

Non-manufacturing sector's “K-shaped” recovery starting to disappear with a permanent shift to non-face to face

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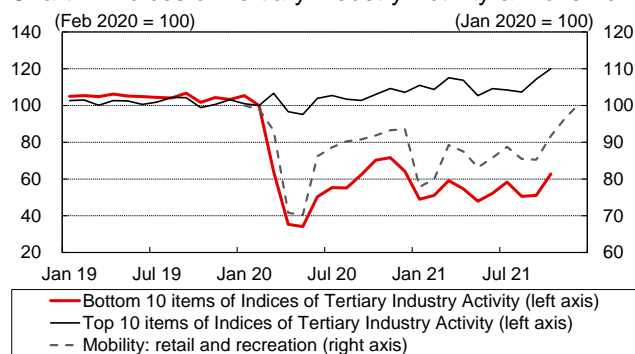
Since the state of emergency and other measures were lifted at the end of September 2021, the domestic COVID-19 situation appears to have settled for a while. However, there is still a huge impact on production activities in the non-manufacturing sector, particularly face-to-face services, caused by the pandemic that began at the start of 2020.

Of the 287 items covered by the Indices of Tertiary Industry Activity, the top and bottom ten (determined by growth from a baseline month before the pandemic) show growth of the top ten items has remained at a good level apart from a small drop at the start of the pandemic. On the other hand, the bottom ten items fell significantly during the first wave of infection and recovery since then has been slow (Chart 1).

The primary reason put forward to explain this disparity between items is whether or not the service can be accessed online. Owing to a sharp rise in remote demand triggered by the pandemic, the top items are those that took the opportunity to provide non-face-to-face services. Among them are also industries that had planned an expansion of online services before the outbreak of the pandemic. Meanwhile, the bottom ten items are all face-to-face services, such as dining establishments (Table 1). There are some industries that were forced to reduce or restrict their business activities owing to the introduction of various restrictions, such as shorter operating hours and some have found the move to online challenging. As a result, the decrease in opportunities to go outside, the change in people's behaviour and concerns about the spread of infection have put downward pressure on these industries.

That being said, the most recent result for the Indices of Tertiary Industry Activity is October 2021 – directly after the end of the state of emergency – and it is important to note that restrictions have been eased over the following months. There is a high level of correlation between the bottom ten items and people's movement, but, judging from the rise in the level of mobility since October and various high-frequency data, there is a strong indication that the bottom ten items have already returned to a trend of recovery (Chart 1). Therefore, the K-shaped recovery of the non-manufacturing industry can be expected to also start to disappear to some extent in 2022. However, in addition to the risk of the spread of the omicron variant, it is important to still allow a certain amount of leeway when it comes to judging the situation, including the degree to which some face-to-face services will permanently shift to become non-face-to-face services.

Chart 1: Indices of Tertiary Industry Activity & Movement



Note: 1. Each index of the Indices of Tertiary Industry Activity is calculated based on the weighted average of each item
 2. "Mobility: retail and recreation" uses the monthly average (average values until 23 December 2021)

Source: Ministry of Economy, Trade and Industry, Google, MUFG Bank Economic Research Office

Table 1: Indices of Tertiary Industry Activity by Item
 (Level in Oct 2021 with base index of Feb 2020)

Top 10 Items		Bottom 10 Items	
Item	Level	Item	Level
Photographic studios	144	Coffee shops	75
Financial products transaction and futures commodity transaction dealers	142	Railway transport	74
Bicycle, horse, motorcar and motorboat race track operations and companies	124	Laundries	74
Other services incidental to the internet	117	Cinemas	65
Website management business	117	Japanese style hotels	64
Veterinarian	114	Amusement and theme parks	52
Data processing and information services	113	Air transport	46
Barbershops	113	Theatre and performance groups	44
Public bathhouses	112	Spree eating and drinking places	43
Distribution business	112	Travel agencies	38

Note: The Indices of Tertiary Industry Activity is comprised of 287 items
 Source: Ministry of Economy, Trade and Industry, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Dec. 27, 2021

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-0.7	-4.5	-2.9 (-1.8)	2.0 (7.3)	-3.6 (1.2)	***	***	***	***	***
Industrial Production Index	-3.8	-9.5	2.9 (-1.0)	1.1 (19.9)	-3.7 (5.8)	-1.5 (11.6)	-3.6 (8.8)	-5.4 (-2.3)	1.8 (-4.1)	
Production										
Shipments	-3.6	-9.8	2.0 (-1.4)	0.7 (18.8)	-4.1 (4.2)	-0.3 (11.2)	-4.4 (7.2)	-6.1 (-4.5)	2.4 (-5.6)	
Inventory	2.8	-9.8	-1.3 (-9.8)	0.9 (-5.0)	2.5 (0.5)	-0.7 (-4.5)	-0.1 (-3.7)	3.4 (0.5)	0.6 (2.2)	
Inventory/Shipments Ratio (2015=100)	112.5	122.9	109.5 [117.1]	108.2 [142.1]	114.4 [124.0]	109.6 [127.8]	113.7 [124.7]	119.9 [119.5]	119.2 [115.3]	[114.2]
Index of Tertiary Industries Activity	-0.7	-6.9	-0.7 (-3.0)	-0.5 (7.5)	-0.8 (0.3)	-0.6 (2.0)	-1.1 (0.0)	0.5 (-0.9)	1.5 (-1.1)	
Domestic Corporate Goods Price Index	0.1	-1.4	1.6 (-0.3)	2.5 (4.6)	2.2 (6.1)	1.1 (5.8)	0.2 (5.9)	0.4 (6.5)	1.4 (8.3)	0.6 (9.0)
Consumer Price Index(SA, total, excl.fresh foods)	0.6	-0.4	0.3 (-0.5)	-0.5 (-0.6)	0.4 (0.0)	0.4 (-0.2)	-0.1 (0.0)	0.1 (0.1)	-0.1 (0.1)	0.3 (0.5)
Index of Capacity Utilization (2015=100)	98.2	87.4	95.6 [94.6]	96.7 [75.3]	90.2 [85.1]	94.9 [81.9]	91.2 [84.5]	84.5 [88.8]	89.7 [93.2]	[91.9]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-0.3	-8.8	-5.3 (-2.5)	4.6 (12.6)	0.7 (13.3)	0.9 (11.1)	-2.4 (17.0)	-0.0 (12.5)	3.8 (2.9)	
Manufacturing	-8.1	-8.5	-2.2 (0.8)	12.1 (26.5)	8.2 (33.7)	6.7 (32.6)	-13.4 (22.4)	24.8 (43.6)	-15.4 (13.0)	
Non-manufacturing	6.2	-9.0	-9.2 (-4.8)	-1.8 (2.2)	-3.8 (-1.2)	-9.5 (-5.3)	7.1 (12.4)	-11.7 (-6.5)	16.5 (-5.4)	
Excl.Electric Power & Ship building										
Shipments of Capital Goods (Excl.Transport Equipment)	-5.5	-6.6	7.8 (5.2)	9.9 (22.7)	-2.5 (21.1)	-0.9 (21.2)	-2.8 (27.4)	-4.7 (16.5)	-0.7 (10.1)	
Construction Orders	-5.9	-0.3								
Private	-8.7	-4.9								
Public	-3.2	29.6								
Public Works Contracts	6.8	2.3								
Housing Starts	88.4	81.2	83.0	87.5	87.6	92.6	85.5	84.5	89.2	84.8
10,000 units at Annual Rate, SA	(-7.3)	(-8.1)	(-1.8)	(8.1)	(7.2)	(9.9)	(7.5)	(4.3)	(10.4)	(3.7)
Total floor	(-4.5)	(-9.3)	(-1.0)	(8.4)	(9.6)	(13.1)	(12.5)	(3.2)	(11.4)	(6.8)
Sales at Retailers	-0.4	-2.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-0.4	-4.9	-4.1 (-1.9)	3.6 (7.1)	-4.7 (-1.5)	-0.9 (0.7)	-3.9 (-3.0)	5.0 (-1.9)	3.4 (-0.6)	
Propensity to Consume (SA,%)	66.9	61.3	65.2 [64.9]	61.7 [54.9]	62.0 [62.5]	62.8 [56.9]	59.7 [64.3]	63.4 [66.9]	65.4 [66.6]	[66.4]
Overtime Hours Worked (All Industries, 5 employees or more)	-2.5	-13.9	1.5 (-6.6)	2.8 (19.1)	-0.2 (7.3)	2.7 (11.4)	-3.4 (7.0)	-2.2 (3.4)	0.1 (2.1)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.0	-1.5								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	96	36	33	78	66	74	65	60	61	
Ratio of Job Offers to Applicants (SA,Times)	1.55	1.10	1.10 [1.45]	1.10 [1.20]	1.15 [1.06]	1.15 [1.09]	1.14 [1.05]	1.16 [1.04]	1.15 [1.04]	[1.05]
Unemployment Rate (SA,%)	2.4	2.9	2.8	2.9	2.8	2.8	2.8	2.8	2.7	
Economy Watcher Survey (Judgment of the present condition D.I,%)	38.7	37.7	40.5 [28.2]	41.6 [22.1]	41.7 [44.6]	48.4 [42.2]	34.7 [43.7]	42.1 [47.8]	55.5 [53.0]	56.3 [43.8]
Bankruptcies (Number of cases)	8,631 (6.4)	7,163 (-17.0)	1,554 (-28.2)	1,490 (-18.9)	1,447 (-28.4)	476 (-39.7)	466 (-30.1)	505 (-10.6)	525 (-15.9)	510 (-10.4)

(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. 27, 2021

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Customs Clearance (Exports in Yen Terms)	-6.0	-8.4	(6.0)	(45.0)	(24.9)	(37.0)	(26.2)	(13.0)	(9.4)	(20.5)
Value	-1.6	1.1	(1.4)	(7.9)	(10.0)	(9.5)	(11.0)	(9.5)	(12.3)	(15.1)
Volumes	-4.4	-9.4	(4.6)	(34.4)	(13.6)	(25.2)	(13.7)	(3.2)	(-2.6)	(4.7)
Imports (In Yen terms)	-6.3	-11.6	(1.9)	(23.6)	(36.8)	(28.1)	(44.5)	(38.3)	(26.8)	(43.8)
Value	-3.9	-8.6	(-3.9)	(17.5)	(26.8)	(25.6)	(26.2)	(28.7)	(30.8)	(35.6)
Volumes	-2.4	-3.4	(6.0)	(5.1)	(7.9)	(2.0)	(14.5)	(7.5)	(-3.0)	(6.1)
Current Account (100 mil. yen)	186,723	163,021	57,731	37,272	42,849	17,482	15,030	10,337	11,801	
Goods (100 mil. yen)	4,839	39,017	13,742	9,588	201	6,223	-3,724	-2,299	1,667	
Services (100 mil. yen)	-17,172	-36,636	-5,342	-15,824	-10,368	-5,849	-1,949	-2,570	-5,754	
Financial Account (100 mil. yen)	205,436	135,618	46,086	11,768	58,628	7,993	23,032	27,603	-8,796	
Gold & Foreign Exchange Reserves (\$1mil.)	1,366,177	1,368,465	1,368,465	1,376,478	1,409,309	1,386,504	1,424,284	1,409,309	1,404,520	1,405,754
Exchange Rate (¥/\$)	108.68	106.04	105.90	109.48	110.10	110.29	109.84	110.17	113.10	114.13

3. Financial Market Indicators

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV
Uncollateralized Overnight Call Rates	-0.046	-0.031	-0.017 [-0.032]	-0.019 [-0.044]	-0.031 [-0.039]	-0.036 [-0.028]	-0.034 [-0.035]	-0.022 [-0.054]	-0.027 [-0.020]	-0.040 [-0.032]
Euro Yen TIBOR (3 Months)	0.026	-0.054	-0.058 [0.016]	-0.067 [-0.041]	-0.072 [-0.062]	-0.072 [-0.065]	-0.072 [-0.065]	-0.072 [-0.055]	-0.072 [-0.055]	-0.072 [-0.055]
Newly Issued Japanese Government Bonds Yields (10 Years)	0.005	0.120	0.120 [0.005]	0.050 [0.030]	0.065 [0.015]	0.015 [0.010]	0.020 [0.045]	0.065 [0.015]	0.095 [0.040]	0.050 [0.030]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.720	0.686	0.686 (0.002)	0.687 (0.001)	0.686 (-0.001)	0.688 (0.001)	0.688 (0.000)	0.686 (-0.002)	0.689 (0.003)	
The Nikkei Stock Average (TSE 225 Issues)	18,917	29,179	29,179 [18,917]	28,792 [22,288]	29,453 [23,185]	27,284 [21,710]	28,090 [23,140]	29,453 [23,185]	28,893 [22,977]	27,822 [26,434]
M2(Average)	(2.5)	(8.1)	(9.5)	(7.7)	(4.7)	(5.3)	(4.7)	(4.2)	(4.2)	(4.0)
Broadly-defined Liquidity(Average)	(1.8)	(4.9)	(5.8)	(6.7)	(5.2)	(5.5)	(5.2)	(5.0)	(5.0)	(4.8)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin		(2.1)	(5.9)	(6.2)	(3.0)	(0.7)	(0.9)	(0.6)	(0.6)
	Banks		(2.2)	(5.8)	(5.8)	(2.4)	(0.4)	(0.5)	(0.3)	(0.4)
		City Banks etc.	(1.9)	(6.9)	(6.6)	(0.8)	(-1.4)	(-1.5)	(-1.6)	(-1.1)
		Regional Banks	(4.5)	(4.5)	(4.8)	(3.8)	(2.5)	(2.7)	(2.4)	(2.3)
		Regional Banks II	(-5.9)	(6.1)	(6.5)	(3.6)	(0.0)	(0.4)	(-0.0)	(-0.2)
	Shinkin		(1.1)	(6.7)	(8.5)	(7.1)	(2.6)	(3.7)	(2.4)	(1.7)
Deposits and CDs (Average)	Total(3 Business Condition)		(2.6)	(8.5)	(9.9)	(7.8)	(5.1)	(5.7)	(5.1)	(4.6)
	City Banks		(3.6)	(9.9)	(10.9)	(7.9)	(5.2)	(5.8)	(5.2)	(4.7)
		Regional Banks	(3.4)	(7.0)	(8.7)	(8.2)	(5.9)	(6.4)	(6.0)	(5.3)
		Regional Banks II	(-5.5)	(6.7)	(8.7)	(5.4)	(0.8)	(1.4)	(0.7)	(0.2)

(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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