

Japan’s industrial production growing firmly even under the Declaration of a State of Emergency

Information-related goods and capital goods are the drivers of growth

Daichi Kawabata, Economist, Economic Research Department

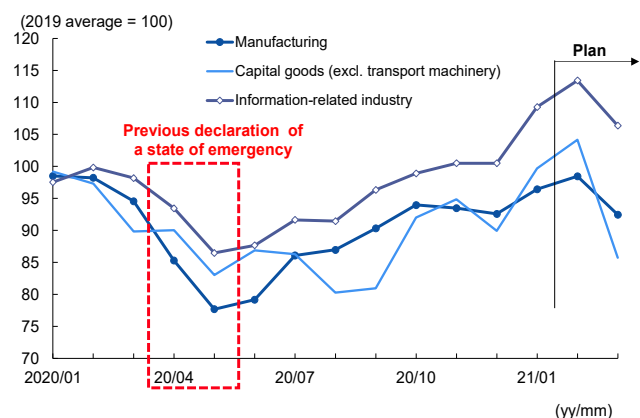
Service industries that entail inter-personal contact (food services, accommodations, travel/transportation, and entertainment) have been suffering in the wake of the second declaration of a state of emergency in Japan as issued on January 8, 2021. Meanwhile, production activities in the manufacturing sector are expected to grow firmly between January and March, unlike such activities after the first declaration of a state of emergency in Japan (Chart).

As a first background factor, the normal operation of factories should be mentioned. When the first declaration of a state of emergency was issued, many factories stopped operation due to infection prevention and supply chains were disrupted because of global lockdown. This time, many companies continued factory operations after taking infection prevention measures based on the lessons learned last spring.

The second factor involves increased demand related to telecommuting and EC (e-commerce). These aspects helped increase stay-at-home consumption in the wake of the COVID-19 pandemic. Demand for IT-related equipment, such as personal computers, peripheral devices, and tablet terminals, as well as demand for semiconductors, which are required for manufacturing such equipment, has been boosting production.

Moreover, increased capital goods exports, as a result of the recovery of capital investment, and housing investment mainly in China and the U.S., are also serving as positive factors for production. In China, where the state of COVID-19 infections has been relatively calm, capital investment has recovered faster than other countries. In the U.S., the trend to buy homes in the suburbs has been accelerating with the expansion of

[Chart: Trends of the Industrial Production]



Notes: 1. Pre-COVID-19 (2019 average) = 100
 2. Information-related industry shows a synthetic index of the electronic components/device industry and the electric/telecommunication machinery industry.
 3. The graphs for February and March 2021 are based on a forecast index.
 Source: Made by MHRI based on the Ministry of Economy, Trade and Industry’s *Index of Industrial Production* and *Index of Production Forecast*.

telecommuting, leading to an increase in demand for construction machinery while serving as a positive factor for Japan's exports and for the production of construction machinery. Additional positive factors include increasing investment in unstaffed services for infection prevention.

As described above, the manufacturing sector is expected to grow firmly even under Japan's second declaration of a state of emergency, in sharp contrast to service industries. Such a bipolarization trend is expected to continue until vaccines roll out and restrictions on interpersonal, face-to-face contact are lifted.

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