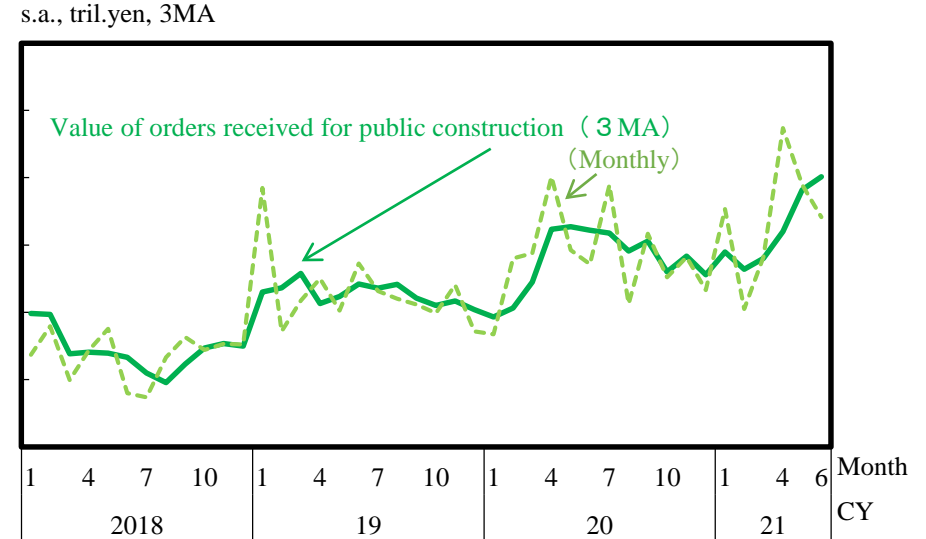


## Housing investment has shown a steady undertone.

### Housing construction starts

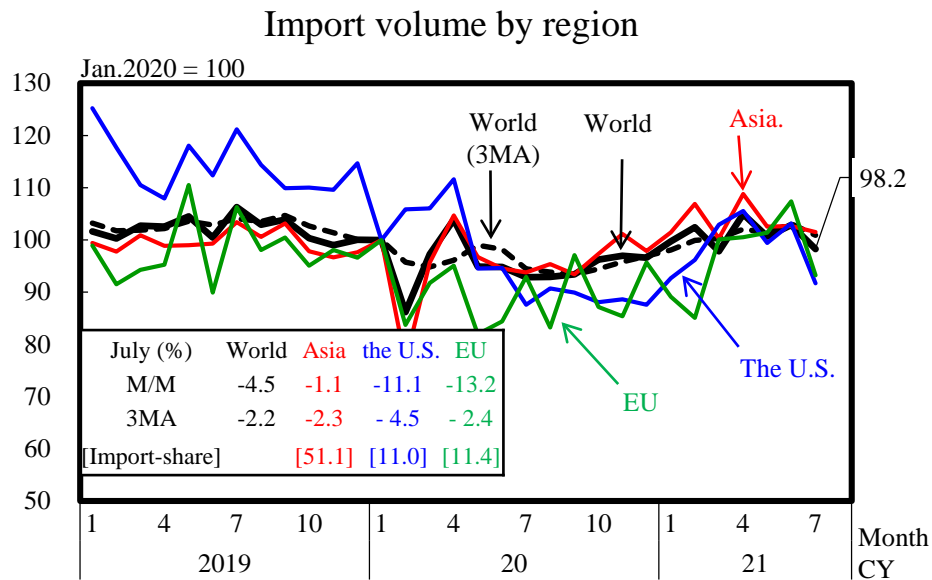


### Value of orders received for public construction

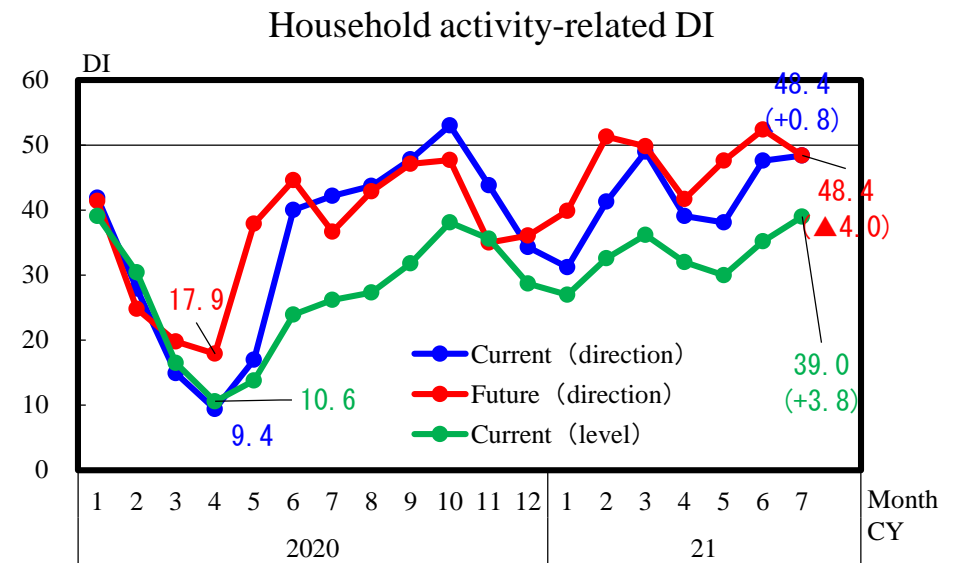


Source: Ministry of Economics, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism.

## Imports appear to be pausing.

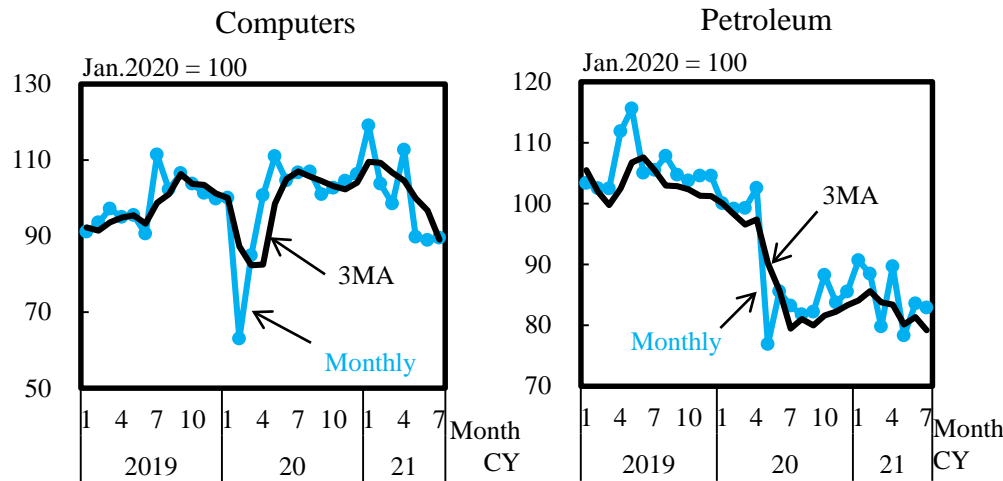


## Economy Watchers Survey

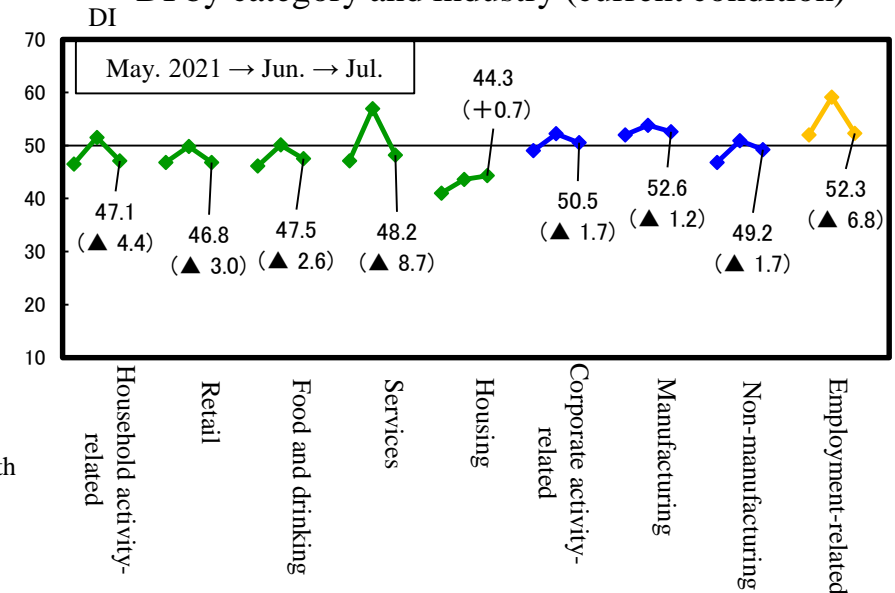


Figures in parentheses indicate the difference from the previous month.

## Input quantity(main goods)



## DI by category and industry (current condition)



Figures in parentheses indicate the difference from the previous month.