

Recent Economic Developments

- Monthly Economic Report, September 16 2021 -

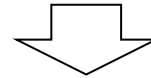
September 30, 2021

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

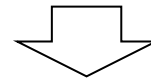
July

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.



September

The Japanese economy remains in picking up, although the pace has weakened in a severe situation due to the Novel Coronavirus.

(Unchanged)

(Changed)

<Assessment of the current state of the Japanese economy>

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

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

<Short-term prospects>

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.

September

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 situation of infections in domestic and overseas and negative effects through the supply chains. Also attention should be given to the effects of fluctuations in the financial and capital markets.

<Policy stance>

(Monthly Economic Report, September 16, 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.

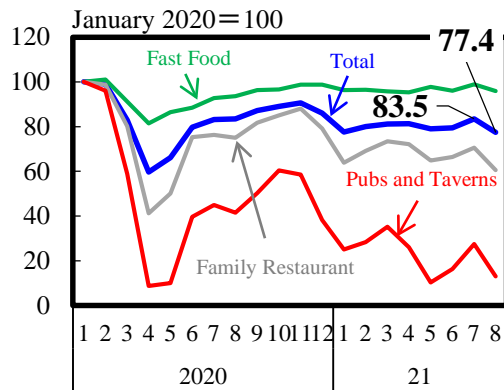
The Government decided to implement the state of emergency measures in designate 19 prefectures and priority measures such as for prevention of the spread of disease in designate 8 prefectures until September 30, and will proceed with countermeasures under three pillars; enhancement of medical systems, thorough implementation of infection prevention measures, and vaccinations. The Government will take all possible intensive and efficient support measures for economic impact. Considering the progress of vaccination, the Government will promote national discussion and proceed with both infection prevention measures and efforts to restore daily life. 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.

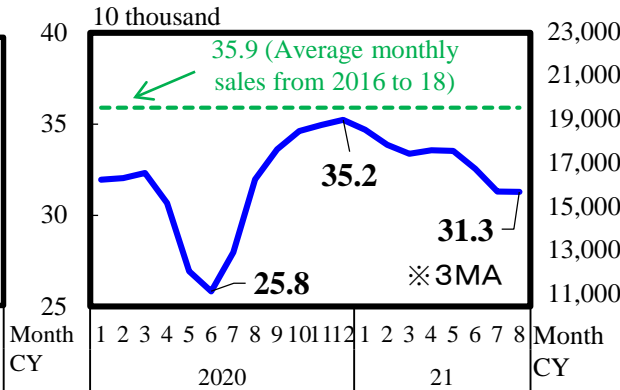
— Private consumption —

- Private consumption shows weakness recently. Against the backdrop of the re-expansion of infectious diseases, consumption spending on services such as eating-out and travel has been weak. On the other hand, consumption spending on goods has been firm so far, but sales of new cars and home appliances show weakness recently. Weekly consumption expenditure since August has been low compared to the normal summer season.
- In the economy watcher survey, the household activity-related DI for current condition fell sharply due to the impact of the spread of infection and other factors. Consumer confidence appears to be pausing for picking up.

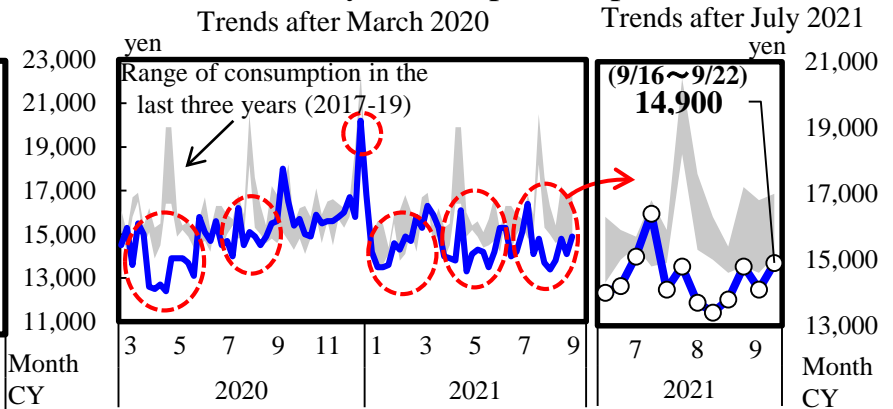
(1-1) Sales of eating-out



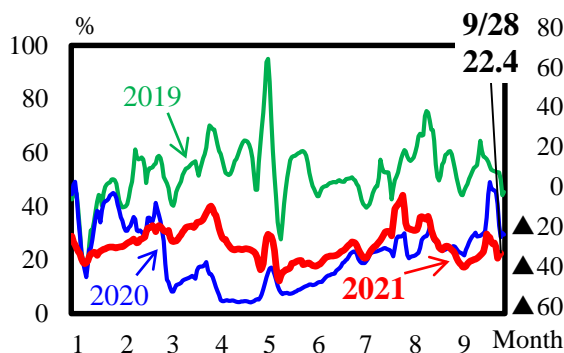
(1-3) Sales of new automobile



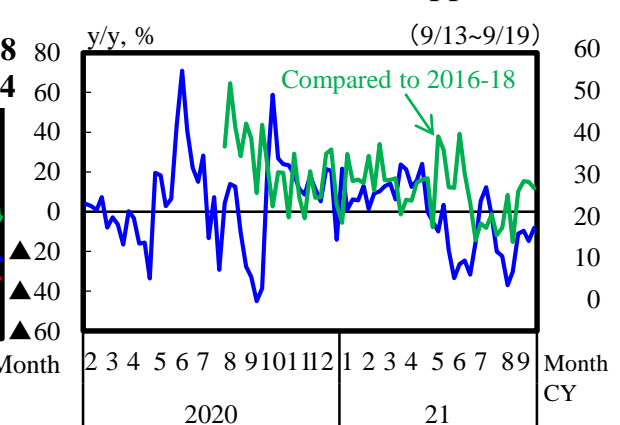
(1-5) Weekly consumption expenditure



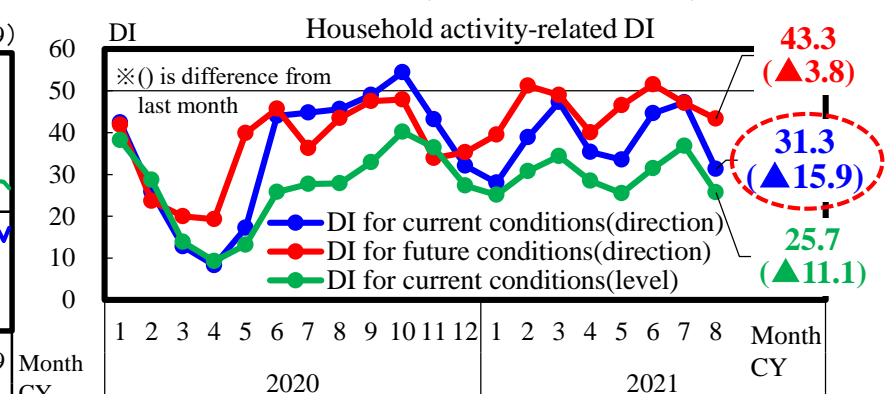
(1-2) Occupancy rates for accommodations



(1-4) Sales of 5 home appliances



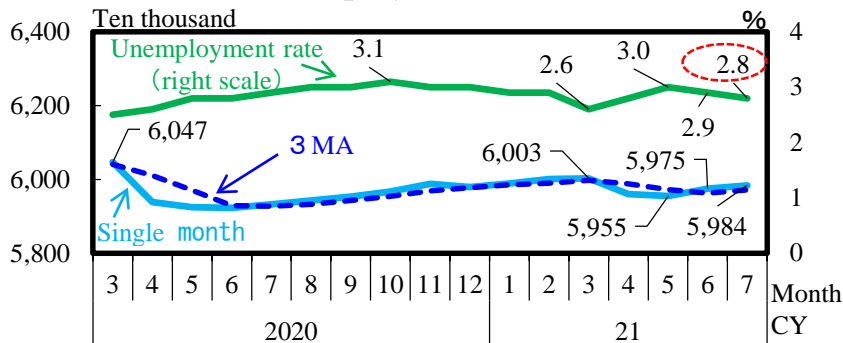
(1-6) Economy Watchers Survey



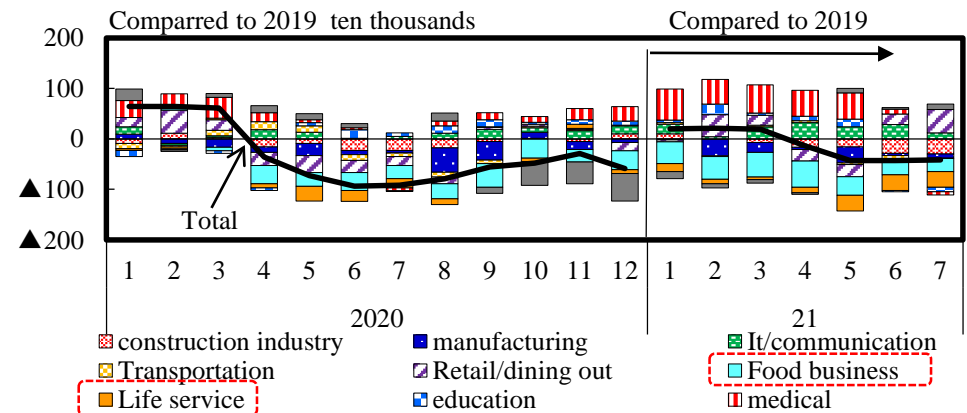
— Employment Situation —

- Despite the continued weakness in the employment situation, the number of people employed in July rose by 90,000, and the unemployment rate declined by 0.1 percentage points from the previous month to 2.8%. Although close attention to the impact of the spread of Covid-19 is needed, the number of firms offering job openings at Public Employment Security Office is picking up, although the level is lower, compared to the same month of 2019.
- The number of people employed continued to decrease in the field of food business and life service, etc.
- Total cash earnings in July increased from a year ago, due to the scheduled and non-scheduled increased.

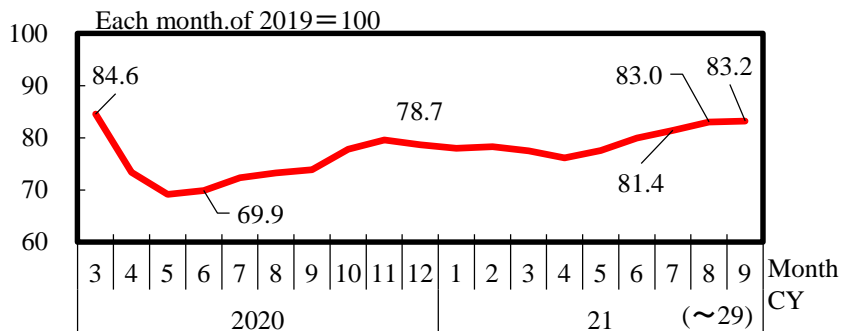
(2-1) Number of employees and Unemployment rate



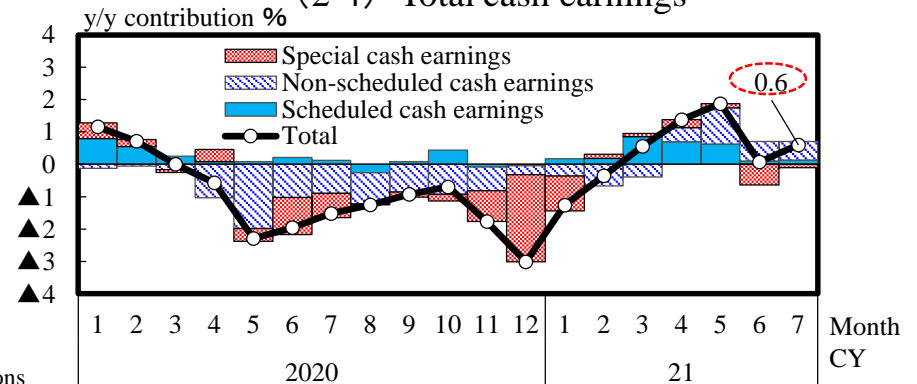
(2-3) Number of employees by industry



(2-2) The number of firms offering the active job openings at Public Employment Security Office



(2-4) Total cash earnings

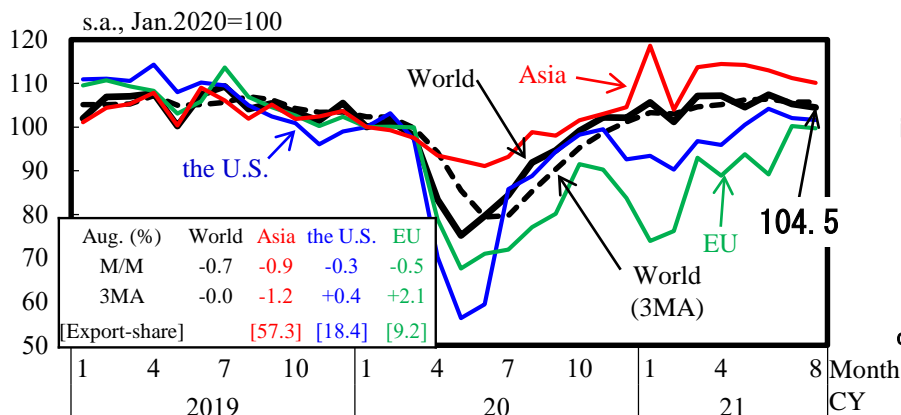


Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications

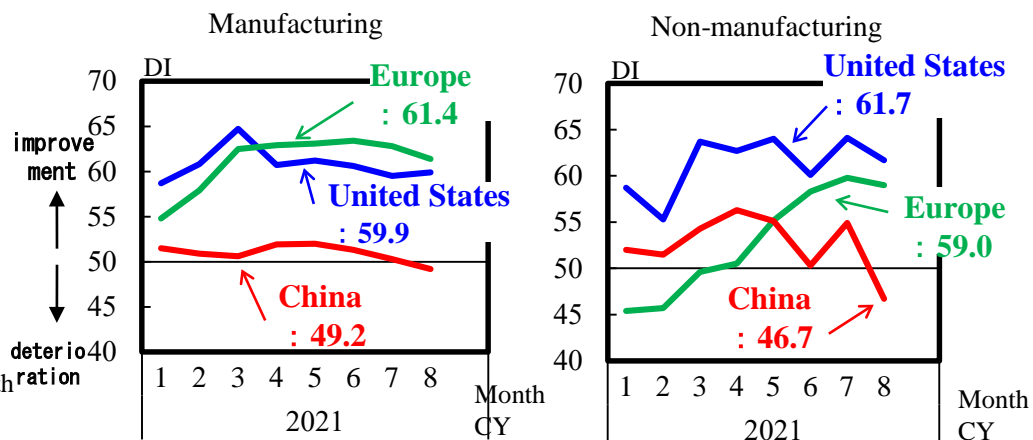
— Business Conditions & Export & Industrial Production —

- Exports continue to increase moderately. Industrial production is picking up, centered on electronic components and devices for 5G-related demand and production machinery for capital investment. However, due to the shortage of semiconductors and parts supply due to the spread of infection in Southeast Asia, the production of the transportation machinery such as automobiles have recently been weakened.
- The pace of improvement is slowing down in business conditions outside Japan. There is a possibility that production adjustment will extend beyond the automobile industry, so it is necessary to pay attention in overseas economies and the impact through the international supply chain.

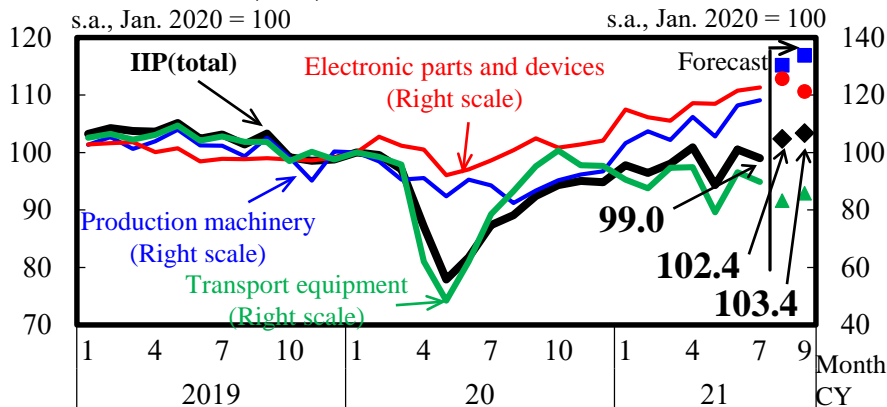
(3-1) Export volume by region



(3-3) Business Conditions



(3-2) Industrial Production



(3-4) Impacts on non-auto industries

Some companies in some non-auto industries have difficulties in parts procurement and delay in delivery.

CompanyA(Electronic parts and devices) : There is shortage of parts supply from local manufacturers due to the spread of infection in Southeast Asia.

CompanyB(Construction machinery) : Many parts including electronic parts are becoming difficult to procure.

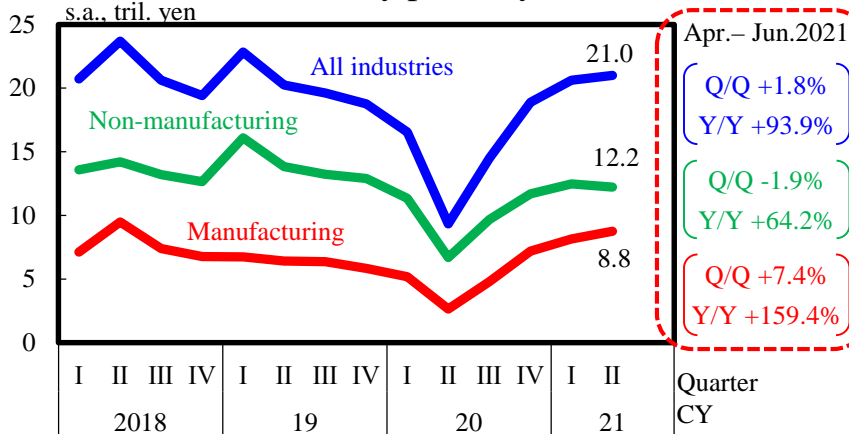
CompanyC(Semiconductor manufacturing equipment) : currently avoiding impact on production by doing alternative procurement.

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

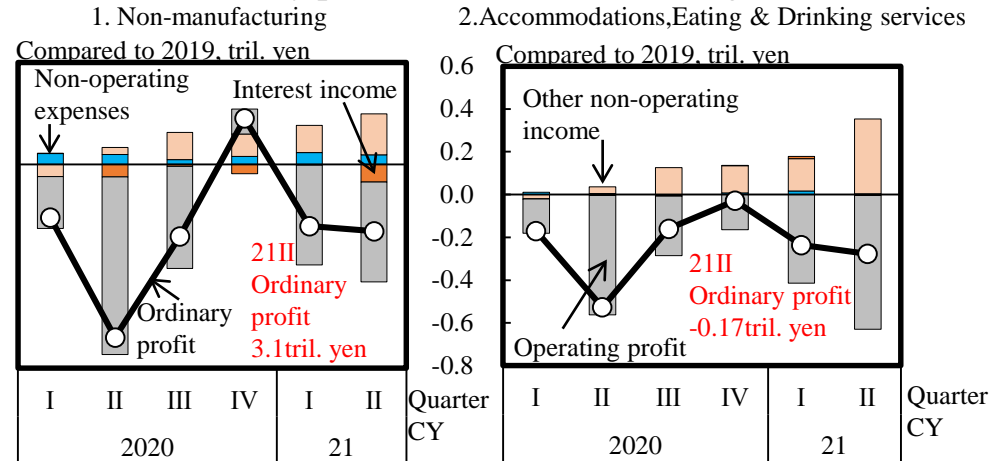
— Trends in Business Activities —

- Corporate profits increased in manufacturers and exceeded the pre-COVID-19 outbreak level, but decreased slightly in non-Manufacturers. The accommodations, eating and drinking services remains in ordinary deficit.
- From the second half of 2020, “other non-operating income,” which includes the government’s financial support, contribute to the increase in ordinary profit of SME in the accommodations, eating and drinking services. However, “operating profit” continues to be negative, and it’s important to recover sales.
- 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 level of economic activity.

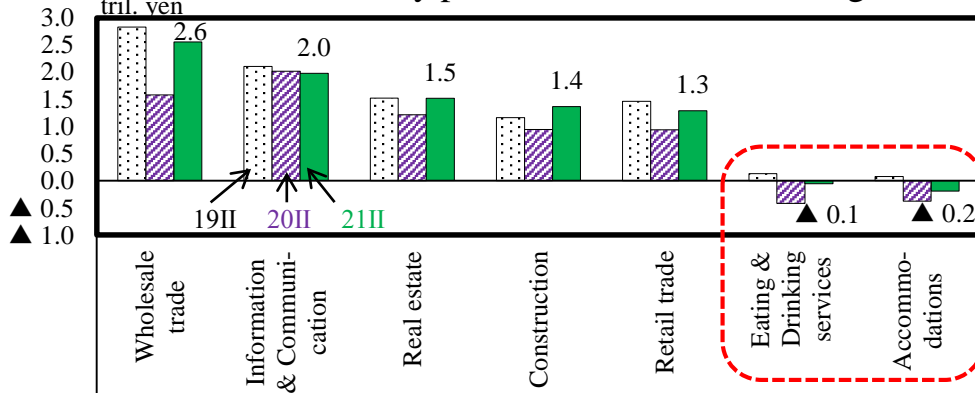
(4-1) Ordinary profit by sector



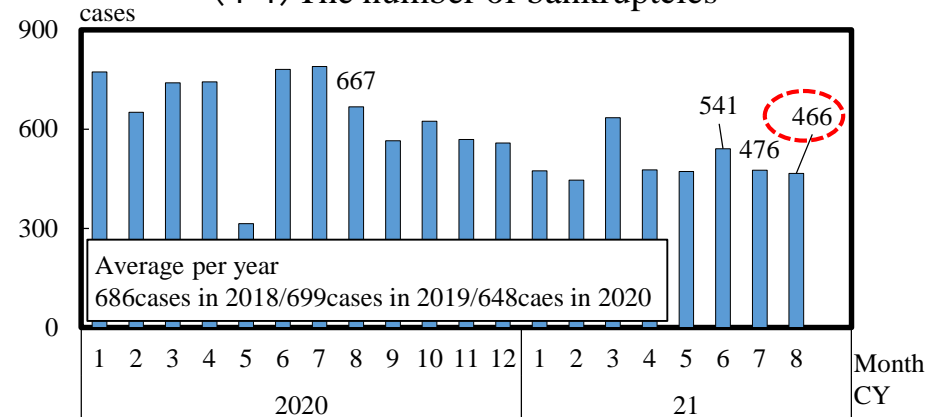
(4-3) Ordinary profit in Non-manufacturing (SME)



(4-2) Ordinary profit in Non-manufacturing

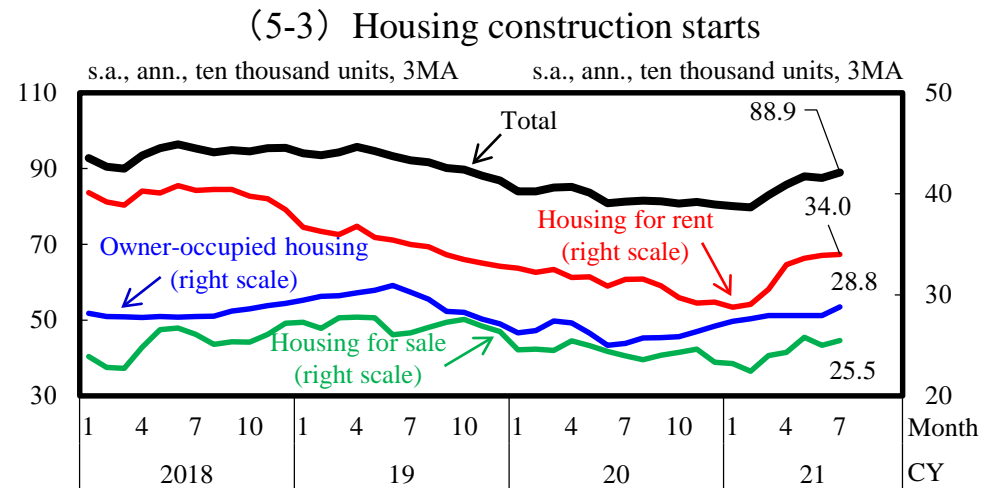
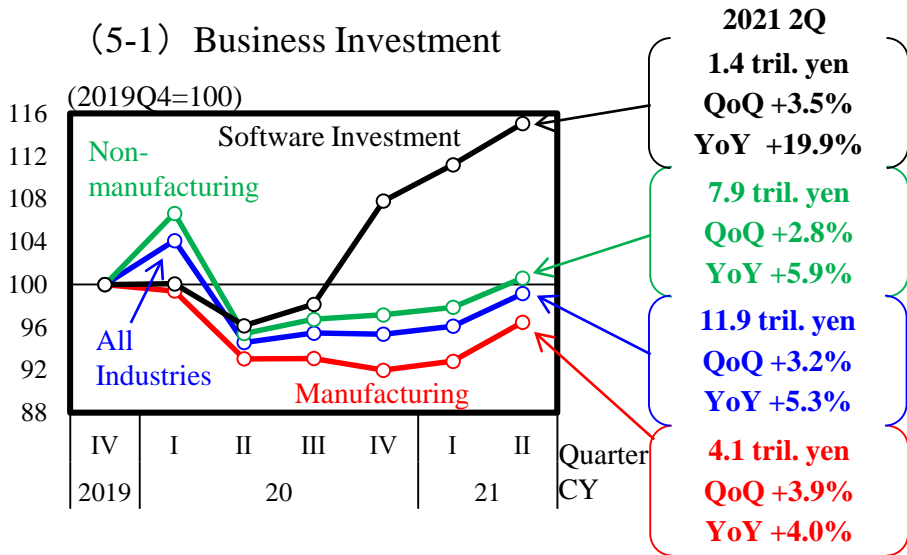


(4-4) The number of bankruptcies



Business & Housing investment

- Business investment in Apr.-Jun. 2021 increased YoY, both in manufacturing and non-manufacturing. Software investment increased for the fourth consecutive quarter, and is significantly higher than its pre-crisis level. According to the Business Outlook Survey (Jul.-Sep. 2021), business investment plans in FY2021 remain robust (+6.6% on a year-on-year basis). Notably, strong growth is expected in software and R&D investment, and such positive effort by firms should accelerate economic growth.
- Housing construction shows movements of picking up due to the steady housing demands supported by the measures for housing acquisitions such as Green housing point system and the temporary tax credit for housing loans.



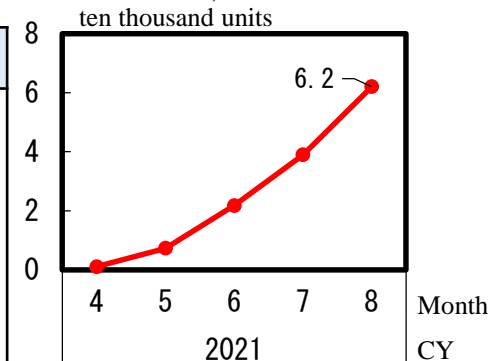
(5-4) The total number of applications for green housing points (new construction)

(5-2) FY2021 Business investment outlook
Business Outlook Survey (Jul.-Sep. 2021)

FY/FY, %	Investment (incl. software)	Software Investment	R&D Investment
All industries	+6.6	+14.0	+6.7
Manufacturing	+10.6	+21.3	+6.8
Non-manufacturing	+4.7	+12.6	+6.4

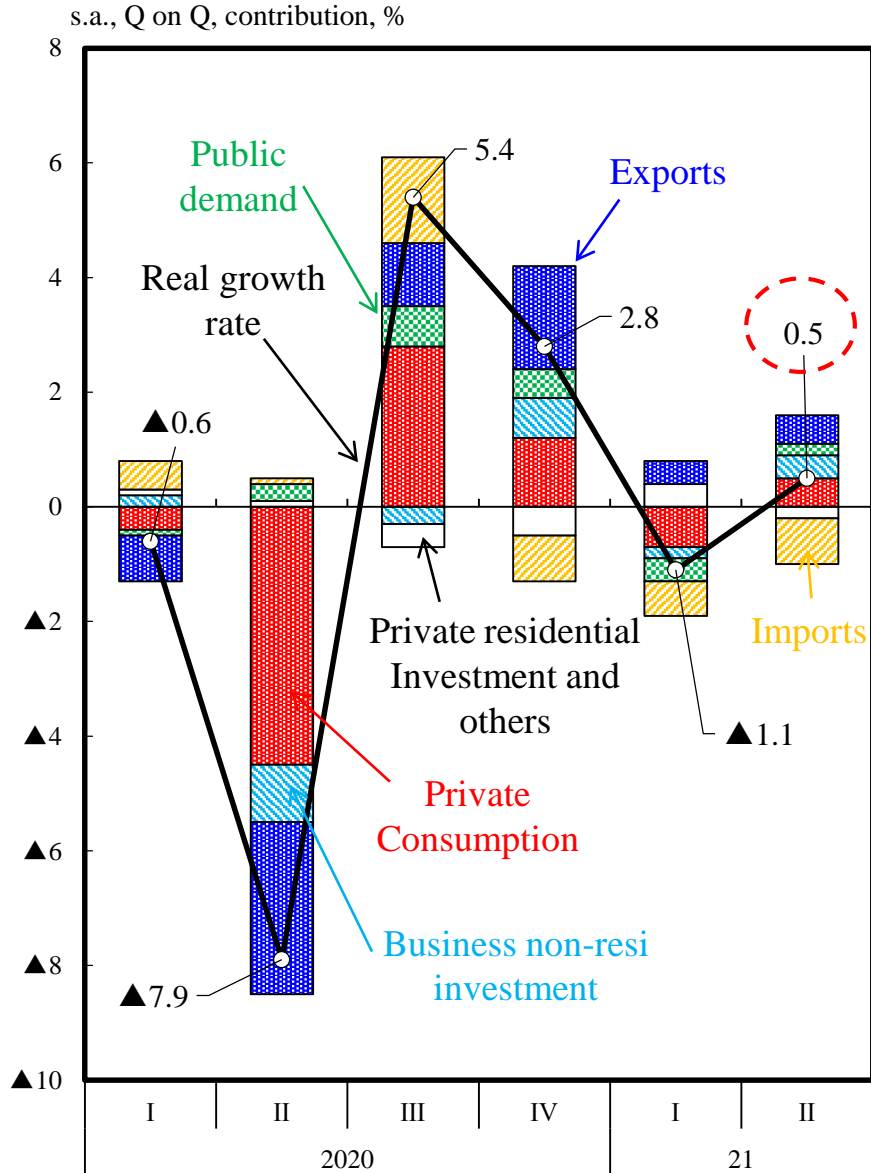
Green housing point system

- Issuance of points that can be exchanged for products or additional construction work to those who acquire houses with high energy-saving performance.
- The contracts need to be signed by October 2021.



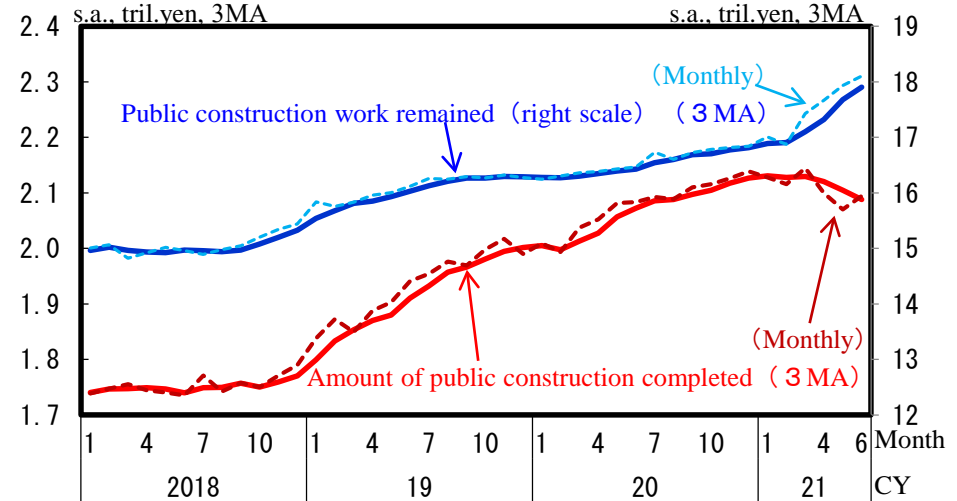
Reference

(6-1) Real GDP growth rate

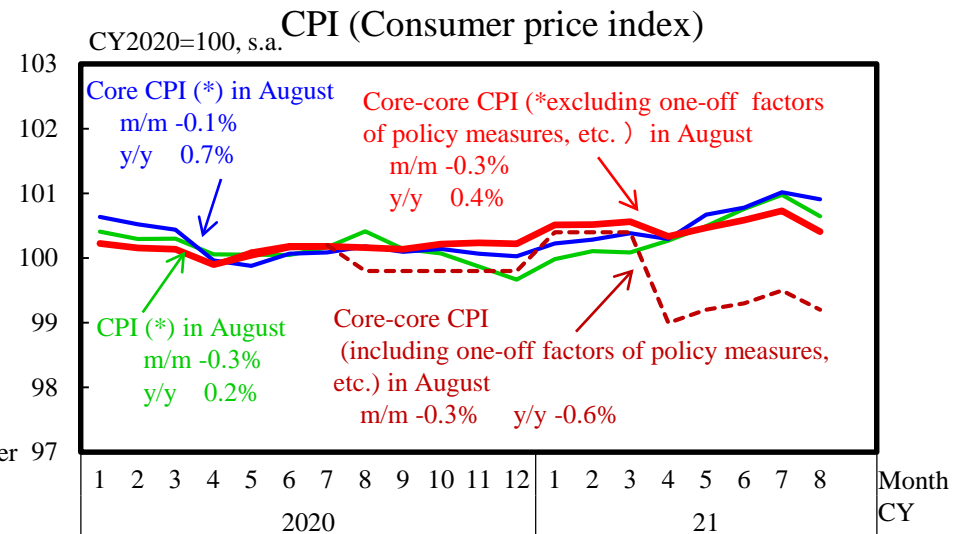


(6-2) Public investment holds firm at a high level

Amount of public construction completed and Public construction work remained



(6-3) CPIs show steady movements recently.



Source: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; 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.