Introduction

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Almost two years have passed since the first COVID-19 infection. Due to the lack of sufficient data related to COVID-19, in last year's Economic Outlook we mainly presented a theoretical framework (Chapter 1, Section 1) and conducted analysis based on it, while this time, a certain amount of data for analysis was available.

The global economy rapidly deteriorated due to the spread of COVID-19 infections and the resulting states of emergency and lockdowns. This unprecedented and therefore unpredictable deterioration reached its nadir in the second quarter of 2020. Since then, the recovery has been uneven across countries and industries.

Figure 1.0.1 shows the real GDP growth rate of major economies. In 2020 Q1, Japan, the U.S., the EU and China all entered recession, with China's economic decline (-9.5% QoQ) being the largest, strongly influenced by the strict

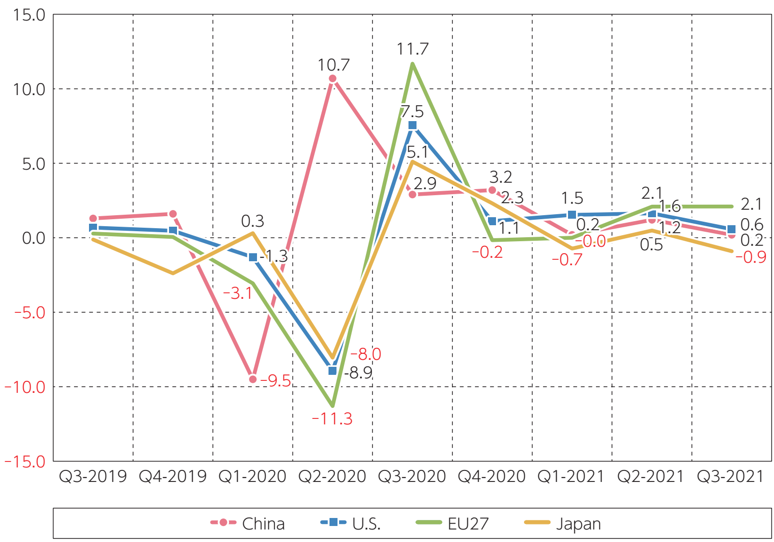

Figure 1-0-1 The impact of COVID-19 on economic growth (QoQ % change)

Source: OECD

lockdown and production shutdown in Wuhan[1)]. As a result of the strict virus containment policy implemented by the Chinese government, the economy recovered by +10.7% in 2020 Q2, making up for the decline in the previous quarter. Since then, China's economy has maintained positive growth, albeit at a slower pace. On the other hand, the economies of Japan, the U.S., and the EU hit the bottom one quarter later than China, in 2020 Q2. The substantial differences in the recovery phases of Japan's main trading partners (the U.S., the EU, and China) to a certain extent influenced the economic recovery of Japan and Kansai too[2)].

The U.S. economy has already recovered to its pre-pandemic level, logging five consecutive quarters of positive growth as of 2021 Q3. The EU economy registered near-zero growth in 2020 Q4 and 2021 Q1, but returned to positive growth starting 2021 Q2. On the other hand, Japan's economy has gone through a series of fluctuations since the beginning of 2021, logging a negative -0.7% QoQ growth in Q1, followed by a positive +0.5% in Q2, and a negative -0.9% in Q3. The reason for Japan's poor recovery is the delay in vaccination. As vaccination progresses, consumer sentiment is expected to improve, boosting the flow of people. As a result, consumer demand, which had been pent up, is expected to surge. Vaccination is expected to be a game changer for the future direction of the economy[3)].

1) Japan's real GDP shrank in 2019 Q3 due to the consumption tax hike in October 2019. The modest positive growth that followed in 2020 Q1 was essentially a reactionary increase, which means that 2020 Q1 can already be regarded as a recession.
2) Chapter 2, Sections 4 and 5 provide more information on the relationship between Japan and Kansai and their trading partners.
3) For information on vaccination, see Chapter 1, Section 1. The relationship between vaccination rates and consumer sentiment is discussed in Chapter 2, Section 4.