

## Mid-Year Economic Projection for FY2013

August 2, 2013

Cabinet Office

The Japanese economy has begun a positive cycle where increases in production resulting from increases in consumption are bringing about improvements in employment and income through implementation of the integrated “three-arrows” strategy, consisting of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment.

Concerning future prospects, it is expected that the income environment will improve and steady demand and employment will be created through implementation of the “three-arrows” strategy, including the growth strategy, in an integrated manner, and the onset of the effects from Emergency Economic Measures.

Economic recovery is expected to continue, led by private sector demand, including modest increases in private consumption and expected recovery in private investment with corporate profit improving.

The consumer price index (total) is projected to show the first upward trend in five years due to the continued economic recovery along with the effects of “quantitative and qualitative monetary easing” implemented by the Bank of Japan.

In light of the aforementioned factors, the real GDP growth rate for FY2013 is projected to be approximately 2.8 %, while the nominal growth rate is expected to be around 2.6 %.

Downside risks include the followings: developments in overseas economies such as the European sovereign debt crisis, policy developments in the United States, and the trend of the Chinese economy; developments in financial and capital markets; and constraints on the electric supply.

(Note) This projection follows the current legislation. In accordance with Supplementary Provision 18 of the Act to Amend the Consumption Tax Act, etc., to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 68, 2012), a decision will be made this autumn concerning the increase in the rate of consumption tax, taking into overall consideration economic conditions and other matters. If a decision not stipulated in the current legislation is made, the projections will be revised accordingly.

## Main Economic Indicators

(%, or approximate %)

	FY2012 (Actual)	FY2013 (February projection)	FY2013 (New projection)
Real GDP	1.2	2.5	2.8
Private consumption expenditure	1.6	1.6	2.1
Private residential investment	5.3	6.8	7.8
Private non-residential investment	-1.4	3.5	1.9
Government expenditure	4.4	3.1	3.2
Government final consumption expenditure	2.2	1.1	1.5
Public-sector fixed capital formation	15.0	11.9	9.2
Exports of goods and services	-1.3	4.3	5.2
Less: Imports of goods and services	3.8	3.7	3.1
Contribution of domestic demand	2.0	2.5	2.5
Contribution of private demand	0.9	1.7	1.7
Contribution of public demand	1.1	0.8	0.8
Contribution of external demand	-0.8	0.0	0.3
Nominal GDP	0.3	2.7	2.6
Unemployment rate	4.3	3.9	3.9
Number of Employees	0.2	0.9	0.9
Industrial production	-2.9	3.4	3.2
Domestic corporate goods price index	-1.1	0.8	1.7
Consumer price index (total)	-0.3	0.5	0.5
GDP deflator	-0.9	0.2	-0.2

(Note 1) The figures represent a year-on-year rate of change except for the unemployment rate and contribution.

(Note 2) The figures of “February Projection” for FY2013 are those shown in “FY2013 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, February 28, 2013)”.

(Note 3) 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.

(Note 4) The figures for “Number of Employees” for FY2012 (Actual) represent a year-on-year rate of change using national figures, including supplemental estimates concerning Iwate, Miyagi and Fukushima prefectures.

(Note 5) The base year for “Industrial production” for FY2012 (Actual) and FY2013 (New projection) is 2010. The base year for FY2013 (February projection) is 2005.

(Note 6) Domestic demand deflator is -0.8% in FY 2012 (Actual) and expected to be approximately 0.3% in FY2013 (New projection).

## Reference for FY2014

Under some assumptions, the preliminary estimations for FY2014 are: Real GDP growth rate approx. 1.0%, Nominal GDP growth rate approx. 3.1%, and Consumer price inflation rate (CPI) approx. 3.3%

	(Approximate %)
	FY2013
Real GDP	1.0
Private consumption expenditure	0.5
Private residential investment	-3.3
Private non-residential investment	4.9
Contribution of domestic demand	0.4
Contribution of external demand	0.6
Nominal GDP	3.1
Unemployment rate	3.7
Number of Employees	0.6
Domestic corporate goods price index	4.0
Consumer price index (total)	3.3
GDP deflator	2.1

(Note 1) The figures represent a year-on-year rate of change except for the unemployment rate and contributions.

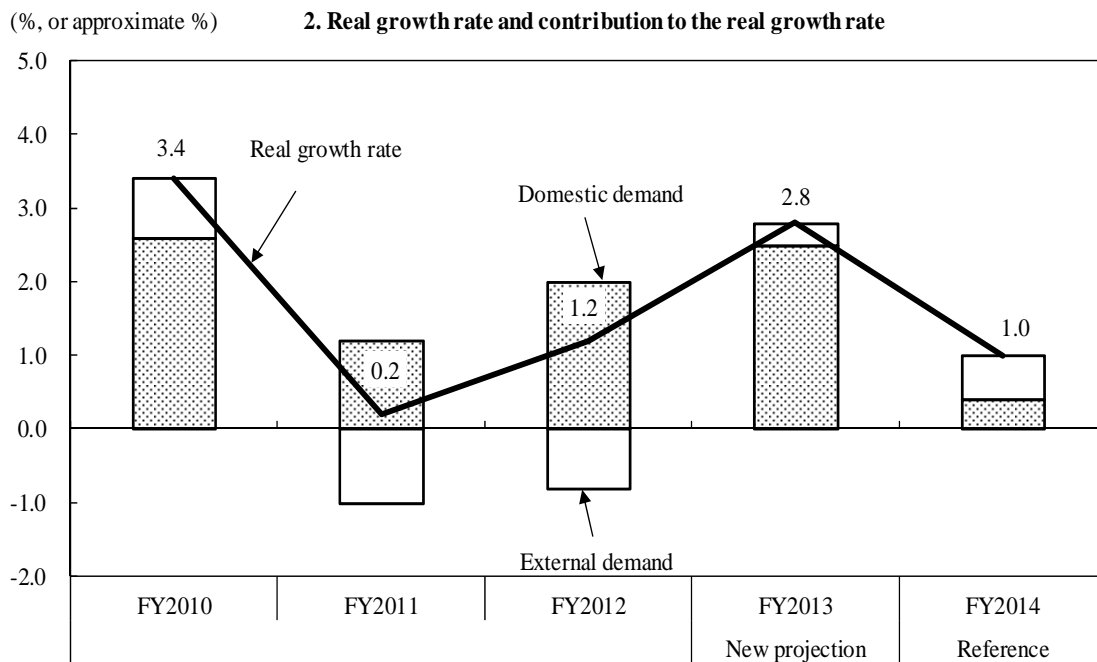
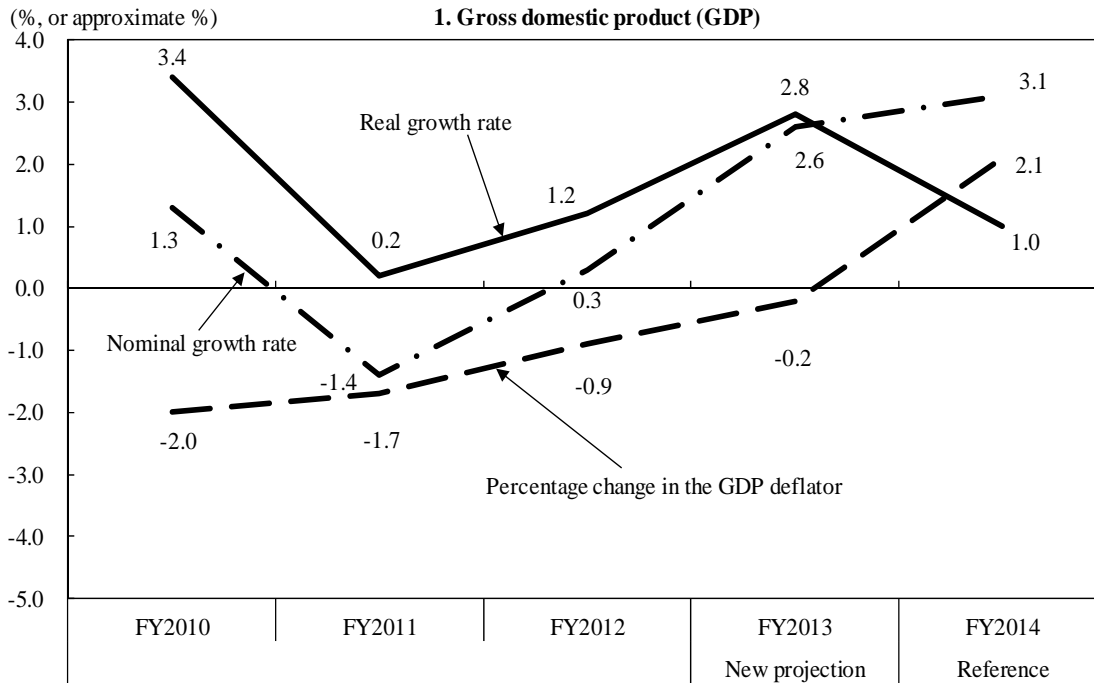
(Note 2) “Reference for FY2014” indicates preliminary estimates intended for discussing the macro economy for FY2014 and should be recognized as being subject to considerable upside and downside risks.

(Note 3) The non-preliminary economic outlook for FY2014 will be announced in the FY2014 Economic Outlook and Basic Stance for Economic and Fiscal Management, which is formulated and approved by the cabinet at the end of 2013, based on policy responses for the next fiscal year as well as future economic conditions.

(Note 4) Domestic demand deflator is expected to be about 2.2%.

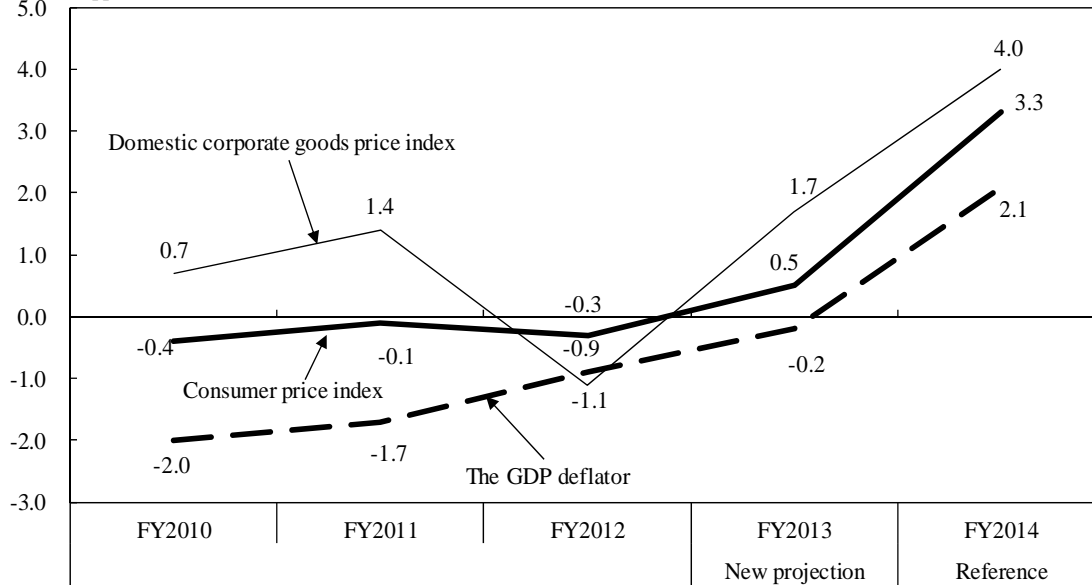
(Note 5) Excluding the effects of the consumption tax hike to be estimated mechanically, consumer price index (total) is expected to be about 1.2% and GDP deflator is expected to be about 0.7%.

# Main Economic Indicators



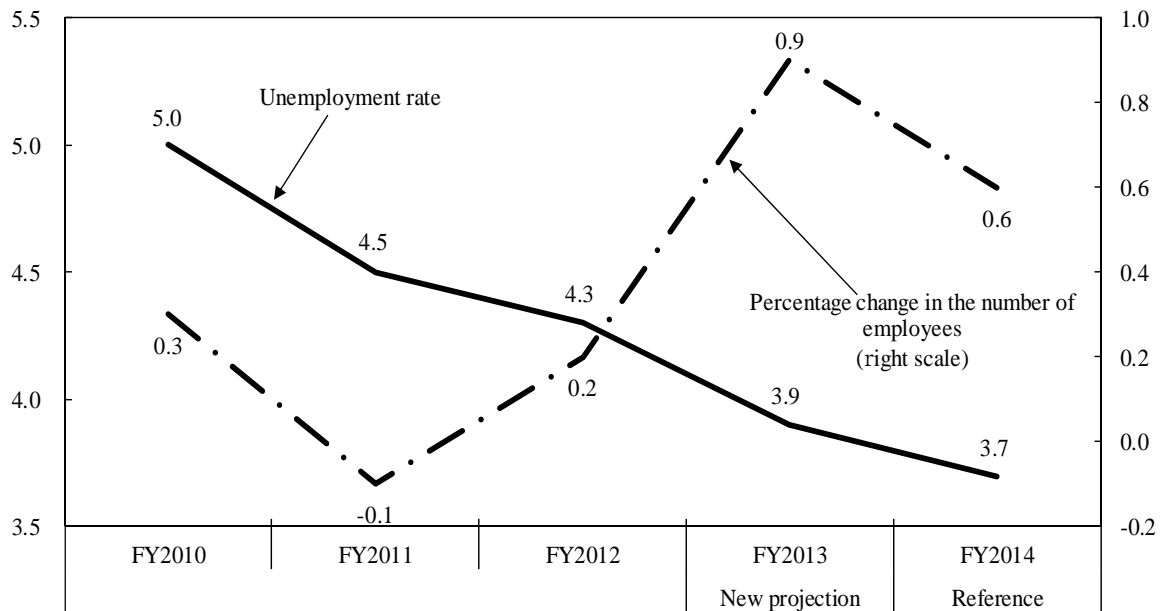
(%, or approximate %)

**3. Percentage change in price related index**



(%, or approximate %)

**4. Unemployment rate and the total number of employees**



## Notes on “Mid-year Economic Projection for FY2013”

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

	FY 2013		FY 2014 (Reference)
	(February projection)	(Mid-year projection)	
Real growth rate of world GDP (excluding Japan) (%)	2.9	2.6	3.4
Exchange rate (yen/dollar)	87.8	98.3	98.1
Crude oil import price (dollar/barrel)	112.5	105.6	105.5

### 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 98.1 yen/dollar (monthly average from June 11 to July 10, 2013) from July 11, 2013 onward.
- (3) The crude oil import price is assumed to stay constant at 105.5 dollars/barrel (the monthly average spot price of Dubai from June 11 to July 10, 2013, plus freight and insurance) from September 2013 onward.