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Country Insight Snapshot

Japan

November 2020

Written 20 November 2020

OVERVIEW

OVERALL COUNTRY RISK RATING: DB2d

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Deteriorating

CORE OUTLOOK

+ Japan avoided a lockdown and appeared to have contained a severe Covid-19 outbreak in Q2.
+ Monetary policy easing boosted asset prices, prevented deflation, and supported exports via the weaker yen in the 2010s.
+ Emergency fiscal and monetary policy moves have shored up credit availability and asset prices since the pandemic began.
+ The labour market was close to its strongest in decades prior to the pandemic.

- Japan is exposed to multiple natural disaster risks, and the long-term trend may be unfavourable.
- Japan's population shrinkage is accelerating, and the country still lags behind the OECD average in terms of female labour participation.
- Extreme monetary easing will be difficult to reverse without precipitating a fiscal crisis and a jump in the yen.
- Japan's fiscal health was among the worst in the OECD countries, but its situation in the pandemic era is likely to be more typical.

KEY DEVELOPMENT

The services sector will lag the revival in manufacturing due to a resurgence of Covid-19 cases since Q3, dragging on the recovery into 2021.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

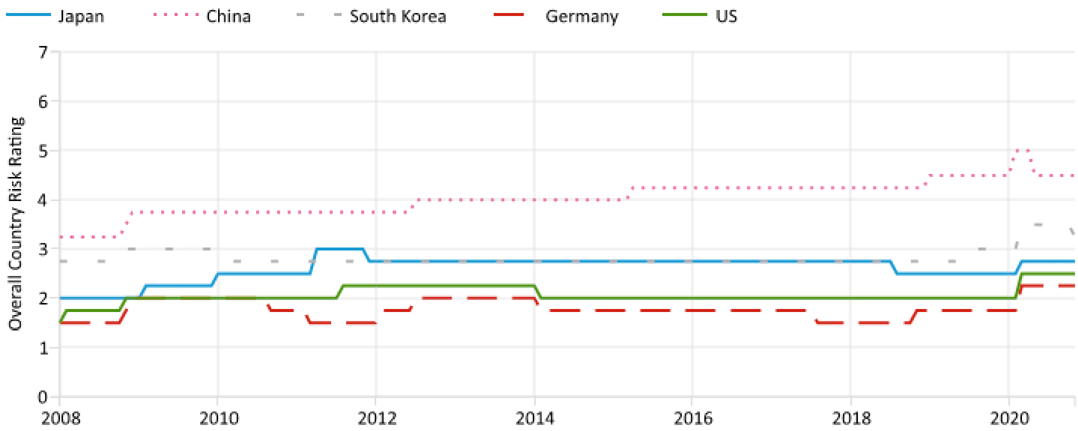
G

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

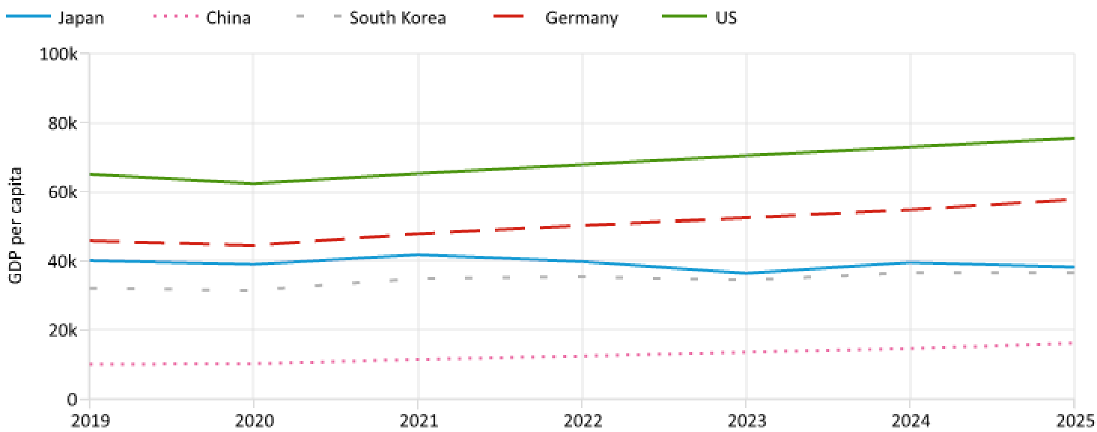
Rating History and Comparison



Source: Dun & Bradstreet

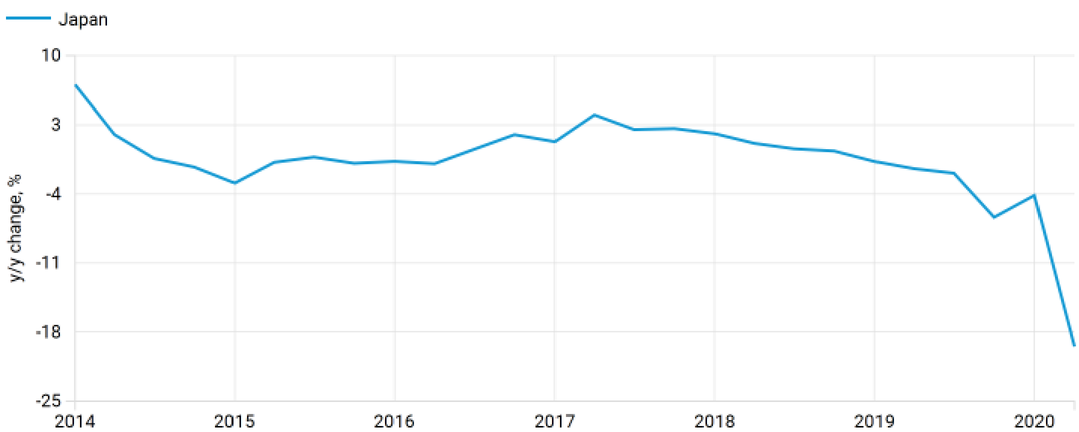
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source: Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2018	2019	2020f	2021f	2022f	2023f	2024f	2025f
C/A balance % GDP	3.6	3.6	2.2	2.8	3.0	2.2	1.8	2.5
Govt balance, % GDP	-2.5	-3.3	-14.2	-6.0	-4.9	-3.0	-2.7	-2.8
Inflation, annual avge %	1.0	0.5	0.1	0.7	1.5	1.8	0.2	-1.0
Real GDP Growth, %	0.3	0.7	-6.0	1.7	0.8	-2.5	1.0	-1.1
Unemployment (annual avge, %)	2.4	2.4	3.3	3.0	2.8	2.9	3.0	3.0

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Our assumption is that services sectors will continue to lag the recovery in manufacturing due to the rise in Covid-19 cases, dragging on the recovery into Q1 2021. The reduction in mobility in the northern prefecture of Hokkaido, evident in November's Google mobility data, could yet become more typical nationally, into the first quarter of 2021. The pandemic's effects at home and the impracticality of the Olympics (due in fewer than 250 days) will then keep economic growth below 2.0% in 2021. The Bank of Japan's fiscal (April-March) 2021/22 growth forecast of 3.6% assumes that wide-ranging public health measures will not be reinstated. As this is questionable, the forecast is optimistic. However, another national state of emergency as in April-May 2020, remains unlikely. Japan's advance purchases of vaccines from Pfizer (120m doses for Q1-Q2 2021) and Moderna (50m by end-2021) could arrest the cycle by which the epidemic keeps recovering in line with services sector activity.

Corporate profits already fell by 46.6% y/y in Q2 among non-financial companies, pre-tax, according to Ministry of Finance data, approaching the 53.0% y/y drop recorded in Q2 2009. Corporate earnings will remain exposed to the pandemic, as they depend largely on global investment in machinery and durables, and benefit less from technology manufacturing demand for remote working and e-commerce. However, Japan's automotive industries are already experiencing a boost from the collapse of public transport in many OECD economies during the pandemic, a shift which could prove long-lasting.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

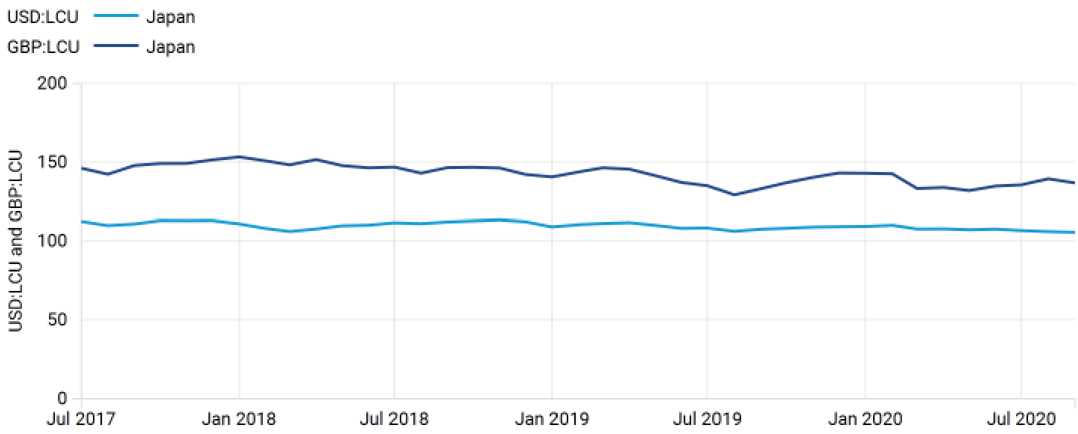
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays reported

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Japanese yen

Bank Lending to the Private Sector

Source: IMF, Central Banks, Haver Analytics

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Q3 GDP bounce may have triggered coronavirus resurgence

We have reduced our forecast for 2020 real GDP growth from -5.6% to -6.0% since November due mainly to the resurgence in Covid-19 cases around Japan. While cumulative cases - as in several Asian countries - are less than new daily totals in many economies in Europe and the Americas, Tokyo is already back to its highest alert level. The outbreak is more extensive than the previous one in Q2 that focused on the nightlife sector, and only a fraction of new infections are being traced. The uptick followed the most rapid q/q recovery in GDP since 1968, in Q3, as the state of emergency in place for much of Q2 receded, and fiscal stimulus measures - including cash handouts and the 'Go To' travel subsidy scheme to boost domestic tourism - took effect. Real GDP surged by 5.0% q/q in seasonally adjusted terms and real private consumption by 4.7%, more than half of their -8.2% and -8.1% q/q respective contractions in Q2.

However, the very success of the economic recovery may have been accompanied by renewed proximity that enabled the virus to start an exponential spread. The 'economy watchers' index of highly-cyclically-sensitive sub-sectors recovered to a 21-month high at 54.5 in October from 49.3 in September, signalling a m/m expansion in activity, at over 50.0: it gauges confidence among workers dependent on discretionary spending, such as restaurant workers and taxi drivers. The recovery in service sectors may be a risk factor for the disease, as is the return of colder weather, with Japan's northernmost prefecture, Hokkaido, leading the acceleration in cases. The 'Go To' travel subsidy scheme could also be implicated, by subsidising dining out and travelling, as the Japan Medical Association has indicated: in November the authorities removed areas with rising cases from the scheme.

The outlook for manufacturing has improved. Exports fell by only 0.2% y/y in October, in yen terms, after falling almost 12.0% y/y in Q3. The revival in the automotive supply chain was a key driver, with automobile and parts exports up 3% and 4% y/y in October respectively, and overall exports to both the US and China growing. Nevertheless, the double-digit falls in merchandise exports to the Middle East and Latin America are of concern and could continue to drag on exports in 2021, although the Regional Comprehensive Economic Partnership (RCEP) free-trade agreement should provide a lift for Japanese exporters by late 2021.

Market Potential

RCEP promises better access for farm goods and Japanese exporters

The Regional Comprehensive Economic Partnership free-trade deal was signed by Japan, South Korea, China, Australia, New Zealand and the ten Association of Southeast Asian Nations (ASEAN) member countries in November. It still requires ratification by a majority of signatory states. However, it is expected to take effect during 2021. The first trade deal grouping China, South Korea and Japan, it will cover 46% of Japan's trade and 30% of global GDP.

Japan is opening its agricultural sector to its new RCEP partners, by eliminating tariffs on 61% of tariff lines for ASEAN, but a lesser 56% for China and 49% for South Korea. The especially sensitive sectors of rice, wheat, beef, dairy products, sugar and pork were exempted to protect farm interests within Japan. There are no such exceptions for general and electrical machinery: Japan's trade negotiators were evidently confident that its advantages in these industries will offset any increase in imports. Japanese manufacturers will gain better access in China, except where the latter has deemed sectors of strategic interest, as with its 15-year exceptions for some electric-vehicle battery components. Some 86% of Japanese industrial goods exports to China will reportedly be free from tariffs, with the figure put at 92% for exports to South Korea.

The RCEP creates a single set of rules of origin, which will increase efficiencies for marketing Japanese products within it. However, the RCEP is generally less ambitious than the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership that took effect at the end of 2018, meaning new opportunities for CP-TPP members Australia, New Zealand, Singapore, Malaysia and Vietnam, that are also participating in the RCEP, should be more limited.

COUNTRY PROFILE AND STATISTICS

Overview

Japan consists of four main islands (Hokkaido, Honshu, Shikoku and Kyushu) and a large number of smaller islands, and lies southeast of the Korean Peninsula. Much of the country is mountainous, with a small (but significant) forested element; usable land is intensively settled and developed. The climate varies from tropical in the south to cool temperate in the north. It is exposed to a variety of natural disaster risks as a result of its location.

Japan's GDP is still the third largest in the world. Privileged by its security relationship with the US and by Cold War importance, Japan grew rapidly after 1945. However, in the aftermath of the 1980s 'bubble economy', land and real estate prices slumped by 80%, unemployment rose, and there were deep recessions in 1998 and 2002 after the working age population ceased growing.

Japan is already an involuntary pioneer in gauging the effects of an ageing society. Meanwhile, the even income distribution and universal sense of middle-class identity for which Japan was famous are disappearing, owing to demographic decline in peripheral regions and reduced government redistribution of income between regions.

Key Facts

Key Fact	Detail
Head of state	Emperor NARUHITO
Capital	Tokyo
Timezone	GMT +09-00
Official language	Japanese
Population (millions)	126.2
GDP (USD billions)	5,079.0
GDP per capita (USD)	40,239
Life expectancy (years)	84.2
Literacy (% of adult pop.)	99.9
Surface area (sq km)	377,910

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2016	2017	2018	2019	2020f
Real GDP growth (%)	0.5	2.2	0.3	0.7	-6.0
Nominal GDP in USDbn	4,924	4,868	4,952	5,079	4,908
Nominal GDP in local currency (bn)	535,537	545,897	546,852	553,760	524,134
GDP per Capita in USD	38,785	38,409	39,147	40,239	39,105
Population (year-end, m)	127.0	126.7	126.5	126.2	125.5
Exchange rate (yr avge, USD-LCU)	108.8	112.1	110.4	109.0	106.8
Current Account in USDbn	197.0	203.2	176.1	184.5	108.0
Current Account (% of GDP)	4.0	4.2	3.6	3.6	2.2
FX reserves (year-end, USDbn)	1,188.3	1,232.2	1,238.9	1,285.0	1,375.0
Import Cover (months)	18.5	17.6	16.0	17.1	17.9
Inflation (annual avge, %)	-0.1	0.5	1.0	0.5	0.1
Govt Balance (% GDP)	-3.7	-3.1	-2.5	-3.3	-14.2

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2021f	2022f	2023f	2024f	2025f
Real GDP growth (%)	1.7	0.8	-2.5	1.0	-1.1
Nominal GDP in USDbn	5,236	4,991	4,543	4,926	4,745
Nominal GDP in local currency (bn)	536,661	549,004	545,161	551,703	545,635
GDP per Capita in USD	41,886	39,928	36,490	39,661	38,294
Population (year-end, m)	125.0	125.0	124.5	124.2	123.9
Exchange rate (yr avge, USD-LCU)	102.5	110.0	120.0	112.0	115.0
Current Account in USDbn	145.0	150.0	100.0	90.0	120.0
Current Account (% of GDP)	2.8	3.0	2.2	1.8	2.5
FX reserves (year-end, USDbn)	1,388.8	1,402.6	1,230.0	1,290.0	1,300.0
Import Cover (months)	17.9	17.7	14.1	15.5	16.1
Inflation (annual avge, %)	0.7	1.5	1.8	0.2	-1.0
Govt Balance (% GDP)	-6.0	-4.9	-3.0	-2.7	-2.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Japan	China	S. Korea	Germany	US
Income per Capita (USD)	39,105	10,201	31,539	44,613	62,436
Country Population (m)	125.5	1,439.3	51.1	83.8	331.0
Internet users (% of population)	84.6	54.3	95.9	89.7	87.3
Real GDP Growth (% p.a., 2021 - 2030)	-0.8 - 1.3	4.5 - 6.5	1.5 - 2.5	0.5 - 2.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet

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Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 20 7149 5000
US: +1 800 234 3867
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contact your local office
or call +44 20 7149 5000

Publisher

Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

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