

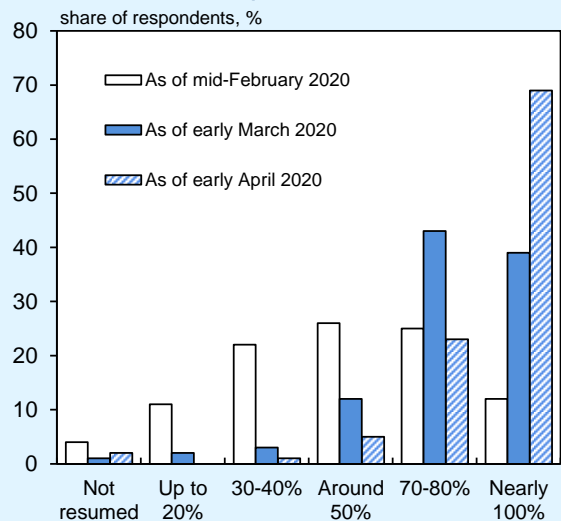
(Box 2) Developments in Japan's Economy since the Outbreak of COVID-19

The spread of COVID-19 has affected Japan's economy, mainly through the following three channels: (1) a decline in exports of goods due to depressed overseas economies; (2) a decrease in exports of services (inbound tourism demand); and (3) a fall in domestic private consumption that reflects self-restraint from going outside and holding events. This box examines the impact of the spread of COVID-19 on Japan's economy in terms of exports of goods and services as well as domestic private consumption.

Developments in Exports of Goods

Starting with Japan's exports of goods by region, those to China continued to increase through the end of last year but then declined for the January-March quarter this year due to the effects of preventive measures against the spread of COVID-19 taken by the Chinese authorities (Chart 11). However, as outlined in Box 1, economic activity in China seems to be showing signs of a pick-up on the whole, since the authorities gradually have permitted the movement of people and the restart of factories with the spread of COVID-19 starting to subside. According to a survey asking Japanese firms about their production bases located in China, production activities appear to be recovering, particularly in regions with a small number of new cases of infections, although there are still some firms that have not fully resumed operations, due mainly to logistical disruptions (Chart B2-1). Given these circumstances, exports to China are expected to

Chart B2-1: Degree of Japanese Firms' Business Resumption in China



Source: Assembly of the Japanese Commerce & Industry Club in Eastern China, "Survey on the Impact of the Novel Coronavirus on Firms' Activities" (available only in Japanese).

Note: Figures are for firms that are members of the Japanese Commerce & Industry Club in Eastern China (Shanghai, Jiangsu, Zhejiang, and Anhui) and have production bases there. Figures as of mid-February (Feb. 19-21) are based on responses collected from 570 firms, those as of early March (Mar. 4-6) from 481 firms, and those as of early April (Apr. 1-6) from 424 firms.

stop declining and then start picking up moderately.

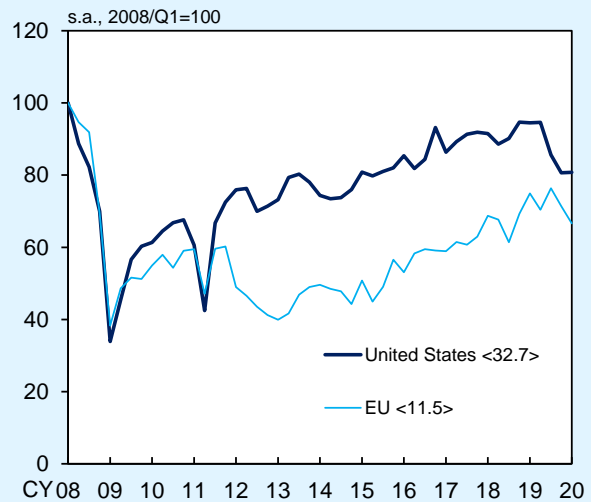
On the other hand, exports to the United States and Europe have declined clearly, mainly for automobile-related goods and capital goods exports. Recently, economic activity in these economies, particularly in the service sector, has dropped sharply as a result of restrictions on going outside, including lockdowns of cities, and automobile sales also have declined, as outlined in Box 1 (Chart B1-4). Past experience suggests that, when automobile sales decline in the United States and Europe, Japan's automobile-related exports to these economies tend to decrease accordingly (Chart B2-2). Thus, in the short run, these exports are projected to be under further downward pressure, as automobile sales in the United States and Europe are expected to be weak.

Developments in Exports of Services

Turning to exports of services, developments in the number of visitors to Japan -- which affect Japan's travel receipts -- show that, while the number picked up from last autumn owing to an increase in visitors from China, it has decreased significantly since this February due to the impact of the spread of COVID-19 (Chart B2-3). Since the start of April, the number of inbound visitors seems to be declining further, partly reflecting a strengthening of immigration restrictions on travelers from abroad.

Looking at developments during the outbreak of severe acute respiratory syndrome (SARS) in

Chart B2-2: Real Exports of Motor Vehicles and Related Goods to the U.S. and the EU



Sources: Bank of Japan; Ministry of Finance.
 Notes: 1. Based on staff calculations. Figures in angular brackets show the share of each country or region in Japan's total exports of motor vehicles and related goods in 2019.
 2. "EU" does not include the United Kingdom for the entire period.

Chart B2-3: Number of Inbound Visitors

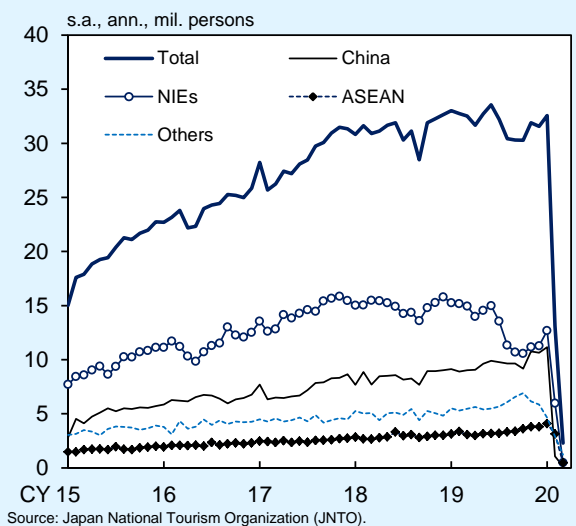
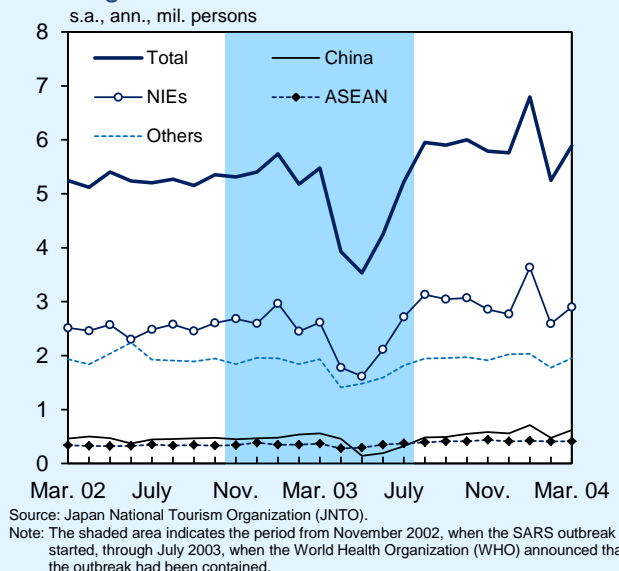


Chart B2-4: Number of Inbound Visitors during the SARS Outbreak

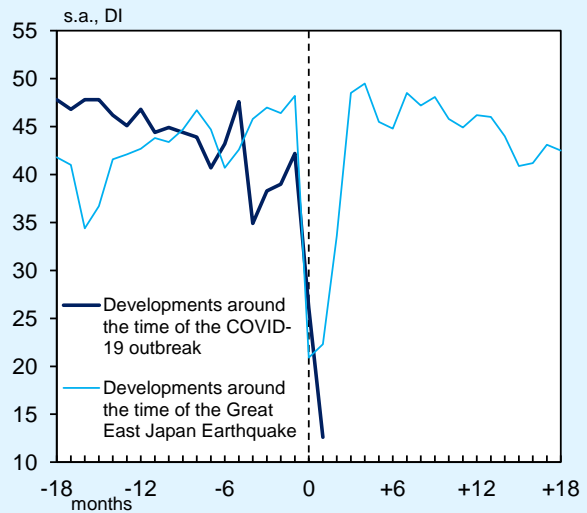


2003, the number of inbound visitors fell sharply in April and May, then started to recover in June before the containment of the outbreak was announced, and in July generally returned to the level seen before the outbreak (Chart B2-4). This experience suggests that, once the spread of COVID-19 subsides and immigration restrictions are lifted, the number of inbound visitors is likely to recover gradually. However, it is necessary to pay due attention to the possibility that the pace of recovery will be only moderate because COVID-19 has been spreading globally with a time lag and its impact is likely to last for a considerable period.

Developments in Private Consumption

Lastly, domestic private consumption has decreased significantly, mainly in services such as eating and drinking as well as accommodations, with the growing impact of the spread of COVID-19. The *Economy Watchers Survey*, through which the impact of this spread on private consumption can be captured early, shows that business sentiment of consumption-related firms worsened in February to a low level not seen since the Great East Japan Earthquake, and deteriorated further in March due to stricter self-restraint from going outside (Chart B2-5). Looking back on developments after the Great East Japan Earthquake using the Consumption Activity Index (CAI), with which comprehensive developments in private consumption can be captured on a monthly basis, the consumption of services such as accommodations, amusement and hobbies, and food services declined significantly at that time due to consumers' self-restraint (Chart B2-6). Similar developments have been observed this time, as seen in a large decline in room occupancy rates of accommodation facilities (Chart B2-7). In

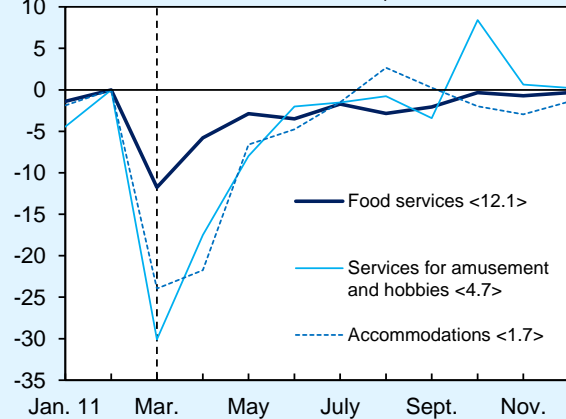
Chart B2-5: Economy Watchers Survey



Source: Cabinet Office.
 Notes: 1. Month 0 is February 2020 for the COVID-19 outbreak and March 2011 for the Great East Japan Earthquake. The latest figure for the COVID-19 outbreak is for March 2020.
 2. Figures are for the current economic conditions DI (household activity-related).

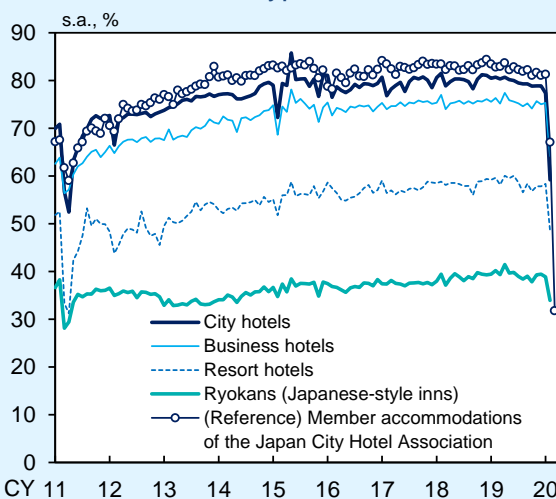
Chart B2-6: Developments in the CAI after the Great East Japan Earthquake

Major Items of Services Consumption, Real deviation from trend, Feb. 2011=0, % points



Sources: Bank of Japan, etc.
 Notes: 1. The trend is calculated using the Hodrick-Prescott (HP) filter.
 2. Based on staff calculations. Figures for the items are not adjusted for the travel balance.
 3. Figures in angular brackets show the weights in the Consumption Activity Index (CAI).

Chart B2-7: Room Occupancy Rates by Accommodation Type

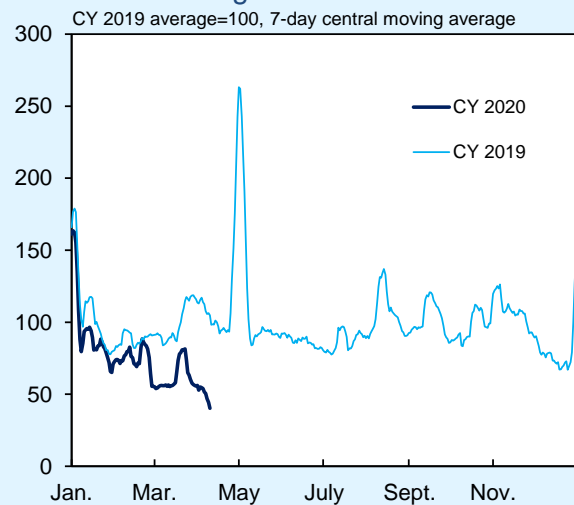


Sources: Japan Tourism Agency; Japan City Hotel Association.

addition, the Bank used mobile phone location data, which are available at a daily frequency, to investigate consumption developments since March in real time. Looking at the number of visitors at World Cultural Heritage Sites in Japan, which appears to indicate travel demand, the increase usually seen from late March to early April has not been observed this year, and the number actually has declined due to requests for self-restraint from going outside (Chart B2-8). Taking a look at the nighttime population of downtown areas in Tokyo, which appears to indicate demand for eating and drinking, it declined substantially in March, mainly reflecting self-restraint from going outside and temporary closures of restaurants, and then dropped further in April due to the declaration of a state of emergency on April 7 (Chart B2-9).

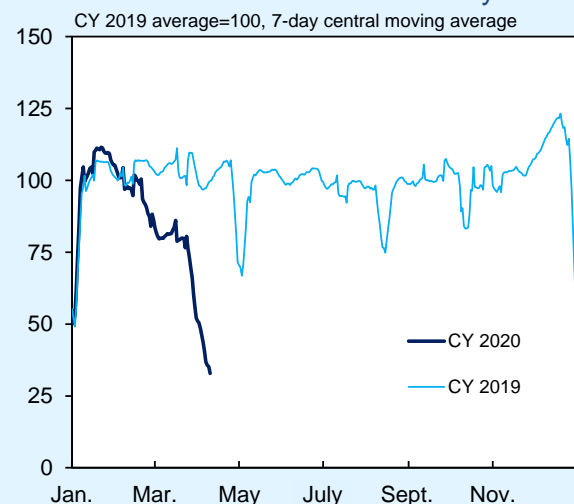
As for the outlook, with the government implementing the emergency economic measures decided by the Cabinet in April 2020, various support measures, such as cash payments for households and the easing of eligibility requirements for the employment adjustment subsidies, are expected to support private consumption. Moreover, pent-up demand is expected to materialize as the impact of the spread of COVID-19 wanes. However, it should be noted that the recovery in private consumption may be delayed since there are high uncertainties regarding the consequences of the spread of COVID-19 and the timing of the spread subsiding.

Chart B2-8: Number of Persons at World Cultural Heritage Sites



Sources: Agoop Corp.; Ministry of Land, Infrastructure, Transport and Tourism.
 Notes: 1. Figures show the aggregate population between 9h–17h at World Cultural Heritage Sites in Japan that were registered by CY 2017 based on smartphone location data.
 2. The latest figure for CY 2020 is the average for April 7–13.

Chart B2-9: Nighttime Population of Selected Downtown Areas in Tokyo



Sources: Agoop Corp.; Ministry of Land, Infrastructure, Transport and Tourism.
 Notes: 1. Figures show the aggregate population between 20h–24h in the 1.5 km x 1.5 km squared areas centered around Ginza, Roppongi, and Shinjuku stations based on smartphone location data.
 2. The latest figure for CY 2020 is the average for April 7–13.