

Mid-year Economic Projection for FY2011

August 12, 2011
Cabinet Office

The Japanese economy is growing slower than the path projected by the government's economic outlook at the beginning of this year, as a result of substantial negative growth in real GDP for the period from January to March due to the impact of the Great East Japan Earthquake. The earthquake damaged production bases within the disaster areas, which greatly decreased production nationwide through the disruption of supply chain. Worsening sentiment also depressed consumer and other demand considerably.

In efforts to recover from the Great East Japan Earthquake, the government is working to execute FY2011 first and second supplementary budgets promptly, and is making utmost efforts on the recovery measures indicated in *Basic Guideline for Reconstruction in response to the Great East Japan Earthquake* (resolved on July 29, 2011, by the Reconstruction Headquarters in response to the Great East Japan Earthquake). In the private sector as well, serious efforts are being made to restore manufacturing systems.

Consequently, the supply chain is steadily recovering and sentiment is turning around. It is expected that consumption and investment will improve amid continuing efforts toward recovery, and that exports will increase, thereby achieving relatively higher growth rate in the second half of the year.

In light of above, it is anticipated that the real GDP growth rate for FY2011 will be approximately 0.5%, with a nominal growth rate of about -0.4%. These figures are based on some assumptions, in consideration of the special situation of the earthquake, regarding the scales of projects and the fiscal resources for recovery, in the light of *Basic Guideline for Reconstruction in response to the Great East Japan Earthquake*.

The consumer price index (total) is rising at a slightly faster rate compared with the previous year, reflecting higher energy prices and other factors.

It is necessary to take full account of the impact of electric power supply restrictions and the effects of the resulting increase in energy costs, as well as the risk of the outflow of businesses and human resources. Also, attention needs to be paid to the impact of growing uncertainty in the global economy and fluctuations in exchange rates on Japan's economy.

Main Economic Indicators

(%, or approximate %)

	FY2010 (Actual)	FY2011 (January Projection)	FY2011 (New Projection)
Real GDP	2.3	1.5	0.5
Private consumption expenditure	0.8	0.6	-0.2
Private residential investment	-0.2	5.4	3.2
Private non-residential investment	4.3	4.2	1.7
Government expenditure	0.0	-0.9	1.8
Government final consumption expenditure	2.3	0.6	1.9
Public-sector fixed capital formation	-10.0	- 8.5	2.1
Exports of goods and services	17.0	6.2	1.0
Less: Imports of goods and services	11.0	3.5	4.0
Contribution of domestic demand	1.4	1.0	0.9
Contribution of private demand	1.4	1.2	0.5
Contribution of public demand	0.0	-0.2	0.4
Contribution of external demand	0.9	0.5	-0.4
Nominal GDP	0.4	1.0	-0.4
Unemployment rate	5.0	4.7	4.7
Employees	0.2	0.7	0.6
Industrial production	9.1	2.5	1.5
Domestic corporate goods price index	0.7	0.4	2.5
Consumer price index (total)	-0.4	0.0	0.2
GDP deflator	-1.9	-0.5	-0.9

(Note 1) The figures of “January Projection” for FY2011 are those shown in “Fiscal 2011 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January 24, 2011)”.

(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.

(Note 3) Amid the special conditions of the earthquake, in order to incorporate the disaster recovery demand into the figures, the scale for reconstructing project and the fiscal resources to finance it are also included. The figures for these total scales are distributed mechanically based on certain assumptions in light of the content mentioned in *Basic Guideline for Reconstruction in response to the Great East Japan Earthquake* and the actual data from the Great Hanshin-Awaji Earthquake.

(Note 4) The figures for “unemployment rate” and “Employees” for “FY2010 (Actual)” and “FY2011 (New Projection)” exclude three prefectures (Iwate, Miyagi and Fukushima).

(Note 5) The base-year of “Consumer price index” is 2005.

Reference for FY2012

Under some assumptions, the preliminary estimations for FY2012 are as follows. The amounts of financing for reconstruction from the earthquake are distributed (A) in parallel with the expenditure pattern over 5 years, or (B) evenly over 10 years.

Real GDP growth rate:	(A) Approx. 2.7%	(B) Approx. 2.9%
Nominal GDP growth rate:	(A) Approx. 2.6%	(B) Approx. 2.8%
Inflation rate (CPI)	(A) Approx. 0.3%	(B) Approx. 0.3%

(Approximate %)

	FY2012	
	(A)	(B)
Real GDP	2.7	2.9
Private consumption expenditure	1.2	1.4
Private residential investment	6.2	6.5
Private non-residential investment	6.4	6.7
Contribution of domestic demand	2.0	2.2
Contribution of private demand	2.0	2.2
Contribution of public demand	0.0	0.0
Contribution of external demand	0.7	0.7
Nominal GDP	2.6	2.8
Unemployment rate	4.5	4.5
Number of employees	0.8	0.8
Domestic corporate goods price index	1.3	1.3
Consumer price index (total)	0.3	0.3
GDP deflator	-0.1	-0.1

(Note 1) “Reference for FY2012” indicates preliminary estimates intended for discussing the macro economy for fiscal 2012, and should be recognized as being subject to considerable upside and downside risks.

(Note 2) Amid the special conditions of the earthquake, in order to incorporate the disaster recovery demand into the figures, the scale for reconstructing project and the fiscal resources to finance it are also included. The figures for these total scales are distributed mechanically based on certain assumptions in light of the content mentioned in *Basic Guideline for Reconstruction in response to the Great East Japan Earthquake* and the actual data from the Great Hanshin-Awaji Earthquake.

(Note 3) According to the outlook presented in *Measures to stabilize energy supply and demand* (resolved on July 29, 2011, by the Energy and Environment Council), if nuclear power plants are not restarted and electric power demand is similar to that of the previous year, next summer there is a risk of a power shortfall of just under 10% at peak times, and an approximately 20% increase in yearly energy costs. These impacts on the economy could vary substantially depending on whether the nuclear power plants are restarted and on government measures and the efforts made by businesses and households. If such impacts are large, it must be noted that there is a possibility that the effects could greatly depress the real GDP growth rate indicated in “Reference for FY2012.”

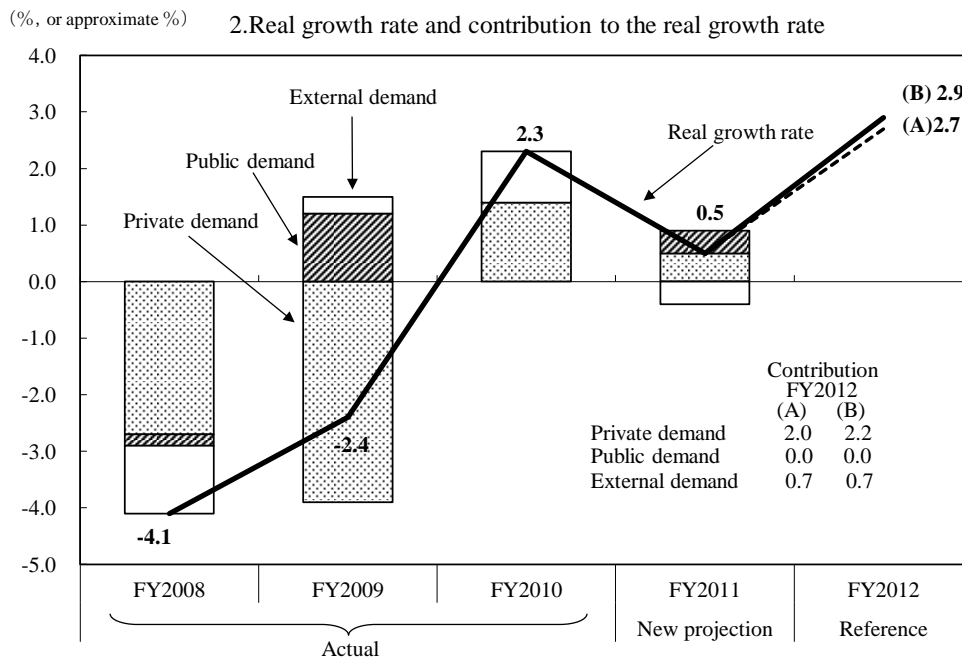
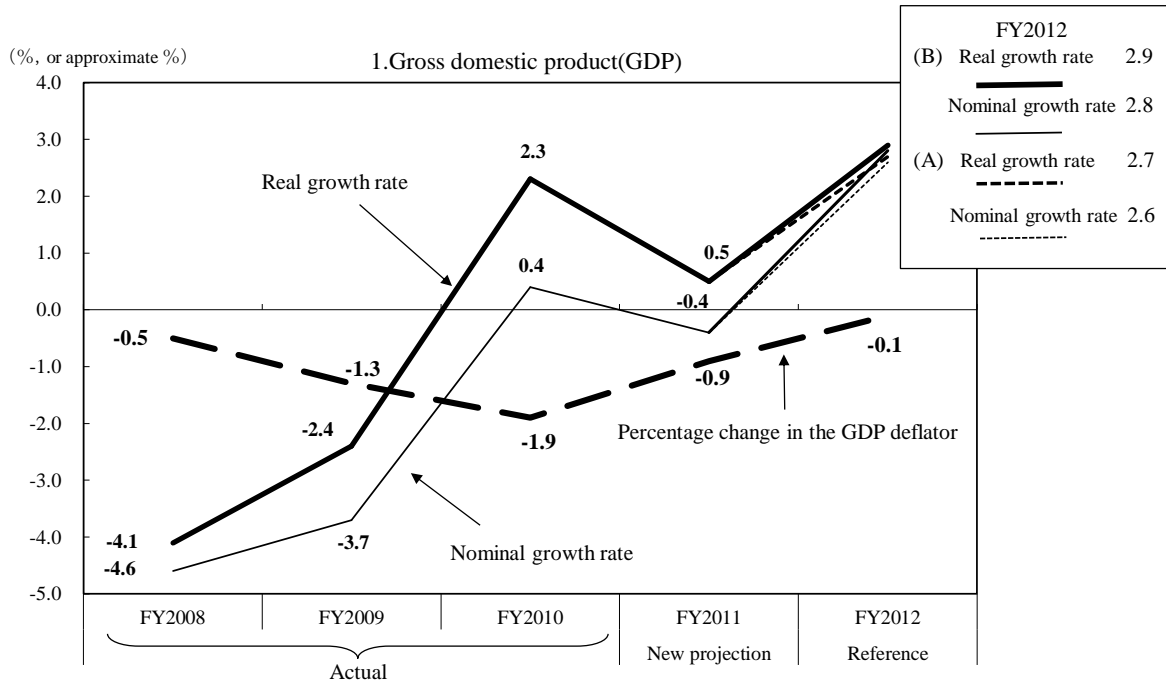
(Note 4) The non-preliminary economic outlook for FY2012 will be announced in the *FY2012 Economic Outlook and Basic Stance for Economic and Fiscal Management*, which is formulated and approved by the cabinet at the end of 2011 based on policy responses for the

next fiscal year as well as future economic conditions.

(Note 5) The figures for “unemployment rate” and “number of employees” exclude the data from three prefectures (Iwate, Miyagi and Fukushima).

(Note 6) The base-year of “Consumer price index” is 2005.

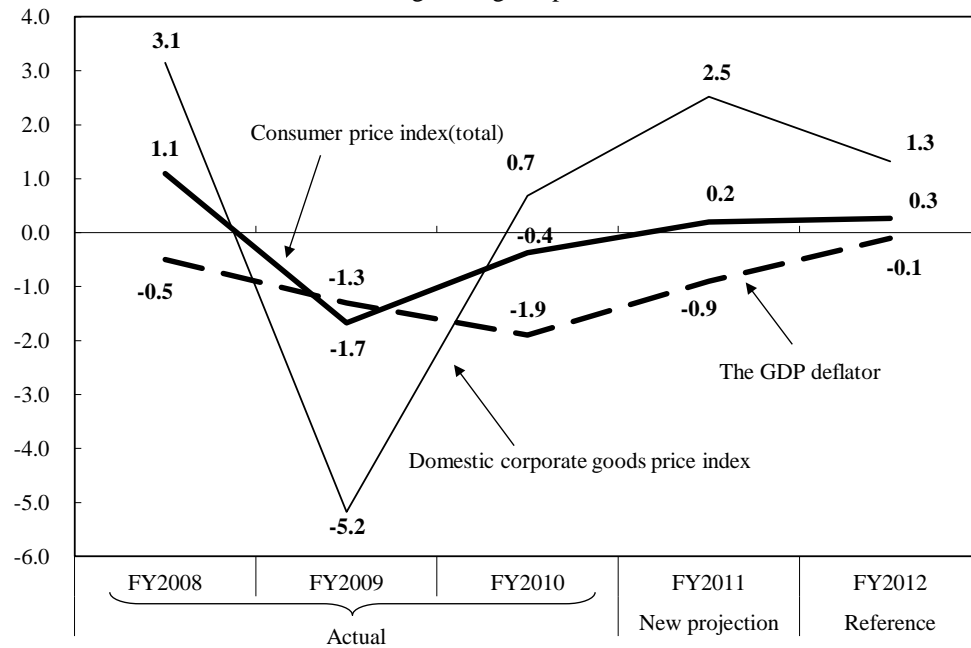
Main Economic Indicators



※Note: Contribution ratios of private demand, public demand, and external demand show their contributions to the real growth rate.

(%, or approximate %)

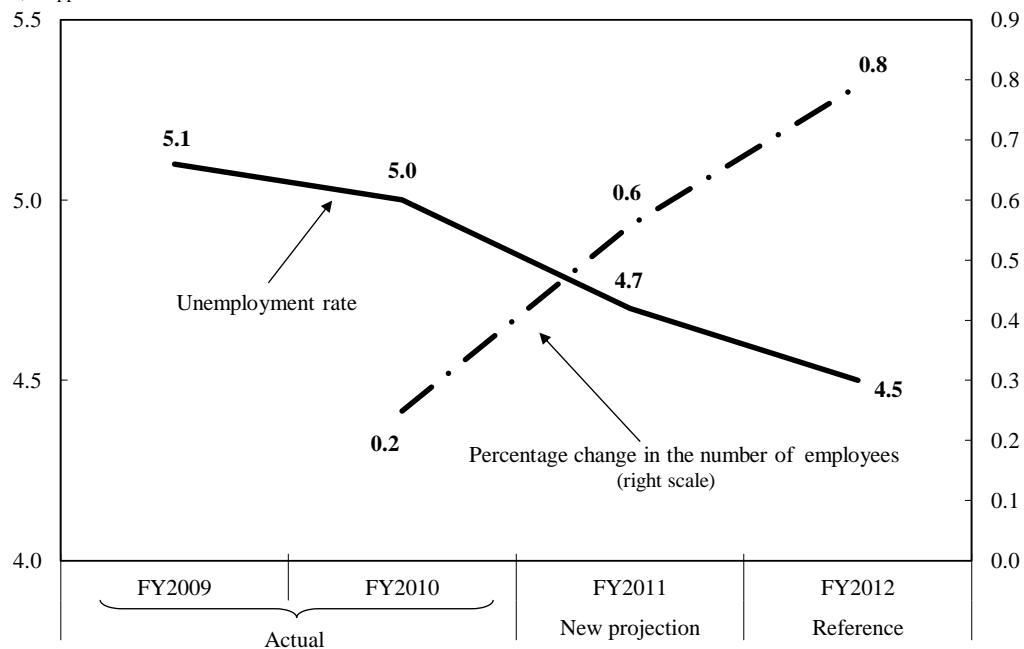
3. Percentage change in price related index



※Note: The base year of consumer price index is 2005.

4. Unemployment rate and the number of employees

(%, or approximate %)



※Note: The figures for "unemployment rate" and "number of employees" exclude the data from three prefectures (Iwate, Miyagi and Fukushima).

Notes on “Mid-year Economic Projection for FY2011”

- 1 Figures other than the contributions and the unemployment rate are changes from the previous fiscal year.
- 2 The projections are based on the assumptions shown below. These are not forecasts of the Cabinet Office.

	FY2011		FY2012 (Reference)
	January Projection	Mid-year Projection	
Real growth rate of world GDP (excluding Japan) (%)	3.2	3.6	3.7
Exchange rate (yen/dollar)	82.4	80.5	80.2
Crude oil import price (dollar/barrel)	86.6	111.9	111.2

(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 80.2 yen/dollar (monthly average from June 23 to July 22, 2011) on July 25, 2011, onward.
- (3) The crude oil import price is assumed to stay constant at 111.2 dollars/barrel (the monthly average spot price of Dubai from June 23 to July 22, 2011, plus freight and insurance) in September 2011 onward.