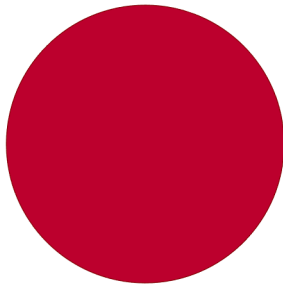




Japan Macroeconomic Report



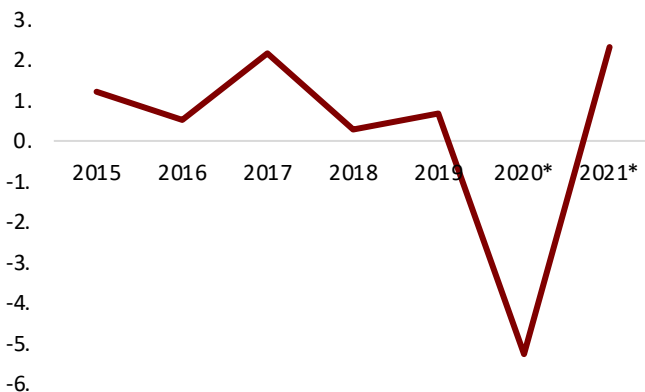
Economic Profile

Country	Japan
Currency	Japanese Yen
Population	126.3 million
Economy	Developed
GDP	\$ 5.082 trillion
GDP PPP	\$ 41,400
Largest Trade Partner	United States

Market Outlook

Point in economic cycle	Right-of-peak
Outlook	Bearish

GDP Growth (by %)



Source: Statista

Macroeconomic Thesis:

Given the careful research conducted to formulate this report, I have concluded that the world's third largest economy, Japan, is right of peak with an outlook of bearish. Shown graphically below, the economic outlook of 2021 continues to rise steadily but skeptically as the country continues to experience the economic impacts of COVID-19.

The Coronavirus pandemic has fundamentally changed the Japanese economy, causing a projected decrease in GDP of about 5.37% from 2019-2020. The aspect of the Japanese economy that has suffered the most during the pandemic is consumer spending, which fell by 3.2% in 2020. Government expenditures also increased by 3.8% in 2020.

In September of 2020, Japan also unexpectedly underwent a transfer of power from Prime Minister Shinzo Abe to his right-hand man now Prime Minister Yoshihide Suga. The new administration has proven itself to be hesitant in taking wide-sweeping policy approaches to the pandemic due to the appointment of the Prime Minister as opposed to election of the new Prime Minister.

As for 2021, the recovery of the Japanese economy is tied to an increase in consumer spending, which is directly correlated to the distribution and rollout of the COVID-19 vaccine. The 2021 Tokyo Olympic Games could also prove to help push consumer spending back up to pre-pandemic levels.

In all, my outlook of the market is bearish on the basis that Japan's economic recovery depends heavily on COVID-19 vaccine distribution. Since only 30% of the country is confident in a safe and effective vaccine, it will be the duty of the government over the next few months to persuade and convince its citizens to take the vaccine in an effort to return the country and its economy to a state of normalcy.



Economic Indicators

Unemployment Rate:

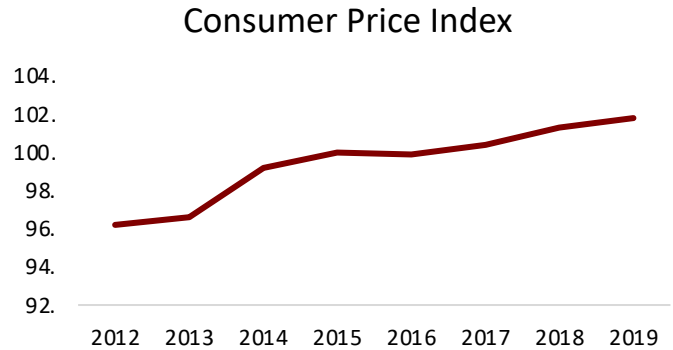
The unemployment rate is a simple yet complex calculation that indicates the overall health of the labor market in any economy. Japan's unemployment rate has remained relatively low throughout the entirety of the pandemic due to two reasons: an aging, shrinking population and Japanese culture. Japan is currently experiencing a population crisis, with some sectors of the economy having more jobs than workers. Additionally, it is more customary for companies in Japan to prioritize the sustainability of their business as opposed to maximizing profits in keeping their workers employed.



Source: Statista

Consumer Price Index:

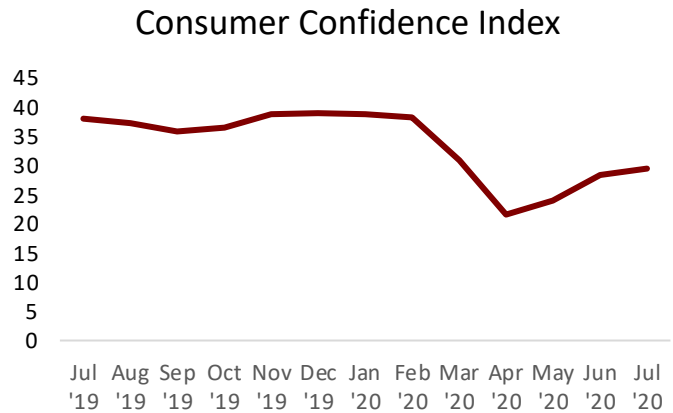
The consumer price index is used as a general indicator of inflation. Given the same basket of goods from year-to-year, the CPI shows how much the price of one basket changes relative to a similar basket. In Japan, the government has largely been responsible for the controlled rate of inflation even during the pandemic and likely after.



Source: Statista

Consumer Confidence Index:

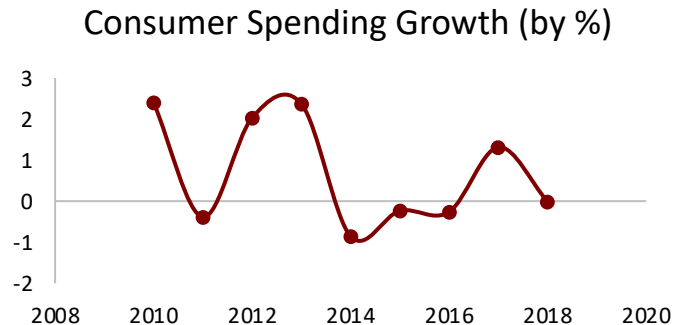
The consumer confidence index is an economic indicator of how much trust the citizens of a country place in their government. In Japan, much of what has been lost since the onset of the pandemic has been regained. It is also important to note that Japan's CCI will remain highly in flux so long as Prime Minister Suga is still in office through appointment as opposed to a free election. Should he take bigger governmental steps to mitigate the impacts of the virus, the number will surely rise.



Source: Statista

Consumer Spending:

Consumer spending is often used as a general economic indicator determining how the majority of members in an economy are spending money earned from income. Japan's consumer spending has seen a slow recovery up until now but will likely increase substantially as the country seeks to roll out COVID-19 vaccines.

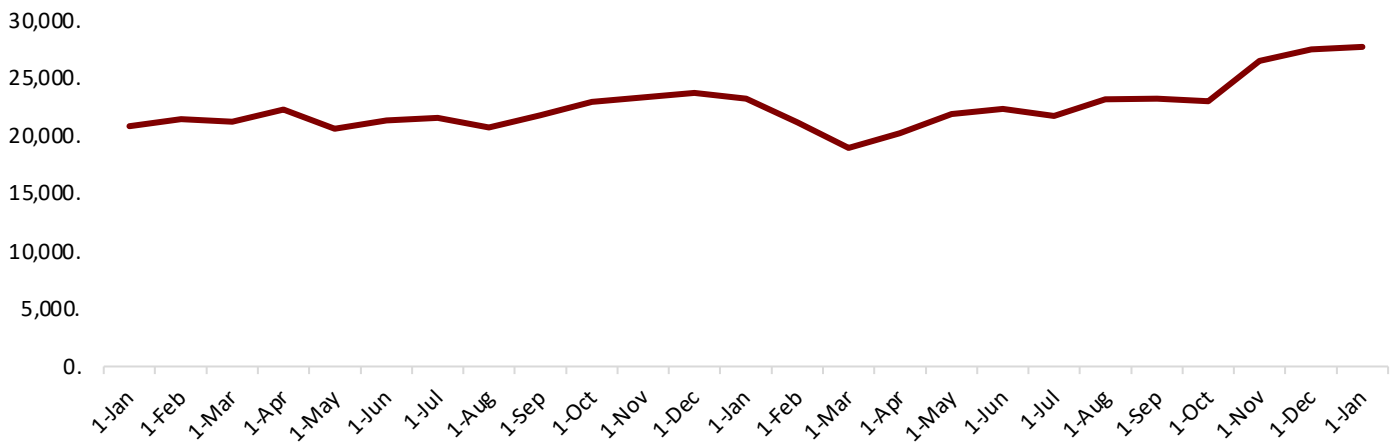


Source: Statista



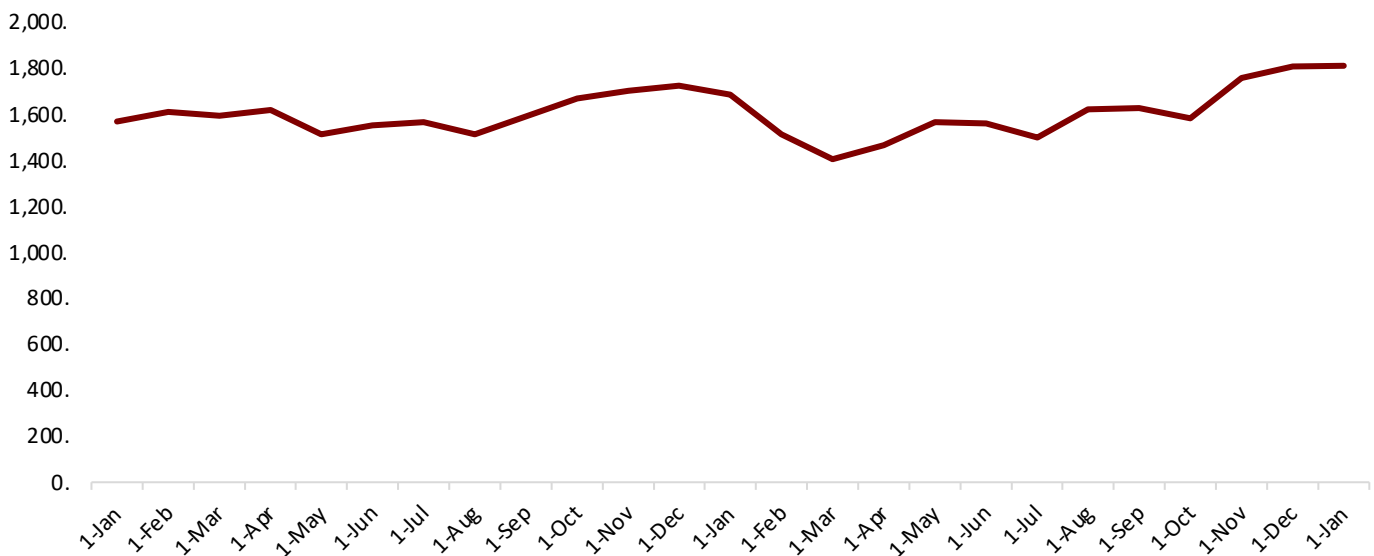
TOPIX vs. NIKKEI 225

NIKKEI 2019-2021



Source: Statista

TOPIX 2019-2021



Source: Statista

TOPIX Index:

As the largest index within the Japanese market, TOPIX encompasses Japan's First Section totaling at ~2,030 companies. For the mere reason that it encompasses more stocks and securities, TOPIX is often regarded as the best indicator of the overall Japanese stock market. Much like the Russell 2000, the TOPIX index encompasses much if not all of the stocks in Japanese stock market. For this reason, the TOPIX index can be used as a comparison to the overall economic state of Japan seeing as it encompasses large, medium, and small cap stocks.

NIKKEI Index:

As the most recognizable index of the Japanese market, NIKKEI represents the top 225 companies in Japan on the Tokyo Stock Exchange. In and of itself, NIKKEI is widely regarded as a comprehensive view and outlook of the successes within the Japanese economy indicating overall market performance. Much like the S&P 500, the NIKKEI index has stopped representing much of Japan since it only encompasses the largest companies in the economy as opposed to the mid-sized and smaller companies.



Geopolitical Factors

COVID-19

The government and citizen response to the global pandemic in Japan has proven to be quite the challenge for lawmakers and bureaucrats alike in the country of the Rising Sun. With the most hospital beds per capita in the developed world, one would think that Japan would fare relatively well against the virus but has failed to do so due to the pervasive disparity that exists within the private sector of Japan's economy. Over the course of December-February, Japan experienced sharp rises in COVID-19 positive cases, suffering more disproportionately than before due to the country's lack of preparation for such a sharp rise in cases. Since said rise in cases, Japan has declared a state of emergency in a few major cities and has also implemented a variety of laws aimed at curbing the impact of the virus on Japanese society.

In fiscal year 2020, the world's third largest economy shrunk by 5.37% but is expected to make a recovery by March 2022 of 3.42%. Like other world economies, Japan's economic and consumer behavior remains contingent on the distribution of a COVID-19 vaccine to the general public. Unfortunately, the country was unable to secure and effectively distribute the vaccines early on, beginning inoculation of their senior citizens and healthcare workers on April 1, 2021, much later than most other developed countries that began in December 2020. In addition to the slow vaccine rollout, Japan's population seems to be the most reluctant to take the vaccine in the "developed" world, with only 30% of citizens stating they were safe and effective, compared to 50% in the USA. With that said, Japan's economic recovery, while projected by economists to grow after a year of loss, will recover slower than other developed economies simply because of the government's slow response to the virus and vaccine distribution as well as the distrust of COVID-19 vaccines pervasive within Japanese society.

Prime Minister Yoshihide Suga

On September 16, 2020, Japan had a rough and unexpected transition of power from one prime minister to another in the midst of the Coronavirus pandemic. Then prime minister Shinzo Abe unexpectedly was forced to resign due to health conditions, passing the baton to his right-hand man, Yoshihide Suga. Known for his dominance and backdoor dealings with Japan's most influential bureaucrats, Suga is well-known for being Japan's dealmaker behind closed doors. Given that Suga was not freely elected to the position to which he now occupies, the Democratic Liberal Party of Japan chooses to remain cautious to not undermine the opposition by creating wide-sweeping policies under a prime minister that technically was not elected by the people, but rather appointed by his predecessor.

As Prime Minister of the world's third largest economy, Yoshihide Suga is attempting to return the country back to pre-pandemic levels of infection which many economists warn is against the flow in which Japan should be moving. Japan should be doing all in its power to curb the pandemic from a government point of view should they wish to experience that rebounding economy that has been predicted.

The Tokyo Games

Among one of the positives Japan will experience beginning in July of 2021 is the Olympic Games Tokyo 2020 that were rescheduled for 2021. The games are a highly anticipated event that is sure to increase consumer spending in Japan for the summer months, all the while providing Japan's economy with much needed tourist stimulation. That being said, should Japan wish to succeed in hosting the games, it is imperative that they as a country get their COVID-19 cases under control by the start of the games.