Recent Economic Developments
- Monthly Economic Report, October 15 2021 -

October 22, 2021

Cabinet Office
Government of Japan
<Assessment of the current state of the Japanese economy>

**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.

**October**

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

<table>
<thead>
<tr>
<th>Category</th>
<th>August</th>
<th>September</th>
<th>October</th>
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</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>Private consumption shows weakness further, especially in service spending.</td>
<td>Private consumption shows weakness further. (↓)</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Business investment</td>
<td>Business investment is picking up.</td>
<td>Unchanged</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Exports</td>
<td>Exports continue to increase moderately.</td>
<td>Unchanged</td>
<td>Exports are increasing at a slower pace. (↓)</td>
</tr>
<tr>
<td>Industrial production</td>
<td>Industrial production is picking up.</td>
<td>Industrial production is picking up, although some weakness is seen recently. (↓)</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Corporate profits</td>
<td>Corporate profits are picking up, although some weaknesses remain in non-manufacturers due to the influence of the infectious disease.</td>
<td>Unchanged</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Firms’ judgments on business conditions</td>
<td>Firms' judgments on current business conditions show movements of picking up, although some severe aspects remain.</td>
<td>Unchanged</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Employment situation</td>
<td>Employment situation shows steady movements in some components such as job offers, while weakness remains, due to the influence of the infectious disease.</td>
<td>Unchanged</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Prices</td>
<td>Consumer prices show steady movements recently.</td>
<td>Unchanged</td>
<td>Unchanged</td>
</tr>
</tbody>
</table>

Note: ↑ denotes upward revision and ↓ denotes downward revision.
## <Short-term prospects>

### 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.

### October

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while taking thorough measures against infectious diseases, and accelerating vaccinations. However, full attention should be given to the further increase in downside risks due to negative effects through the supply chains. Also attention should be given to situation in domestic and overseas infections and the effects of fluctuations in the financial and capital markets.
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. In order to extricate Japan from deflation, bold monetary policy, flexible fiscal policy, and the promotion of growth strategies will be engaged in.

The Government lifted the declaration of a state of emergency in 19 prefectures and also lifted all priority measures to prevent the spread of disease in 8 prefectures on September 30th. However, in anticipation of various situations, the Government will enhance medical systems as well as promote vaccinations and pharmaceutical treatments. In addition, the Government will provide economic support to those impacted by restrictions on flow of people. At the same time, the Government will work to bring socio-economic activities back to near normalcy as soon as possible while exploiting vaccination certificates and other measures.

The Government will develop a new economic stimulus package to address these issues seamlessly, to take all possible measures to respond to the Novel Coronavirus, to trigger a new capitalism, whose concepts are a virtuous cycle of growth and distribution and developing a new post-COVID-19 society, and to ensure the safety and security of people. In the meantime, the Government continues to pay careful attention to the status of the infection and its impact on businesses and livelihoods, and implement necessary measures in a flexible manner through utilizing the reserve fund and others.

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 has been weak during state of emergency. In addition to weakness in service spending such as eating-out, sales of new cars declined through September due to supply constraint.
- On the other hand, in the September economy watchers survey, the household activity-related DI for future condition rose significantly due to the lifting of SoEs and expectations for progress in vaccination. Consumer confidence is showing movements of picking up recently.
- Although weekly consumption expenditure has been weak overall since the second half of September, there has been an upward trend in spending on eating-out in October, after the lifting of SoEs.

(1-1) Sales of eating-out

(1-2) Sales of new automobile

(1-3) Economy Watchers Survey

(1-4) Weekly consumption expenditure

(1-5) Weekly consumption by product category

Sources: Japan Foodservice Association; Japan Automobile Dealers Association; Japan Light Vehicle and Motorcycle Association; Cabinet Office; Macromill, Inc.
Although export volume has recovered to the pre-COVID-19 outbreak level, exports are increasing at a slower pace recently, mainly due to weakness in the automobile sector. Although industrial production is picking up centered on electronic parts and devices and production machinery, weakness is seen in transport equipment due to the shortage of semiconductors and parts supply due to the spread of infection in Southeast Asia.

Imports of machinery parts from ASEAN are decreasing (e.g. parts of motor vehicle). Supply shortages may prolong and expand, so attention is still needed on the development of overseas economies and the impact through supply chains.

**Export/Import & Industrial Production**

- **(2-1) Export volume index by region**
  - Although export volume has recovered to the pre-COVID-19 outbreak level, exports are increasing at a slower pace recently, mainly due to weakness in the automobile sector. Although industrial production is picking up centered on electronic parts and devices and production machinery, weakness is seen in transport equipment due to the shortage of semiconductors and parts supply due to the spread of infection in Southeast Asia.

- **(2-2) Industrial Production**
  - Although export volume has recovered to the pre-COVID-19 outbreak level, exports are increasing at a slower pace recently, mainly due to weakness in the automobile sector. Although industrial production is picking up centered on electronic parts and devices and production machinery, weakness is seen in transport equipment due to the shortage of semiconductors and parts supply due to the spread of infection in Southeast Asia.

- **(2-3) Import of machinery parts from ASEAN**
  -Imports of machinery parts from ASEAN are decreasing (e.g. parts of motor vehicle). Supply shortages may prolong and expand, so attention is still needed on the development of overseas economies and the impact through supply chains.

- **(2-4) Impact of semiconductor shortage and spread of infection in Southeast Asia**
  - Prolonged reduction of auto production and expansion to related industries
    - **Metal products**: Production has decreased mainly for automobiles due to semiconductor shortage, etc.
    - **General machine**: In addition to the effects of infectious diseases, the effects of semiconductor shortages are deeper than expected, and are expected to continue until next year.
  - Impacts in areas other than automobiles
    - **Machine tools**: Production may be delayed after October due to the difficulty to procure electronic components such as motors, connectors and relays.
    - **Construction machinery**: The supply of engine parts was affected from July to August.
    - **Home appliances**: Supply shortages occurred mainly in refrigerators and washing machines due to the stagnation of parts supply from Vietnam, and in vacuum cleaners due to the stagnation of supply from Malaysia.
— Trends in Business Activities —

- According to the BOJ Sep. Tankan survey, firms’ judgments on current business conditions remain positive by manufacturing and negative by non-manufacturing. In FY2021, both corporate profits in manufacturing and non-manufacturing are expected to increase. The accommodations, eating and drinking services remains in ordinary deficit.
- Input price DI is rising, while the rise of output price DI is limited. Passing costs on to prices is tough especially for SMEs.
- 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.

![Diagram showing business conditions and output price diffusion index](image-url)

![Diagram showing the number of bankruptcies and corporate profits](image-url)
Business & Housing investment

According to the BOJ Sep. Tankan survey, “excessive production capacity” has largely been resolved in both the manufacturing and non-manufacturing. Business investment is expected to increase by 9.3% in 2021 mainly in manufacturing, while investment in the service industry (accommodations, eating & drinking services and services for individuals) remains weak.

Public investment has been in a weak tone recently due to a decrease in orders although it is still at a high level.

(4-1) Production Capacity: Diffusion index (Tankan survey)

(4-2) Business Investment Plan (Tankan survey)

(4-3) Business Investment Plan by industry (Tankan survey)

(4-4) Public Investment Trends

Source: Bank of Japan; Ministry of Land, Infrastructure, Transport and Tourism; East Japan Construction Surety Co., Ltd., etc.,
Amid continued weakness in the employment situation, the number of people employed in August showed steady movements. The unemployment rate shows steady movements in 2.8%.

According to the excess of employment (BOJ Sep. Tankan survey), the movement of shortage continued in total, the movement of excess shrunk in food business. 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.

Total cash earnings in August increased from a year ago, due to the scheduled and non-scheduled increased. The real wage income of employees is picking up.
Reference
(6-1) Imports appear to be pausing.

- **Import volume by region**
  - World: 101.4
  - Asia: 100.3
  - EU: 97.7
  - The U.S.: 98.2

- **Import volume by good**
  - Raw Materials
  - Machinery & Equipment

(6-2) Housing investment has been showing movements of picking up recently.

- **Housing construction starts**
  - Total: 88.3
  - Owner-occupied housing (right scale): 33.8
  - Housing for rent (right scale): 29.2
  - Housing for sale (right scale): 24.7

(6-3) CPIs show steady movements recently.

- **CPI (Consumer price index)**
  - Core CPI (*) in August:
    - m/m: -0.1%
    - y/y: 0.7%
  - Core-core CPI (*excluding one-off factors of policy measures, etc.) in August:
    - m/m: -0.3%
    - y/y: 0.4%
  - CPI (*) in August:
    - m/m: -0.3%
    - y/y: 0.2%
  - Core-core CPI (including one-off factors of policy measures, etc.) in August:
    - m/m: -0.3%
    - y/y: -0.6%

Source: Cabinet Office; Ministry of Finance; 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.