



MGSSI Japan Economic Quarterly

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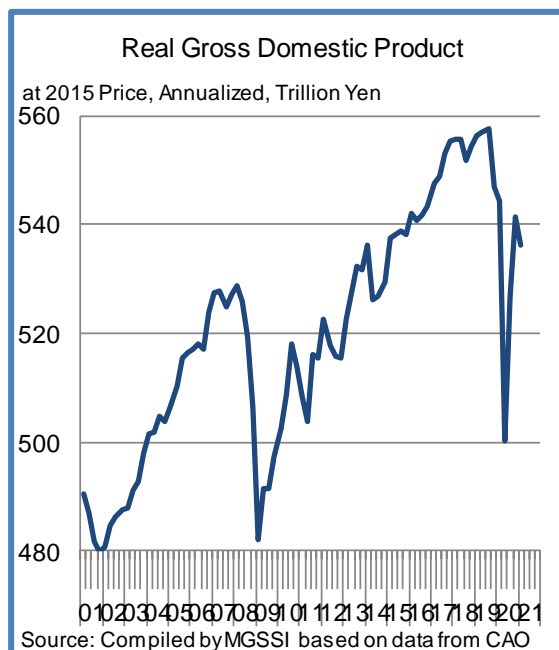
Negative Growth Returns

Japan's real GDP in the first quarter of 2021 was down 1.0% (3.9% annualized) from the previous quarter, the first negative growth in three quarters.

Private consumption (all subsequent references to GDP demand components are in real terms unless otherwise indicated) was down 1.5% from the previous quarter. In response to a resurgence of COVID-19 infections, emergency measures were implemented in Tokyo, Osaka, Fukuoka, and other areas. This was the main factor behind the 2.9% decrease in spending on services, including restaurants, from the previous quarter. On the other hand, while small, spending on goods, primarily non-durable goods, increased 0.3% from the previous quarter and reached the highest level since the fourth quarter of 2019 following the consumption tax hike.

Private non-residential fixed investment was down 1.2%

from the previous quarter. According to the Financial Statements Statistics of Corporations, the most remarkable decreases in nominal investments were in the transportation equipment and real estate sectors. On the other hand, ordinary profits in the manufacturing industry have recovered to the highest level since the second quarter of 2018, while those in non-manufacturing industries (excluding financial) have risen to a level unseen since the fourth quarter of 2019. As such, capital investments are also likely to recover. In



	Real Gross Domestic Product (GDP)			
	at 2015 Price, Calendar year			
	2020	2020		2021
	y/y%	7-9	10-12	1-3
		q/q%	q/q%	q/q%
Real Gross Domestic Product	-4.7%	5.3%	2.8%	-1.0%
Private Consumption	-5.9%	5.1%	2.2%	-1.5%
Private Housing Investments	-7.1%	-5.7%	0.0%	1.2%
Private Non-Resi. Fixed Investments	-6.0%	-2.1%	4.3%	-1.2%
Public Investments	3.6%	0.8%	1.3%	-0.5%
Government Consumption	2.7%	2.9%	1.8%	-1.1%
Exports of Goods & Services	-11.7%	7.3%	11.7%	2.2%
(less) Imports of Goods & Services	-7.3%	-8.2%	4.8%	3.9%

Source: Compiled by MGSSI based on data from CAO

addition, public investments were down 0.5%, roughly flat but a decline after a six-quarter streak of increases. In 2021 Japan's central government plans a year-on-year decrease of around 3% in investment spendings according to its budgets. Given this, it is difficult to envision a further increase in public investments.

Exports of goods and services were up 2.2% from the previous quarter, while imports were up



3.9%. Because the increase in imports exceeded that of exports, the contribution of net exports worked to push the real GDP growth rate down 0.2% points. As for goods alone, exports have increased for three consecutive quarters to the record high level achieved in the second quarter of 2018 by 2%. On the other hand, imports have also increased for two consecutive quarters but are still 7% lower than the record high level of the fourth quarter of 2018. Nominal imports of goods were up 11.3% from the previous quarter, reflecting the rise in prices of natural resources such as energy and metals.

Private housing investments remained low but were up 1.2% from the previous quarter. Although the slump has continued since the consumption tax hike in October 2019, there are signs of a recovery in the number of housing starts, and the risk of a further decrease is diminishing.

The industrial production index was up 2.9% from the previous quarter in the first quarter, while the service industry (tertiary industry) index was down 0.7%. Compared to the second quarter of 2020, when the impact of COVID-19 was significant, the two indexes remained at high levels of 18.5% and 8.1%, respectively. Notably, indexes for restaurants, lodging, and theme parks were also higher than in the second quarter, but lower than in the third quarter of 2020. In addition, some overseas travel-related industries remained in a substantial slump. There has been no significant change in the averages of forecasts by private economists for real GDP growth in 2021. According to the ESP Forecast survey (June 2021), the forecast for growth is 2.4% compared to the previous year. After the previous state of emergency was lifted on March 21, another was declared on April 25 due to the resurgence of COVID-19. This will inevitably have an impact, but it is expected that as vaccination spreads, so will economic recovery.

Selected Economic Indicators

	Fiscal Year		2020			2021
	2019	2020	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP at current prices (SAAR, Trillion Yen)	558.3	536.3	510.1	538.4	551.6	544.4
Real GDP at 2015 prices (SA, q/q%)	-0.5%	-4.6%	-8.1%	5.3%	2.8%	-1.0%
Industrial Production Index (SA, 2015=100)	99.9	90.4	81.5	88.8	93.9	96.6
Exports (SA, Trillion Yen)	75.9	69.5	14.4	16.8	18.8	19.5
Imports (SA, Trillion Yen)	77.2	68.2	16.8	16.0	16.8	18.6
Balance on Current Account (SA, Trillion Yen)	18.9	18.2	2.2	4.1	6.4	5.1
Corporate Bankruptcies	8,631	7,163	1,837	2,021	1,751	1,554
Unemployment Rate (SA, %)	2.3%	2.9%	2.7%	3.0%	3.0%	2.8%
Wage Index (SA, 2015=100)	102.3	100.8	100.5	100.9	100.6	101.6
Consumer Prices (y/y%)	0.5%	-0.2%	0.1%	0.2%	-0.8%	-0.4%
Nikkei Stock Average	21,890	24,459	20,785	22,906	25,194	29,002
Japanese Government Bond Yields (%)	-0.10	0.04	0.01	0.03	0.03	0.08
Foreign Exchange Rate (Yen/ Dollar)	108.7	106.1	107.6	106.2	104.5	106.1

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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