

Economy to slow temporarily due to tightening of restrictions and labour supply constraints

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Restrictions on movement were eased up until the end of last year in Japan following the administration of vaccinations and the peak in cases of the Delta variant. However, with the spread of the Omicron variant, over thirty prefectures have adopted special preventative measures as of 31st January. Mobility recorded a momentary, large decrease in the three prefectures where special preventative measures were introduced ahead of other prefectures (Chart 1). It appears mobility will decrease in large cities as well and, given that mobility is closely related to private consumption, this is predicted to put downward pressure on private consumption for a short while.

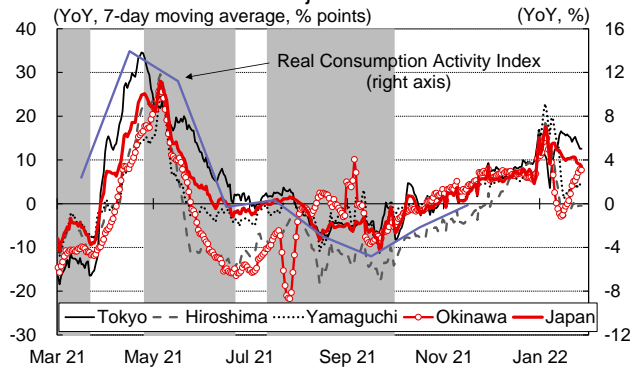
In addition, there are also concerns about the impact of labour supply shortages on the economy. Assuming that the number of COVID-19 cases will peak around mid-February* and that every infected person will come into close contact with five others**, the number of people quarantining in Japan is estimated to be 6.29 million during the peak and a total of 34 million from the start of 2022 until the end of March based on the situations in the US and UK, which experienced a spread of the Omicron variant before Japan. In Japan, people aged between 20 and 60 account for 66% of the number of new cases as of 25th January. Since 77.9% of these people are in employment according to the most recent statistics (December 2021), it is estimated that 17.48 million workers (26.2% of the total) will have to quarantine for between 7 and 14 days. It is important to bear in mind when estimating these figures the difficulty of identifying those who have come into close contact with known cases and the increase in those working remotely. Nevertheless, the annual downward pressure on real GDP from this decrease in the labour supply is forecast to be around 0.5% points.

As the characteristics of the Omicron variant become better understood, the quarantine period is being shortened based on scientific grounds, even in Japan. Nevertheless, the negative impact on the economy from the spread of infection cannot be ignored. Furthermore, if the sluggish production of parts and logistic constraints grow more serious due to a rise in cases both domestically and overseas, these secondary supply constraints will lead to a further stagnation of economic activities in Japan. While the Economic Research Office's view is still that "on the whole, the economic recovery will continue in 2022 as the COVID-19 situation improves", it should be assumed that a temporary slowdown of the economy is unavoidable given the infectivity of the Omicron variant.

* This assumption is used to estimate the impact on labour supply and is not a forecast for the number of new daily cases.

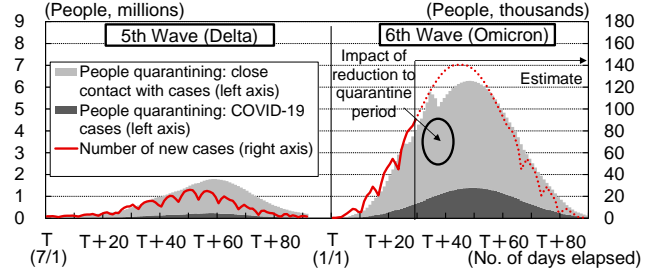
** Although there is little data available for the number of contacts that one contagious person has, surveys were used as reference, such as “positivity by basic attributes and contact points of those who come into close contact with COVID-19” in the Japanese National Institute of Infectious Diseases’ April 2021 survey.

Chart 1: Mobility and the Real Consumption Activity Index in Major Prefectures



Note: 1. Mobility is for "retail and recreation". Days for the current and previous year are adjusted to calculate the YoY value
 2. Shaded areas denote periods under a state of emergency
 Source: The Bank of Japan, Google, MUFG Bank Economic Research Office

Chart 2: Number of People Quarantining During the 5th and 6th Waves



Note: 1. Using the earlier spread of infection in Europe and the US as a reference, the number of Omicron variant cases is forecast to peak in mid-February. The number of new cases is rising at a pace of 1.07 from the previous day, which will slow to 1.00 at the peak. After that, it will probably fall at the same pace as it rose until the end of March.
 2. The quarantine period during the 5th wave was 10 days for confirmed cases and 14 days for those who have been in close contact with a case. During the 6th wave, it is 10 days for confirmed cases and 14 days for those in close contact until the 14th Jan, 10 days from 15th-29th Jan and 7 days until the end of March.
 Source: Ministry of Health, Labour and Welfare, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Feb. 1, 2022

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC
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)	-3.6 (8.8)	-5.4 (-2.3)	1.8 (-4.1)	7.0 (5.1)	-1.0 (2.7)
Production										
Shipments	-3.6	-9.8	2.0 (-1.4)	0.7 (18.8)	-4.1 (4.2)	-4.4 (7.2)	-6.1 (-4.5)	2.4 (-5.6)	7.4 (3.5)	-0.1 (2.5)
Inventory	2.8	-9.8	-1.3 (-9.8)	0.9 (-5.0)	2.5 (0.5)	-0.1 (-3.7)	3.4 (0.5)	0.6 (2.2)	2.0 (5.6)	0.5 (5.5)
Inventory/Shipments Ratio (2015=100)	112.5	122.9	109.5 [117.1]	108.2 [142.1]	114.4 [124.0]	113.7 [124.7]	119.9 [119.5]	119.2 [115.3]	116.4 [114.2]	116.5 [114.3]
Index of Tertiary Industries Activity	-0.7	-6.9	-0.7 (-3.0)	-0.5 (7.5)	-0.8 (0.3)	-1.1 (0.0)	0.5 (-0.9)	1.9 (-0.8)	0.4 (0.6)	
Domestic Corporate Goods Price Index	0.1	-1.4	1.6 (-0.3)	2.5 (4.6)	2.2 (6.1)	0.2 (5.9)	0.4 (6.5)	1.4 (8.3)	0.7 (9.2)	-0.2 (8.5)
Consumer Price Index(SA, total, excl.fresh foods)	0.6	-0.4	0.3 (-0.5)	-0.5 (-0.6)	0.4 (0.0)	0.0 (0.0)	0.1 (0.1)	0.0 (0.1)	0.2 (0.5)	0.1 (0.5)
Index of Capacity Utilization (2015=100)	98.2	87.4	95.6 [94.6]	96.7 [75.3]	90.2 [85.1]	91.2 [84.5]	84.5 [88.8]	89.7 [93.2]	96.9 [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)	-2.4 (17.0)	-0.0 (12.5)	3.8 (2.9)	3.4 (11.6)	
Manufacturing	-8.1	-8.5	-2.2 (0.8)	12.1 (26.5)	8.2 (33.7)	-13.4 (22.4)	24.8 (43.6)	-15.4 (13.0)	12.9 (29.4)	
Non-manufacturing Excl.Electric Power & Ship building	6.2	-9.0	-9.2 (-4.8)	-1.8 (2.2)	-3.8 (-1.2)	7.1 (12.4)	-11.7 (-6.5)	16.5 (-5.4)	-0.8 (-2.1)	
Shipments of Capital Goods (Excl.Transport Equipment)	-5.5	-6.6	7.8 (5.2)	9.9 (22.7)	-2.5 (21.1)	-2.8 (27.4)	-4.7 (16.5)	-0.7 (10.1)	0.4 (10.9)	0.7 (10.6)
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 10,000 units at Annual Rate, SA	88.4 (-7.3)	81.2 (-8.1)	83.5 (-1.8)	86.5 (8.1)	86.6 (7.2)	86.6 (7.5)	84.5 (4.3)	87.7 (10.4)	85.1 (3.7)	83.8 (4.2)
Total floor										
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)	-3.9 (-3.0)	5.0 (-1.9)	3.4 (-0.6)	-1.2 (-1.3)	
Propensity to Consume (SA, %)	66.9	61.3	65.2 [64.9]	61.7 [54.9]	62.0 [62.5]	59.7 [64.3]	63.4 [66.9]	65.4 [66.6]	65.4 [66.4]	[64.4]
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)	-3.4 (7.0)	-2.2 (3.4)	0.1 (2.1)	2.9 (5.1)	
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	65	60	61	60	
Ratio of Job Offers to Applicants (SA, Times)	1.55	1.10	1.10 [1.45]	1.10 [1.20]	1.15 [1.06]	1.14 [1.05]	1.16 [1.04]	1.15 [1.04]	1.15 [1.05]	1.16 [1.05]
Unemployment Rate (SA, %)	2.4	2.9	2.8	2.9	2.8	2.8	2.8	2.7	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]	34.7 [43.7]	42.1 [47.8]	55.5 [53.0]	56.3 [43.8]	56.4 [34.3]
Bankruptcies (Number of cases)	8,631 (6.4)	7,163 (-17.0)	1,554 (-28.2)	1,490 (-18.9)	1,447 (-28.4)	466 (-30.1)	505 (-10.6)	525 (-15.9)	510 (-10.4)	504 (-9.7)

(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 Feb. 1, 2022

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC
Customs Clearance (Exports in Yen Terms)	-6.0	-8.4	(6.0)	(45.0)	(24.9)	(26.2)	(13.0)	(9.4)	(20.5)	(17.5)
Value	-1.6	1.1	(1.4)	(7.9)	(10.0)	(11.0)	(9.5)	(12.3)	(15.1)	(15.2)
Volumes	-4.4	-9.4	(4.6)	(34.4)	(13.6)	(13.7)	(3.2)	(-2.6)	(4.7)	(2.0)
Imports (In Yen terms)	-6.3	-11.6	(1.9)	(23.6)	(36.8)	(44.5)	(38.3)	(26.8)	(43.9)	(41.1)
Value	-3.9	-8.6	(-3.9)	(17.5)	(26.8)	(26.2)	(28.7)	(30.8)	(35.6)	(39.7)
Volumes	-2.4	-3.4	(6.0)	(5.1)	(7.9)	(14.5)	(7.5)	(-3.0)	(6.1)	(1.0)
Current Account (100 mil. yen)	186,723	163,021	57,731	37,272	42,289	15,119	10,111	11,801	8,973	
Goods (100 mil. yen)	4,839	39,017	13,742	9,588	41	-3,806	-2,308	1,667	-4,313	
Services (100 mil. yen)	-17,172	-36,636	-5,342	-15,824	-10,520	-1,880	-2,351	-5,754	-2,142	
Financial Account (100 mil. yen)	205,436	135,618	46,086	11,768	55,477	22,876	26,573	-8,796	2,185	
Gold & Foreign Exchange Reserves (\$1mil.)	1,366,177	1,368,465	1,368,465	1,376,478	1,409,309	1,424,284	1,409,309	1,404,520	1,405,754	1,405,750
Exchange Rate (¥/\$)	108.68	106.04	105.90	109.48	110.10	109.84	110.17	113.10	114.13	113.87

3. Financial Market Indicators

	Fiscal	Fiscal	2021			2021				
	2019	2020	1Q	2Q	3Q	AUG	SEP	OCT	NOV	DEC
Uncollateralized Overnight Call Rates	-0.046	-0.031	-0.017 [-0.032]	-0.019 [-0.044]	-0.031 [-0.039]	-0.034 [-0.035]	-0.022 [-0.054]	-0.027 [-0.020]	-0.040 [-0.032]	-0.026 [-0.026]
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 [-0.055]	-0.072 [-0.055]	-0.072 [-0.055]	-0.049 [-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]	0.020 [0.045]	0.065 [0.015]	0.095 [0.040]	0.050 [0.030]	0.070 [0.020]
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 (0.000)	0.686 (-0.002)	0.689 (0.003)	0.689 (0.000)	
The Nikkei Stock Average (TSE 225 Issues)	18,917	29,179	29,179 [18,917]	28,792 [22,288]	29,453 [23,185]	28,090 [23,140]	29,453 [23,185]	28,893 [22,977]	27,822 [26,434]	28,792 [27,444]
M2(Average)	(2.5)	(6.1)	(9.5)	(7.7)	(4.7)	(4.7)	(4.2)	(4.2)	(4.0)	(3.7)
Broadly-defined Liquidity(Average)	(1.8)	(4.9)	(5.8)	(6.7)	(5.2)	(5.2)	(5.0)	(5.0)	(4.8)	(4.6)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	(2.1)	(5.9)	(6.2)	(3.0)	(0.7)	(0.6)	(0.6)	(0.9)	(0.6)
	Banks	(2.2)	(5.8)	(5.8)	(2.4)	(0.4)	(0.3)	(0.4)	(0.8)	(0.5)
	City Banks etc.	(1.9)	(6.9)	(6.6)	(0.8)	(-1.4)	(-1.6)	(-1.1)	(-0.7)	(-1.1)
	Regional Banks	(4.5)	(4.5)	(4.8)	(3.8)	(2.5)	(2.4)	(2.3)	(2.5)	(2.6)
	Regional Banks II	(-5.9)	(6.1)	(6.5)	(3.6)	(0.0)	(-0.0)	(-0.2)	(-0.1)	(-0.4)
Deposits and CDs (Average)	Shinkin	(1.1)	(6.7)	(8.5)	(7.1)	(2.6)	(2.4)	(1.7)	(1.3)	(1.0)
	Total(3 Business Condition)	(2.6)	(8.5)	(9.9)	(7.8)	(5.1)	(5.1)	(4.6)	(4.7)	(4.3)
	City Banks	(3.6)	(9.9)	(10.9)	(7.9)	(5.2)	(5.2)	(4.7)	(5.2)	(4.4)
	Regional Banks	(3.4)	(7.0)	(8.7)	(8.2)	(5.9)	(6.0)	(5.3)	(5.1)	(5.0)
	Regional Banks II	(-5.5)	(6.7)	(8.7)	(5.4)	(0.8)	(0.7)	(0.2)	(-0.1)	(-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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