



# MGSSI Japan Economic Quarterly

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## Negative Growth for Three Straight Quarters

Japan's real GDP in the second quarter of 2020 was down a substantial 7.9% (28.1% annualized) from the previous quarter. The spread of COVID-19 dealt a heavy blow, and the consumption tax hike of October 2019 contributed to bringing about the third consecutive quarter of negative growth.

Private consumption (all subsequent references to GDP demand items are in real terms unless otherwise indicated) was down 7.9% from the previous quarter. Declines among restaurants, passenger transportation, entertainment services, and more were a factor. On the other hand, among durable goods, computers and air conditioners saw increases. Direct purchases in Japan by non-residents, corresponding to the amount of spending by international tourists, fell to around 10 percent of the 2019 average, which was the next lowest level after the second quarter of 2011 immediately following the Great East Japan Earthquake.



Exports of goods and services plunged, down 18.5% from the previous quarter. Meanwhile, imports were down 0.5% from the previous quarter. Among tradable goods, both imports and exports, automobiles and automotive parts were down, while among tradable services, travel (domestic spending by international tourists and foreign spending by Japanese tourists) was down.

Private housing investment showed a lesser quarter-on-quarter decline of 0.5%. However, there was a

greater quarter-on-quarter decline in the number of new housing starts. The number was down 7.3% to annualized 800,000, falling around an annualized level of 800,000 for the first time in 10 years.

Private non-residential fixed investment was down 4.7% from the previous quarter. According to the Financial Statements Statistics of Corporations, nominal investment was down

	Real Gross Domestic Product (GDP)			
	at 2011 Price, Calendar year			
	2019	2019		2020
	y/y%	10-12	1-3	4-6
		q/q%	q/q%	q/q%
Real Gross Domestic Product	0.7%	-1.8%	-0.6%	-7.9%
Private Consumption	0.1%	-2.9%	-0.7%	-7.9%
Private Housing Investments	2.1%	-2.2%	-4.0%	-0.5%
Private Non-Resi. Fixed Investments	0.7%	-4.7%	1.7%	-4.7%
Public Investments	2.9%	0.6%	-0.5%	1.1%
Government Consumption	1.9%	0.3%	0.0%	-0.6%
Exports of Goods & Services	-1.6%	0.4%	-5.4%	-18.5%
(less) Imports of Goods & Services	-0.7%	-2.4%	-4.2%	-0.5%

Source: Compiled by MGSSI based on data from CAO



6.8% from the previous quarter in the non-manufacturing industry (excluding the financial and insurance sectors), which was greater than the 5.3% decline in the manufacturing industry. Furthermore, ordinary profit for both industries combined was down 29.7%, the lowest level since the second quarter of 2011.

Public investment was up 1.1% from the previous quarter, making it the only major demand item to show positive growth. In response to the COVID-19 pandemic, a supplementary budget of 25.7 trillion yen was passed in April, and a second supplementary budget of 31.9 trillion yen was passed in June. Subsidies designed to prevent company bankruptcies and maintain employment accounted for a large portion of these budgets. However, total long-term national and local government debt was expected to grow from 197% (initial budget) to 207% of the nominal GDP following the second supplementary budget.

As for the level of production activity in the second quarter, the Industrial Production Index was down 19.3% compared to the 2019 average, and the Service Industry (Tertiary Industry) Activity Index was down 12.7%. Voluntary refrainment on the part of the public from going out was expected to impact lifestyle and entertainment-related services, but production also dropped significantly in the manufacturing industry, including automobile production, which fell almost by half from 2.42 million units in the same period of the previous year to 1.26 million units. Production activity bottomed out in May. By July, the Industrial Production Index had recovered to -13.9% of the 2019 average, and the Service Industry Activity Index to -9.2%. The averages of forecasts by private economists regarding real GDP growth compiled by an ESP forecast survey (September 2020) indicate that real GDP will fall 5.8% year on year in 2020 and will rise 2.2% year on year in 2021. Positive year-on-year growth is expected to continue from the third quarter of 2020 to the first quarter of 2022, the final quarter of the forecast period. A second wave of COVID-19 cannot be ruled out, but for now, the worst appears to be over, and the economy has begun to recover.

## Selected Economic Indicators

	Fiscal Year		2019		2020	
	2018	2019	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
GDP at current prices (SAAR, Trillion Yen)	548.1	552.5	557.8	549.7	547.2	505.4
Real GDP at 2011 prices (SA, q/q%)	0.3%	0.0%	0.0%	-1.8%	-0.6%	-7.9%
Industrial Production Index (SA, 2015=100)	103.8	99.9	101.7	98.0	98.4	81.8
Exports (SA, Trillion Yen)	80.7	75.9	19.3	18.5	17.9	15.1
Imports (SA, Trillion Yen)	82.3	77.2	19.7	19.0	18.0	16.9
Balance on Current Account (SA, Trillion Yen)	19.5	19.7	4.7	5.3	4.9	2.1
Corporate Bankruptcies	8,111	8,631	2,182	2,211	2,164	1,837
Unemployment Rate (SA, %)	2.4%	2.3%	2.3%	2.3%	2.4%	2.8%
Wage Index (SA, 2015=100)	102.3	102.3	102.0	102.7	101.9	100.5
Consumer Prices (y/y%)	0.7%	0.5%	0.3%	0.5%	0.5%	0.1%
Nikkei Stock Average	21,995	21,890	21,265	23,042	21,809	20,785
Japanese Government Bond Yields (%)	0.06	-0.10	-0.20	-0.09	-0.03	0.01
Foreign Exchange Rate (Yen/ Dollar)	110.9	108.7	107.3	108.7	108.8	107.6

Note: SAAR means Seasonally Adjusted Annual Rate. SA means Seasonally Adjusted.

q/q% means %change from a quarter earlier. y/y% means %change from a year earlier.

Source: Compiled by MGSSI based on data from CAO, METI, MOF, Tokyo Shoko Research, MIC, MHLW, Nihon Keizai Shimbun, CEIC, BOJ

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