

# Monthly Report of Prospects for Japan's Economy

## February 2021

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

<https://www.jri.co.jp/english/periodical/>

**This report is the revised English version of the January 2021 issue of the original Japanese version.**

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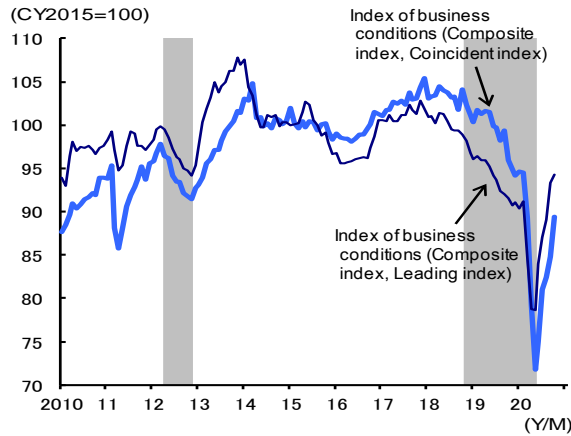
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# The General Situation – While Signs of Economic Recovery Remain, Level of Economic Activity Has Remained Sluggish

**Figure 1-1 Economic Activity**

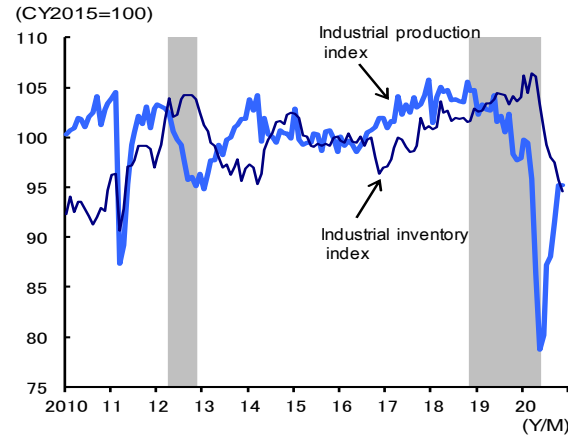
Indices of business conditions continued to rise both in terms of the CI coincident index and the CI leading index.



Source: The Cabinet Office.

**Figure 1-2 The Corporate Sector**

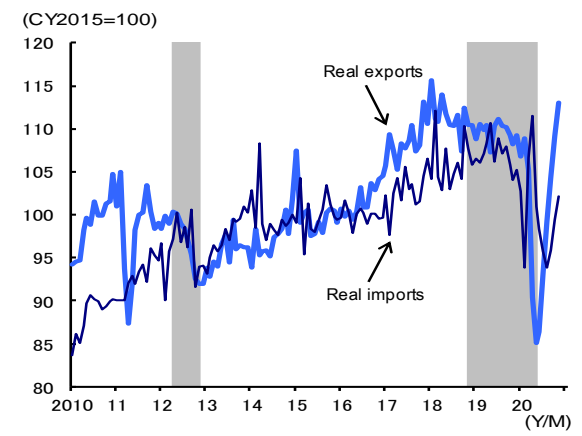
Industrial production of automobiles decreased, but that of production machinery increased.



Source: The Ministry of Economy, Trade and Industry.

**Figure 1-3 Overseas Demand**

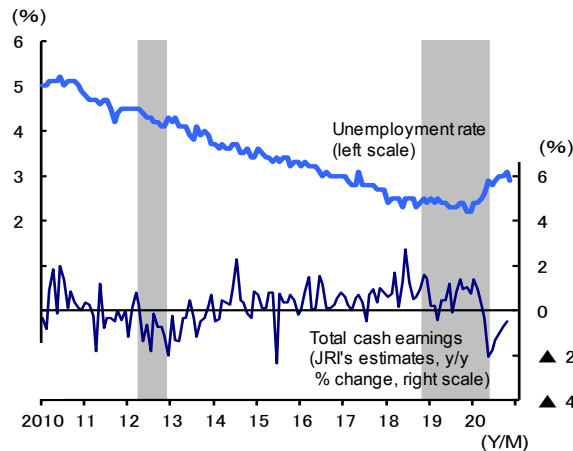
Exports increased, mainly to the EU and China. Imports remained at a low level amid sluggish economic activities.



Source: The Bank of Japan.

**Figure 1-4 Employment and Income**

The unemployment rate rose to around 3%. Nominal wages declined mainly for non-scheduled salaries (overtime pay).

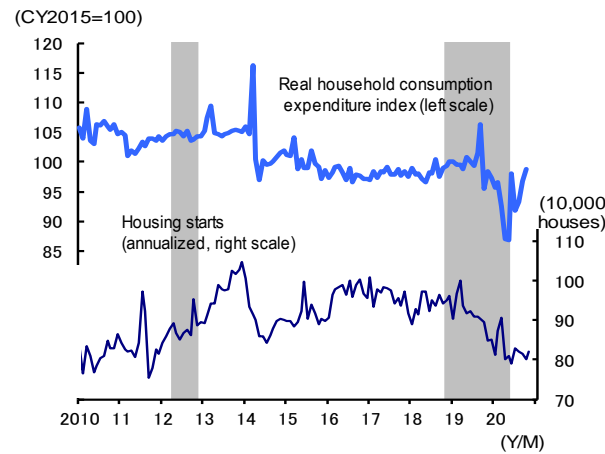


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare.

\* The shaded area indicates the recession phase.

**Figure 1-5 The Household Sector**

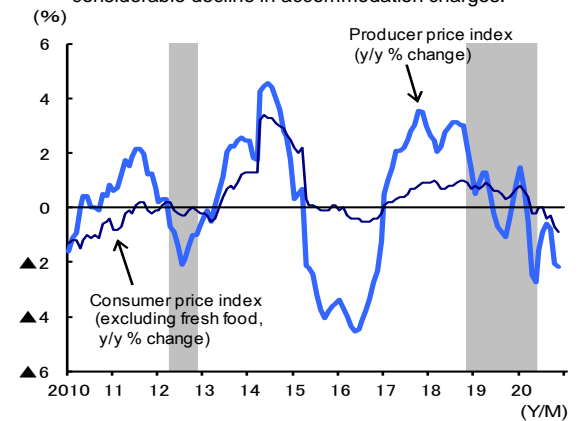
Real consumption saw some ups and downs due to the effect of COVID-19. Housing starts were sluggish.



Source: The Japan Research Institute, Ltd. based on data of The Cabinet Office, The Ministry of Land, Infrastructure, Transport and Tourism.

**Figure 1-6 Prices**

Producer prices declined, mainly for petroleum and coal products. Consumer prices were sluggish, reflecting a considerable decline in accommodation charges.



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications, The Bank of Japan.

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# While Business Sentiment Has Been Improving, a Cautious Future Outlook Prevails

## ◆ The DI for Business Conditions Improved

In the Bank of Japan's December 2020 Tankan Survey, the DI for business conditions of large manufacturers rose for the second straight quarter, up 17 percentage points from the previous survey. On the back of the recovery in demand both in Japan and overseas, the DI improved for automobiles and production machinery. Moreover, the DI of large nonmanufacturers rose for the second straight quarter, up 7 percentage points from the previous quarter. The DI rebounded mainly for personal services, reflecting a rise in the number of people out on the street as the tendency toward self-restraint eased.

In terms of future outlook, the DI is anticipated to decline from its current level for nonmanufacturers, while the pace of improvement for manufacturers will likely slow significantly. As the number of new coronavirus cases started to increase once again, a cautious future outlook will prevail.

## ◆ Exports and Production Continued to Pick Up

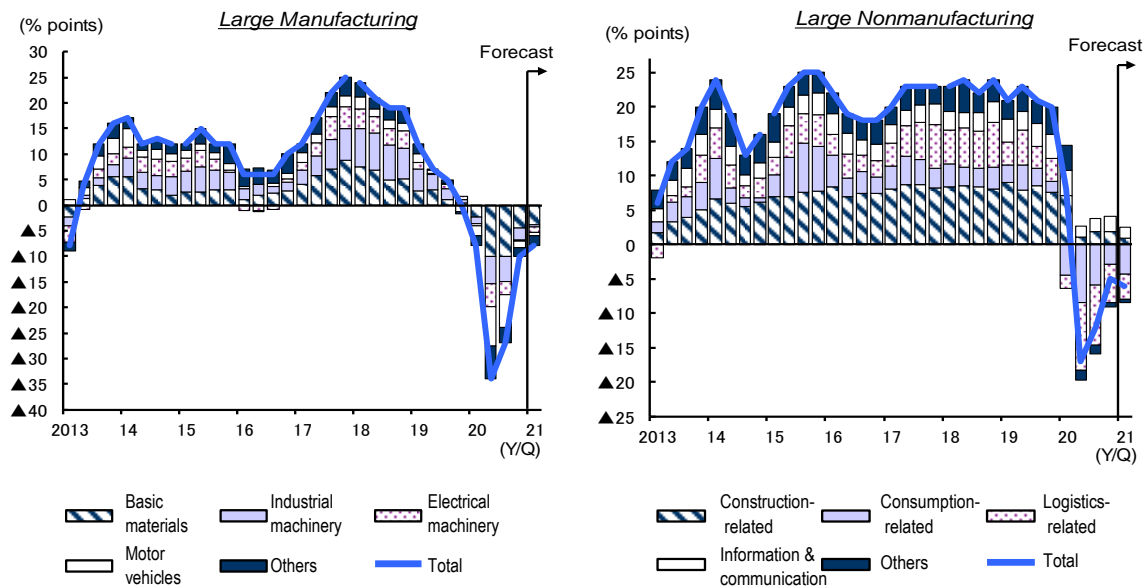
Currently, external demand is continuing to rebound. Real exports in November increased for the sixth consecutive month. Looking by region, while exports to China remained on a rising trend, exports to the EU also picked up, mainly for intermediate and capital goods.

## ◆ Economic Stimulus Package Worth 73.6 Trillion Yen Was Decided

At a Cabinet meeting on December 8, the government decided on an economic stimulus package worth 73.6 trillion yen. However, this package includes projects for the next fiscal year's budget and so on. The third supplementary budget for fiscal 2020, which can be regarded as additional expenditure, will come to 15 trillion yen after subtracting a reduction in the government spending that had already been decided on. The package is expected to help prevent further deterioration of the economy, but it is unlikely to boost the growth rate significantly.

Figure 2-1 Contributions to the Business Conditions Diffusion Index by Industry

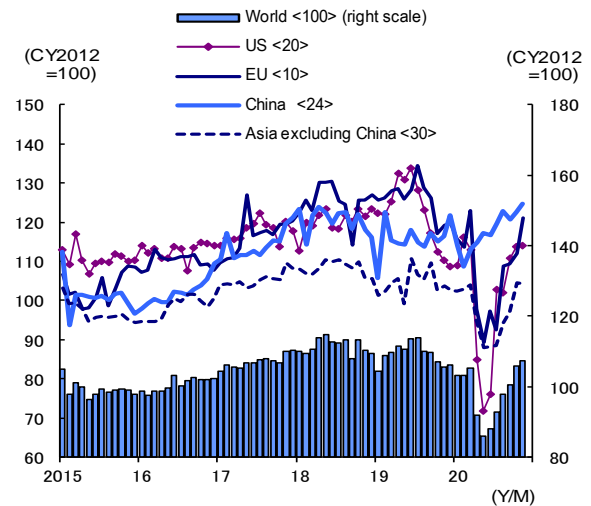
<diffusion index of "favorable" minus "unfavorable," and percentage point contribution to total DI points>



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan, "The Tankan December 2020 Survey".

Figure 2-2 Real Exports by Destination

<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.

Note: Figures in the angled brackets show the shares in total nominal exports in CY2019.

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# Exports of Goods Continued to Rebound

## ◆ Goods Exports Have Picked up, Mainly for Capital Goods

Goods exports in November 2020 increased month-over-month for the sixth consecutive month. By item, while the rebound in shipments of transportation machinery ran its course, shipments of capital goods and electronic parts and devices remained on a rising trend as the world economy started to pick up.

Looking ahead, the pace of increase in overall exports is expected to slow significantly from the beginning of 2021, as restrictions on activities in other countries due to an increase in the number of new coronavirus cases will weigh on exports. According to the Bank of Japan (BOJ)'s December 2020 Tankan Survey, companies, particularly electrical machinery makers, believe that overseas supply demand conditions for their products will continue to improve, but it is likely that this will not fully reflect the negative impact of restrictions on activities in other countries due to the timing of the survey period. Exports of transportation machinery may fall again, as sales of new vehicles, mainly in countries and regions where restrictions on

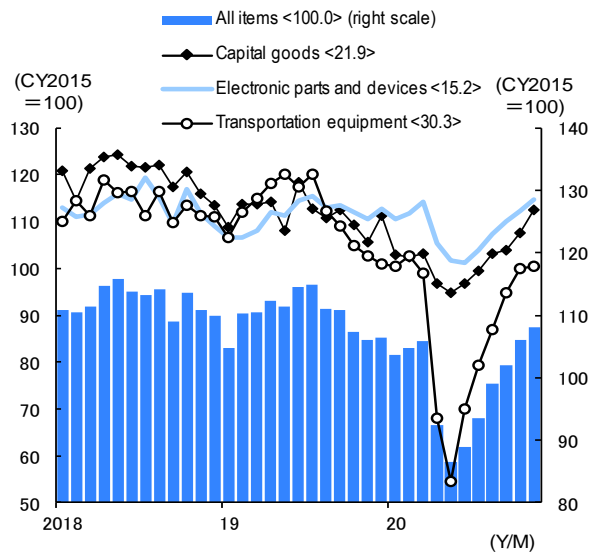
activities had been tightened, have fallen from the previous year.

## ◆ Demand Related to Inbound Tourism Was Almost Zero

Amid restrictions on overseas travel around the world, the number of tourists that visited Japan in November fell 97.7% on a year-on-year basis.

Due to recent surges in the number of new coronavirus cases around the world, it has become difficult for the Japanese government to ease immigration restrictions on tourists. Given this situation, demand related to inbound tourism is expected to remain virtually nonexistent even after the beginning of 2021. In addition, the pace of recovery is anticipated to be moderate, as people will likely continue to refrain from overseas travel due to concerns over infection risks even if the restrictions on tourists are relaxed. In fact, the International Civil Aviation Organization (ICAO) predicted that the number of international passengers will only recover to around 50% of the level prior to the outbreak of the novel coronavirus by June 2021.

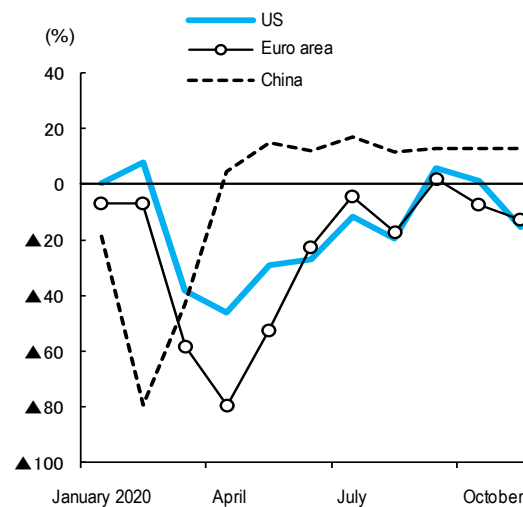
Figure 3-1 Real Exports by Item  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.

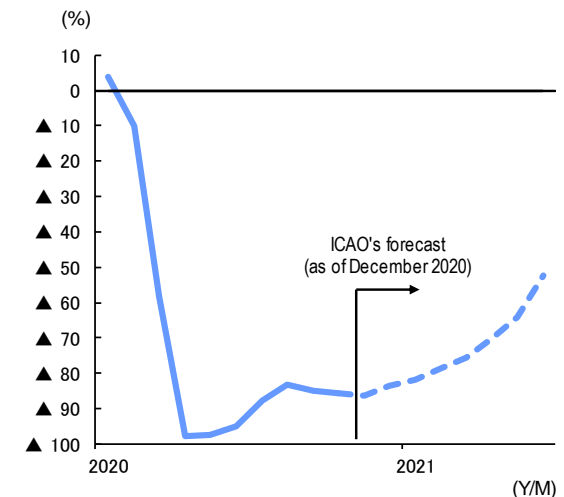
Note: Figures in the angled brackets show the shares in total nominal exports in CY2019.

Figure 3-2 New Car Sales by Country or Area  
<year-on-year % change>



Source: The Japan Research Institute, Ltd. based on data of European Automobile Manufacturers' Association and so on.

Figure 3-3 Number of International Air Travelers  
<% change from the same month in 2019>



Source: The Japan Research Institute, Ltd. based on data of the International Civil Aviation Organization (ICAO).

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# Business Fixed Investment Will Likely Start to Recover as Corporate Earnings Pick Up

## ◆ Corporate Earnings Saw a Moderate Recovery

In the July-September 2020 period, sales on an industry-wide basis increased 3.8% from the previous quarter, up for the first time in five quarters. In the manufacturing industry, sales increased across a wide range of industries including transportation machinery on the back of the recovery in consumption of durable goods both in Japan and overseas. The nonmanufacturing industry also recorded higher sales thanks to the resumption of sales operations and an increase in the number of people out on the street following the cancellation of the state of emergency declaration in May 2020. In addition, current profits on an industry-wide basis were up 33.7% from the previous quarter, recording increased profit for the first time in six quarters. Having said that, as people continued to refrain from going out and avoid the “Three Cs” (closed spaces, crowded places and close contacts) due to the effect of the second wave of coronavirus during the summer, industries including transportation services, accommodation and food services as well as living-related services continued to record losses.

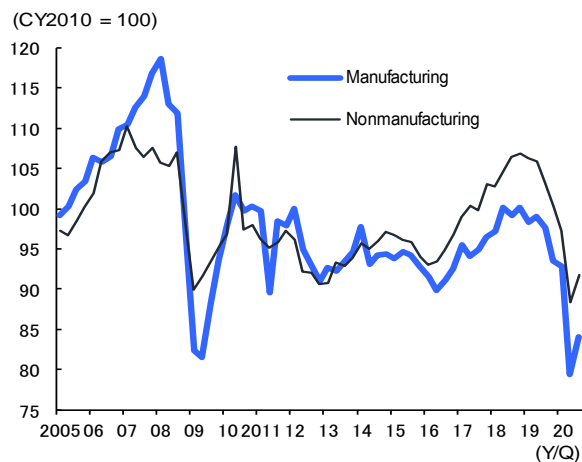
Corporate earnings are expected to remain on a recovery path, mainly for the manufacturing industry, on the back of a rise in goods exports, among other factors. The pace of recovery in the nonmanufacturing industry, however, will likely be moderate due to the lingering effects of self-restraint on outings amid the third wave of coronavirus.

## ◆ Recovery of Business Fixed Investment Is Anticipated in the Future

In the July-September period, capital investment on an industry-wide basis was down for the second consecutive quarter, falling 1.3% from the previous period. Amid continuing uncertainty over the future, investment restraint has been occurring, particularly in industries that have been significantly affected by the coronavirus pandemic. However, since the amount of investment is tracked on a progress basis, this could have reflected the delayed impact of the decline in orders received in early spring of year 2020.

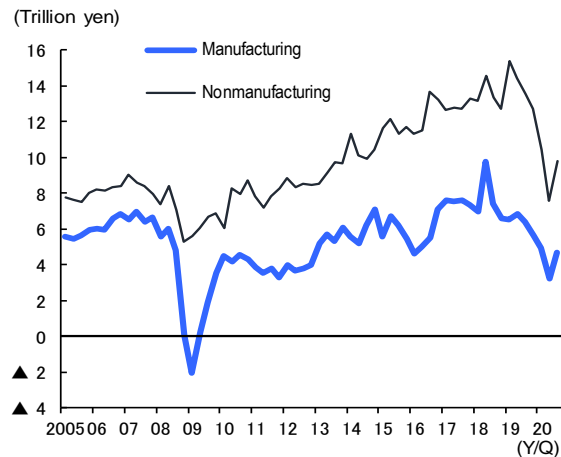
As for future prospects, business fixed investment is expected to shift toward a moderate recovery, though lagging the recovery in corporate earnings.

Figure 4-1 Sales Value of Japanese Corporations by Type  
<seasonally adjusted>



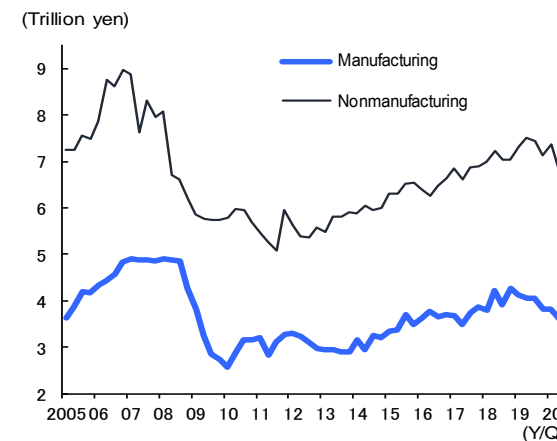
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

Figure 4-2 Current Profits of Japanese Corporations by Type  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

Figure 4-3 Business Fixed Investment of Japanese Corporations by Type  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: 1. All industries except for financial services and insurance.  
2. Excluding software investment.

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# Further Increase in the Unemployment Rate Is Unavoidable

## ◆ The Novel Coronavirus Pandemic Dealt a Heavy Blow to Low-Income Earners

The number of workers in November 2020 decreased by 550,000 from the same period of the previous year, which accounted for 0.8% of the number of overall workers. So far, the deterioration of employment conditions due to the spread of the novel coronavirus pandemic has been limited on the whole.

However, when looking at the impact by employment type, there are differences in the degree of impact, with the impact particularly severe for low-income earners. Looking at the number of employees by annual income, those with an annual income of 2 million yen or more increased from the previous year, while the number of employees with an annual income of less than 2 million yen decreased significantly. In particular, the number of non-regular employees, who are likely to be subject to employment adjustment by companies, has been decreasing remarkably.

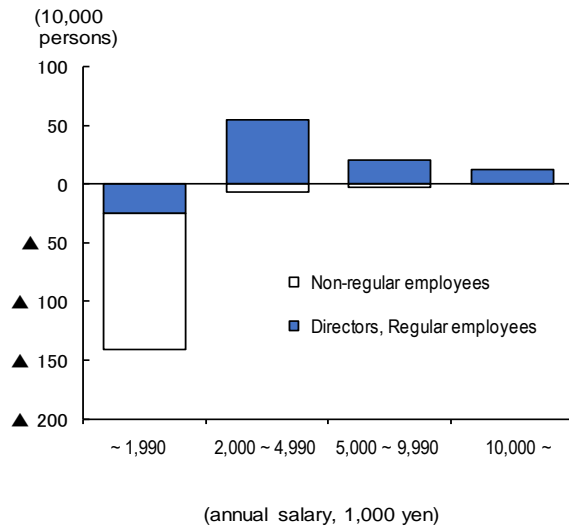
Meanwhile, employment conditions DI in the BOJ December 2020 Tankan Survey

was minus 10 percentage points, remaining at its highest level since the September 2014 survey. The sense of bloated workforce conditions among enterprises has remained at a high level. Judging from the correlation with the DI, the unemployment rate, which had declined in November, will likely rise again toward the first half of 2021.

## ◆ Total Cash Earnings Saw a Decline

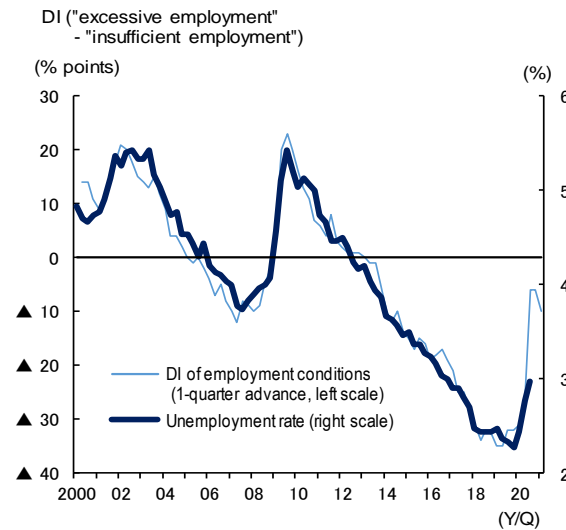
The novel coronavirus has also had ripple effects on wages. Total cash earnings in October plunged 0.5% year-on-year, recording a year-on-year decline for the seventh consecutive month. Against the backdrop of a decline in overtime due to sluggish economic activity, non-scheduled salaries (overtime pay) declined significantly. As for future prospects, it is anticipated that downward pressure on scheduled salaries will increase going forward in addition to a decline in special salaries, mainly bonuses. As a result, wage declines are expected to accelerate once again.

Figure 5-1 Change in Number of Employees by Annual Salary and Type <July-September 2020, difference from a year earlier>



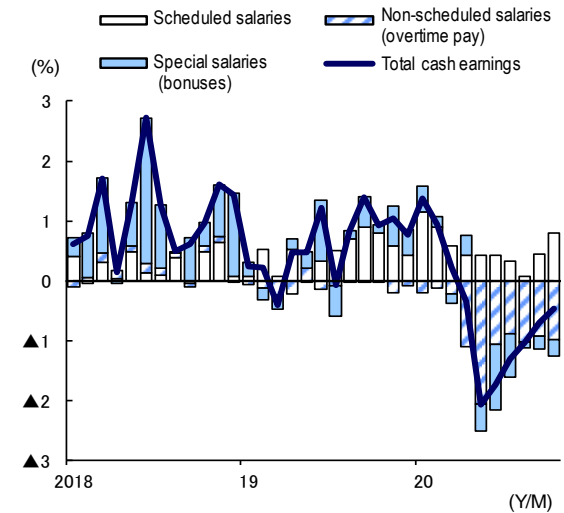
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications .

Figure 5-2 Tankan DI of Employment Conditions and Unemployment Rate



Source: The Japan Research Institute, Ltd. based on data of The Bank of Japan, The Ministry of Internal Affairs and Communications.

Figure 5-3 Contributions to Change Rate of Nominal Wages <year-on-year % change>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Health, Labor and Welfare.

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# Private Consumption Will Likely Remain Sluggish for a Long Period of Time

## ◆ Recovery of Consumption Has Remained at a Standstill

Private consumption has been sluggish against the backdrop of an increase in the number of new coronavirus cases. Retail sales in November 2020 decreased for the first time in two months, down 2.0% from the previous month. In addition, the decline in service consumption based on credit card settlement accelerated further from the previous month, down 9.8% compared with the same month in 2018, during which time there was no impact from the consumption tax hike.

Future prospects indicate that private consumption will unavoidably remain sluggish for a long period of time. As the third coronavirus wave has not shown any signs of abating, some local governments have requested their residents to refrain from unnecessary or nonurgent outings, and restaurants and bars to shorten their operating hours once again. As a result, the number of people who visited retail and entertainment facilities declined further, mainly in areas that saw increasing infections. In addition, the deterioration in employment and income conditions, such

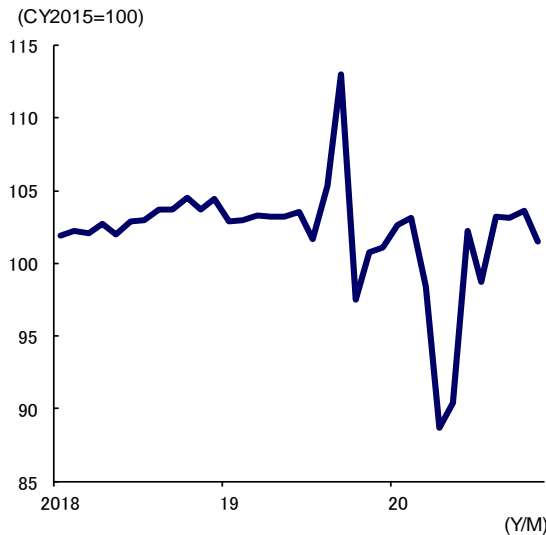
as the rise in the unemployment rate and decline in bonuses, is anticipated to exert downward pressure on consumption recovery going forward. Therefore, private spending is highly likely to remain at a level below that prior to the outbreak of the novel coronavirus even through fiscal 2021.

## ◆ Housing Investment is Expected to Remain Lackluster for the Foreseeable Future

The number of housing starts in November increased 2.3% from the previous month, recording a rise for the first time in four months. By housing type, while the number of housing starts for subdivision housing decreased, an increase in that for owner-occupied housing and rental housing boosted overall housing starts.

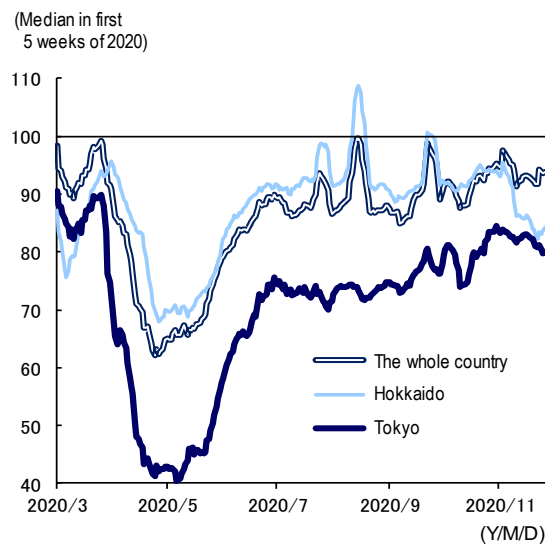
As for future prospects, against the backdrop of a more cautious lending approach by financial institutions toward apartment construction projects in addition to weak consumer confidence due to the worsening employment and income environment, housing investment will likely remain lackluster on the whole.

Figure 6-1 Retail Sales Value  
<seasonally adjusted>



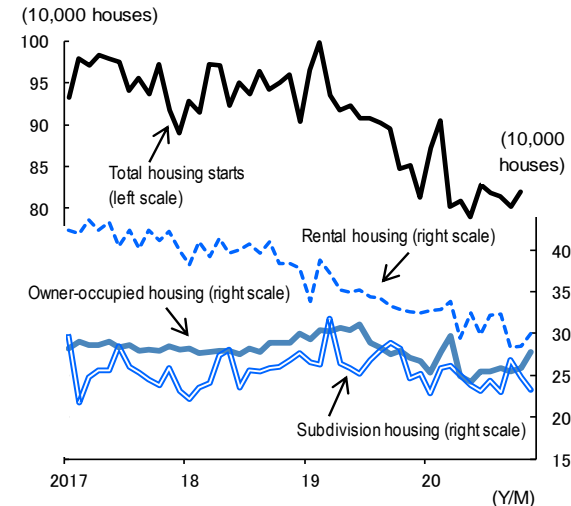
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Economy, Trade and Industry.

Figure 6-2 Number of People Who Visited  
Retail and Entertainment Facilities



Source: The Japan Research Institute, Ltd. based on data of Google "Covid-19 community mobility report."  
Note: 7-day moving averages.

Figure 6-3 Housing Starts by Type  
<annualized, seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Land, Infrastructure, Transport and Tourism.

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# Topic: The Effect of Boosting Consumption Through the Government's "Go To" Campaign Has Been Limited

## ◆ Consumption Picked up Due Mainly to the Easing of Self Restraint

According to the results of the government's economic stimulus measure, the "Go To" campaign, the total number of accommodation guests who used the "Go To Travel" campaign reached 68.5 million based on the number of person - nights of stay, and the "Go To Eat" campaign, for which points are granted to users, reached its 61.6 billion yen budget limit within 1.5 months after commencement of the campaign. Since the decline in the number of accommodation guests and food industry sales has decreased since the commencement of the government's "Go To" campaign, the government believes that the campaign has helped to boost spending.

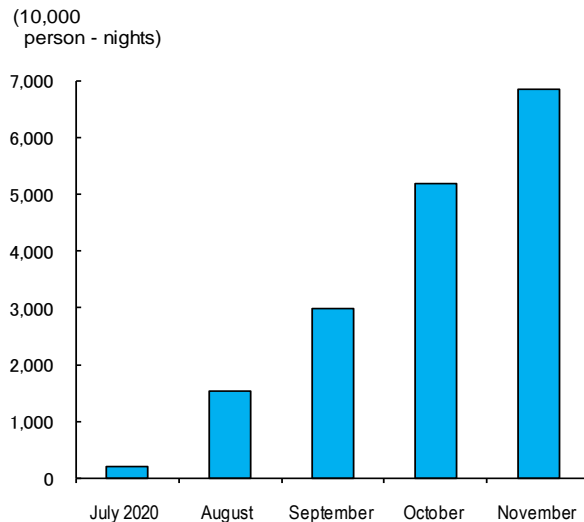
However, the recovery in the number of accommodation guests and food industry sales was more affected by the easing of self-restraint than by policy effects. In fact, when comparing service spending by item, education and entertainment services

(admission fees, etc.), which are not included in the scope of the "Go To" campaign, improved at the same pace as spending on dining out and travel.

## ◆ Elimination of Consumer Anxiety is Required

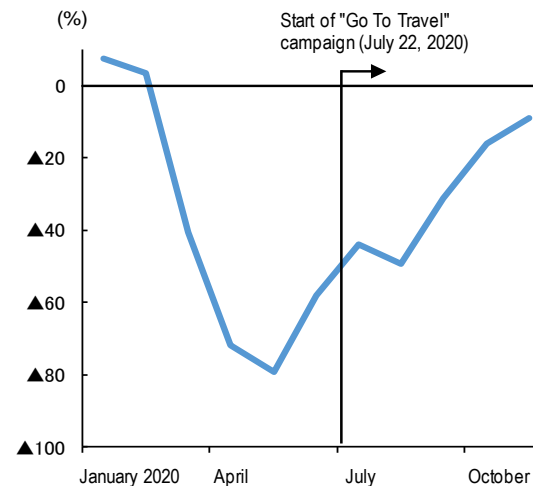
On December 8, the Cabinet approved extension of the "Go To" campaign, but on the 14th, the government announced the campaign's suspension throughout the country during the year-end and New Year holidays, demonstrating a significant shift in policy. With the current high risk of coronavirus infection, demand-stimulating measures such as the "Go To" campaign have limited potential as a trigger to boost personal consumption. In order to achieve a full-fledged recovery in consumption, creating an environment where consumers can feel safe by implementing a system in which they can check on measures taken by companies and stores against infection is urgently required.

Figure 7-1 Accumulated Total Number of Person - nights through "Go To Travel" Campaign



Source: The Japan Research Institute, Ltd. based on data of Japan Tourism Agency.

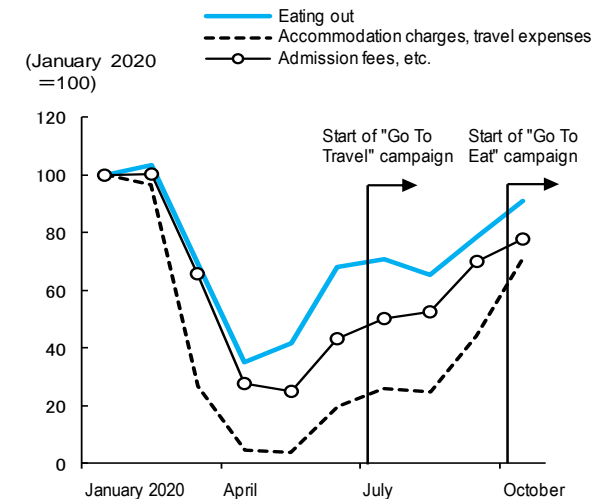
Figure 7-2 Total Number of Japanese Guests in Domestic Hotels <compared with 2018 figures>



Source: The Japan Research Institute, Ltd. based on data of Japan Tourism Agency.

Note: Compared with 2018 figures to exclude the effects of the rise in the consumption tax rate.

Figure 7-3 Household Consumption Expenditure by Item <seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Note: Households with 2 or more members.

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## Prospects for Japan's Economy - Projected Real GDP Change; -5.4% for FY2020 and 3.6% for FY2021

### ◆ Japan's GDP Will Decrease by 1.2 Trillion Yen as a Result of the Declaration of a State of Emergency

(1) As the number of new coronavirus cases continues to increase once again, the government has declared a state of emergency in Tokyo and ten other prefectures. The growth forecasts for the time being have been revised downward, as consumer spending is expected to diminish due to a growing tendency toward self-restraint.

(2) However, the significant downturn in private consumption seen in the spring of last year will likely be avoided this time since under the current emergency declaration, (i) areas subject to the declaration are limited, and (ii) no requests have been made for suspension of work operations and there are only a small number of industries for which shorter operation hours are being requested. In addition, it is judged that many companies will be able to continue their economic activities even under a state of emergency because they have made progress in adopting remote workstyles. Therefore, it is assumed that the downward pressure on GDP (first half of 2021) as a result of the declaration of a state of emergency will be limited to 1.2 trillion yen (0.2% of GDP for the year).

(3) Looking at the quarterly growth rate, although negative growth is inevitable in the January-March quarter, if the number of new coronavirus cases can be contained and the state of emergency is lifted after one month as the government envisages, high positive growth could be realized in the April-June quarter as the level of economic activity recovers.

(4) As a result, the growth rate for FY2020 has been revised slightly downward from the forecast made at the end of December 2020 (-5.2%) to -5.4%. At the same time, the growth rate for FY2021 has been revised slightly upward from the forecast made at the end of December 2020 (+3.5%) to +3.6%.

(5) Despite the foregoing, since there are fewer restrictions on economic and social activities under the current emergency declaration compared to last spring, there are concerns that the number of new coronavirus cases will remain high, and that the declaration period may be extended or target areas expanded. In such a case, an increase in bankruptcies and business closures as well as a further rise in the unemployment rate would be inevitable, as some companies would likely give up maintaining current employment levels or continuing business.

### ◆ Prices Have Been Declining

(6) In November 2020, core CPI (excluding the impact of the increase in consumption tax rate and the provision of free education) declined further from the previous month, down 0.9% year-on-year. While accommodation charges, which reflect prices after discounts through the government's "Go To Travel" campaign, continued to decrease further, energy prices also continued to fall.

As for the future outlook, in addition to downward pressure on prices from the viewpoint of supply and demand, the trend of falling energy prices will likely continue. Consequently, core CPI is expected to remain at about minus 1% year-on-year through the spring of 2021.

Figure 9 Projections for GDP Growth and Main Indicators of Japan ( as of January 7, 2021 )

	(seasonally adjusted, annualised % changes from the previous quarter)											(% changes from the previous fiscal year)		
	CY2020		CY2021				CY2022				CY2023	FY2020	FY2021	FY2022
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Projection)	(Projection)	(Projection)
	(Actual)	(Projection)	(Projection)				(Projection)				(Projection)	(Projection)	(Projection)	(Projection)
Real GDP	22.9	5.2	▲ 2.9	5.5	3.3	1.1	1.9	1.9	1.5	1.5	1.4	▲ 5.4	3.6	1.7
Private Consumption Expenditure	22.1	3.6	▲ 4.5	6.9	3.1	1.5	2.0	2.0	1.6	1.6	1.4	▲ 6.4	3.4	1.9
Housing Investment	▲ 21.2	2.8	6.5	7.8	4.9	▲ 1.2	▲ 0.1	1.8	2.7	1.6	0.2	▲ 6.8	2.8	1.3
Business Fixed Investment	▲ 9.3	10.4	3.1	5.8	3.1	2.4	3.6	3.6	2.8	2.6	2.4	▲ 7.0	3.8	3.1
Private Inventories (percentage points contribution)	(▲ 0.7)	( 0.1)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.0)	( 0.0)
Government Consumption Expenditure	11.6	1.8	▲ 3.5	2.6	3.2	▲ 1.0	0.0	0.2	0.2	0.2	0.2	2.6	1.4	0.2
Public Investment	1.9	3.0	2.1	▲ 3.3	▲ 0.8	0.6	1.6	0.0	▲ 1.6	▲ 1.4	0.2	3.7	0.0	▲ 0.2
Net Exports (percentage points contribution)	( 11.5)	( 1.2)	(▲ 0.4)	( 0.3)	( 0.4)	( 0.1)	( 0.2)	( 0.2)	( 0.2)	( 0.2)	( 0.2)	(▲ 1.2)	( 0.8)	( 0.2)
Exports of Goods and Services	31.2	31.0	1.0	5.9	6.8	3.0	3.9	3.9	3.5	3.5	3.0	▲ 13.2	8.7	3.8
Imports of Goods and Services	▲ 30.8	23.4	3.9	4.2	4.6	2.3	3.0	3.0	2.5	2.5	2.1	▲ 6.2	3.4	2.8
(Ref.) Domestic Private Demand (percentage points contribution)	( 7.8)	( 3.7)	(▲ 1.7)	( 4.9)	( 2.3)	( 1.1)	( 1.6)	( 1.7)	( 1.4)	( 1.3)	( 1.1)	(▲ 4.9)	( 2.5)	( 1.5)
(Ref.) Public Demand (percentage points contribution)	( 2.6)	( 0.6)	(▲ 0.6)	( 0.4)	( 0.6)	(▲ 0.2)	( 0.1)	( 0.0)	(▲ 0.0)	(▲ 0.0)	( 0.1)	( 0.7)	( 0.3)	( 0.0)

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)		
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	FY2020	FY2021	FY2022
Nominal GDP	▲ 4.6	▲ 2.5	▲ 2.8	7.1	2.3	1.7	2.9	2.0	1.9	2.0	2.1	▲ 4.7	3.4	2.0
GDP deflator	1.2	0.2	0.2	▲ 0.2	▲ 0.5	0.0	▲ 0.1	0.0	0.3	0.4	0.5	0.7	▲ 0.2	0.3
Consumer Price Index (excluding fresh food)	▲ 0.2	▲ 1.0	▲ 1.0	▲ 0.4	0.3	1.0	0.8	0.8	0.4	0.5	0.5	▲ 0.6	0.4	0.5
(excluding fresh food, consumption tax, education free of charge)	▲ 0.5	▲ 0.9	▲ 0.9	▲ 0.4	0.3	1.0	0.8	0.8	0.4	0.5	0.5	▲ 0.7	0.4	0.5
Unemployment Rate (%)	3.0	3.0	3.3	3.6	3.6	3.4	3.3	3.2	3.1	3.0	2.9	3.0	3.5	3.1
Exchange Rates (JY/US\$)	106	104	104	104	105	105	105	106	106	106	107	106	105	106
Import Price of Crude Oil (US\$/barrel)	41	44	52	51	54	52	54	57	59	58	59	42	53	58

Source: The Cabinet Office; The Ministry of Internal Affairs and Communications; The Ministry of Economy, Trade and Industry; The Ministry of Finance.

The projection figures are based on those of The Japan Research Institute, Ltd.

Note : "▲" indicates minus.