

# Has the Japanese Economy Bottomed Out?



Author Nobuo Iizuka

By Nobuo Iizuka

## Exports Recovering Faster Than They Did Post-2008 Crisis

The real GDP growth rate (second preliminary) for the period April to June 2020, which was released on Sept. 8, showed a huge drop by an annual rate of negative 28.1%, having been impacted by the Covid-19 pandemic and other factors. The level of real GDP (¥484.8 trillion) is lower than that of the winter of 2012 when Prime Minister Shinzo Abe, who announced his resignation on Aug. 28, began his second administration, and there are those that say the effects of “Abenomics” have now been cancelled. On the other hand, many private economists consider the recession which began in the fall of 2018 to be already over, bottoming out in 2020, and that the Japanese economy has begun to enter a recovery period. This is because the Coincident Index of the Indexes of Business Conditions released every month by the Cabinet Office bottomed out in May (71.2), and has since turned to be on an upward trend. The latest actual value for July is 78.3.

One of the driving forces behind this is the recovery in production and exports. *Chart 1* compares the trends in real exports during the global financial crisis in the fall of 2008 and the present day. Looking at the two trends by bringing February 2020, when the Japanese government proposed the first of the urgent countermeasures to the coronavirus, to the September 2008 time point, when Lehman Brothers went bankrupt triggering the financial crisis, and looking at the two trends before and after that shock, we see that both show similar movements around when the shock occurred until two months after the shock. But for the current trend, the fall begins to flatten from May 2020, three months after the shock, and turns upward from June. The latest August figure has recovered to 99.1. The reopening of economic activities worldwide is thought to have contributed to this.

Production is also coming back with a recovery in exports. Production, which dropped to 78.7 in May, has recovered to 88.1 in the latest August figure. The transport machinery industry, which has a large ripple effect on other industries, showed a sharp drop in both exports and production. The May Production Index for the transport machinery industry was 49.4, coming out lower than after the global financial crisis in February 2009 (59.8) and after

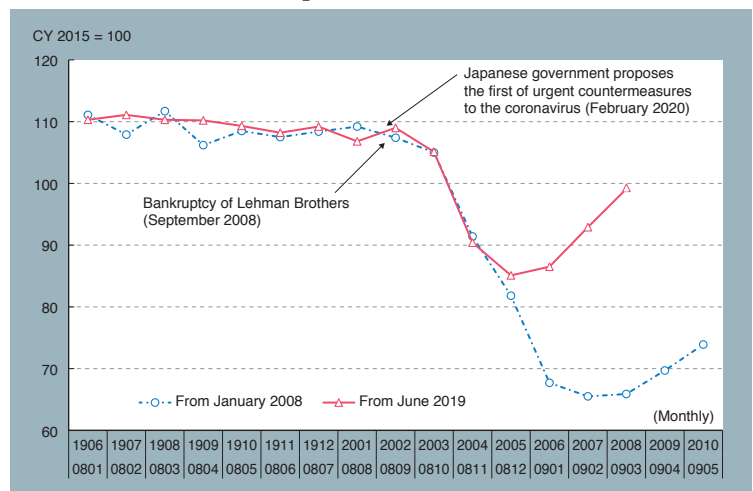
the Great East Japan Earthquake in March 2011 (57.5), with the latest August figure being 86.8.

The post-financial crisis Japanese economy returned to a recovery track in April 2009 after the bottoming out of exports and production. Thus, a similar pattern is expected this time as well.

## The Key Lies with Recovery in Service Industry

On the other hand, what differs greatly this time from the financial crisis in 2008 is the situation around the service industry. *Chart 2* compares the situation back in 2008 and the present by using the Indices of Tertiary Activity, which this article series introduced in the July/August 2020 issue ([https://www.jef.or.jp/journal/pdf/232nd\\_Economic\\_Indicators.pdf](https://www.jef.or.jp/journal/pdf/232nd_Economic_Indicators.pdf)). Back in 2008, the Indices of Tertiary Activity began to gradually fall on the back of a recession which had begun in March, but the financial crisis did not speed up the fall itself. But this time, on the back of the State of Emergency being declared and immigration restrictions on foreign visitors put in place, the Indices of Tertiary Activity fell sharply to 86.4 by May. Most recently in August, it recovered to 95.1, but it has had a great impact on employment during this period. This is because the service

CHART 1  
Trends in real exports



Source: “Developments in Real Exports and Real Imports”, Bank of Japan

industry is a more labor-intensive industry compared to the manufacturing industry.

The number of employed persons in the Labour Force Survey of the Ministry of Internal Affairs and Communications increased by 0.9% year-on-year for 2019, but this was due to the increase in employment in the non-manufacturing industry sector which includes the service industry. On the other hand, the cumulative number of employed persons for the period January to August 2020 decreased by 0.5%, turning to a decline. "Accommodations, eating and drinking services", which was directly hit by the coronavirus pandemic, contributed a negative 0.4 points, and "Living-related and personal services and amusement services" contributed a negative 0.2 points.

New recruitment by businesses has been slow. New job openings in the Employment Referrals for General Workers of the Ministry of Health, Labour and Welfare saw a decrease of around 2% year-on-year for 2019, but the decrease has expanded to 22.4% for January to August 2020 period. Of the decrease, 19.1% is attributed to the fall in job openings in the non-manufacturing industry sector including the service industry.

### Overcast on Improvement in Consumption Sentiment of Households

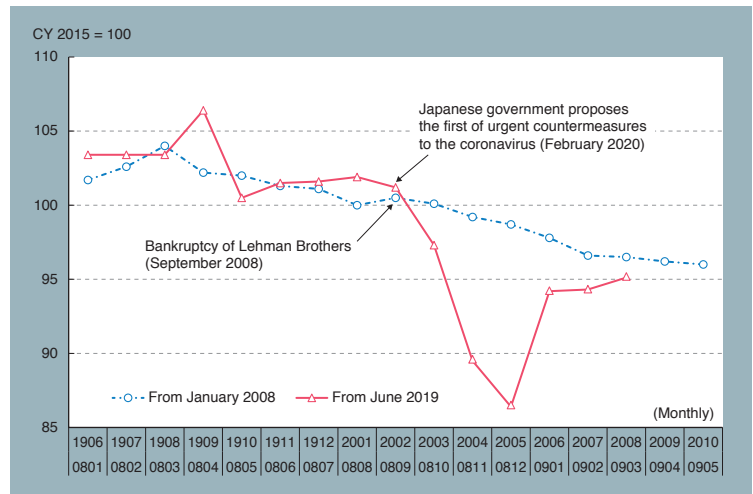
As immigration restrictions continue and a recovery in consumption by inbound foreign visitors cannot be expected for the time being, what is supporting a recovery in the service industry is personal consumption. The Consumption Activity Index of the Bank of Japan, which monitors monthly trends in personal consumption on a GDP basis, dropped from March to May, but has begun to pick up since June. The latest August figure is 94.3 (Chart 3).

On the other hand, recovery of the Consumer Confidence Index of the Consumer Confidence Survey by the Cabinet Office, which is often used as an indicator to show consumer sentiment, had plateaued by August. September saw a rise by 3.4 points compared to the previous month. As previously mentioned, with employment looking tight, if consumer sentiment cools off and drops, this will result in the absence of a driving force for the economy, which has bottomed out for the time being.

In addition, looking around the world, there are signs that economic growth, which began to pick up with the reopening of economic activities, will be sluggish on the back of unpredictable outlooks for households and businesses. This may also have an impact on the recovery in exports and production, which was mentioned at the start of this article.

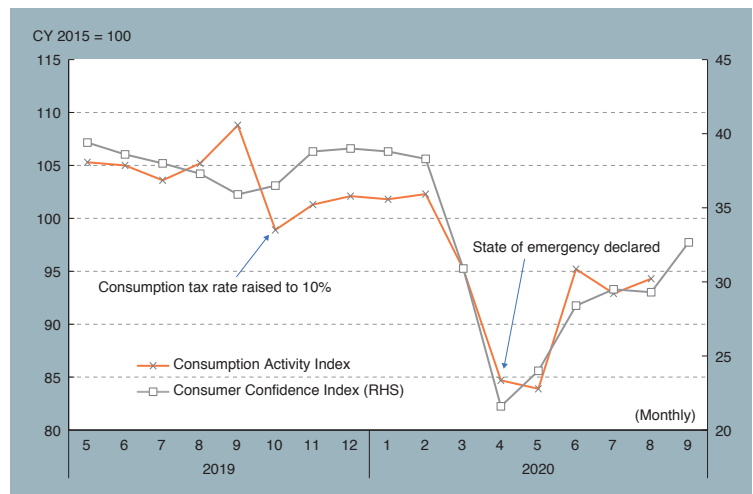
Whether a series of policies that support the sentiments of households and businesses can be delivered will be the key to

CHART 2  
Trends in ITIA



Source: "Indices of Tertiary Activity", Ministry of Economy, Trade and Industry

CHART 3  
Trends in consumption activity & consumer index



Source: "Consumption Activity Index", Bank of Japan, "Consumer Confidence Survey", Cabinet Office

whether the Japanese economy can continue to recover.

**Note:** This article was written with information available by Oct. 15, 2020.



Nobuo Iizuka is a professor of the Department of Economics at Kanagawa University and adviser of the Policy Data Lab at the Tokyo Foundation for Policy Research. He worked for the *Nihon Keizai Shimbun (Nikkei)* and the Japan Center for Economic Research for more than 20 years, and is one of the most highly-regarded commentators on Japanese business and the economy.

## ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2012	498.8	1.5	495.0	0.7	0.6	-0.1
2013	508.8	2.0	503.2	1.7	-0.3	0.4
2014	510.7	0.4	513.9	2.1	2.0	2.6
2015	516.9	1.2	531.3	3.4	-1.2	0.5
2016	519.6	0.5	535.5	0.8	0.0	-0.3
2017	530.9	2.2	545.9	1.9	3.1	0.5
2018	532.4	0.3	546.9	0.2	1.1	0.9
2019	535.9	0.7	553.8	1.3	-3.0	0.6
2019/3rd Qtr.	539.3	0.0	557.8	0.4	-1.1	0.5
4th Qtr.	529.6	-1.8	549.7	-1.5	-3.6	0.6
2020/1st Qtr.	526.5	-0.6	547.2	-0.5	0.4	0.6
2nd Qtr.	484.8	-7.9	505.4	-7.6	-16.9	-0.1
2020/Jan.	—	—	—	—	1.9	0.8
Feb.	—	—	—	—	-0.3	0.6
March	—	—	—	—	-3.7	0.4
April	—	—	—	—	-9.8	-0.2
May	—	—	—	—	-8.9	-0.2
June	—	—	—	—	1.9	0.0
July	—	—	—	—	8.7	0.0
Aug.	—	—	—	—	1.0	-0.4
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2012	63.7	-2.7	70.7	3.8	11.2	11.7	6.1	2.5	5.4	-13.9
2013	69.8	9.5	81.2	14.9	12.9	15.6	6.8	12.0	5.9	8.8
2014	73.1	4.8	85.9	5.7	13.6	5.6	7.5	10.7	6.4	8.2
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2019/3rd Qtr.	19.2	-5.0	19.7	-4.9	3.7	-1.4	2.1	-5.5	1.8	1.3
4th Qtr.	19.5	-7.8	19.8	-11.9	3.7	-13.0	2.2	-13.7	1.8	-9.5
2020/1st Qtr.	18.1	-5.5	18.3	-7.2	3.5	-9.2	2.1	-5.8	1.8	-8.6
2nd Qtr.	14.3	-25.3	16.3	-16.0	2.2	-44.7	1.9	-13.6	1.3	-29.9
2020/Jan.	5.4	-2.6	6.7	-3.6	1.1	-7.7	0.7	-12.2	0.5	-6.5
Feb.	6.3	-1.0	5.2	-13.9	1.3	-2.6	0.6	-5.9	0.6	-7.7
March	6.4	-11.7	6.4	-5.0	1.2	-16.5	0.7	1.1	0.6	-11.1
April	5.2	-21.9	6.1	-7.1	0.9	-37.8	0.7	1.5	0.5	-28.0
May	4.2	-28.3	5.0	-26.1	0.6	-50.6	0.6	-27.4	0.4	-33.8
June	4.9	-26.2	5.1	-14.4	0.7	-46.6	0.6	-12.6	0.4	-28.4
July	5.4	-19.2	5.4	-22.3	1.1	-19.5	0.6	-25.4	0.4	-30.5
Aug.	5.2	-14.8	5.0	-20.8	0.9	-21.3	0.6	-21.9	0.5	-19.2
Sources	"Trade Statistics of Japan", Ministry of Finance									

## ECONOMIC INDICATORS FOR JAPAN

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2012	-0.8	0.80	4.3	2.5	-4.3	4.8	79.8
2013	-0.2	0.93	4.0	3.6	-8.8	4.5	97.6
2014	0.5	1.09	3.6	3.4	-10.5	3.9	105.8
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.4	110.4
2019	-0.3	1.60	2.4	2.4	0.4	20.1	109.0
2019/3rd Qtr.	-0.3	1.59	2.3	2.4	-0.1	5.7	107.3
4th Qtr.	-0.1	1.57	2.3	2.6	0.3	3.7	108.7
2020/1st Qtr.	0.6	1.44	2.4	3.0	0.5	5.7	108.9
2nd Qtr.	-1.7	1.21	2.8	5.3	-1.5	1.3	107.6
2020/Jan.	1.0	1.49	2.4	2.8	-1.0	0.6	109.4
Feb.	0.7	1.45	2.4	3.0	1.4	3.1	110.0
March	0.1	1.39	2.5	3.2	0.1	1.9	107.4
April	-0.7	1.32	2.6	3.7	-0.9	0.2	107.9
May	-2.3	1.20	2.9	5.1	-0.5	1.1	107.3
June	-2.0	1.11	2.8	7.2	-0.0	0.1	107.6
July	-1.5	1.08	2.9	7.9	0.1	1.5	106.8
Aug.	-1.3	1.04	3.0	8.6	0.4	2.1	106.0
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2012	6.1	3.9	23.3	-1.8	16.3	3.3	11.5	-10.8	15.0	2.7
2013	7.0	15.6	25.2	8.1	18.3	12.6	12.6	9.7	17.7	17.4
2014	7.5	6.9	26.1	3.5	19.4	6.2	13.4	6.0	19.2	8.6
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2019/3rd Qtr.	2.3	1.9	6.6	-8.8	4.7	-3.4	3.6	-9.4	4.7	-2.1
4th Qtr.	2.2	-4.7	6.8	-7.9	4.8	-10.2	4.0	-5.1	4.7	-12.2
2020/1st Qtr.	2.0	-6.6	6.4	-3.2	4.7	-2.6	3.2	-5.3	3.8	-16.7
2nd Qtr.	1.9	-15.9	5.3	-18.9	4.0	-13.6	3.6	-2.0	4.6	3.6
2020/Jan.	0.7	-2.0	1.9	-1.6	1.7	0.5	0.9	-6.4	1.7	-5.7
Feb.	0.6	-8.2	2.2	2.8	1.5	-5.0	1.1	-0.4	0.7	-47.1
March	0.7	-9.7	2.3	-9.7	1.6	-3.4	1.2	-8.7	1.4	-4.4
April	0.7	-6.7	1.9	-15.2	1.4	-7.3	1.2	-4.0	1.7	11.8
May	0.6	-29.4	1.6	-17.9	1.2	-21.3	1.1	-1.9	1.5	-2.0
June	0.6	-9.5	1.8	-23.4	1.3	-12.0	1.2	-0.2	1.4	0.8
July	0.7	-14.3	1.8	-17.3	1.4	-16.9	1.3	8.2	1.5	-9.7
Aug.	0.6	-22.0	1.8	-15.0	1.3	-15.1	1.3	5.1	1.3	-7.0
Sources	"Trade Statistics of Japan", Ministry of Finance									