Daiwa Institute of Research

31 July 2020 (No. of pages: 13)

Japanese report: 21 Jul 2020

Japan's Economy: Monthly Outlook (July 2020)

Demand stimulation measures straying off course: Haste makes waste in managing an economy coexisting with COVID-19

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Summary

- With economic activity restarting in stages, Japan's economy is gradually pulling out of the most severe economic crisis it has experienced since the period just after the end of WW Ⅱ. According to June trade statistics, export volume grew for the first time in four months. Personal consumption began to pick up in May after the lifting of the declaration of emergency and with the help of government measures, and the recovery trend strengthened in June. However, the real GDP growth rate for the Apr-Jun period is expected to fall deeply into negative territory by considerably more than -20% q/q annualized.

- Avoidance of a major decline in household income and chain-reaction bankruptcies contributed to the recovery in personal consumption. Disposable income actually grew sharply during the Apr-Jun period due to various benefit payments, where otherwise one would have expected it to decline. In addition, during the same period the number of bankruptcies were at their lowest point in around thirty years. Cash on hand compared to sales was particularly abundant for small and medium-sized enterprises, while in addition, the government and the Bank of Japan provided large-scale financing support measures.

- With COVID-19 infection nowhere near containment, demand stimulation measures are accompanied by the risk of a further spread of the disease. As has become apparent in the confusion surrounding the "Go To Campaign", the government's demand stimulation measures are lacking in awareness that they must be balanced with the need to prevent the spread of infection. The government's top priority should be avoidance of the need to reissue a state of emergency, which could expect to see an approximately 3.9 trillion yen per month drop in consumption, while at the same time steadily promoting the normalization of economic activities. In order to do so, managing the economy should take a slow and steady approach, with demand stimulation measures implemented giving sufficient attention to the risk of spreading infection on a small scale, while gradually resuming economic activity.

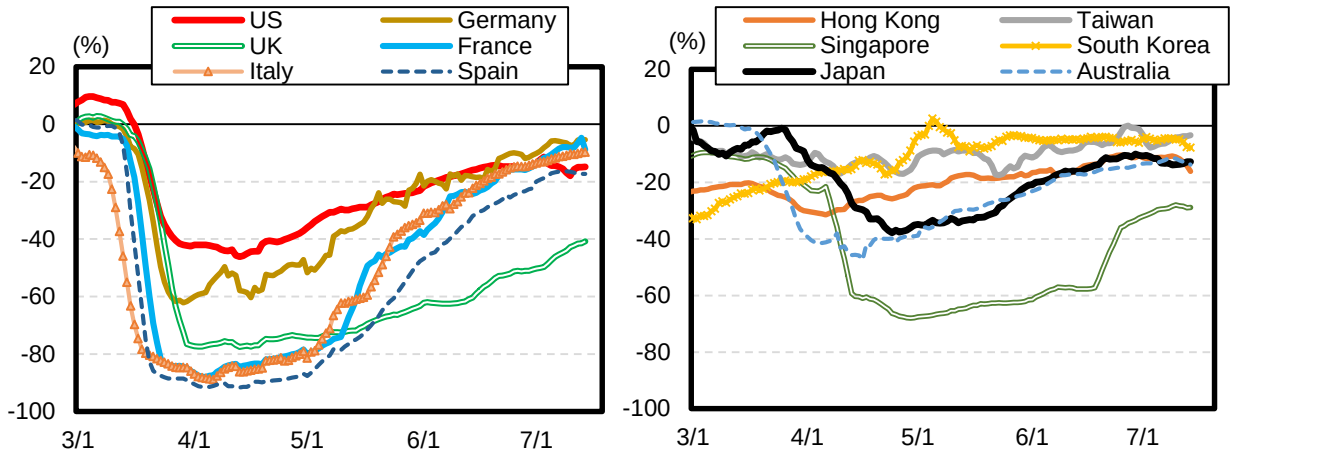
1. Japan's Economy Pulls through Worst Period Ever with Resumption of Economy and Effects of Government Measures

People become active again in many countries

Efforts to bring the spread of COVID-19 under control in the form of limitations placed on economic activity and requests to practice self-restraint have been relaxed in many countries. There is now a growth trend in the number of customers visiting retail stores, eating & drinking establishments, and entertainment facilities, which suffered an especially severe impact. Many countries, including Japan, are gradually pulling out of the most severe economic crisis since the period just after the end of WW Ⅱ.

Chart 1 shows daily mobility data by country as collected from Google Maps. Retail stores and entertainment facilities suffered an especially severe impact due to the effects of limitations placed on economic activity and requests to practice self-restraint[1], with the number of customers falling dramatically in March and April 2020. In Italy and Spain, where the spread of infection was especially serious during these months, the number of customers at retail stores and other establishments fell by 90% in comparison to levels seen during the period before the Corona Disaster (the median between January 3 and February 6). However, since that time the trend has been toward recovery. The recovery is a bit sluggish in some countries, such as the UK and Singapore, but as of July 14, most of the countries shown in Chart 1 had return to -20% to -5% of levels seen before COVID-19. The infection has begun to spread again in some countries, such as Japan and the US, and so the recovery in number of customers has peaked out.

Rate of Increase/Decrease in Number of Customers at Retail Stores and Entertainment Facilities According to Google Daily Mobility Data (in Comparison to Jan. 3 – Feb. 6) **Chart 1**



Source: Google; compiled by DIR.

Note: Most recent value in weekly moving average is July 14. The benchmark is the daily median between January 3 and February 6, 2020.

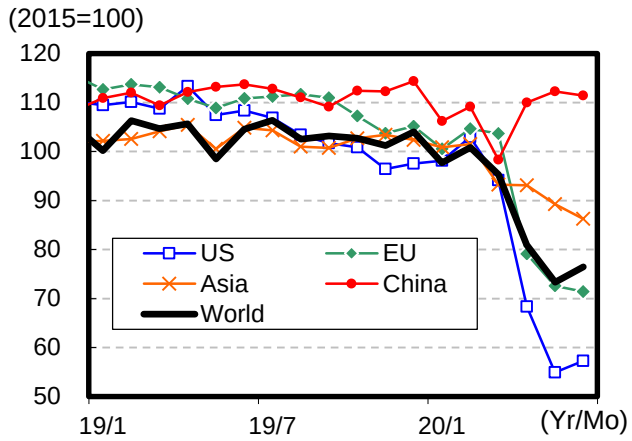
The major destination of final demand for Japan's exports is the US and Europe, where economic activity has been gradually restarting. According to June trade statistics, exports were showing signs of bottoming out. Exports to Asia and the EU still retain some weakness, but the export volume index recorded a positive figure for the first time in four months (Chart 2). However, the level of export volume is still fairly low, falling below the level seen in February before the effects of the spread of COVID-19 by 25%.

[1] Shopping centers, eating & drinking establishments, amusement parks, and movie theaters are included in this calculation, however, stores selling daily necessities, such as super markets, fresh produce markets, and drugstores, are not included.

A wide range of items suffered declines, including general machinery and so on, but the impact of the Corona Disaster was especially felt by transport equipment such as automobiles. Automobile export volume in June grew by over 60% in comparison to the previous month, but remained at a low level, falling below February statistics by 50% (seasonal adjustment by DIR). Exports to the US, the major destination for exports of Japanese automobiles, fell dramatically. Recovery was slow despite the return to growth in June (Chart 3). With the employment situation rapidly deteriorating and a strong sense of uncertainty regarding the future, American consumers appear to be cautious about buying high-priced goods such as passenger vehicles.

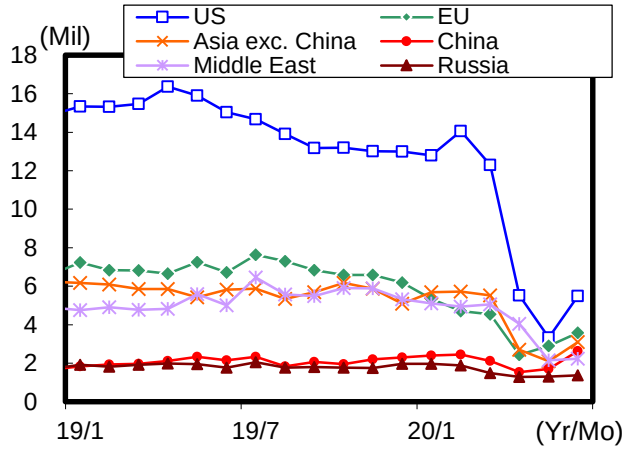
On the other hand, China, which has brought the infection under control ahead of Japan, the US, and Europe, recorded a real GDP growth rate of +3.2% y/y during the Apr-Jun period (+11.5% q/q), a major recovery in comparison to the previous period when it recorded -6.8% y/y (-10.0% q/q). Economic activity is on its way to normalization, centering on production and investment. Japan's export volume index to China is maintaining levels seen before the Corona Disaster (Chart 2). Exports to the US and Europe are expected to take quite a bit of time to recover. Hence China will likely provide support for exports overall for some time to come.

Export Volume Index by Country **Chart 2**



Source: Cabinet Office, Ministry of Finance; compiled by DIR.
Note: Seasonal adjustment by Cabinet Office (China handled by DIR).

Export Volume of Automobiles by Country **Chart 3**



Source: Ministry of Finance; compiled by DIR.
Note: Seasonal adjustment by DIR.

Personal consumption making a comeback centering on goods

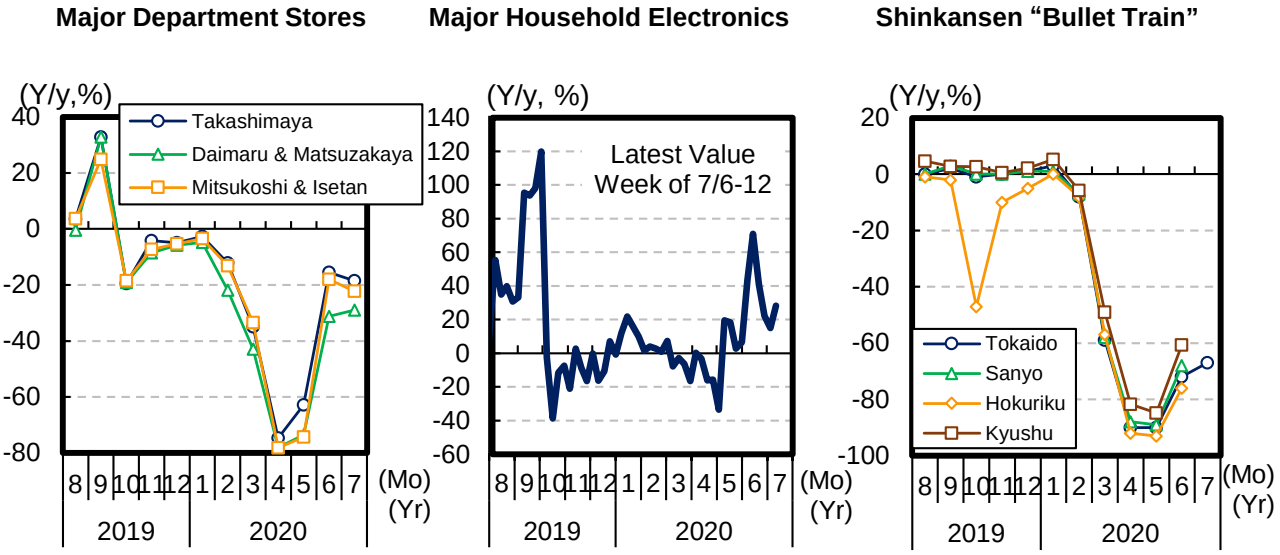
Personal consumption began making a comeback in May, more quickly than exports, in response to the gradual lifting of the state of emergency. Taking a look at trends in consumption according to data from individual companies and POS data as shown in Chart 4, we see that consumption of goods is gradually returning to the level seen before the Corona Disaster. While industries gaining traction from stay-at-home consumption such as supermarkets experienced a pause in sales growth, industries such as department stores and apparel, whose sales had fallen dramatically, have recovered. Just recently, sales of consumer electronics achieved major growth. On the other hand, recovery in services associated with movement of people has been sluggish. The request to practice self-restraint in moving across prefectural borders was removed on June 19, but full-fledged recovery has not been reached due to concerns that the COVID-19 infection will begin to spread again.

In this way, consumption has been rapidly recovering, led by personal consumption. It is thought that a tailwind was provided by the easing of stay-at-home orders, as well as the special fixed benefit paid by the government (100,000 yen per person). Meanwhile, as concerns June, another factor in pushing up results is thought to have been last minute demand prior to termination of the reward points program for use of cashless payment. During the period lasting from October 1, 2019 to April 13, 2020, transactions

totaling approximately 8.5 trillion yen took place at retail outlets covered by the program. Approximately 353 billion yen was returned to consumers.

According to survey results published by Payments Japan Association in June, approximately 30% of consumers purchased goods as much as possible at stores using the reward points system. When we include responses to the survey from consumers who preferred purchasing goods when possible at stores using the reward points system, we see that one out of every two consumers consciously selected stores using the reward points system. We can conclude that the influence of the reward points program on consumer purchasing behavior was great, and that termination of the program as of the end of June generated a certain amount of last minute demand.

Sales of Department Stores and Major Household Electronics Chain Stores, and Use of Shinkansen "Bullet Train" **Chart 4**



Source: Ministry of Economy, Trade and Industry, corporate data; compiled by DIR.
Note: 1) Department stores: based on existing stores. July figures through the 14th.
2) Major household electronics chain stores: METI POS retail sales index weekly data. Consumption tax not included.
3) Shinkansen "Bullet Train": Tokaido Line, July figures through the 14th, others not made public.

Avoiding decline in demand → major decline in household income / chain-reaction bankruptcies → decline in demand

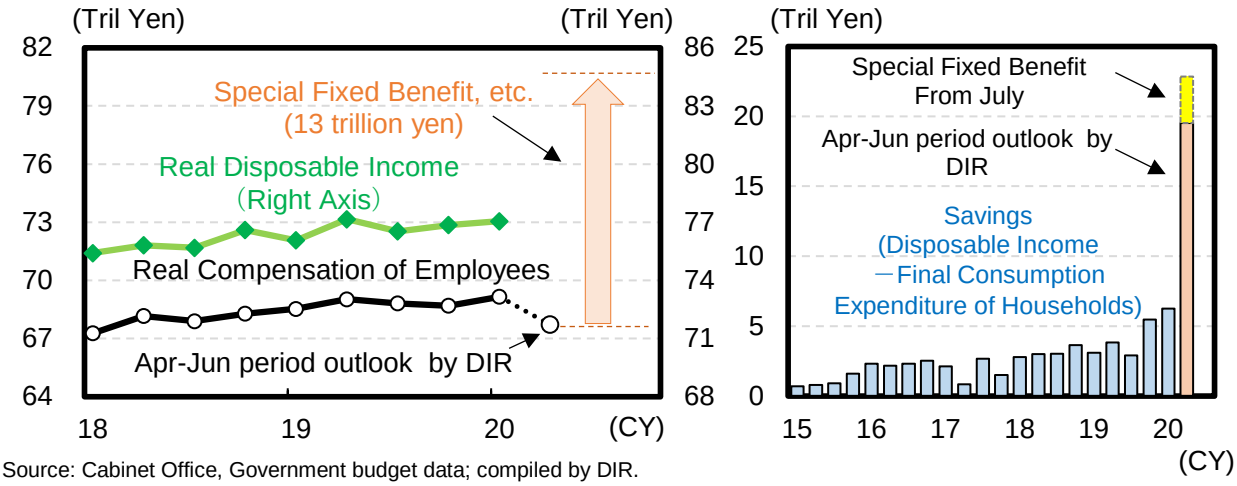
Behind the recovery in personal consumption lies the complete lifting of the declaration of emergency, as well as the avoidance of major declines in household income and chain-reaction bankruptcies while the Corona Disaster rapidly worsened. Economic measures with a scale of operation of totaling around 234 trillion yen were implemented twice since April, and large-scale financing support measures were provided by the Bank of Japan. It is thought that these measures contributed to the business activities of corporations and their ability to maintain employment, as well as the ability of Japanese citizens to maintain stable livelihoods.

Looking at the condition of household income from the macro view, we see that real compensation of employees (salaries etc. received by all employees) was in a growth trend through the Jan-Mar period of 2020. Considering the results of the latest statistics on wages and employment, it is highly possible that the Apr-Jun period will register a major decline (Chart 5, left side). However, in May, payment of

the special fixed benefit with a budget of 12.73 trillion yen began[2], while payment of extraordinary special benefits for child-raising households also took place (a one-time payment of 10,000 yen per child for those qualifying, with a budgeted amount of around 150 billion yen). Included in the second supplementary budget are extraordinary special benefits for single-parent households (budgeted at around 120 billion yen), and emergency student support with a budget of around 53 billion yen[3].

These benefits alone (totaling around 13 trillion yen) exceed by far the scale of decline in real employee compensation during the Apr-Jun period (around 1.5 trillion yen) (Chart 5, left side). In other words, rather than declining due to the Corona Disaster, disposable income, or what can be called household purchasing power, actually grew sharply during the Apr-Jun period due to payment of various benefits.

Trends in Household Income (Left) and Savings (Right) **Chart 5**



Source: Cabinet Office, Government budget data; compiled by DIR.
Note: 1) The figure of around 13 trillion yen in the left hand side of the chart includes extraordinary special benefits for child-raising households, extraordinary special benefits for single-parent households, and emergency student support (budget basis).
2) The Apr-Jun period outlook for savings shown in the right hand side of the chart adds the outlook for the decline in consumption and the special fixed benefit of 9.7 trillion yen to the previous period's actual value, and subtracts the outlook for decline in employee compensation.

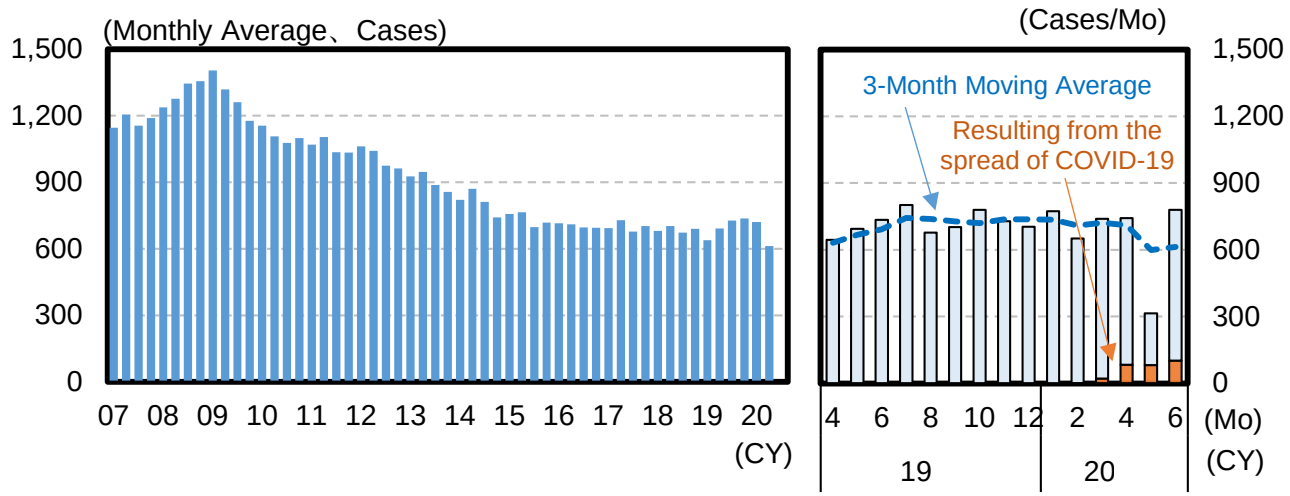
Household purchasing power has been on the increase while at the same time households have been practicing self-restraint in regard to unnecessary and non-urgent consumption. As a result, savings experienced major growth (Chart 5, right side). Since savings is a source for future consumption, major growth contributes to stable personal consumption in the future.

The employment situation is becoming increasingly severe, with the number of workers on leave of absence, and persons who have given up searching for work (the non-labor force population) growing rapidly. There is great concern regarding increased termination of fixed-term contract employees. If the pace of economic recovery is slow, it is quite possible that disposable income could begin to decline due to deterioration of the employment and income environment. However, even if it comes to this, households could still maintain the same level of consumption by dipping into savings (leveling consumption) – something easier to do now than it was in the past. For this reason it is unlikely that a vicious cycle would occur in the short-term, where a decrease in income reduces personal consumption, leading to a further decrease in income.

[2] According to the Ministry of Internal Affairs and Communications, as of July 1 payments of 9.73 trillion yen had been made (76.4% of the budgeted amount of 12.73 trillion yen), and as of July 15, payments totaled 11.58 trillion yen (90.9% of the budgeted amount).
[3] The extraordinary special benefits for single-parent households is aimed at households which received child-rearing benefits for the month of June 2020, at 50,000 yen per household or 30,000 yen per child for the second child and beyond. Emergency student support is for students who could not continue attending school due to the economic effects of the spread of COVID-19. Payment is 100,000 yen per student (or 200,000 yen per students in the case of households exempt from resident tax).

On the other hand, bankruptcies resulting from the spread of COVID-19 have grown from the 22 cases reported in March, reaching 103 cases in June (data from Tokyo Shoko Research, Chart 6 right side). However, overall bankruptcies are maintaining at around 700 cases, a lower level than was experienced during the global financial crisis of 2008-2009, when there were 1,200 to 1,400 bankruptcies per month (Chart 6, left side). In fact, the number of bankruptcies recorded during the Apr-Jun period of 2020, when the effects of the Corona Disaster were at their worst, was at its lowest in thirty years.

Number of Bankruptcies (Liabilities of 10 Million Yen or more) **Chart 6**



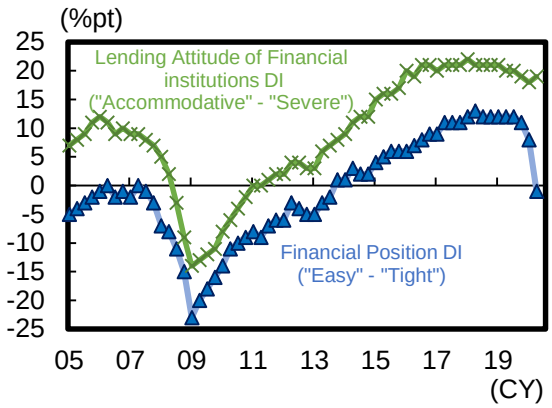
Source: Tokyo Shoko Research “Monthly Bankruptcies”; compiled by DIR.

Behind this lies the fact that even under Corona Disaster conditions, there have not been that many corporations hard-pressed for capital. Looking at the BOJ Tankan, we see that financing of small and medium-sized enterprises, which tend to be less creditworthy than large enterprises, has rapidly become more severe since March. But the Tankan’s measurement of this phenomenon, Financial Position DI (on a scale from “Easy” to “Tight”) had fallen only by -1%pt as of June, considerably exceeding the figure recorded in March 2009 (after the global financial crisis of 2008) when it was at -23%pt (Chart 7). The lending attitude of financial institutions, from the perspective of corporations, has not become more severe since March. The associated DI according to the BOJ Tankan (on a scale from ("accommodative" to "severe") was stable at a high level of +19%pt as of June. The balance sheets of financial institutions are healthier than they were at the time of the global financial crisis of 2008. It appears that the government and BOJ financing support measures at an unprecedented scale have achieved some positive results.

In addition, the liquidity of corporations is also likely a major factor. Chart 8 shows the ratio of cash and deposits to sales of corporations by capitalization (cash deposits divided by sales per month). The amount of cash on hand compared to sales is increasing, especially for small and medium-sized enterprises. Corporations with capital of over 10 million yen to just under 50 million yen had cash and deposits equivalent to about three months of sales as of the Jan-Mar period of 2020 – nearly twice that seen over the past twenty years. Many companies were reluctant to use cash on hand to invest even before the Corona Disaster. It has been suggested that there is a so-called "retention problem". However, it can be said that the increased liquidity on hand played an important role in maintaining business activities during the crisis.

Financing of Small and Medium-Sized Corporations According to BOJ Tankan DI

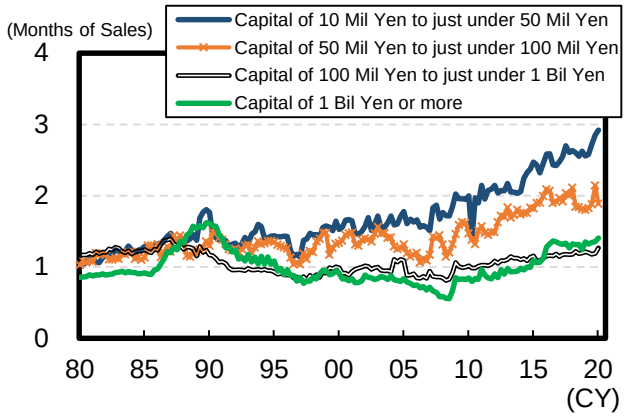
Chart 7



Source: Bank of Japan; compiled by DIR

Ratio of Cash & Deposits to Sales of Corporations by Capitalization

Chart 8



Source: Ministry of Finance; compiled by DIR

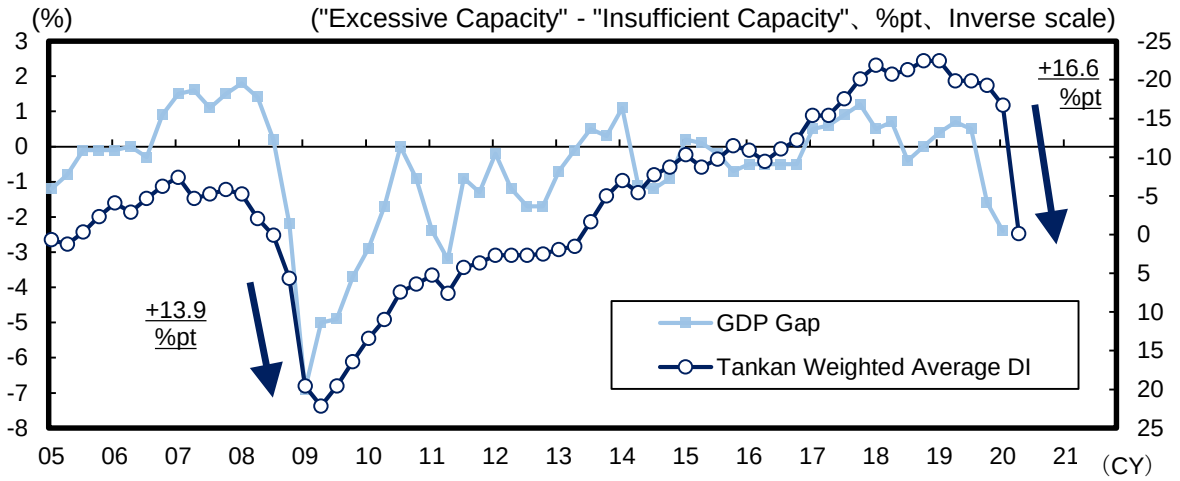
2. Apr-Jun Period Real GDP Growth Rate Expected to Suffer Decline of More than -20% q/q Annualized

BOJ June Tankan weighted average DI worse than global financial crisis of 2008

The Apr-Jun Period Real GDP (1st preliminary), scheduled to be announced on August 17, is expected to record a rate of decline considerably exceeding what until now had been its worst ever performance on a quarterly basis during the Jan-Mar period of 2009 when it was at -17.8% q/q annualized.

Worthy of note here is the BOJ Tankan weighted average DI, which is the weighted average of production capacity DI and employment conditions DI with the capital/labor distribution rate. The Tankan weighted average DI is calculated along the same lines as the GDP gap (the deviation between potential GDP and real GDP). It is a well-known fact that the interrelationship between the two is fairly high (Chart 9). The Tankan weighted average DI deteriorated considerably between March and June 2020 (the difference in comparison to the previous Tankan report is +16.6%pt). The extent of deterioration exceeds that recorded in December 2008, just after the global financial crisis was triggered by the collapse of Lehman Brothers. The responses included in the Tankan survey are "excessive", "adequate", and "insufficient". It is notable that the extent to which some firms may have experienced excess, if any, is not reflected in the Tankan. Considering the above factors, it is quite likely that the real GDP growth rate for the Apr-Jun period will fall deeply into negative territory.

BOJ Tankan Weighted Average DI and GDP Gap **Chart 9**



Source: Bank of Japan, Cabinet Office; compiled by DIR.
Note: The GDP gap is calculated by the Cabinet Office, while the Tankan weighted average DI is calculated by the Bank of Japan. The Tankan weighted average DI is the weighted average of production capacity DI and employment conditions DI with the capital/labor distribution rate.

Considering the results of the various economic indices available at the time of this writing, we estimate that the Apr-Jun period real GDP growth rate will fall deeply into negative territory by considerably more than -20% q/q annualized[4]. Both domestic and overseas demand fell dramatically during this period due to the effects of the COVID-19 pandemic.

The decline in domestic demand was especially dramatic due to the effects of the slowdown in personal consumption. Once the official state of emergency was declared during the months of April and May, the people of Japan began to follow stay-at-home orders nationwide and many shops closed during that period. Unnecessary and non-urgent consumption was avoided, and this had an especially limiting effect on travel, entertainment, and eating out. As was mentioned earlier in this report, consumption has grown

[4] Market consensus according to the Japan Center for Economic Research is seen at -23.5% q/q annualized.

sharply since June, but personal consumption for the Apr-Jun period is expected to report its greatest rate of decline ever on a q/q basis.

As for overseas demand, due to the influence of lockdown policies overseas and the disappearance of demand associated with inbound tourism, exports of goods and services are expected to decline by around 20%. Imports appear to have remained relatively solid, but this is partly a reaction to the sharp decline in imports from China during the January-March period, as well as special demand generated by the COVID-19 virus bringing a concentration on items such as thread and textile products (including medical masks), pharmaceuticals, and communication equipment. While exports were down sharply, the decline in imports was limited. Hence the contribution of overseas demand (net exports) to Japan's economy is expected to be considerably negative.

3. Toward the Coexistence of Economic Activity and Prevention of Spread of Infection

Questionable positioning of demand stimulation measures becomes apparent in "Go To Campaign"

With the resumption of economic activity progressing, fears have resurfaced regarding the possibility that the COVID-19 infection could begin to spread again. The number of new infections reported on a daily basis has been exceeding past records in major cities such as Tokyo and Osaka, and the infection is beginning to spread in neighboring prefectures as well. As is the case in many other countries around the world, Japan is now standing face to face with the quandary of how the resumption of economic activity can somehow coexist with the need to continue preventing the spread of the COVID-19 infection.

As was experienced with overseas lockdowns and the domestic emergency declaration, widespread restrictions and restraint of economic activities, and the economic support for people's livelihoods during that period had a major adverse effect on economic and fiscal conditions. Most countries including Japan have not been able to continue restrictions and self-restraint until new infections stabilized at zero as was done in New Zealand. Instead, Japan, like many other countries, steered towards resuming economic activity at an early stage. As a result, the COVID-19 infection has begun to spread again after having been on the way to being brought under control at one point.

The demand stimulating measures implemented in such circumstances always involve the risk of spreading infection. If nothing else, a system is needed that is designed to take into account the current status of infection and includes measures to be taken when the infection spreads. However, it is difficult to say that the current Japanese measures to stimulate demand take these factors into consideration.

The Abe Cabinet clearly stated the basic concept of its policy package for emergency economic measures approved on April 20. The economic measures are divided into two phases based on the status of spread of the infection. Until the infection can be brought under control, we will be in the emergency support phase. In addition to preventing further spread of the infection, priority will be placed on providing support for households to uphold their livelihoods, and to corporations so that they can continue doing business and maintain employment. Then, after COVID-19 has been brought under control, the cabinet's plan moves into the V-shaped recovery phase, in which the stimulation of demand and social reform are to be promoted.

Realistically speaking, COVID-19 infections are nowhere near containment, and organization of the two phases, as well as the thinking regarding economic measures, have become ambiguous. The government has put out a call to the people regarding "the new lifestyle", and while requesting businesses such as accommodations and eating & drinking services to continue practicing measures to prevent the spread of infection, has indicated its intention to raise the level of economic activity in stages. However, the government has not specified the form that demand stimulation measures will take considering the

necessity of coexisting with efforts to prevent the spread of infection. According to the Basic Policy on Economic and Fiscal Management and Reform 2020, which was formulated on July 8 and decided by the Cabinet on July 17, "It is necessary to develop balanced measures to achieve a solid economic recovery while preventing the spread of infection and protecting the lives and health of the people." The policy statement continues, saying that "measures to stimulate consumption to recover demand will be rolled out in a timely and appropriate manner.[5]"

In this way, the representative demand stimulation measure in the V-shaped recovery phase portion of the emergency economic measures, the "Go To Campaign[6]," was front-loaded to start on July 22. The center of the program is the subsidizing of half the price of domestic travel, with 1.7 trillion yen budgeted. The plan stimulates tourism demand on an unusual scale. But with the COVID-19 infection now rapidly spreading, especially in major cities, anxiety and concern have increased nationwide regarding the spread of infection that could be made worse if there is increased movement of people between regions. For this reason, trips to and from Tokyo were excluded from the program just before it got started, causing further confusion.

Most people would not object to gradually raising the level of economic activity while taking steps to prevent the spread of infection, such as strengthening the testing and medical care systems until therapeutic drugs and a vaccine can be developed. The problem is how this can be realized. Above all, demand stimulation measures that involve the risk of spreading infection should be approached with care. It is necessary to sort out future demand stimulation measures and aim for a system that households and companies can use with peace of mind. The confusion surrounding the "Go To Campaign" can be taken advantage of for this purpose.

Reissue of State of Emergency could Suppress Consumption by around Y3.9 tril/month

It is a joyous thing that the requirement of self-restraint has been gradually lifted, and the pre-Corona hustle and bustle is returning all over the country. That is why we must avoid returning as much as possible to the severe self-restraint that was in effect during the state of emergency, and continue the economic recovery trend.

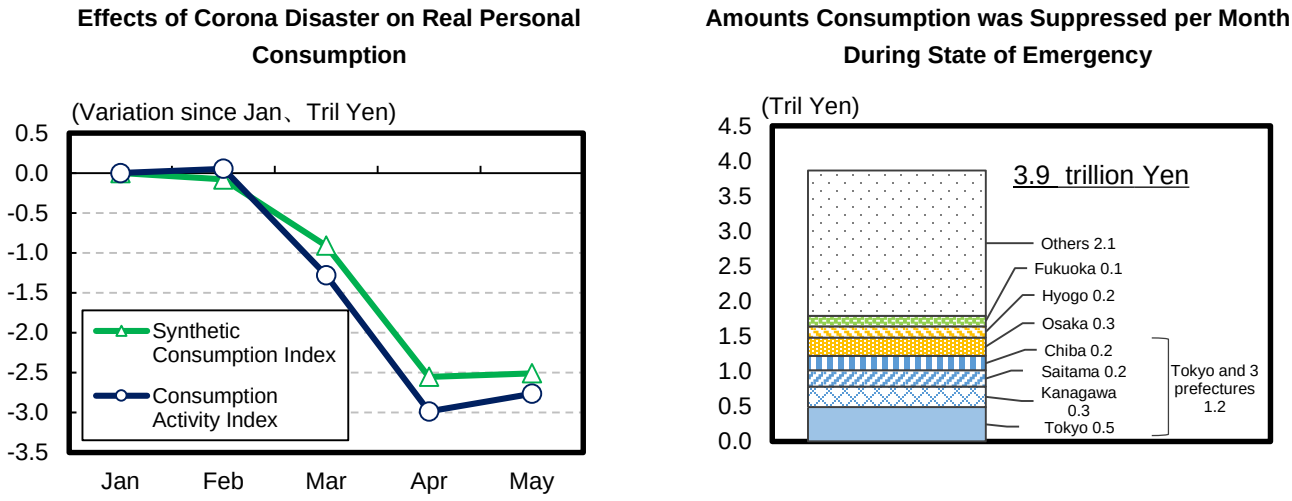
In this section we make use of the latest data to estimate the effects of Japan's recent state of emergency on personal consumption. We refer to the Cabinet Office's Synthetic Consumption Index and the Bank of Japan's Consumption Activity Index to find to what extent GDP-based personal consumption was suppressed during the Corona Disaster. We see that according to the data, consumption fell by around 0.9 to 1.3 trillion yen in March in comparison to January figures, around 2.6 to 3.0 trillion yen in April, and around 2.5 to 2.8 trillion yen in May[7] (figures are all actual amounts reflecting the extent to which consumption fell since January 2020. See Chart 10, left side).

Based on these amounts, considering the differences in when the state of emergency was issued and consumption amounts by prefecture[8], if a state of emergency is declared for all prefectures at the same

[5] DIR translation. An official English translation has not yet been published by the government.
[6] See the DIR report by Yutaro Suzuki and Megumi Wada regarding the Go To Campaign and past measures to stimulate demand for tourism dated 25 June 2020, *Will "Go To Campaign" Act as a Catalyst for Tourism?* (Summary only available in English dated 30 June 2020).
[7] The upper and lower limits of the estimated values correspond to the Cabinet Office's Synthetic Consumption Index and the Bank of Japan's Consumption Activity Index.
[8] In March, before the declaration of the state of emergency, consumption is seen as having been suppressed by the same amount in all prefectures. Then, by adjusting the amount of consumption by prefecture, we adjust for the difference in the point in time when the emergency declaration was issued depending on the region. The consumption amount by prefecture is based on consumption expenditure in transport, entertainment, leisure, & culture, and dining out & lodging, as recorded in the FY2016 Cabinet Office Prefectural Accounts. These industries were chosen because most of the suppression of consumption occurred in these categories during the declaration of emergency.

time, it is estimated that personal consumption will be suppressed by about 3.9 trillion yen per month[9] (Chart 10, right side). This means that households reduced their consumption level by about 20% on average[10]. It can be safely said that most unnecessary and non-urgent consumption was suppressed. Even if the emergency declaration was limited to Tokyo and 3 prefectures (Kanagawa, Saitama, and Chiba), the amount of suppression of consumption is seen as reaching about 1.2 trillion yen per month.

Effects of Corona Disaster on Real Personal Consumption & Amounts Consumption was Suppressed per Month During State of Emergency **Chart 10**



Source: Cabinet Office, Bank of Japan; compiled by DIR.
Notes: 1) The Consumption Activity Index is adjusted for travel balance. The synthetic consumption index is revised on a monetary basis according to the benchmark year of household final consumption expenditure, while the consumption activity index is revised on a monetary basis according to the benchmark year of actual household final consumption expenditure (excluding imputed rent of owner-occupied dwellings).
2) The amounts by which consumption was suppressed per month were estimated based on consumption suppression amounts in March and April (the average value of amounts calculated from the consumption activity index and the synthetic consumption index), and consumption amounts by prefecture (based on consumption expenditure in transport, entertainment, leisure, & culture, and dining out & lodging).

Haste makes waste in managing an economy coexisting with COVID-19

Nearly six months have passed since the first outbreak of COVID-19 was reported in the city of Wuhan in the Hubei Province of China. During that time research on the virus has progressed in Japan and other countries, and knowledge has deepened regarding treatment methods and measures to prevent the infection. Testing and medical care have also improved. Hence it could be said that as of this point in time, extreme measures are no longer necessary to prevent further spread of the disease, such as limiting a wide range of economic activity and declaring a state of emergency as was done in spring.

But even so, the virus has begun to spread again and has become a serious situation in the southern and western US, where they have been forced to halt the gradual restarting of economic activity and place restrictions on restaurants and bars. Some experts are of the opinion that testing should be increased significantly and areas with the highest risk of further spread of COVID-19 identified. The focus should, in other words, be on testing and isolation of danger areas. If the spread of infection accelerates beyond a certain level, as in some parts of the United States, declaring a state of emergency again may be realistic.

[9] For the amount of consumption curtailment in March and April, the basis for calculation of the estimate, the average value of the amounts calculated from the synthetic consumption index and the consumption activity index is used.
[10] This is the percentage of household final consumption expenditure (about 20 trillion yen in FY2019) excluding imputed rent of owner-occupied dwellings per month.

The question of whether or not economic activity and the need to prevent further spread of the infection can coexist depends on the people of Japan – it depends on the daily habits and behaviors of each individual to produce a positive result. The national and local governments will continue to search for the optimal solution through repeated trial and error. With the difficulty of stabilizing the number of new infections at zero, the most desirable stance is one that prioritizes the avoidance of an explosion in infections and the necessity of declaring another state of emergency. To do so means accepting that the economic recovery will have to be gradual in order to steadily normalize economic activities. In order to do so, managing the economy should take a slow and steady approach, with demand stimulation measures implemented giving sufficient attention to the risk of spreading infection on a small scale, while gradually resuming economic activity. Meanwhile, another priority should be to continue providing support for households and corporations which have suffered the most severe impact of the Corona Disaster.

Japan's Economic Outlook No.205 Update

	FY19	FY20 (Estimate)	FY20 (Estimate)	CY19	CY20 (Estimate)	CY20 (Estimate)
Main economic indicators						
Nominal GDP (y/y %)	0.8	-4.5	2.5	1.3	-4.1	1.5
Real GDP (chained [2011]; y/y %)	0.0	-5.1	2.9	0.7	-5.0	1.8
Domestic demand (contribution, % pt)	0.2	-4.2	2.2	0.8	-4.1	1.4
Foreign demand (contribution, % pt)	-0.2	-0.9	0.7	-0.2	-0.9	0.5
GDP deflator (y/y %)	0.8	0.7	-0.4	0.6	0.9	-0.4
Index of All-industry Activity (y/y %)*	-1.3	-7.0	3.0	-0.3	-7.2	1.7
Index of Industrial Production (y/y %)	-3.7	-5.3	3.8	-2.8	-6.3	3.0
Index of Tertiary Industry Activity (y/y %)	-0.7	-7.8	3.1	0.5	-10.6	1.5
Corporate Goods Price Index (y/y %)	0.1	-3.8	0.4	0.2	-2.7	-0.8
Consumer Price Index (excl. fresh food; y/y %)	0.6	-0.9	-0.8	0.7	-0.3	-1.1
Unemployment rate (%)	2.4	3.8	3.5	2.4	3.4	3.7
Government bond yield (10 year; %)	-0.12	0.00	0.00	-0.11	-0.02	0.00
Balance of payments						
Trade balance (Y tril)	0.6	1.1	4.0	0.6	0.9	3.6
Current balance ($100 mil)	1,818	1,870	2,194	1,840	1,813	2,134
Current balance (Y tril)	19.8	20.4	24.0	20.1	19.8	23.4
(% of nominal GDP)	3.6	3.9	4.4	3.6	3.7	4.3
Real GDP components (Chained [2011]; y/y %; figures in parentheses: contribution, % pt)						
Private final consumption	-0.6 (-0.3)	-5.2 (-2.9)	3.1 (1.7)	0.1 (0.1)	-5.4 (-3.0)	2.2 (1.2)
Private housing investment	0.5 (0.0)	-8.2 (-0.2)	-0.8 (-0.0)	2.0 (0.1)	-8.2 (-0.3)	-2.2 (-0.1)
Private fixed investment	-0.2 (-0.0)	-7.2 (-1.2)	1.1 (0.2)	0.7 (0.1)	-6.0 (-1.0)	-1.0 (-0.2)
Government final consumption	2.4 (0.5)	1.3 (0.3)	0.8 (0.2)	1.9 (0.4)	1.6 (0.3)	1.0 (0.2)
Public fixed investment	3.3 (0.2)	-0.7 (-0.0)	3.2 (0.2)	2.9 (0.1)	-0.8 (-0.0)	4.0 (0.2)
Exports of goods and services	-2.7 (-0.5)	-17.2 (-2.9)	12.0 (1.8)	-1.6 (-0.3)	-17.0 (-3.0)	8.5 (1.3)
Imports of goods and services	-1.7 (0.3)	-11.5 (2.0)	6.6 (-1.1)	-0.7 (0.1)	-12.0 (2.1)	5.3 (-0.8)
Major assumptions:						
1. World economy						
Economic growth of major trading partners	1.8	-2.6	5.3	3.0	-3.5	4.7
Crude oil price (WTI futures; $/bbl)	54.7	36.3	39.0	57.0	38.0	39.0
2. US economy						
US real GDP (chained [2012]; y/y %)	1.7	-5.5	4.6	2.3	-4.8	3.2
US Consumer Price Index (y/y %)	1.9	0.5	2.0	1.8	0.9	1.7
3. Japanese economy						
Nominal public fixed investment (y/y %)	4.9	-0.4	3.1	4.5	0.1	3.7
Exchange rate (Y/$)	108.7	109.2	109.5	109.0	109.0	109.5
(Y/€)	120.9	122.4	123.5	122.2	121.6	123.5

Source: Compiled by DIR.
Notes: 1) Index of All-Industry Activity Index: excl. agriculture, forestry, and fisheries.
2) Due to rounding, figures may differ from those released by the government.