

Mid-Year Economic Projection for FY2016

July 13, 2016
Cabinet Office

The Japanese economy has been favorable in terms of fundamentals such as corporate revenues, employment and income situation, and has thus been making significant strides toward achieving economic revitalization and overcoming deflation thanks to the measures implemented under Abenomics. On the other hand, the domestic economy has been lacking momentum in private demand such as private consumption and business fixed investment, reflecting growing uncertainty over the global economy.

Concerning future prospects, the Japanese economy is expected to recover, supported by robust growth in private demand. Improvements in employment and income conditions will lead to a further extension of the positive cycle of the economy. Although the inflation rate is currently decelerating in year-over-year terms due to the decline in oil prices, the rate of increase in consumer price is projected to rise gradually, reflecting the expected tightening in demand and supply conditions with the progress of the economic recovery. In this way, it is expected to further progress toward overcoming deflation.

In light of the aforementioned factors, the real GDP growth rate for FY2016 is projected to be approximately 0.9 %, while the nominal growth rate is expected to be around 2.2%. The rate of increase in consumer price (total) is projected to rise gradually to around 0.4 % in FY2016.

Downside risks include the following: slowing emerging economies including the Chinese economy, uncertainty over the global economy reflecting the issues of the UK leaving the EU, developments in the financial, capital and commodity markets, and geopolitical uncertainty. Moreover, attention should also be paid to the impact of the 2016 Kumamoto Earthquake on the economy.

The government has been accelerating the implementation of the FY2015 supplementary budget and the FY2016 budget, and has also formulated the FY2016 supplementary budget to support the daily lives of the people affected by the Kumamoto Earthquake and foster recovery from the disaster. The government will put together a set of comprehensive and bold economic measures by the end of July 2016 aimed at promoting investment for the future at an accelerated rate, along with promoting structural reforms such as working style reforms, thereby overcoming and preventing a return to deflation and proceeding toward strong economic growth.

Main Economic Indicators

(% or approximate %)

	FY2015 (Actual)	FY2016 (January projection)	FY2016 (New projection)
Real GDP	0.8	1.7	0.9
Private consumption expenditure	▲0.2	2.0	0.9
Private residential investment	2.4	3.8	0.8
Private non-residential investment	2.0	4.5	2.0
Government expenditure	0.6	0.0	0.6
Government final consumption expenditure	1.5	0.4	0.8
Public-sector fixed capital formation	▲2.7	▲2.1	▲0.2
Exports of goods and services	0.4	4.8	1.5
Less: Imports of goods and services	▲0.1	5.2	1.1
Contribution of domestic demand	0.7	1.8	0.8
Contribution of private demand	0.6	1.8	0.7
Contribution of public demand	0.2	0.0	0.1
Contribution of external demand	0.1	▲0.1	0.1
Real GNI	2.5	2.1	1.4
Nominal GDP	2.2	3.1	2.2
Unemployment rate	3.3	3.2	3.2
Number of employees	1.0	0.4	0.7
Industrial production	▲1.0	3.2	0.5
Domestic corporate goods price index	▲3.2	0.2	▲0.4
Consumer price index (total)	0.2	1.2	0.4
GDP deflator	1.4	1.4	1.3

(Note 1) The figures represent the year-over-year rate of change except for the unemployment rate and the contributions of domestic and external demand.

(Note 2) The figures do not include the effects of the synthetic and bold package of economic-policy measures by the end of July 2016.

(Note 3) The figures for “January Projection” in FY2016 are those shown in “FY2016 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January 22, 2016)”.

(Note 4) The Japanese economy mainly consists of private activity and is influenced by unforeseeable market fluctuations and other changes, especially those in the international environment. Accordingly, the main economic indicators above should be recognized as being subject to upside and downside risks.

Reference for FY2017

Based on certain assumptions, the preliminary estimate for FY2017 envisages a real GDP growth rate of approx. 1.2%, a nominal GDP growth rate of approx. 2.2%, and a consumer price index (CPI) of approx. 1.4%

	(Approximate %)
	FY2017
Real GDP	1.2
Private consumption expenditure	1.4
Private residential investment	1.3
Private non-residential investment	3.4
Contribution of domestic demand	1.2
Contribution of external demand	▲0.0
Real GNI	1.2
Nominal GDP	2.2
Unemployment rate	3.1
Number of Employees	0.5
Domestic corporate goods price index	1.6
Consumer price index (total)	1.4
GDP deflator	1.0

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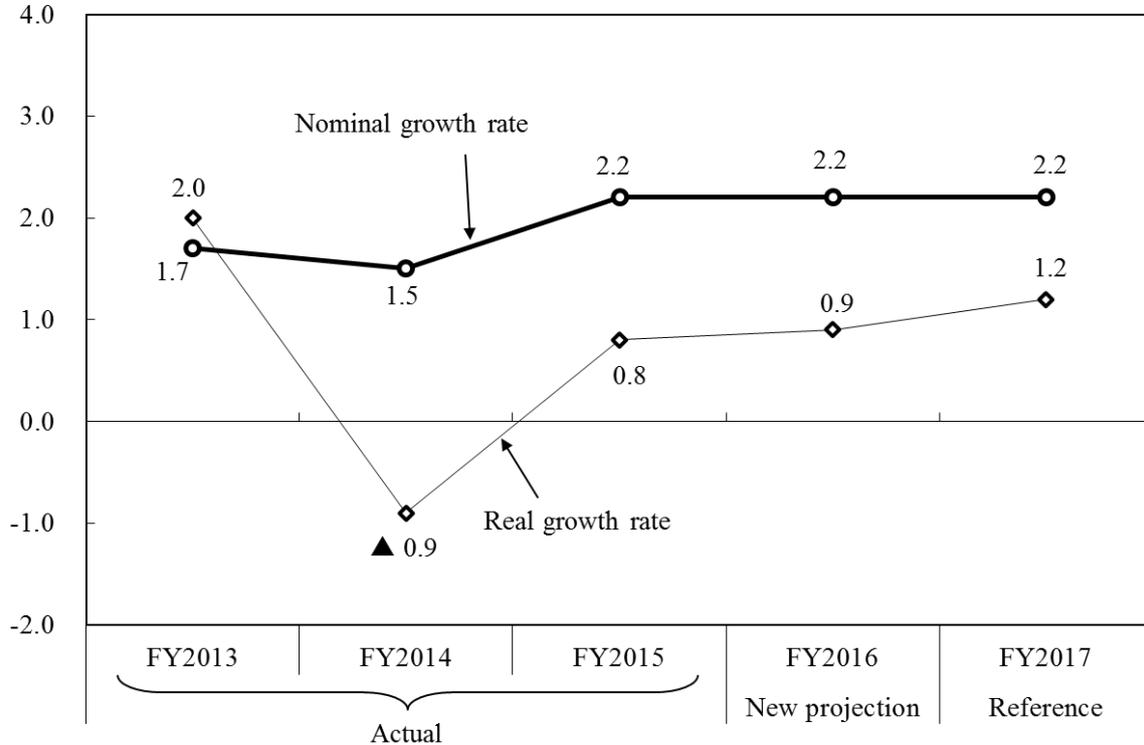
(Note 3) References for FY2017 indicate preliminary estimates intended for discussions on the macro economy in FY2017 and should be recognized as being subject to considerable upside and downside risks.

(Note 4) The government economic outlook for FY2017 will be announced in the “FY2017 Economic Outlook and Basic Stance for Economic and Fiscal Management”, which will be formulated and approved by the cabinet at the end of 2016, based on policy responses for the next fiscal year as well as future economic conditions.

Main Economic Indicators

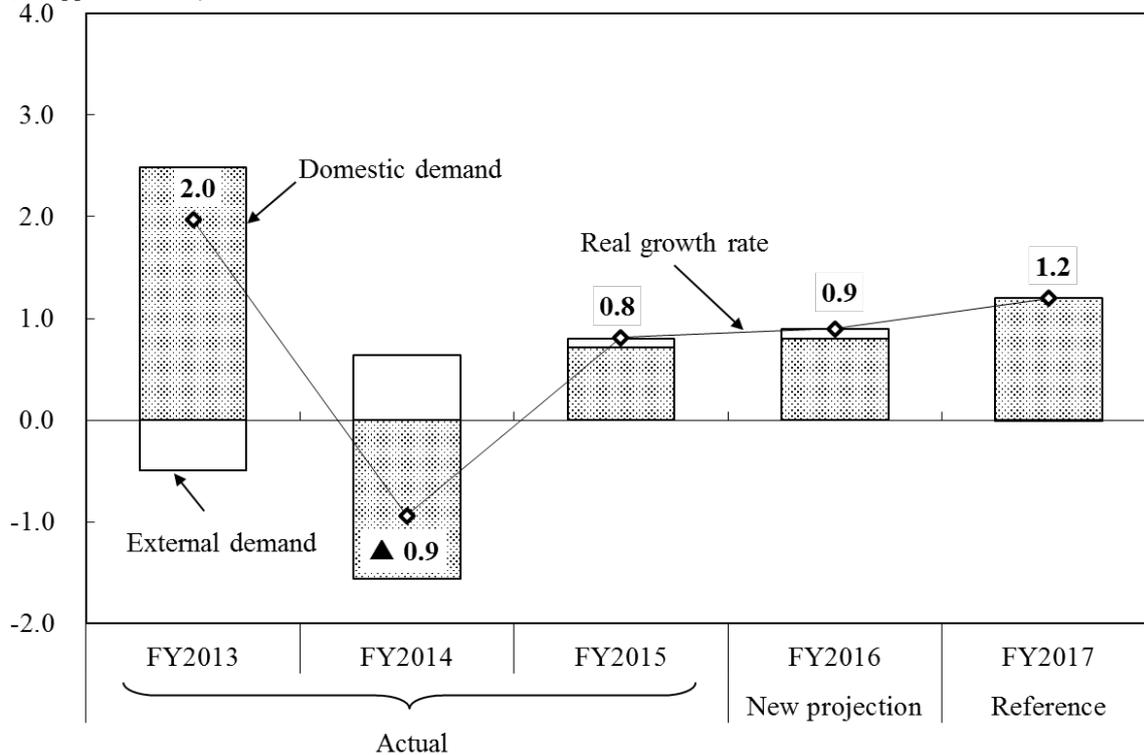
(%, or approximate %)

1. Gross domestic product (GDP)



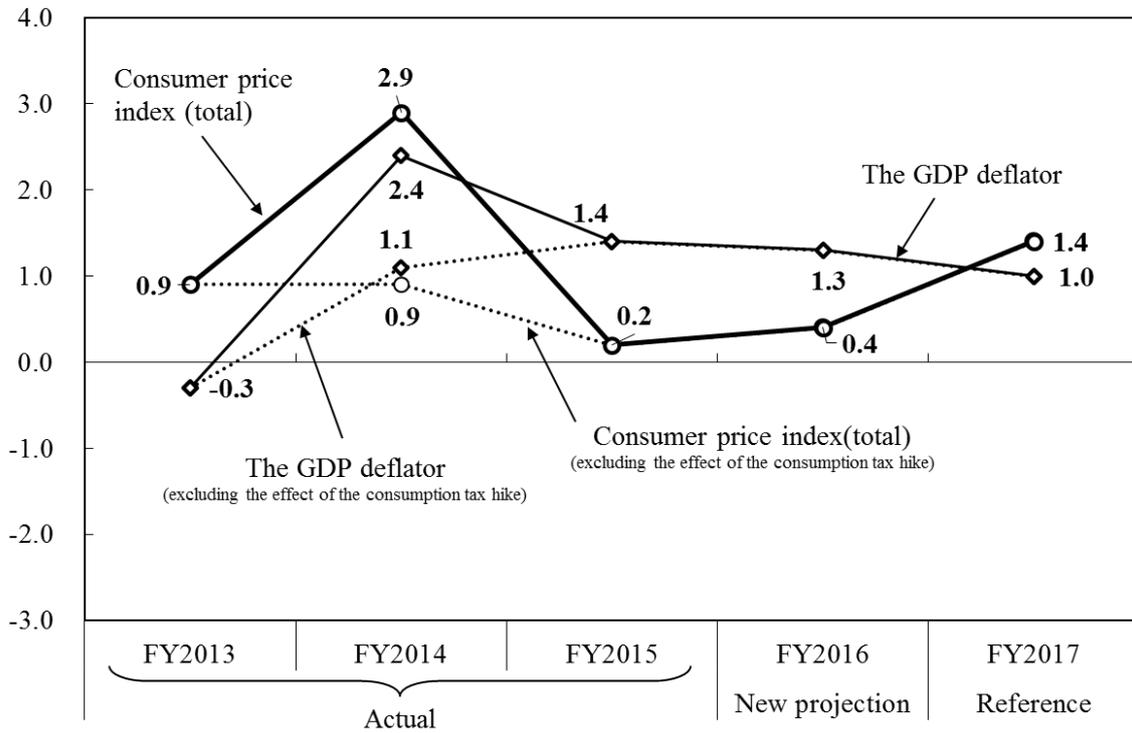
(%, or approximate %)

2. Real growth rate and contribution to the real growth rate



3. Percentage change in price index

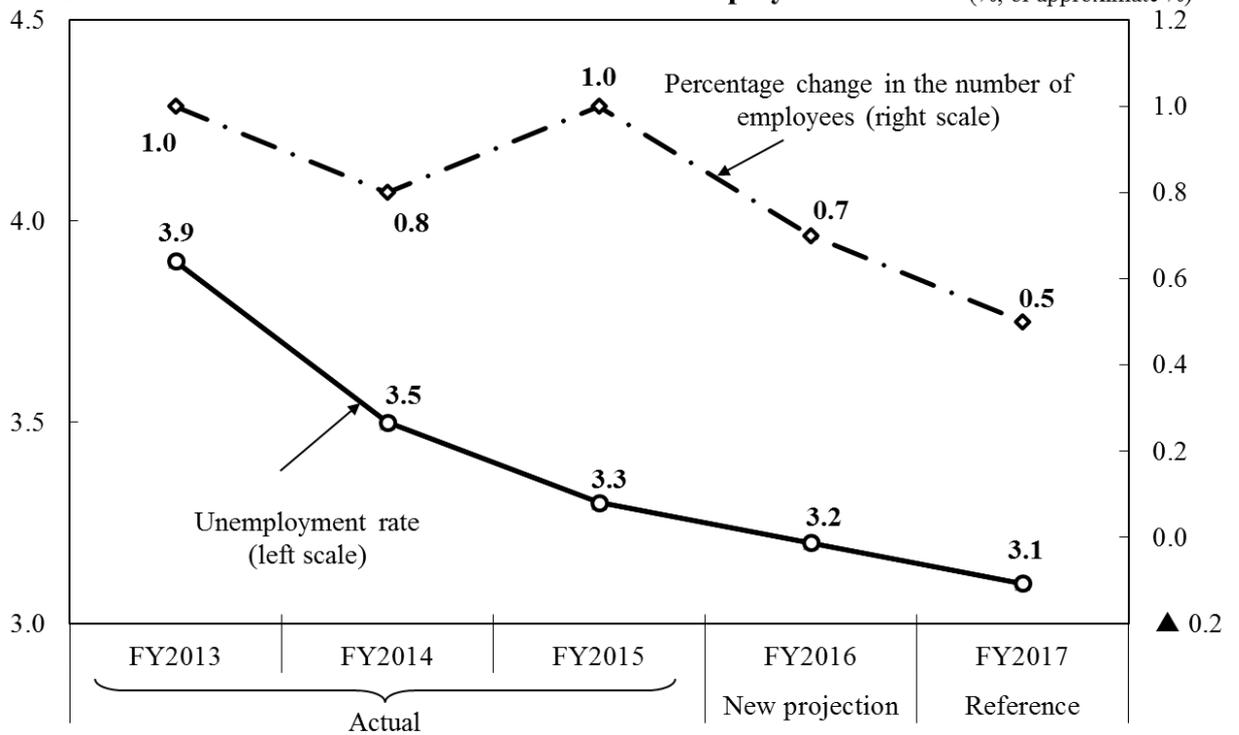
(%, or approximate %)



4. Unemployment rate and percentage change in the number of employees in the number of employees

(%, or approximate %)

(%, or approximate %)



Notes on the Mid-Year Economic Projection for FY2016

The projections are based on the assumptions shown below. These are technical assumptions for projection and not the forecasts of the Cabinet Office.

	FY 2016		FY 2017 (Reference)
	(January projection)	(Mid-year projection)	
Real growth rate of world GDP (excluding Japan) (%)	3.3	2.9	3.2
Exchange rate (yen/dollar)	122.6	104.7	103.6
Crude oil import price (dollar/barrel)	44.0	45.7	47.2

Remarks

- (1) The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
- (2) The exchange rate is assumed to stay constant at 103.6 yen/dollar (monthly average from June 9 to July 8, 2016) from July 11, 2016 onward.
- (3) The crude oil import price is assumed to stay constant at 47.2 dollars/barrel (the monthly average spot price of Dubai crude from June 9 to July 8, 2016, plus freight and insurance) from July 11, 2016 onward.