

Economy contracts significantly due to social distancing during the state of emergency

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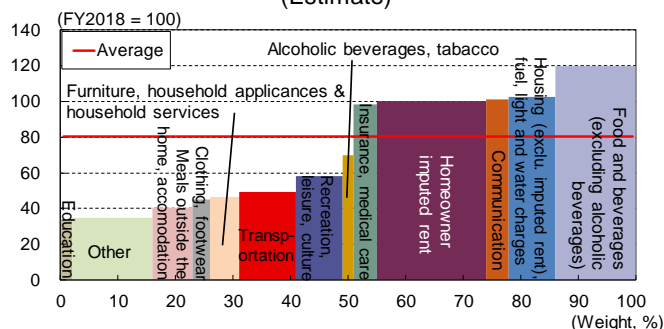
1. The Real Economy

Due to the spread of COVID-19 in Japan, the government declared a state of emergency on 7th April in 7 prefectures where the spread of infection was particularly serious and there were fears that the medical system would collapse. On 16th April, the government then expanded the scope of the state of emergency to all prefectures and designated 13 prefectures as requiring “special precautionary measures”, including the 7 prefectures where the state of emergency was first imposed. Japan’s economic activities have been restricted by these special precautionary measures as the proportion of Japan’s population living in these 13 prefectures is 61% and they account for 64% of private consumption. The extent of the restrictions differs by prefecture since the decision to request residents stay at home and businesses limit their hours has been down to each local authority. Private consumption (including homeowner imputed rent) is estimated to fall to around 80% of normal as ordinary consumption and going outside is limited to the minimum required based on the premise of “reducing contact with other people by 80%”, which is thought necessary to prevent the spread of infection (Chart 1). Overseas, the contraction of consumption activities due to the COVID-19 pandemic can already be seen in statistics for the most part. In the US, even retail sales in March, which were not affected by the pandemic for the entire month, fell by 8.7% month-on-month: a larger decrease than any recorded during the global financial crisis. In China too, retail sales fell considerably by 19.0% YoY in the January-March quarter.

Such a fall in global private consumption will naturally also have an impact on capital expenditure, production and trade, yet a particular concern is the impact from a decline in foreign demand on Japan’s exports. Amid a sharp contraction in the global economy, exports fell by 11.7% YoY in March, decreasing at a faster pace and shifting to a completely opposite trend from the one of recovery it had been following during the latter half of 2019 (Chart 2). Although exports have not yet reached their lowest point recorded during the global financial crisis, the current slowing of overseas economies and the downturn in exports is reminiscent of the first stage of worsening during the global financial crisis. Looking ahead, in light of the restrictions on economic activities in Europe and the US which began in earnest from March, exports will inevitably fall further. The Japanese economy finds itself in an extremely unusual

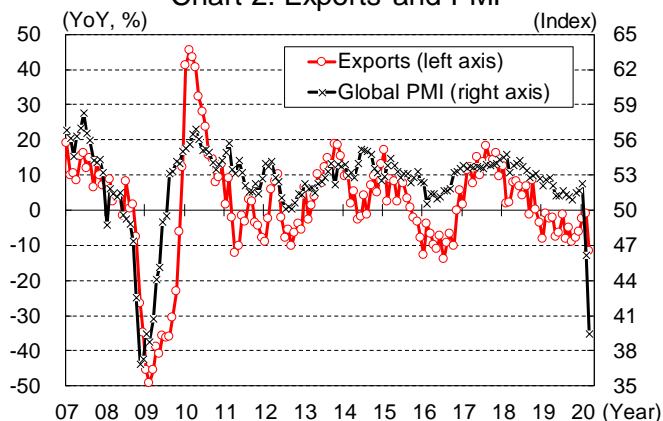
situation historically and its recovery will be determined by how quickly the number of cases is reduced during an extremely challenging period in terms of foreign and domestic demand.

Chart 1: Private Consumption after "Social Distancing" (Estimate)



Note: Y axis is the level of consumption by commodity during the "social distancing" period (calculated by Economic Research Office based on consumption per commodity in the Family Income and Expenditure Survey)
X axis is the weight of each commodity compared with real GDP in FY2018
Source: Cabinet Office, Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

Chart 2: Exports and PMI



Source: Ministry of Finance, Bloomberg, MUFG Bank Economic Research Office

2. Prices and Financial Markets

2.1 Monetary Policy

On the 27th April, the Bank of Japan (BoJ) decided to enhance its monetary easing. Given that the Japanese economy "has been in an increasingly severe situation due to the impact of the novel coronavirus (COVID-19)" and that financial conditions "have been less accommodative in terms of corporate financing, as seen in the deterioration in firms' financial positions", the BoJ decided to increase its purchase of CP and corporate bonds, strengthen its Funds-Supplying Operations to Facilitate Financing in Response to COVID-19, and to further its active purchases of Japanese government bonds. When it comes to supporting lending to the private sector in particular, the scale of the BoJ's policies are usually more modest compared to those of the Federal Reserve Board and the European Central Bank; however, it is thought the policy this time has been expanded to compare favourably with the size of the economy for the most part. From now, the BoJ is swiftly considering additional measures to supply funding to further support the financing of mainly small and medium-sized firms, the details of which have not yet been determined.

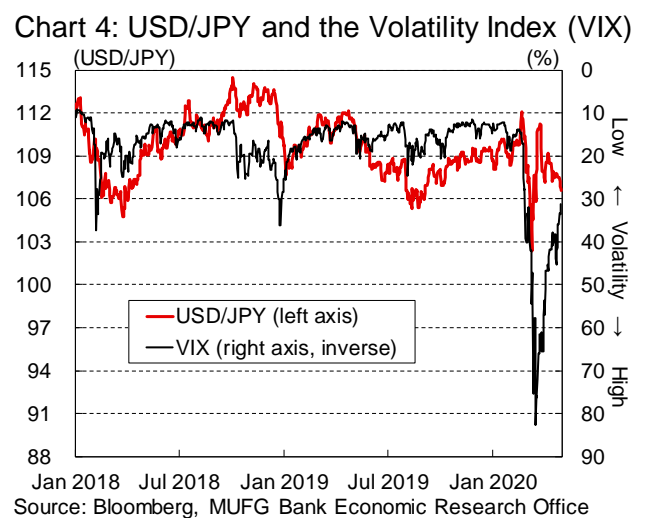
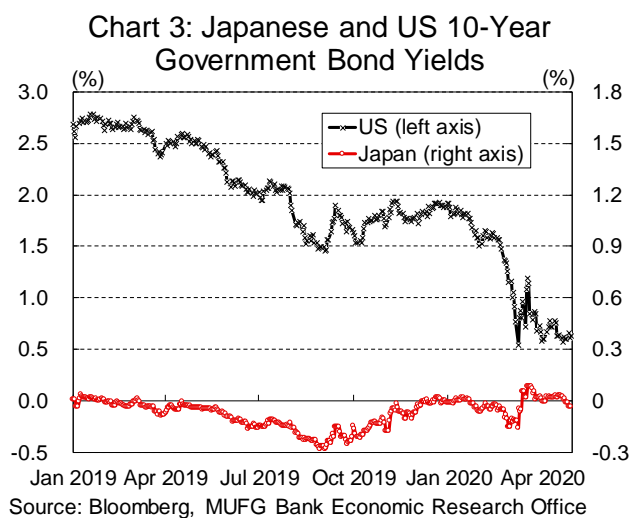
Looking ahead, Governor Kuroda said the outlook for the real GDP growth rate and prices will be lowered significantly as "uncertainty is extremely high", and the momentum toward achieving higher prices "has been lost for now". Nevertheless, the BoJ will continue to aim for their price stability target of 2% and it appears the Bank will maintain its easy monetary policy for a long period.

2.2 Financial Markets

The bond market experienced a sale of bonds – even government bonds – for a short time in mid-March due to a preference for liquidity in spite of the prevailing risk-off sentiment. As central banks continue with their large-scale monetary easing, excessive uneasiness about

liquidity has eased, the US 10-year government bond yield is now at an historical low and Japan's 10-year government bond yield is trading at around 0% (Chart 3). It seems unlikely there will be a large upward shift in government bond yields while central banks maintain or enhance their current monetary easing until the economic activities of their respective countries recover.

The USD-JPY exchange rate is around JPY106~108 at present (Chart 4). There was large-scale JPY buying when volatility rose due to the COVID-19 pandemic, but it is now slowly returning to a stable level. Demand for the USD is high as the spread of infection has still not stopped, which appears to be keeping upward pressure on the JPY in check. However, it is important to continue to bear in mind the risk of JPY appreciation as the gap between Japanese and US interest rates (US less Japan) is smaller than before and it is possible the JPY may become a safe haven for those avoiding risk.



(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Apr. 28, 2020

	Fiscal	Fiscal	2019			2019		2020		
	2017	2018	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from previous period at SA annual rate>	1.9	0.3	2.3 (0.9)	0.1 (1.7)	-7.1 (-0.7)	***	***	***	***	***
Index of All Industries Activity	1.8	0.9	0.1 (-0.6)	0.4 (1.3)	-3.2 (-2.8)	0.6 (-2.6)	0.1 (-1.4)	0.6 (-1.8)	-0.6 (-2.1)	
Industrial Production Index	2.9	0.3	0.0 (-2.2)	-1.1 (-1.1)	-3.6 (-6.8)	-0.6 (-8.5)	0.2 (-3.7)	1.9 (-2.4)	-0.3 (-5.7)	
Production										
Shipments	2.2	0.2	-0.2 (-2.6)	-0.1 (-0.2)	-3.9 (-6.5)	-1.4 (-8.0)	0.2 (-3.8)	0.9 (-3.3)	1.0 (-5.4)	
Inventory	5.1	0.2	1.0 (3.0)	-1.1 (0.9)	0.7 (1.2)	-0.5 (1.5)	0.4 (1.2)	2.1 (3.6)	-1.7 (1.6)	
Inventory/Shipments Ratio (2015=100)	101.9	105.0	107.3 [104.0]	109.3 [105.0]	114.6 [105.6]	115.0 [104.5]	115.6 [107.2]	115.2 [105.4]	112.5 [105.5]	106.7
Domestic Corporate Goods Price Index	2.7	2.2	0.4 (0.6)	-0.6 (-0.9)	1.2 (0.3)	0.1 (0.2)	0.1 (0.9)	0.1 (1.5)	-0.4 (0.8)	-0.9 (-0.4)
Consumer Price Index(SA, total, excl.fresh foods)	0.7	0.8	0.4 (0.8)	-0.1 (0.5)	0.5 (0.6)	0.1 (0.5)	0.1 (0.7)	0.1 (0.8)	-0.1 (0.6)	-0.1 (0.4)
Index of Capacity Utilization (2015=100)	102.7	102.5	102.1 [103.3]	100.2 [101.9]	95.6 [104.7]	95.6 [105.0]	94.9 [104.2]	97.4 [101.3]	95.6 [102.0]	101.5
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.8	2.8	7.8 (4.1)	-4.7 (-2.7)	-1.8 (-1.5)	11.9 (5.3)	-11.9 (-3.5)	2.9 (-0.3)	2.3 (-2.4)	
Manufacturing	9.2	3.8	2.3 (-8.5)	-3.5 (-10.2)	-2.8 (-10.2)	-1.2 (-12.8)	2.4 (-2.7)	4.6 (0.1)	-1.7 (-7.0)	
Non-manufacturing Excl.Electric Power & Ship building	-7.8	2.1	14.3 (15.9)	-9.3 (3.6)	3.6 (6.2)	18.4 (22.5)	-18.8 (-4.5)	-1.7 (-0.6)	5.0 (1.1)	
Shipments of Capital Goods (Excl.Transport Equipment)	7.0	-0.2	1.7 (-6.2)	1.4 (-0.7)	-7.0 (-9.5)	-6.5 (-15.9)	9.2 (0.6)	-1.5 (0.3)	1.0 (-5.7)	
Construction Orders	0.7	6.5								
Private	0.6	14.5								
Public	-5.4	-15.0								
Public Works Contracts	-4.3	1.1								
Housing Starts 10,000 units at Annual Rate, SA	94.6	95.3	92.5	90.6	86.5	84.8	85.2	81.3	87.1	
Total floor	(-2.8)	(0.7)	(-4.7)	(-5.4)	(-9.3)	(-12.7)	(-7.9)	(-10.1)	(-12.3)	
Sales at Retailers	1.9	1.6								
Real Consumption Expenditures of Households over 2 persons (SA)	0.3	0.0	0.6 (3.3)	2.5 (4.1)	-6.5 (-2.9)	3.2 (-1.4)	-1.2 (-3.3)	-1.6 (-3.9)	0.8 (-0.3)	
Propensity to Consume (SA, %)	71.7	69.2	67.5 [68.8]	72.5 [70.6]	64.6 [68.6]	67.6 [70.7]	63.2 [66.7]	64.7 [70.3]	66.7 [69.9]	69.5
Overtime Hours Worked (All Industries, 5 employees or more)	0.4	-1.7	0.4 (-2.4)	-0.8 (-1.0)	-1.8 (-2.4)	-1.5 (-2.7)	-2.1 (-2.7)	1.8 (-1.9)	-0.2 (-3.8)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.7	0.9								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	99	1	86	100	107	110	102	95	94	
Ratio of Job Offers to Applicants (SA, Times)	1.54	1.62	1.62 [1.60]	1.59 [1.63]	1.57 [1.63]	1.57 [1.63]	1.57 [1.62]	1.49 [1.63]	1.45 [1.63]	1.39 [1.62]
Unemployment Rate (SA, %)	2.7	2.4	2.4	2.3	2.3	2.2	2.2	2.4	2.4	2.5
Economy Watcher Survey (Judgment of the present condition D.I.%)	50.5	47.8	44.5 [48.8]	43.8 [48.2]	38.5 [48.0]	38.8 [48.8]	39.7 [46.6]	41.9 [45.9]	27.4 [47.1]	14.2 [44.9]
Bankruptcies (Number of cases)	8,367 (-0.2)	8,110 (-3.1)	2,074 (-1.6)	2,182 (8.2)	2,211 (6.8)	727 (1.3)	704 (13.2)	773 (16.1)	651 (10.7)	740 (11.8)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of Apr. 28, 2020

	Fiscal	Fiscal	2019			2019		2020		
	2017	2018	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance (Exports in Yen Terms)	10.8	1.9	(-5.5)	(-5.0)	(-7.8)	(-7.9)	(-6.3)	(-2.6)	(-1.0)	(-11.7)
Value	5.5	2.5	(0.6)	(-2.8)	(-4.2)	(-3.1)	(-4.6)	(-1.0)	(1.4)	(-0.6)
Volumes	5.0	-0.6	(-6.1)	(-2.3)	(-3.8)	(-5.0)	(-1.9)	(-1.6)	(-2.4)	(-11.2)
Imports (In Yen terms)	13.7	7.2	(-0.1)	(-4.9)	(-11.9)	(-15.6)	(-4.8)	(-3.6)	(-13.9)	(-5.0)
Value	8.9	5.7	(-0.0)	(-7.0)	(-7.8)	(-8.2)	(-6.0)	(-1.9)	(4.2)	(-2.5)
Volumes	4.4	1.4	(-0.1)	(2.3)	(-4.5)	(-8.1)	(1.2)	(-1.7)	(-17.3)	(-2.5)
Current Account (100 mil. yen)	223,998	194,848	45,456	57,155	37,483	14,206	5,094	6,123	31,688	
Goods (100 mil. yen)	45,338	6,341	-444	-665	2,743	-200	702	-9,851	13,666	
Services (100 mil. yen)	-4,941	-9,342	-1,392	-1,933	1,455	1,769	567	-1,627	-1,366	
Financial Account (100 mil. yen)	208,176	213,154	66,535	65,424	22,347	4,756	9,957	10,556	26,036	
Gold & Foreign Exchange Reserves (\$1mil.)	1,268,287	1,291,813	1,322,279	1,322,581	1,323,750	1,317,322	1,323,750	1,342,267	1,359,036	1,366,177
Exchange Rate (¥/\$)	110.80	110.88	109.85	107.30	108.72	108.86	109.18	109.34	109.96	107.29

3. Financial Market Indicators

	Fiscal	Fiscal	2019			2019		2020				
	2017	2018	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR		
Uncollateralized Overnight Call Rates	-0.050	-0.062	-0.060	-0.059	-0.034	-0.043	-0.038	-0.032	-0.016	-0.047		
			[-0.065]	[-0.063]	[-0.066]	[-0.070]	[-0.068]	[-0.064]	[-0.055]	-0.044		
Euro Yen TIBOR (3 Months)	0.065	0.062	0.049	0.022	0.016	0.018	0.021	0.021	0.021	0.006		
			[0.084]	[0.077]	[0.050]	[0.050]	[0.050]	[0.030]	[0.030]	[0.050]		
Newly Issued Japanese Government Bonds Yields (10 Years)	0.045	-0.095	-0.165	-0.215	-0.025	-0.080	-0.025	-0.065	-0.155	0.005		
			[0.030]	[0.125]	[-0.010]	[0.085]	[-0.010]	[0.000]	-0.015	[-0.095]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.817	0.751	0.749	0.738	0.729	0.737	0.729	0.727	0.726			
			(-0.002)	(-0.011)	(-0.009)	(-0.004)	(-0.008)	(-0.002)	(-0.001)			
The Nikkei Stock Average (TSE 225 Issues)	21,454	21,206	21,276	21,756	23,657	23,294	23,657	23,205	21,143	18,917		
			[22,305]	[24,120]	[20,015]	[22,351]	[20,015]	[20,773]	[21,385]	[21,206]		
M2(Average)	(3.7)	(2.7)	(2.5)	(2.4)	(2.6)	(2.7)	(2.7)	(2.8)	(3.0)	(3.3)		
Broadly-defined Liquidity(Average)	(3.1)	(1.9)	(1.8)	(1.7)	(2.3)	(2.4)	(2.6)	(2.8)	(2.8)	(2.7)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin		(2.8)	(2.2)	(2.4)	(2.1)	(2.0)	(2.1)	(1.8)	(1.9)	(2.1)	(2.0)
	Banks		(2.8)	(2.2)	(2.6)	(2.3)	(2.1)	(2.2)	(1.9)	(2.0)	(2.2)	(2.2)
	City Banks etc.		(2.0)	(1.0)	(2.4)	(2.2)	(1.9)	(2.2)	(1.6)	(2.1)	(2.0)	(2.0)
	Regional Banks		(3.6)	(4.3)	(5.1)	(4.3)	(4.3)	(4.3)	(4.2)	(4.3)	(4.3)	
	Regional Banks II		(3.0)	(-0.4)	(-6.6)	(-5.7)	(-5.7)	(-5.7)	(-5.5)	(-5.5)	(-5.3)	
	Shinkin		(2.7)	(2.1)	(1.4)	(1.1)	(1.0)	(1.0)	(0.9)	(1.0)	(1.0)	(1.0)
Deposits and CDs (Average)	Total(3 Business Condition)		(4.2)	(3.4)	(2.5)	(2.3)	(2.8)	(3.0)	(2.8)	(2.6)	(3.0)	(3.4)
	City Banks		(5.9)	(4.9)	(3.5)	(3.1)	(3.8)	(4.2)	(3.6)	(3.2)	(3.8)	(4.7)
	Regional Banks		(2.5)	(2.7)	(3.4)	(3.1)	(3.4)	(3.4)	(3.6)	(3.8)	(3.8)	(3.7)
	Regional Banks II		(2.1)	(-1.3)	(-6.2)	(-5.4)	(-5.4)	(-5.3)	(-5.3)	(-5.2)	(-5.0)	(-5.0)

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in () indicate % changes from previous year. [] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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