

Recent Economic Developments

- Monthly Economic Report, February 17 2022 -

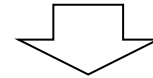
February 28, 2022

Cabinet Office
Government of Japan

<Assessment of the current state of the Japanese economy>

December

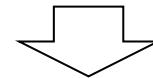
The Japanese economy shows movements of picking up recently as the severe situation due to the Novel Coronavirus is gradually easing.



January

The Japanese economy shows movements of picking up recently as the severe situation due to the Novel Coronavirus is gradually easing.

(Unchanged)



February

The Japanese economy continues to show movements of picking up, although some weaknesses are seen as a severe situation due to the Novel Coronavirus remains.

(Changed)

<Assessment of the current state of the Japanese economy>

	December	January	February
Private consumption	Private consumption shows movements of picking up, while some weakness remains.	Unchanged	Private consumption appears to be pausing for picking up recently. (↓)
Business investment	Business investment appears to be pausing for picking up.	Unchanged	Business investment shows movements of picking up. (↑)
Exports	Exports are almost flat.	Unchanged	Unchanged
Industrial production	Industrial production appears to be pausing for picking up.	Industrial production shows movements of picking up. (↑)	Unchanged
Corporate profits	Corporate profits are picking up, although some weaknesses remain 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.	Unchanged	Unchanged
Employment situation	Employment situation shows picking up in some components such as job offers, while weakness remains due to the influence of the infectious disease.	Unchanged	Unchanged
Prices	Consumer prices show steady movements.	Unchanged	Unchanged

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

<Short-term prospects>

December

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while economic and social activities move toward normalization. However, full attention should be given to the further increase in downside risks due to supply-side constraints and raw material prices. Also attention should be given to the effects of the Novel Coronavirus including variant on the Japanese and overseas economies and fluctuations in the financial and capital markets.

January

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while taking all possible measures against infectious diseases and continuing economic and social activities. However, full attention should be given to the further increase in downside risks due to the effects of the Novel Coronavirus and supply-side constraints and raw material prices. Also attention should be given to the effects of fluctuations in the financial and capital markets.

February

The economy is expected to show movements of picking up, supported by the effects of the policies and improvement in overseas economies while taking all possible measures against infectious diseases and continuing economic and social activities. However, full attention should be given to the further increase in downside risks due to the effects of the spread of Novel Coronavirus and supply-side constraints and raw material prices. Also attention should be given to the effects of fluctuations in the financial and capital markets.

<Policy stance>

(Monthly Economic Report, February 17, 2022)

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.

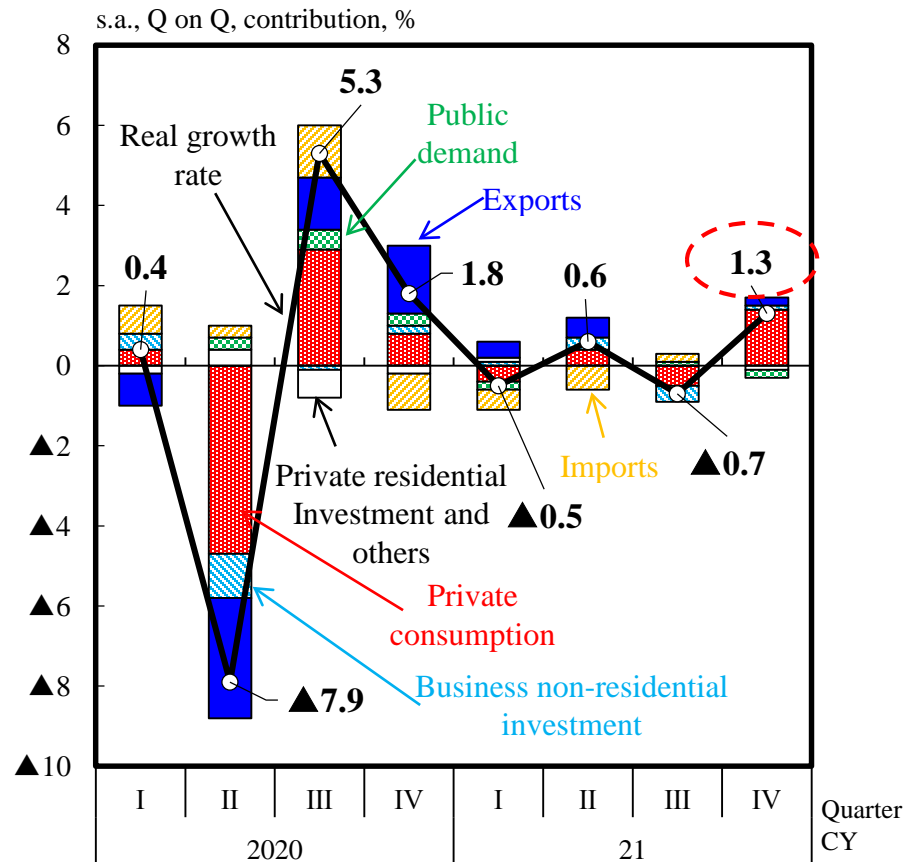
The Government decided to extend priority measures such as for prevention of the spread of disease in thirteen prefectures and to apply them additionally to one prefecture on February 10, and is now implementing them in designate 36 prefectures. The Government will further strengthen well-balanced measures based on the characteristics of the Omicron strain. The Government will work to strengthen infection prevention measures in schools, nursery schools, and elderly care facilities, improve temporary medical and other facilities, and steadily accelerate the third dose of vaccine based on the target of one million doses per day. Through these efforts, the Government will create an environment where socioeconomic activities can continue as much as possible, ensuring safety and security. The Government will consider easing border control measures.

The Government will support the current economy while paying close attention to downside risks. Even in a situation where the infection is re-spreading, the Government will secure people's livelihoods, employments, and businesses, and prevent further deterioration of economy. In addition, the Government will trigger a new form of capitalism, realize a virtuous cycle of growth and distribution, and put the economy on a self-sustained growth path. To this end, the Government will implement the "Economic Measures for Overcoming Coronavirus Infections and Opening Up a New Era" (November 19th, Cabinet Decision) and the FY2021 supplementary budget swiftly and properly, and work for early passage of the FY2022 budget and the related bills. Furthermore, in light of the current situation where oil prices are soaring, the Government will respond flexibly in order to minimize the impact on people's daily lives and economic activities.

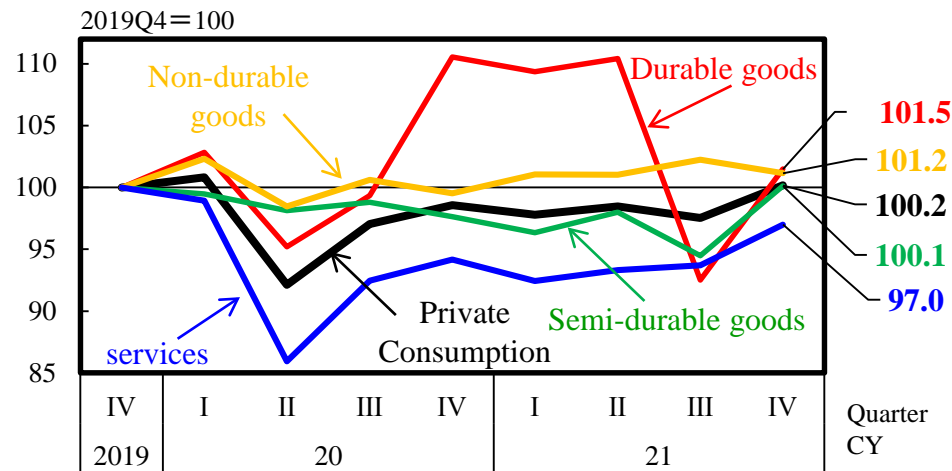
The Bank of Japan continues monetary easing with a view to doing its utmost to support financing mainly of small and medium-sized firms and maintaining stability in financial market. The Government expects the Bank of Japan to pay careful attention to the economic impact of the infections and conduct appropriate monetary policy management, and achieve the price stability target of two percent in light of economic activity, prices and financial conditions.

- The real GDP growth rate for the Oct. – Dec. 2021 period increased by 1.3% for the first time in two quarters, and almost recovered to the levels of pre-COVID-19. Private consumption, exports, and business investment all contributed positively from the previous quarter due to the gradual increase in economic and social activities following the lifting of the declaration of a state of emergency, etc., and the easing of parts supply shortages caused by the spread of infection in Southeast Asia. As for private consumption, durable goods such as automobiles and service for eating-out and travel increased.
- The real GDP growth rate for 2021 increased by 1.7% for the first time in three years.

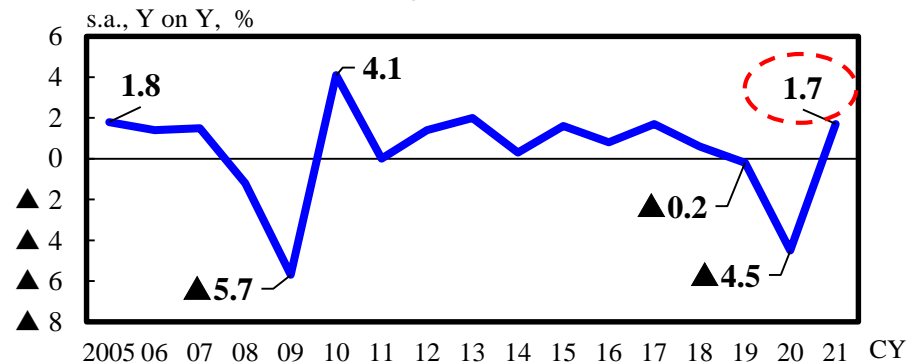
(1-1) Real GDP growth rate



(1-2) Private consumption by form



(1-3) Real GDP growth rate [at annual rate]



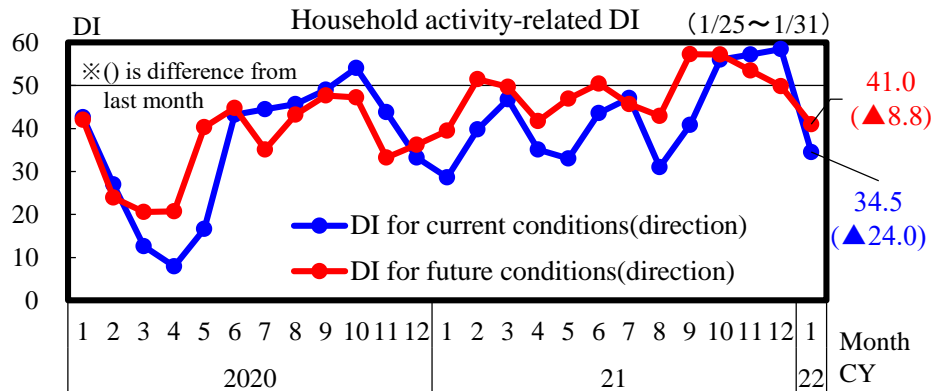
Source: Cabinet Office; US Department of Commerce; Eurostat; UK statistics Authority.

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

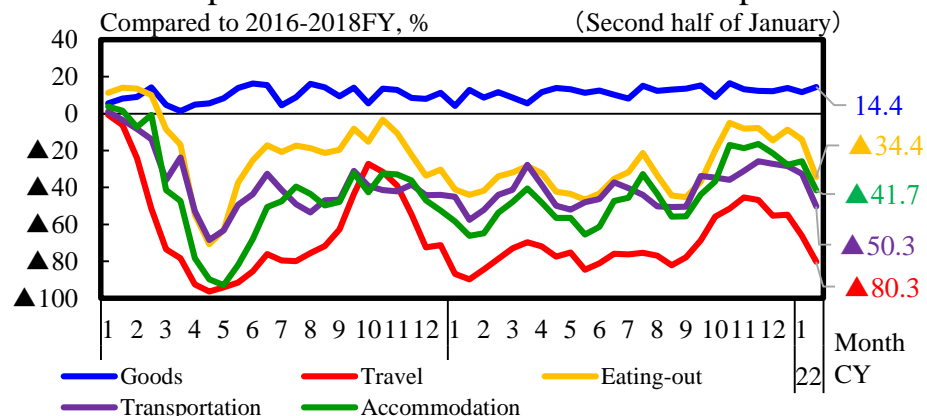
— Private consumption —

- Private consumption appears to be pausing for picking up. Consumer confidence has declined significantly due to the implementation of priority measures to prevent the spread of the disease. Due to the spread of the infection, the flow of people to retail and entertainment facilities has been declining since January.
- While consumption of goods remained firm, consumption of services weakened in general. Sales of eating-out was strong during the year-end and New Year holidays, but declined in the second half of January due to the spread of infection. Travel sales also weakened due to an increase in reservation cancellations.
- Weekly consumption expenditure has generally been around the lower end of the normal level (2017-19) since late January.

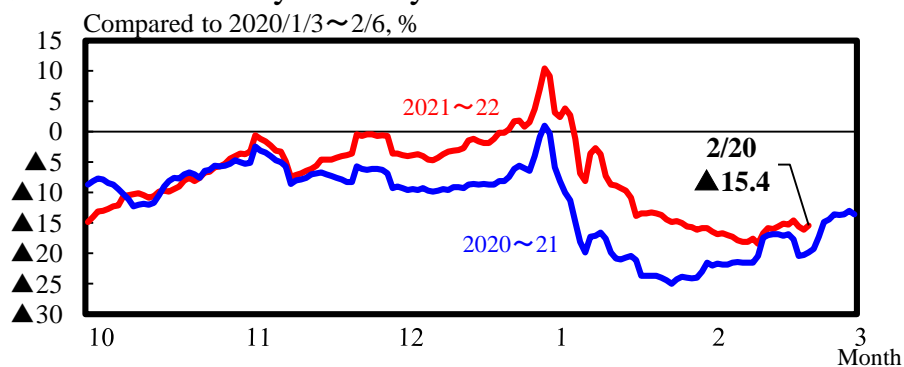
(2-1) Economy Watchers Survey



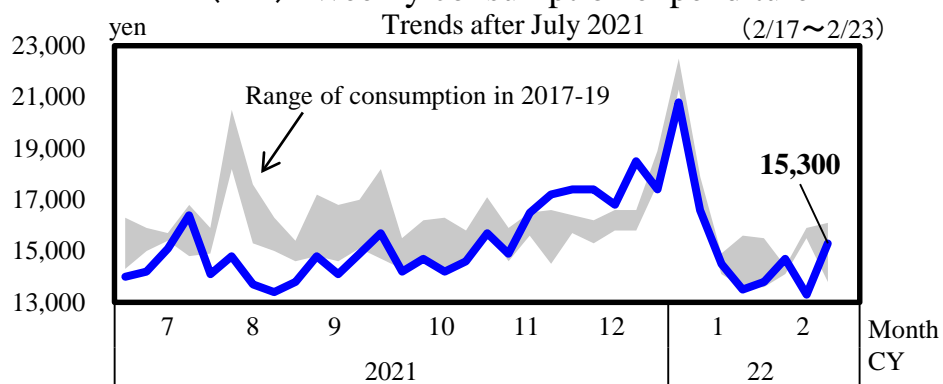
(2-3) Consumption trends based on credit card expenditures



(2-2) Community mobility trends for retail and entertainment



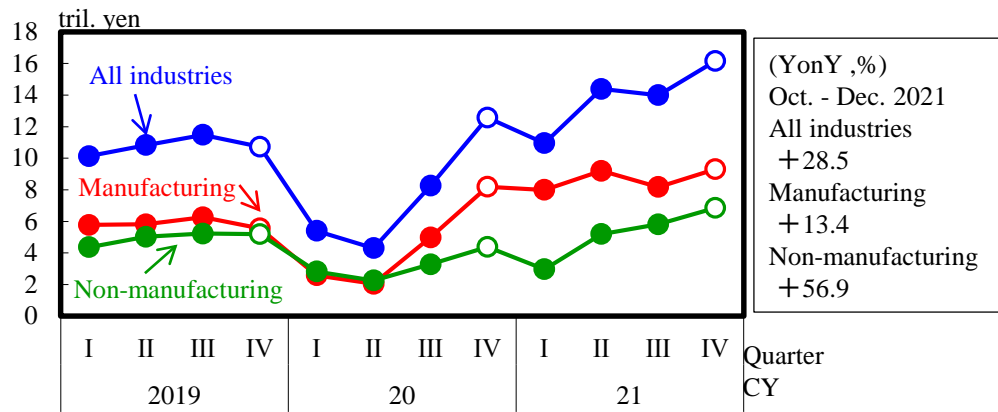
(2-4) Weekly consumption expenditure



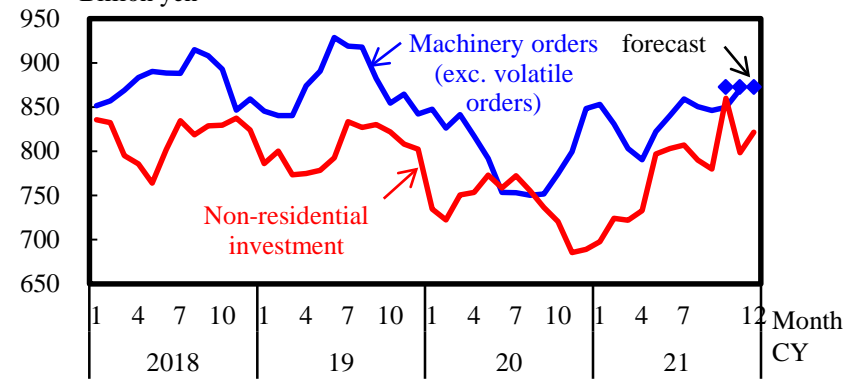
— Trends in Business Activities —

- Ordinary profit of listed companies increased in both manufacturing and non-manufacturing industries for Oct. – Dec, well above the pre-COVID-19 outbreak level, reflecting DX demand, active logistics and rising resource prices.
- Business investment (based on GDP) increased in 4Q from the previous quarter, and leading indicators of machinery and non-residential investment both show movements of picking up. Software investment has been increasing moderately since October, against the backdrop of digitalization.

(3-1) Ordinary profit of listed companies



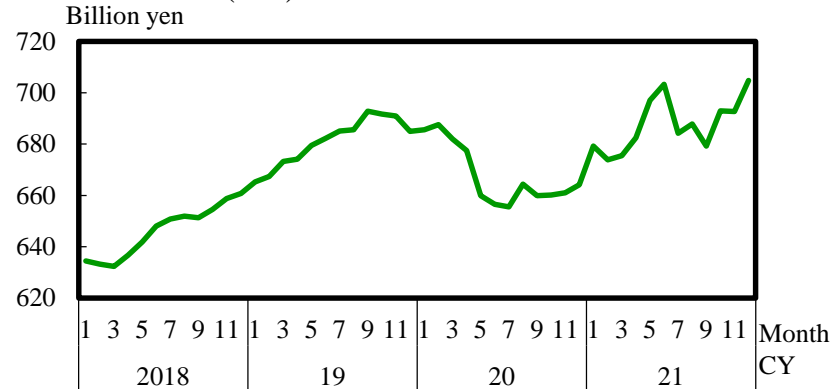
(3-3) Machinery orders (exc. volatile orders) and non-residential investment



(3-2) Ordinary profit by sector (Oct.- Dec. period 2021)

	Sector	YoY contrib.	Background
Manufactures	Electrical Machinery	+ 4.6	DX demand
	Iron and steel	+ 4.2	Rising steel prices
	Chemicals	+ 2.8	Rising resource prices
Non-manufactures	Wholesaling	+21.1	Rising resource prices
	Marine transportation	+13.3	Active logistics
	Land transportation	+ 7.0	Increase in reaction from the previous year

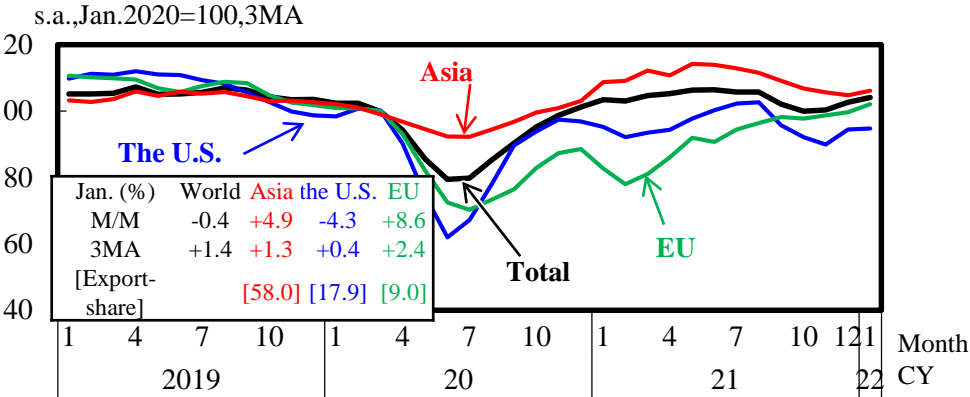
(3-4) Software investment



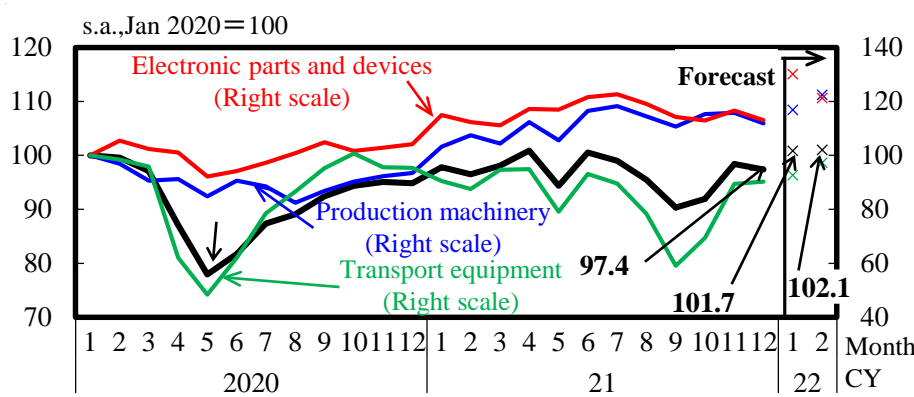
- Industrial Production & Exports -

- Exports are almost flat. Export to China and other ASIA have weekend, while those to the U.S. and EU are almost flat. Exports of automotive related goods picked up, while capital goods and ICT-related goods slowed down.
- Production is picking up. Transportation machinery has picked up due to the alleviation of the shortage of parts supply. The outlook is expected to continue increasing, centered on production machinery, electronic parts and devices. As product delivery times are prolonged worldwide, it is necessary to continue to pay close attention to supply constraints, although the impact is relatively small.

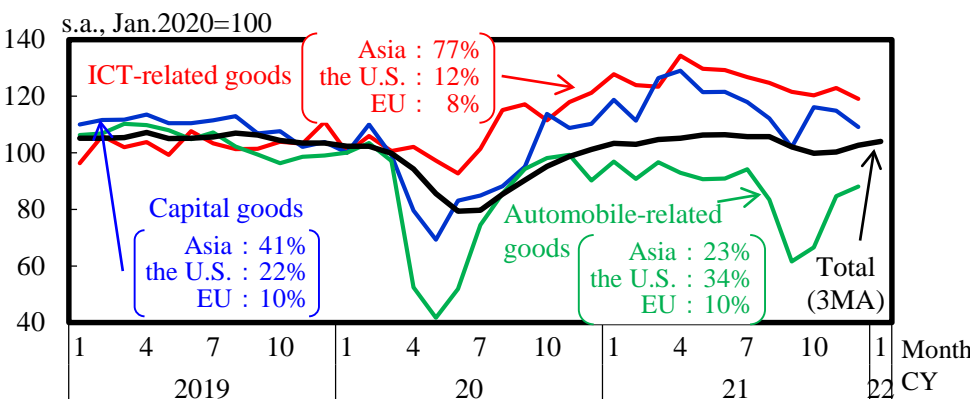
(4-1) Export volume index by region



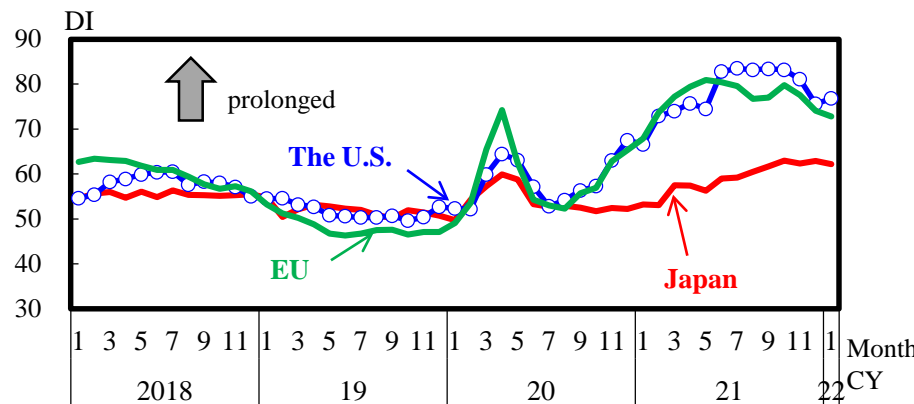
(4-3) Industrial Production



(4-2) Export volume index by goods



(4-4) Supplier's Delivery Times Index

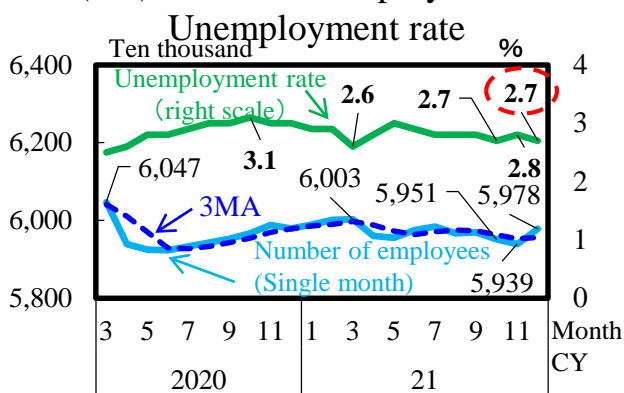


Sources: Ministry of Finance; Ministry of Economy, Trade and Industry, IHS Markit.

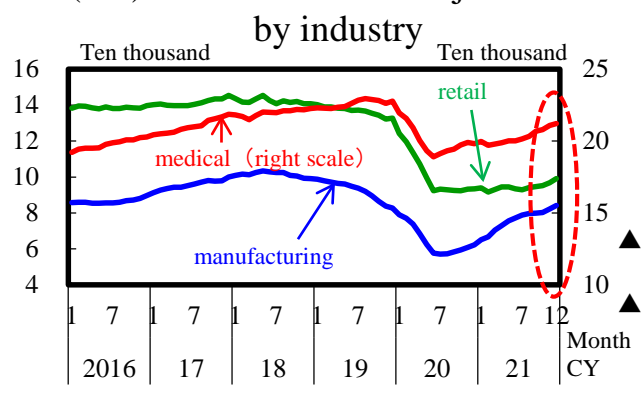
— Employment Situation —

- The employment situation shows picking up in some components such as job offers, while weakness still remain. The number of employees and unemployment rate are almost flat in December. The number of firms offering job openings at Public Employment Security Office is picking up.
- The number of new job offers is picking up, albeit at a low level. On the other hand, the non-working population, especially the elderly, is increasing.
- Wage growth in December 2021 is negative compared to the previous year due to a decrease in special cash earnings (bonuses). The percentage of people who have recently decided to change jobs and whose wages have increased by 10% or more compared to their previous jobs has increased for the second consecutive quarter, exceeding 30%.

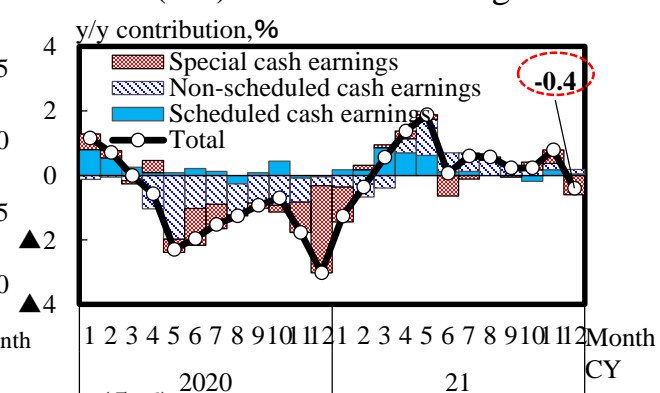
(5-1) Number of employees and



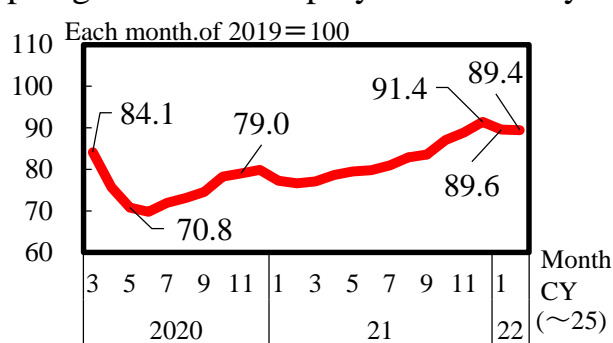
(5-3) The number of new job offers



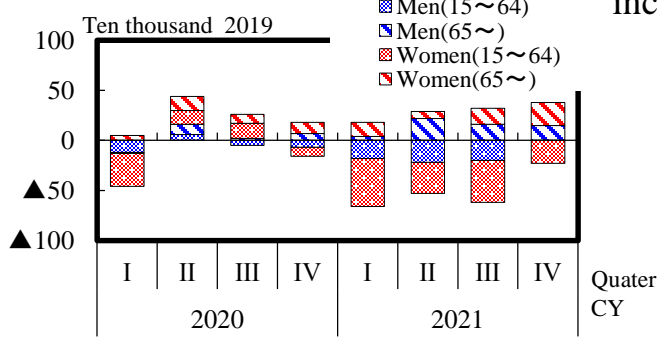
(5-5) Total cash earnings



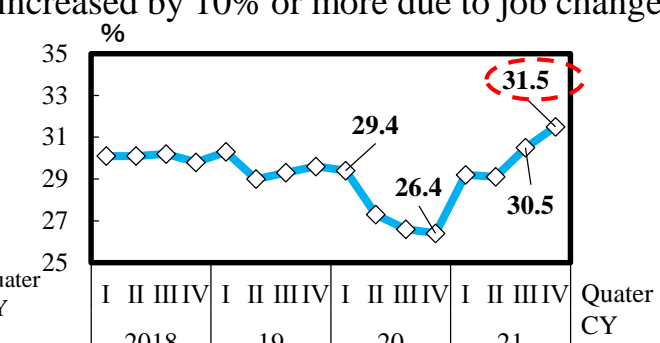
(5-2) The number of firms offering the active job openings at Public Employment Security Office



(5-4) Changes in the non-working population by age group



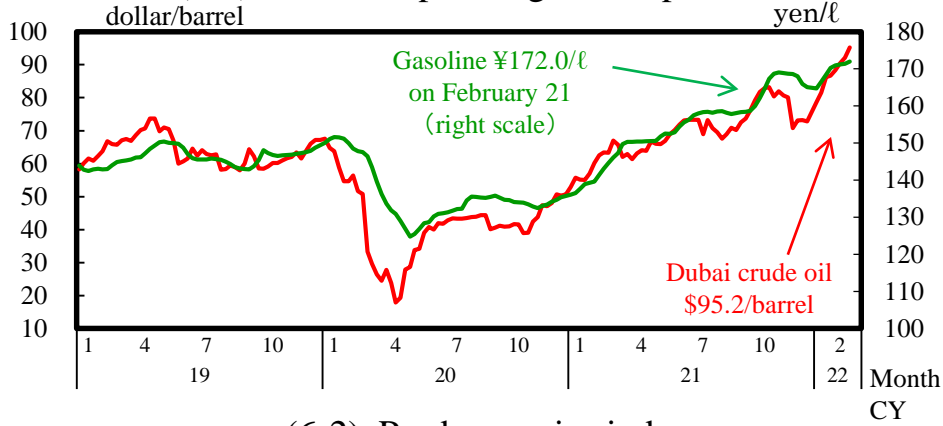
(5-6) Percentage of employees whose wages increased by 10% or more due to job change



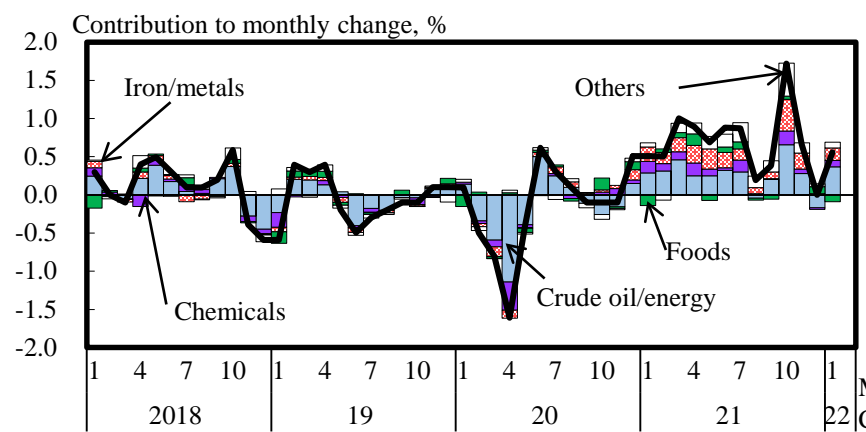
Source: Ministry of Health, Labor and Welfare; Ministry of Internal Affairs and Communications; Recruit Co., Ltd.

- Crude oil prices have been rising again since the beginning of 2022. The average gasoline price in Japan surpasses 170-yen/ℓ from the 4th week in January. Producer prices are rising primarily due to the rise in oil and energy prices.
- Core-core CPI (excluding fresh foods and energy prices) shows steady movements. CPI for all items rises moderately due to the higher energy and commodity prices. Consequently, household expenditure on energy is increasing. The increases in energy prices affect lower-income households more.

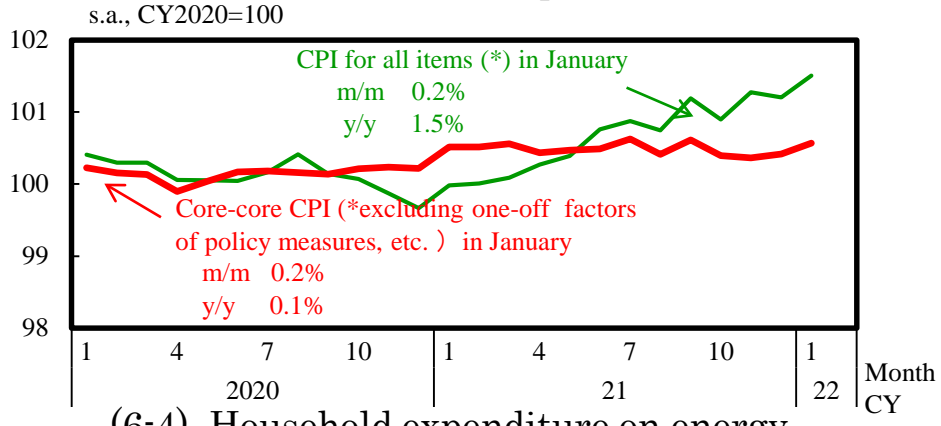
(6-1) Crude oil prices/ gasoline prices



(6-2) Producer price index

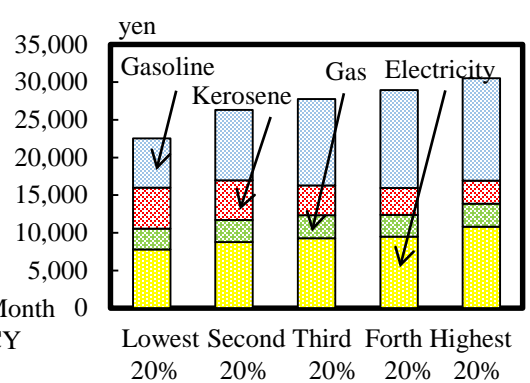


(6-3) CPI(Consumer price index)

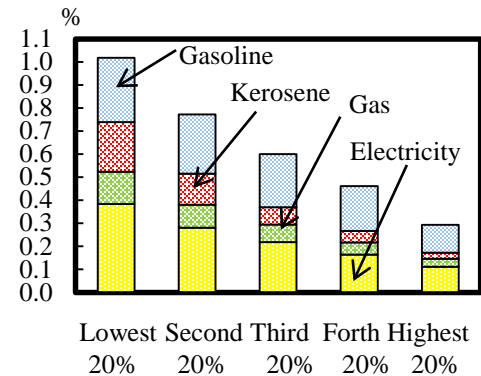


(6-4) Household expenditure on energy

Expected increase of annual household expenditure in 2022



Expected increase of annual household expenditure as a percentage of each income

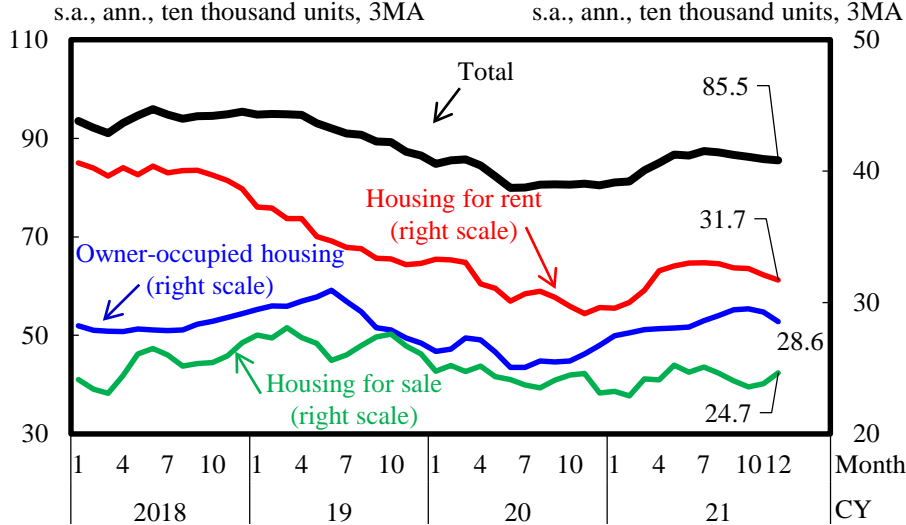


Source: NIKKEI NEEDS; Ministry of Internal Affairs and Communications; Bank of Japan; Cabinet Office.
 Note: In CPIs, "one-off factors of policy measures, etc." means the direct effects of the Go to Travel Campaign and a decrease in telephone charges (mobile phone) in April 2021, etc. Core-core CPI excludes fresh food and energy prices. Producer price index excludes extra charges for summer electricity and the direct effects of the consumption tax increase.
 Estimated values for electricity are calculated by Cabinet Office.

Reference

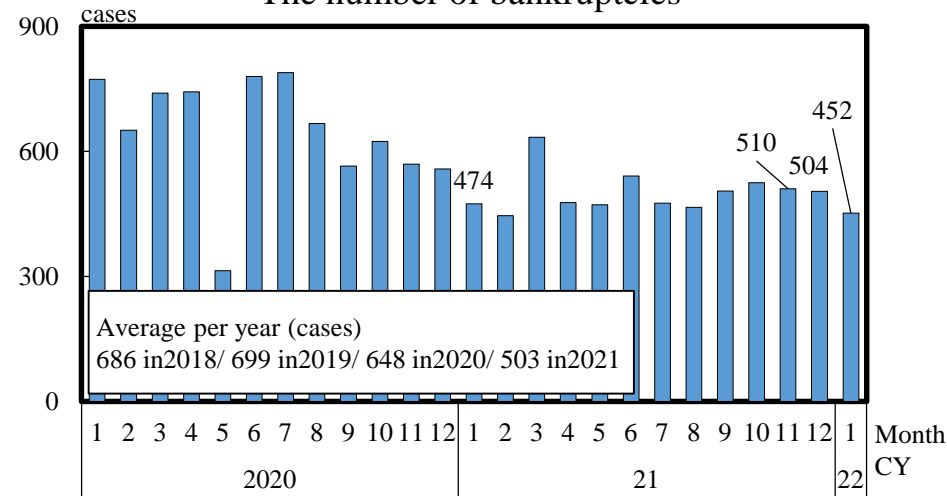
(7-1) Housing investment has been in a weak tone recently.

Housing construction starts



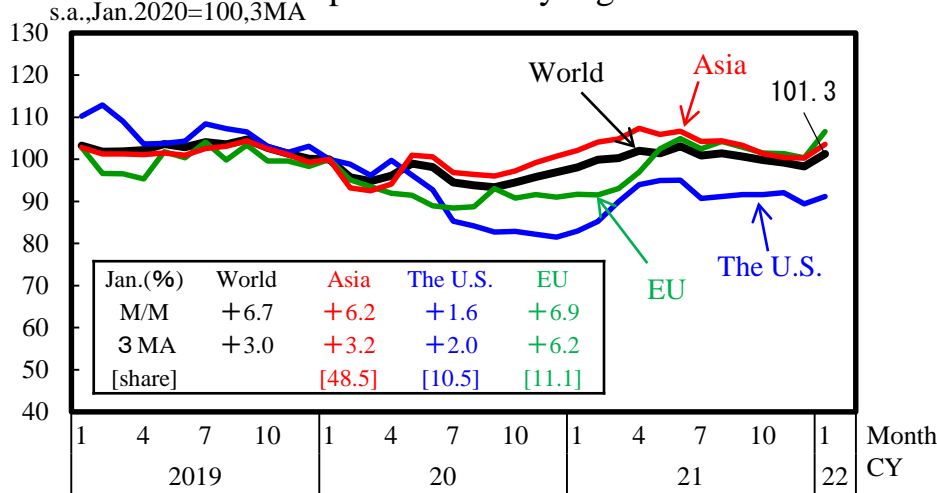
(7-3) The number of corporate bankruptcies is almost flat; business suspensions and closures are decreasing

The number of bankruptcies



(7-2) Imports are in a weak tone

Import volume by region



The number of business suspensions and closures

