

Mid-Year Economic Projection for FY2014

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Cabinet Office

The Japanese economy is on a moderate recovery trend with the deflationary trend fading thanks to the implementation of the integrated “three-arrows” strategy, consisting of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment.

As for the economic situation following the recoil reduction in demand associated with the consumption tax rate hike, private consumption has begun to stabilize. Wages are rising moderately, leading to a virtuous cycle of the economy accompanied by an increase in employment and income. Nonetheless, the recovery process from the recoil reduction and growing labor shortage in some industries need to be closely monitored.

Concerning future prospects, economic recovery led by private sector demand is expected to proceed, reflecting further progress of the virtuous cycle, supported by the implementation of the “Economic Policy Package” including “Economic Measures for Realization of Virtuous Cycles” and the collaborative efforts based on common understanding between the government, labor and management.

In light of the aforementioned factors, the real GDP growth rate for FY2014 is projected to be approximately 1.2 %, while the nominal growth rate is expected to be around 3.3 %. The consumer price index (total) is projected to be approximately 3.2 % (approximately 1.2% exclusive of the effects of the consumption tax hike), reflecting the effects of “quantitative and qualitative monetary easing” implemented by the Bank of Japan and the progress of the economic recovery. In this way, steady progress toward overcoming deflation is expected.

Risks to this projection include the following: developments in financial and capital markets, developments in overseas economies such as emerging economies, and constraints on the electric supply.

(Note) This projection follows the current legislation. Concerning the increase in the consumption tax rate to 10%, a decision will be made by the end of 2014 in accordance with the Act for Fundamental Tax Reform, taking into overall consideration economic conditions and other matters. If a decision not stipulated in the current legislation is made, this projection will be revised accordingly.

Main Economic Indicators

(% , or Approximate %)

	FY2013 (Actual)	FY2014 (January projection)	FY2014 (New projection)
Real GDP	2.3	1.4	1.2
Private consumption expenditure	2.6	0.4	0.3
Private residential investment	9.5	-3.2	-3.4
Private non-residential investment	2.6	4.4	4.9
Government expenditure	4.2	0.7	0.2
Government final consumption expenditure	1.8	1.5	0.6
Public-sector fixed capital formation	15.1	-2.3	-2.3
Exports of goods and services	4.7	5.4	5.3
Less: Imports of goods and services	7.0	3.5	3.7
Contribution of domestic demand	2.8	1.2	1.1
Contribution of private demand	1.7	1.0	1.0
Contribution of public demand	1.1	0.2	0.1
Contribution of external demand	-0.5	0.2	0.1
Nominal GDP	1.9	3.3	3.3
Unemployment rate	3.9	3.7	3.5
Number of Employees	1.0	0.5	0.5
Industrial production	3.2	3.3	1.8
Domestic corporate goods price index	1.9	3.9	4.2
Consumer price index (total)	0.9	3.2	3.2
GDP deflator	-0.4	1.9	2.1

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

(Note 2) The figures of “January Projection” for FY2014 are those shown in “FY2014 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January_24, 2014)”.

(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) 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%.

Reference for FY2015

Under some assumptions, the preliminary estimations for FY2015 are: Real GDP growth rate approx. 1.4%, Nominal GDP growth rate approx. 2.8%, and Consumer price inflation rate (CPI) approx. 2.5%

(Approximate %)

	FY2015
Real GDP	1.4
Private consumption expenditure	1.9
Private residential investment	0.6
Private non-residential investment	4.7
Contribution of domestic demand	1.3
Contribution of external demand	0.1
Nominal GDP	2.8
Unemployment rate	3.5
Number of Employees	0.3
Domestic corporate goods price index	1.8
Consumer price index (total)	2.5
GDP deflator	1.4

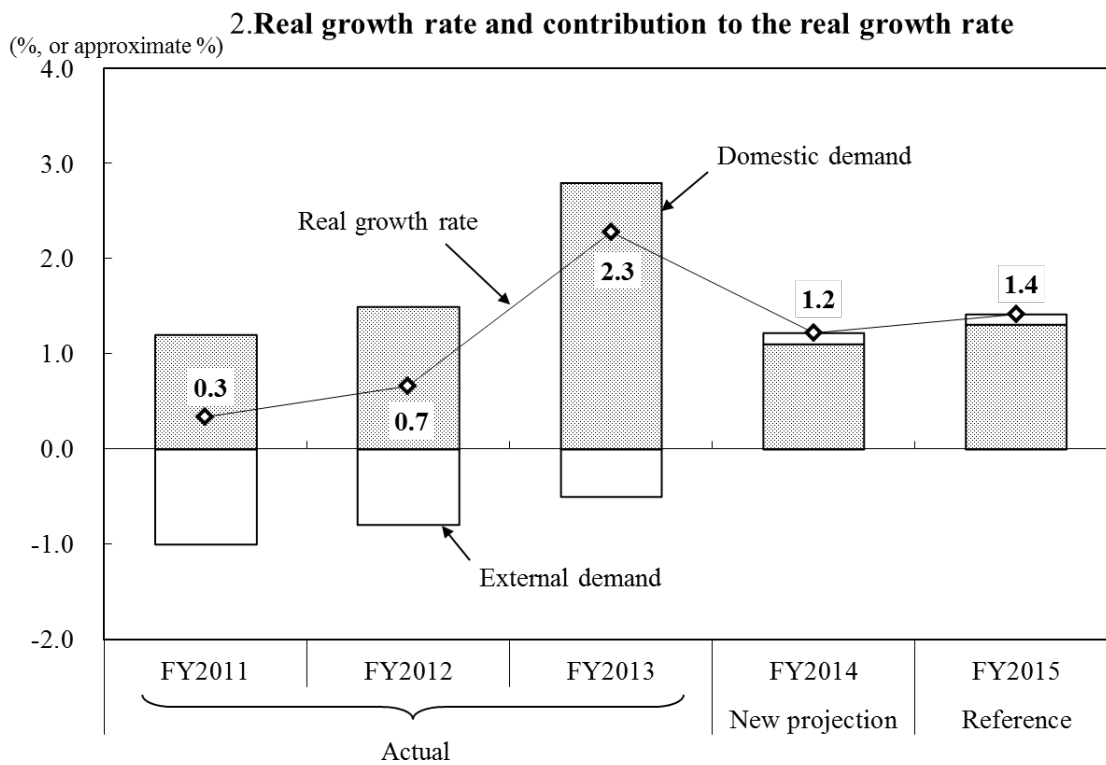
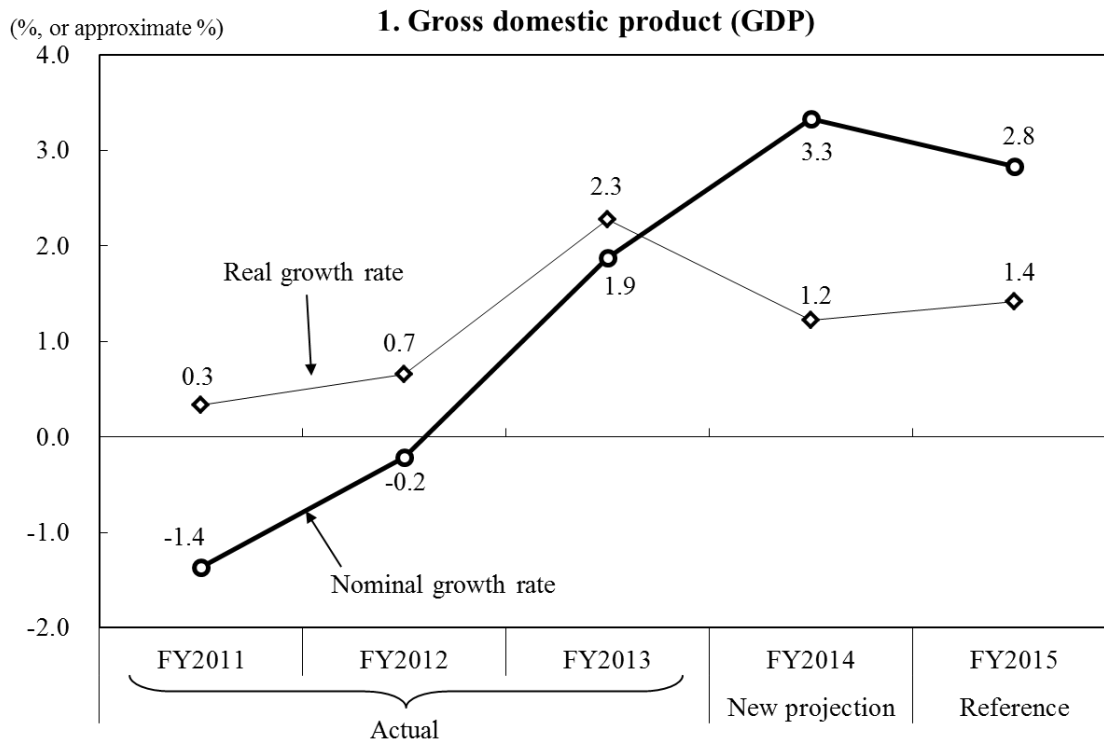
(Note 1) The figures represent a year-over-year rate of change except for the unemployment rate and contributions.

(Note 2) “Reference for FY2015” indicates preliminary estimates intended for discussing the macro economy for FY2015 and should be recognized as being subject to considerable upside and downside risks.

(Note 3) The government economic outlook for FY2015 will be announced in the FY2015 Economic Outlook and Basic Stance for Economic and Fiscal Management, which is formulated and approved by the cabinet at the end of 2014, based on policy responses for the next fiscal year as well as future economic conditions.

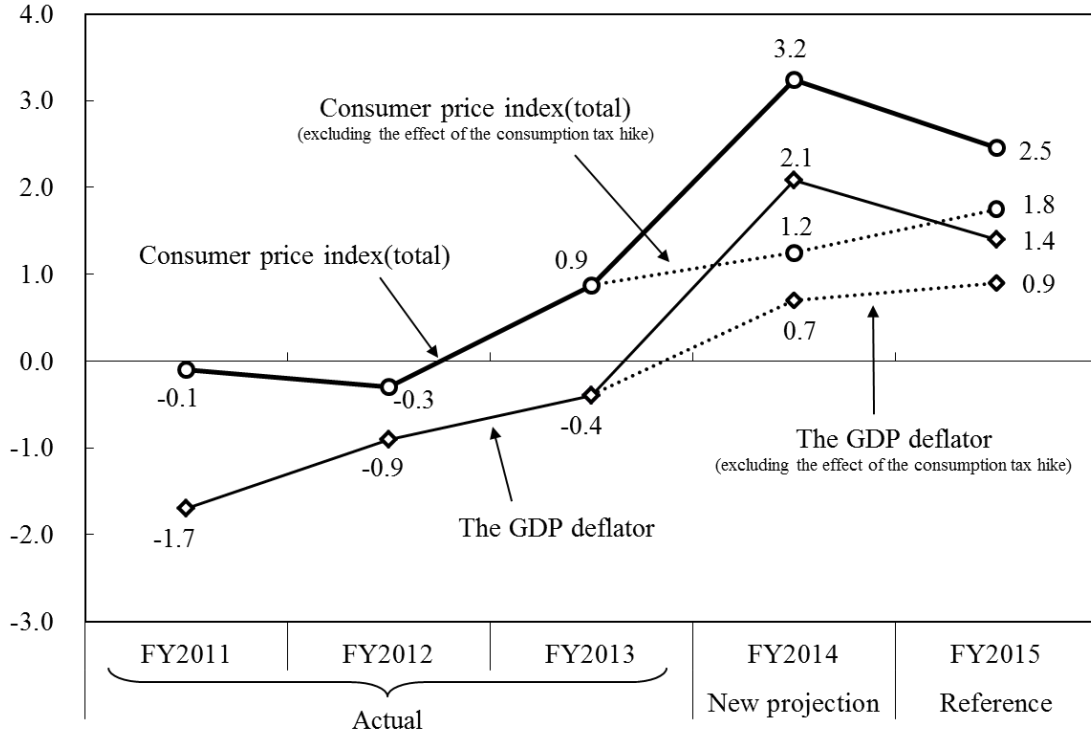
(Note 4) Excluding the effects of the consumption tax hike to be estimated mechanically, consumer price index (total) is expected to be about 1.8% and GDP deflator is expected to be about 0.9%.

Main Economic Indicators



3. Percentage change in price index

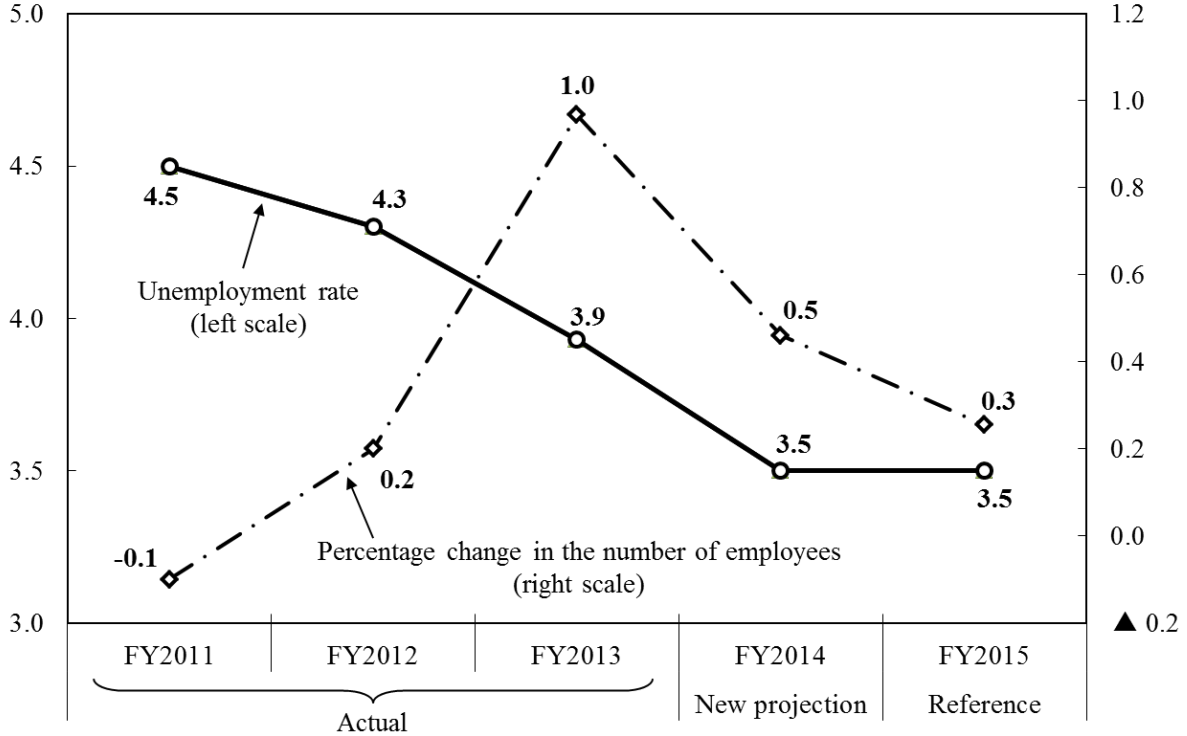
(%, or approximate %)



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

(%, or approximate %)

(%, or approximate %)



Notes on “Mid-year Economic Projection for FY2014”

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

	FY 2014		FY 2015 (Reference)
	(January projection)	(Mid-year projection)	
Real growth rate of world GDP (excluding Japan) (%)	3.3	3.2	3.7
Exchange rate (yen/dollar)	100.0	102.1	102.1
Crude oil import price (dollar/barrel)	110.1	112.4	113.3

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 102.1 yen/dollar (monthly average from June 2 to June 30, 2014) from July 1, 2014 onward.
- (3) The crude oil import price is assumed to stay constant at 113.3 dollars/barrel (the monthly average spot price of Dubai from June 2 to June 30, 2014, plus freight and insurance) from July 2014 onward.