

## **Mid-year Economic Projection for FY2010**

June 22, 2010

Cabinet Office

The Japanese economy has been in phase of expansion, having bottomed out in the spring of 2009. In addition to the moderate recovery of the world economy, the Emergency Economic Measures formulated at the end of 2009 have brought about relatively higher growth. Recently, slight improvement can be observed in the employment and income environment. Such movement is expected to be secured through the implementation of the FY2010 budget.

A virtuous cycle of economic growth could be created as an increase in demand improves both corporate profits and the employment and income environment, spilling over to stimulate private demand. As the mechanism of such cycle is established, the momentum for a self-sustaining recovery in the Japanese economy is expected to strengthen.

Given these factors, the real GDP growth rate for FY2010 is projected to be approximately 2.6%, which is higher than the government's economic outlook in January. The nominal growth rate will be below the real growth rate, at approximately 1.6%. Policy efforts need to be continued to eliminate deflation.

The decline in consumer prices has diminished, reflecting a reduction in the GDP gap (excess supply). Excluding the impact of “Effectively Free Public High School Tuition”, the change in the consumer price index is estimated to be approximately -0.4%.

Regarding future risks, there are uncertainties concerning developments in the world economy, including financial capital markets, and their impacts on the Japanese economy.

## Main Economic Indicators

(% , or approximate %)

	FY2009 (Actual)	FY2010 (January projection)	FY2010 (New projection)
<b>Real GDP</b>	▲2.0	1.4	2.6
Private consumption expenditure	0.6	1.0	1.5
Private residential investment	▲18.5	4.4	4.7
Private non-residential investment	▲15.3	3.1	4.2
Government expenditure	2.9	▲0.6	▲0.7
Government final consumption expenditure	1.6	1.4	1.7
Public-sector fixed asset formation	9.3	▲9.5	▲11.4
Exports of goods and services	▲9.6	8.3	16.5
Less: Imports of goods and services	▲11.8	5.2	8.7
Contribution of domestic demand	▲2.4	1.1	1.5
Contribution of private demand	▲3.0	1.3	1.7
Contribution of public demand	0.7	▲0.2	▲0.2
Contribution of external demand	0.4	0.4	1.1
<b>Nominal GDP</b>	▲3.7	0.4	1.6
<b>Unemployment rate</b>	5.2	5.3	4.8
<b>Number of employees</b>	▲1.1	0.3	0.6
<b>Industrial production</b>	▲8.9	8.0	13.8
<b>Domestic corporate goods price index</b>	▲5.2	▲0.9	0.7
<b>Consumer price index (total)</b> (excluding "Effectively Free Public High School Tuition")	▲1.7	▲0.8	▲0.9 (▲0.4)
<b>GDP deflator</b>	▲1.7	▲1.0	▲1.0

(Note 1) The figures of "January projection" for FY2010 are those shown in "Fiscal 2010 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January 22, 2010)".

(Note 2) 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, main economic indicators should be recognized as being subject to upside and downside risks.

### Reference for FY2011

Under some assumptions, the preliminary estimation for FY2011 shows that the real GDP growth rate will be approximately 2.0%, the nominal GDP growth rate approximately 1.7%, and the change in the consumer price index approximately 0.0%.

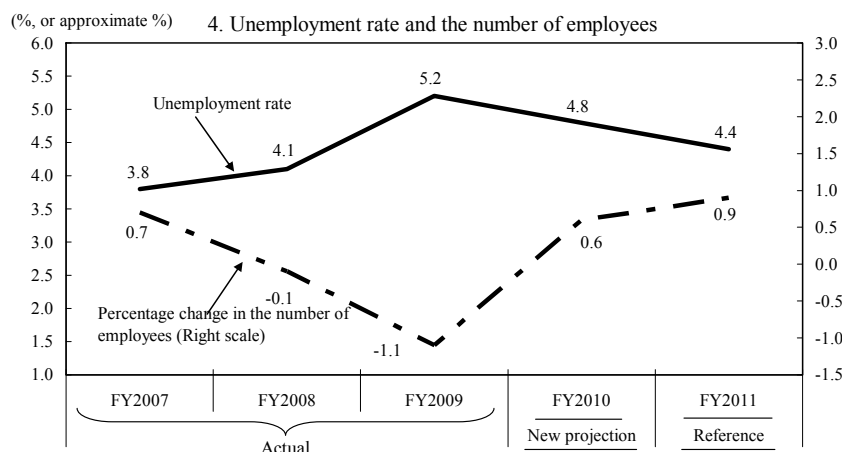
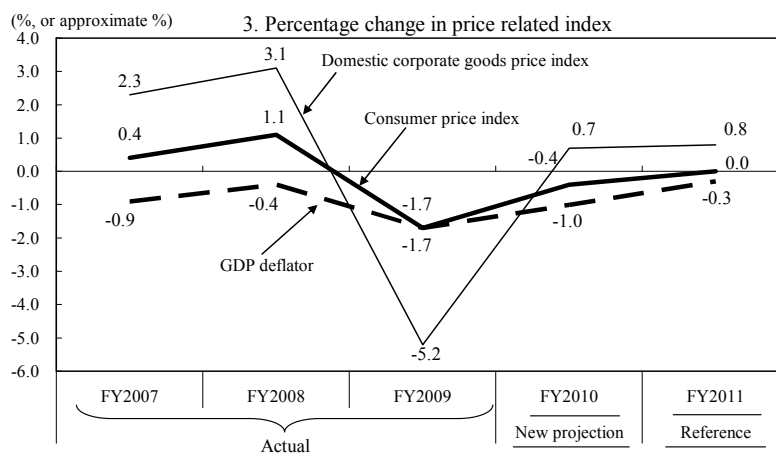
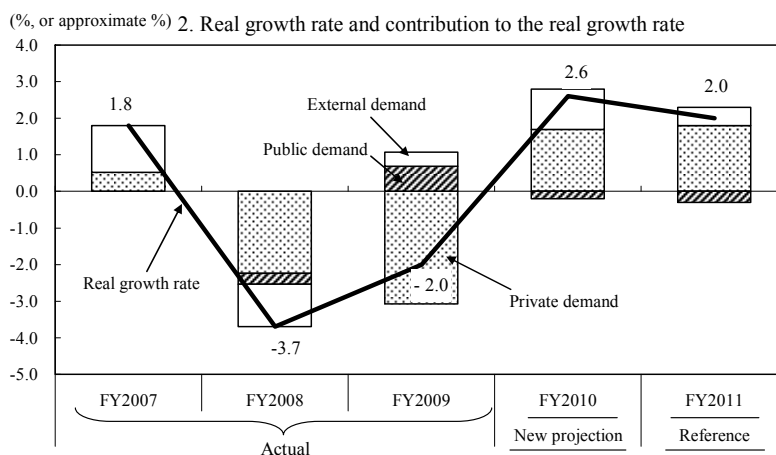
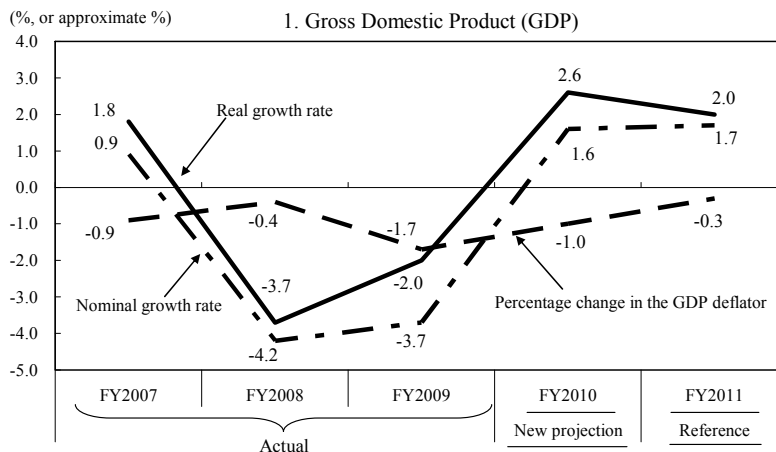
(approximate %)

	FY2011
Real GDP	2.0
Private consumption expenditure	1.4
Private residential investment	5.2
Private non-residential investment	5.8
Contribution of domestic demand	1.5
Contribution of private demand	1.8
Contribution of public demand	▲ 0.3
Contribution of external demand	0.5
Nominal GDP	1.7
Unemployment rate	4.4
Number of employees	0.9
Domestic corporate goods price index	0.8
Consumer price index (total)	0.0
GDP deflator	▲ 0.3

(Note 1) “Reference for FY2011” indicates preliminary estimates intended for discussing the macro economy for fiscal 2011, and should be recognized as being subject to considerable upside and downside risks.

(Note 2) The Economic Outlook for FY2011 will be announced in the “FY2011 Economic Outlook and Basic Stance for Economic and Fiscal Management” to be formulated and approved by the cabinet at the end of 2010 based on policy responses for the next fiscal year as well as future economic conditions.

# Main Economic Indicators



## Notes on “Mid-year Economic Projection for FY2010”

- 1 Figures other than the unemployment rate are changes from the previous fiscal year.
  
- 2 Regarding the Mid-year projection of the consumer price index (total) for FY2010 in the table of main economic indicators, the upper figure includes the impact of “Effectively Free Public High School Tuition” (approximately 0.5% negative contribution) and the figure in parenthesis does not. The base year for the consumer price index is scheduled to be revised in the summer of 2011, but the consumer price index (total) in the table of "Reference for FY2011" does not include any effects of the rebasing.
  
- 3 The projections are based on the assumptions shown below. These are not forecasts of the Cabinet Office.

	FY2010		FY2011 (Reference)
	January Projection	Mid-year Projection	
Real growth rate of world GDP (excluding Japan) (%)	3.2	4.0	3.5
Exchange rate (yen/dollar)	89.1	91.9	91.8
Crude oil import price (dollar/barrel)	80.5	78.1	77.3

(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 91.8 yen/dollar (monthly average for May 2010) in June 2010 onward.
3. The crude oil import price is assumed to stay constant at 77.3 dollar/barrel (value including the monthly average spot price of Dubai for May 2010 and freight and insurance) in June 2010 onward.