

Outlook for the Japanese Economy

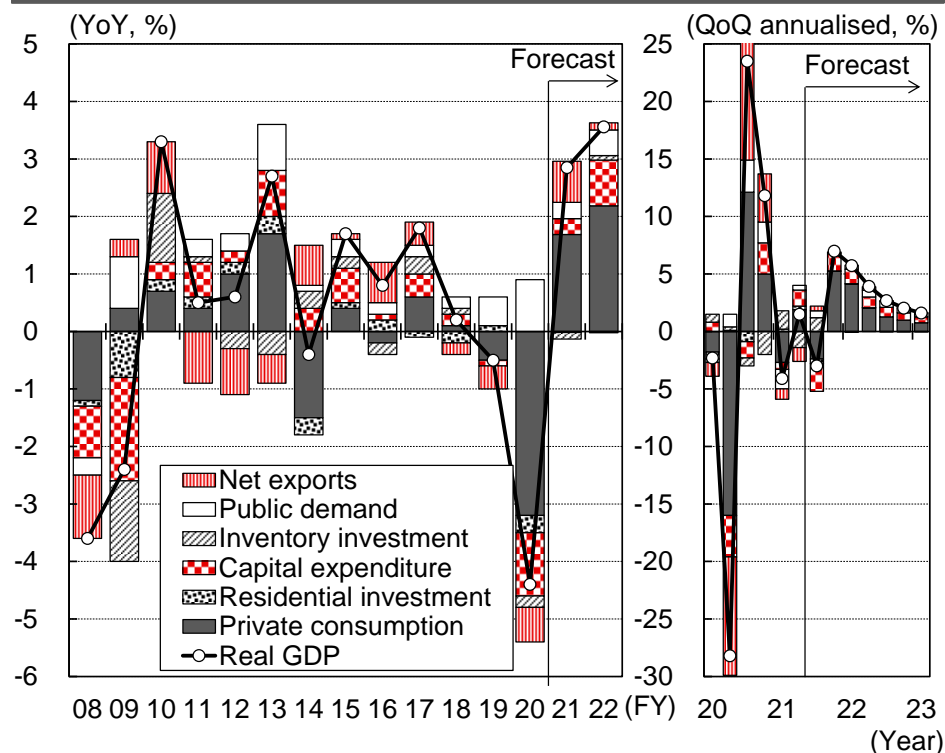
ECONOMIC RESEARCH OFFICE

24 December 2021 (original Japanese version released on 3rd December)

Overview

- The real GDP growth rate for the July-September quarter (first preliminary estimate) was -3.0% QoQ annualised: the first negative growth in two quarters. This was due to a decrease in domestic and foreign demand as a result of the fifth wave of COVID-19 infections and a supply shortage of some goods. Private consumption was affected by the fourth state of emergency and a huge slump in the number of automobile sales due to the constrained supply of semiconductors and other components. Capital expenditure also appears to have been affected by supply restraints, particularly investment in transport equipment.
- From the October-December quarter onwards, the economy will probably start to follow a general trend of recovery on the premise that “vaccines retain their efficiency, social and economic policies to live with COVID-19 are successful and become well-established, the number of COVID-19 cases and pressure on medical resources is reduced to a certain extent and that various restrictions are eased in stages”. Large-scale economic policies from the Kishida administration are also forecast to give support to the economy.
- The economy will pick up and grow 2.8% YoY in FY2021, after which it will continue to recover at a gradual pace into FY2022 and record strong growth (3.6% YoY) due to rebounds from weak growth. Throughout FY2022, real GDP is forecast to be at the level it was at in FY2019 before the pandemic.

Japan Real GDP and Outlook (Fiscal Year, Quarterly)



Source: Cabinet Office, MUFG Bank Economic Research Office

Japan Real GDP and Outlook (Fiscal Year, QoQ Annualised)

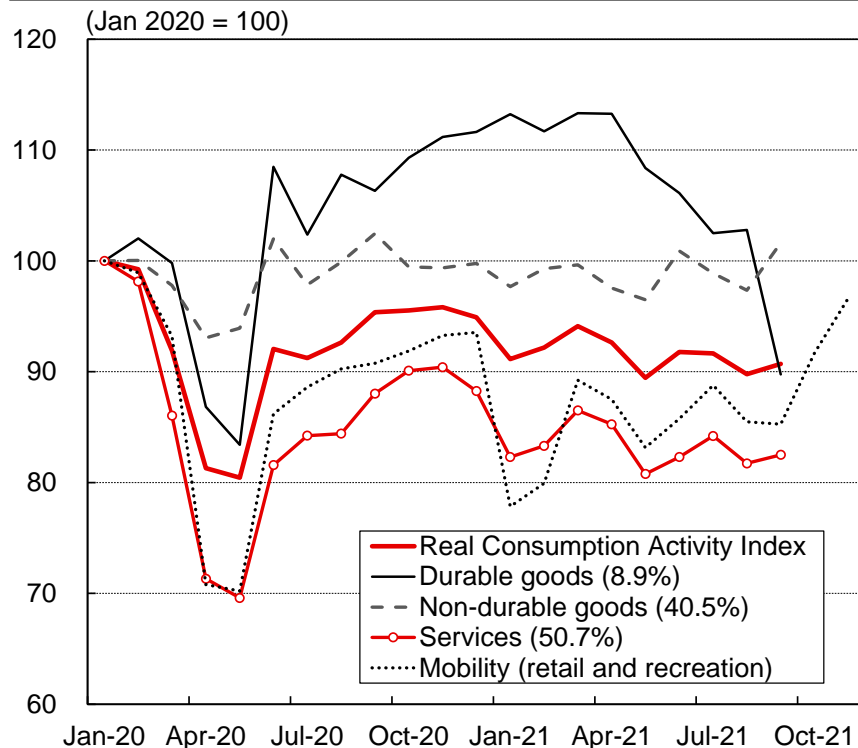
	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Outlook)	FY2022 (Outlook)
Real GDP	-0.5	-4.4	2.8	3.6
Private consumption	-1.0	-5.8	3.1	4.1
Residential investment	2.5	-7.2	-0.6	-0.6
Capital expenditure	-0.6	-6.9	1.7	5.0
Inventory investment (contribution)	0.0	-0.2	-0.1	0.1
Public demand	1.9	3.5	1.0	1.7
Net exports (contribution)	-0.4	-0.6	0.7	0.1
Exports	-2.2	-10.4	11.9	3.0
Imports	0.2	-6.8	7.5	2.3
Nominal GDP	0.3	-3.9	2.4	3.9
GDP Deflator	0.9	0.6	-0.4	0.3

Source: Cabinet Office, MUFG Bank Economic Research Office

Domestic Private Consumption

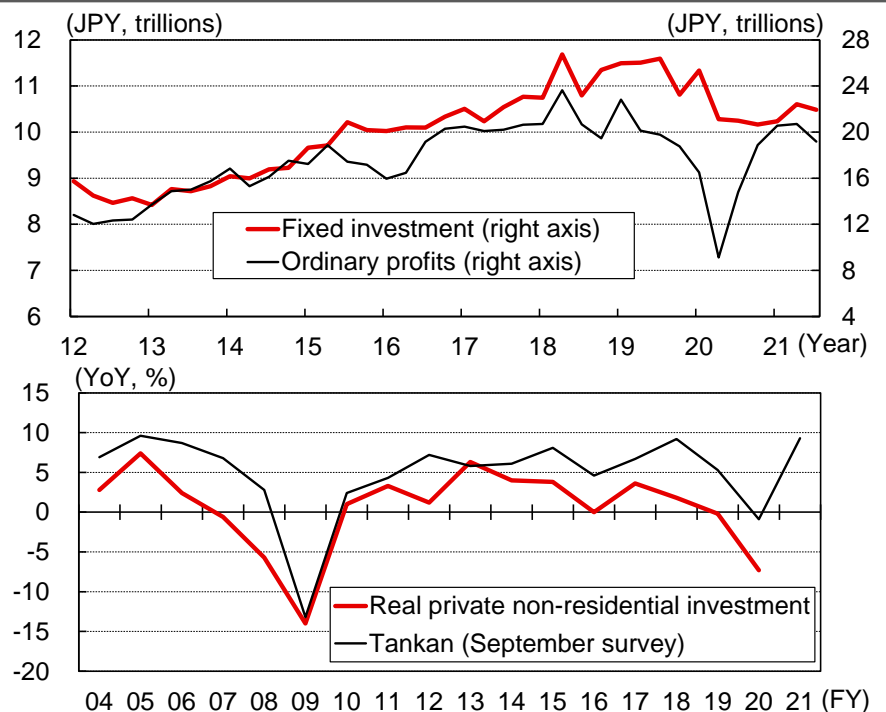
- Growth of private consumption remained slow as services stagnated due to the impact of the fourth state of emergency and there was a slump in spending on durable goods, particularly automobiles, which were affected by a shortage in the supply of parts. As the number of cases falls and restrictions on movement are eased, consumption will start to recover in the future, especially that of services. Nevertheless, a sense of caution about the spread of infection will remain for the time being, which means the pace of recovery is likely to be gradual. It will also be important to keep an eye on the risks posed by a deterioration of the COVID-19 situation, including the spread of the omicron variant.
- Although it is showing some weakness due to supply constraints and slow growth of profits, fixed investment is forecast to remain firm. Downward pressure is likely to continue, especially on some non-manufacturing industries, yet fixed investment is expected to pick up in the future on the back of a recovery of both the economy and corporate profits, as well as the need to invest in streamlining and information. The Bank of Japan's September Tankan Survey shows a clear increase in planned fixed investment for this fiscal year of 10.1% YoY.

Real Consumption Activity Index by Item and Mobility



Note: 1. The numbers in brackets show the items' proportion of the Consumption Activity Index
 2. Mobility is the average value for that month. November is average until 29th
 Source: Bank of Japan, Google, MUFG Bank Economic Research Office

Japanese Enterprises' Fixed Investment and Ordinary Profits and the Tankan Survey Planned Fixed Investment



Note: 1. "Fixed investment" and "ordinary profits" is of enterprises of all sizes and industries (excluding finance and insurance)

2. The Tankan Planned Fixed Investment includes software and R&D and excludes land purchasing expenses

Source: Cabinet Office, Ministry of Finance, Bank of Japan, MUFG Bank Economic Research Office



Monetary and Government Policy

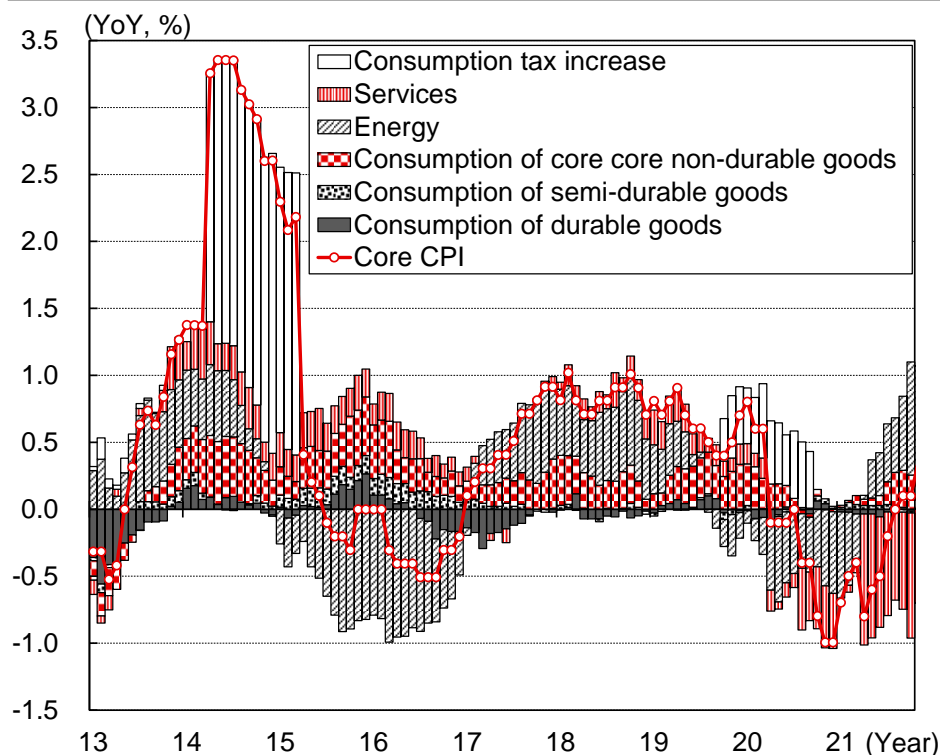
- Prime Minister Kishida's cabinet approved the Economic Policies for Overcoming COVID-19 and Developing a New Generation on 19th November. The policies focus on financial aid for households and strengthening support for businesses, resulting in fiscal expenses of JPY 55.7 trillion – a new historical high. That being said, many of the policies that provide financial aid are aimed a households, which means the upward pressure on the economy from these policies is unlikely to be large. The boost to real GDP is forecast to equate to around 0.6% points in FY2022.
- The Bank of Japan will continue with its large-scale monetary easy, such as maintaining the yield curve at low levels with active purchases of government bonds. In March, the Bank carried out adjustments to its policy to improve the stability of its monetary easing. Although there has been a marked increase in energy prices, consumer prices on the whole have only increased by a small amount. It is unlikely that the Bank of Japan will achieve its CPI target of 2% YoY, even after the temporary impact of the lowering of mobile phone charges has worn off, and it is forecast to maintain its current accommodative monetary policy.

Economic Policies for Overcoming COVID-19 and Developing a New Generation

	Details of policy	Fiscal expenses	Supplementary budget	Project scale
Containment measures for COVID-19	<ul style="list-style-type: none"> Accelerate development of medication and vaccines Max. JPY 2.5 million of financial support for businesses JPY 100,000 for households exempt from residential tax JPY 100,000 emergency relief for students 	JPY 22.1T	JPY 18.6T	JPY 35.1T
Restart economic activities "with COVID" and prepare for the next crisis	<ul style="list-style-type: none"> Restart "Go To Travel" Extend "Go To Eat" Support development of vaccines and treatment 	JPY 9.2T	JPY 1.7T	JPY 10.7T
Start "new capitalism" which will open the way for the future society	<ul style="list-style-type: none"> Digital Garden City Nation Realisation Raise wages in nursing and care field JPY 100,00 for 18-year-olds and under in households with an annual income of JPY 9.6 million or less Max. JPY 2 million My Number Points 	JPY 19.8T (of which FILP JPY 5.2T)	JPY 8.2T	JPY 28.2T
Ensure safety and security by increasing national resilience to natural disasters	<ul style="list-style-type: none"> Recovery from aftermaths of natural disasters Accelerate 5-year plan for promoting national resilience 	JPY 4.6T (of which FILP JPY 0.8T)	JPY 2.9T	JPY 5.0T
Total		JPY 55.7T (of which FILP JPY 6.0T)	JPY 35.9T	JPY 78.9T

Source: Cabinet Office, MUFG Bank Economic Research Office

Consumption Prices (Total Excluding Fresh Food)



Source: Ministry of Internal Affairs and Communications, MUFG Bank Economic Research Office

Appendix: Outlook for the Japanese Economy and Financial Markets

Outlook for the Japanese Economy (First Preliminary Estimate of GDP Statistics for July-September 2021)

	2020				2021				2022				2023	FY2020	FY2021	FY2022
	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1	2Q	3Q	4Q	Q1			
1. The Real Economy (QoQ annualized change)																
Real GDP	-2.3	-28.2	23.5	11.8	-4.1	1.5	-3.0	7.0	5.7	3.9	2.7	2.0	1.6	-4.4	2.8	3.6
Private Consumption	-3.2	-29.1	22.8	9.3	-5.0	3.7	-4.5	10.0	7.8	3.8	2.4	1.8	1.4	-5.8	3.1	4.1
Housing Investment	-14.1	2.3	-20.9	-0.1	4.3	8.3	-10.1	0.8	0.2	0.2	-0.4	-0.6	-0.6	-7.2	-0.6	-0.6
Private Business Fixed Investment	5.1	-22.1	-8.4	18.1	-4.1	9.1	-14.4	10.0	8.2	6.1	5.3	4.1	3.2	-6.9	1.7	5.0
Business Inventory (Contribution)	0.7	0.3	-0.7	-2.0	1.6	-1.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1	0.1
Government Expenditures	-1.2	4.4	10.4	6.7	-6.3	1.7	2.4	0.2	1.3	2.2	1.9	1.6	1.3	3.5	1.0	1.7
Public Investment	-0.8	11.9	5.3	3.0	-5.5	-8.1	-5.8	0.0	1.6	2.8	3.2	3.2	3.2	4.2	-3.6	2.0
Net Exports (Contribution)	-1.2	-10.3	11.3	4.2	-0.9	-1.2	0.4	0.1	-0.1	0.3	0.1	0.0	0.0	-0.6	0.7	0.1
Exports	-17.6	-53.8	33.0	55.6	9.9	13.6	-8.3	5.7	5.3	4.1	2.4	2.0	1.6	-10.4	11.9	3.0
Imports	-11.7	-2.4	-29.1	20.7	16.9	22.8	-10.5	5.3	5.7	2.4	2.0	2.0	1.6	-6.8	7.5	2.3
Nominal GDP	-2.2	-27.2	23.9	9.7	-4.4	-1.0	-2.5	11.0	4.0	3.0	1.7	6.6	0.2	-3.9	2.4	3.9
GDP Deflator (YoY)	1.0	1.4	1.1	0.1	-0.2	-1.1	-1.1	0.3	-0.0	0.5	0.1	0.2	0.4	0.6	-0.4	0.3
Industrial Production Index (QoQ)	0.0	-16.8	9.0	5.7	2.9	1.1	-3.7	2.8	4.5	0.9	0.7	0.6	0.6	-9.5	7.8	5.8
Domestic Corporate Goods Price Index (YoY)	0.6	-2.2	-0.8	-2.2	-0.3	4.6	6.0	8.0	4.9	3.9	2.1	0.6	0.8	-1.4	6.0	1.8
Consumer Price Index (excl. fresh food, YoY)	0.7	-0.1	-0.3	-0.9	-0.5	-0.6	0.0	0.4	0.3	0.4	0.4	0.5	0.5	-0.5	0.0	0.5
2. Balance of Payments																
Trade Balance (billion yen)	583	-1,472	1,229	2,436	1,437	998	-193	1,316	498	429	-671	959	87	3,902	2,619	804
Current Balance (billion yen)	4,410	1,697	3,623	5,922	4,626	4,719	2,894	4,454	3,674	3,649	2,586	4,254	3,420	16,302	15,741	13,910
3. Financial																
Uncollateralized overnight call rate	0.0	0.0	-0.1	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Euro-Yen TIBOR (3-month rate)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Newly Issued 10-Year Government Bonds Yield	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.2
Exchange Rate (USD/JPY)	109	108	106	104	106	109	110	114	114	114	114	114	114	106	112	114

Note: Uncollateralized overnight call rate is the average rate during the last month of the period. Euro-Yen TIBOR (3-month rate), Newly Issued 10-Year Government Bonds Yield and Exchange Rate (USD/JPY) are averages during the period.

Source: Various statistics, Bloomberg, MUFG Bank Economic Research Office

-
- **This report is intended for information purposes only and shall not be construed as solicitation to take any action. In taking any action, each reader is requested to do so on the basis of their 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.**
 - **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.**

Contact Information

MUFG Bank, Economic Research Office

Author: Ryo Yamada e-mail: riyou_yamada@mufg.jp

Translator: Elizabeth Foster (Tokyo)