

The Japanese Economy in 2021

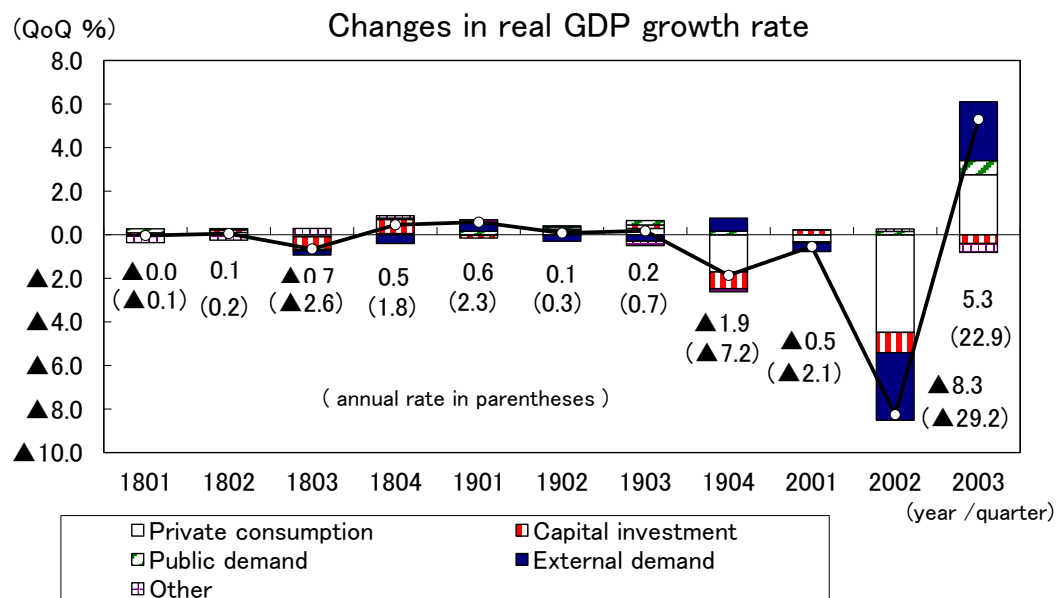
– Recovery from the COVID-19 Recession



January 8, 2021
NLI Research Institute
Taro Saito



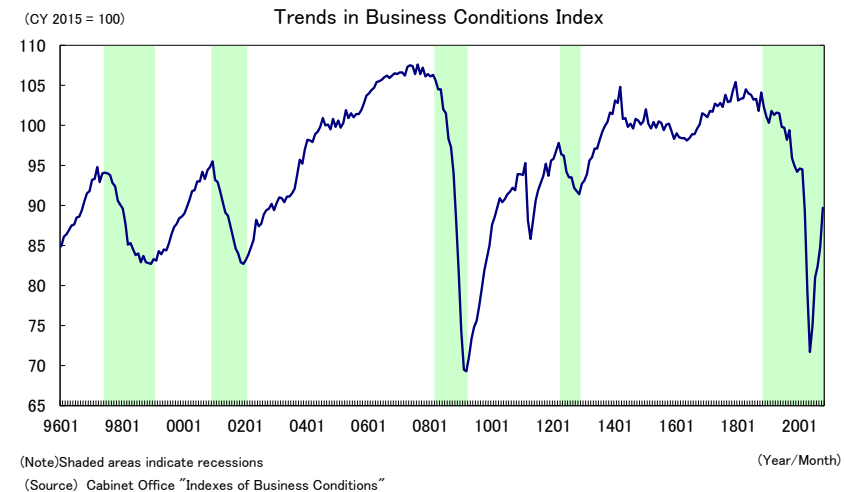
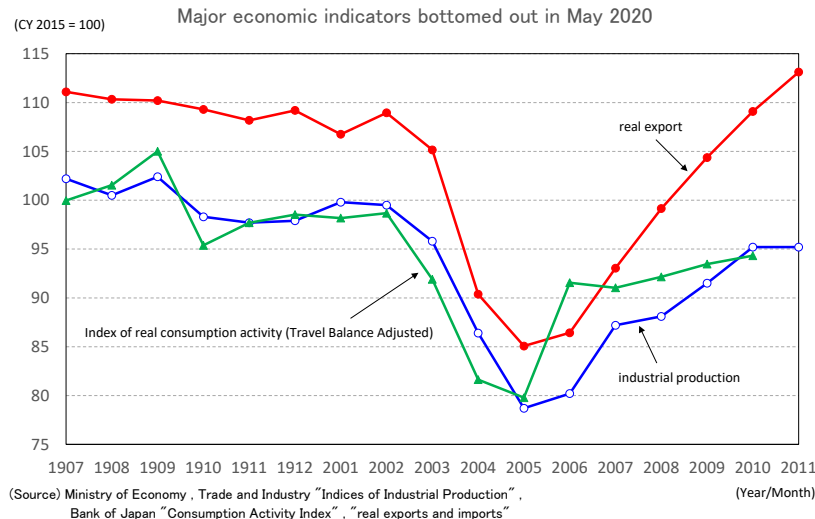
- Real GDP in the April–June quarter of 2020 declined 29.2% on an annualized basis from the previous quarter, the largest negative growth ever, due to the impact of COVID-19.
- After declaring a state of emergency, the July–September quarter's strong growth of 22.9% recovered just under 60% of the fall in the previous quarter.
- Compared with the latest peak (July–September 2019), real GDP remains at a 5.9% lower level and private consumption remains at a 7.2% lower level.



(Source) Cabinet Office "Quarterly Estimates of GDP"

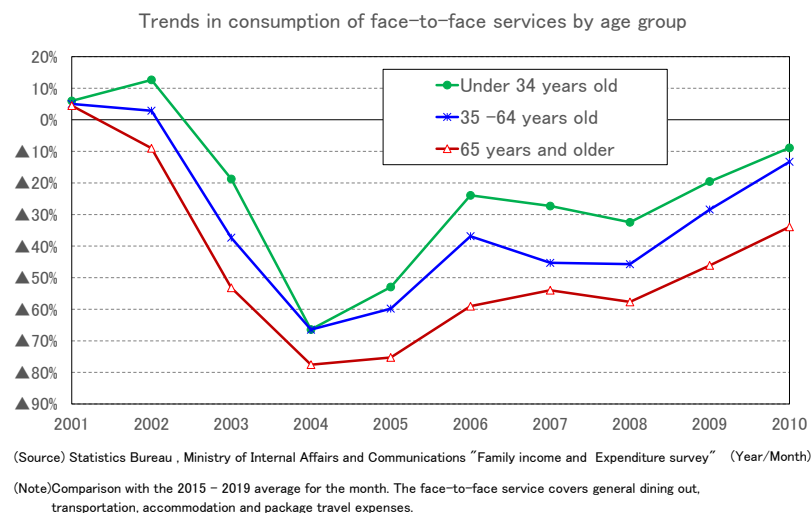
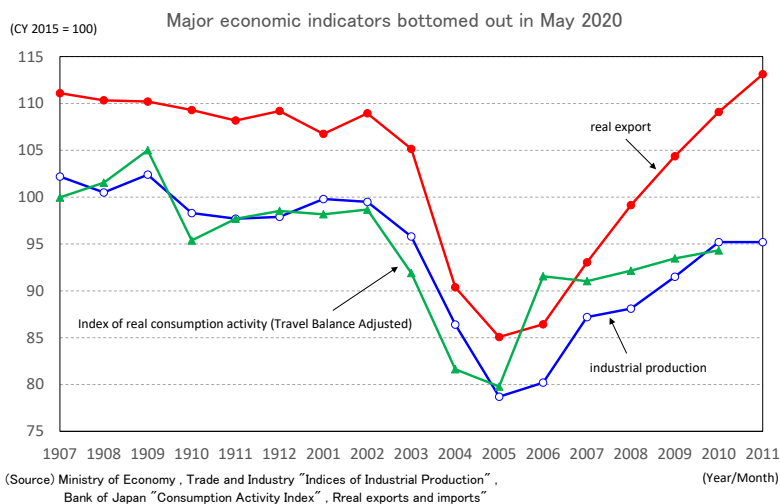


- Major economic indicators such as production, exports and consumption bottomed out in May 2020. The recession that peaked in October 2018 has already ended. Exports recovered to pre-COVID-19 levels.
- The basic assessment of the business conditions index (CI concordance index) “worsening”, which had continued since August 2019, was revised upward to “halting to fall” in August 2020.



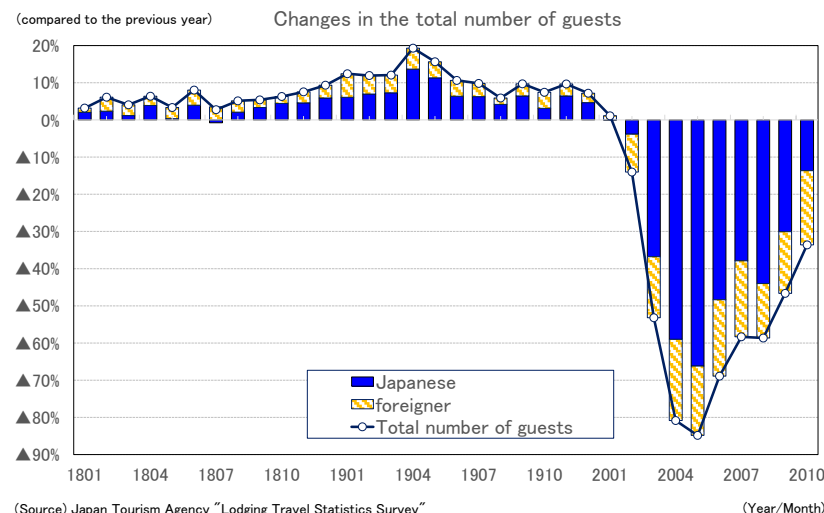
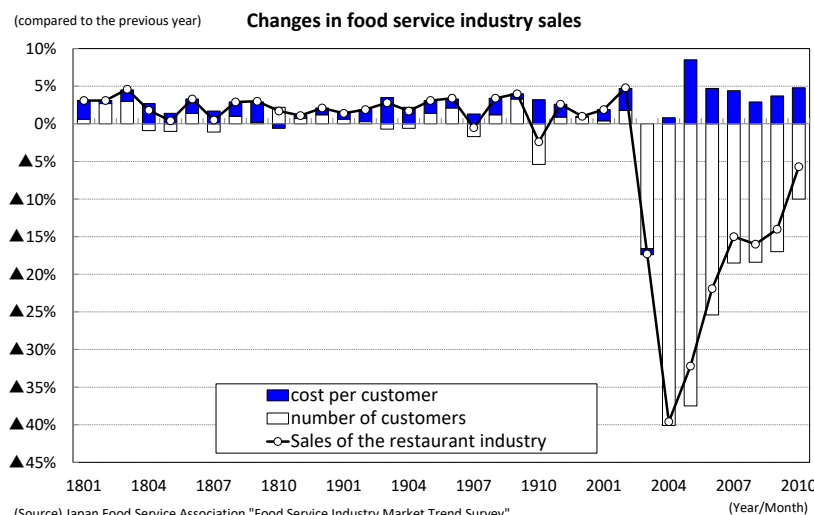
Trends in personal consumption – face-to-face service consumption remains at a low level

- While consumption of goods has already exceeded pre-COVID-19 levels due to the expansion of stay-at-home consumption and the effects of special fixed benefits, consumption of services remains low.
- In particular, consumption of face-to-face services, such as dining out, accommodation and entertainment, dropped to about 20% of pre-COVID-19 levels in April and May, and remained at about 60% in October.
- Compared with other age groups, the elderly aged 65 years and older, who are considered to be at high risk of serious illness, have a significantly weaker consumption of face-to-face services.



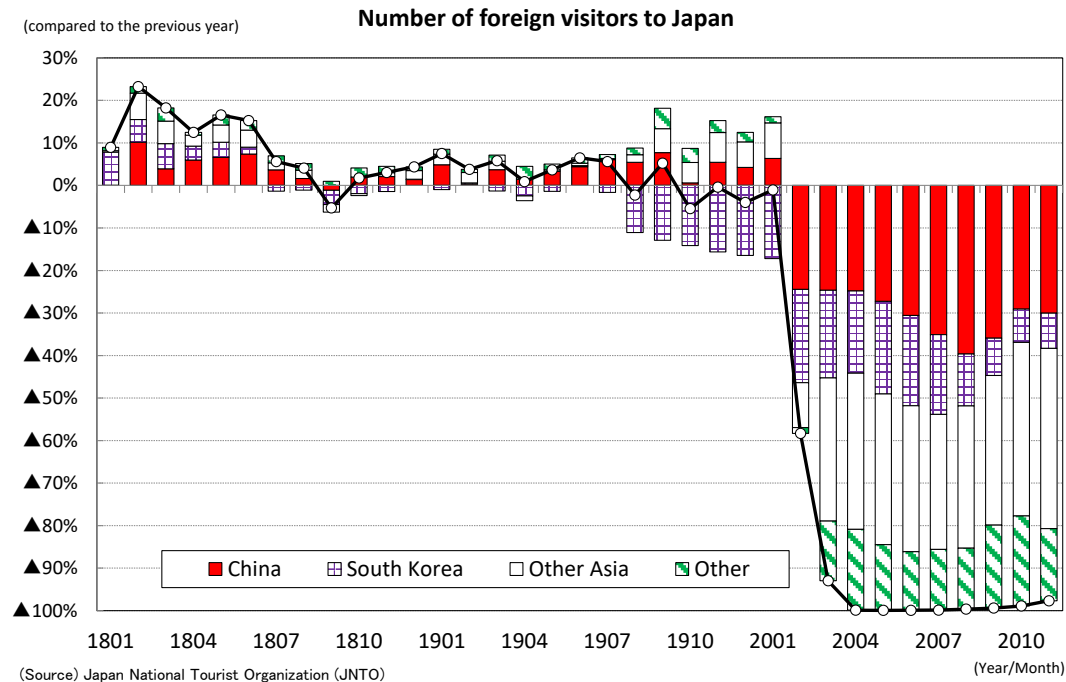
Face-to-face service consumption is likely to fall again

- Consumption of face-to-face services, such as dining out and accommodations, has recovered, albeit at a low level.
- However, it is highly likely that consumption will fall again due to the suspension of “Go To Travel” and requests for restaurant business hours to be shortened and the declaration of a state of emergency.



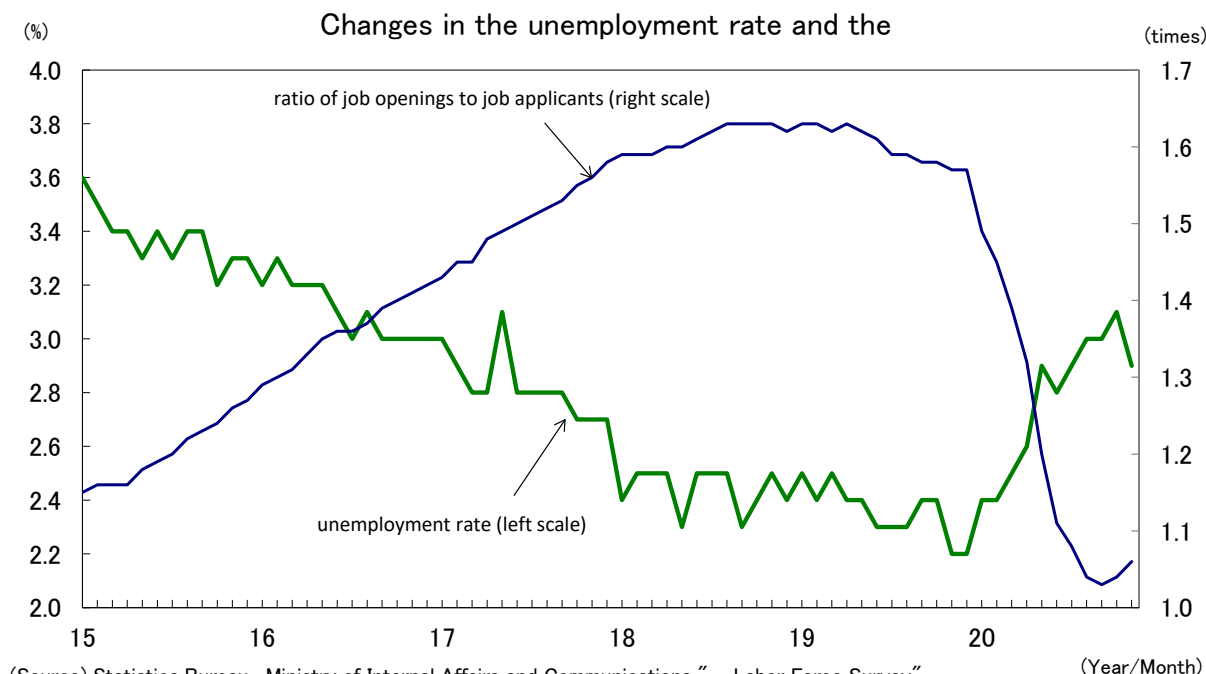
Inbound demand remains evaporated

- The number of visitors to Japan has been almost flat since April 2020.
- In 2019, the number of visitors to Japan was 31.88 million, and inbound consumption was 4.8 trillion yen (Less than 1% of GDP). Internationally, Japan's inbound demand is small.



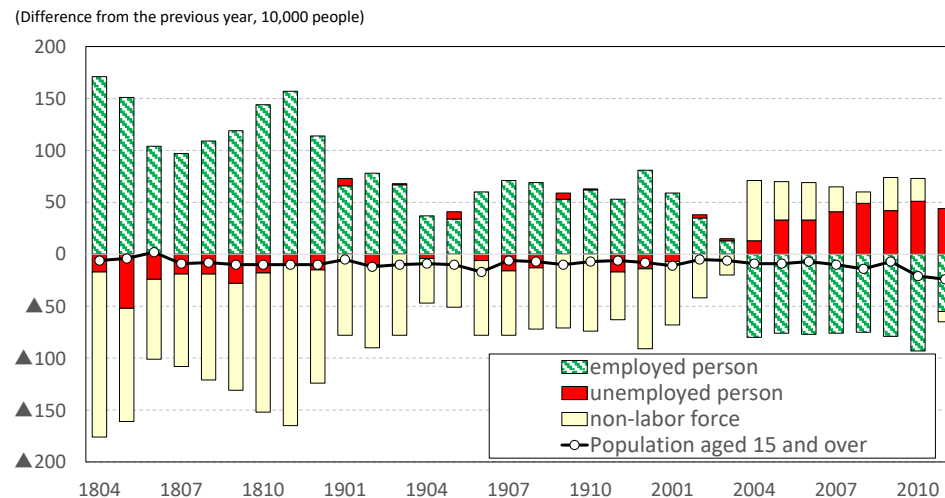
Increasingly severe employment situation (1)

- The ratio of active job openings to active job applicants dropped from 1.63 in April 2019 to 1.03 in September 2020 (1.06 in November).
- The unemployment rate rose from 2.2% in December 2019 to 3.1% in October 2020 (2.9% in November).



- Given the rapid decline in economic activity, the rise in unemployment rate is currently limited.
- Many of those who lost their jobs in April 2020, when the state of emergency was declared, left the labor market. They were not counted as unemployed persons.
- However, the movement to return to the labor market has continued after May, resulting in an increase in the number of unemployed.

re-entry into the labour market leads to an increase in unemployment



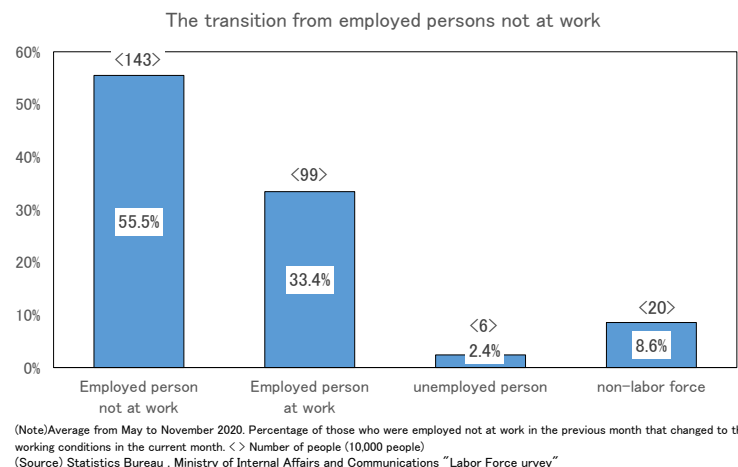
(Note) Population over 15 = Employed + Unemployed + Non-labor force

(Source) Statistics Bureau, Ministry of Internal Affairs and Communications "Labor Force Survey"

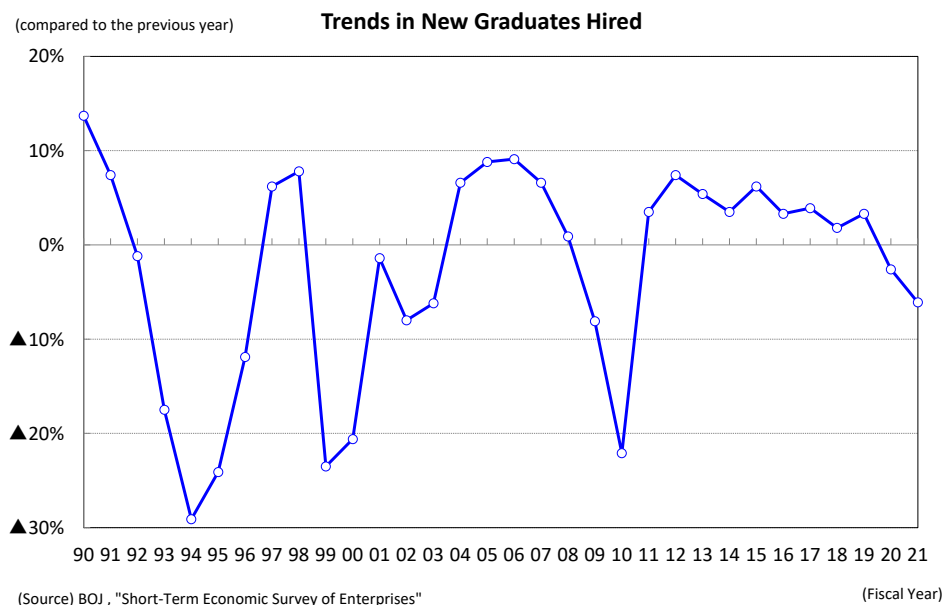
(Year/Month)

Increasingly severe employment situation (3)

- The increase in the number of employed person not at work due to the expansion of employment adjustment subsidies curbed the increase in the number of unemployed.
- In April 2020, the number of employed person not at work sharply increased to 5.97 million (4.2 million from the previous year), and then decreased to 1.76 million (0.15 million from the previous year) in November.
- Only 2.4% of those on leave in the previous month lost their jobs this month.

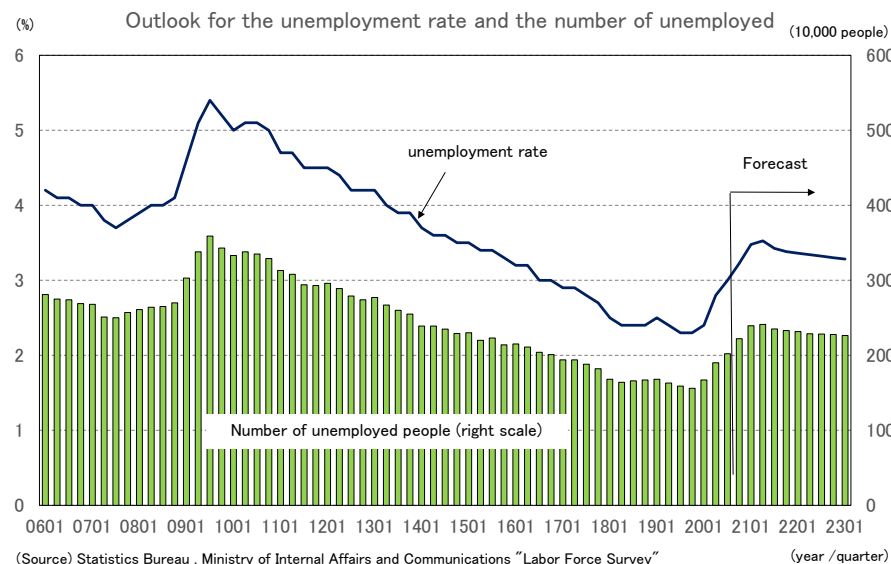


- The employment adjustment subsidies extended from the end of September 2020 to the end of February 2021.
- The excessive employment measures lead to fewer new hires, especially new graduates.
- The number of new graduates hired decreased in FY 2020 from the previous year by 2.6%, the first decrease in 10 years, and then decreased by 6.1% in FY 2021.



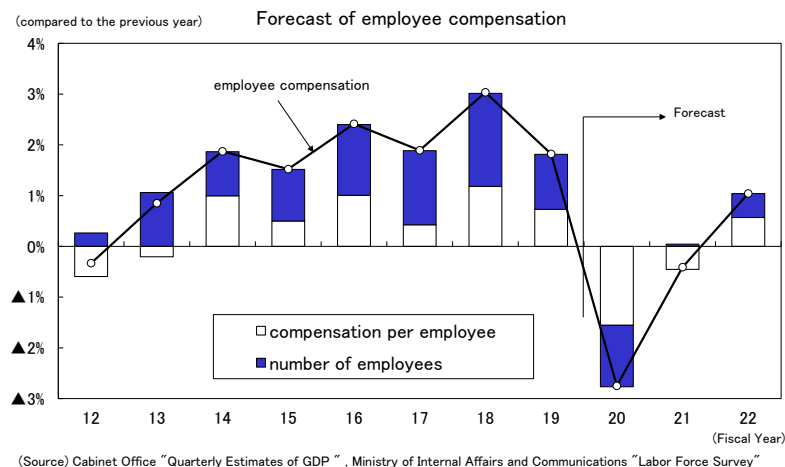
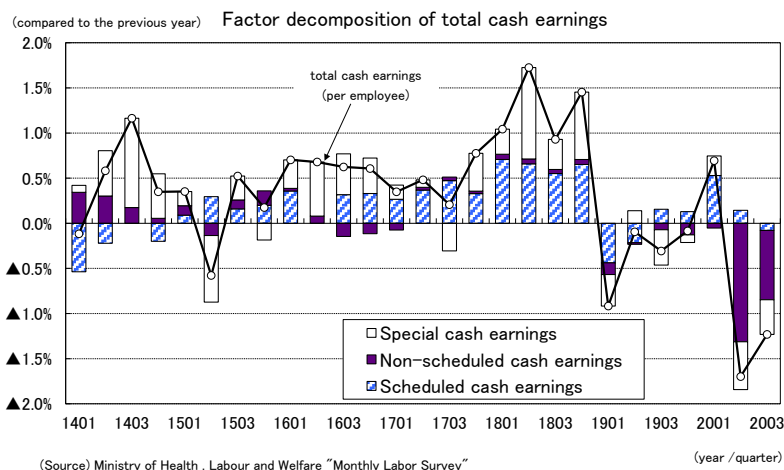
Increasingly severe employment situation (5)

- The unemployment rate is expected to rise to 3.5% by the end of FY 2020, and the number of unemployed is expected to increase from 1.56 million in the October–December quarter of 2019 to 2.41 million in the April–June quarter of 2020.
- Labor hoarding by the employment measures will disturb job creation in the future and delay the pace of improvement in the employment situation. The unemployment rate is expected to remain high at 3.3% at the end of FY 2022.



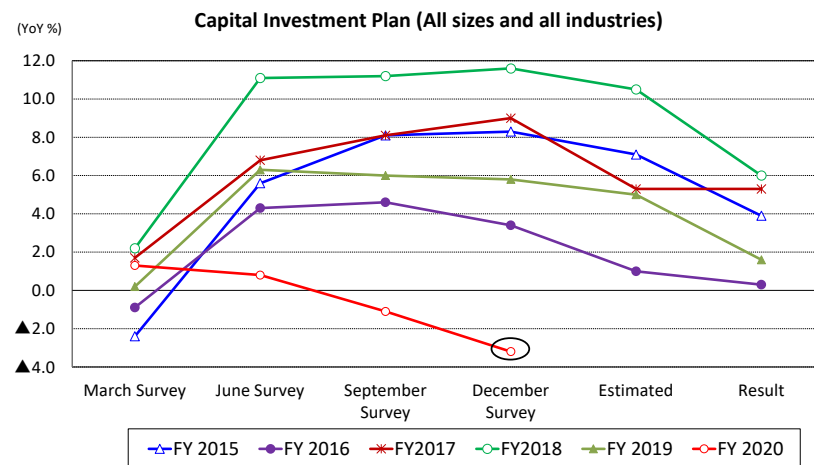
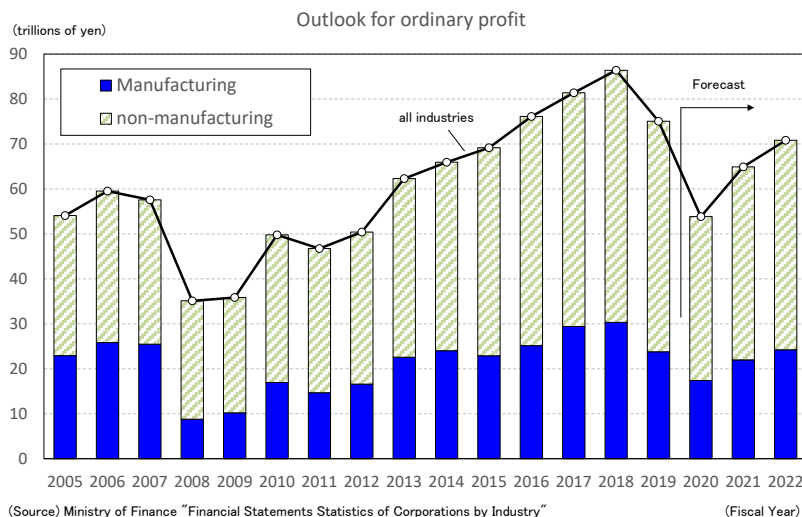
Employee compensation down for the first time in eight years

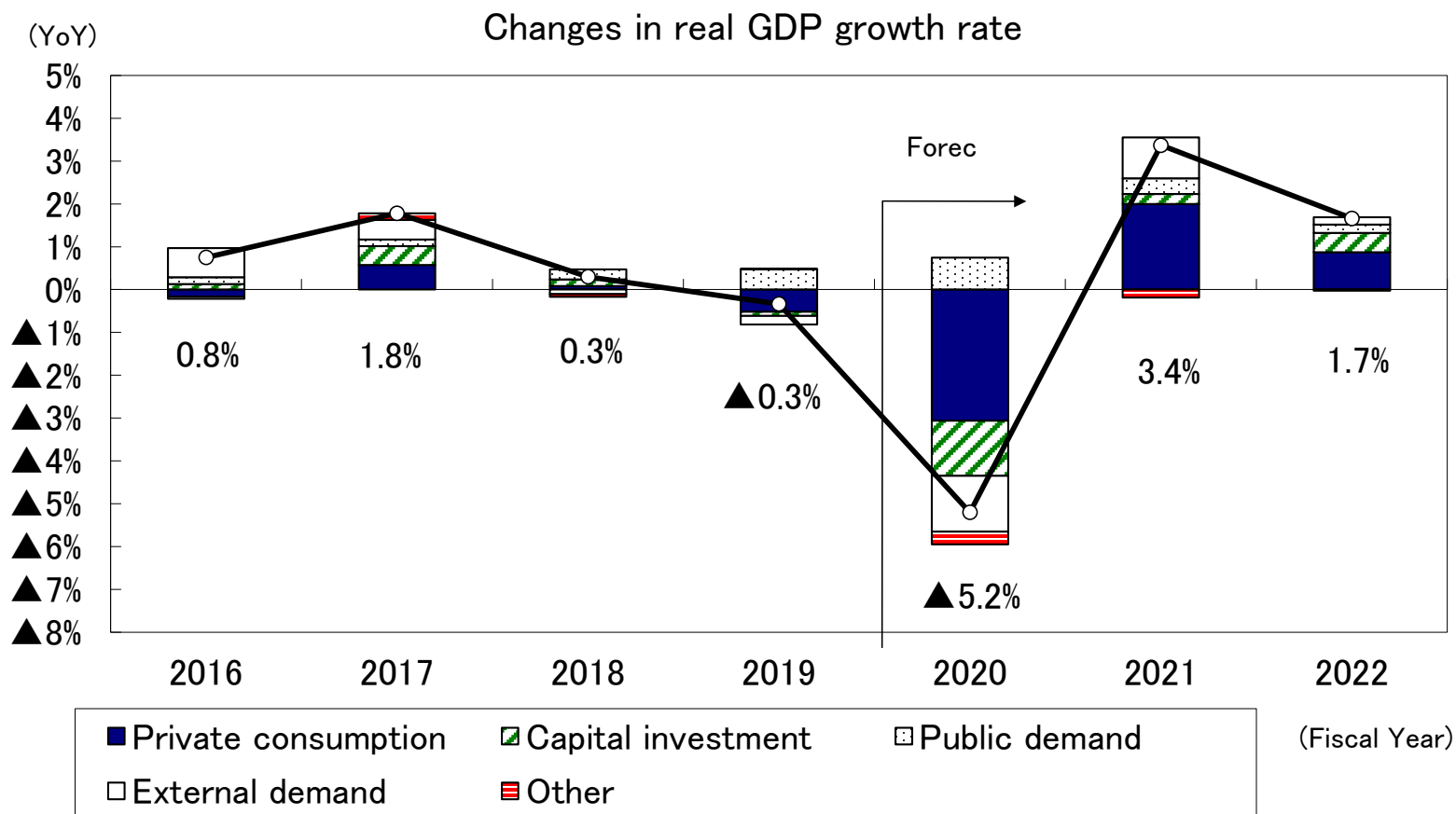
- Wages per worker decreased significantly, mainly in the case of non-scheduled wages (overtime pay) and special wages (bonus).
- In 2021, the wage increase rate in the spring labor offensive will fall below 2% for the first time in 8 years. Bonuses reflecting the delayed deterioration of business performance will continue to decrease.
- Employee compensation is expected to decrease in FY 2020 by 2.6% from the previous year, the first decrease in 8 years, and then continue to decrease in FY 2021 by 0.4%.



Corporate Earnings Decline Since Lehman Shock

- In FY 2020, ordinary profit is forecast to drop 28.2% from the previous year, marking the biggest drop since fiscal 2008 (Down 39.0%). Profits are expected to increase in FY 2021 and 2022, but the level of ordinary profit is expected to remain at about 80% of the peak (FY2018).
- According to the Bank of Japan Tankan 2020 December survey, capital investment in FY 2020 is projected to decrease by 3.2% from the previous year.
- The decline in capital investment may be prolonged due to the collapse of the assumption of ample cash flow, which supported strong capital investment, and the growing restraint of corporate investment resulting from a sharp decline in demand.



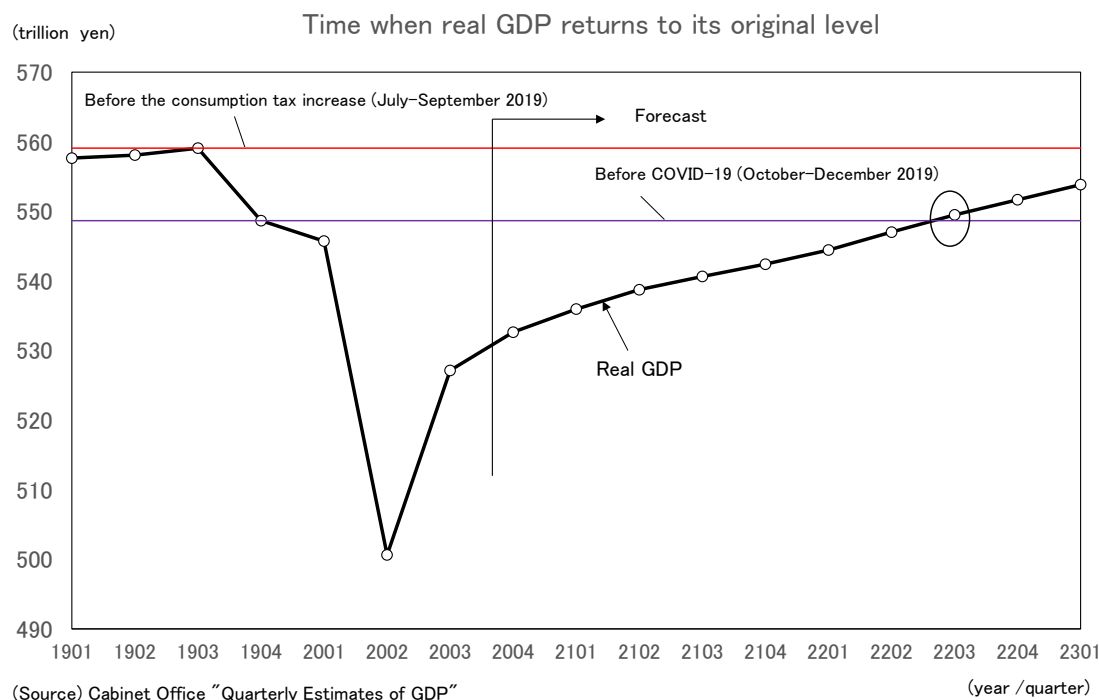


(Source) Cabinet Office "Quarterly Estimates of GDP "



- Reasons why real GDP does not recover in a short time
 - New lifestyles (securing social distance) will continue to restrain consumption of face-to-face services such as dining out, travel, and entertainment.
 - Even if restrictions on economic activities are lifted, a decrease in employee compensation and deterioration in corporate earnings will push down personal consumption and capital investment.
 - In the medium- to long-term, bankruptcies in the restaurant, accommodation and entertainment industries and a reduction in the scale of operations may contribute to a delay in future demand recovery.
 - Don't expect too much from vaccines. Vaccines have a certain probability of side effects. Because of the low incidence and mortality of COVID-19 in Japan, there is an increased relative risk (side reaction) for the benefits of the vaccine (prevention of infection and severity).

- Real GDP is expected to exceed pre-COVID-19 (the October–December quarter of 2019) level in the July–September quarter of 2022 and return to its most recent peak before the consumption tax hike (the July–September quarter of 2019) in fiscal 2023



Is it possible to prevent the spread of infectious diseases while simultaneously carrying out economic activities?

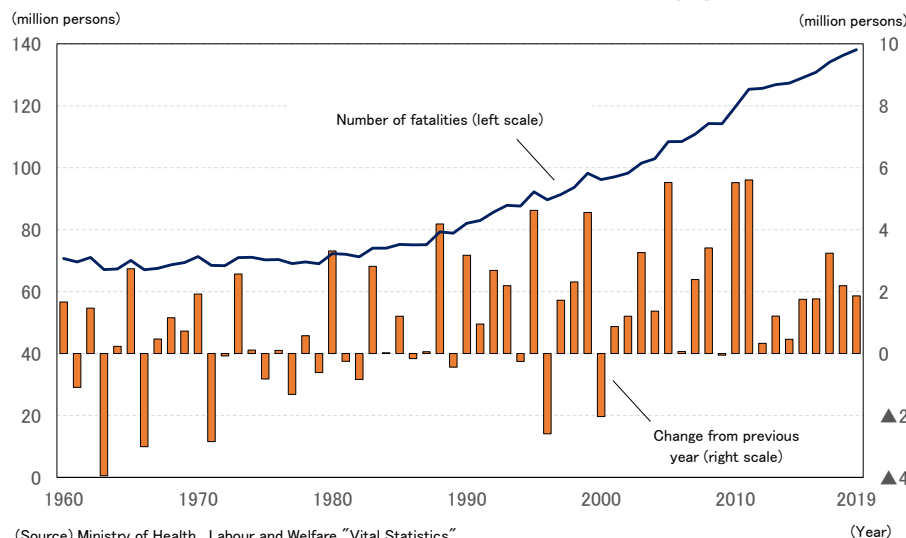


- It is difficult to achieve economic recovery while significantly limiting economic activity.
- The question is how far the number of infected people and the number of deaths should be socially accepted.
 - In Japan, more than one million people die in one year (more than 3,000 people per day).
- It's not a choice of a life or the economy.
 - Both the spread of infection and economic disruption are life-threatening issues.
 - Excessive infection-control measures could lead to an increase in economic deaths.
- It is important to remove restrictions on economic activities as much as possible while taking measures to prevent infection.

The number of deaths increases due to the aging of society

- The number of deaths increased for 10 consecutive years since 2010 due to the influence of the elderly.
 - Over the past 10 years, the average number has increased by 24,000 a year.
- In 2019, 1.38 million people died.
 - By cause of death, malignant neoplasms (376,000 persons), heart diseases (208,000 persons), senility (122,000 persons), cerebrovascular diseases (107,000 persons), pneumonia (96,000 persons) are common.

The number of deaths continues to increase due to the aging of society



The number of deaths by causes of death (2019)

| | (Person) |
|--|-----------|
| Total | 1,381,093 |
| Malignant neoplasms (cancer) | 376,425 |
| Heart diseases | 207,714 |
| Senility | 121,863 |
| Cerebrovascular diseases | 106,552 |
| Pneumonia | 95,518 |
| Diseases of the digestive system | 52,742 |
| Diseases of the nervous system | 51,117 |
| Aspiration pneumonia | 40,385 |
| Renal failure | 26,644 |
| Infections (Tuberculosis, Viral hepatitis, etc.) | 23,544 |
| Dementia | 21,394 |
| Suicide | 19,425 |
| Diabetes | 13,846 |
| Falls | 9,580 |
| Hypertensive diseases | 9,549 |
| Accidental threats to breathing | 8,095 |
| Accidental drowning and submersion | 7,690 |
| Transport accidents | 4,279 |
| Influenza | 3,575 |

(Source) Ministry of Health, Labour and Welfare "Vital Statistics"

| | |
|-----------------|-------|
| COVID-19 (2020) | 3,406 |
|-----------------|-------|

In 2020, the total number of deaths to decline

- In 2020, the number of deaths due to COVID-19 increased, but the number of deaths due to influenza, pneumonia, etc. decreased, leading to an overall decrease.
 - As of October 2020, down 13600 from the previous year
 - Self-restraint of going out, restriction of movement, and maintenance of social distance (decrease in interpersonal contact) may have led to a decrease in the number of dead except for COVID-19

Changes in death toll by causes

(Difference from the previous year, person)

| | 2018 | 2019 | 2020 |
|--|--------|--------|---------|
| Total | 21,903 | 18,623 | ▲13,612 |
| Pneumonia | ▲2,198 | 857 | ▲9,137 |
| Heart diseases | 3,353 | ▲507 | ▲4,962 |
| Influenza | 756 | 250 | ▲2,289 |
| Malignant neoplasm (cancer) | ▲633 | ▲583 | ▲830 |
| Infections (Tuberculosis, Viral hepatitis, etc.) | ▲633 | ▲583 | ▲830 |
| Transports accidents | ▲409 | ▲316 | ▲489 |
| Suicide | ▲437 | ▲606 | 499 |
| COVID-19 | - | - | 3,406 |
| Senility | 8,194 | 12,258 | 5,185 |
| Others | 13,910 | 7,853 | ▲4,165 |

(Note) The total number of 2020 is until October, COVID-19 and transport accidents until December, until November for suicides, and until July for others

(Source) Ministry of Health, Labour and Welfare "Vital Statistics",
National Police Agency "Traffic Accident Statistics", "Suicide Statistics"

Relationship between unemployment and suicide

- The increase of unemployed persons leads to an increase in suicides.
- 1% increase in unemployment rate is associated with an approximately 3% increase in suicide rates (number of people per 100,000 population) (Over 3,000 people).

