



MGSSI Japan Economic Quarterly

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Positive Growth for the Second Consecutive Quarter

In the fourth quarter of 2020, Japan's real GDP grew an annualized 11.7%, which is a 2.8% increase from the previous quarter, marking a second consecutive quarter of positive growth. However, real GDP was still 1.4% below the level in the fourth quarter of 2019, before the global COVID-19 pandemic began.

Private consumption (all GDP demand components are in real terms unless otherwise specified) increased by 2.2% from the previous quarter. Consumption of services such as restaurants grew similarly by 2.8%, while the purchase of durable goods such as automobiles rose by 1.3%. However, consumption of semi-durable goods such as clothing and household products decreased for the fifth consecutive quarter. Moreover, direct purchasing by non-resident households in Japan, which is the amount of consumption by foreigners visiting Japan, remained at a low level of about 10% of the 2019 average, staying almost unchanged from the previous quarter.

Exports of goods and services grew 11.1% quarter-on-quarter, and the increase in automobile-related exports continued. Meanwhile, imports increased by 4.0% from the previous quarter, of which imports of mobile phones rose. Although the ratio of imports to real GDP increased compared to the previous quarter, it was still only 17.4%, the second lowest level in the past six years.



	Real Gross Domestic Product (GDP)			
	at 2015 Price, Calendar year			
	2020	2020		
	y/y%	4-6	7-9	10-12
		q/q%	q/q%	q/q%
Real Gross Domestic Product	-4.8%	-8.3%	5.3%	2.8%
Private Consumption	-5.9%	-8.4%	5.1%	2.2%
Private Housing Investments	-7.1%	0.5%	-5.7%	0.0%
Private Non-Resi. Fixed Investments	-5.9%	-5.9%	-2.4%	4.3%
Public Investments	3.6%	2.2%	0.9%	1.5%
Government Consumption	2.7%	0.2%	2.9%	1.8%
Exports of Goods & Services	-12.3%	-17.2%	7.4%	11.1%
(less) Imports of Goods & Services	-6.8%	1.3%	-8.2%	4.0%

Source: Compiled by MGSSI based on data from CAO

Private non-residential fixed investment were up 4.3% from the previous quarter, after two consecutive quarters of decline. Public investment similarly grew by 1.5%, marking the sixth consecutive quarter of expansion. Private housing investment remained almost flat and stagnant. By type, investment in machinery and equipment (excluding transportation equipment) saw a



fairly strong jump of 13.5% from the previous quarter, marking an upturn for the first time in five quarters.

Industrial production index for the fourth quarter of 2020 rose 6.4% from the previous quarter, while the service (tertiary) industry activity index also rose 2.7%, both moving upward for the second consecutive quarter. The overseas travel agency and air travel sectors have remained severely depressed, and no recovery is yet in sight. On the other hand, recovery in the fourth quarter in sectors such as accommodation, food and beverage services, and professional sports entertainment reached nearly 70% or more of the levels in the fourth quarter of 2019, before the global pandemic.

The current concern is the impact of Japan's state of emergency declared in early 2021. In January, the industrial production index rose 4.3% month-on-month, while the service industry activity index fell 1.7% over December. Considering that the industrial production and service industry activity indices fell 9.8% and 8.0% month-on-month, respectively, after the state of emergency was declared in April 2020, the impact of the January emergency on economic activity in Japan seems to have been relatively small. In fact, compared to the fourth quarter of 2019, restaurant sales decreased by 64% during the emergency period of April 2020, but only fell by 42% in January 2021.

According to the ESP forecast survey (March 2021), the average predicted real GDP growth for 2021 by forecasters from private institutes in Japan is a positive rate of 2.6%, year-on-year. For the first quarter of 2021, the predicted negative growth of 1.5% over the previous quarter (or -5.8% annualized) is understandable. However, this predicted rate of decline is smaller than the actual one for the second quarter of 2020, and growth is expected to turn positive after March.

Selected Economic Indicators	Fiscal Year		2020			
	2018	2019	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP at current prices (SAAR, Trillion Yen)	556.8	559.7	554.7	510.7	538.6	551.1
Real GDP at 2015 prices (SA, q/q%)	0.3%	-0.3%	-0.6%	-8.3%	5.3%	2.8%
Industrial Production Index (SA, 2015=100)	103.8	99.9	98.4	81.8	88.9	94.6
Exports (SA, Trillion Yen)	80.7	75.9	17.7	15.1	16.9	18.2
Imports (SA, Trillion Yen)	82.3	77.2	17.9	16.9	15.9	16.7
Balance on Current Account (SA, Trillion Yen)	19.6	20.1	4.8	2.2	4.1	6.3
Corporate Bankruptcies	8,111	8,631	2,164	1,837	2,021	1,751
Unemployment Rate (SA, %)	2.4%	2.3%	2.4%	2.7%	3.0%	3.0%
Wage Index (SA, 2015=100)	102.3	102.3	102.0	100.5	100.9	100.6
Consumer Prices (y/y%)	0.7%	0.5%	0.5%	0.1%	0.2%	-0.8%
Nikkei Stock Average	21,995	21,890	21,809	20,785	22,906	25,194
Japanese Government Bond Yields (%)	0.06	-0.10	-0.03	0.01	0.03	0.03
Foreign Exchange Rate (Yen/ Dollar)	110.9	108.7	108.8	107.6	106.2	104.5

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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