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Japan's Economy: Monthly Outlook (Aug 2020)

Economic outlook revised; plodding toward recovery with COVID-19

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Summary

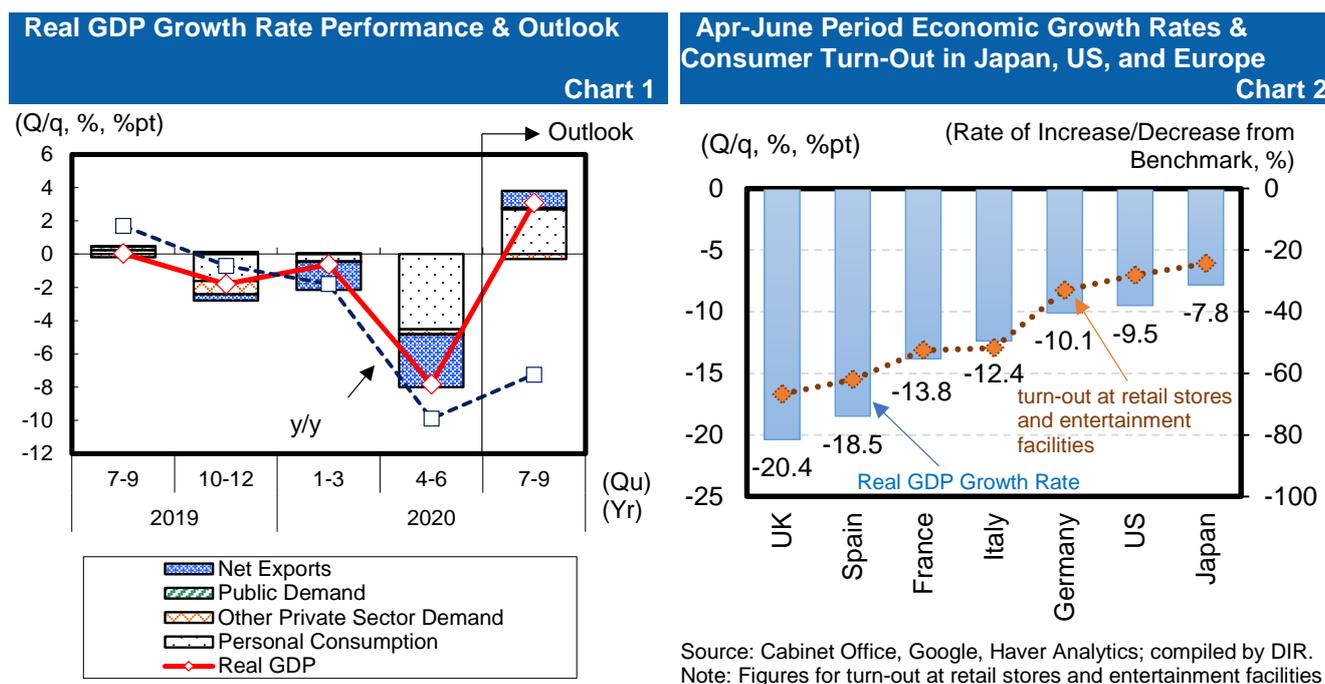
- In light of the 1st preliminary Apr-Jun 2020 GDP release, we have revised our outlook for the Japanese economy. We now expect Japan's real GDP to decline by -6.0% in FY2020, with growth of +3.4% seen in FY2021. If a serious outbreak of COVID-19 recurs in the US, Japan and Europe, leading to the reissue a state of emergency in Japan and the unavoidable repeat of lockdown orders, the FY2020 real GDP growth rate could be expected to deteriorate, falling as low as -9.3%. There is a danger that this could cause a sharp increase in the number of corporate bankruptcies, ultimately developing into a financial crisis.
- The outlook for the real GDP growth rate in the Jul-Sep period is +13.0% q/q annualized. However, this merely manages to make up for around 40% of the decline in GDP during the Apr-Jun period, which recorded the steepest decline of the entire postwar period. Japan's economy is plodding toward recovery. The pace of recovery during the Oct-Dec period and beyond is expected to remain moderate. As for personal consumption, while goods are expected to continue their trend toward recovery, consumption of services involving face-to-face contact or commuting and travel will remain sluggish for some time to come due to concerns regarding infection. Meanwhile, as for exports, those destined for China maintain a steady undertone, while exports of capital goods to the US and Europe, such as general machinery, are expected to be weighed down by declining factory operating rates.

1. Economic Recovery Continues, but V-Shaped Recovery is Doubtful, while Fears Remain in Regard to Possibilities of a Double-Dip Recession

Apr-Jun real GDP records steepest decline of entire postwar period due to effects of voluntary restraint in economic activities

The real GDP growth rate for Apr-Jun 2020 (1st preliminary est) declined by -27.8% q/q annualized, and -7.8% q/q (Chart 1). The decline represented the greatest rate of decrease in the history of current statistics. Turn-out at retail stores and entertainment facilities deteriorated significantly due to strict limitations on economic activity both in Japan and overseas, as well as voluntary restraint requirements associated with the COVID-19 pandemic. Real GDP growth rates were heavily tinged with these effects not only in Japan, but in the US and Europe as well (Chart 2).

Looking at contribution by demand component, we see that both domestic and overseas demand deteriorated. As for domestic demand, personal consumption suffered an especially steep decline (Chart 1). Consumption was suppressed, especially in travel, entertainment, and eating out services, due to the declaration of a state of emergency in April and May. In June, turn-out clearly recovered, with the government’s special fixed benefit (a uniform benefit of 100,000 yen per person) contributing to the sharp recovery, along with last minute demand prior to the termination of the reward points program associated with cashless payments. Even so, overall performance during the Apr-June period ended up at -8.2% q/q. In addition, capital expenditure and housing investment also declined.



Source: Cabinet Office; compiled by DIR.

Source: Cabinet Office, Google, Haver Analytics; compiled by DIR. Note: Figures for turn-out at retail stores and entertainment facilities represent daily rates of average increase or decrease, with the Sunday median between January 3 and February 6, 2020 set as the benchmark.

As for overseas demand, exports of goods and services were down by -18.5% q/q due to the effects of overseas lockdown measures, while exports of services in the form of inbound tourism demand simply vanished. On the other hand, imports declined just slightly at -0.5%. This was due to the rebound in imports from China, which had suffered a steep decline during the Jan-Mar period, while in addition, special demand associated with the spread of COVID-19 was also influential, such as imports of thread for textile use and textile products (including those used in manufacturing surgical masks), medicines, and communications devices. The rate of decline in exports considerably exceeded that of imports, placing the contribution of net exports into significantly negative numbers.

The outlook for the real GDP growth rate in the Jul-Sep period is +13.0% q/q annualized, but this but this is largely due to the rebound from the Apr-Jun period when economic activity was stagnant. In terms of amount, growth of around 15 trillion yen is expected in comparison to the Apr-Jun period real GDP in annualized terms, but the Apr-Jun period fell by around -41.1 trillion yen, hence all this does is make up for just under 40% of the decline, bringing the final number to under around 7% y/y (Chart 1). Not only is it difficult to attain a full recovery for consumption and exports when infections are again on the rise, further declines are expected for capital expenditure and housing investment as well (see Chapter 2 for outlook by demand component).

Assumptions regarding the spread of COVID-19

Our forecast is based on the following assumptions regarding the spread of COVID-19. First of all, regarding the status of infections, we used a classification into four stages with reference to the definitions of the Novel Coronavirus Infectious Diseases Control Subcommittee established by the government. The stages are as follows: I : Zero, sporadic, II : Gradual increase, III: Rapid increase, and IV: Explosion. According to our main scenario, the situation moves from Stage I to Stage III, and depending on the status of infection in each region, appropriate measures are implemented, such as request for suspension of business and refraining from going out, but the situation in Japan overall does not reach the Explosion stage. Measures to control COVID-19 infections have been in effect throughout the forecast period, hence the economic activities of households and corporations have continued to be subject to a certain level of restrictions. However, repeated trial and error toward the coexistence of efforts to prevent further spread of the infection and social and economic activity will gradually strengthen immunity of the society overall, and we expect that the level of economic activity will gradually rise.

On the other hand, in our risk scenario, we assumed that an explosion of infections occurs in Japan, the US and Europe during the Oct-Dec period of 2020 (Stage IV for Japan as outlined above). In this case there would be an unavoidable repeat of tough restrictions on economic activity in all of these countries as well as voluntary restraint and lockdown orders. In Japan a reissuance of the state of emergency lasting for one month is expected to occur. The question of how serious economic deterioration would be is taken up in the DIR report dated 31 July 2020, *Japan's Economy: Monthly Outlook (July 2020)*, by Keiji Kanda and Akane Yamaguchi. According to that report, personal consumption is expected to be suppressed by around 3.9 trillion yen per month.

Real GDP outlook according to main scenario: -6.0% in FY2020 and +3.4% in FY2021

As for the DIR main scenario and risk scenario, the results of our estimates of the extent of influence from the spread of COVID-19 on Japan's economy in light of the recent economic situation are shown in Chart 3.

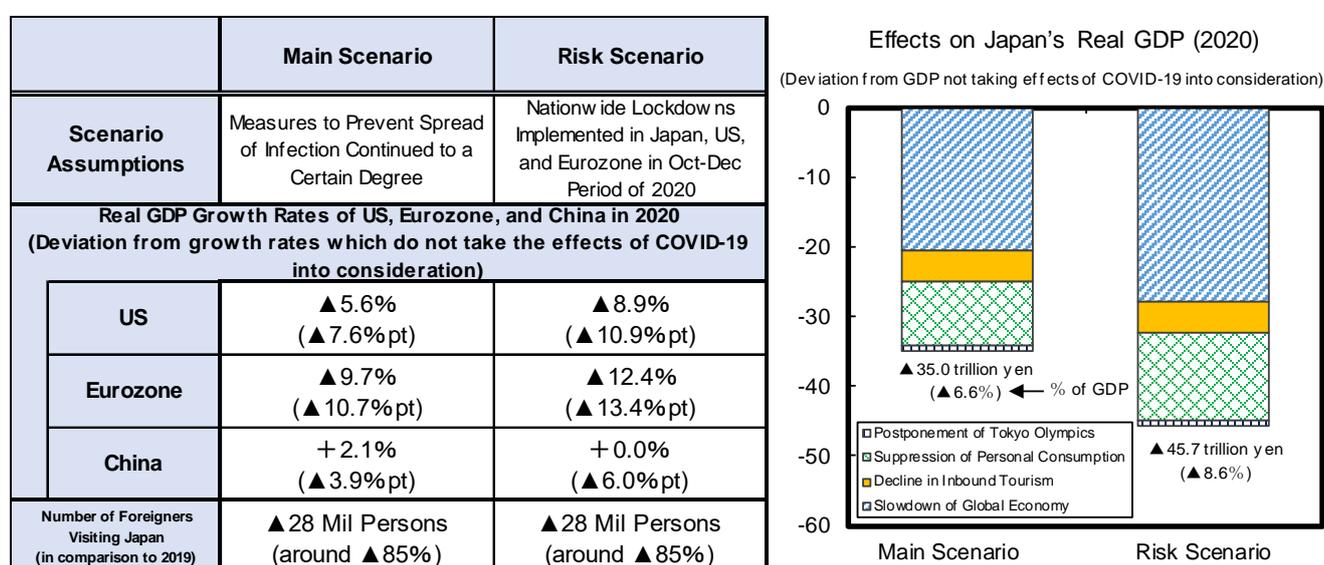
Our assumptions regarding the overseas economy are based on the latest outlooks produced by our own in-house experts on the economies of the countries covered in this report. According to our main scenario, the real GDP growth rate in 2020 is expected to be -5.6% for the US, -9.7% for the Eurozone, and +2.1% for China (Chart 3 left, Chart 4 top). In the US and Europe, measures to prevent infection are restricting the economic activities of corporations and households to some extent, and the pace of economic recovery in the latter half of the year is expected to remain moderate. In China, which has almost succeeded in bringing the infection under control, the investment-led economic recovery likely will continue for the latter half of the year. On the other hand, the real GDP growth rate in 2020 according to our risk scenario is expected to be -8.9% for the US, -12.4% for the Eurozone, and +0.0% for China.

Our outlook for Japan's real GDP growth rate is shown in Chart 4 (bottom). We expect -6.0% in FY2020 and +3.4% in FY2021. As in the case of the US and Europe, positive growth in FY2021 will not be

strong enough to make up for the declines of the previous year. The economy will be plodding toward recovery. Measures to prevent the spread of COVID-19 will be continued to a degree, hence it is difficult to predict aggressive business developments for corporations or a full-scale recovery for personal consumption.

The level of Japan's real GDP is shown in the bottom left of Chart 4. According to our main scenario, Japan's real GDP during the Jan-Mar period of 2022 is expected to fall 3% below the highest level it had reached before the Coronavirus Crisis during the Jul-Sep period of 2019. In the future, it is possible that the experience of the Coronavirus Crisis will stimulate ingenuity and technological innovation in the private sector, leading to the creation of new products and services, as well as business models adapted to the remote society (contactless society). However, if the COVID-19 infection cannot be brought under control, meaning that it would not be possible to predict the occurrence of these factors that could accelerate growth, it could take until around 2023-24 for real GDP to recover to the level seen during the Jul-Sep period of 2019. Our risk scenario predicts a double-dip recession during the Oct-Dec period of 2020, in other words W-shaped growth.

Assumptions Regarding the Effects of COVID-19 and Extent of Influence on Japan's Real GDP Chart 3



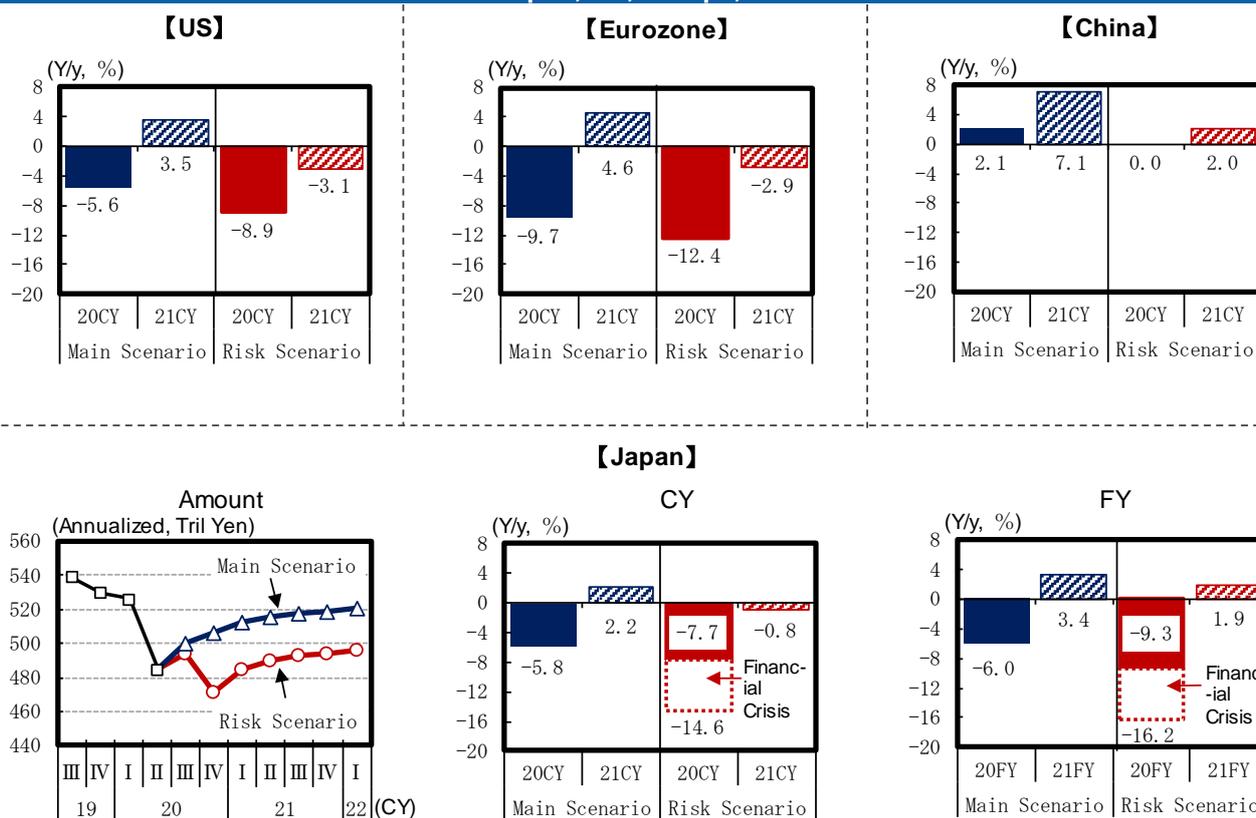
Source: Various statistics, *Global Impact of a Slowdown in China*, by Bing, Roth and Santabábara, 2019, Tokyo 2020 Organizing Committee, Tokyo Metropolitan Government; compiled by DIR.

Note: 1) The extent of influence of China's economic slowdown on Japan and the global economy are based on Bing et al. (2019), and the results of estimates by Banco de España.

2) Influence of economic slowdown in the US and Europe, and suppression of personal consumption according to DIR macro model.

3) Effects of postponement of the Tokyo Olympics and Paralympics (Tokyo Olympics) assumed to be around 0.8 trillion yen based on V4 budget of Tokyo 2020 Organizing Committee and Tokyo Metropolitan Government estimate. Of this amount, around 0.3 trillion yen was for expenses associated with putting on the event, while around 0.2 trillion yen is consumption expenditure by participants and spectators, and around 0.3 trillion yen is the amount of increase in household consumption expenditure associated with the games.

Outlook for Real GDP Growth Rates in Japan, US, Europe, and China Chart 4



Source: Statistics from Each Country; compiled by DIR.

Note: 1) Outlooks for US, Europe, and China produced by DIR experts on each of these economies.

2) Our risk scenario assumes that the spread of infection becomes serious in Japan, the US, and Europe during the Oct-Dec period of 2020, and that states of emergency and lockdown orders are implemented nationwide in each country. China is expected to keep the infection under control during this time.

3) We assume that leveraging by financial institutions would be reduced by 50% if a financial crisis occurs.

2. Outlook by Demand Component

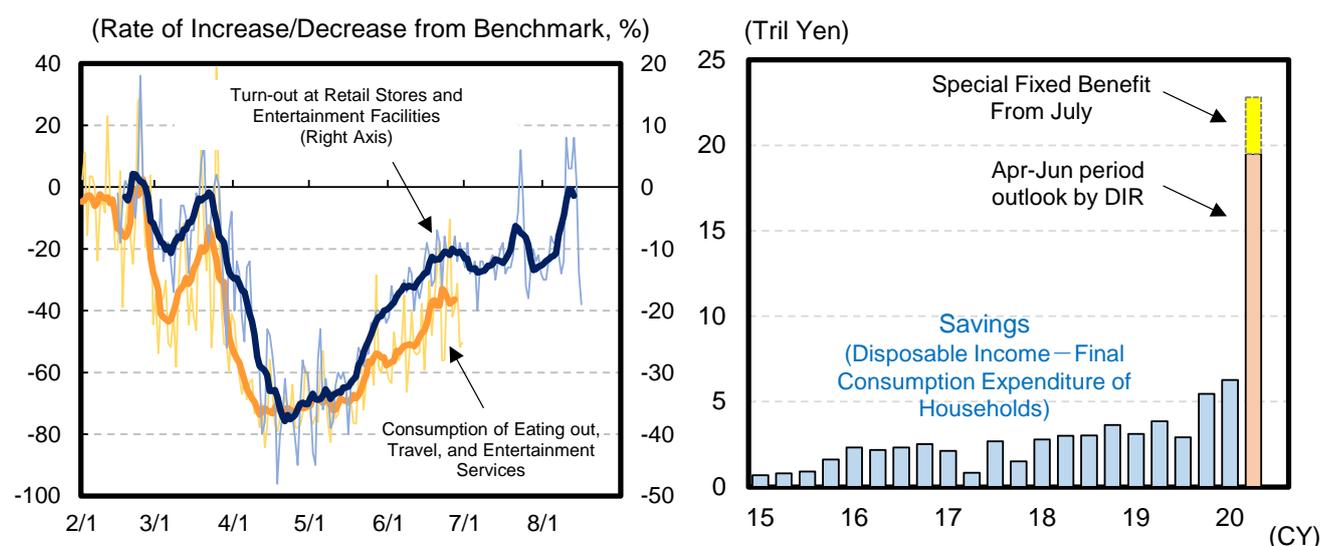
Personal consumption expected to experience moderate growth after sharp recovery in Jul-Sep period

Personal consumption, which is the pillar of domestic demand, is expected to recover sharply from the -8.2% y/y recorded during the Apr-Jun period of 2020 to +4.9% in the Jul-Sep period, due to the resumption of economic activities and the special fixed benefit. Moderate growth is expected to continue during the Oct-Dec period and beyond amidst the search for a balance between socio-economic activity and prevention of the spread of infection.

In considering the future of consumption, one of the important factors to keep in mind is the consumption of services involving face-to-face contact or commuting and travel, which has experienced especially major declines due to the impact of the spread of COVID-19. The left side of Chart 5 shows consumption of eating out, travel, and entertainment services, and turn-out at retail stores and entertainment facilities. The former is from the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communications, covering consumption amounts in eating out, transportation, and cultural & entertainment services (including accommodation fees, package tour fees, and fees for entertainment facilities), while the latter is shown in Chart 2 which shows turn-out at retail stores and entertainment facilities. These two areas show closely similar trends, and we can see the linkage between growth and decline in turn-out, and consumption trends in eating out, transportation, and entertainment services.

While turn-out at retail stores and entertainment facilities recovered sharply after the complete lifting of the state of emergency, it peaked out by the end of June due to increasing concern regarding COVID-19 infections increasing again. Since then turn-out has maintained a low level of activity, with ups and downs, at around 10-15% below the level seen before the Coronavirus Crisis. Without established treatments or a vaccine in sight, this situation is expected to continue for some time in the future. While the trend toward recovery is expected to continue for consumption of goods not susceptible to the spread of infection, consumption of services involving face-to-face contact and travel & commuting will likely remain sluggish for some time.

Consumption and Turn-Out for Services Associated with Eating Out, Travel, and Entertainment (Left); Household Savings (Right); Chart 5



Source: Ministry of Internal Affairs and Communications, Cabinet Office, Google, Govt. Budget Materials; compiled by DIR.

- Notes: 1) The benchmark used in the left side of the chart is the daily median between January 3 and February 6, 2020. The thick lines represent the 7-day central moving average. Eating out, travel, and entertainment related consumption is the total value of eating out, transportation, and cultural & entertainment services.
2) The outlook for savings during the Apr-Jun period shown in the right side of the chart is the amount of decline in consumption and the special fixed benefit (9.7 tril yen) added to last period's performance value minus the amount of decline in employee compensation.

With recovery in the future expected to be slow, there are concerns that the employment and income environment could deteriorate further. However, it should be possible to avoid the complete collapse of consumption in the short-term. Real employee compensation in the Apr-Jun period declined by 2.6 trillion yen in comparison to the previous term, but disposable income, which could also be referred to as the purchasing power of households, grew sharply due to various benefits totaling around 13 trillion yen, including the special fixed benefit. With households refraining from unnecessary and non-urgent consumption while their purchasing power was increasing, the result has been a significant increase in savings (Chart 5 right). It has become easier than before to draw on savings to maintain consumption levels. This will likely become a factor supporting personal consumption in the future.

Go To Campaign raises hope for growth in consumption

The effectiveness of the Go To Campaign as a measure related to personal consumption is attracting attention. The campaign is a measure to stimulate demand in industries that have been hit hard by the spread of infection. The Go To Travel Campaign was started on July 22 with a budget of 1.4 trillion yen. Chart 6 offers an estimate of the policy effectiveness of the Go To Travel Campaign. Based on the average consumption of domestic tourists in 2019, we calculated the policy effect for each expense item. Looking at the results, the consumption amount (direct effect) such as participation in tours and accommodation expenses is 3.0 trillion yen, and including the ripple effect, a policy effect of 4.9 trillion yen is expected. The results of the estimate assume that the budget is fully executed, but considering that domestic travel consumption in 2019 totaled 25 trillion yen, even if travel demand drastically decreases due to the spread of COVID-19, it is possible to assume that the full amount will be executed within the fiscal year.

The policy effect shown here is an estimate of the extent of the economic effect the budget amount of 1.4 trillion yen will bring. The alternative amount of travel spending that would have occurred without this campaign was also included. The conditions of use for this campaign are more lenient than those for travel promotion in the past, and substitutes are likely to occur. Therefore, it should be noted that the actual effect of boosting personal consumption may be smaller than the estimate results.

Policy Effectiveness of Go To Travel Campaign **Chart 6**

(Unit: Y tril)

Direct Effect (Total)	3.0
Participation Fees	0.4
Transportation Expenses	0.7
Accommodations	0.8
Food & Beverages	0.4
Shopping Expenses	0.4
Entertainment Services, Others	0.2
Ripple Effect	1.9
Total	4.9

Source: Tourism Agency, Ministry of Internal Affairs and Communications; compiled by DIR.

This campaign does not cover travel to/from Tokyo (including people outside Tokyo staying in Tokyo and use by Tokyo residents), but the impact of this on policy effects will be limited¹. This is because trips starting or ending in the Tokyo area will be replaced by travel consumption in other areas. However, the impact on the accommodations industry in Tokyo, which will not benefit from this policy, is not

¹ Residents of Tokyo have the highest income of all prefectures, and travel-related consumption is also high. Therefore, since Tokyo residents will not be using it, people in other prefectures will use those amounts, and this fact could reduce the amount of consumption of food and drink and shopping at other travel destinations.

small. In the future, if the exclusion period is lengthy, there will likely be a need for new economic support measures for tourism-related industries in Tokyo.

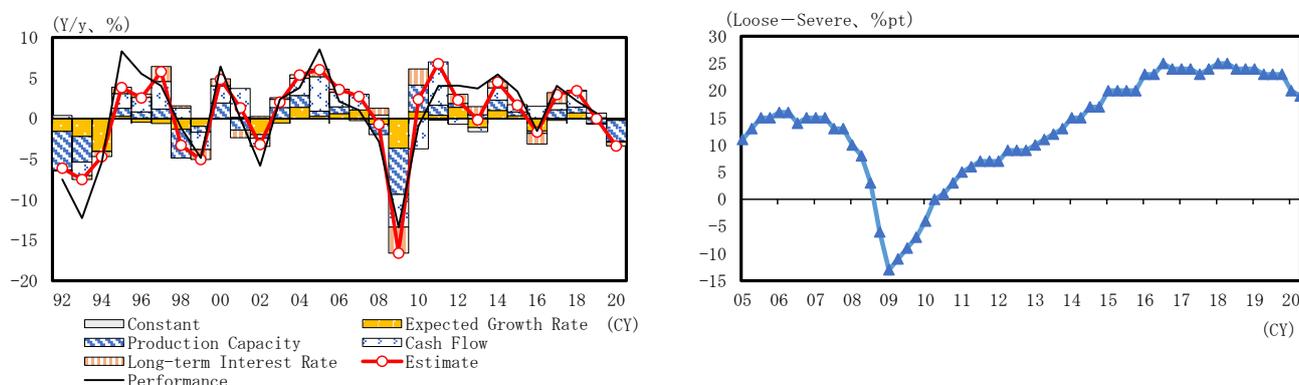
Capital expenditure in FY2020 will fall below the previous year, but rapid decline in appetite for investment will be avoided

As the sense of uncertainty regarding the future of Japan's domestic economy increases along with the global economy, we expect real capital expenditure to continue to decline during the Jul-Sep period and beyond, with FY2020 seen at -3.3% y/y (-3.2% in the calendar year). This is consistent with the outlook according to the capital investment function (Chart 7). According to the Development Bank of Japan (DBJ) Survey on Planned Capital Spending, FY2020 planned domestic capital spending (current year plan) is expected to grow by +3.9% in comparison with the previous fiscal year, the lowest it has been since FY2009. Taking into consideration the fact that the current year plan tends to be on the high side, there is a good possibility that it might actually end up at around -4% to -5%. Nominal capital investment in GDP is expected to be around the same.

We see that there was brisk demand for chemicals, including daily necessities such as medicines and disinfectants. Certain industries, such as precision machinery and information & communication, reaped the benefits of the rapid spread of telecommuting and other developments associated with the infection. According to the DBJ survey by industry, the associated growth in demand has also led to plans for major investment in capacity increase. Aggressive investment in these industries promises to provide underlying support for overall capital investment.

Meanwhile, the recent lending attitude of financial institutions is not as tough as it was during the financial crisis of 2008. While the cash flow situation of corporations became rapidly severe beginning in March, the BOJ Tankan figure for financial institutions lending attitude DI (loose – severe, corporations of all sizes and all industries) was at 19%pt in June, worsening only a small amount in comparison to March (Chart 7 right). In fact, it considerably exceeds the -14%pt recorded in March 2009 after the financial crisis of 2008. This is thought to be partially due to the effects of various kinds of support for cash flow provided by the government and the Bank of Japan. During the financial crisis of 2008, there was concern that financial institutions would withdraw credit or insist on immediate repayment of loans. This led to the tendency of many corporations to hold onto cash on hand and put off capital expenditure. So far, no such signs have been confirmed, and the move away from capital investment may not be as serious as in the past.

Estimated Value According to Capital Investment Function (Left), and Lending Attitude of Financial Institutions According to BOJ Tankan (Right) **Chart 7**



Source: Bank of Japan, Cabinet Office, Ministry of Finance; compiled by DIR.

- Notes: 1) Estimate period in the left side of the chart is 1992 – 2008. The explanatory variables are the expected growth rate of industry demand over the next five years, production & sales equipment DI, cash flow, and long-term interest. Real figures for cash flow and long-term interest are obtained using the deflator. The expected growth rate and cash flow are one period in the future. The equipment DI and long-term interest in the 2020 outlook are average values up to recent months.
- 2) The right side of the chart is based on corporations of all sizes and all industries.

Motor vehicle exports to US, which had suffered major declines due to the Coronavirus Crisis, achieve V-Shaped Recovery

Both domestic and overseas demand suffered major deterioration due to the Coronavirus Crisis. Looking at the export volume index, we see that May 2020 when the downturn was at its worst registered a decline of as much as -29% (seasonally adjusted) in comparison with 2019.

Chart 8 shows May export value by country and region and by major products. Exports to the US fell especially steeply, while in the area of major products we see that the decline in exports of transport machinery brought a major negative contribution to overall results. On the other hand, export value to China, where the infection spread and was then brought under control ahead of Europe and the United States, fell sharply in March, but bottomed out in April, and in May the negative range decreased to as much as -2.3% compared to 2019.

Contribution to Export Value by Country & Region, and Major Products in May 2020 (in Comparison with 2019) **Chart 8**

Contribution to Total Export Value (%pt)

	Total (In Comparison to 2019, %)	Total	Foodstuffs	Raw Materials	Mineral Fuels	Chemicals	Manufactur- ed Goods	Machinery	Electrical Machinery	Transport Equipment	Others
World	-27.7	-27.7	0.0	-0.4	-1.3	-0.9	-2.5	-4.6	-2.3	-13.6	-2.3
US	-47.3	-9.4	-0.1	0.0	-0.1	0.1	-0.4	-1.8	-1.0	-5.4	-0.8
EU	-44.2	-5.1	0.0	-0.1	-0.1	-0.1	-0.3	-1.2	-0.6	-2.0	-0.8
China	-2.3	-0.4	0.0	-0.1	-0.1	-0.1	0.0	-0.3	0.4	-0.3	-0.1
Asia (excluding China)	-18.6	-6.4	0.0	-0.2	-0.5	-0.9	-1.4	-1.3	-0.6	-1.7	-0.4

Source: Ministry of Finance; compiled by DIR.

Notes: 1) Seasonally adjusted values (seasonal adjustment by DIR).

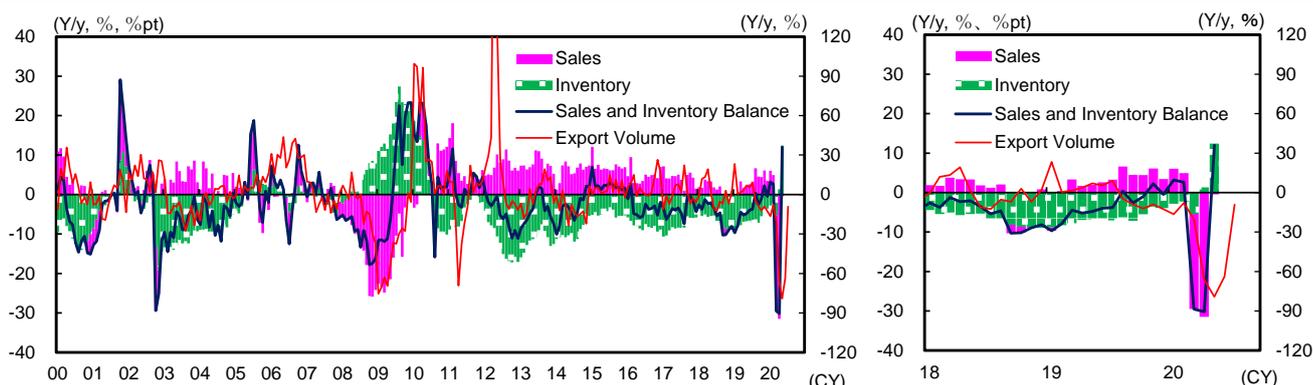
2) The darker the background color in the chart, the greater the influence on overall results. The color red represents a positive contribution, while blue represents a negative contribution.

Export value shifted to positive growth in June, and picked up speed in July². During this time, exports to China maintained underlying strength. With the recovery of domestic production and fixed asset investment in China, exports of intermediate goods such as steel and non-ferrous metals and automobiles boosted overall performance. July export value got an especially big boost from major growth in exports of motor vehicles to the US, which had fallen steeply due to the *Corona Disaster*. It appears that the emergence of pent-up demand following the lifting of lockdown orders and the resulting inventory restoration in the United States contributed to the increase in exports.

These developments can be confirmed in US statistics as well. Looking at trends in the sales and inventory balance on an automobile retailer basis in the United States, inventory adjustment has been progressing rapidly as lockdown is eased and sales activities are normalized (Chart 9). Considering the relationship between the sales/inventory balance and Japan's exports of automobiles to the United States in the past, we can see that there is a tendency for exports to improve, lagging behind improvements in the sales/inventory balance.

² For further detail see the DIR report dated 2020 August 19, "July 2020 Trade Statistics: Recovery picks up speed in comparison to previous month; auto exports to US exhibit V-shaped recovery," by Yutaro Suzuki.

Automobile Sales & Inventory Balance in the US and Japan's Export Volume of Automobiles to the US (Left: Long-Term, Right: Short-Term) Chart 9



Source: BEA, Ministry of Finance, Haver Analytics; compiled by DIR.

Note: Values are the 3-month moving average, based on retail sales of automobiles and auto parts in the US. Sales & inventory balance = sales (y/y) – inventory (y/y), based on real values.

Exports are expected to continue the recovery trend in August and beyond. Looking at the situation by region, pent-up demand can be expected for Europe and the United States in the short term, centering on durable consumer goods, much like what automobile exports to the US experienced in July. However, a large proportion of these exports to particular regions is accounted for by general machinery. With declining factory operating rates in the US and Europe due to the economic downturn, recovery for exports of capital goods such as general machinery is expected to take a considerable amount of time. For this reason, even considering exports overall, recovery to levels seen before the Coronavirus Crisis will likely be difficult for some time to come.

On the other hand, exports to China are expected to maintain underlying strength. While the recovery in retail sales is still slow in China, growth rates of the indices of industrial production and investment in fixed assets are exhibiting a V-shaped recovery, having now recovered to levels seen before the Coronavirus Crisis. Possibilities are high that in the future, infrastructure investment using regional government special bonds as a funding source will lead overall economic growth. Exports to China are largely accounted for by general machinery, as well as intermediate goods such as iron & steel, and non-ferrous metals. Hence growth in exports is expected due to the recovery in production and investment in China.

Japan's Economic Outlook No. 206 (August 21, 2020) Chart 10

		2019				2020				2021				2022	FY2019	FY2020	FY2021
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			
Real GDP	Q/q %; annualized	2.8	1.7	0.2	-7.0	-2.5	-27.8	13.0	5.2	4.5	2.6	1.5	1.3	1.4			
	Y/y	0.8	0.9	1.7	-0.7	-1.8	-9.9	-7.2	-4.3	-2.7	6.2	3.5	2.5	1.7	0.0	-6.0	3.4
Private spending	Q/q %; annualized	0.3	2.1	1.8	-11.0	-3.1	-28.9	21.1	4.1	3.6	2.8	1.2	1.0	1.0	-0.6	-5.9	3.4
Private housing investment	Q/q %; annualized	5.8	-0.6	4.9	-8.7	-15.8	-0.8	-14.4	-5.9	-0.8	0.0	0.4	0.8	1.2	0.5	-7.8	-1.6
Capex	Q/q %; annualized	-1.9	3.3	0.9	-17.6	7.0	-5.8	-5.5	1.5	1.2	1.0	0.9	0.8	1.2	-0.3	-3.3	0.7
Government final consumption	Q/q %; annualized	0.4	4.3	3.4	1.3	0.1	-1.0	1.4	1.0	0.8	0.7	0.6	0.6	0.5	2.3	0.6	0.7
Public investment	Q/q %; annualized	10.3	5.6	4.4	2.5	-1.8	4.7	1.1	1.4	1.9	1.1	2.5	0.5	1.0	3.3	2.0	1.4
Exports	Q/q %; annualized	-6.8	0.6	-2.5	1.6	-19.9	-56.0	23.9	21.6	17.4	8.2	5.3	4.9	4.5	-2.6	-15.6	11.0
Imports	Q/q %; annualized	-16.8	7.3	3.0	-9.4	-15.6	-2.1	4.5	4.5	4.1	3.6	2.4	2.0	1.6	-1.5	-3.1	3.3
Nominal GDP	Q/q %; annualized	5.0	1.9	1.7	-5.7	-2.0	-26.4	9.1	2.6	3.0	2.9	1.9	1.4	1.5	0.8	-6.2	2.7
GDP deflator	Y/y	0.2	0.4	0.6	1.2	0.9	1.5	0.1	-0.9	-1.4	-1.9	-0.8	-0.2	0.2	0.8	-0.2	-0.6
Industrial production	Q/q	-2.1	0.0	-1.1	-3.7	0.4	-16.7	4.7	3.4	2.3	1.4	1.0	0.6	0.6	-3.7	-13.4	7.3
Core CPI	Y/y	0.8	0.8	0.5	0.6	0.6	-0.1	-0.1	-1.4	-1.7	-0.9	-0.5	-0.2	-0.1	0.6	-0.8	-0.4
Unemployment rate	%	2.5	2.4	2.3	2.3	2.4	2.8	3.5	3.6	3.5	3.4	3.3	3.2	3.1	2.4	3.3	3.3
Trade balance (goods, services)	Y tril; annualized	0.3	-1.2	0.3	1.6	2.5	-7.2	-6.1	-3.8	-1.6	-1.3	-0.8	-0.3	0.2	0.7	-4.7	-0.6
Current account balance	Y tril; annualized	19.8	19.4	18.8	21.2	19.4	8.5	9.8	12.6	14.9	15.7	16.3	16.8	17.4	19.7	11.4	16.5
Major assumptions																	
Crude oil price (WTI futures)	\$/bbl	54.9	59.9	56.4	56.9	45.8	28.0	41.6	42.0	42.0	42.0	42.0	42.0	42.0	54.7	38.4	42.0
Exchange rate	Yen/\$	110.2	109.8	107.3	108.7	108.9	107.6	106.5	106.5	106.5	106.5	106.5	106.5	106.5	108.7	106.8	106.5

Source: Produced by DIR.

Note: Performance values through the Apr-Jun period of 2020. For dates beyond this period, DIR estimates were used.

Japan's Economic Outlook (2020/8/21)

	FY19	FY20 (Estimate)	FY21 (Estimate)	CY19	CY20 (Estimate)	CY21 (Estimate)
Main economic indicators						
Nominal GDP (y/y %)	0.8	-6.2	2.7	1.3	-5.4	1.2
Real GDP (chained [2011]; y/y %)	0.0	-6.0	3.4	0.7	-5.8	2.2
Domestic demand (contribution, % pt)	0.2	-3.9	2.3	0.8	-3.9	1.6
Foreign demand (contribution, % pt)	-0.2	-2.1	1.1	-0.2	-1.9	0.6
GDP deflator (y/y %)	0.8	-0.2	-0.6	0.6	0.4	-1.0
Index of All-Industry Activity (y/y %)*	-1.3	-8.4	4.0	-0.4	-8.2	2.3
Index of Industrial Production (y/y %)	-3.7	-13.4	7.3	-3.0	-12.4	4.0
Index of Tertiary Industry Activity (y/y %)	-0.6	-9.1	3.4	0.5	-11.5	1.5
Corporate Goods Price Index (y/y %)	0.1	-2.3	-0.1	0.2	-1.5	-0.9
Consumer Price Index (excl. fresh food; y/y %)	0.6	-0.8	-0.4	0.7	-0.3	-0.8
Unemployment rate (%)	2.4	3.3	3.3	2.4	3.1	3.4
Government bond yield (10 year; %)	-0.12	-0.01	-0.01	-0.11	-0.02	-0.01
Balance of payments						
Trade balance (Y tril)	0.7	-4.7	-0.6	0.4	-3.6	-1.0
Current balance (\$100 mil)	1,813	1,070	1,554	1,845	1,167	1,495
Current balance (Y tril)	19.7	11.4	16.5	20.1	12.6	15.9
(% of nominal GDP)	3.6	2.2	3.1	3.6	2.4	3.0
Real GDP components (Chained [2011]; y/y %; figures in parentheses: contribution, % pt)						
Private final consumption	-0.6 (-0.3)	-5.9 (-3.3)	3.4 (1.9)	0.1 (0.1)	-6.0 (-3.3)	2.5 (1.4)
Private housing investment	0.5 (0.0)	-7.8 (-0.2)	-1.6 (-0.0)	2.1 (0.1)	-7.7 (-0.2)	-3.1 (-0.1)
Private fixed investment	-0.3 (-0.0)	-3.3 (-0.5)	0.7 (0.1)	0.7 (0.1)	-3.2 (-0.5)	-0.2 (-0.0)
Government final consumption	2.3 (0.5)	0.6 (0.1)	0.7 (0.2)	1.9 (0.4)	1.0 (0.2)	0.8 (0.2)
Public fixed investment	3.3 (0.2)	2.0 (0.1)	1.4 (0.1)	2.9 (0.2)	2.0 (0.1)	1.7 (0.1)
Exports of goods and services	-2.6 (-0.5)	-15.6 (-2.7)	11.0 (1.7)	-1.6 (-0.3)	-15.4 (-2.7)	7.7 (1.2)
Imports of goods and services	-1.5 (0.3)	-3.1 (0.5)	3.3 (-0.6)	-0.7 (0.1)	-4.8 (0.8)	3.4 (-0.5)
Major assumptions:						
1. World economy						
Economic growth of major trading partners	1.8	-2.6	5.8	3.0	-3.6	5.3
Crude oil price (WTI futures; \$/bbl)	54.7	38.4	42.0	57.0	39.3	42.0
2. US economy						
US real GDP (chained [2012]; y/y %)	1.7	-6.5	5.3	2.2	-5.6	3.5
US Consumer Price Index (y/y %)	1.9	0.6	1.9	1.8	1.0	1.7
3. Japanese economy						
Nominal public fixed investment (y/y %)	4.9	1.6	1.3	4.5	2.3	1.4
Exchange rate (Y/\$)	108.7	106.8	106.5	109.0	107.4	106.5
(Y/€)	120.9	123.9	126.0	122.2	122.4	126.0

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.