

As the effects of COVID-19 continue, corporations must take bold steps to grow their businesses

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Ordinary profits of non-financial corporations (all sizes and industries) fell 28.4% YoY in the July-September quarter and although the decline was smaller than that of the previous quarter (-46.6% YoY), it marked the third consecutive quarter where profits fell significantly. This decline can be attributed to the fact that demand has not returned to its pre-COVID-19 levels while some public health measures introduced in response to COVID-19 remain in place and businesses and households' consumption and investment behaviour has not returned (or cannot return) to normal.

A close analysis of "ordinary profits" by corporations' capital size reveals a marked slump among those with a small amount of capital. Furthermore, the impact on employment from the decline in business results shows a large fall in the number of employees at the end of the quarter among corporations with capital of less than JPY 50 million (Chart 1). In order to limit the impact on business results from the deterioration in the business environment by even just a little, corporations appear to have reduced their personnel expenses, which account for the majority of their fixed expenses. However, current breakeven point ratios continue to rise at present, including those of small and medium-sized corporations, and it seems previous reductions in fixed expenses were not a deciding factor in improving business results (Chart 2). Under these circumstances, another measure corporations could take is to push forwards with employee optimisation and strengthen their resilience to decreases in revenue; however, among small and medium-sized corporations, there are many with a small number of employees and once demand starts to recover in the future, embarking on bold personnel adjustments will not be easy.

Looking ahead, in some industries, such as face-to-face services, it appears demand is not going to return to pre-COVID-19 levels any time soon and a recovery of corporations' business results and balance sheets, which have been negatively affected by the pandemic, will probably take longer than anticipated. Meanwhile, the government is developing policies which will contribute to solving Japan's long-term issues, such as its labour shortage and increasing productivity. For instance, contained in the economic package decided by cabinet this month was financial assistance for small and medium-sized corporations to shift to another industry and restructure their businesses. In addition, the outline for the tax revisions for the next financial year has been settled within the ruling party, including the tax system for M&As, capital expenditure and employment after retirement. As the country continues with its

monetary and fiscal policies on a macro level, it will be necessary for corporations to make use of such frameworks and to carry out reforms on a micro level to grow their businesses, such as raising productivity and strengthening competitiveness.

Chart 1: Ordinary Profits and Employees of Non-Financial Corporations in 2020 by Size of Capital

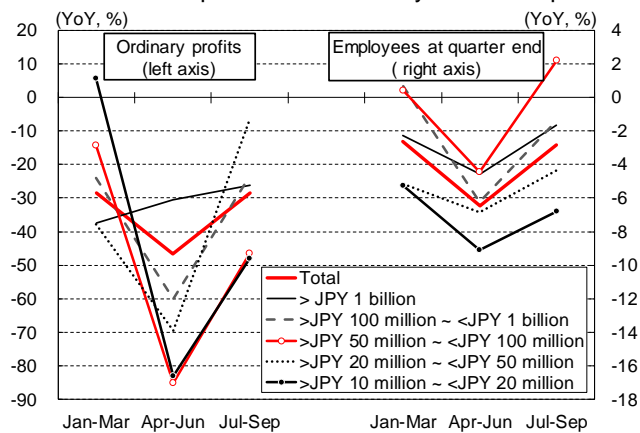
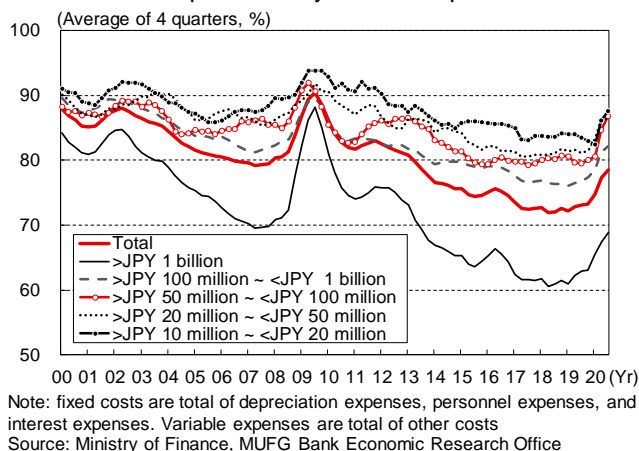


Chart 2: Breakeven Point Ratio of Non-Financial Corporations by Size of Capital



Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Dec. 25, 2020

	Fiscal	Fiscal	2020			2020				
	2018	2019	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.3	-0.3	-2.1 (-2.0)	-29.2 (-10.3)	22.9 (-5.7)	***	***	***	***	***
Industrial Production Index	0.3	-3.8	0.4 (-4.5)	-16.9 (-19.8)	8.7 (-12.8)	8.7 (-15.5)	1.0 (-13.8)	3.9 (-9.0)	4.0 (-3.0)	
Production										
Shipments	0.2	-3.6	-0.6 (-5.2)	-16.8 (-19.9)	9.1 (-13.5)	6.6 (-16.6)	1.5 (-14.2)	3.9 (-9.8)	4.9 (-3.0)	
Inventory	0.2	2.9	2.3 (2.9)	-5.3 (-3.4)	-3.3 (-5.7)	-1.5 (-4.8)	-1.3 (-5.9)	-0.5 (-5.7)	-1.8 (-8.1)	
Inventory/Shipments Ratio (2015=100)	105.0	112.3	116.5 [105.9]	141.7 [107.3]	122.2 [109.3]	125.7 [108.5]	123.2 [110.7]	117.8 [108.8]	113.9 [113.1]	[115.0]
Index of Tertiary Industries Activity	1.1	-0.7	-1.1 (-2.8)	-10.1 (-13.0)	6.2 (-8.6)	0.1 (-8.9)	0.8 (-8.5)	2.3 (-8.6)	1.0 (-1.9)	
Domestic Corporate Goods Price Index	2.2	0.1	-0.4 (0.5)	-2.4 (-2.3)	0.9 (-0.8)	0.6 (-0.9)	0.1 (-0.6)	-0.2 (-0.8)	-0.2 (-2.1)	0.0 (-2.2)
Consumer Price Index(SA, total, excl.fresh foods)	0.8	0.6	-0.2 (0.6)	-0.3 (-0.1)	-0.2 (-0.2)	0.1 (0.0)	-0.4 (-0.4)	0.1 (-0.3)	-0.2 (-0.7)	-0.1 (-0.9)
Index of Capacity Utilization (2015=100)	102.5	98.3	95.1 [101.6]	75.2 [102.1]	85.6 [100.2]	82.2 [101.8]	84.6 [99.3]	90.0 [99.5]	95.4 [96.3]	[95.6]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	2.8	-0.3	-0.7 (-1.0)	-12.9 (-19.1)	-0.1 (-14.1)	6.3 (-16.2)	0.2 (-15.2)	-4.4 (-11.5)	17.1 (2.8)	
Manufacturing	3.8	-8.1	1.8 (-3.4)	-16.6 (-19.9)	3.0 (-15.0)	5.0 (-19.0)	-0.6 (-13.2)	2.0 (-12.7)	11.4 (1.1)	
Non-manufacturing Excl.Electric Power & Ship building	2.1	6.2	-5.1 (0.6)	-9.7 (-18.4)	-2.5 (-13.4)	3.4 (-14.3)	-6.9 (-16.6)	3.2 (-10.7)	13.8 (4.3)	
Shipments of Capital Goods (Excl.Transport Equipment)	-0.2	-5.5	-0.4 (-5.7)	-8.4 (-12.7)	-4.6 (-19.8)	-1.0 (-14.4)	-8.3 (-21.4)	2.7 (-22.8)	13.4 (-1.8)	
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)	86.3 (-10.0)	80.0 (-12.4)	82.1 (-10.1)	82.8 (-11.3)	81.9 (-9.1)	81.5 (-9.9)	80.2 (-8.3)	82.0 (-3.7)
Total floor	(1.0)	(-4.5)	(-10.2)	(-13.8)	(-13.1)	(-15.6)	(-14.6)	(-9.2)	(-10.2)	(-4.7)
Sales at Retailers	1.6	-0.4								
Real Consumption Expenditures of Households over 2 persons (SA)	0.0	-0.4	-2.3 (-3.5)	-4.5 (-9.8)	3.6 (-8.3)	-6.5 (-7.6)	1.7 (-6.9)	3.8 (-10.2)	2.1 (1.9)	
Propensity to Consume (SA,%)	69.2	66.9	64.8 [69.9]	54.8 [66.9]	62.7 [71.8]	56.6 [70.8]	64.0 [70.4]	67.9 [74.2]	66.8 [65.8]	[67.6]
Overtime Hours Worked (All Industries, 5 employees or more)	-1.7	-2.5	-1.9 (-4.1)	-21.0 (-24.4)	12.3 (-14.6)	9.7 (-16.2)	1.5 (-14.1)	1.5 (-13.4)	2.4 (-11.1)	
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	96	93	43	35	35	41	28	35	
Ratio of Job Offers to Applicants (SA,Times)	1.62	1.55	1.44 [1.63]	1.21 [1.62]	1.05 [1.59]	1.08 [1.59]	1.04 [1.59]	1.03 [1.58]	1.04 [1.58]	1.06 [1.57]
Unemployment Rate (SA,%)	2.4	2.4	2.4	2.8	3.0	2.9	3.0	3.0	3.1	2.9
Economy Watcher Survey (Judgment of the present condition D.I.%)	47.8	38.7	27.8 [46.0]	20.7 [44.5]	44.8 [43.8]	41.1 [41.6]	43.9 [43.1]	49.3 [46.6]	54.5 [36.9]	45.6 [38.8]
Bankruptcies (Number of cases)	8,110 (-3.1)	8,631 (6.4)	2,164 (12.9)	1,837 (-11.4)	2,021 (-7.4)	789 (-1.6)	667 (-1.6)	565 (-19.5)	624 (-20.0)	569 (-21.7)

(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 Dec. 25, 2020

	Fiscal	Fiscal	2020			2020				
	2018	2019	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Customs Clearance (Exports in Yen Terms)	1.9	-6.0	(-5.5)	(-25.3)	(-13.0)	(-19.2)	(-14.8)	(-4.9)	(-0.2)	(-4.2)
Value	2.5	-1.7	(-0.0)	(-0.3)	(2.3)	(3.5)	(0.1)	(3.0)	(1.5)	(-0.2)
Volumes	-0.6	-4.4	(-5.5)	(-25.1)	(-14.9)	(-21.9)	(-14.9)	(-7.7)	(-1.6)	(-4.0)
Imports (In Yen terms)	7.2	-6.3	(-7.2)	(-16.0)	(-20.1)	(-22.3)	(-20.7)	(-17.4)	(-13.2)	(-11.1)
Value	5.7	-3.9	(-0.3)	(-11.8)	(-9.9)	(-9.6)	(-10.3)	(-9.7)	(-8.0)	(-9.0)
Volumes	1.4	-2.4	(-7.0)	(-4.8)	(-11.4)	(-14.0)	(-11.6)	(-8.4)	(-5.7)	(-2.4)
Current Account (100 mil. yen)	195,916	201,408	58,016	14,162	52,739	14,992	21,145	16,602	21,447	
Goods (100 mil. yen)	6,341	6,665	5,031	-14,594	14,689	1,373	4,132	9,184	9,711	
Services (100 mil. yen)	-9,342	-4,777	-2,908	-13,625	-9,035	-3,495	-3,166	-2,374	-3,846	
Financial Account (100 mil. yen)	214,222	225,587	67,983	20,372	46,240	21,403	5,718	19,120	8,605	
Gold & Foreign Exchange Reserves (\$1mil.)	1,291,813	1,366,177	1,366,177	1,383,164	1,389,779	1,402,475	1,398,516	1,389,779	1,384,372	1,384,615
Exchange Rate (¥/\$)	110.88	108.68	108.86	107.60	106.19	106.78	106.04	105.74	105.24	104.40

3. Financial Market Indicators

	Fiscal	Fiscal	2020			2020					
	2018	2019	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV	
Uncollateralized Overnight Call Rates	-0.062	-0.046	-0.032	-0.044	-0.039	-0.028	-0.035	-0.054	-0.020	-0.032	
			[-0.054]	[-0.060]	[-0.059]	[-0.071]	[-0.046]	[-0.059]	[-0.022]	[-0.043]	
Euro Yen TIBOR (3 Months)	0.062	0.026	0.016	-0.041	-0.062	-0.065	-0.065	-0.055	-0.055	-0.055	
			[0.037]	[0.049]	[0.022]	[0.049]	[0.009]	[0.009]	[0.009]	[0.018]	
Newly Issued Japanese Government Bonds Yields (10 Years)	-0.095	0.005	0.005	0.030	0.015	0.010	0.045	0.015	0.040	0.030	
			[-0.095]	[-0.165]	[-0.215]	[-0.160]	[-0.280]	[-0.215]	[-0.150]	[-0.080]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.751	0.720	0.720	0.668	0.673	0.668	0.670	0.673	0.677		
			(-0.009)	(-0.052)	(0.005)	(0.000)	(0.002)	(0.003)	(0.004)		
The Nikkei Stock Average (TSE 225 Issues)	21,206	18,917	18,917	22,288	23,185	21,710	23,140	23,185	22,977	26,434	
			[21,206]	[21,276]	[21,756]	[21,522]	[20,704]	[21,756]	[22,927]	[23,294]	
M2(Average)	(2.7)	(2.6)	(3.0)	(5.3)	(8.5)	(7.9)	(8.6)	(9.0)	(9.0)	(9.1)	
Broadly-defined Liquidity(Average)	(1.9)	(2.2)	(2.8)	(3.3)	(5.2)	(4.7)	(5.3)	(5.6)	(5.5)	(5.4)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(2.2)	(2.1)	(1.9)	(4.7)	(6.5)	(6.4)	(6.7)	(6.4)	(6.1)	(6.3)
	Banks	(2.2)	(2.2)	(2.1)	(4.9)	(6.4)	(6.4)	(6.6)	(6.2)	(5.9)	(6.0)
	City Banks etc.	(1.0)	(2.0)	(1.8)	(6.3)	(7.7)	(7.9)	(8.0)	(7.3)	(6.6)	(6.9)
	Regional Banks	(4.3)	(4.5)	(4.3)	(3.7)	(5.0)	(4.9)	(5.0)	(5.0)	(4.8)	(4.8)
	Regional Banks II	(-0.4)	(-5.9)	(-5.5)	(4.2)	(6.7)	(6.4)	(6.9)	(6.9)	(6.9)	(7.0)
	Shinkin	(2.1)	(1.1)	(1.0)	(2.9)	(7.1)	(6.2)	(7.3)	(7.8)	(8.0)	(8.3)
Deposits and CDs (Average)	Total(3 Business Condition)	(3.4)	(2.6)	(3.0)	(6.1)	(8.7)	(8.3)	(8.8)	(9.1)	(9.0)	(9.0)
	City Banks	(4.9)	(3.6)	(3.9)	(8.1)	(10.3)	(10.1)	(10.5)	(10.4)	(10.0)	(9.9)
	Regional Banks	(2.7)	(3.4)	(3.7)	(4.1)	(7.0)	(6.5)	(7.0)	(7.6)	(7.9)	(8.0)
	Regional Banks II	(-1.3)	(-5.5)	(-5.1)	(3.1)	(6.8)	(5.9)	(6.9)	(7.5)	(7.9)	(8.1)

(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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