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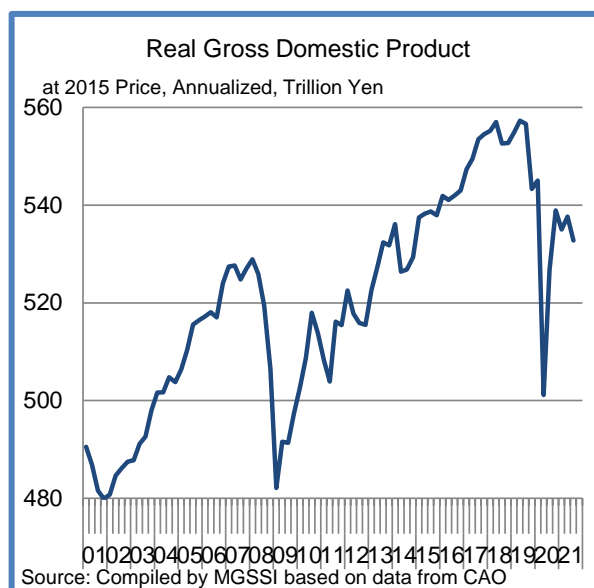
Decline in Automobile Production Has Ripple Effect

Japan's real GDP in the third quarter was down 0.9% (3.6% annualized) from the previous quarter. The spread of COVID-19 in Southeast Asia and the semiconductor shortage created difficulties in procuring parts for manufacturing, and the impact of the decline in automobile production in particular was significant.

Private consumption (all subsequent references to GDP demand items are in real terms unless otherwise indicated) was down 1.3% from the previous quarter. Spending on durables such as automobiles and mobile phones was down a substantial 16.3% from the previous quarter. Meanwhile, the 0.2% decrease in spending on services was relatively minor.

Private non-residential fixed investments were down 2.3% from the previous quarter, breaking a three-quarter streak of increases. According to the Financial Statements Statistics of Corporations, although there were differences depending on the industry, there was a substantial decrease in nominal investments in the construction industry, which had increased significantly in the second quarter, and the wholesale industry. However, according to a survey by the Bank of Japan, there were no significant changes in investment appetite among companies, and the total amount of nominal investments planned in fiscal 2021 was up 8.4% from the previous fiscal year as of December.

Similarly, private housing investments were down 1.6%, breaking a three-quarter streak of increases.



However, the number of housing starts was 876,000 on an annualized basis, up for the third consecutive quarter, while condominium starts were sluggish. Housing investments have already recovered from the slump caused by the consumption tax hike in October 2019 and the COVID-19 pandemic, and are expected to slowly increase.

Public investments were down 2.0% from the previous quarter. According to the budget of Japan's central

	Real Gross Domestic Product (GDP)			
	at 2015 Price, Calendar year			
	2020	2021		
	y/y%	1-3 q/q%	4-6 q/q%	7-9 q/q%
Real Gross Domestic Product	-4.5%	-0.7%	0.5%	-0.9%
Private Consumption	-5.3%	-1.1%	0.6%	-1.3%
Private Housing Investments	-7.9%	0.9%	1.0%	-1.6%
Private Non-Resi. Fixed Investments	-6.5%	0.4%	2.0%	-2.3%
Public Investments	3.9%	-1.5%	-2.6%	-2.0%
Government Consumption	2.3%	-0.6%	0.7%	1.0%
Exports of Goods & Services	-11.8%	2.3%	2.5%	-0.9%
(less) Imports of Goods & Services	-7.2%	3.2%	3.9%	-1.0%

Source: Compiled by MGSSI based on data from CAO



government, its investment expenditures are planned to decrease around 3% year on year in 2021. Though around 3 trillion yen were added in the supplementary budget, for the time being, it is unlikely that there will be a significant increase in public investments even after three consecutive quarters of decreases.

Exports of goods and services were down 0.9% from the previous quarter, primarily due to the decline in automobile exports. However, the overall level of exports of goods was the fourth highest ever, following the second quarter of this year, when exports reached a record high, as well as the second and fourth quarters of 2018. Thanks to the recovery of the global economy, there is likely to be an uptick in exports. On the other hand, imports were down 1.0% from the previous quarter, partly due to sluggish performance of mobile phones. However, nominal imports of goods were up 5.9% from the previous quarter, mainly reflecting the rising prices of energy and other resources. In addition, the nominal trade balance on a customs basis was a deficit of 964.7 billion yen, which, excluding the second quarter of 2020 when COVID-19 hit, was the largest since the fourth quarter of 2014.

The Industrial Production Index was down 3.7% from the previous quarter in the third quarter, a somewhat substantial decline, while the Service Industry (Tertiary Industry) Activity Index was also down 0.8%, marking the third consecutive quarter of decline. Automobile production was down around 20% compared to the second quarter. However, in the fourth quarter, production in the manufacturing industry should be boosted by the ease of the constraints on supply, while activity in the service industry should also be supported by the end of the state of emergency on October 1. According to the ESP forecast survey (December 2021), the average forecast of the real GDP growth rate among private economists predicts a return to positive growth of 1.6% in the fourth quarter (6.4% annualized), which would have 2021 up 1.7% from the previous year. Positive growth of 3.2% is also expected in 2022.

Selected Economic Indicators	Fiscal Year		2020		2021	
	2019	2020	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep
GDP at current prices (SAAR, Trillion Yen)	557.3	535.5	547.6	543.5	543.8	538.2
Real GDP at 2015 prices (SA, q/q%)	-0.7%	-4.5%	2.3%	-0.7%	0.5%	-0.9%
Industrial Production Index (SA, 2015=100)	99.9	90.4	93.9	96.6	97.7	94.1
Exports (SA, Trillion Yen)	75.9	69.5	18.8	19.7	20.7	20.8
Imports (SA, Trillion Yen)	77.2	68.2	16.8	18.7	20.8	21.7
Balance on Current Account (SA, Trillion Yen)	18.7	16.3	5.9	4.6	4.7	2.9
Corporate Bankruptcies	8,631	7,163	1,751	1,554	1,490	1,447
Unemployment Rate (SA, %)	2.3%	2.9%	3.0%	2.8%	2.9%	2.8%
Wage Index (SA, 2015=100)	102.3	100.8	100.6	101.6	101.6	101.4
Consumer Prices (y/y%)	0.5%	-0.2%	-0.9%	-0.5%	-0.7%	-0.2%
Nikkei Stock Average	21,890	24,459	25,194	29,002	28,984	28,554
Japanese Government Bond Yields (%)	-0.10	0.04	0.03	0.08	0.08	0.03
Foreign Exchange Rate (Yen/ Dollar)	108.7	106.1	104.5	106.1	109.5	110.1

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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