

## Mid-Year Economic Projection for FY2015

July 22, 2015  
Cabinet Office

There has been major progress in the Japanese economy toward overcoming deflation and revitalizing the economy, 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. At present a virtuous economic cycle is beginning to take hold steadily, wherein the economic recovery drives higher employment and wages, which in turn leads to increases in consumption and investment. Reflecting these developments, the Japanese economy is on a moderate recovery trend.

The decline in crude oil prices since the end of last year has resulted in an improvement in terms of trade and a substantial increase in real income. The rate of increase in consumer prices has decelerated in year-on-year terms, reflecting the decline in oil prices, but the rate of change in the GDP deflator (excluding the influence of the consumption tax hike), which represents the prices of goods and services produced in Japan, turned clearly positive. Regional economies have begun to benefit from the improvement in employment and income, although variations in the recovery in consumption exist between regions.

Concerning future prospects, the Japanese economy is expected to recover, supported by robust growth of private demand. The steady implementation of the FY2015 budget and FY2014 supplementary budget, which implements the Immediate Economic Measures for Extending Virtuous Cycles to Local Economies, and the measures to build an environment conducive to increasing wages and promoting investment will facilitate the improvement in employment and income conditions, leading to a further extension of the virtuous economic cycle. The improvement in terms of trade will also support the recovery.

In light of the aforementioned factors, real GDP growth rate for FY2015 is projected to be approximately 1.5 %, while the nominal growth rate is expected to be around 2.9 %. Although the inflation rate is currently decelerating in year-on-year-terms owing to the decline in oil prices, the rate of increase in consumer price (total) is projected to rise gradually to around 0.6 % in FY2015, reflecting the effects of quantitative and qualitative monetary easing implemented by the Bank of Japan and the expected tightening of demand and supply conditions with the progress of the economic recovery.

Downside risks include the following: slowing down of overseas economies, including the Chinese economy, and developments in the financial, capital, and commodity markets.

## Main Economic Indicators

(% or approximate %)

|   | FY2014<br>(Actual) | FY2015<br>(February<br>projection) | FY2015<br>(New<br>projection) |
|---|--------------------|------------------------------------|-------------------------------|
| Real GDP                                    | -0.9               | 1.5                                | 1.5                           |
| Private consumption expenditure             | -3.1               | 2.0                                | 1.7                           |
| Private residential investment              | -11.7              | 1.5                                | 2.2                           |
| Private non-residential investment          | 0.4                | 5.3                                | 5.4                           |
| Government expenditure                      | 0.7                | -2.1                               | -2.3                          |
| Government final consumption<br>expenditure | 0.4                | 1.0                                | 0.7                           |
| Public-sector fixed capital formation       | 2.0                | -15.0                              | -14.9                         |
| Exports of goods and services               | 8.0                | 5.2                                | 5.1                           |
| Less: Imports of goods and services         | 3.7                | 3.9                                | 4.1                           |
| Contribution of domestic demand             | -1.5               | 1.4                                | 1.4                           |
| Contribution of private demand              | -1.7               | 2.0                                | 2.0                           |
| Contribution of public demand               | 0.2                | -0.6                               | -0.6                          |
| Contribution of external demand             | 0.6                | 0.1                                | 0.1                           |
| Real GNI                                    | -0.3               | 2.1                                | 2.6                           |
| Nominal GDP                                 | 1.6                | 2.7                                | 2.9                           |
| Unemployment rate                           | 3.5                | 3.5                                | 3.3                           |
| Number of Employees                         | 0.8                | 0.3                                | 0.5                           |
| Industrial production                       | -0.4               | 2.7                                | 1.9                           |
| Domestic corporate goods price index        | 2.8                | -1.0                               | -0.7                          |
| Consumer price index (total)                | 2.9                | 1.4                                | 0.6                           |
| GDP deflator                                | 2.5                | 1.2                                | 1.4                           |

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

(Note 2) The figures of February Projection for FY2015 are those shown in FY2015 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, February 12, 2015).

(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 under certain assumptions, the consumer price index (total) is expected to be about 0.9%, the domestic corporate goods price index is expected to be about 0.0%, and the GDP deflator is expected to be about 1.1% in FY2014.

## Reference for FY2016

Based on certain assumptions, the preliminary estimate for FY2016 envisages a Real GDP growth rate of approx. 1.7%, a Nominal GDP growth rate of approx. 2.9%, and a Consumer price inflation rate (CPI) of approx. 1.6%

(Approximate %)

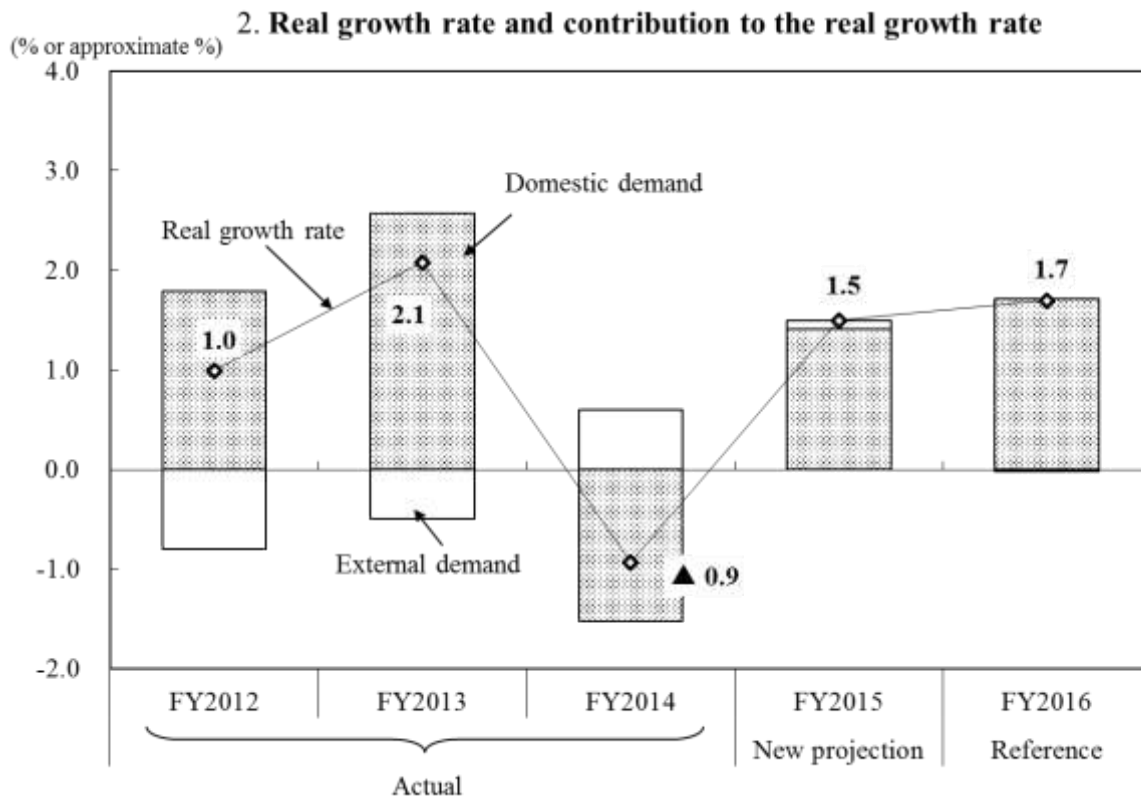
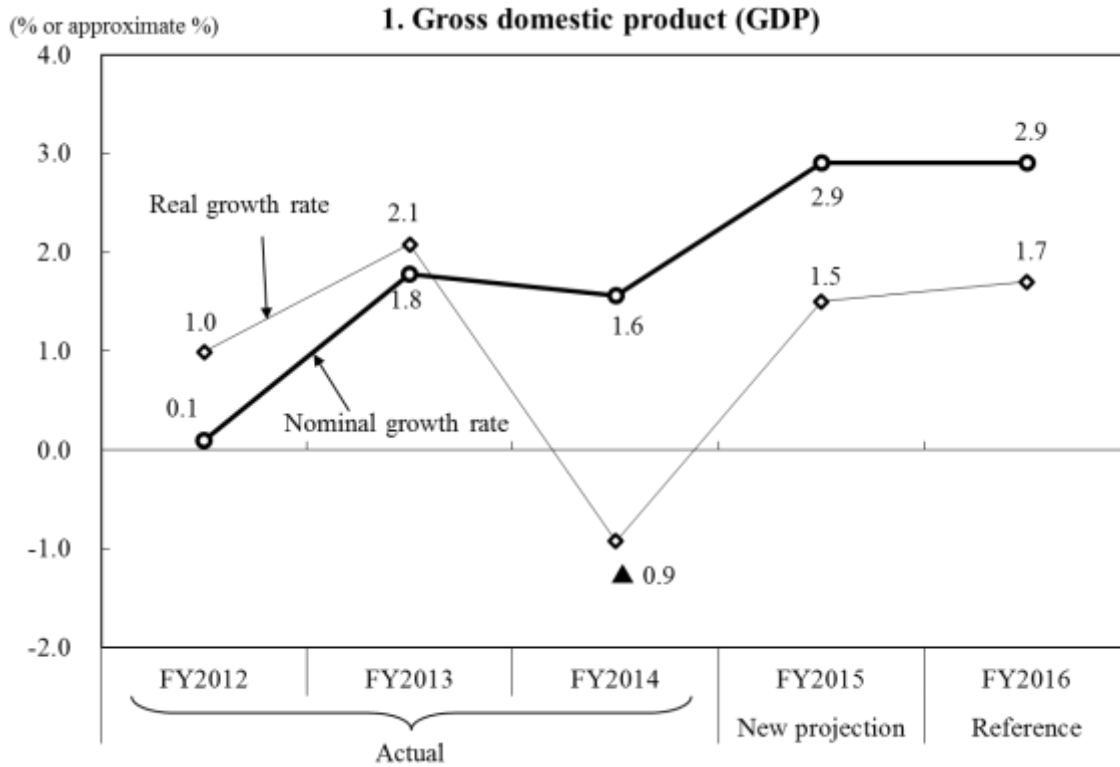
|                                      | FY2016 |
|--------------------------------------|--------|
| Real GDP                             | 1.7    |
| Private consumption expenditure      | 1.9    |
| Private residential investment       | 4.8    |
| Private non-residential investment   | 4.5    |
| Contribution of domestic demand      | 1.7    |
| Contribution of external demand      | -0.0   |
| Real GNI                             | 1.7    |
| Nominal GDP                          | 2.9    |
| Unemployment rate                    | 3.2    |
| Number of Employees                  | 0.4    |
| Domestic corporate goods price index | 0.9    |
| Consumer price index (total)         | 1.6    |
| GDP deflator                         | 1.2    |

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

(Note 2) Reference for FY2016 indicates preliminary estimates intended for discussing the macro economy for FY2016 and should be recognized as being subject to considerable upside and downside risks.

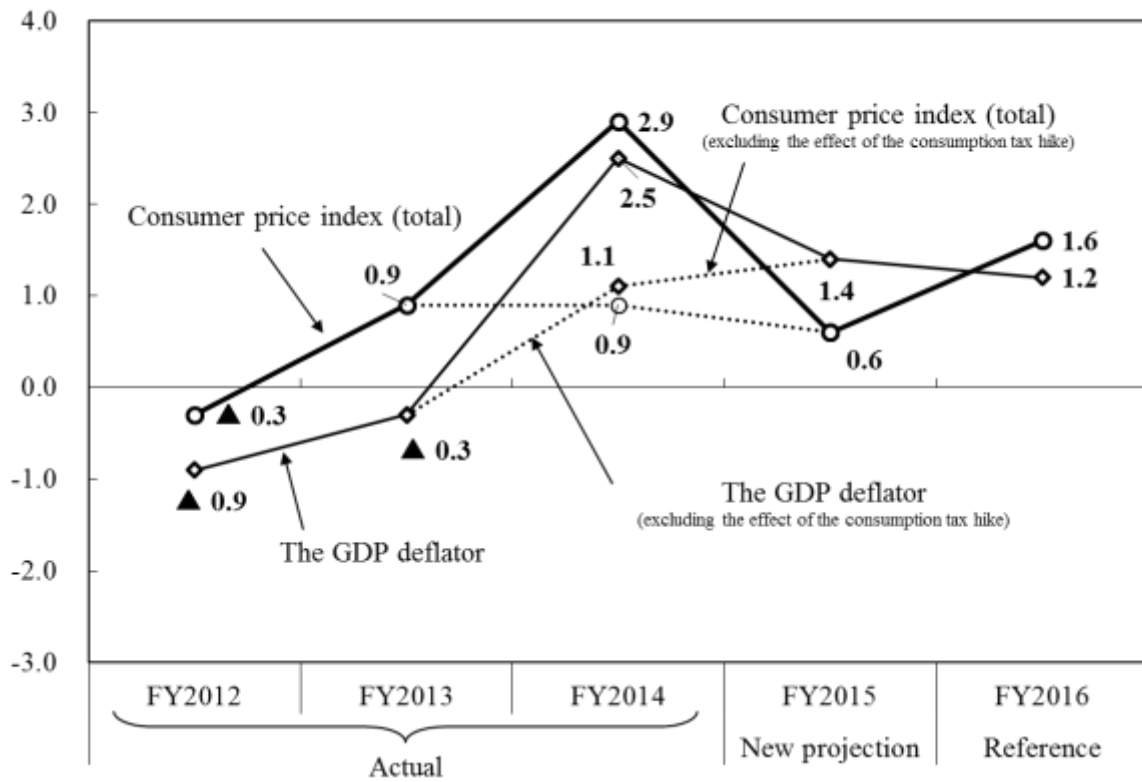
(Note 3) The government economic outlook for FY2016 will be announced in the FY2016 Economic Outlook and Basic Stance for Economic and Fiscal Management, which is formulated and approved by the cabinet at the end of 2015, based on policy responses for the next fiscal year as well as future economic conditions.

# Main Economic Indicators



### 3. Percentage change in price index

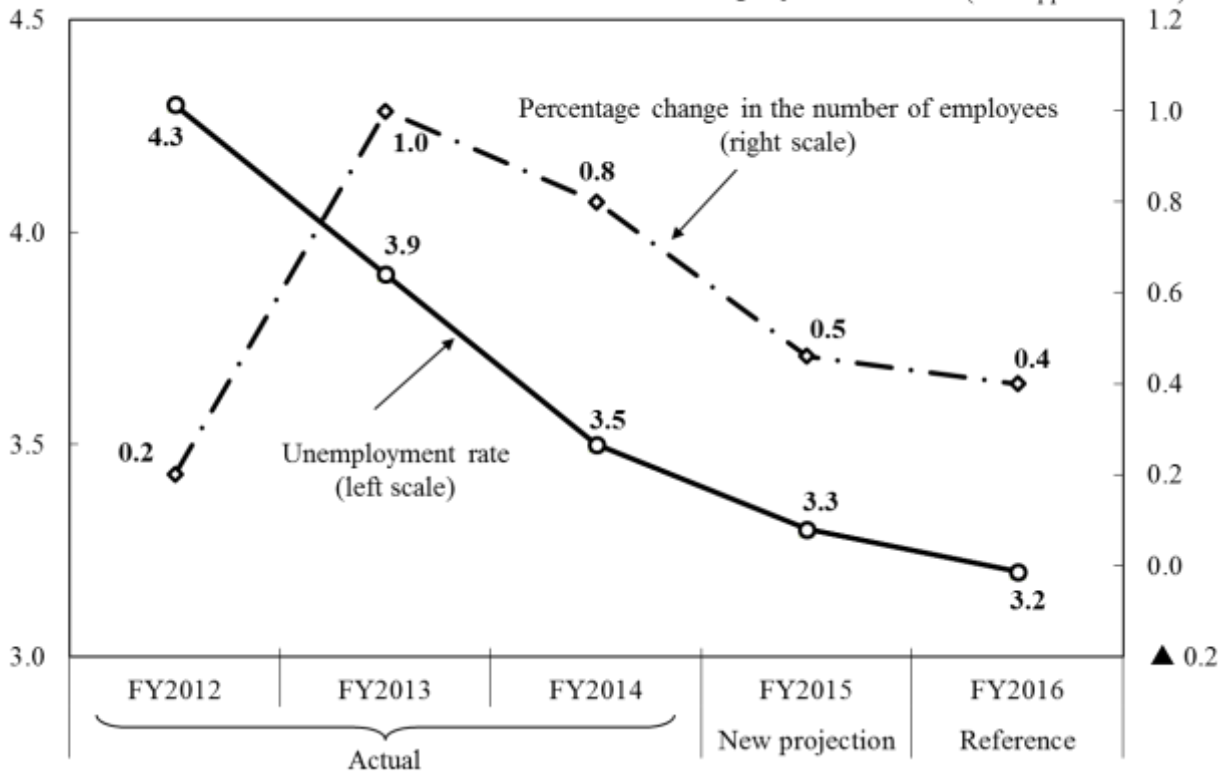
(% or approximate %)



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

(% or approximate %)

(% or approximate %)



## Notes on Mid-year Economic Projection for FY2015

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

|  | FY 2015                  |                          | FY 2016<br>(Reference) |
|--|--------------------------|--------------------------|------------------------|
|  | (February<br>projection) | (Mid-year<br>projection) |                        |
| Real growth rate of world GDP<br>(excluding Japan) (%) | 3.6                      | 3.1                      | 3.6                    |
| Exchange rate (yen/dollar)                             | 118.7                    | 123.1                    | 123.7                  |
| Crude oil import price<br>(dollar/barrel)              | 69.3                     | 63.4                     | 64.2                   |

### 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 123.7 yen/dollar (monthly average from June 1 to June 30, 2015) from July 1, 2015 onward.
- (3) The crude oil import price is assumed to stay constant at 64.2 dollars/barrel (the monthly average spot price of Dubai crude from June 1 to June 30, 2015, plus freight and insurance) from July 2015 onward.