

The Outlook for the Japanese Economy

Growth in FY2019 and FY2020 under downward pressure from impact of Covid 19

KAZUFUMI KESHI
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

9 APRIL 2020

(ORIGINAL JAPANESE VERSION RELEASED ON 3 APRIL 2020)

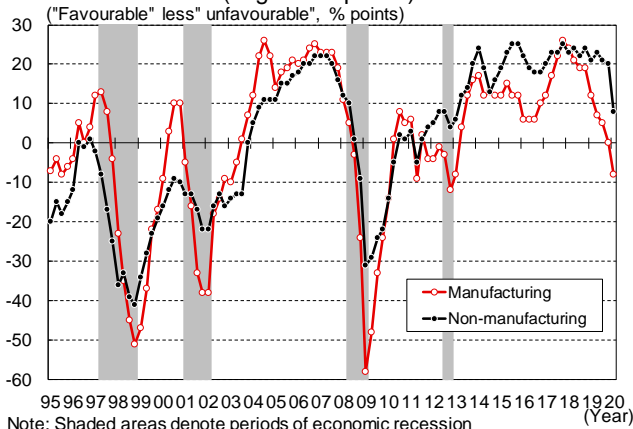
Following the large decrease in the real GDP growth rate in the October-December 2019 quarter (-7.1% QoQ annualised) owing to the consumption tax rate hike and typhoons, the Japanese economy was expected to recover from the January-March quarter onwards. However, any positive movements are being challenged by the appearance of impacts caused by the increase in Covid 19 infections. Business sentiment is deteriorating, including that of non-manufacturing enterprises, which had been relatively robust (Chart 1). The number of foreign visitors to Japan has also fallen significantly as of February (Chart 2). Currently, local authorities are requesting residents refrain from going out and a further worsening of the Japanese economy seems unavoidable.

At this point in time when the spread of infection is not stopping, it is extremely difficult to give a forecast for the future. However, based on the current state of the economy, it is highly likely that the real GDP growth rate in the January-March quarter will fall around another 4% annualised compared with the October-December quarter when growth turned negative due to the consumption tax rate hike and typhoons. In addition, even assuming “the infection will peak in the April-June quarter and will start to wind down after that”, the outlook for the April-June quarter is forecast to still be negative compared to the previous quarter due to a fall in service consumption and exports. It is more likely a clear upward trend in economic activity will take place in the summer and after. On a fiscal yearly basis, the severe situation will continue with real GDP growth falling 0.1% YoY and 0.5% YoY in FY2019 and FY2020 respectively (factoring in the postponement of the Tokyo Olympic and Paralympic Games but not the government’s economic policies mentioned below as their details have not yet been determined at this point in time). However, it is important to bear in mind that the forecast above may be revised downwards depending on the duration of the spread of infection and the pace of the recovery of economic activities even when the infection starts to wind down.

Meanwhile, the Bank of Japan is strengthening its monetary easing with USD funding, special funds-supplying operations to facilitate corporate financing and increased asset purchases of ETFs, corporate bonds and CPs. Furthermore, the government announced it will make full use of its FY2019 budget reserve funds to expand special measures on the Employment Adjustment Subsidies amongst other measures and suggested they will pass a policy that encompasses further large-scale economic measures from April. This policy is expected to

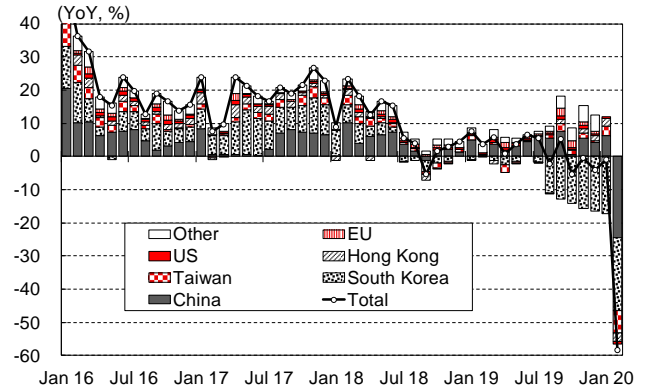
focus on minimising the deterioration across businesses' profits and financing, as well as the labour market and wages, although concrete details have yet to be finalised.

Chart 1: Business Conditions Diffusion Indices
(large enterprises)



Note: Shaded areas denote periods of economic recession
Source: Bank of Japan, MUFG Bank Economic Research Office

Chart 2: Number of Foreign Visitors to Japan



Note: Data for the "EU" has not been published since January. This is the same for "Other"
Source: Japan National Tourism Organization, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

	As of Mar. 31, 2020									
	Fiscal	Fiscal	2019			2019			2020	
	2017	2018	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
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	0.8	0.5 (0.2)	0.5 (1.3)	-3.1 (-2.8)	-4.8 (-3.9)	0.9 (-2.8)	-0.1 (-1.4)	0.8 (-1.4)	
Industrial Production Index	2.9	0.3	0.6 (-2.3)	-0.5 (-0.8)	-4.1 (-6.3)	-4.5 (-7.7)	-1.0 (-8.2)	1.2 (-3.1)	1.0 (-2.3)	0.4 (-4.7)
Production										
Shipments	2.2	0.2	1.0 (-2.7)	-0.1 (-0.1)	-4.9 (-6.1)	-4.5 (-7.3)	-1.7 (-7.7)	0.3 (-3.4)	0.6 (-3.3)	2.6 (-4.7)
Inventory	5.1	0.2	0.9 (3.0)	-1.7 (0.9)	1.3 (1.3)	1.3 (2.6)	-0.9 (1.6)	0.9 (1.3)	1.6 (3.9)	-2.0 (1.4)
Inventory/Shipments Ratio (2015=100)	101.9	105.0	106.9 [104.0]	108.8 [105.0]	115.4 [105.6]	113.4 [105.1]	115.9 [104.5]	116.8 [107.2]	114.9 [105.0]	112.0 [105.5]
Domestic Corporate Goods Price Index	2.7	2.2	0.4 (0.6)	-0.6 (-0.9)	1.2 (0.3)	1.2 (-0.3)	0.1 (0.2)	0.1 (0.9)	0.1 (1.5)	-0.4 (0.8)
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 (0.4)	0.1 (0.5)	0.1 (0.7)	0.1 (0.8)	-0.1 (0.6)
Index of Capacity Utilization (2015=100)	102.7	102.5	102.4 [103.3]	100.6 [101.9]	95.5 [104.7]	95.8 [104.8]	95.5 [105.0]	95.1 [104.2]	96.1 [100.0]	
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)	-3.2 (-6.1)	11.9 (5.3)	-11.9 (-3.5)	2.9 (-0.3)	
Manufacturing	9.2	3.8	2.3 (-8.5)	-3.5 (-10.2)	-2.8 (-10.2)	-0.8 (-15.0)	-1.2 (-12.8)	2.4 (-2.7)	4.6 (0.1)	
Non-manufacturing Excl.Electric Power & Ship building	-7.8	2.1	14.3 (15.9)	-9.3 (3.6)	3.6 (6.2)	-1.8 (2.9)	18.4 (22.5)	-18.8 (-4.5)	-1.7 (-0.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	7.0	-0.3	2.5 (-6.6)	2.9 (-0.3)	-6.2 (-8.1)	-11.9 (-12.0)	-6.1 (-14.5)	12.7 (1.9)	-5.2 (1.3)	0.7 (-4.5)
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 (-2.8)	95.3 (0.7)	92.5 (-4.7)	90.6 (-5.4)	86.5 (-9.3)	89.5 (-7.4)	84.8 (-12.7)	85.2 (-7.9)	81.3 (-10.1)	87.1 (-12.3)
Total floor										
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)	-10.3 (-4.0)	3.2 (-1.4)	-1.2 (-3.3)	-1.6 (-3.9)	
Propensity to Consume (SA, %)	71.7	69.2	67.5 [68.8]	72.5 [70.6]	64.6 [68.6]	65.8 [70.3]	67.6 [70.7]	63.2 [66.7]	64.7 [70.3]	[69.9]
Overtime Hours Worked (All Industries, 5 employees or more)	0.4	-1.7	1.0 (-2.4)	-1.2 (-1.0)	-1.5 (-2.4)	-0.2 (-1.8)	-1.5 (-2.7)	-2.1 (-2.7)	0.8 (-2.9)	
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	109	110	102	93	
Ratio of Job Offers to Applicants (SA, Times)	1.54	1.62	1.62 [1.60]	1.59 [1.63]	1.57 [1.63]	1.58 [1.63]	1.57 [1.63]	1.57 [1.62]	1.49 [1.63]	1.45 [1.63]
Unemployment Rate (SA, %)	2.7	2.4	2.4	2.3	2.3	2.4	2.2	2.2	2.4	2.4
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]	36.9 [48.7]	38.8 [48.8]	39.7 [46.6]	41.9 [45.9]	27.4 [47.1]
Bankruptcies (Number of cases)	8,367 (-0.2)	8,110 (-3.1)	2,074 (-1.6)	2,182 (8.2)	2,211 (6.8)	780 (6.8)	727 (1.3)	704 (13.2)	773 (16.1)	651 (10.7)

(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 Mar. 31, 2020									
	Fiscal	Fiscal	2019			2019			2020	
	2017	2018	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Customs Clearance (Exports in Yen Terms)	10.8	1.9	(-5.5)	(-5.0)	(-7.8)	(-9.2)	(-7.9)	(-6.3)	(-2.6)	(-1.0)
Value	5.5	2.5	(0.6)	(-2.8)	(-4.2)	(-5.0)	(-3.1)	(-4.6)	(-1.0)	(1.4)
Volumes	5.0	-0.6	(-6.1)	(-2.3)	(-3.8)	(-4.4)	(-5.0)	(-1.9)	(-1.6)	(-2.4)
Imports (In Yen terms)	13.7	7.2	(-0.1)	(-4.9)	(-11.9)	(-14.7)	(-15.6)	(-4.8)	(-3.6)	(-13.9)
Value	8.9	5.7	(-0.0)	(-7.0)	(-7.8)	(-9.2)	(-8.2)	(-6.0)	(-1.9)	(4.1)
Volumes	4.4	1.4	(-0.1)	(2.3)	(-4.5)	(-6.1)	(-8.1)	(1.2)	(-1.7)	(-17.3)
Current Account (100 mil. yen)	221,749	192,434	45,676	57,603	37,776	18,168	14,368	5,240	6,123	
Goods (100 mil. yen)	45,396	6,963	-16	-312	3,723	2,540	-25	1,207	-9,851	
Services (100 mil. yen)	-4,567	-7,123	-1,046	-1,637	879	-995	1,630	245	-1,627	
Financial Account (100 mil. yen)	206,805	212,310	65,220	67,091	27,019	8,799	5,728	12,492	10,556	
Gold & Foreign Exchange Reserves (\$1mil.)	1,268,287	1,291,813	1,322,279	1,322,581	1,323,750	1,324,468	1,317,322	1,323,750	1,342,267	1,359,036
Exchange Rate (¥/\$)	110.80	110.88	109.85	107.30	108.72	108.12	108.86	109.18	109.34	109.96

3. Financial Market Indicators

	Fiscal	Fiscal	2019			2019			2020		
	2017	2018	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB	
Uncollateralized Overnight Call Rates	-0.050	-0.062	-0.060	-0.059	-0.034	-0.022	-0.043	-0.038	-0.032	-0.016	
			[-0.065]	[-0.063]	[-0.066]	[-0.060]	[-0.070]	[-0.068]	[-0.064]	-0.055	
Euro Yen TIBOR (3 Months)	0.065	0.062	0.049	0.022	0.016	0.009	0.018	0.021	0.021	0.021	
			[0.084]	[0.077]	[0.050]	[0.050]	[0.050]	[0.050]	[0.030]	[0.030]	
Newly Issued Japanese Government Bonds Yields (10 Years)	0.045	-0.095	-0.165	-0.215	-0.025	-0.150	-0.080	-0.025	-0.065	-0.155	
			[0.030]	[0.125]	[-0.010]	[0.130]	[0.085]	[-0.010]	0.000	[-0.015]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.817	0.751	0.749	0.738	0.729	0.741	0.737	0.729	0.727		
			(-0.002)	(-0.011)	(-0.009)	(0.003)	(-0.004)	(-0.008)	(-0.002)		
The Nikkei Stock Average (TSE 225 Issues)	21,454	21,206	21,276	21,756	23,657	22,927	23,294	23,657	23,205	21,143	
			[22,305]	[24,120]	[20,015]	[21,920]	[22,351]	[20,015]	[20,773]	[21,385]	
M2(Average)	(3.7)	(2.7)	(2.5)	(2.4)	(2.6)	(2.4)	(2.7)	(2.7)	(2.8)	(3.0)	
Broadly-defined Liquidity(Average)	(3.1)	(1.9)	(1.8)	(1.7)	(2.3)	(1.9)	(2.4)	(2.6)	(2.7)	(2.7)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.8)	(2.2)	(2.4)	(2.1)	(2.0)	(2.0)	(2.1)	(1.8)	(1.9)	(2.1)
	Banks	(2.8)	(2.2)	(2.6)	(2.3)	(2.1)	(2.2)	(2.2)	(1.9)	(2.0)	(2.2)
	City Banks etc.	(2.0)	(1.0)	(2.4)	(2.2)	(1.9)	(2.0)	(2.2)	(1.6)	(1.6)	(2.1)
	Regional Banks	(3.6)	(4.3)	(5.1)	(4.3)	(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)	(-5.7)	(-5.7)	(-5.5)	(-5.5)
	Shinkin	(2.7)	(2.1)	(1.4)	(1.1)	(1.0)	(1.0)	(1.0)	(0.9)	(1.0)	(0.9)
Deposits and CDs (Average)	Total(3 Business Condition)	(4.2)	(3.4)	(2.5)	(2.3)	(2.8)	(2.6)	(3.0)	(2.8)	(2.6)	(3.0)
	City Banks	(5.9)	(4.9)	(3.5)	(3.1)	(3.8)	(3.6)	(4.2)	(3.6)	(3.2)	(3.8)
	Regional Banks	(2.5)	(2.7)	(3.4)	(3.1)	(3.4)	(3.2)	(3.4)	(3.6)	(3.8)	(3.8)
	Regional Banks II	(2.1)	(-1.3)	(-6.2)	(-5.4)	(-5.4)	(-5.5)	(-5.3)	(-5.3)	(-5.2)	(-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.

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Kazufumi Keshi < kazufumi_keshi@mufg.jp >

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.