



# Annual Report on the Japanese Economy and Public Finance 2020

(Report by Minister of State for Economic and Fiscal Policy)

—COVID-19 crisis provides last chance to  
reform Japan's economy—

Summary

November 2020

Cabinet Office, Government of Japan

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# Key points of the Annual Report

- ❑ In the Japanese economy, domestic and external demand is rebounding after a great downslide under the COVID-19 pandemic. However, the rebound is moderate, with downside pressure on employment remaining high. While measures are taken to prevent COVID-19 infection, economic activities must be promoted further. In this respect, it is important to raise productivity through digitalization.
- ❑ Initiatives to prevent infection are accelerating changes of conventional work styles, providing a chance to revise workers' personal time allocation and spread flexible work styles. It is necessary to revise management systems of work time and employment to support such moves.
- ❑ Since 2013, women's employment has greatly increased. The next challenge is to encourage women to remain employed. In addition to the expansion of childcare facilities, the reform of men's work styles is important for balancing women's employment with childbirth.
- ❑ Both the government and private sectors are required to accelerate digitalization to resolve structural labor shortages and promote anti-infection measures (non-contact technologies). For achieving innovation, human resources that concentrate in the IT industry should spread to non-IT sectors including governments.

This material has been tentatively prepared to explain the Annual Report on the Japanese Economy and Public Finance. For quotations and other purposes, please refer to the text of the Annual Report on the Japanese Economy and Public Finance.



# Chapter 1 Section 1: Japanese Economic Trends under Pandemic — Macro Trends

- The COVID-19 pandemic forced real GDP to sharply contract in Japan, the United States and Europe in the April-June quarter (Figure 1). The GDP contraction was steeper and more rapid than under the global financial crisis (Figure 2). Particularly, a remarkable decrease was seen in private consumption that was artificially suppressed by voluntary restraints and business shutdown. Exports posted a substantial decline close to a plunge seen at the time of the global financial crisis as an external shock.
- A monthly economic sentiment indicator plunged and rallied as rapidly as seen just after the Great East Japan Earthquake, but the plunge was deeper.

Figure 1 Real GDP Growth Rate

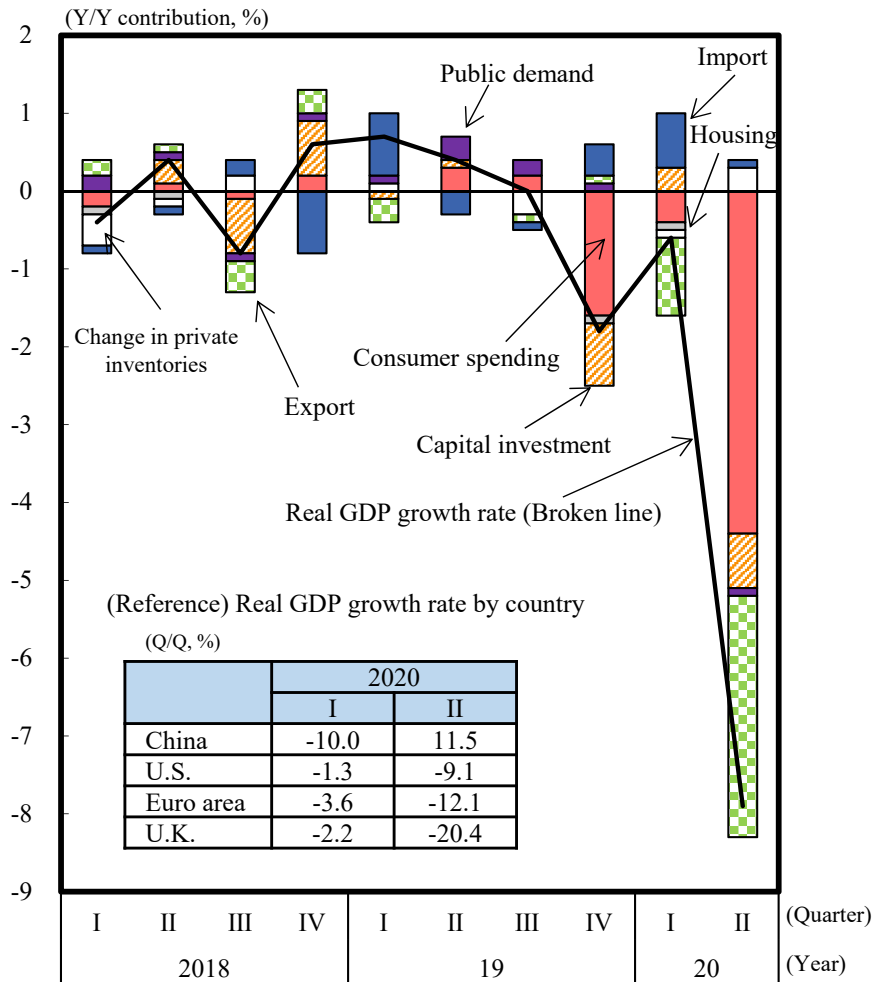
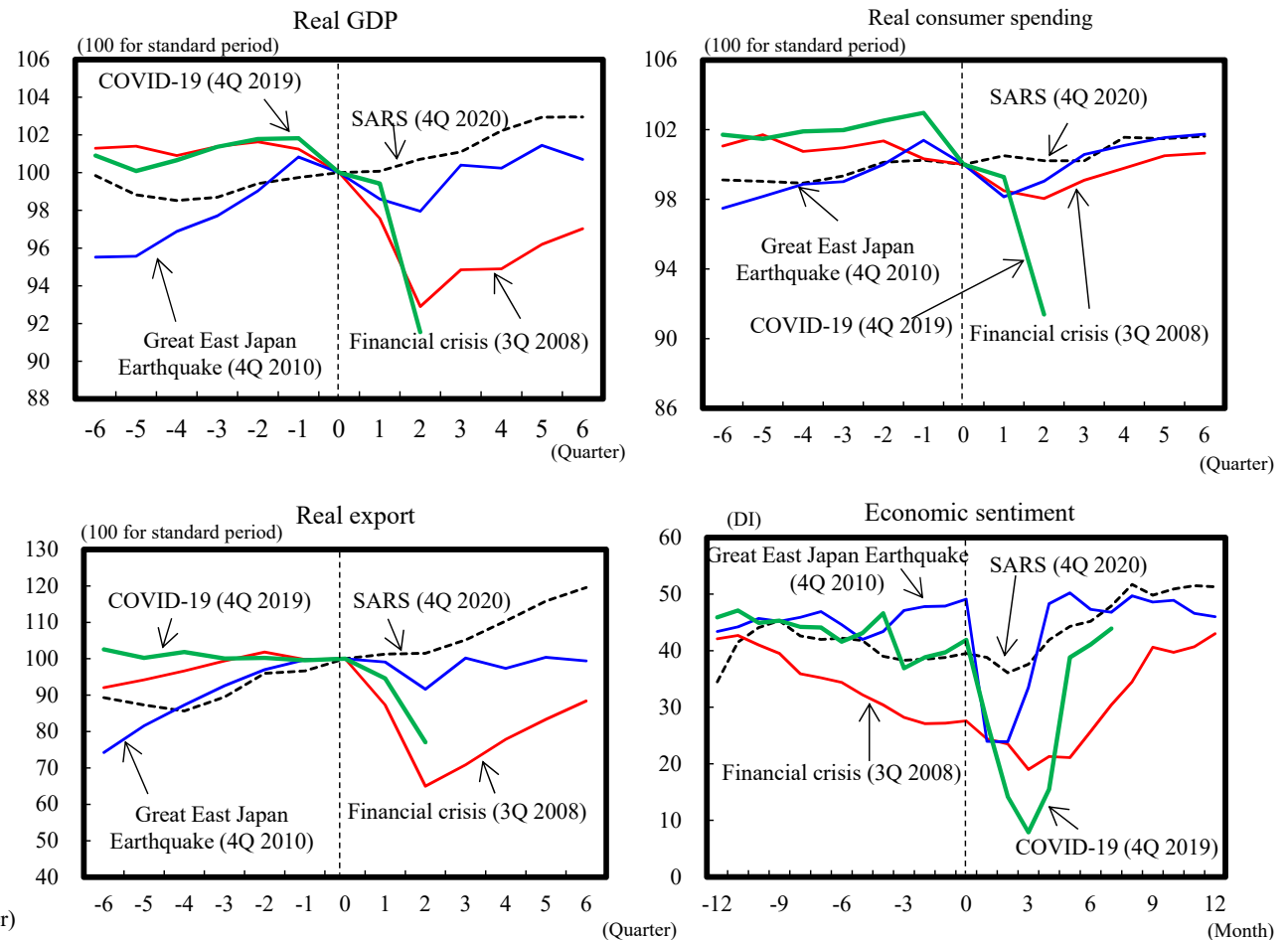


Figure 2 Economic fluctuations before and after crisis



(Sources)

Figure 1: Compiled based on System of National Accounts, Cabinet Office. Figure 2: Compiled based on Economic Watchers Survey and System of National Accounts, Cabinet Office. In brackets are standard months (quarters) for indicators, which are set based on times when shock events and their effects emerged.

# Chapter 1 Section 1: Japanese Economic Trends under Pandemic

## — Relationship between Voluntary Restraints on Outings and the Number of Infections

- We tried to check whether there is any statistical cause-and-effect relationship between changes in the Google mobility index (restaurants, cafes, shopping centers, theme parks, museums, libraries, film theaters and other retail or recreation facilities) indicating outing rates and in the number of new COVID-19 infections (Figure 3). A significant relationship was seen between changes in the number of new infections and in the outing rate only in the first period. No cause-and-effect relationship was seen in the second period (Figure 4).
- The cumulative COVID-19 death rate based on population since early 2020 is limited to around 1.2 or a few percent of European and U.S. levels (Figure 5).

Figure 3 Japan's number of COVID-19 infections and Google Mobility (retail and recreation)

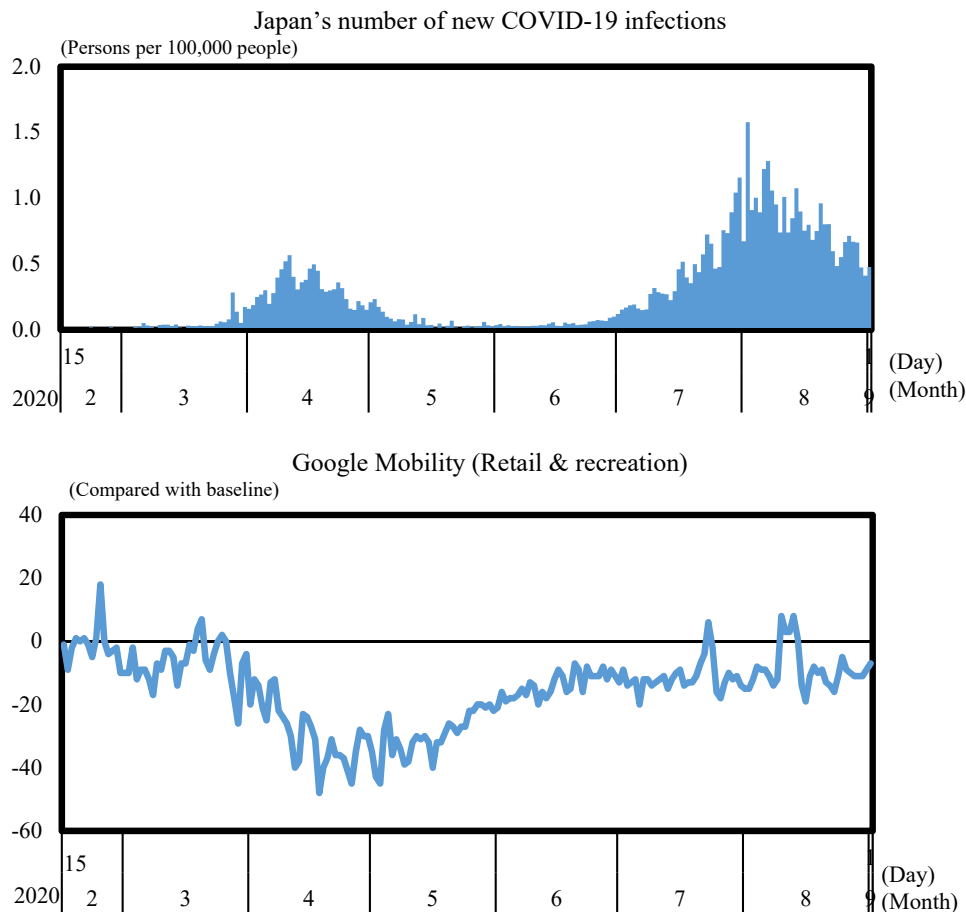


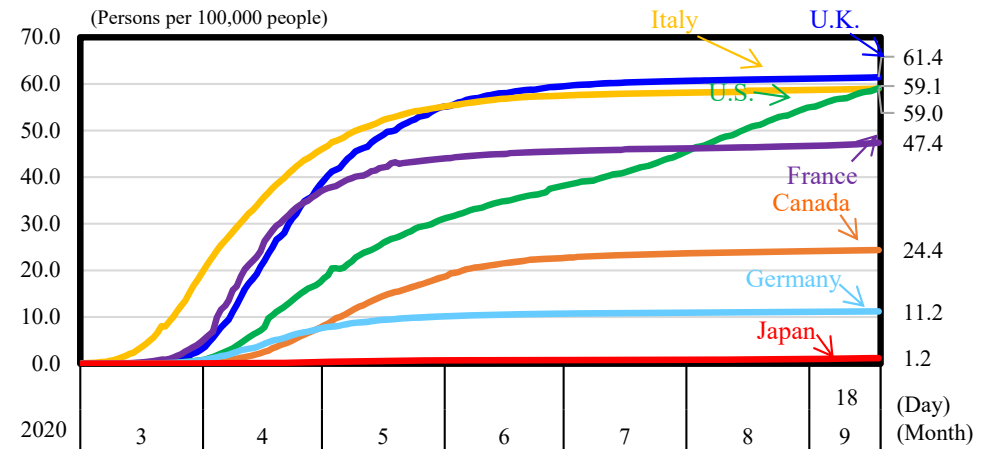
Figure 4 Relationship between the number of new COVID-19 infections and Google Mobility (retail and recreation)

| 1st period: February 15-May 31                                      | Granger causality |
|---|-------------------|
| Outing rate change $\Rightarrow$ Change in the number of infections | ×                 |
| Change in the number of infections $\Rightarrow$ Outing rate change | ○ (minus)         |

| 2nd period: June 1-September 1                                      | Granger causality |
|---|-------------------|
| Outing rate change $\Rightarrow$ Change in the number of infections | ×                 |
| Change in the number of infections $\Rightarrow$ Outing rate change | ×                 |

Figure 5 Cumulative COVID-19 death rate (the number of deaths per 100,000 persons) data in Europe and North America, and Japan



(Sources)

Figure 3: Compiled based on Ministry of Health, Labour and Welfare (MHLW) and COVID-19 Community Mobility Reports, Google. The number of infected people represents the number of new infections per 100,000 persons. Google mobility represents a percentage of the baseline that is a median value for a specific weekday over five weeks between January 3 and February 6, 2020. The survey covered retail and recreation facilities (restaurants, cafes, shopping centers, theme parks, museums, libraries, film theaters, etc.). Figure 4: compiled based on Isotani (2020). The Granger causality test checks if the accuracy of using data set A to predict data set B increases. An increase in the accuracy indicates a causality between data sets A and B. If the accuracy remains unchanged, there may be no causality. Figure 5: Compiled based on Coronavirus Disease (COVID-2019) Situation Reports, WHO, and World Population Prospects 2019, United Nations. As of September 18, 2020

- Year-on-year employment changes include a remarkable decline in parttime jobs (Figure 6).
- Corporate sales prices are projected to decline in one year, indicating that attention should be paid to downward pressure on prices (Figure 7).
- Financial institutions' lending attitude as seen by corporate borrowers is far more accommodative than at the time of the global financial crisis (Figure 8). In fact, bank loans for working capital score double-digit growth (Figure 9).

Figure 6 Year-on-year changes in employment by type of employment

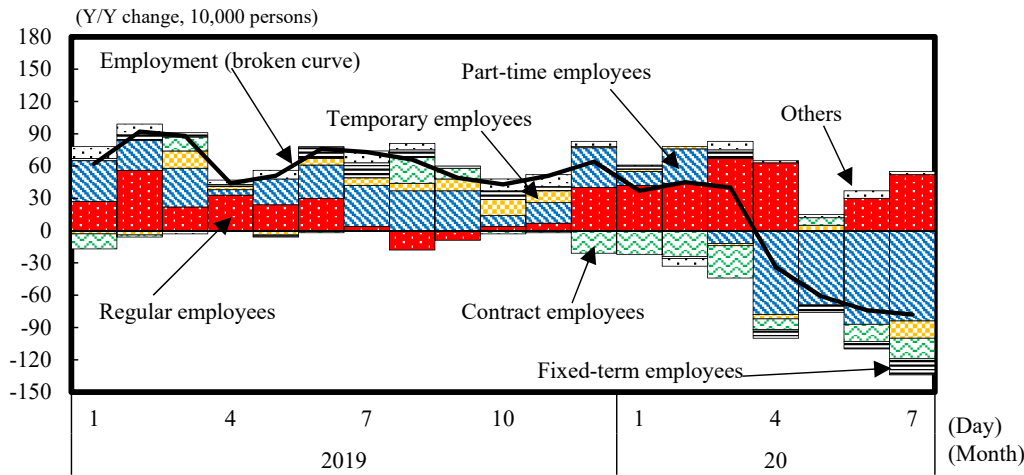


Figure 8 Lending attitude DI

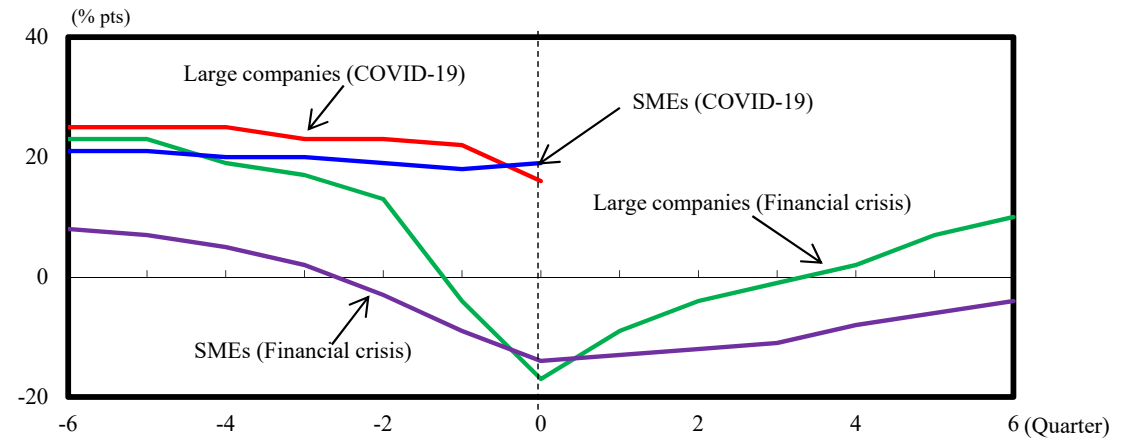


Figure 7 Projected Sales Prices

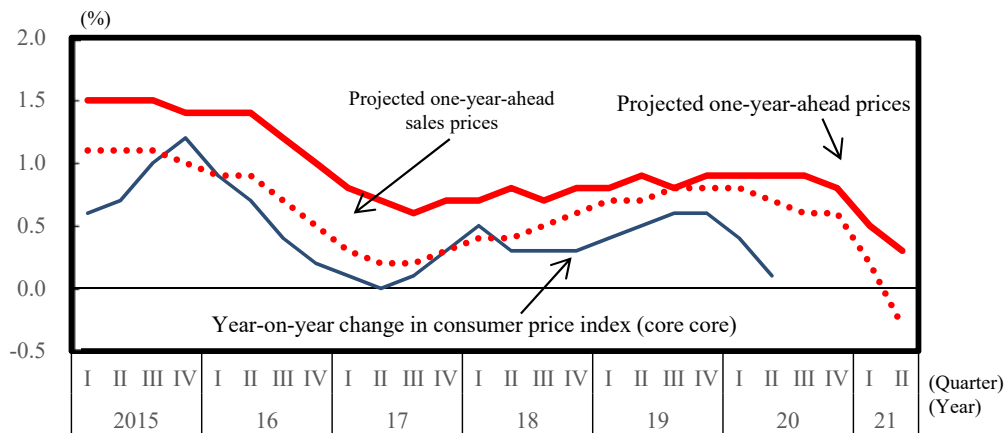
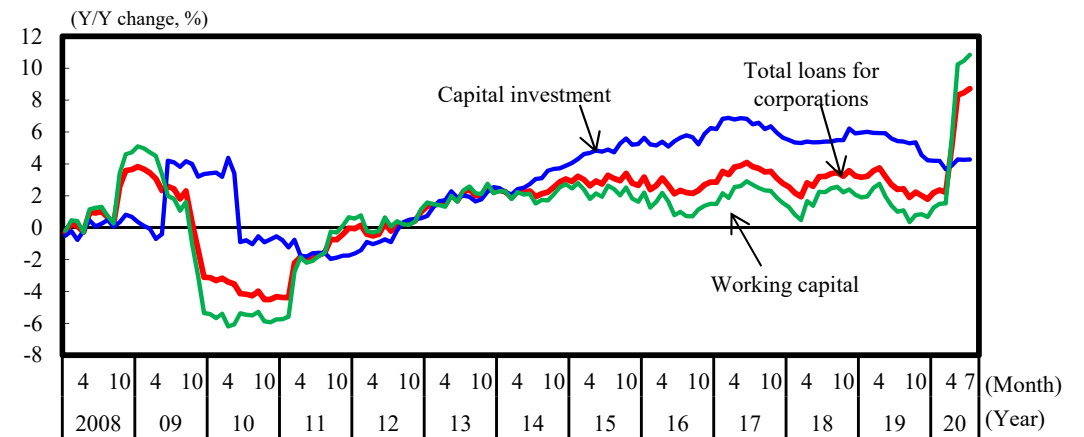


Figure 9 Bank loans by purpose



(Sources)

Figure 6: Compiled based on Labor Force Survey, Ministry of Internal Affairs and Communications (MIC). Figure 7: Compiled based on Real Export Price Index and Short-term Economic Survey of Enterprises in Japan, Bank of Japan (BOJ) and Consumer Price Index, MIC. Figure 8: Compiled based on Real Export Price Index and Short-term Economic Survey of Enterprises in Japan, BOJ. On the horizontal scale, the baseline period is the second quarter of 2020 for COVID-19 and the first quarter of 2009 for the Lehman Shock (global financial crisis). Figure 9: Compiled based on Deposits, Vault Cash, and Loans and Bills Discounted, BOJ.

# Chapter 1 Section 3: COVID-19 Pandemic's Economic Impacts and Verification of Current Economic Cycle

## — Characteristics of Cycle since 2013

- The current economic expansion since 2013 has been supported by a virtuous cycle of domestic employment, income, consumption, production and employment increases (Figure 10). During the expansion, employment has substantially increased among women and elderly people even amid a population decline (Figures 11 and 12). Average growth in real employment compensation is 1.2%, higher than in the recent past (Figure 13). As a result, macro income growth has been brought about in a manner to expand domestic demand, making it difficult for external demand weakness to affect overall economic growth.

Figure 10 Economic cycle regarding households

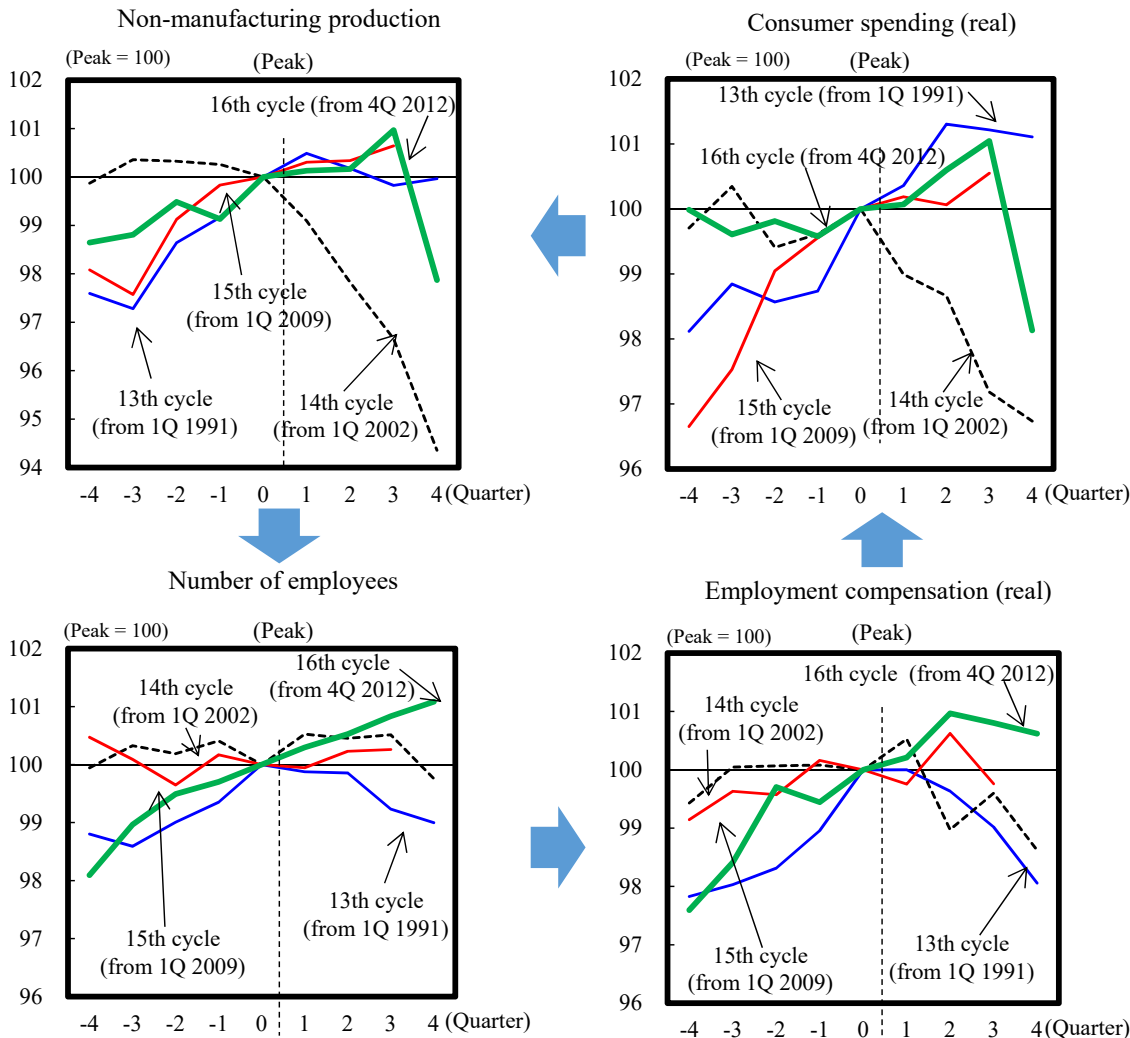


Figure 11 Changing number of women employees (aged between 15 and 64) by industry

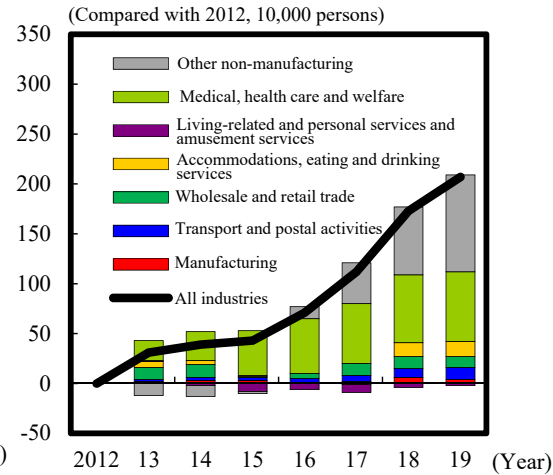


Figure 12 Changing number of elderly male and female employees (aged 65 or more) by industry

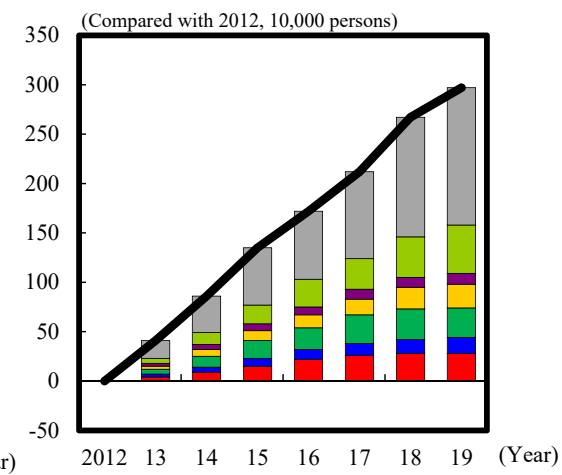
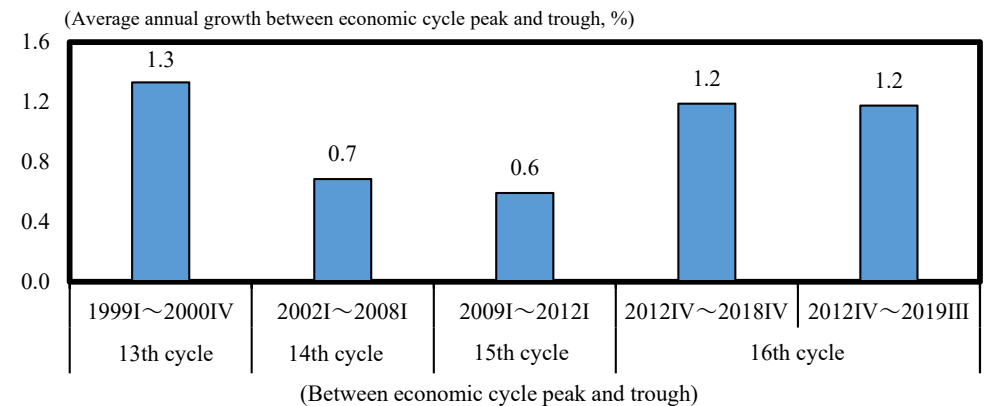


Figure 13 Real employment compensation growth



(Sources)

Figure 10: Compiled based on System of National Accounts, Cabinet Office, Labor Force Survey, MIC, and Indices of Tertiary Industry Activity, Ministry of Economy, Trade and Industry (METI). The indices (quarterly data) are based on 100 for the peak of each economic cycle. Each cycle's peak and subsequent trough are as follows: For the 13th cycle, the peak came in the fourth quarter of 2000 and the trough in the first quarter of 2002. For the 14th cycle, the peak came in the first quarter of 2008 and the trough in the first quarter of 2009. For the 15th cycle, the peak came in the first quarter of 2012 and the trough in the fourth quarter of 2012. For the 16th cycle, the peak came in the fourth quarter of 2018 (tentative). Figures 11 and 12: Compiled based on Labor Force Survey, MIC. Figure 13: Compiled based on System of National Accounts, Cabinet Office.