



# MGSSI Japan Economic Quarterly

March 2022

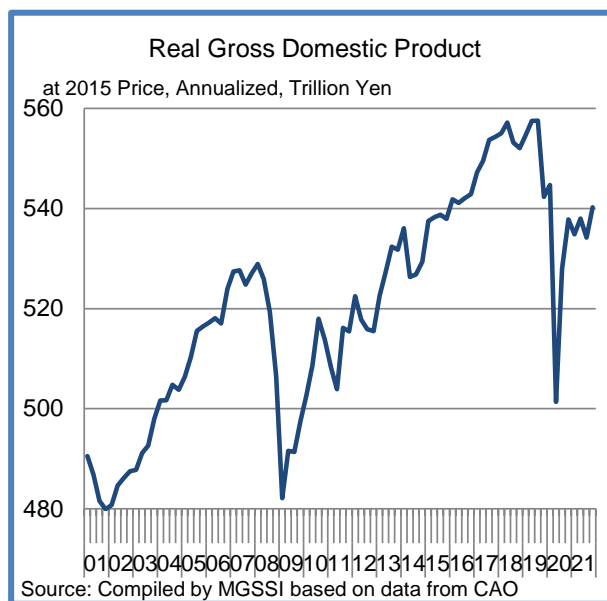
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## Impact of COVID-19 Temporarily Eases

Japan's real GDP growth rate in the fourth quarter of 2021 was 1.1% compared to the previous quarter (4.6% annualized). Although the level is still low, activity recovered in the living and amusement-related services industry following the lifting of the state of emergency with respect to COVID-19 on October 1.

Private consumption (all subsequent references to GDP demand items are in real terms unless otherwise indicated) was up 2.4% from the previous quarter. Not only did consumption of services recover with a 3.1% increase from the previous quarter but so did consumption of goods, primarily durable goods such as automobiles, with a 1.6% increase. Nevertheless, concerns remain over the spread of the Omicron variant, which emerged in January.



Exports of goods and services were also up 0.9% from the previous quarter, driven by industrial machinery. On the other hand, imports, especially pharmaceuticals, were down 0.4% from the previous quarter as COVID-19 vaccine imports tapered off for a time. For this reason, foreign demand worked to push the real GDP growth rate up 0.2 percentage points. However, crude oil and other energy prices continued to rise, driving nominal value of imports up. As such, there was a 1.3 trillion yen deficit in the nominal trade balance of goods on a customs basis, with imports exceeding exports for the third quarter in a row. There is a high likelihood that this trade deficit will continue as international commodity prices soar.

	Real Gross Domestic Product (GDP)			
	at 2015 Price, Calendar year			
	2021	2021		
	y/y%	4-6	7-9	10-12
		q/q%	q/q%	q/q%
Real Gross Domestic Product	1.6%	0.6%	-0.7%	1.1%
Private Consumption	1.3%	0.7%	-1.0%	2.4%
Private Housing Investments	-1.9%	1.0%	-1.6%	-1.0%
Private Non-Resi. Fixed Investments	-0.7%	2.0%	-2.4%	0.3%
Public Investments	-3.7%	-3.4%	-3.0%	-3.8%
Government Consumption	2.1%	0.7%	1.1%	-0.4%
Exports of Goods & Services	11.6%	3.1%	-0.3%	0.9%
(less) Imports of Goods & Services	5.2%	3.8%	-1.0%	-0.4%

Source: Compiled by MGSSI based on data from CAO

Private non-residential fixed investments, which had been down, were up 0.3% from the previous quarter. According to the Financial Statements Statistics of Corporations, this was largely due to an increase in nominal investments in various machinery-related sectors in the manufacturing industry, as well as retail, real estate, and construction sectors in the non-manufacturing industry. Increases are expected to continue against a



backdrop of strong investment appetite among corporations.

Private housing investments were down 1.0% from the previous quarter. This marked the second quarter in a row of decreases, bringing them down to the lowest level since the fourth quarter of 2010. Although the number of new housing starts has already recovered from the decline caused by the consumption tax hike in October 2019 and the COVID-19 pandemic, the impact of the sharp rise in building material prices has been significant and will likely continue to hold the recovery down.

Public investments were down 3.8% from the previous quarter. This marked the fourth consecutive quarter of decreases, bringing them down to the lowest level since the third quarter of 2015. The national government's supplementary budget, which was established in December 2021, increased spending for investment by nearly 3 trillion yen, but as with residential investment, this has been impacted by rising material prices. Investment spending in the central government's fiscal 2022 budget is at the same level as the initial budget for fiscal 2021. A significant increase in public investment is unlikely for the time being.

Due primarily to the increase in import prices, consumer prices were up 0.5% over the corresponding period of a year earlier in the fourth quarter of 2021. While small, this was the first increase since the third quarter of 2020. In particular, the price of goods was up 2.8% over the corresponding period of a year earlier, the highest rate since the third quarter of 2008 when excluding the period following the consumption tax hike. The spread of the Omicron variant in January will likely curb spending appetite of households. According to the ESP forecast survey (March), the average forecast of the real GDP growth rate among private economists predicts a return to a slightly negative growth rate of 0.1% (0.2% annualized) in the first quarter of 2022. After that, however, it is expected to bounce back to positive growth, putting 2022 up 2.2% from the previous year.

Selected Economic Indicators	Fiscal Year		2021			
	2019	2020	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
GDP at current prices (SAAR, Trillion Yen)	557.3	535.5	543.6	544.7	538.9	540.7
Real GDP at 2015 prices (SA, q/q%)	-0.7%	-4.5%	-0.5%	0.6%	-0.7%	1.1%
Industrial Production Index (SA, 2015=100)	99.9	90.4	96.6	97.7	94.1	95.0
Exports (SA, Trillion Yen)	75.9	69.5	19.6	20.7	20.9	21.8
Imports (SA, Trillion Yen)	77.2	68.5	18.8	20.9	21.8	23.1
Balance on Current Account (SA, Trillion Yen)	18.7	16.3	5.0	4.5	2.9	2.9
Corporate Bankruptcies	8,631	7,163	1,554	1,490	1,447	1,539
Unemployment Rate (SA, %)	2.3%	2.9%	2.9%	2.9%	2.8%	2.7%
Wage Index (SA, 2015=100)	102.3	100.8	101.6	101.6	101.4	100.8
Consumer Prices (y/y%)	0.5%	-0.2%	-0.5%	-0.7%	-0.2%	0.5%
Nikkei Stock Average	21,890	24,459	29,002	28,984	28,554	28,810
Japanese Government Bond Yields (%)	-0.10	0.04	0.08	0.08	0.03	0.08
Foreign Exchange Rate (Yen/ Dollar)	108.7	106.1	106.1	109.5	110.1	113.7

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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