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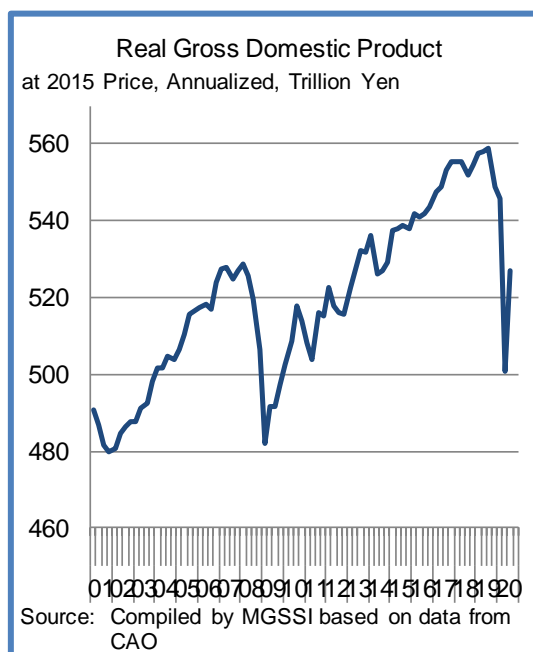
Positive Growth Restored

Japan's real GDP in the third quarter of 2020 was up 5.3% (22.9% annualized) from the previous quarter. This was the first positive growth in the four quarters since the third quarter of 2019, just before the consumption tax hike.

Private consumption (all subsequent references to GDP demand items are in real terms unless otherwise indicated) was up 5.1% from the previous quarter. Out of this, spending on services such as restaurants, entertainment, and lodging was up 7.3% from the previous quarter. However, this equated to an 8.4% drop compared to the level of spending on services in the fourth quarter of 2019, prior to the COVID-19 pandemic. Spending on durable goods was up 2.5% from the previous quarter with a recovery in new car sales. This is still 1.0% less than the fourth quarter of 2019, but the slump is smaller compared to spending on services. Direct purchases in Japan by non-residents, corresponding to the amount of spending by international tourists, were up slightly compared to the second quarter but remained at a low level of around 10% of the 2019 average.

Exports of goods and services were also up 7.0% from the previous quarter. The recovery in automobiles contributed to this. On the other hand, imports were down 8.8% from the previous quarter. Due to low fuel demand for automobiles and aircraft, crude oil imports remained sluggish. The ratio of imports to real GDP was 17.1%, returning to the level it had been since the first quarter of 2013 after peaking at 19.7% in the second quarter.

Public investment was up 0.5% from the previous quarter. It has been on a gentle upward trend since 2019 and has been at the highest level since the second quarter of 2006 for two consecutive quarters. In response to the COVID-19 pandemic, a supplementary budget of 25.7 trillion yen was



Real Gross Domestic Product (GDP)				
at 2015 Price, Calendar year				
	2019	2020		
	y/y%	1-3 q/q%	4-6 q/q%	7-9 q/q%
Real Gross Domestic Product	0.3%	-0.5%	-8.3%	5.3%
Private Consumption	-0.3%	-0.6%	-8.3%	5.1%
Private Housing Investments	3.9%	-3.7%	0.5%	-5.8%
Private Non-Resi. Fixed Investments	0.1%	1.4%	-5.7%	-2.4%
Public Investments	1.3%	-0.0%	1.9%	0.5%
Government Consumption	1.9%	-0.3%	0.3%	2.8%
Exports of Goods & Services	-1.4%	-5.3%	-17.1%	7.0%
(less) Imports of Goods & Services	-0.4%	-3.1%	1.4%	-8.8%

Source: Compiled by MGSSI based on data from CAO



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. Additionally, the Go to Travel campaign launched in July is expected to have given a major boost to spending on services such as lodging and restaurants.

Meanwhile, private non-residential fixed investment continued to decline for the second consecutive quarter, down 2.4%. Investment in buildings and structures was up slightly, but investment in machinery and equipment, including transport machinery, dropped further, hitting the lowest level since the second quarter of 2013.

Private housing investment was down a somewhat significant 5.8% from the previous quarter. While this is due to the number of new housing starts declining for five straight quarters up to the second quarter, in the third quarter, it rose 2.6% over the previous quarter.

The Industrial Production Index was up 8.7% in the third quarter from the previous quarter while the Service Industry (Tertiary Industry) Activity Index was up 6.0%. There is no question that the level of economic activity has recovered compared to the second quarter, which was heavily impacted by the COVID-19 pandemic. The averages of forecasts by private economists regarding real GDP growth compiled by an ESP forecast survey (November 2020) indicate that real GDP growth in 2020 will be a negative 5.4% on average compared to the previous year and that it will be a positive 2.4% in 2021. The real GDP level will not return to what it was in the fourth quarter of 2019 prior to the COVID-19 pandemic until 2022. It will still take some time for there to be a real sense of growth.

Selected Economic Indicators	Fiscal Year		2019		2020	
	2018	2019	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep
GDP at current prices (SAAR, Trillion Yen)	556.8	559.7	557.4	554.8	511.0	539.0
Real GDP at 2015 prices (SA, q/q%)	0.3%	-0.3%	-1.9%	-0.5%	-8.3%	5.3%
Industrial Production Index (SA, 2015=100)	103.8	99.9	98.0	98.4	81.8	88.9
Exports (SA, Trillion Yen)	80.7	75.9	18.3	17.9	15.3	16.8
Imports (SA, Trillion Yen)	82.3	77.2	18.9	17.9	17.0	15.9
Balance on Current Account (SA, Trillion Yen)	19.6	20.1	5.4	5.0	2.0	4.0
Corporate Bankruptcies	8,111	8,631	2,211	2,164	1,837	2,021
Unemployment Rate (SA, %)	2.4%	2.3%	2.3%	2.4%	2.8%	3.0%
Wage Index (SA, 2015=100)	102.3	102.3	102.7	101.7	100.5	100.7
Consumer Prices (y/y%)	0.7%	0.5%	0.5%	0.5%	0.1%	0.2%
Nikkei Stock Average	21,995	21,890	23,042	21,809	20,785	22,906
Japanese Government Bond Yields (%)	0.06	-0.10	-0.09	-0.03	0.01	0.03
Foreign Exchange Rate (Yen/ Dollar)	110.9	108.7	108.7	108.8	107.6	106.2

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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