

Monthly Report of Prospects for Japan's Economy

March 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 February 2021 issue of the original Japanese version.

Disclaimer:

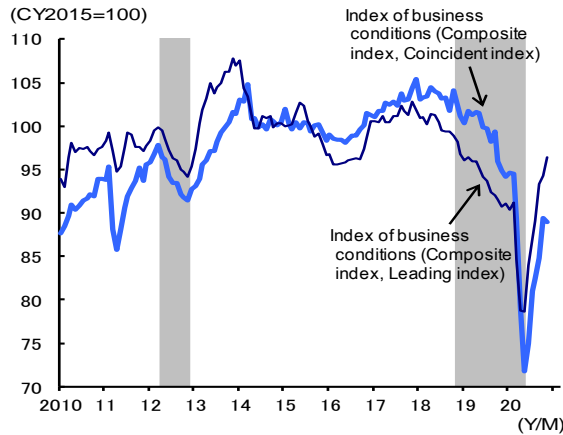
This report is intended solely for informational purposes and should not be interpreted as an inducement to trade in any way.

All information in this report is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will JRI, its officers or employees be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any damages, even if we are advised of the possibility of such damages. JRI reserves the right to suspend operation of, or change the contents of, the report at any time without prior notification. JRI is not obliged to alter or update the information in the report, including without limitation any projection or other forward looking statement contained therein.

The General Situation – There Are Signs of a Lull in Economic Recovery

Figure 1-1 Economic Activity

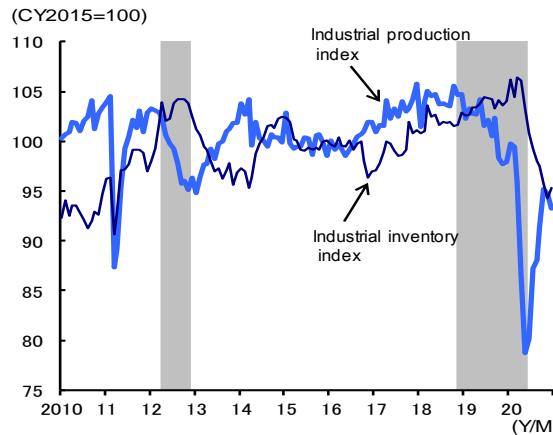
While the CI leading index continued to rise, the CI coincident index declined for the first time in six months.



Source: The Cabinet Office.

Figure 1-2 The Corporate Sector

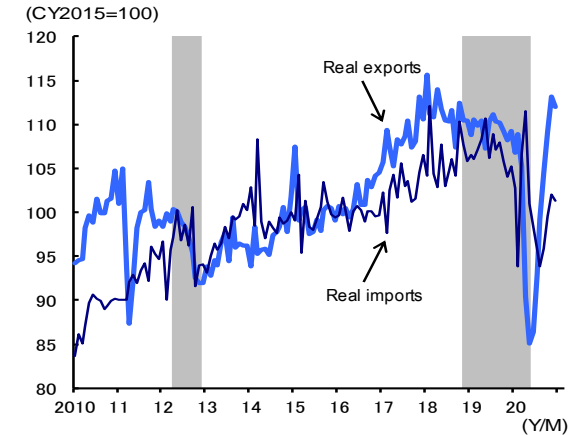
Industrial production decreased mainly for general and industrial machinery and automobiles.



Source: The Ministry of Economy, Trade and Industry.

Figure 1-3 Overseas Demand

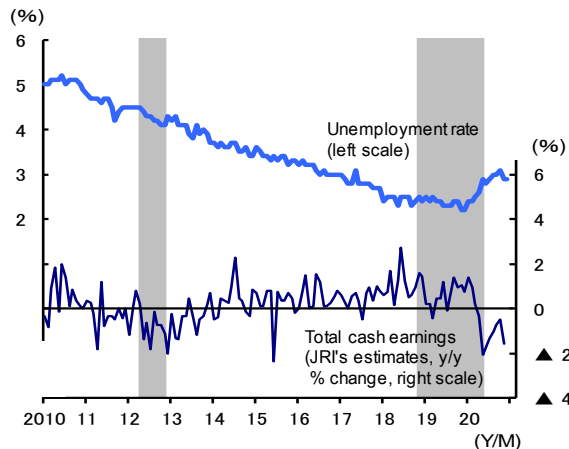
Exports decreased, mainly to the United States. Imports remained at a low level amid sluggish domestic demand.



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).

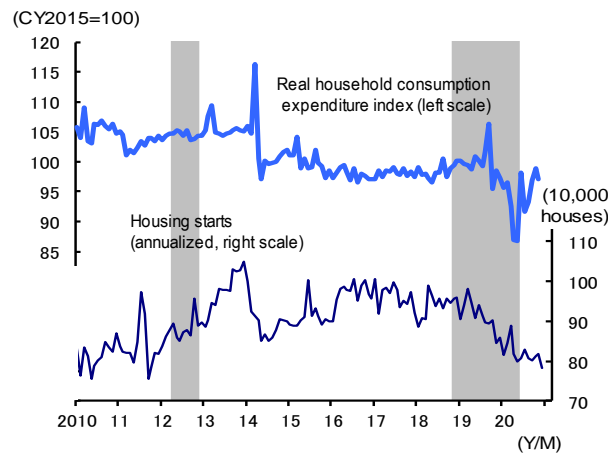


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare.

* The shaded area indicates the recession phase.

Figure 1-5 The Household Sector

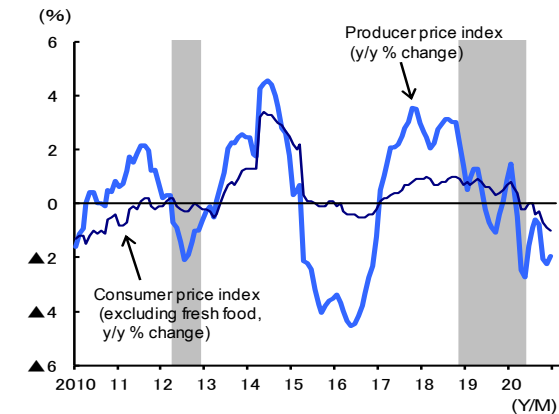
Real consumption saw some ups and downs due to the effect of COVID-19. Housing starts were sluggish.



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.

Monthly Report of Prospects for Japan's Economy March 2021
The Japan Research Institute, Limited

Economic Recovery Levelled off Due to the Resurgence in COVID-19 Infections

◆ The DI for Business Conditions Deteriorated, Mainly for Food Services

Against the backdrop of a third wave of COVID-19, the DI for business conditions deteriorated. The DI for current business conditions in the Economy Watchers Survey for December 2020 declined by 7.1 points from the previous month, down for a second consecutive month. Looking at the breakdown, household activity-related DI saw a significant decline, mainly for food services which were subject to the government's call for shorter business hours.

In terms of private consumption, the Bank of Japan's Consumption Activity Index (travel balance adjusted) for November 2020 rose slightly by 0.6% from the previous month, while that for December 2020 appeared to decline for the first time in five months due to an increased tendency toward self-restraint as a result of an increase in new COVID-19 cases.

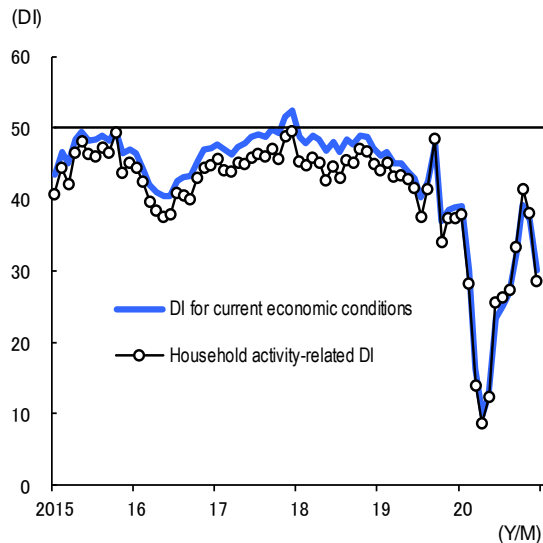
◆ Recovery in Exports and Production Has Also Come to a Halt

As the number of new COVID-19 cases started to increase once again around the

world, the recovery in exports came to a halt. Real exports in December 2020 decreased by 1.1% from the previous month, down for the first time in seven months. By region, while exports to China remained on an increasing path, the decline in exports to the United States and the European Union put downward pressure on exports overall.

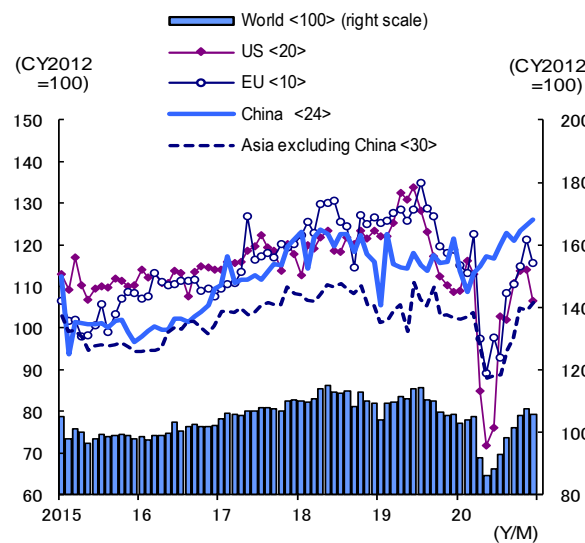
The Industrial Production Index in December dropped 1.0% from the previous month, falling for the second consecutive month. As recovery production ran its course, automobile production declined, and production of general and industrial machinery dropped in reaction to a sharp increase in production in the past two months. Meanwhile, regarding future production plans, industrial production is forecast to increase significantly from the current level. While it is not clear if production will increase as planned due to concerns over a shortage of semiconductor parts for automobiles, production is expected to increase again if temporary downward pressure fades.

Figure 2-1 Economy Watchers Survey
<seasonally adjusted>



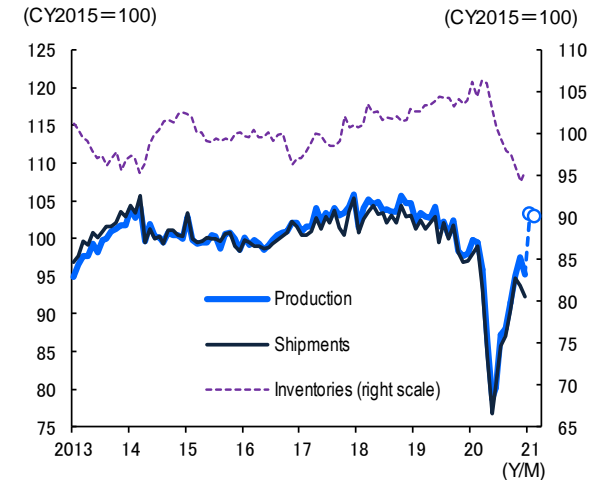
Source: The Japan Research Institute, Ltd. based on data of The Cabinet Office.

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.

Figure 2-3 Industrial Production Index
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Economy, Trade and Industry.
Note: The latest two figures in the industrial production index are forecasts for January and February 2021 based on the production forecast index.

Monthly Report of Prospects for Japan's Economy March 2021
The Japan Research Institute, Limited

Rebound in Exports of Goods Stagnated

◆ Rebound in Shipments of Transportation Machinery Has Levelled off

Goods exports in December 2020 decreased month-over-month for the first time in seven months. By item, shipments of electronic parts and devices remained firm against the global demand for semiconductor started to pick up, while the rebound in shipments of capital goods and transportation machinery ran its course. Looking at exports of transportation machinery by region, those to Europe and the United States, where restrictions on activities had been further tightened due to the resurgence of COVID-19 infections, started to fall again.

Looking ahead, exports of transportation machinery to Europe and the United States are expected to remain sluggish for the time being. However, demand for electronic parts and devices as well as capital goods will likely remain firm against the backdrop of the expansion of telework, an increase in demand for 5G-related products, and growth in capital investment in line with the sophistication of industries

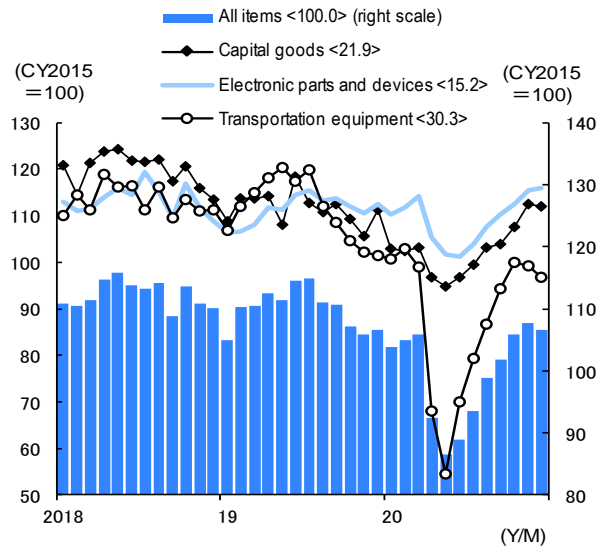
in China. Exports are expected to pick up again once the number of new COVID-19 infections in other countries settles down.

◆ Demand Related to Inbound Tourism Was Almost Zero

Amid restrictions on overseas travel around the world, the number of tourists that visited Japan in December 2020 fell 97.7% on a year-on-year basis.

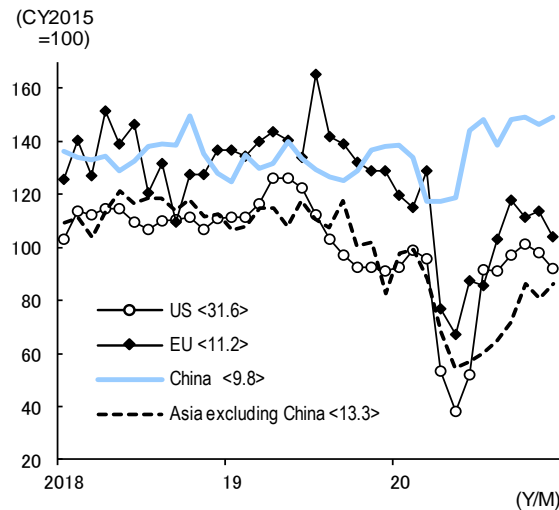
Due to recent surges in the number of new COVID-19 cases around the world, it has become difficult for the Japanese government to ease immigration restrictions on tourists. Given this situation, demand related to inbound tourism is expected to remain virtually nonexistent for the foreseeable future. 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.

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



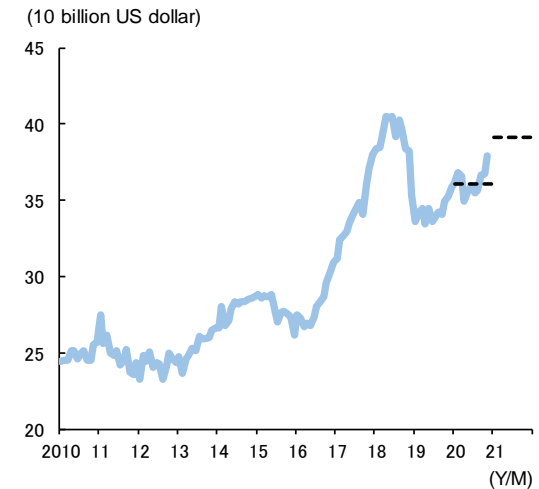
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Finance, The Bank of Japan.
Note: Figures in the angled brackets show the shares in total nominal exports in CY2019.

Figure 3-2 Real Exports of Transportation Equipment 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 transportation equipment in CY2019.

Figure 3-3 Worldwide Semiconductor Shipments
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of WSTS.
Note: Broken lines indicate forecasts for 2020 and 2021.

Corporate Attitude Toward Business Fixed Investment Remains Robust

◆ 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 October-December period, the recovery trend appeared to have continued on the back of the rebound in exports, among other factors. Corporate earnings also remained on a recovery track as sales increased. Current profits for the October-December period are likely to increase for the second consecutive quarter, mainly in the manufacturing industry.

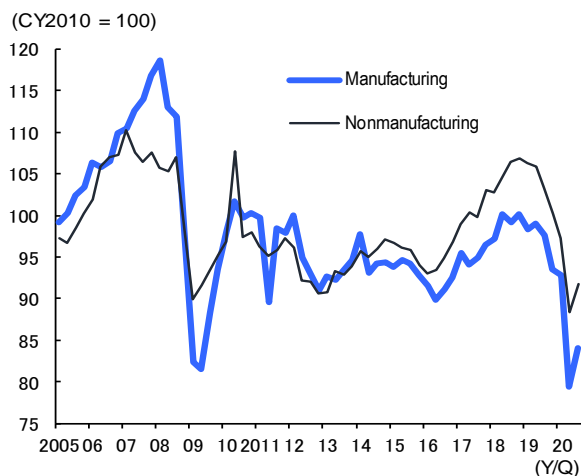
Despite the foregoing, the outlook for corporate earnings is expected to vary widely from industry to industry. In particular, sales for restaurants and personal services dropped sharply, as the government once again declared a state of emergency, which will likely result in an increase in the number of companies recording a loss in the future.

◆ Business Fixed Investment Is Picking up

While capital investment had been on a declining trend since the spring of last year, signs of recovery have recently been noted. Business fixed investment, which had been postponed for some time, is now resuming, particularly in the manufacturing sector, which has shown a remarkable recovery in business performance. It is estimated that capital expenditure in the October-December 2020 quarter will increase from the previous quarter at an annual rate of over 10%.

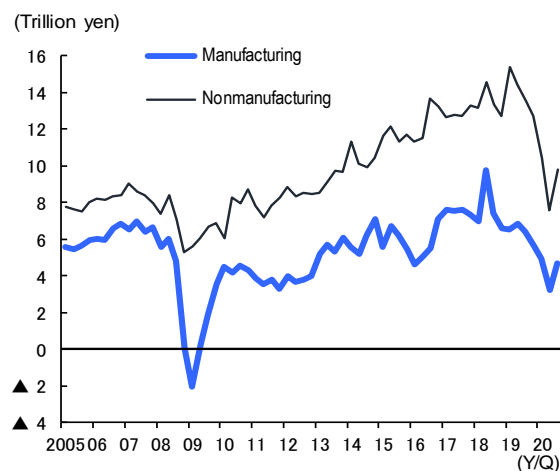
Machinery orders, a leading indicator of capital investment, have recently picked up in both the manufacturing and nonmanufacturing sectors. Business fixed investment is expected to recover moderately on the whole, as there have been no distinct signs of cautious attitudes toward investment, except in the case of the personal services sector, which has been significantly affected by the COVID-19 pandemic.

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



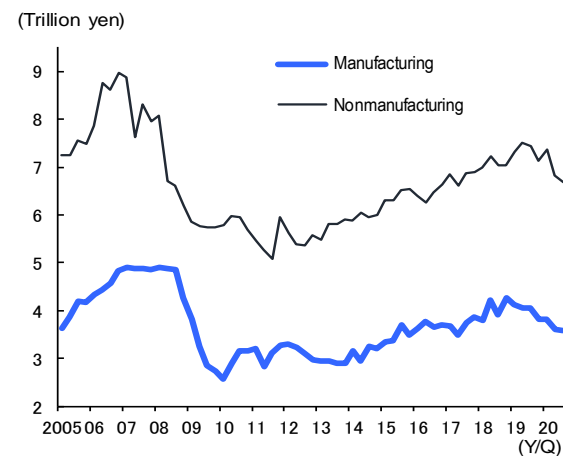
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.
Note: All industries except for financial services and insurance.

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.

Further Increase in the Unemployment Rate Is Unavoidable

◆ The COVID-19 Pandemic Dealt a Heavy Blow to Low-Income Earners

The number of workers in December 2020 decreased by 710,000 from the same period of the previous year, which accounted for 1.1% of the number of overall workers. So far, the deterioration of employment conditions has been limited on the whole. However, when looking at the impact by employment type, differences in the degree of impact can be seen, with a particularly severe impact on 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 those 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, the DI for employment conditions in the BOJ December 2020 Tankan Survey was minus 10 percentage points, remaining at its highest level since the September 2014 survey. Among enterprises, the sense of bloated workforce

conditions has remained at a high level. As the government once again declared a state of emergency, the environment surrounding companies has further deteriorated, mainly in the food services sector. As a result, a further increase in the unemployment rate in the future is unavoidable.

◆ Total Cash Earnings Saw a Decline

The novel coronavirus has also had ripple effects on wages. Total cash earnings in November 2020 plunged 1.6% year-on-year, recording a year-on-year decline for the eighth consecutive month. In line with the deterioration of corporate earnings, special salaries, mainly bonuses, diminished significantly. In addition, against the backdrop of a decline in overtime due to sluggish economic activity, non-scheduled salaries (overtime pay) also decreased. As for future prospects, it is anticipated that wages will remain on a declining path for the foreseeable future, as downward pressure on scheduled salaries is likely to increase going forward.

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



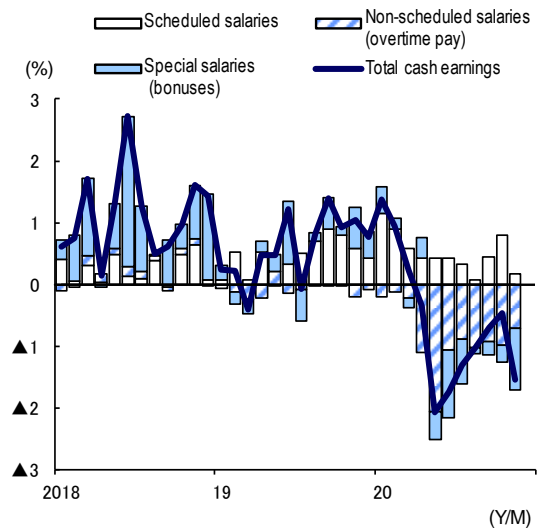
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications .

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.

Monthly Report of Prospects for Japan's Economy March 2021
The Japan Research Institute, Limited

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

◆ Consumption Has Been Sluggish as the Government Declares a State of Emergency Once Again

Private consumption remained sluggish. The decline in consumption based on credit card settlements in December 2020 accelerated further, down 8% compared to the same month in 2018, at which time there was no impact from the consumption tax hike. In particular, service consumption, mainly related to food services and travel, dropped sharply by 14.7% compared to the same month in 2018.

Since the beginning of this year, consumer sentiment cooled further as the government once again declared a state of emergency, and the Consumer Confidence Index in January fell for the second consecutive month. In addition, the number of people visiting retail and entertainment facilities decreased significantly, mainly in areas subject to the state of emergency declaration. Consequently, a further decline in personal consumption is inevitable. If the state of emergency declaration is lifted, consumption will pick up. However, the deterioration in

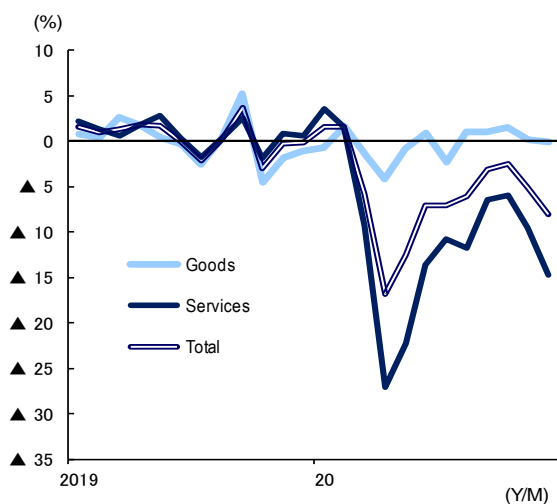
employment and income conditions, such as the rise in the unemployment rate, is anticipated to exert downward pressure on consumption recovery, and it will likely take time before COVID-19 vaccines become widely available. Therefore, private spending is highly likely to remain below the level prior to the outbreak of the novel coronavirus.

◆ Housing Investment is Expected to Remain Lackluster

The number of housing starts in December 2020 decreased 4.2% from the previous month, recording a decline for the first time in three months. The number of housing starts decreased across all types of housing, including owner-occupied housing, rental housing and subdivision housing.

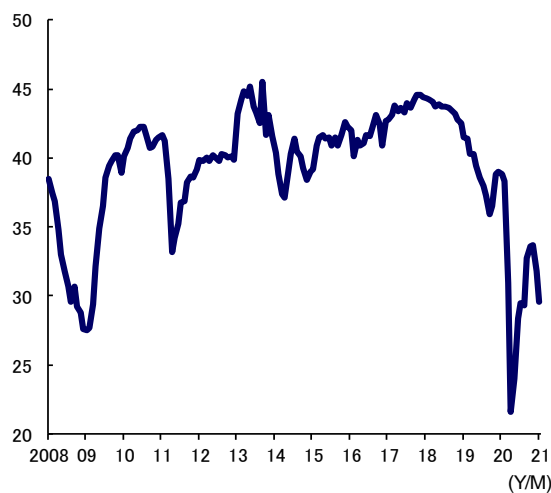
As for future prospects, against the backdrop of a more cautious lending approach by financial institutions toward apartment construction projects, in addition to weak consumer confidence due to the worsening employment and income environment, housing investment will likely remain lackluster on the whole.

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



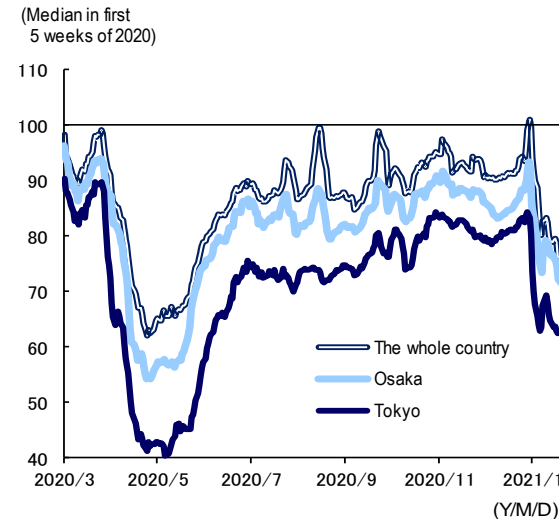
Source: The Japan Research Institute, Ltd. based on data of JCB Consumption NOW.

Figure 6-2 Consumer Confidence Index <seasonally adjusted>



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

Figure 6-3 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.

Monthly Report of Prospects for Japan's Economy March 2021
The Japan Research Institute, Limited

Topic: What is the Impact of Increased E-commerce Consumption on Employment?

◆ Use of E-commerce for Consumption Has Increased Amid the COVID-19 Pandemic

After the outbreak of the novel coronavirus, living style has changed drastically from the viewpoint of preventing infection. In particular, the use of online shopping has accelerated as a way to avoid face-to-face contact. In recent years, the share of households using e-commerce has gradually increased, but after the government declared a state of emergency in April 2020, it rose sharply by 6.1 percentage points, and now half of all households use e-commerce. The share continued to rise even after the lifting of the state of emergency declaration.

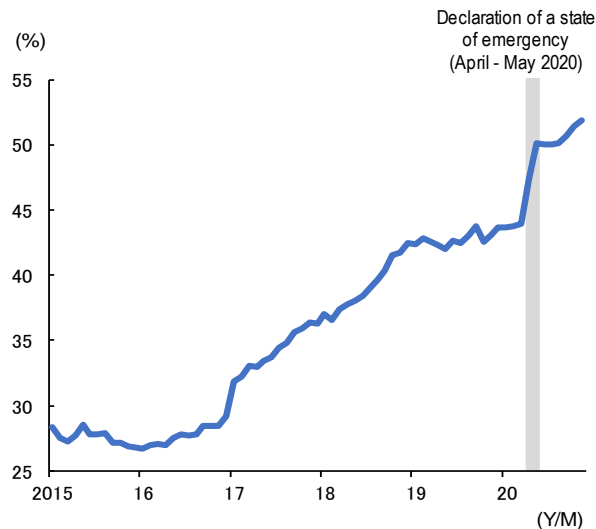
◆ The number of Workers is Estimated to Decrease by 166,000 in the Future

The increase in E-commerce consumption is expected to have a different impact on each industry, as it puts downward pressure on employment by brick-and-mortar

retailers, while also creating new jobs in the logistics industry. Since 2017, when E-commerce consumption began to increase, the number of workers in the retail industry has been declining relative to overall growth with a slight time lag behind the expansion of E-commerce consumption. On the other hand, the number of workers in the road freight forwarding and warehousing industries has been increasing.

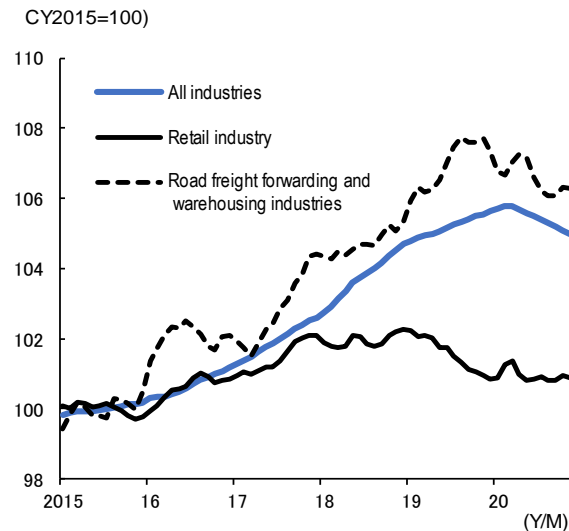
An estimate of the actual impact shows that the number of workers in the retail industry recently declined by 310,000, while the number of workers in the road freight forwarding and warehousing industries rose by only 6,000, demonstrating a negative impact on overall employment. The impact of the increase in the number of households using E-commerce services following the outbreak of the novel coronavirus is expected to become apparent in the future, and the number of workers in the retail industry is expected to further decline by 166,000.

Figure 7-1 Ratio of Households Which Use E-commerce
<seasonally adjusted>



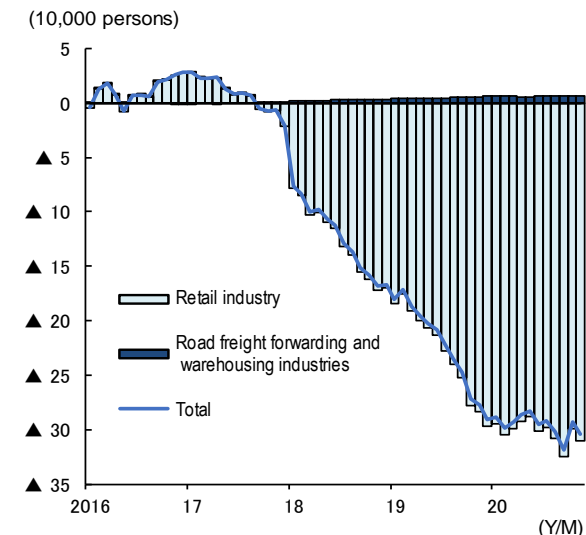
Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.
Note: Households with 2 or more members.

Figure 7-2 Change in Number of Workers by Industry
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on data of The Ministry of Internal Affairs and Communications.
Note: 12-month moving averages.

Figure 7-3 Impact of Increased E-commerce Consumption on Number of Workers <estimates>



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

Prospects for Japan's Economy - Projected Real GDP Change; -5.0% for FY2020 and 3.7% for FY2021

◆ Japan's GDP Will Not Return to Its Pre-coronavirus Level Until FY2023

(1) Japan's real GDP for the October-December 2020 period was +12.7% on an annualized quarter-on-quarter change basis (up 3.0% from the preceding quarter), recording significant positive growth for the second consecutive quarter. It showed clearly that the economy was recovering from the record-breaking fall in the April-June 2020 period. Having said that, Japan's GDP has remained at a level about 3% below the peak prior to the outbreak of COVID-19. Looking at the monthly statistics, the economic recovery has levelled off since the beginning of this winter due to the resurgence of COVID-19 infections, and there is no change in the perception that Japan's economy remains in a very severe situation.

(2) As for future prospects, a downturn in the economy for the January-March 2021 period will be inevitable, as the government declared a state of emergency once again. The current forecast is based on the assumption that the state of emergency declaration for 10 prefectures will continue until March 7. Although the drop in economic activity is expected to be small compared to last spring due to limitation in the number of regions subject to the state of emergency declaration and the number of industries that are required to reduce working hours, Japan will likely see negative GDP growth close to minus 10% on an annualized basis for the January-March 2021 period against the backdrop of sluggish consumer spending due to prolonged restrictions on activities. It seems inevitable that the number of jobless people, bankruptcies and business closures will increase, mainly in personal services such as food services and accommodation.

(3) If the government's state of emergency declaration is lifted as scheduled, it is possible that economic activity levels will recover in the April-June quarter, resulting in high positive growth. However, the growth rate is anticipated to slow sharply again after the summer. A rapid economic recovery is unlikely, as it appears difficult to completely eliminate coronavirus, and it will take time before COVID-19 vaccines become widely available.

(4) As a result, Japan will likely see negative growth for FY2020 at a rate of minus 5.0%, due partly to the effects of the reissuance of the state of emergency declaration. While the growth rate is expected to turn positive at +3.7% in FY2021 and +1.8% in FY2022, the recovery will be weak compared to the decline that occurred in FY2020. Consequently, it is forecast that the recovery of Japan's GDP to the peak level recorded before the outbreak of COVID-19 will be delayed until FY2023.

◆ Prices Have Been Declining

(5) In December 2020, core CPI declined 1.0% year-on-year, recording its biggest drop in about 10 years. Accommodation charges, which reflect prices after discount through the government's "Go To Travel" campaign, continued to decrease further, as did energy prices.

As for the future outlook, while the decline in accommodation charges will diminish as a result of the temporary suspension of the government's "Go To Travel" campaign, there has been strong downward pressure on prices from the viewpoint of supply and demand conditions. Consequently, core CPI will likely remain in negative territory for the time being.

Figure 9 Projections for GDP Growth and Main Indicators of Japan (as of February 15, 2021)

	(seasonally adjusted, annualized % 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)
Real GDP	22.7	12.7	▲ 8.8	8.1	2.1	1.1	2.1	2.1	1.7	1.6	1.6	▲ 5.0	3.7	1.8
Private Consumption Expenditure	22.0	8.9	▲ 14.0	13.7	1.8	1.2	2.3	2.3	1.8	1.8	1.6	▲ 6.5	3.3	1.9
Housing Investment	▲ 21.0	0.2	3.2	4.6	3.9	▲ 1.0	▲ 0.2	1.8	2.7	1.6	0.2	▲ 7.3	0.9	1.2
Business Fixed Investment	▲ 9.2	19.4	1.0	2.6	2.8	3.2	3.5	3.5	2.8	2.6	2.6	▲ 6.3	3.6	3.1
Private Inventories (percentage points contribution)	(▲ 0.7)	(▲ 1.4)	(0.4)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(▲ 0.2)	(▲ 0.1)	(0.0)
Government Consumption Expenditure	11.7	8.1	▲ 4.2	2.1	3.3	▲ 1.3	0.2	0.4	0.4	0.4	0.4	3.3	1.8	0.3
Public Investment	3.6	5.5	▲ 3.8	▲ 1.1	0.0	0.6	2.0	0.0	▲ 1.8	▲ 0.8	0.6	4.1	0.0	▲ 0.0
Net Exports (percentage points contribution)	(11.3)	(4.3)	(▲ 0.7)	(▲ 0.1)	(▲ 0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(▲ 0.8)	(1.0)	(0.1)
Exports of Goods and Services	33.2	52.3	1.5	4.8	3.5	4.3	4.3	4.1	3.7	3.4	3.4	▲ 11.2	10.1	3.9
Imports of Goods and Services	▲ 29.0	17.3	6.5	5.4	4.2	3.2	3.5	3.5	2.8	2.8	2.6	▲ 6.3	3.8	3.2
(Ref.) Domestic Private Demand (percentage points contribution)	(7.7)	(6.0)	(▲ 6.8)	(7.9)	(1.5)	(1.1)	(1.8)	(1.9)	(1.5)	(1.4)	(1.3)	(▲ 5.0)	(2.3)	(1.6)
(Ref.) Public Demand (percentage points contribution)	(2.7)	(1.9)	(▲ 1.1)	(0.4)	(0.7)	(▲ 0.2)	(0.1)	(0.1)	(▲ 0.0)	(0.0)	(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	FY2020	FY2021	FY2022
Nominal GDP	▲ 4.7	▲ 1.0	▲ 3.1	7.5	2.5	0.2	3.6	1.9	2.0	2.0	1.9	▲ 4.4	3.3	2.0
GDP deflator	1.2	0.2	▲ 0.2	▲ 0.6	▲ 0.8	▲ 0.2	0.2	0.1	0.2	0.2	0.2	0.6	▲ 0.3	0.2
Consumer Price Index (excluding fresh food)	▲ 0.2	▲ 0.9	▲ 0.4	▲ 0.4	0.4	1.1	0.5	0.9	0.4	0.5	0.4	▲ 0.4	0.4	0.5
(excluding fresh food, consumption tax, education free of charge)	▲ 0.5	▲ 0.9	▲ 0.3	▲ 0.4	0.4	1.1	0.5	0.9	0.4	0.5	0.4	▲ 0.5	0.4	0.5
Unemployment Rate (%)	3.0	3.0	3.3	3.7	3.7	3.5	3.4	3.3	3.2	3.1	3.0	3.0	3.6	3.1
Exchange Rates (JY/US\$)	106	104	104	105	106	107	106	107	107	108	107	106	106	107
Import Price of Crude Oil (US\$/barrel)	41	44	54	52	57	54	55	58	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.