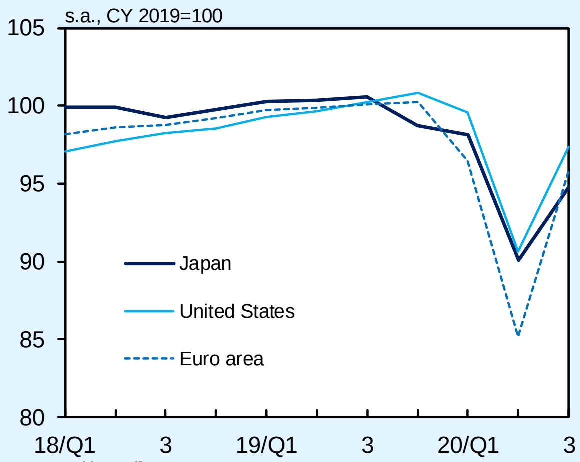
(Box 1) Pace of a Pick-Up in the Level of Economic Activity to Date: Comparison between Japan, the United States, and Europe

This box provides an overview of the pace of a pick-up to date in Japan's economy compared with the U.S. and European economies, mainly by focusing on GDP data. It should be noted that descriptions in this box are solely the findings from assessments and examinations available at the moment, since they are based on data that cover a short time period -- namely, about a quarter beginning after economic activity became depressed significantly in early spring last year.

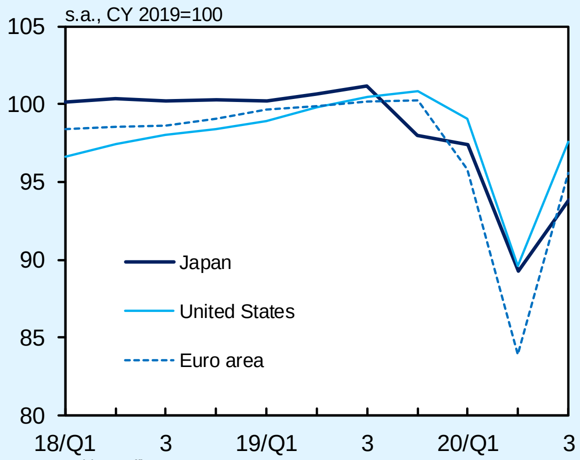
Chart B1-1: Real GDP



Sources: Cabinet Office; BEA; Eurostat.

Real GDP for Japan, the United States, and the euro area saw common developments in that they declined significantly for the April-June quarter of 2020 due to the effects of lockdowns or the declaration of a state of emergency, and then picked up for the July-September quarter in reflection of a resumption of economic activity (Chart B1-1). That said, a detailed look shows that, in terms of the degree of recovery to the pre-pandemic level (the 2019 average), Japan's real GDP has recovered to a level lower than that of the United States and to about the same level as that of the euro area, for which the decline for the April-June quarter was larger compared with Japan.

Chart B1-2: Real Private Consumption



Sources: Cabinet Office; BEA; Eurostat.

A comparison by demand component shows that Japan's domestic demand components, such as private consumption, housing investment, and business fixed investment, have been relatively weak to date compared with those of the United

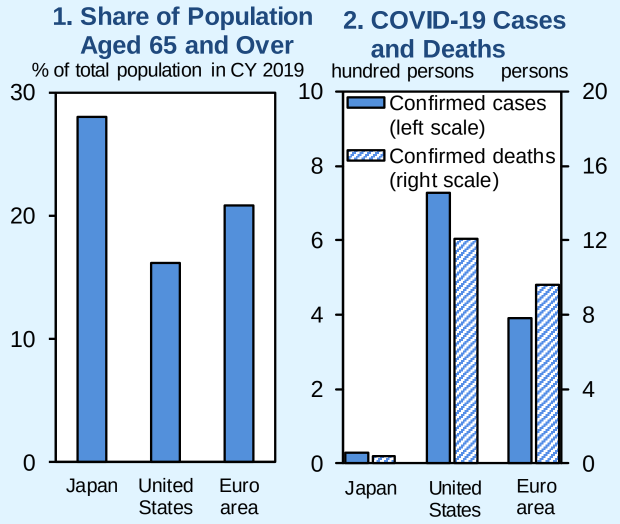
States in particular (Charts B1-2 and B1-8).

The relative weakness in private consumption in Japan could be attributable to the fact that the population share of seniors, who are considered to be at greater risk of severe illness from COVID-19, is higher in Japan than in the United States and Europe (Chart B1-3[1]). With regard to services consumption -- which is most susceptible to the impact of COVID-19 -- developments for the first half of fiscal 2020 show that, on average, the degree of decline in Japan was almost the same as that in the United States and Europe, both of which have faced a more severe spread of COVID-19 and taken stricter public health measures (Charts B1-3[2], B1-4, and B1-5[2]). In Japan, consumption of senior households -- for which the head is aged 65 years and over -- accounts for around 35 percent of selective services consumption, and the relatively weak services consumption seems largely attributable to the fact that these households have voluntarily constrained spending activity on face-to-face services that involve going out and contacting with others due to strong vigilance against COVID-19.[22]

In addition, even though an expansion in disposable income in Japan -- partly supported by a provision of special cash payments -- has been relatively large compared with that in Europe and has been at a level comparable to that in the United States, goods consumption in Japan has been relatively weak compared with that in those

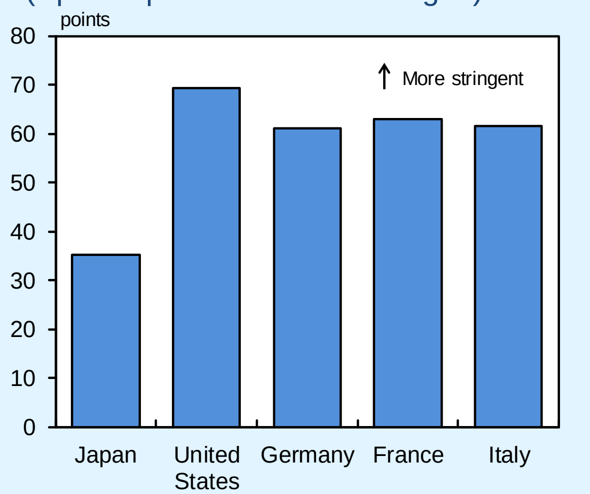
[22] With regard to senior households' cautiousness toward consumption, see Box 4 in the October 2020 Outlook Report.

Chart B1-3: Population Share of Seniors and COVID-19 Cases and Deaths



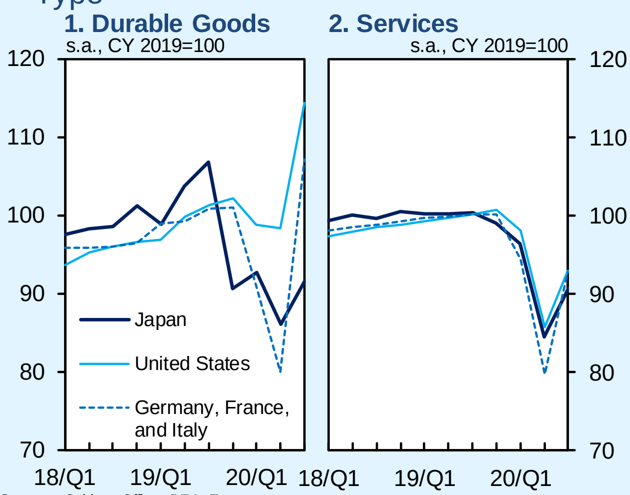
Sources: World Bank; WHO.
Note: Figures for confirmed cases and confirmed deaths are cumulative numbers per 10,000 population (as of January 20, 2021). Calculated using data released by the WHO and population data for 2019 released by the World Bank.

Chart B1-4: Stringency Index (April-September 2020 Averages)



Source: Oxford COVID-19 Government Response Tracker.
Note: Figures are based on preventive measures taken by governments such as school closures and travel restrictions.

Chart B1-5: Real Private Consumption by Type



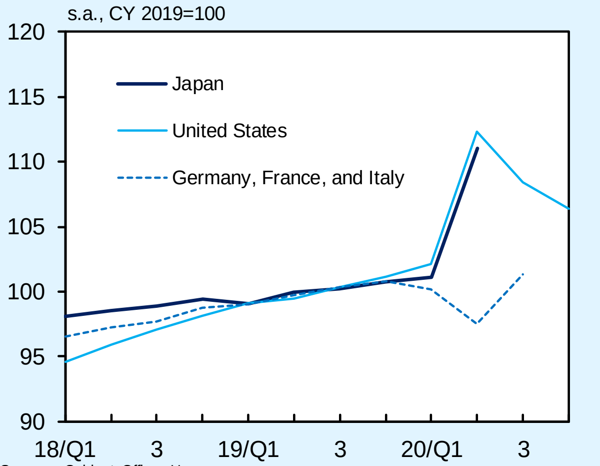
Sources: Cabinet Office; BEA; Eurostat.

economies (Chart B1-6). In particular, developments in durable goods consumption for the July-September quarter, during which economic activities resumed, indicate that pent-up demand in Japan has not materialized as strongly as that in the United States and Europe (Chart B1-5[1]). In Japan, increases in teleworking-related demand and goods consumption using e-commerce may be smaller than those seen in the United States and Europe, and this could be a reason for less evident materialization of pent-up demand for durable goods consumption. It also should be taken into account that the underlying trend in Japan's durable goods consumption has been difficult to gauge due to the front-loaded increase and subsequent decline in demand prior to and after the October 2019 consumption tax hike.

On the other hand, partly supported by firm exports to China -- which have a large share in Japan's exports -- a decrease in Japan's exports around last spring was smaller and a subsequent increase has been evident compared with the United States and Europe (Chart B1-7). Such developments in Japan's overall exports in the current phase are quite different from the time of the GFC, indicating that exports and production of Japan's manufacturing sector have been recovering steadily without lagging behind a global increase in trade volume.

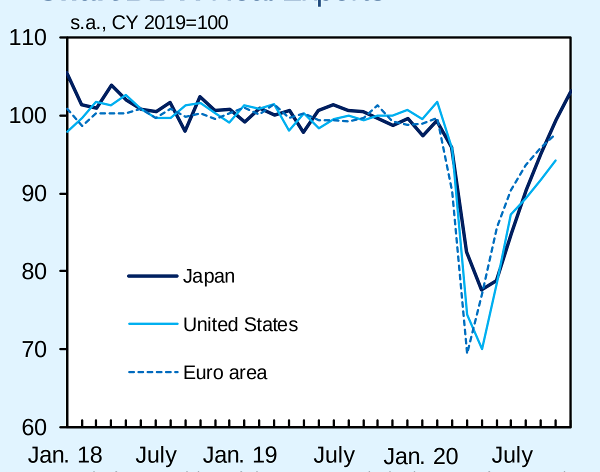
Lastly, turning to business fixed investment, the degree of decline for the April-June quarter was smaller in Japan than in the United States and Europe; for the July-September quarter, however, such investment in the United States and Europe

Chart B1-6: Nominal Disposable Income



Sources: Cabinet Office; Haver.
Notes: 1. Figures for Japan are calculated using annual and quarterly estimates.
2. The figure for the United States for 2020/Q4 is the October-November average.

Chart B1-7: Real Exports

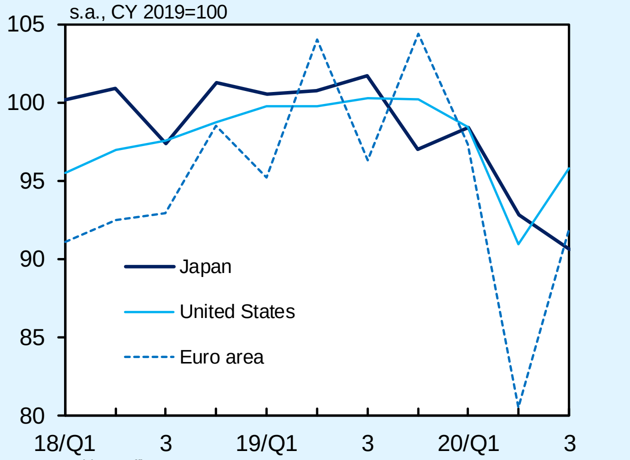


Sources: Bank of Japan; Ministry of Finance; CPB Netherlands Bureau for Economic Policy Analysis.
Note: Figures for the euro area include trade within the area.

turned to an increase, whereas that in Japan registered a decline for two consecutive quarters (Chart B1-8). On this point, there is a possibility that, due in part to the difference in the extent of the spread of COVID-19, Japanese firms thus far may not have been as active as European and U.S. firms in making digital or teleworking-related investments to respond to the situation during the COVID-19 era (Charts B1-3[2] and B1-9). That said, the weakness in Japan's business fixed investment relative to the United States and Europe might be merely due to some time lag given that, as described in the main text of the January 2021 Outlook Report, Japan's machinery investment already has picked up recently in reflection of a steady increase in exports and production.

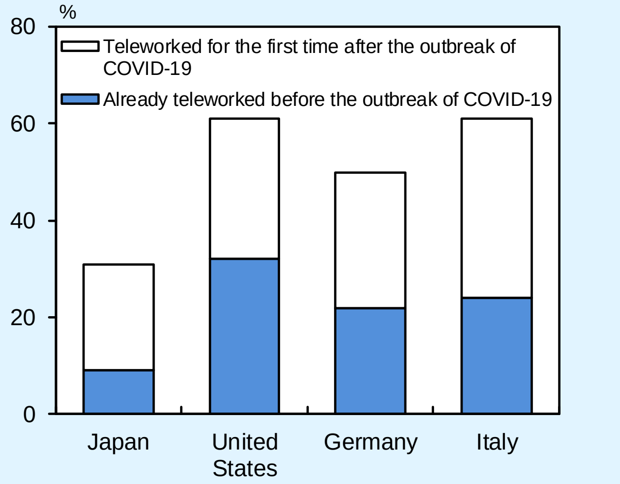
As mentioned at the beginning of this box, the above descriptions are based on actual data that cover a short time period. From a somewhat long-term perspective, there is likely to be a gap between Japan's economic growth rate and that of the United States and Europe due to the aforementioned factors and Japan's potential growth rate being lower than that of these economies, mainly reflecting the effects of demographic changes. In considering the growth pace of Japan's economy from a medium- to long-term perspective, it is necessary to pay close attention to whether progress will be made in the corporate sector's innovation to adapt to new circumstances and in transfer of economic resources among industries.

Chart B1-8: Real Business Fixed Investment



Sources: Cabinet Office; BEA; Eurostat.
Note: Figures for the euro area are those for gross fixed capital formation excluding housing investment.

Chart B1-9: Rate of Teleworkers by Country



Source: Nomura Research Institute, "Global Survey Comparing Living Conditions During the Covid-19 Pandemic" (July 2020).
Note: Figures are prepared by the Bank's staff based on the online survey by Nomura Research Institute. The number of survey responses is 2,060 for each country.