

# Monthly Report of Prospects for Japan's Economy

## July 2021

Macro Economic Research Center  
Economics Department



The Japan Research Institute, Limited

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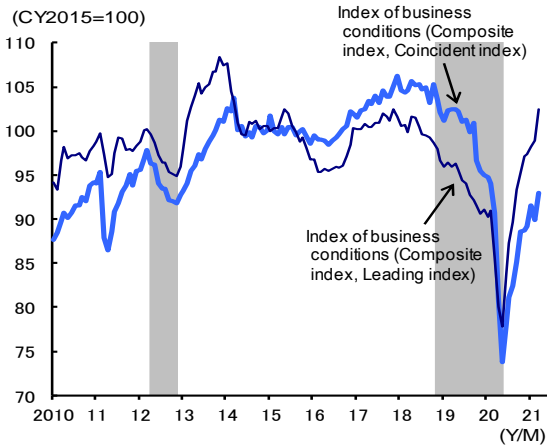
**This report is the revised English version of the June 2021 issue of the original Japanese version.**

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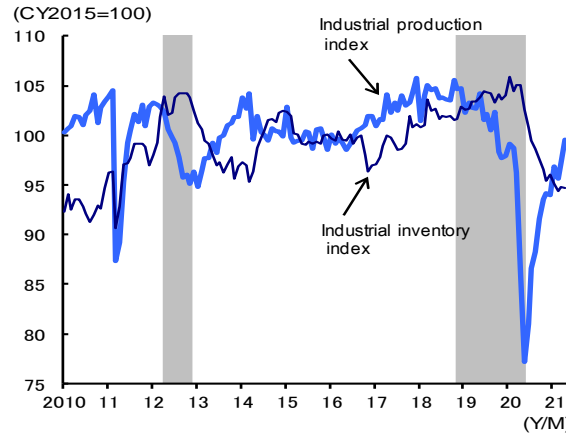
# The General Situation – Economic Activity Picked up, While the Recovery Was Lackluster in Some Areas

**Figure 1-1 Economic Activity**  
Both the CI leading index and the CI coincident index rose.



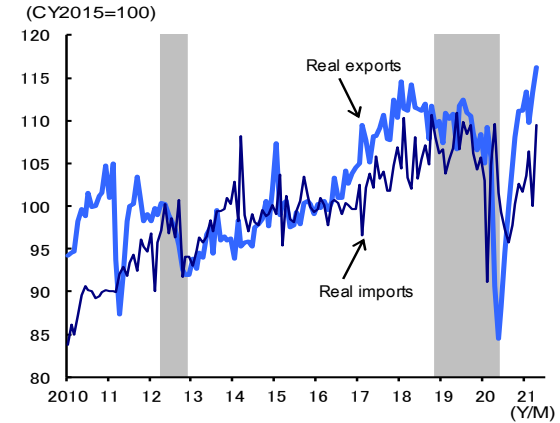
Source: The Cabinet Office.

**Figure 1-2 The Corporate Sector**  
Industrial production has been increasing mainly in production machinery and electrical and telecommunications equipment.



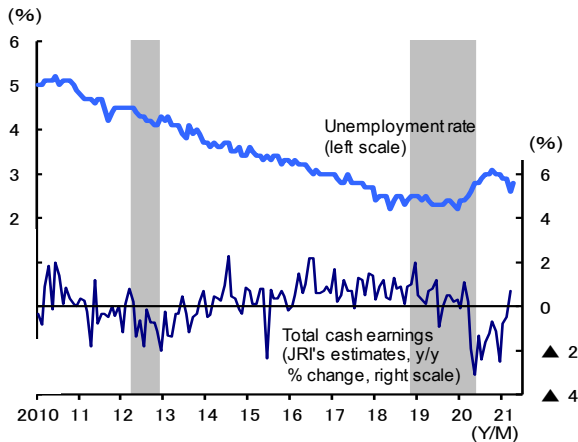
Source: The Ministry of Economy, Trade and Industry.

**Figure 1-3 Overseas Demand**  
Exports increased mainly to China and other Asian countries. Imports also saw an increase on the back of the recovery in domestic production.



Source: The Bank of Japan.

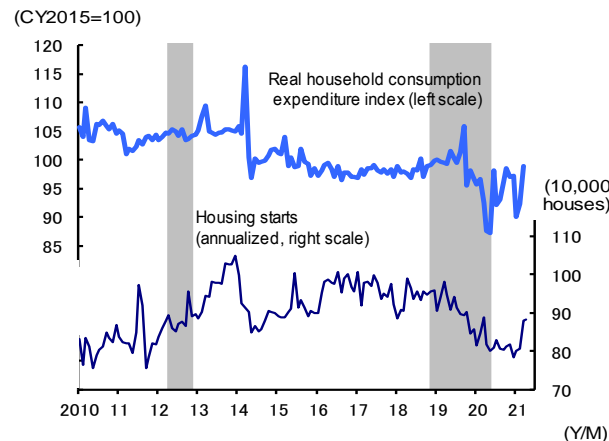
**Figure 1-4 Employment and Income**  
The unemployment rate remained between the high 2% and around 3% level. Nominal wages increased year on year.



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

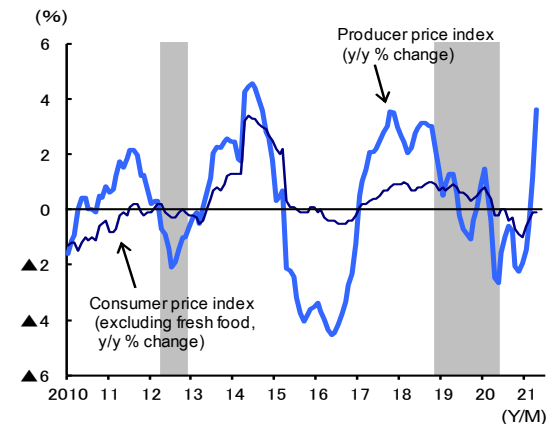
\* The shaded area indicates the recession phase.

**Figure 1-5 The Household Sector**  
Real consumption saw some ups and downs due to the effect of COVID-19. Housing starts remained at the low level of 800,000 units.



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 increased mainly for petroleum products. The decline in consumer prices diminished.



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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# Exports and Production Remained Firm, While Personal Consumption Saw Some Ups and Downs

## ◆ Exports and Production Are on a Rising Trend

Exports remained on a recovery path, albeit with fluctuations. The export volume in April 2021 increased by 5.2% from the previous month, up for the second consecutive month. By region, exports to China and other Asian countries continued to increase, while those to the United States and the EU, which had been slow to recover, also picked up recently.

Production activities in the manufacturing industry have generally continued to recover on the back of increased exports. The Industrial Production Index for April 2021 increased by 2.9% from the previous month, up for the second straight month. Although production of transportation machinery decreased against the backdrop of the shortage of semiconductor parts supplies among other factors, overall industrial production was boosted by increased production of general-purpose machinery, production machinery, and electronic components and devices, for which external

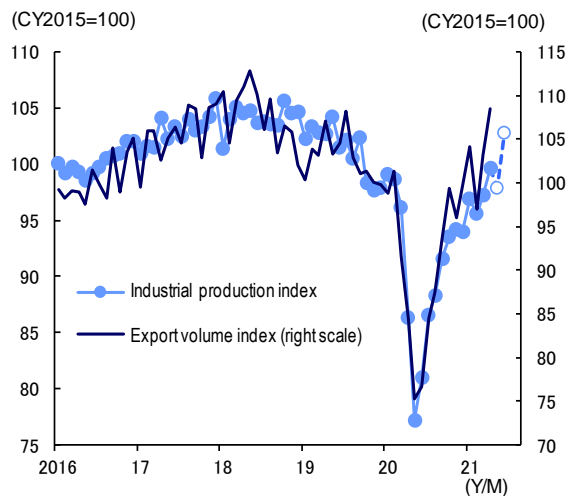
demand has been strong. Looking at the future production plan, while production is expected to decrease in May, it will likely increase again in June when production of transportation machinery is anticipated to pick up.

## ◆ Resurgence of COVID-19 is Weighing on Consumption

Meanwhile, personal consumption has seen some ups and downs. Japan's Real Consumption Activity Index (travel balance adjusted) for March 2021 rose 1.2% from the previous month, up for two consecutive months. Service consumption picked up thanks to the lifting of the second state of emergency declaration among other factors.

However, consumption deteriorated again after April 2021 due to the issuance of the third state of emergency declaration. The Consumer Confidence Index in May 2021 fell 0.6 points from the previous month, down for the second consecutive month.

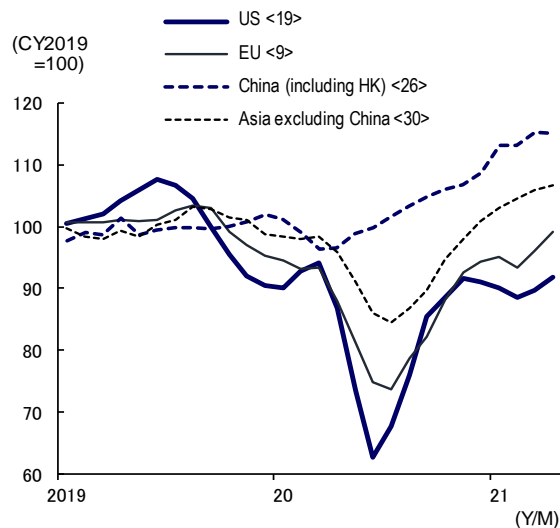
Figure 2-1 Industrial Production and Export Volume <seasonally adjusted>



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

Note: The latest two figures in the industrial production index are forecasts based on the production forecast index.

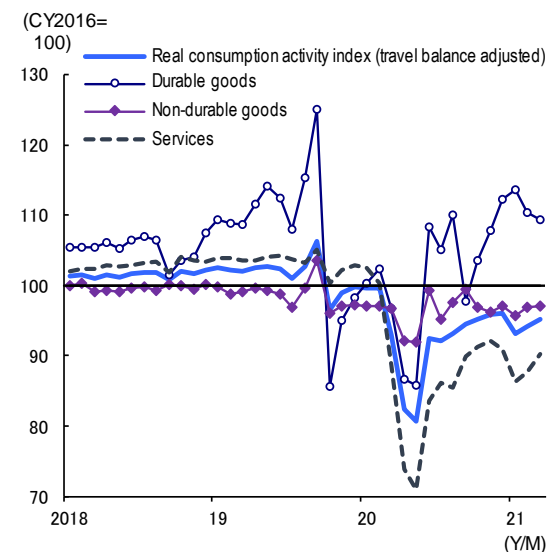
Figure 2-2 Real Exports by Destination <seasonally adjusted>



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

Note: 1. 3-month moving averages.  
2. Figures in the angled brackets show the shares in total nominal exports in CY2020.

Figure 2-3 Real Consumption Activity Index <seasonally adjusted>



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

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# Exports of Goods Remained on a Recovery Trend

## ◆ Exports Were Led by Electronic Parts and Capital Goods

Goods exports remained on a rising trend on the whole. By item, an increase in shipments of electronic parts and devices was prominent as global demand for semiconductors picked up, and shipments of capital goods also continued to increase. Looking at capital goods exports by region, shipments to China, where the recovery in economic activity has been remarkable, increased nearly 50% during the past year.

Looking ahead, while a temporary decline in shipments of transportation machinery seems unavoidable given the shortage in semiconductor supply for automotive production, demand for electronic parts and devices as well as capital goods will likely drive exports on the whole against the backdrop of the expansion of telework, increased demand for 5G-related products, and growth in capital investment in line with the sophistication of industries in China. Exports have already recovered to levels seen prior to the outbreak of the COVID-19 pandemic, and growth momentum

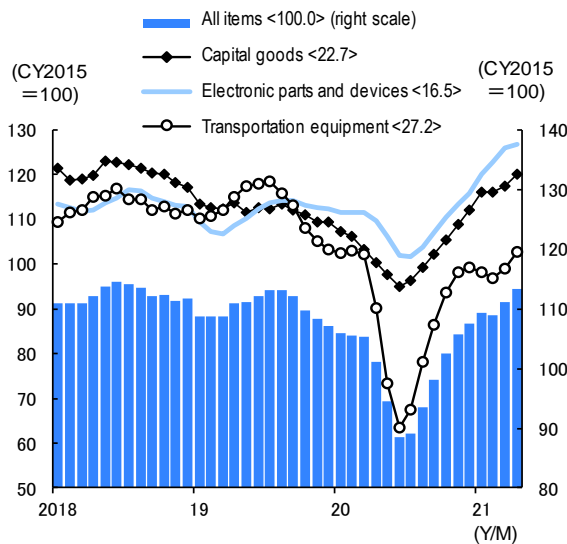
is expected to remain strong, although the pace of increase will likely slow going forward.

## ◆ Sluggish Demand Related to Inbound Tourism Will Likely Continue

Amid restrictions on overseas travel around the world, the number of tourists visiting Japan remained virtually nonexistent.

It is difficult for the Japanese government to ease entry restrictions for tourists until COVID-19 infections settle down both in Japan and overseas. Given this situation, recovery in demand related to inbound tourism cannot be expected for the foreseeable future. The International Civil Aviation Organization (ICAO) predicts that the number of passengers around the world at the end of 2021 will recover to around 60% of the level prior to the outbreak of COVID-19. However, in Japan, where the rollout of COVID-19 vaccines has been delayed, the recovery in the movement of people across national borders may be slower than in other developed countries.

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

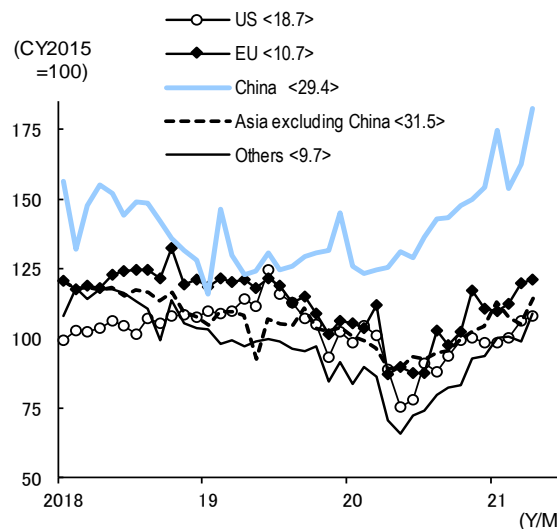


Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.

Note: 1. 3-month moving averages.

2. Figures in the angled brackets show the shares in total nominal exports in CY2020.

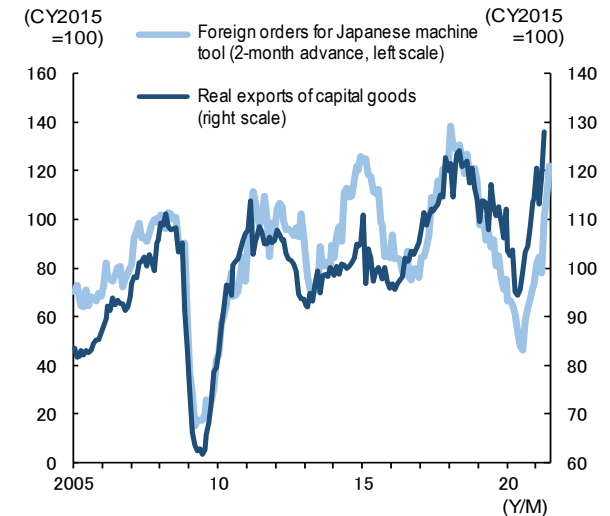
Figure 3-2 Real Exports of Capital Goods  
by Country or Area  
<seasonally adjusted>



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 of capital goods in CY2020.

Figure 3-3 Machine Tool Orders and  
Exports of Capital Goods  
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of Japan Machine Tool Builders' Association, The Ministry of Finance.

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# Corporate Earnings Have Been Polarized, While Business Fixed Investment Is Expected to Rebound

## ◆ Corporate Earnings Have Become Polarized

According to the Financial Statements Statistics of Corporations by Industry, sales on an industry-wide basis for the January-March 2021 quarter increased 0.6% from the previous quarter, up for the third consecutive quarter. On the back of an increase in sales, current profits also increased 5.6% from the previous quarter, up for the third consecutive quarter. By industry, current profits in the manufacturing sector remained on a rising trend thanks to the recovery in exports, up 12.5% from the previous quarter. On the other hand, in the nonmanufacturing sector, while current profits on the whole increased from the previous quarter, the accommodation and food services industries continued to record further losses due to the direct effects of the issuance of the second state of emergency declaration.

As for future prospects, the manufacturing sector is expected to see continued improvement in earnings on the back of an increase in exports, reflecting overseas economic recovery, while the non-manufacturing sector related to consumption will

likely face extremely challenging earnings conditions. Meanwhile, in the third state of emergency declaration issued in April, large-scale retail facilities as well as food services providers were included in the targets of operational restrictions. Therefore, the decline in earnings due to the impact of restrictions on activities will likely have ripple effects on some sections of the retail industry as well.

## ◆ Companies Have Resumed Capital Investment

Capital expenditure for the January-March 2021 quarter decreased 0.7% from the previous quarter on an industry-wide basis, down for the fourth consecutive quarter. By industry, capital expenditure in the manufacturing industry increased on the back of an improvement in the earnings environment, showing moves to resume postponed investment activities. Capital expenditure plans (large enterprises, industry-wide basis) for fiscal 2021 are 3.0% higher than those of the previous year, which indicates that they are solid as initial plans. Given the above, business fixed investment is expected to pick up going forward.

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



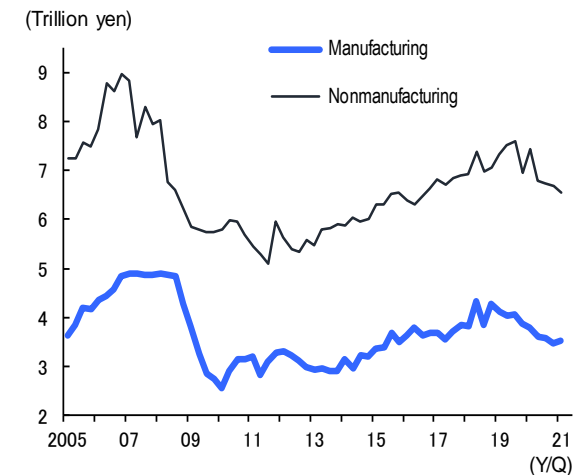
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.  
Note: All industries except for financial services and insurance.

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.

# Recovery in Employment and Income Conditions Will Be Delayed Due to the Effects of Restrictions on Activities

## ◆ The Number of People Leaving the Labor Market is Increasing

The number of unemployed persons in April 2021 increased for the first time in two months, but the unemployment rate remained at 2.8% (a 2.9% level was recorded for January and February 2021). Thanks to the use of employment adjustment subsidies, a rapid increase in the number of unemployed persons has been avoided, partly because many companies are maintaining employment in view of worsening labor shortages over the medium to long term.

However, it also can be pointed out that suspension of job-seeking activities has been pushing down the unemployment rate. The labor force participation rate peaked in January for men and in February for women. The number of people who gave up looking for a job seems to have increased, as the demand for non-regular workers in food services and other industries has been sluggish due to repeated restrictions on activities. For women in particular, the unemployment rate dropped by 0.5 percentage points in the past two months due to an increase in the non-working

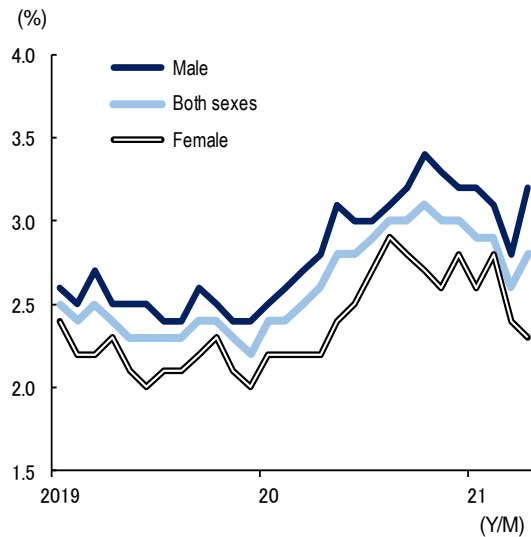
population, which exceeded the decrease in the number of unemployed persons. This situation is expected to continue for the time being as a result of the continued extension of the current state of emergency declaration.

## ◆ The Lower Rate of Part-time Workers Boosted Average Wages

Total cash earnings (on the basis of common business establishments) in March 2021 rose 0.7% year-on-year, recording the first year-on-year increase in the twelfth month. This is attributable primarily to the fact that a lower rate of part-time workers paid low-wages due to the effects of the COVID-19 pandemic boosted average wages.

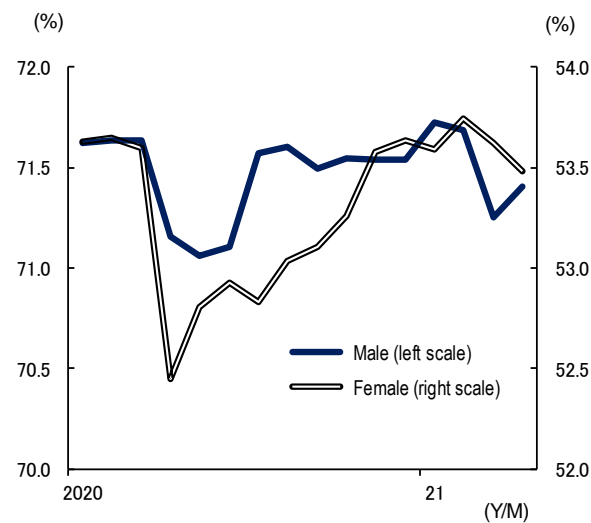
Meanwhile, the wage increase rate for this year's spring labor offensive seems to have fallen below 2% for the first time since 2013 against the backdrop of the continued perception of a bloated workforce, which had remained at a high level, among other factors. As a further decline in summer bonuses is inevitable, it is difficult to expect that overall wages will improve in earnest.

Figure 5-1 Unemployment Rate  
<seasonally adjusted>



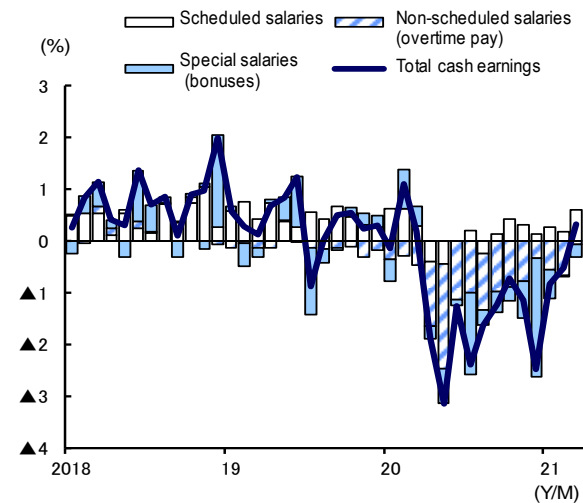
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 5-2 Labor Force Participation Rate by Sex  
<seasonally adjusted>



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

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

## ◆ Consumption Saw Some Ups and Downs Due to Restrictions on Activities

Based on credit card settlements in April 2021, consumption was down 1.8% compared to the same month in 2018, at which time there was no impact from the consumption tax hike. The decline diminished from the previous month (down 6.9% compared to the same month in 2018). There were signs of recovery in consumption following the lifting of the second state of emergency declaration.

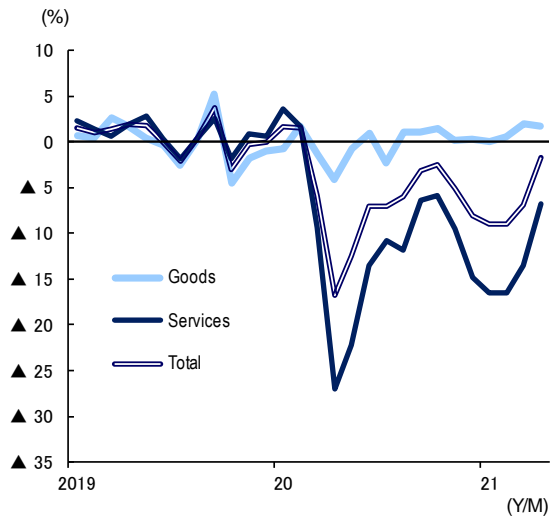
On the other hand, the number of people visiting retail and entertainment venues has been decreasing since late April 2021 as a result of the issuance of the third state of emergency declaration, among other factors, and consumption activity seems to be weakening again. It is inevitable that private consumption for the April - June 2021 period will decline further, as the continued extension of the state of emergency declaration was decided in late May. However, the decline in crowds and

consumer confidence under state of emergency declarations has lessened each time, and the decline in personal consumption due to the protracted declaration this time is expected to be small.

## ◆ Recovery in Personal Consumption Will Not Become Clear Until This Autumn

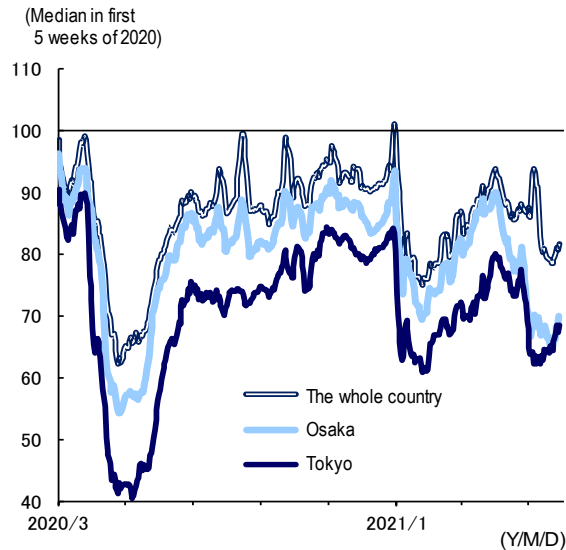
As for future prospects, even if the latest state of emergency declaration is lifted, restrictions on activities will likely be imposed again due to the possible resurgence of infections in the future until the rollout of COVID-19 vaccines progresses to a certain level. Given the delay in the recovery of employment and income conditions, private spending is expected to see some ups and downs. It is predicted that the recovery in personal consumption will not become clear until this autumn and thereafter, when the rollout of the vaccine programs progresses to a certain level among the elderly and other groups.

Figure 6-1 Consumption Based on Credit Card Settlements <compared to the same month in 2018>



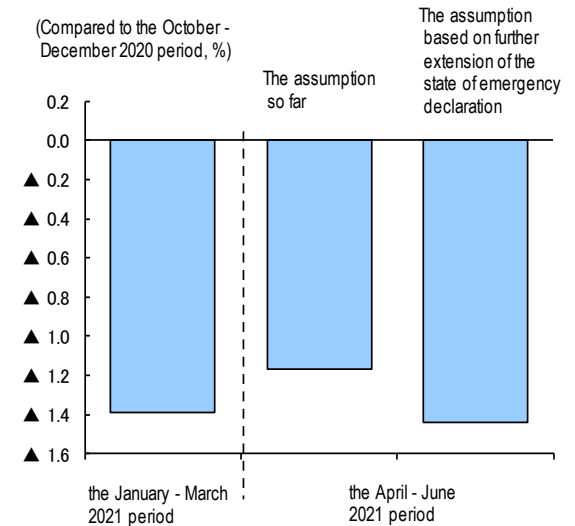
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption NOW.

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 Decrease in Personal Consumption due to Restrictions on Activities



Source: The Japan Research Institute, Ltd. based on data of The Cabinet Office.



# Topic: The Rise in the Unemployment Rate Is Limited Compared to That After the Lehman Brothers Collapse

## ◆ Labor Has Been Absorbed by Growing Industries

While the real GDP growth rate in fiscal 2020 registered a decline exceeding that which was seen after the Lehman Brothers collapse, the rise in the unemployment rate was limited. This is because only a small number of industries experienced a sharp drop in labor demand due to the COVID-19 pandemic, and labor has been absorbed by growing sectors to a certain extent. Looking at the changes in employment by industry, the decline in employment was limited overall, as new employment occurred in the areas of medical welfare and telecommunications, which largely offset the sharp decline in employment in the accommodation and food services areas, which were hit hard by the pandemic.

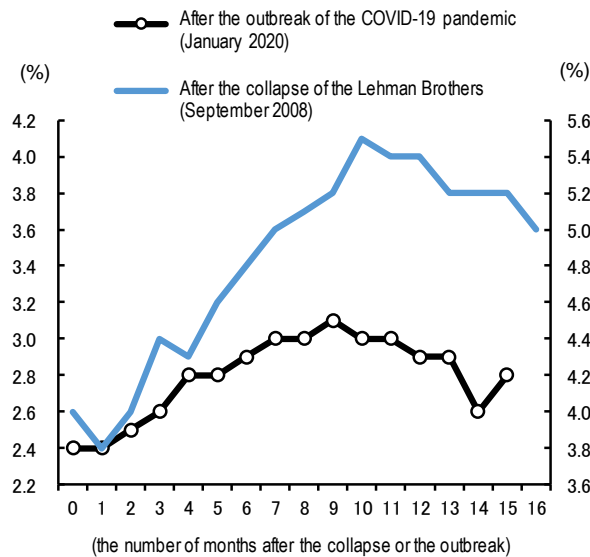
In addition, decreases in the population and the influx of foreign workers also contributed to a decline in the unemployment rate. In fact, if the changes in the unemployment rate by factors are broken down, population factors pushed the current

unemployment rate down by 0.3 percentage points.

## ◆ Employment Adjustment Subsidies Have Been Effective

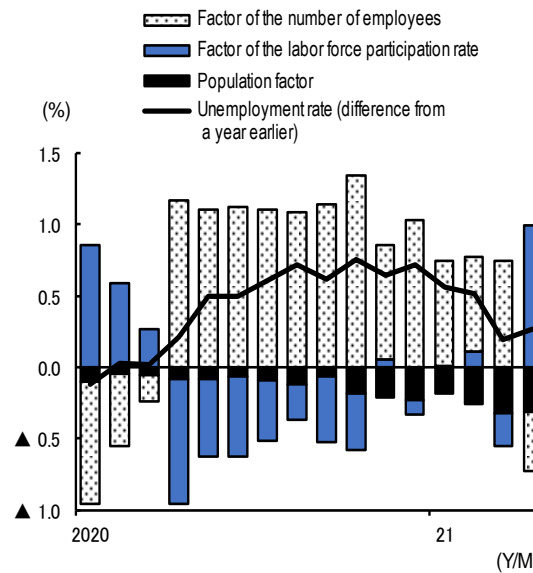
For companies whose business performance deteriorated due to the effects of COVID-19, the requirements for employment adjustment subsidies have been significantly relaxed, which has been helping them to maintain employment. Following the reissuance and extension of the state of emergency declaration, the government decided to extend the COVID-19 special provisions for employment adjustment subsidies and emergency employment stabilization subsidies for part-time workers not covered by employment insurance until the end of July 2021. The total amount of payments for the period between April 2020 and May 2021 reached 3.6 trillion yen, more than 3 times the amount paid after the Lehman Brothers collapse. According to an estimate based on certain assumptions, the provision of employment adjustment subsidies reduced the unemployment rate in April 2021 by 1.2-2.6% points.

Figure 7-1 Comparison of Unemployment Rate between Two Cases



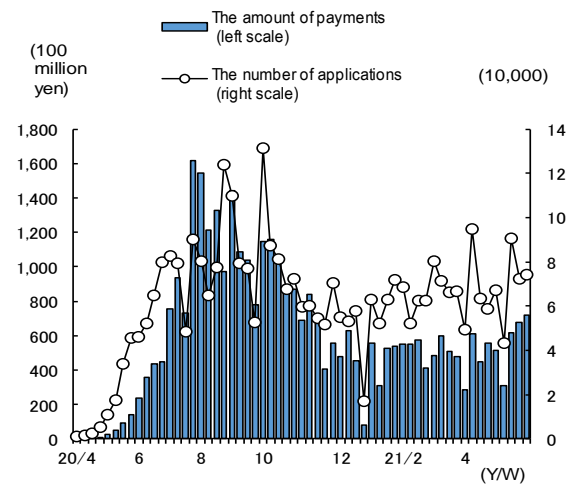
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.

Figure 7-2 Change in Unemployment Rate <difference from a year earlier>



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

Figure 7-3 Situation of Provision of Employment Adjustment Subsidies <on a weekly basis>



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

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## Prospects for Japan's Economy - Projected Real GDP Change; 3.5% for FY2021 and 2.8% for FY2022

### ◆ Economic Recovery Will Not Likely Become Clear Until This Autumn

(1) According to the Second Preliminary Quarterly Estimates of GDP (2nd QE), Japan's real GDP for the January-March 2021 period was -3.9% on an annualized quarter-on-quarter change basis (or down 1.0% from the preceding quarter), revised upward from the First Preliminary Quarterly Estimates of GDP (1st QE) (-5.1% on an annualized quarter-on-quarter change basis, or down 1.3% from the preceding quarter). This is attributable mainly to an upswing in inventory investment, suggesting that inventories are piling up slightly amid a decline in final demand. There has been no change in the perception of the current state of the economy that economic recovery has seen a lull due to the resurgence of COVID-19 infections.

(2) As the government reextended its third state of emergency declaration, in the latest revised prospects, the growth forecast for the April-June 2021 period was revised downward from the forecast announced at the time of the 1st QE (May 18). However, negative growth is expected to be avoided since (i) exports are likely to remain robust on the back of the recovery of overseas economies, and (ii) companies and households are responding more flexibly to the state of emergency declaration.

(3) While positive growth is anticipated to continue towards the summer on the back of solid exports and business fixed investment, personal consumption will likely remain sluggish. Since the rollout of COVID-19 vaccines is taking time, it is inevitable that restrictions on economic activities such as the requirement for restaurants and bars to shorten their hours of operation will continue to be imposed in order to prevent the spread of the virus even after the current state of emergency declaration is lifted. Therefore, it is predicted that consumption activities will continue to be affected by the COVID-19 situation and case numbers until COVID-19 vaccines become more widely available.

(4) On the other hand, economic recovery is expected to become clear after this autumn, as the rollout of COVID-19 vaccines will progress to a certain extent. Consumer spending will increase by 4% or more if consumption activity is normalized and the propensity to consume returns to the level seen prior to the outbreak of COVID-19. Therefore, a high growth rate is expected to be realized in the process of normalization of consumption activities.

(5) As a result, Japan's growth rate for FY2021 is expected to be +3.5%, which is not sufficient to fully recover from the decline recorded in FY2020 (-4.6%). However, the growth rate for FY2022 is anticipated to be +2.8%, and Japan will likely achieve high positive growth for two consecutive years. It is forecast that Japan's GDP will recover to the peak level seen prior to the outbreak of COVID-19 (July-September 2019 period) around mid-2022.

### ◆ Prices Have Been Declining

(6) In April 2021, core CPI declined 0.1% year-on-year, down for the ninth consecutive month. While energy prices rose year-on-year due to an increase in crude oil prices, the decline in communications costs reflecting lower mobile phone charges pushed down overall core CPI by 0.6% points.

As for the future outlook, while energy prices are expected to continue to increase, there will be strong downward pressure on general prices from the viewpoint of supply and demand, and communications costs are anticipated to continue to decline. Consequently, core CPI will likely hover around zero for the time being.

Figure 9 Projections for GDP Growth and Main Indicators of Japan ( as of June 8, 2021 )

	(seasonally adjusted, annualized % changes from the previous quarter)											(% changes from the previous fiscal year)		
	CY2020		1~3	CY2021			CY2022				CY2023	FY2020	FY2021	FY2022
	7~9	10~12		4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	(Actual)	(Projection)	(Projection)
	(Actual)	(Actual)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Projection)	(Actual)	(Projection)	(Projection)	
Real GDP	22.9	11.7	▲ 3.9	1.6	2.2	4.0	4.4	3.3	1.7	1.3	1.2	▲ 4.6	3.5	2.8
Private Consumption Expenditure	22.0	9.0	▲ 5.8	▲ 0.2	1.3	6.3	6.3	5.0	2.1	1.5	1.5	▲ 6.0	2.5	3.9
Housing Investment	▲ 21.0	0.2	4.9	3.9	▲ 2.6	0.5	3.5	3.1	1.9	0.2	0.0	▲ 7.1	0.2	1.7
Business Fixed Investment	▲ 8.1	18.3	▲ 4.6	5.9	4.4	4.4	3.6	2.7	2.7	2.5	2.2	▲ 6.9	3.8	3.1
Private Inventories (percentage points contribution)	(▲ 0.8)	(▲ 2.0)	( 1.7)	(▲ 0.4)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	( 0.0)	(▲ 0.2)	(▲ 0.1)	( 0.0)
Government Consumption Expenditure	12.0	7.3	▲ 4.5	2.4	2.7	▲ 1.4	1.4	0.6	0.4	0.4	0.4	3.2	1.7	0.6
Public Investment	3.4	5.3	▲ 2.1	▲ 0.8	0.0	0.4	0.2	0.0	▲ 0.1	▲ 0.4	0.0	4.3	0.3	0.0
Net Exports (percentage points contribution)	( 11.2)	( 4.2)	(▲ 0.9)	( 0.5)	( 0.3)	( 0.3)	( 0.1)	( 0.0)	( 0.0)	(▲ 0.0)	(▲ 0.0)	(▲ 0.6)	( 1.1)	( 0.1)
Exports of Goods and Services	32.5	55.7	9.2	7.2	5.6	5.6	5.3	5.0	4.8	3.9	3.9	▲ 10.5	13.1	4.9
Imports of Goods and Services	▲ 29.0	20.7	16.5	4.4	4.0	4.2	5.1	5.1	4.9	4.1	4.1	▲ 6.9	5.8	4.7
(Ref.) Domestic Private Demand (percentage points contribution)	( 7.8)	( 5.3)	(▲ 2.0)	( 0.6)	( 1.3)	( 4.1)	( 4.0)	( 3.2)	( 1.6)	( 1.2)	( 1.2)	(▲ 4.8)	( 1.9)	( 2.6)
(Ref.) Public Demand (percentage points contribution)	( 2.8)	( 1.8)	(▲ 1.0)	( 0.5)	( 0.6)	(▲ 0.3)	( 0.3)	( 0.1)	( 0.1)	( 0.1)	( 0.1)	( 0.9)	( 0.4)	( 0.1)

	(% 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	(Actual)	(Projection)	(Projection)
Nominal GDP	▲ 4.5	▲ 0.8	▲ 1.7	6.8	1.8	0.4	3.3	4.0	3.9	2.8	2.0	▲ 3.9	3.0	3.2
GDP deflator	1.2	0.2	▲ 0.1	▲ 0.9	▲ 0.9	▲ 0.4	0.3	0.5	0.4	0.2	0.1	0.6	▲ 0.5	0.3
Consumer Price Index (excluding fresh food)	▲ 0.2	▲ 0.9	▲ 0.4	▲ 0.0	0.1	0.8	0.3	0.7	0.5	0.4	0.4	▲ 0.4	0.3	0.5
(excluding fresh food, consumption tax, education free of charge)	▲ 0.5	▲ 0.9	▲ 0.3	▲ 0.0	0.1	0.8	0.3	0.7	0.5	0.4	0.4	▲ 0.5	0.3	0.5
Unemployment Rate (%)	3.0	3.1	2.8	3.0	3.2	3.2	3.1	3.0	2.9	2.9	2.8	2.9	3.1	2.9
Exchange Rates (JY/US\$)	106	104	106	109	110	111	112	111	111	110	110	106	111	111
Import Price of Crude Oil (US\$/barrel)	41	44	55	67	68	66	64	64	67	64	63	43	67	65

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.