



# The Japan Report

EY Consulting Japan

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## COVID-19

The second wave of the COVID-19 outbreak started in June in Japan. As of mid-September, the number of daily new cases is on the downward trend, with around 500 new daily infections.

More than ten people are dying daily because of COVID-19. But for a country with a population of 126 million, these figures are comparatively low. The total cases in Japan was 82,469 with 1,561 deaths as of 28 September, while in the US it was 7,147,070 with 205,024 deaths, according to Johns Hopkins University. The Tokyo Metropolitan Government lowered its COVID-19 alert status on 10 September. It also announced lifting voluntary measures that limit restaurants' operating hours in the capital. Life in Japan is getting back to normal gradually, while many people are still working from home which is becoming the new normal. Many observers have suggested the business culture of presenteeism has changed forever.

## COVID-19 Response

The government has introduced two supplementary budgets in 2020 to minimize the economic disruption from the pandemic.

The key elements of these budgets include: subsidizing rent payments for restaurants facing financial difficulties and supporting salaries of workers of struggling companies. Private consumption accounts for around 60% of Japan's Gross Domestic Product (GDP). The sharp drop in consumption expenditures in April and May, after the government declared a state of emergency, has recovered from -16.2% to -1.2% in June (Y-o-Y), partly thanks to the government cash handouts where each citizen received ¥100,000.

## Economy

Japan is the third-largest economy, with nominal GDP JP¥553t (US\$5.03t) in Fiscal Year (FY)\* 2019 with 157 domestic businesses over ¥1t (\$9.5b) in revenue (2019).

In Q2 2020, Japan's GDP revealed a record contraction of annualized 28.1%. For FY2020, the Cabinet Office says the GDP is expected to be 4.5% negative growth. Some economists from the private sector forecast that the private consumption and capital investment will decline more than what the government predicts. They predict that the GDP in FY2020 will shrink at an average rate of 5.75%. Japan's economy slumped for the 12th straight month in July, the longest on record, but is showing movements of picking up recently, says the Cabinet Office. Japan will remain a stable economic powerhouse.

Source: John Hopkins University, The Tokyo Metropolitan Government, Bank of Japan, "ESP Forecast," Japan Research Institute, 14 August 2020, The Cabinet Office, Ministry of Internal Affairs and Communications, SPEEDA

\* Fiscal Year (FY) : The fiscal year in Japan begins on 1 April and ends on 31 March

## Politics

Mr. Yoshihide Suga, former Chief Cabinet Secretary, has been elected as Japan's new Prime Minister succeeding Mr. Abe.

The 71-year-old Akita Prefecture native has his hands full. Suga's plan to maintain the expansionary monetary policies of predecessor Mr. Shinzo Abe, has come as a relief. Expect him to be unyielding on narrower policy choices. The three that stand out are digital transformation, regional banks, and telecoms. The latter is likely to be one of Suga's highest priorities. He has made repeated calls for lower mobile phone fees. Cuts of 40 percent are possible, more for higher-priced data plans.

## Tokyo 2020

Tokyo 2020 has been postponed to the summer of 2021 due to the pandemic.

Cancellation of the Olympics and COVID-19 travel restrictions have hit International Tourism hard. The domestic tourism sector in Japan is valued at 20.5 trillion yen and dwarfs the rapidly growing International tourism sector in Japan – valued at 4.5 trillion yen. As a key driver of economic growth, the re-opening of Japan to International tourists will be a critical step. The Japan Tourism Agency said that the hotel occupancy rate in Tokyo in June this year, was only 19.8%, a drop of 57.2 points from one year ago. The government is trying to revitalize domestic tourism through the “Go to Travel” campaign which is an indirect cash handout scheme for customers.


## Interesting fact

Baseball season is back in full swing, albeit with smaller and quieter crowds.

The professional baseball body is planning to expand the number of people allowed into stadiums based on each team's judgment starting from 19 September – with Yomiuri Giants in the Central League, and Softbank in the Pacific League, leading the competition.

Source: Press conference by PM Suga, The Cabinet Office, 16 September 2020, The Japan Tourism Agency, Nippon Professional Baseball Organization.

The Australian Financial Review, 2 September 2020



# 1 COVID-19 – Japan's response at a glance

"Coexistence"  
with the pandemic

The biggest concern of the government and businesses is managing COVID-19 impacts.

Restrictions are expected to be eased or tightened in phases; however, it is very unlikely Japan will revert to stringent measures such as State of Emergency (SoE) or lockdowns. As long as the pandemic remains, the government's measures will continue to be balancing acts between economic stimulus and the limiting spread of infections. Infection rates have stabilized and normality is returning to daily life for most Japanese. The full recovery of the economy in Japan will not realize unless COVID-19 is overcome by vaccines and other means.

## 1. Current situation

Japan is now in the "second wave" of the COVID-19 infections. As of 28 September, the one-week average of reported cases in Tokyo was 147. This number showed a gradual decline since the week of 21 September with 175 cases and in the week of 14 September with 176 cases. The Tokyo Metropolitan Government says since the number of cases during the holidays is not yet counted, they are closely observing the situation. Countrywide, the daily tally of new infections was 485 as of 27 September. An expert at the government's COVID-19 subcommittee said on 25 September that the number of new daily infections stopped dropping further.

# “Coexistence” with the pandemic

## 2. Government response

### Medical measures

- ▶ In March, the Prime Minister’s Office and the ministry of health announced a notice for preventing COVID-19 outbreaks: Avoid the “3Cs (Closed spaces, Crowded places, and Close-contact settings)”. The measure that depends on people’s voluntary cooperation is working, many experts say.
- ▶ The government aims to secure vaccinations for the novel COVID-19 for all citizens by the first half of next year.
- ▶ Japan approved Remdesivir and dexamethasone as COVID-19 treatments. The manufacturer of Avigan has finished clinical trials and is set to apply for its approval in October.
- ▶ On 15 September, the cabinet decided to use ¥1.2t (\$11b) in reserve funds to support medical institutions in addition to the supplementary budgets earlier approved.
- ▶ In April, the government started distributing more than 120 million washable masks to all households in Japan. They were dubbed the “Abenomask”, a pun on former Prime Minister Abe’s Abenomics program. The initial budget for this project was ¥46b, but was decreased to ¥26b (\$247m) after being criticized as wasteful spending.

### Economic measures

#### “Go To” campaign

From October, the government will expand the “Go To” campaign to encourage domestic travel, eating-out, and recreation. In the same month, it will ease its border restrictions for all countries to allow non-tourist visitors to enter as Japan is preparing for the Tokyo Games next year in July. The Olympic Games are expected to help boost Japan’s economy in 2021.

#### Promote digitalization

The new administration of Prime Minister Suga Yoshihide announced accelerating digitalization in government agencies, aiming at ripple effect to private sectors and education.

The administration says it will expedite the digitalization of the government in 2 to 5 years.

The government also announced to abolish traditional “Hanko” personal seal stamps from administrative procedures. It also aims at banning fax machines from its offices.

Suga administration aims to spread “My Number” personal identification cards to every citizen by the end of FY2022. The system started in 2016 but the holder ratio of the cards stood at around 20% as of September. The low ratio prevented the government from carrying out the COVID-19 cash handout promptly.

#### Subsidies and Loans

1. Rent fee support for Small and Medium Enterprises (SME)
2. The subsidy program for sustaining businesses: Subsidies for SMEs
3. Effectively interest-free loan for SMEs: To be applied through not only government arm financial institutions but also private financial institutions

# The Government and Bank of Japan (BOJ) response to COVID-19

## The second supplementary budget adopted by the Cabinet in May

### Japan Government

The government will increase its expenditure in 2020 as part of its efforts to support the economy amid the COVID-19 pandemic.

The government has already introduced two supplementary budgets in 2020 to minimize the economic disruption from the pandemic; these are worth ¥57.6t (US\$528b) and are part of a stimulus package exceeding ¥234t (US\$2.15t).

The first supplementary budget: ¥25.7t (US\$235b):

- ▶ Protect employment and sustain business continuity ¥19.5t (\$179b); including ¥100,000 cash handouts to every citizen (¥12.9t (\$118b)).
- ▶ Recover economic activities through public-private efforts, as the next phase ¥1.8t (\$16.9b); including “Go To Travel Campaign” to stimulate domestic tourism demand (¥1.7t (\$15.9b)).

The second supplementary budget: ¥31.9t (US\$293b):

- ▶ Enhancing financial support for companies: ¥11.6t (\$106b).
- ▶ Establishing a rent support grant for SMEs: ¥2t (\$19b).
- ▶ Supporting medical treatment providers: ¥3.0t (\$27b).

### Bank of Japan

The Bank of Japan (BOJ) has taken three measures to enhance monetary easing since March:

1. A special Program to support the financing of firms (¥110t (\$1t)):

- ▶ Purchase of commercial paper (CP) and corporate bonds within about ¥20t (\$184b) which is equivalent to ¼ of the Japanese market size.
- ▶ Introduced funding measures of about ¥90t (\$826b) to encourage lending by financial institutions.

2. An ample provision of Japanese yen and foreign currency funds:

- ▶ Yen funds: Purchase a necessary amount of Japanese Government Bonds (JGBs) without limit, to maintain stability in the bond market and keep interest rates at a low level.
- ▶ Foreign currency funds: Provided a large amount of US dollars.

3. Active purchases of Exchange Traded Funds (ETFs) and Japan Real Estate Investment Trusts (J-REITs)

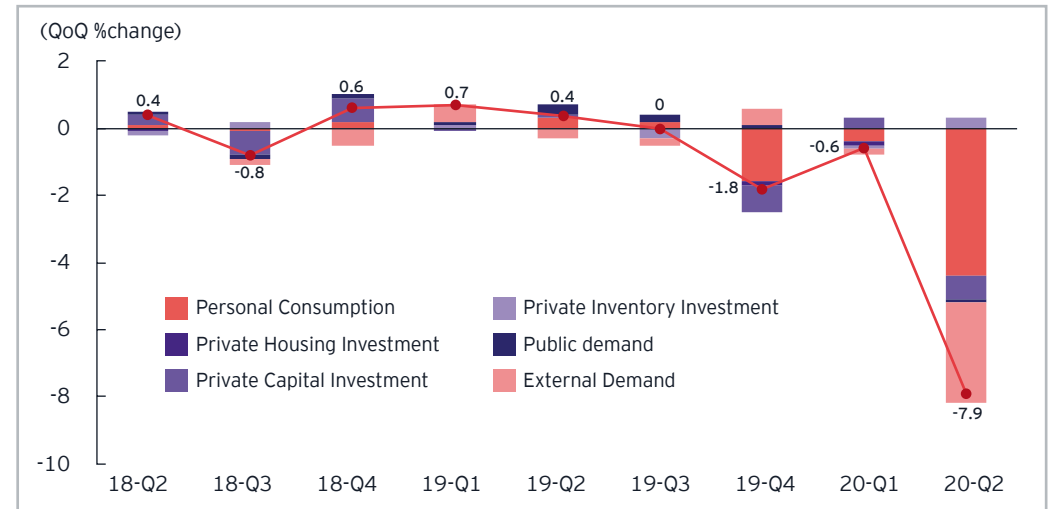
# 2 Macroeconomic Trends

Japan's Q2 GDP was revised downward to -7.9%. COVID-19 impact was bigger than initially estimated.

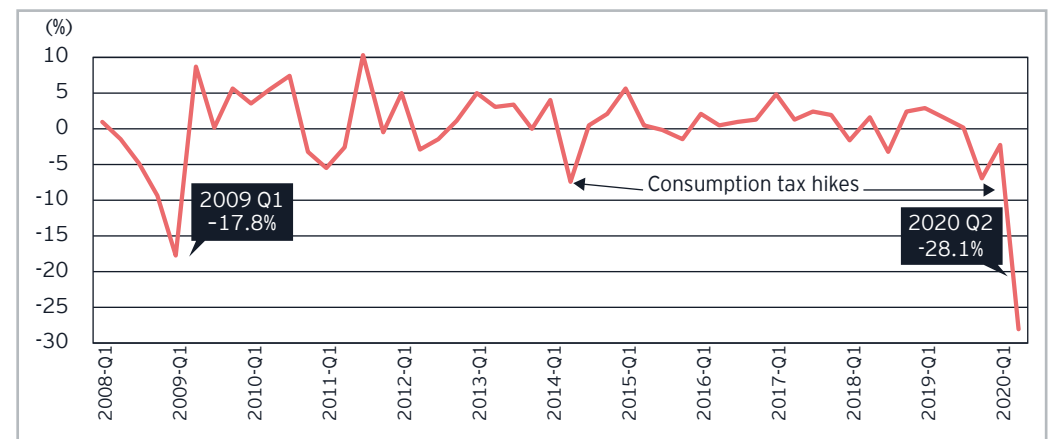
According to the Second Preliminary Quarterly Estimates of GDP, Japan's real GDP in April to June was revised downward to -7.9% quarter-on-quarter (q-o-q) (-28.1% annualized rate).

- ▶ Japan recorded a decline for the third consecutive quarter. It was the biggest drop since 1955.
- ▶ Companies across all industries reduced capital investment in the Q2, as they were uncertain about when the economy would return to normal after the COVID-19 pandemic.

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



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



Source: Cabinet Office, Nikkei

\* Source: "Japan's Q2 GDP revised down to annualized 28.1% contraction," Nikkei Asian Review, 8 September, 2020

# Japan real GDP performance and forecast

The month-long state of emergency from mid-April had a strong negative impact on the economy. Capital investment is expected to remain weak in the upcoming quarter. This will further impede economic growth.

## The short-term prospects

- ▶ **The Cabinet Office sees**, as of 27 August, that the economy is expected to show movements of picking up, supported by the effects of policies and improvements in the overseas economy.
- ▶ **Private sector economists** say Japan's economy is expected to rebound in the Q3 and this will continue until Q1 2022. However, it is expected to remain under the pre-pandemic level.

## Prediction for FY2020 and FY2021

- ▶ **The Cabinet Office** says the GDP growth rate is expected to be around -4.5% in FY2020 and around 3.4% in FY2021.
- ▶ Some **economists from the private sector** forecast that private consumption and capital investment will decline more than the government predicts. They predict that the GDP in FY2020 will be at an average rate of -5.75%, and around 3.36% in FY2021.

## The forecast by the Economist (as of September 2020)

- ▶ The Economist sees that the government's priority over the short term will be to cushion the economic fallout from the coronavirus (COVID-19) pandemic. The economy will shrink by 6.4% in 2020 as stagnant domestic and external demand weigh on economic activity.
- ▶ The Economist forecasts real GDP to expand by an annual average of 1.3% in 2021-2024. Demographic factors and rising global trade tensions will impede a more rapid rate of economic expansion.

## Real GDP Growth (% changes from the previous Fiscal Year\* (FY))

FY2015	FY2016	FY2017	FY2018	FY2019
1.3%	0.9%	1.9%	0.3%	0.0%

## Real GDP Forecast (%)

	FY2020	FY2021	Scenario/Remarks
Cabinet Office (as of July)	-4.5	3.4	Even worse than the shrinkage of 3.4% in fiscal 2008 after the collapse of Lehman Brothers sparked a global financial crisis.
Bank of Japan (as of July)	-5.7~-4.5 (-4.7)**	3.0~4.0 (3.3)**	This shows that bouncing back from the from COVID-19 in FY2020 will be difficult. **: indicates the median rate.
Private sector economists (as of August)	-5.75	3.36	A survey conducted by the Japan Center for Economic Research. Average Estimate of 34 economists.
IMF* (as of June)	-5.8	2.4	A more gradual recovery in the second half of the year is expected as fear of contagion is likely to continue.
OECD* (as of June)	S1: -6.0 S2: -7.3	S1: 2.1 S2: -0.5	Scenario (S1): in which the virus is brought under control, S2: in which a second global outbreak hits before the end of 2020.
The Economist* (as of September)	-6.4	1.7	<b>FY2022E: 1.2, FY2023E: 1.1, FY2024E: 1.3</b>  Forecasts real GDP to expand by an annual average of 1.3% in 2021-24.  Demographic factors and rising global trade tensions will impede a more rapid rate of economic expansion.

Source: Cabinet Office, BOJ, IMF, OECD, Nikkei, "Country Forecast Japan," The Economist, September 2020, "ESP Forecast," Japan Research Institute, 14 August 2020

Fiscal Year (FY): The fiscal year in Japan begins on 1 April and ends on 31 March

\*: Calendar year

# The economic situation

## CI Coincident Index of business conditions

The Japanese economy bottomed out in May. Industrial production showed a small rebound in July.

- ▶ The coincident index of business conditions in July rose 1.8 points to 76.2 from the previous month, the Cabinet Office said on 7 September. The figure is against the 2015 base of 100. The index rose for two consecutive months. The recovery in the production of car manufacturing contributed to this trend.
- ▶ Many economists believe the economy 'bottomed out' in May and the recovery will likely continue in 2020.
- ▶ The economy had stagnated for a longer period than in the 2008-2009 global financial crisis. This time the internal demand such as personal consumption was severely hurt by the COVID-19 pandemic in addition to the consumption tax hike last year and the continuing US-China trade war.
- ▶ **The industrial production index** in July rose 8.7% from the previous month to 87.2, as the production of autos and their parts continued rebounding from a plunge, the government said on 14 September. The index level still remains low compared to the pre-pandemic reading of 95.8 in March. It is expected that the figure will continue to recover gradually.

## CI\* Coincident Index of business conditions

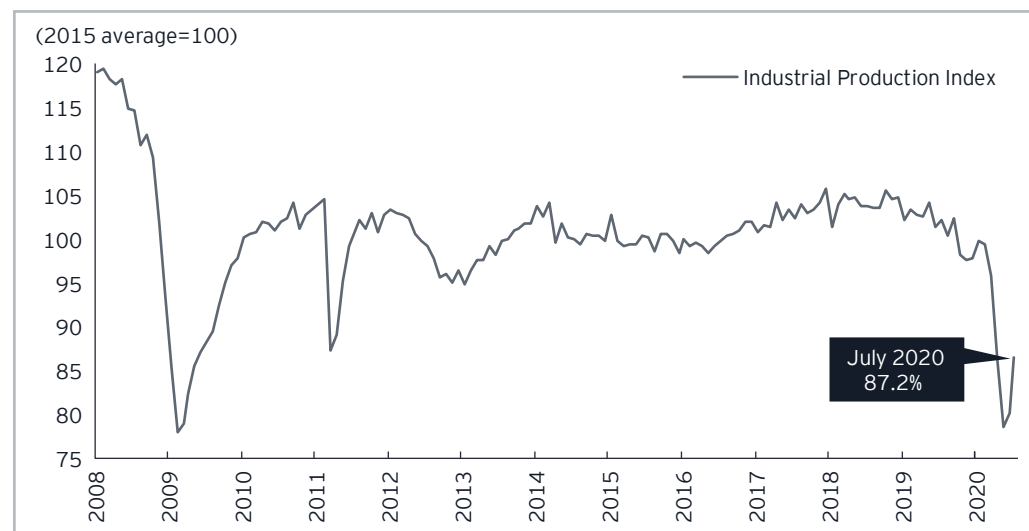


\* The Composite Indexes (CI) mainly aim to measure the tempo and the volume of economic fluctuations. They compose the quantitative changes in indicators such as factory output, employment and retail sales data that are sensitive to business cycle movements.

\* 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

## Industrial Production Index (seasonally adjusted)



Source: Ministry of Economy, Trade and Industry

# The economic situation

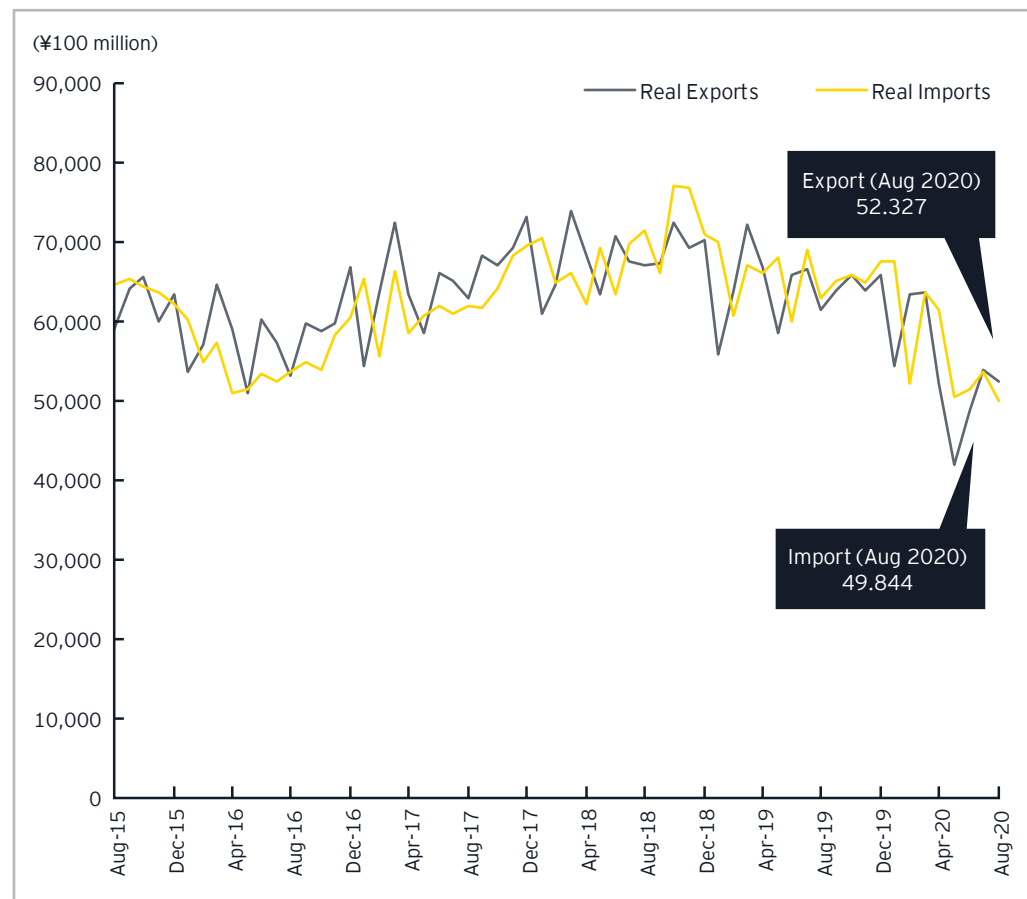
## Foreign trade

Japan exports, imports continue to drop in August as the pandemic hits economic activity. Export's decline is getting smaller. Recovery of global demand remains uncertain.

- ▶ Total exports fell 14.8% Y-o-Y in August to ¥5.23t (\$50b), down for the 21st month straight. This was driven by fewer shipments of cars, though the pace of the decline eased somewhat from the previous month as economic activity in the rest of the world showed signs of picking up.
- ▶ The total imports fell 20.8% Y-o-Y in August to ¥4.98t (\$48b), down for 16th straight month.
- ▶ By region, shipments to the U.S. fell 21.3% Y-o-Y, weighed heavily by declines in engine part and construction machinery.
- ▶ Exports to the EU fell 19.2% Y-o-Y as auto-shipments remained sluggish. But the pace of the decline has been lessening as pandemic-shutdowns eased.
- ▶ On the other hand, exports to China, Japan's largest trade partner, rose 5.1% Y-o-Y in August due to growing demand for semiconductor-manufacturing machines.
- ▶ Japan posted a trade surplus for two consecutive months. In August it was ¥248b (\$2.3b).

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

## Export/Import



Source: Ministry of Finance

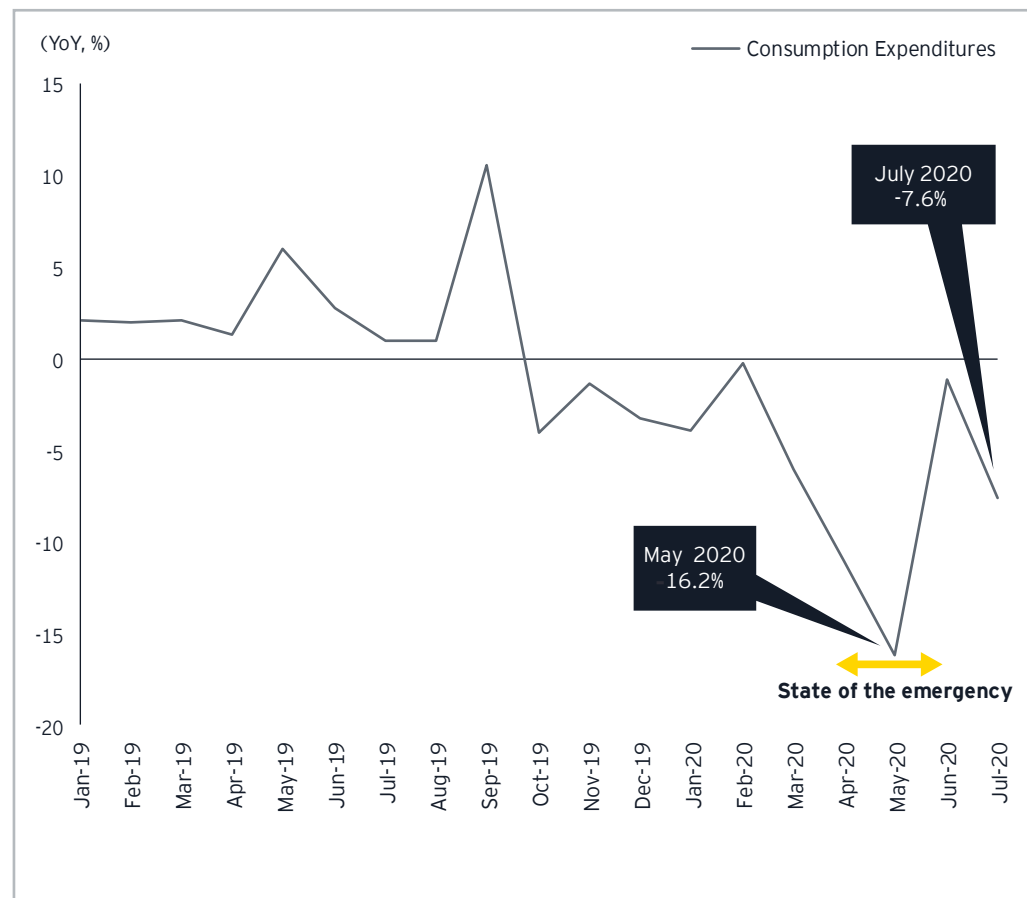
# The economic situation

## Consumption

Private consumption declines again in July due to voluntary lockdown. The trend is likely to continue in the upcoming months.

- ▶ In June, the government's cash handouts as well as the shopping point reward program brought a temporary sharp recovery. However, in July, the consumption contracted, influenced by the surge of the second wave of the COVID-19 infection. This trend likely continued in August and in September.
- ▶ The average of monthly consumption expenditures for July was down 7.6% in real terms Y-o-Y, the government said on 8 September.
- ▶ The pandemic continued to curb consumption. The decline in July was larger than the previous month as spending on clothing & footwear, transportation, and culture & recreation fell sharply.
- ▶ The government's cash handouts have helped lift demand for spending on durable household items. Thus, spending on household items jumped by 16.6%.

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



Source: Ministry of Internal Affairs and Communications,  
"Recent Economic Developments," The Cabinet Office, 7 September 2020.

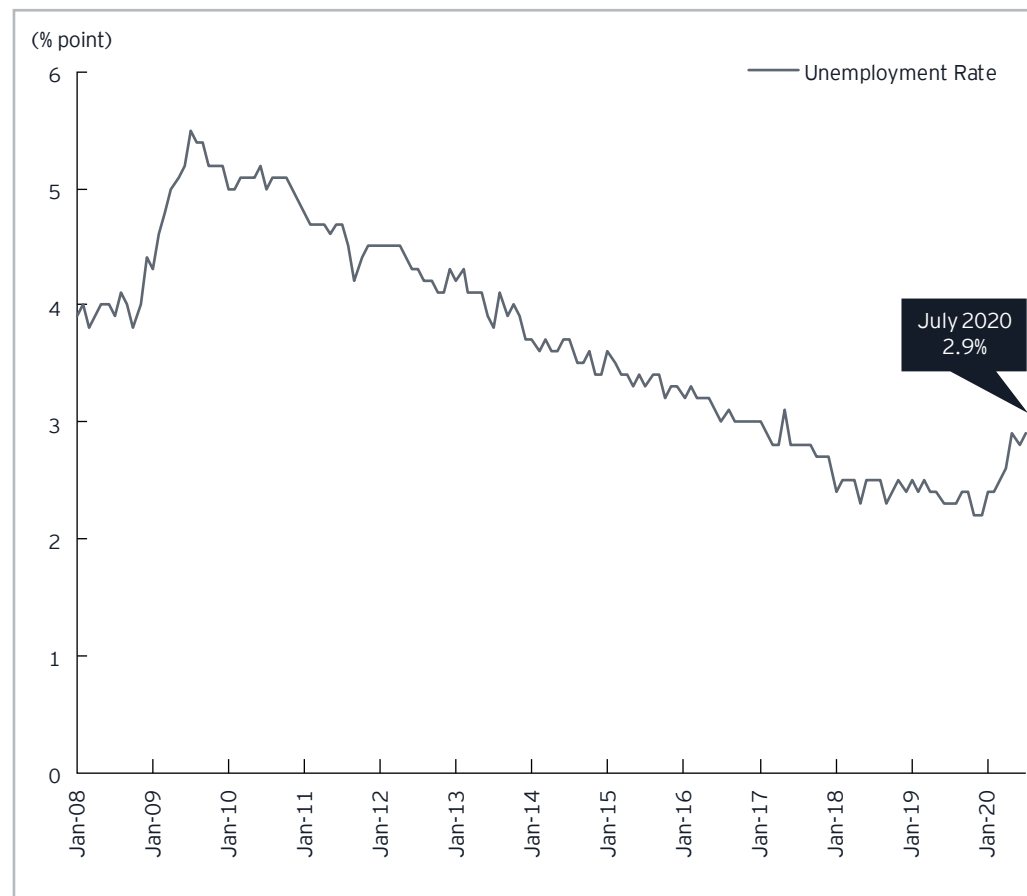
# The economic situation

## Employment

The employment situation is showing weakness, due to the impact of the COVID-19. This trend is likely to continue as the rise of the unemployment rate is expected.

- ▶ As the economic activity relaunched in Japan and the world, the business conditions for companies has hit the bottom around May, according to the Cabinet Office's coincident index of business conditions. However, the remaining risk of infections is still a burden for economic recovery. The recovery of employment is expected to remain moderate.
- ▶ The unemployment rate in July was 2.9%, up 0.1 percent point. The government said the unemployment rate stayed almost at the same level for three consecutive months, but it is worse than the year before.

Unemployment rate (seasonally adjusted)



Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labor and Welfare

# 3 The latest news – Politics

## Mr. Suga elected as Japan's new Prime Minister

Unlike most of the Japanese lawmakers, a self-made man from a strawberry farm family calling on people for self-support, mutual support, then public support.

Japan's Diet elected Mr. Yoshihide Suga, former Chief Cabinet Secretary, as the country's 99th Prime Minister on 16 September.

Earlier the week, Mr. Suga assumed the president post of his Liberal Democratic Party after his predecessor, Mr. Shinzo Abe, who was at the PM post for almost eight years, abruptly announced his retirement due to the recurrence of a chronic illness. Mr. Suga had been supporting Mr. Abe throughout the period.

### Possible Snap Election

As Mr. Suga succeeded Mr. Abe in the middle of the 4-year term of lower house members, Mr. Suga's new Cabinet will only serve for the remaining 12 months at the longest. Party heavyweights indicate Mr. Suga may dissolve the Diet without waiting for the end of the term and hold early general elections to consolidate his power base.

### Mr. Suga's Profile

Born in 1948 to a strawberry farmer and a schoolteacher in a village in Akita Prefecture, he was expected to eventually take on the family business but was reluctant to become a farmer himself.

After graduating from high school, he went to Tokyo and worked for a cardboard factory. A few years after graduating from Tokyo's Hosei University and joining an electrical maintenance company, he grew interested in politics and worked as a Diet member's secretary before starting his political career as a Yokohama City Council member in 1987.

In 1996, he was elected to Japan's lower house for the first time. After serving as senior vice-minister of internal affairs and communication in Mr. Junichiro Koizumi's administration, his successor Shinzo Abe promoted Mr. Suga to internal affairs minister, which he held until 2007. When Mr. Abe returned as prime minister in 2012 he appointed Mr. Suga to the post of Chief Cabinet Secretary, the closest aide to PM, and the government spokesperson.

When he unveiled the name of Japan's new imperial era, he was nicknamed "Uncle Reiwa".

### Policy

Mr. Suga says his administration's top priority is to contain the COVID-19 outbreak in the country. He pledged to deliver vaccines to every citizen by the first half of 2021. He also stresses the importance of economic recovery. Mr. Suga says he will continue the economic policies known as Abenomics, which includes bold monetary-easing.

The digitalization of the government systems and administrative reforms are high-priority policies. He plans to create an agency in charge of digitalization. As for administrative reforms, Mr. Suga appointed Mr. Taro Kono, former defense minister, as the minister in charge. He also stressed he will make serious efforts to lower mobile phone fees, which he believes to be very expensive compared to many other countries.

PM Suga's former role as Chief Cabinet Secretary was to stay in Japan and oversee issues while the Prime Minister was visiting foreign countries, but now he is actively having video conferences with foreign leaders. The Japan-US Alliance will be central in his foreign policy. He wants to promote a "free and open Indo-Pacific Ocean" and develop stable ties with neighboring countries including China and Russia.

# The latest news

## Politics

### Mr. Yukio Edano has been elected as chief of the new CDP, Japan's top opposition party

Mr. Yukio Edano assumed the post of the inaugural president of newly-created Constitutional Democratic Party of Japan (CDP) on 10 September. CDP will be the largest opposition party. The new party was formed by a merger of two parties and adopted the name of the larger one. The party, with more than 100 lower house members, will prepare for possible general elections.

### Tokyo to ease voluntary measures on dining as infections slow

The Tokyo Metropolitan Government lowered its COVID-19 alert status by one notch on 10 September. It also announced lifting voluntary measures that limit restaurants' operating hours in the capital.

### Tokyo people may become eligible for "Go To Travel" push starting 1 October

The Japanese government said on 11 September that the Tokyo Metropolis would become eligible for the "Go To Travel" campaign, a ¥1.35t government plan to promote domestic tourism, on 1 October.

## Economy

### Japan and UK agreed on major post-Brexit pact

Japan and the UK agreed in principle on 11 September on a post-Brexit free trade deal. The two countries have been negotiating a deal since June as Britain will be out of the Japan-EU free trade agreement when the transition period to leave the bloc ends in December. Both sides are seeking to implement a new deal next January.

## COVID-19

### Tokyo 2020 and COVID-19

IOC Vice President John Coates said on 15 September that Tokyo 2020 Games organizers will decide by the end of the year what "countermeasures" are required to hold them safely in the time of COVID-19. The Games have been postponed to the summer of 2021 due to the pandemic. The organizers remain focused on delivering "safe and successful" Games.

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ED None

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