



# The Japan Report

EY Consulting Japan

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# Executive Summary

## Economy

Japan's economy has bounced back from a recession with gross domestic product (GDP) growth of 5% in the third quarter compared to a negative growth of 8.2% in the second quarter of this year.

This turnaround is the fastest pace on record for Japanese economic growth. At an annualized rate, it represents an expansion of GDP by 21.4%.

The bounce back, what some are calling the 'ZOOM BOOM' is welcome news for Japan's government which has avoided the tough lockdown measures seen in some other countries.

## COVID-19

As Japan approaches winter with a cooler and dryer climate the expected rise in infections has eventuated but the numbers remain relatively low. On Tuesday (12/1) the number of new cases totaled 2,030.

Prime Minister Yoshihide Suga will continue the stimulus package to protect the economy from the impacts of COVID-19, interestingly some western media have termed this policy 'Suga-Coated'.

## Geopolitical and trade

The Japan-UK Comprehensive Economic Partnership Agreement was signed on 23 October in Tokyo.

The free trade agreement is the first of its kind for the UK to conclude after it left the European Union in January this year.

Fifteen members of the Regional Comprehensive Economic Partnership (RCEP) signed a free trade deal at a video conference on 15 November. Ten ASEAN countries, plus China, Japan, South Korea, Australia, and New Zealand cover almost one-third of the global economy. This world's biggest trade deal is expected to help promote regional trade and investment, streamline supply chains and provide rules in wide fields, including intellectual property and electronic commerce. The Japanese government says it expects the pact will help Japan's economic growth as the country's trade with the other 14 RCEP members amounted to about 46% of its total trade in 2019.

## Sector insights

Japan's new prime minister announced for the first time a climate pledge to achieve net-zero emission by 2050.

In order to achieve the goal, the country plans to promote renewable energy. It will also try to restart existing nuclear power plants with safety as a top priority, while reviewing coal-fired power generation, which the country has long depended on.

Recent EY research has shown a significant change in Japanese saving and wealth management behavior. There is a rapid increase in retirement planning activity amongst all generations.



# 1 COVID-19: government response

As expected, the number of COVID-19 infections is increasing as winter arrives.

Source: Tokyo Metropolitan Government, The Prime Minister's Office, Ministry of Health, Labour and Welfare, Ministry of Economy, Trade and Industry, Ministry of Foreign Affairs, NHK, 16 November 2020, Nikkei 16 November, 2020, Nikkei Asia, 7 October 2020, The Japan Times, 5 October 2020, Japan Tourism Agency.

## 1. Update on COVID-19

- ▶ COVID-19 cases are increasing as the winter approaches with cooler drier air. The daily tally across Japan was 2,030 on 1 December.
- ▶ Minister in charge of COVID-19 response, Mr. Yasutoshi Nishimura, has requested business federations to extend their New Year holiday periods so that their workers can travel on less congested public transportations. That is to avoid “3Cs (Closed spaces, Crowded places, and Close-contact settings).”

## 2. Border enforcement measures

- ▶ The Government of Japan eased COVID-19 border restrictions for the following eight countries and a region on 1 November. ([Please check this page](#) for the latest information.)
- ▶ Australia, Singapore, Thailand, Republic of Korea, China (including Hong Kong and Macau), New Zealand, Brunei, Vietnam, and Taiwan. In principle, testing for COVID-19 on arrival will not be required for persons, including Japanese nationals, returning/entering from these countries and a region, regardless of nationality.
- ▶ In principle, foreign nationals entering/re-entering Japan from these countries and a region will no longer be required to submit a certificate of a pre-entry COVID-19 test conducted within 72 hours before the departure. Fourteen-day self-quarantine and refraining from using public transportation will still be required.
- ▶ The Japan Times quotes government sources saying that, “To address inbound tourists before Tokyo Olympic Games next summer, it will set up an exclusive consultation center for foreign tourists who are suspected of having been infected with COVID-19 as early as next spring.”

## 3. “Go To” Campaign

- ▶ The Japanese government launched the “Go To” Travel campaign in late July. It subsidizes expenses for travel and eating out. At least around 31 million people took advantage of the campaign as of 15 October, according to the Tourism Agency. The total discounts, which were funded by the government so far amounted to ¥139.7 billion (\$1.3 billion). There has been no limit on the number of stays per trip, but the Ministry announced to cover up to 7 nights from 17 November.
- ▶ The government is now planning to extend the campaign period which was initially planned until 31 January.



# 2 The latest news on Politics

## Eight Key policies of newly elected Prime Minister Yoshihide Suga

The most important issue for Prime Minister Suga's administration is to revitalize the economy, while containing COVID-19. He also declared to achieve a net zero emissions by 2050.

Source: Prime Minister's Office of Japan

### Balancing economic recovery and COVID-19 containment measures

Mr. Suga said his top priority is to curb the pandemic and protect people's health and lives. He will also work hard to resume economic activities and protect employment. He pledged to continue offering subsidy programs and effectively interest-free loans for small and medium-sized enterprises (SME). Furthermore, the government will further expand the "Go To" campaign to encourage domestic travel, eating-out, and recreation. Some foreign media have interestingly termed this policy "Suga-coating".

### Carbon neutral by 2050

Mr. Suga declared that Japan will strive to become a carbon neutral society, with net zero emissions, by 2050. He pledged to accelerate the research and development of new technologies such as next-generation solar cells and carbon recycles. His government will also ease regulations and promote "green investments" to realize net a zero society.

### Digitalization of society and government

Mr. Suga declared to promote digitalization of the government as well as the private sector in order to transform the economy and society. The government has set up a preparatory office in October for the establishment of a digital agency. The agency is planned to launch next year.

The COVID-19 pandemic has highlighted an urgent need for digitalization of the Japanese government. Inefficient systems prevented the government's ¥100,000

handouts from reaching all residents in the country promptly.

### Make Japan an international financial hub

Mr. Suga said his government aims to accept more foreign financial experts to make Japan one of the global financial centers. The government will review current tax systems, promote English services in the government departments, and ease requirements for residency status.

### Lower mobile phone fee

Mr. Suga reiterated his will to cut cell phone charges which are said to be higher than those in other major economies.

### Social security

Mr. Suga said his government plans to expand the health insurance system to cover treatment for infertility.

### Foreign affairs and security

Mr. Suga pledged to follow his predecessor's foreign policy. His government will place the Japan-US alliance as the basis for its security and will pursue a "Free and Open Indo-Pacific" based on the UN Convention on the Law of the Sea (UNCLOS). Mr. Suga said it is crucial to maintain stable ties with China. His government will also maintain and strengthen multilateral free trade systems.

### Tokyo Olympics and Paralympics

Prime Minister said he is determined to host the Games to show that humanity defeated COVID-19.



# 3 Sector insights

## 3.1 Energy sector

Achieving the carbon-neutral target by 2050 is one of the main policies of the new government. Japan aims to develop renewable energy to achieve the net zero emission goal by 2050.

## How will Japan achieve net zero emission goal by 2050?

### Government Policy

- ▶ Japan's new prime minister announced for the first time a climate pledge to achieve net zero emission by 2050. In order to achieve the goal, the country plans to promote renewable energy. It will also try to restart existing nuclear power plants with safety as a top priority, while reviewing coal-fired power generation, which the country has long depended on.
- ▶ The government is reviewing its Strategic Energy Plan\* to cope with the recent policy change. The current plan aims at an 80% emission cut from the FY2013 level by FY2050.
- ▶ Economic Minister Hiroshi Kajiyama said the government will support the development of battery storage, carbon recycling, wind power, solar power, and other renewable technologies by providing funds and tax reliefs.

### Wind energy

The government launched a public and private sector panel for the promotion of offshore wind energy in July and plans to install a total of 10,000 megawatts of offshore wind power capacity by 2030.

### Hydrogen fuel

Hydrogen has been mainly produced for fuel cell vehicles. The government will reposition the role of the fuel and seek a path for its wider use in society.

### Storage Battery

The government will encourage investment and technical improvement in storage batteries in the field of mobility. It will also aim to secure markets and strengthen the supply network for the batteries.

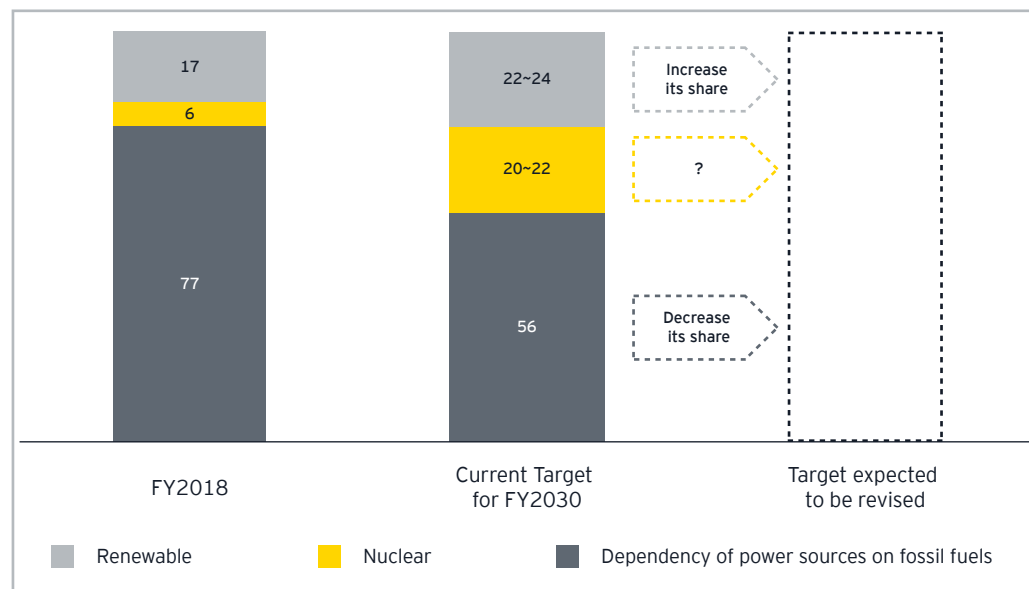
\*: Strategic Energy Plan: Revised every three years since 2002. The government is reviewing its current plan which is to be announced next year.

## Proposal from businesses

The Chairman of Japan Business Federation, Hiroaki Nakanishi, has made the following proposals at the Council on Economic and Fiscal Policy:

- ▶ By realizing the structural reform of the electricity industry, it is necessary to promote grid expansion. Renewable energy should become the main power source.
- ▶ Promote the introduction of electric vehicles (EV) and fuel cell cars rapidly. This can be used as a trigger to develop energy storage and to build a decentralized energy system.
- ▶ Promote the creation of smart cities nationwide.
- ▶ The business warned that the investments in power generation have been stagnating since the Great East Japan Earthquake in 2011.
- ▶ Nuclear power with safety approval should be restarted as long as it meets regulations.

### Composition of power sources in Japan (%)



Source: The Federation of Electric Power Companies of Japan, Ministry of Economy Trade and Industry, Japan Times, 6 October 2020, NHK, 13 October 2020, Nikkei, 27 October 2020, Press Conference by Minister Kajiyama 2050 on Carbon-Neutral Green Growth Policy, Ministry of Economy, Trade and Industry, 26 October 2020, NHK, 9 November 2020, "The 16th Council on Economic and Fiscal Policy," Cabinet Office, 9 November 2020.

## 3.2 Wealth & Asset Management sector

### Recent EY research shows significant changes in Japanese investment & savings behavior

Since late 2019 Japan has witnessed a rapid increase in personal investment and retirement planning activity, which may indicate the long-awaited development of the wealth management sector in Japan. The trend picked up momentum in September last year, after the release of a well-publicized study of retirement savings which concluded that the average retired couple in Japan would need at least a ¥20 million savings nest egg to augment expected pension income. While controversial, the study appears to have clarified to many that responsibility for one's financial future lies with the individual, not with the government.

A recent EY survey found that 55% of 20-to 34-year-olds are unsure of their current approach to financial/life planning, highlighting a keen sense of concern even among this young age group. Since last autumn, many people in Japan have retained professional financial advisors, opened investment accounts, and made investments. Net investments via IFA channels nearly tripled over the first quarter of 2020 compared to the same period a year earlier, new online brokerage accounts are being established this year at a rate more than 60% greater than in 2019. Contributions to tax-deferred NISA (Nippon Individual Savings Account) investment accounts grew by more than 3 trillion yen between June 2019 and June 2020.

For businesses in the financial services sector, there is a significant opportunity to help the growing needs of consumers by providing financial advice and services as more people look to take charge of their financial futures.



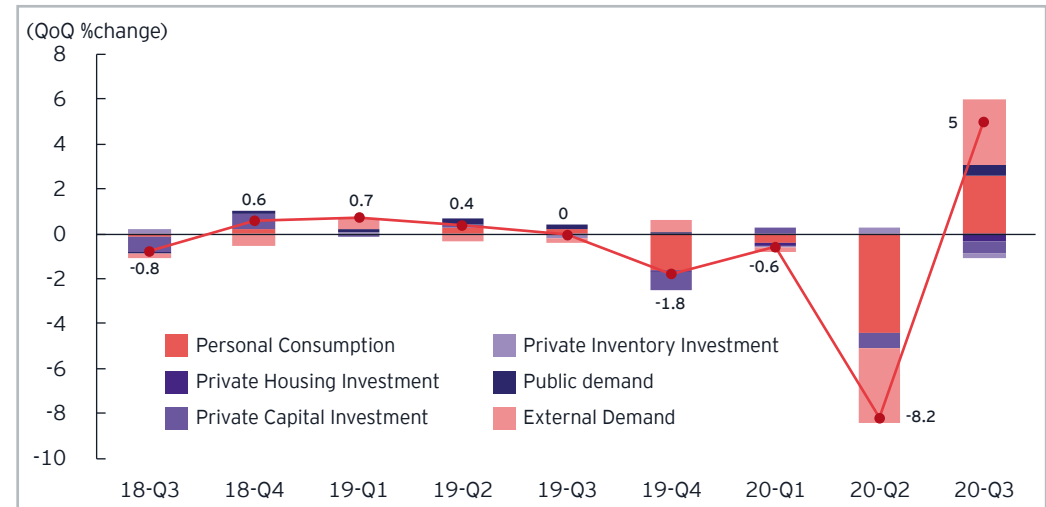
# 4 Economic Update

Japan's Q3 GDP growth rate bounced back into positive territory to +5.0%.

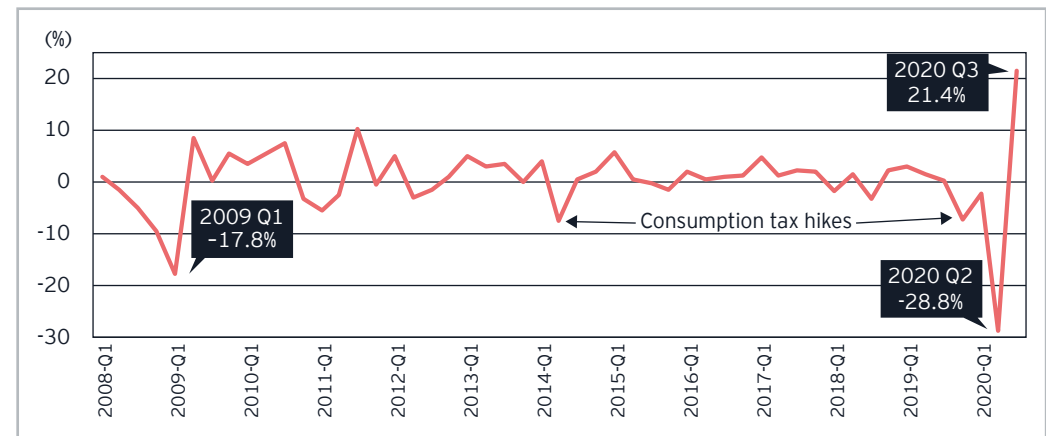
Japan's real GDP growth in July to September rose 5.0% quarter on quarter (QoQ) (21.4% annualized growth rate) as exports steadily increased and private consumption recovered after the state of the emergency was lifted in late May.

The annualized Q3 GDP growth rate was the fastest since 1980 when comparable data became available. GDP in the Q2 contracted 8.2% (-28.8% annualized rate) which was the biggest slump on record. However, the GDP only recovered more than half of the lost output caused by the COVID-19. The government said that the Q3 GDP growth rate shows that the economic situation is improving after it hit bottom in April and May.

## Contribution to Real GDP (% , %pt seasonally adjusted basis)



## Real GDP Growth Rate (QoQ Annualized, seasonally adjusted basis)



Source: "The Basic Facts of the Japanese Economy," Cabinet Office, 12 October 2020, "Recent Economic Developments -Monthly Economic Report" 12 November 2020, NHK, 16 November 2020, Cabinet Office, 16 November 2020.



# Business conditions and industrial production

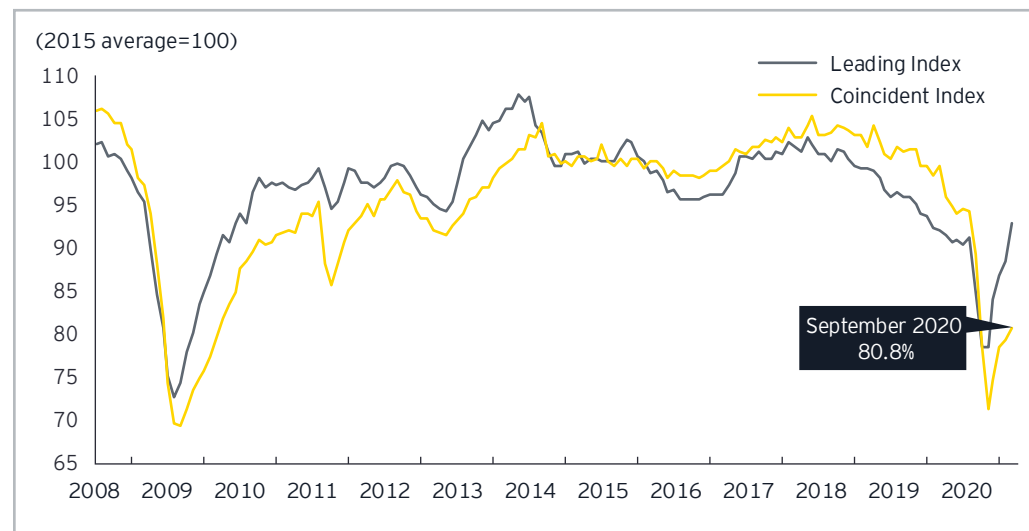
## V-shaped recoveries in both the Coincident Index (CI) and Industrial Production (IPI)

The **coincident index of business conditions** in September rose 1.4 points from the previous month to 80.8. The figure is against the 2015 base of 100. The index has now risen for four consecutive months. The recovery in the production of automobiles and car parts as well as exports to US and China contributed to this trend. On the other hand, the indexes of retail sales and employment decreased.

The Cabinet Office says there are signs of a significant improvement in consumer confidence. The Office says it will continue to carefully observe the conditions.

The **industrial production index** in September rose 4.0% from the previous month to 91.6, as the production of motor vehicles and machinery in line with exports continued rebounding after it hit a low point in May. However, the index remains at a low level compared to the pre-pandemic reading of 99.8 in January. The upward trend is expected to continue.

## CI\* Coincident Index of business conditions

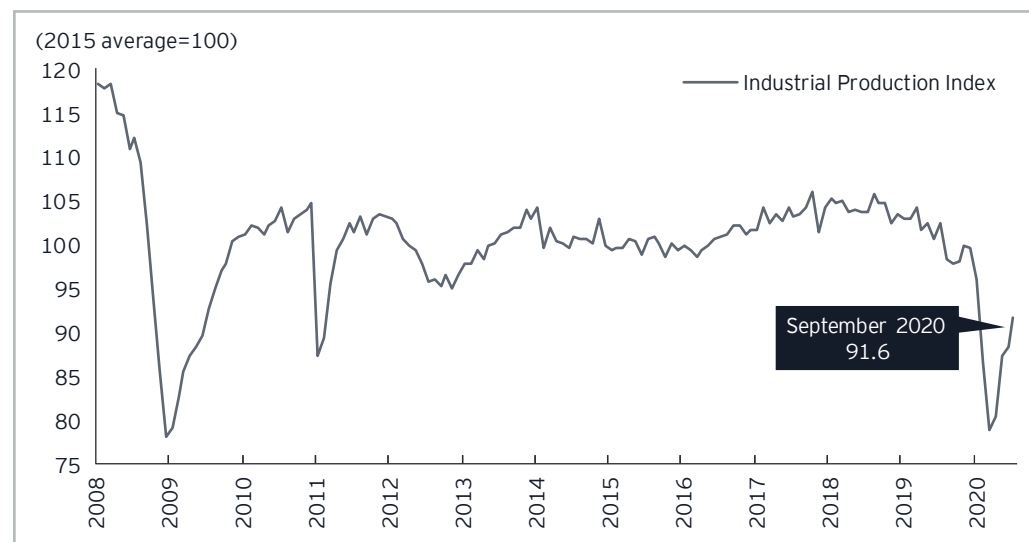


\* The Composite Indexes (CI) mainly aim to measure the tempo and the volume of economic fluctuations. They compose the quantitative changes in indicators such as factory output, employment and retail sales data that are sensitive to business cycle movements.

\* Leading Index tends to precede the coincident CI by a few months. It is used to forecast changes in the direction of the economy in the upcoming months.

Source: Cabinet Office, 9 November 2020, NHK, 9 November 2020.

## Industrial Production Index (seasonally adjusted)



Source: Ministry of Economy, Trade and Industry.



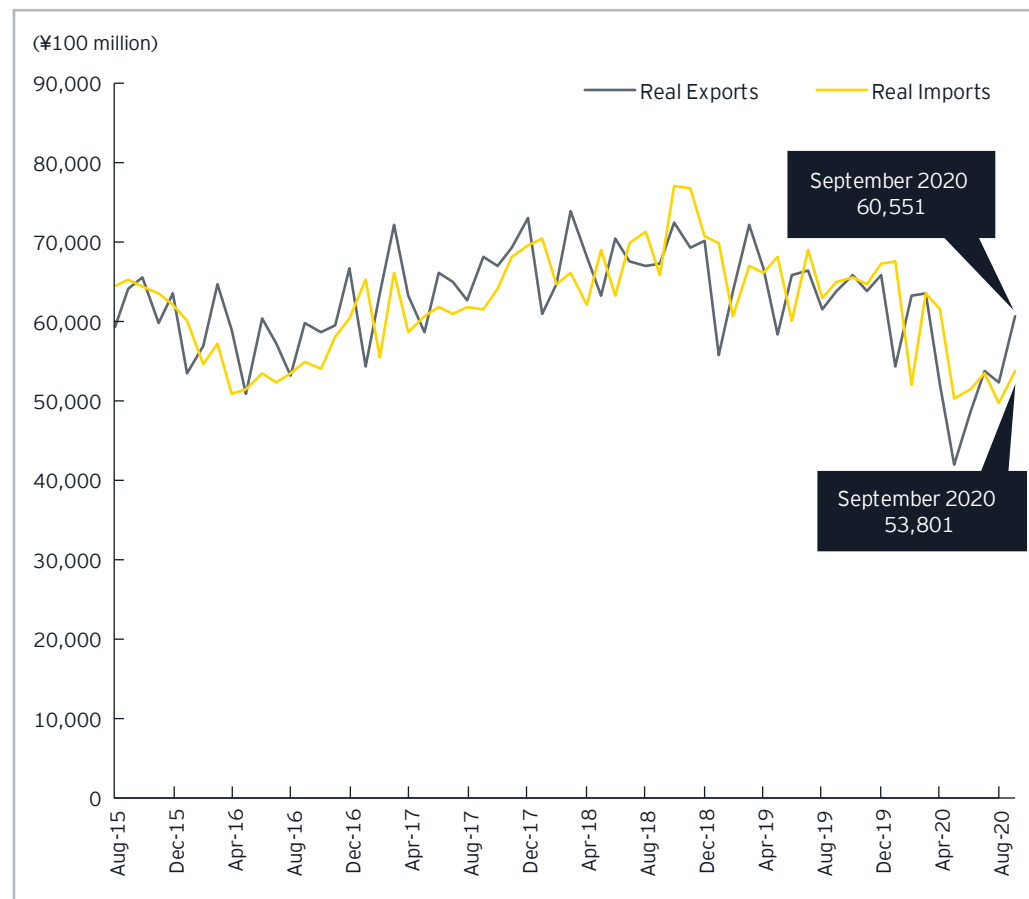
# Foreign trade

Japan's exports fell 4.9% in September compared to the previous year. However, exports dropped by the smallest margin in seven months. Exports are expected to remain on an upward trend driven by economic recovery overseas.

- ▶ The total exports fell 4.9% YoY in September, the smallest decline rate in seven months, to ¥6.05t (US\$ 57b). This was driven by exports to US and China.
- ▶ By region, shipments to the US rose 0.7% YoY. This is due to a sharp recovery in car shipment for the first time in 14 months. Automobile sales to the US improved while there was a decline in exports of machinery, heavy electrical equipment, and medical devices.
- ▶ Exports to China rose by 14.0% YoY, an increase for three consecutive months. Shipments of cars and semiconductor manufacturing equipment rose.
- ▶ Imports fell 17.2% YoY in September to ¥5.38t (\$51b), affected by a plunge in oil price.
- ▶ In September, Japan posted a trade surplus of ¥675b (\$6.4b). It was a surplus for the third straight month.

Source: "Recent Economic Developments," The Cabinet Office, 3 September 2020.

## Export/Import



Source: Ministry of Finance

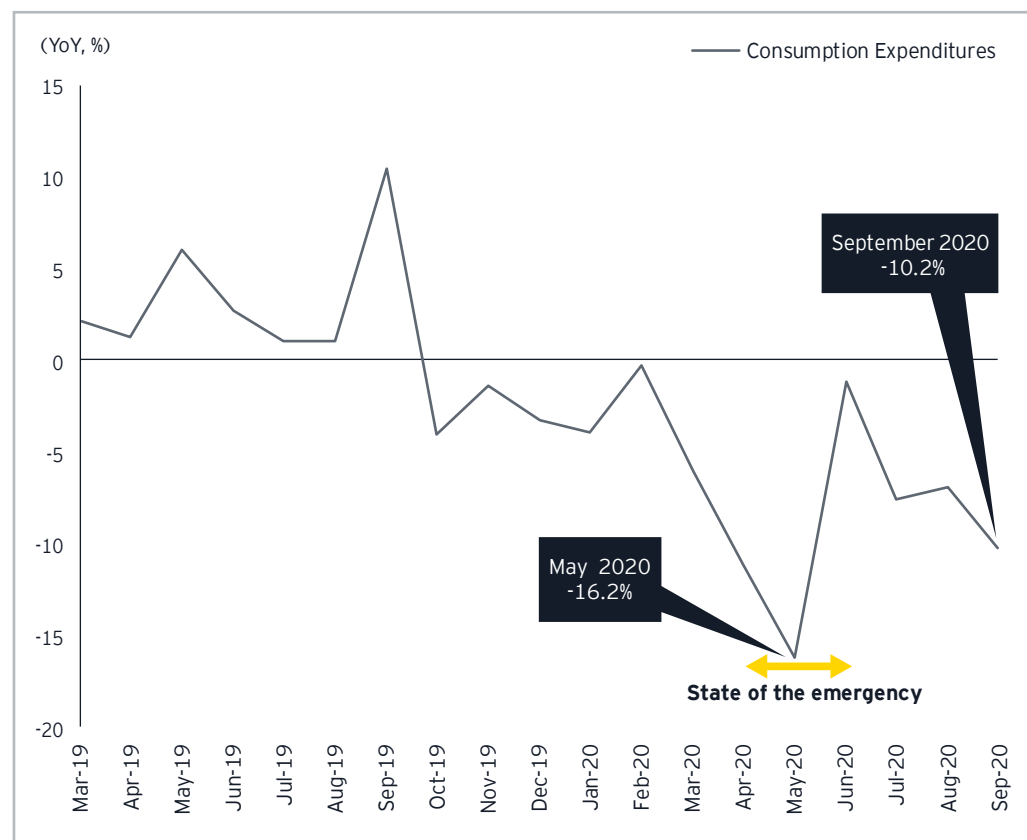


# Consumption

Household spending declined in September by 10.2% in real terms YoY but the monthly trend is improving. This trend is expected to continue as economic activities and stimuli gain momentum.

- ▶ The average household consumption expenditure for September was down year-on-year. This was due to COVID-19 and last year's last-minute surge in demand ahead of the consumption tax hike. The figure rose 3.8% from last month for two months in a row. Spending picked up as the number of COVID-19 cases stayed flat and people were adapting to a "new normal" lifestyle.
- ▶ Spending on culture and recreation fell sharply by 20.2% year-on-year, however, it jumped up by 12.9% from the previous month, the first time since June when the state of the emergency was lifted.
- ▶ Spending is expected to recover slowly, partly because of the government's "Go To" subsidy campaign aimed at encouraging domestic tourism and eating-out. However, the recovery will depend on how the pandemic plays out over the winter.

## Consumption Expenditure (real, two-or-more-person households)



Source: Ministry of Internal Affairs and Communications,

"Recent Economic Developments," Cabinet Office, 12 November 2020, Nikkei, 6 November 2020, The Japan Times, 6 November 2020, "Economic Indicators," Dai-ichi Life Research Institute, 6 November 2020.

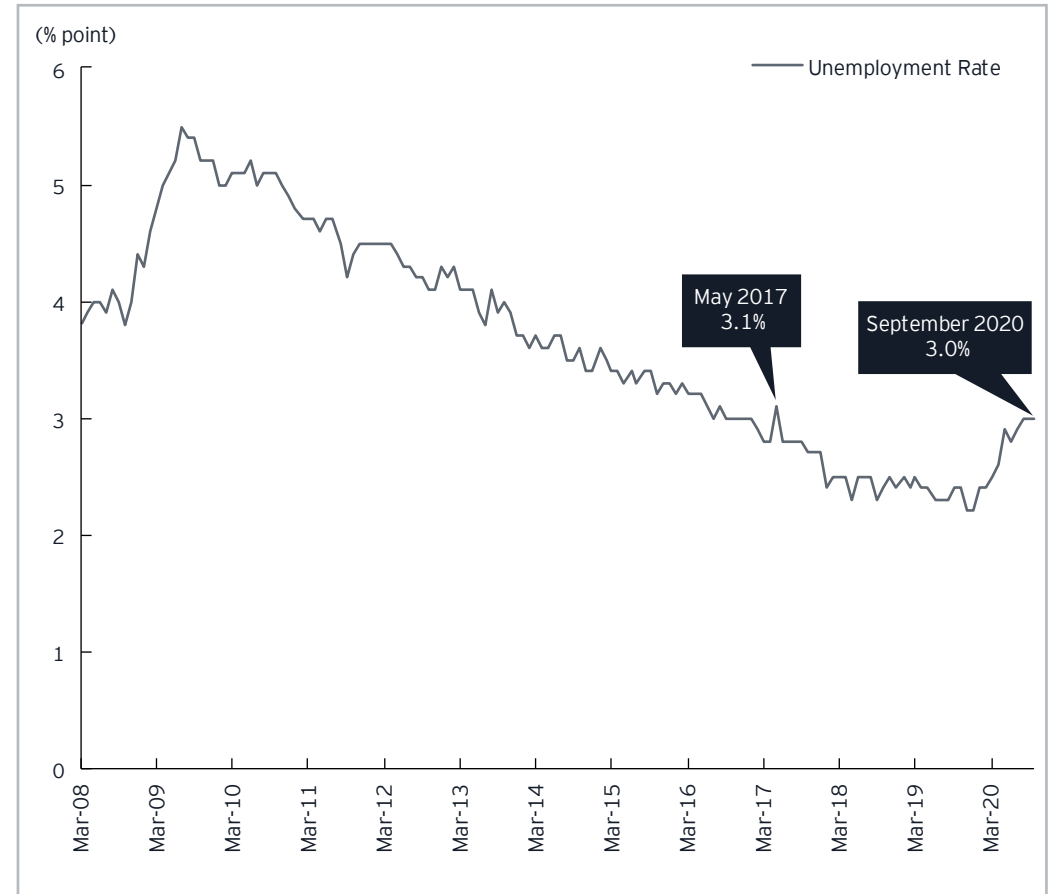


# Employment

Employment was steadily improving in recent years until it was hit hard by COVID-19. Recovery will be gradual.

- ▶ “The seasonally adjusted unemployment rate in September was 3.0%, unchanged from the previous month,” the Statistic Bureau of Japan said. This rate stood at the highest level since May 2017.
- ▶ The number of employed persons in September was 66.89 million, a decrease of 790 thousand from the previous year. It was a sixth consecutive month of decline.
- ▶ The government expects that weakness will remain in the short-term due to the impact of the COVID-19 pandemic.

Unemployment rate (seasonally adjusted)



Source: The Ministry of Internal Affairs and Communications, Statistic Bureau of Japan, The Ministry of Health, Labor and Welfare, “Recent Economic Developments,” Cabinet Office, 12 November 2020.



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