

Although consumption activities are slowly recovering, it is important to keep note of the slow pace

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1. The Real Economy

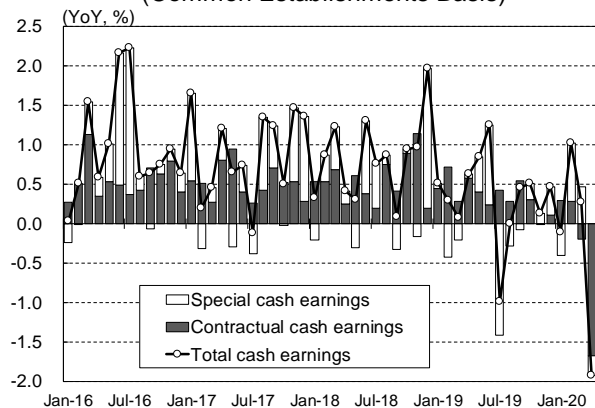
The state of emergency that was imposed in response to the spread of COVID-19 in Japan was lifted nationwide in late May and the request to refrain from travelling between prefectures and holding professional sports games was eased on 19th June. Although the limit on the number of people at events still remains, the re-starting of economic activities is progressing in stages. As a result, it appears consumption activities, which had been kept to a minimum due to businesses refraining from opening and citizens avoiding going outside, hit the bottom of its decline between April and May. However, it is important to bear in mind the possibility that consumption activities are some way from completely returning to normal.

While there is still no radical treatment or vaccine for COVID-19, the sense of caution over infection is predicted to continue for the time being on an individual level as well as a society-wide level and consumption will not completely return to its former pattern. Specifically, changes in individuals' patterns of movement, such as curbing the frequency of leaving the home and taking trips, and a decrease in customer footfall at commercial establishments due to social distancing and thorough measures to prevent infection mean it is highly likely that the rise in online consumption alone will not be able to cover the decline in overall consumption. It is thought that a vague sense of uncertainty about the future – more widespread than the direct trigger of concern caused by cases of infection – is also putting downward pressure on consumption.

In addition, there is also a need to pay close attention to the labour market and wages, which support private consumption. An examination of current income reveals that within “total cash earnings”, “contractual cash earnings” (includes basic pay and non-scheduled earnings) has started to decrease from March this year (Chart 1). Furthermore, there have been times in recent years where overall wages have been boosted by “special cash earnings”, but large corporations' bonuses for this summer (first-round tally) published by the Japan Business Federation (Keidanren) decreased significantly by 6.0% YoY. If incomes do fall, there is a possibility that the propensity to save will increase, which will slow the pace of recovery of private consumption. “Income growth” – a category within the consumer confidence index – reveals a rise in anxiety about the future (Chart 2). Although it appears the worst period is

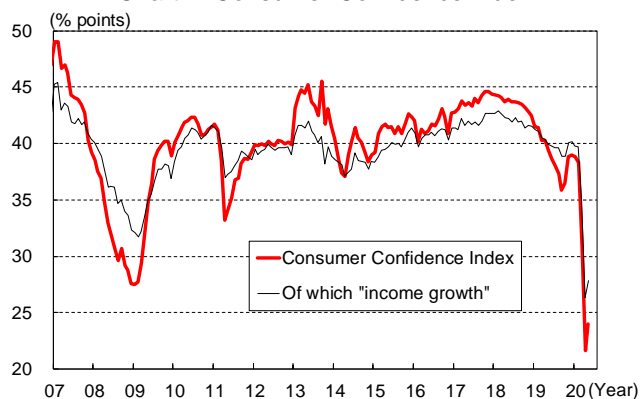
behind Japan as it restarts its economic activities, it should be assumed that the difficult situation will continue in terms of private consumption.

Chart 1: Total Cash Earnings
(Common Establishments Basis)



Source: Ministry of Health, Labour and Welfare, MUFG Bank Economic Research Office

Chart 2: Consumer Confidence Index



Note: "Income Growth" is a survey of consumer perception about whether growth of household income will accelerate or slow over the next 6 months

Source: Cabinet Office, MUFG Bank Economic Research Office

2. Prices and Financial Markets

2.1 Monetary Policy

The Bank of Japan (BoJ) has carried out additional easing every month since March owing to the COVID-19 pandemic, but it decided to maintain its current policy at its Monetary Policy Meeting held on the 15th and 16th June. In response to COVID-19, the BoJ has introduced asset purchasing and support for financing as policies which are generally comparable on an economic scale with those of central banks in Europe and the US. Currently, there does not appear to be any feeling that the BoJ's framework is tight.

At the press conference following the meeting, Governor Kuroda said: "there is a strong sense of uncertainty and board members are in agreement that we won't hesitate to take additional easing measures if the situation calls for it". It seems that the BoJ will continue to maintain its easy monetary policy in the future.

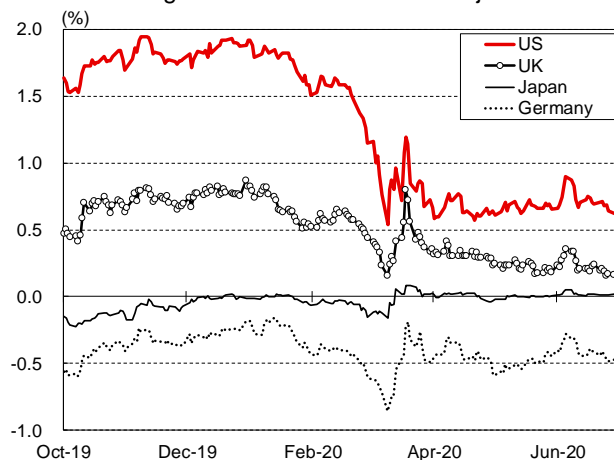
2.2 Financial Markets

In early June, the bond market experienced a temporary sale of government bonds owing to expectations of a recovery of the global economy. In Japan, however, it appears there was a hunt for yield during this period of rising interest rates as well as a trend of acquiring government bonds as collateral, which meant that the extent of the rise in long-term interest rates was limited compared with other countries (Chart 3). Turning to the future, a large quantity of government bonds is scheduled to be issued, which includes the funding for the two supplementary budgets for this fiscal year (just under JPY 100 trillion's worth of bonds more than after the supplementary budget for last fiscal year), yet the BoJ already removed its upper limit for Japanese government bond purchases at its Monetary Policy Meeting in April and it is very probable that a rise in interest rates caused by increased bond issuance will be avoided, with the exception of some temporary rises. In addition, while it seems central banks in many

countries will either maintain or strengthen their current monetary easing, it is unlikely that this will develop into an upward shift in the yield of other countries' government bonds and that this will affect the yield of Japanese government bonds.

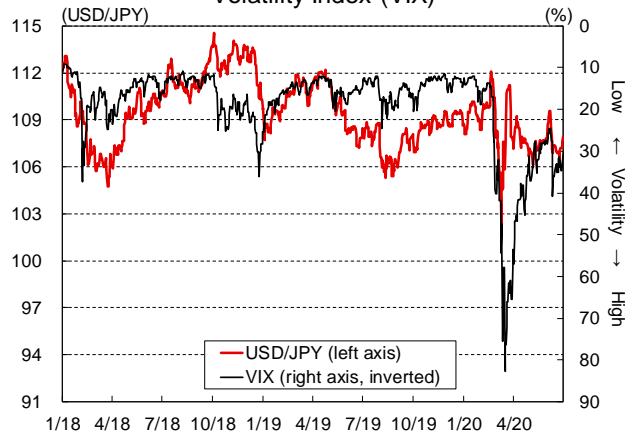
The USD-JPY exchange rate has been trading between JPY105 and JPY110 per USD since the start of June (Chart 4). Volatility rose momentarily in early June, but there was no sharp JPY appreciation like that which occurred in March. During a period of strong uncertainty about the future owing to another increase in COVID-19 cases in countries around the world, it is necessary to keep an eye on the risk that the JPY will be bought in order to avoid risk. That being said, it is very likely that large-scale JPY buying would be temporary and would remain at a low level as the difference between US and Japanese interest rates (US less Japan) is growing smaller and is not predicted to increase significantly for the time being.

Chart 3: Long-Term Interest Rates in Major Countries



Source: Bloomberg, MUFG Bank Economic Research Office

Chart 4: USD/JPY Exchange Rate and Volatility Index (VIX)



Source: Bloomberg, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of June. 30, 2020

	Fiscal	Fiscal	2019		2020	2020				
	2018	2019	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.3	0.0	0.0 (1.7)	-7.2 (-0.7)	-2.2 (-1.7)	***	***	***	***	***
Index of All Industries Activity	0.9	-1.2	0.4 (1.3)	-3.2 (-2.8)	-0.7 (-3.2)	0.6 (-1.8)	-0.7 (-2.3)	-3.4 (-5.1)	-6.4 (-11.8)	
Industrial Production Index	0.3	-3.8	-1.1 (-1.1)	-3.6 (-6.8)	0.4 (-4.5)	1.9 (-2.4)	-0.3 (-5.7)	-3.7 (-5.2)	-9.8 (-15.0)	-8.4 (-25.9)
Production										
Shipments	0.2	-3.6	-0.1 (-0.2)	-3.9 (-6.5)	-0.6 (-5.2)	0.9 (-3.3)	1.0 (-5.4)	-5.8 (-6.5)	-9.5 (-16.6)	-8.4 (-26.5)
Inventory	0.2	2.9	-1.1 (0.9)	0.7 (1.2)	2.3 (2.9)	2.1 (3.6)	-1.7 (1.6)	1.9 (2.9)	-0.3 (2.7)	-2.5 (-0.4)
Inventory/Shipments Ratio (2015=100)	105.0	112.3	109.3 [105.0]	114.6 [105.6]	116.5 [105.9]	115.2 [105.4]	112.5 [105.5]	121.9 [106.7]	138.5 [105.6]	148.1 [107.0]
Domestic Corporate Goods Price Index	2.2	0.2	-0.6 (-0.9)	1.2 (0.3)	-0.4 (0.6)	0.1 (1.5)	-0.4 (0.8)	-0.9 (-0.4)	-1.6 (-2.4)	-0.4 (-2.7)
Consumer Price Index(SA, total, excl.fresh foods)	0.8	0.6	-0.1 (0.5)	0.5 (0.6)	-0.2 (0.6)	0.1 (0.8)	-0.1 (0.6)	-0.1 (0.4)	-0.5 (-0.2)	0.0 (-0.2)
Index of Capacity Utilization (2015=100)	102.5	98.3	100.2 [101.9]	95.6 [104.7]	95.1 [101.6]	97.4 [101.3]	95.6 [102.0]	92.2 [101.5]	79.9 [101.8]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	2.8	-0.3	-4.7 (-2.7)	-1.8 (-1.5)	-0.7 (-1.0)	2.9 (-0.3)	2.3 (-2.4)	-0.4 (-0.7)	-12.0 (-17.7)	
Manufacturing	3.8	-8.1	-3.5 (-10.2)	-2.8 (-10.2)	1.8 (-3.4)	4.6 (0.1)	-1.7 (-7.0)	-8.2 (-3.2)	-2.6 (-15.0)	
Non-manufacturing Excl.Electric Power & Ship building	2.1	6.2	-9.3 (3.6)	3.6 (6.2)	-5.1 (0.6)	-1.7 (-0.6)	5.0 (1.1)	5.3 (0.9)	-20.2 (-19.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	-0.2	-5.5	1.4 (-0.7)	-7.0 (-9.5)	-0.4 (-5.7)	-1.5 (0.3)	1.0 (-5.7)	-9.1 (-9.3)	1.4 (-7.8)	-9.0 (-21.2)
Construction Orders	6.5	-5.9								
Private	14.5	-8.7								
Public	-15.0	-3.2								
Public Works Contracts	1.1	6.8								
Housing Starts 10,000 units at Annual Rate, SA	95.3 (0.7)	88.4 (-7.3)	90.6 (-5.4)	86.5 (-9.3)	86.3 (-10.0)	81.3 (-10.1)	87.1 (-12.3)	90.5 (-7.6)	79.7 (-12.9)	80.7 (-12.3)
Total floor	(1.0)	(-4.5)	(-0.3)	(-7.7)	(-10.1)	(-12.1)	(-10.9)	(-7.5)	(-12.4)	(-15.6)
Sales at Retailers	1.6	-0.4								
Real Consumption Expenditures of Households over 2 persons (SA)	0.0	-0.4	2.5 (4.1)	-5.2 (-2.9)	-2.3 (-3.5)	-1.6 (-3.9)	0.8 (-0.3)	-4.0 (-6.0)	-6.2 (-11.1)	
Propensity to Consume (SA, %)	69.2	66.9	71.8 [70.2]	65.5 [69.2]	64.8 [69.9]	64.7 [70.3]	66.7 [69.9]	63.0 [69.5]	60.7 [67.9]	69.7 [69.7]
Overtime Hours Worked (All Industries, 5 employees or more)	-1.7	-2.5	-0.8 (-1.0)	-1.8 (-2.4)	-1.9 (-4.1)	1.8 (-1.9)	-0.2 (-3.8)	-5.1 (-6.5)	-12.3 (-18.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.9	0.0								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	1	97	100	107	94	95	94	93	74	
Ratio of Job Offers to Applicants (SA, Times)	1.62	1.55	1.59 [1.63]	1.57 [1.63]	1.44 [1.63]	1.49 [1.63]	1.45 [1.63]	1.39 [1.62]	1.32 [1.63]	1.20 [1.62]
Unemployment Rate (SA, %)	2.4	2.4	2.3	2.3	2.4	2.4	2.4	2.5	2.6	2.9
Economy Watcher Survey (Judgment of the present condition D.I.%)	47.8	38.7	43.8 [48.2]	38.5 [48.0]	27.8 [46.0]	41.9 [45.9]	27.4 [47.1]	14.2 [44.9]	7.9 [45.3]	15.5 [44.2]
Bankruptcies (Number of cases)	8,110 (-3.1)	8,631 (6.4)	2,182 (8.2)	2,211 (6.8)	2,164 (12.9)	773 (16.1)	651 (10.7)	740 (11.8)	743 (15.2)	314 (-54.8)

(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 June. 30, 2020

	Fiscal	Fiscal	2019		2020	2020				
	2018	2019	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Customs Clearance (Exports in Yen Terms)	1.9	-6.0	(-5.0)	(-7.8)	(-5.5)	(-2.8)	(-1.0)	(-11.7)	(-21.9)	(-28.3)
Value	2.5	-1.7	(-2.8)	(-4.2)	(-0.0)	(-1.0)	(1.4)	(-0.6)	(-0.7)	(-1.4)
Volumes	-0.6	-4.4	(-2.3)	(-3.8)	(-5.5)	(-1.6)	(-2.4)	(-11.2)	(-21.3)	(-27.3)
Imports (In Yen terms)	7.2	-6.3	(-4.9)	(-11.9)	(-7.2)	(-3.8)	(-13.9)	(-5.0)	(-7.1)	(-26.2)
Value	5.7	-3.9	(-7.0)	(-7.8)	(-0.3)	(-1.9)	(4.2)	(-2.6)	(-8.4)	(-13.6)
Volumes	1.4	-2.4	(2.3)	(-4.5)	(-7.0)	(-1.7)	(-17.3)	(-2.5)	(1.5)	(-14.5)
Current Account (100 mil. yen)	194,848	197,615	57,155	37,483	57,521	6,123	31,688	19,710	2,627	
Goods (100 mil. yen)	6,341	6,478	-665	2,743	4,845	-9,851	13,666	1,031	-9,665	
Services (100 mil. yen)	-9,342	-4,142	-1,933	1,455	-2,272	-1,627	-1,366	720	-6,302	
Financial Account (100 mil. yen)	213,154	222,993	65,424	22,347	68,688	10,556	26,036	32,096	-9,490	
Gold & Foreign Exchange Reserves (\$1mil.)	1,291,813	1,366,177	1,322,581	1,323,750	1,366,177	1,342,267	1,359,036	1,366,177	1,368,567	1,378,239
Exchange Rate (¥/\$)	110.88	108.68	107.30	108.72	108.86	109.34	109.96	107.29	107.93	107.31

3. Financial Market Indicators

	Fiscal	Fiscal	2019		2020	2020					
	2018	2019	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY	
Uncollateralized Overnight Call Rates	-0.062	-0.046	-0.059	-0.034	-0.032	-0.032	-0.016	-0.047	-0.036	-0.047	
			[-0.063]	[-0.066]	[-0.054]	[-0.064]	[-0.055]	[-0.044]	[-0.068]	-0.050	
Euro Yen TIBOR (3 Months)	0.062	0.026	0.022	0.016	0.016	0.021	0.021	0.006	-0.039	-0.042	
			[0.077]	[0.050]	[0.037]	[0.030]	[0.030]	[0.050]	[0.050]	[0.049]	
Newly Issued Japanese Government Bonds Yields (10 Years)	-0.095	0.005	-0.215	-0.025	0.005	-0.065	-0.155	0.005	-0.050	0.000	
			[0.125]	[-0.010]	[-0.095]	[0.000]	[-0.015]	[-0.095]	-0.045	[-0.095]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.751	0.720	0.738	0.729	0.720	0.727	0.726	0.720	0.693	0.674	
			(-0.011)	(-0.009)	(-0.009)	(-0.002)	(-0.001)	(-0.006)	(-0.027)	(-0.019)	
The Nikkei Stock Average (TSE 225 Issues)	21,206	18,917	21,756	23,657	18,917	23,205	21,143	18,917	20,194	21,878	
			[24,120]	[20,015]	[21,206]	[20,773]	[21,385]	[21,206]	[22,259]	[20,601]	
M2(Average)	(2.7)	(2.6)	(2.4)	(2.6)	(3.0)	(2.8)	(3.0)	(3.3)	(3.7)	(5.1)	
Broadly-defined Liquidity(Average)	(1.9)	(2.2)	(1.8)	(2.3)	(2.8)	(2.8)	(2.8)	(2.7)	(2.4)	(3.0)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.2)	(2.1)	(2.1)	(2.0)	(2.0)	(1.9)	(2.1)	(2.0)	(2.9)	(4.8)
	Banks	(2.2)	(2.3)	(2.3)	(2.1)	(2.1)	(2.0)	(2.2)	(2.2)	(3.1)	(5.1)
	City Banks etc.	(1.0)	(2.1)	(2.2)	(1.9)	(1.9)	(1.6)	(2.1)	(2.0)	(3.4)	(6.6)
	Regional Banks	(4.3)	(4.5)	(4.3)	(4.3)	(4.3)	(4.3)	(4.3)	(4.3)	(2.9)	(3.7)
	Regional Banks II	(-0.4)	(-5.9)	(-5.7)	(-5.7)	(-5.5)	(-5.5)	(-5.5)	(-5.4)	(3.3)	(4.1)
	Shinkin	(2.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.6)	(2.7)
Deposits and CDs (Average)	Total(3 Business Condition)	(3.4)	(2.6)	(2.3)	(2.8)	(3.0)	(2.6)	(3.0)	(3.4)	(4.2)	(6.2)
	City Banks	(4.9)	(3.6)	(3.1)	(3.8)	(3.9)	(3.2)	(3.8)	(4.7)	(5.9)	(8.2)
	Regional Banks	(2.7)	(3.4)	(3.1)	(3.4)	(3.7)	(3.8)	(3.8)	(3.7)	(2.5)	(4.0)
	Regional Banks II	(-1.3)	(-5.5)	(-5.4)	(-5.4)	(-5.1)	(-5.2)	(-5.0)	(-5.0)	(1.7)	(2.8)

(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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