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Positive Growth Despite Spread of COVID-19

Japan's real GDP in the second quarter was up 0.5% (1.9% annualized) from the previous quarter, barely avoiding two consecutive quarters of negative growth.

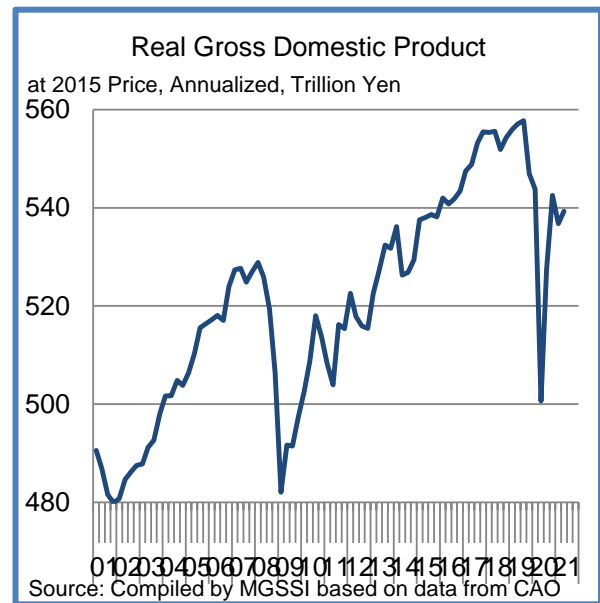
Despite concern about the impact of COVID-19, private consumption (all subsequent references to GDP demand items are in real terms unless otherwise indicated) was up 0.9% from the previous quarter. Spending on goods, especially on durables, increased 0.1% from the previous quarter, marking four consecutive quarters of growth. It remained at the highest level since the fourth quarter of 2019 immediately following the consumption tax hike. Service consumption was also up 1.6% from the previous quarter. A major slump was avoided except in certain categories such as izakaya (Japanese pubs), domestic travel, and movie theaters.

Private housing investments were up 2.1% from the previous quarter, maintaining a three consecutive quarter recovery. Although they remain at a low level, the number of housing starts was 875,000 on an annualized basis, recovering to the level it was at in the third quarter of 2019. It is expected to continue increasing gradually.

Private non-residential fixed investment was up 2.3% from the previous quarter. According to the Financial Statements Statistics of Corporations, nominal investments increased in both the manufacturing and non-manufacturing (excluding financial) industries. However, it varies by sector. Transportation equipment

(manufacturing industry) and real estate (non-manufacturing industry) in particular remain in a major slump. According to a survey by the Bank of Japan, investment appetite is not necessarily low among companies, so capital expenditure is expected to increase gradually.

Public investments were down 1.7% from the previous quarter, the lowest level since the first quarter of 2020. Although the



	Real Gross Domestic Product (GDP)				
	at 2015 Price, Calendar year				
	2020	2020		2021	
	y/y%	10-12	1-3	4-6	
		q/q%	q/q%	q/q%	q/q%
Real Gross Domestic Product	-4.6%	2.8%	-1.1%	0.5%	
Private Consumption	-5.8%	2.3%	-1.3%	0.9%	
Private Housing Investments	-7.1%	0.0%	1.0%	2.1%	
Private Non-Resi. Fixed Investments	-6.0%	4.3%	-1.3%	2.3%	
Public Investments	3.6%	0.9%	-1.1%	-1.7%	
Government Consumption	2.8%	1.9%	-1.7%	1.3%	
Exports of Goods & Services	-11.7%	11.7%	2.4%	2.8%	
(less) Imports of Goods & Services	-7.3%	4.8%	4.0%	5.0%	

Source: Compiled by MGSSI based on data from CAO



contract amount for public works orders has been recovering for two consecutive quarters, it has not reached the level it was at a year earlier. According to the budget of Japan's central government, its investment expenditures are planned to decrease around 3% year on year in 2021. As such, although the decline may stop, it is difficult to envision a further increase in public investments.

Exports of goods and services were up 2.8% from the previous quarter. Particularly exports of goods, led by machinery, have been on the rise for four consecutive quarters, reaching a record high above that of the second quarter of 2018. Meanwhile, imports were up 5.0% from the previous quarter. There was a significant increase in imports of services as well as chemical products and electric equipment. Because the increase in imports exceeded that of exports, the contribution of net exports worked to push the real GDP growth rate down 0.3 percentage points. The recovery of the global economy is likely to provide a boost to exports of goods, but the number of foreign tourists to Japan is unlikely to increase, so exports of services, particularly those related to tourism, are expected to remain stagnant. On the other hand, imports are already at their highest level ever as a percentage of GDP, so a further increase is difficult to envision.

The Industrial Production Index was up 1.1% from the previous quarter in the second quarter, marking the fourth consecutive quarter of recovery, while the Service Industry (Tertiary Industry) Index was down 0.5%, remaining stagnant for the second consecutive quarter. The Tokyo Olympics and Paralympics opened in July, but because of the spread of COVID-19, the boost to economic activity was limited. According to the ESP forecast survey (September 2021), there has been no significant change in the averages of forecasts by private economists for real GDP growth rates. Positive growth will continue in the third quarter, which will be up 0.3% (1.4% annualized) from the previous quarter, and for the full year, positive growth of 2.3% year on year is expected.

Selected Economic Indicators	Fiscal Year		2020		2021	
	2019	2020	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
GDP at current prices (SAAR, Trillion Yen)	558.3	536.6	538.6	551.2	545.2	544.4
Real GDP at 2015 prices (SA, q/q%)	-0.5%	-4.4%	5.4%	2.8%	-1.1%	0.5%
Industrial Production Index (SA, 2015=100)	99.9	90.4	88.8	93.9	96.6	97.7
Exports (SA, Trillion Yen)	75.9	69.5	16.7	18.8	19.6	20.8
Imports (SA, Trillion Yen)	77.2	68.2	15.9	16.8	18.7	20.7
Balance on Current Account (SA, Trillion Yen)	18.9	18.3	4.1	6.4	5.1	5.2
Corporate Bankruptcies	8,631	7,163	2,021	1,751	1,554	1,490
Unemployment Rate (SA, %)	2.3%	2.9%	3.0%	3.0%	2.8%	2.9%
Wage Index (SA, 2015=100)	102.3	100.8	100.9	100.6	101.6	101.6
Consumer Prices (y/y%)	0.5%	-0.2%	0.0%	-0.9%	-0.5%	-0.7%
Nikkei Stock Average	21,890	24,459	22,906	25,194	29,002	28,984
Japanese Government Bond Yields (%)	-0.10	0.04	0.03	0.03	0.08	0.08
Foreign Exchange Rate (Yen/ Dollar)	108.7	106.1	106.2	104.5	106.1	109.5

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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