

Fiscal 2017 Economic Outlook and Basic Stance for Economic and Fiscal Management

(January 20, 2017)
(Cabinet Decision)

1. Japanese Economy in FY2016

In FY2016, the Japanese economy is on a moderate recovery, supported by improvements in employment and income conditions, thanks to the measures implemented under Abenomics. In the first half of FY2016, the domestic economy lacked momentum in private consumption and business investment, compared with the growth of income and corporate profits, while weakness was observed in oversea economies.

The government formulated an economic policy package, the “Economic Measures for Realizing Investment for the Future,” (hereinafter called “economic measures”) in order to overcome deflation completely and pave the way for steady economic growth. The Japanese economy is expected to recover moderately reflecting the effects of various policies including the economic measures, accompanied by continued improvements in employment and income conditions.

Owing to the decline in crude oil prices, the rate of increase in consumer prices is decreasing from a year earlier.

Consequently, in FY2016, the real GDP is projected to increase by approximately 1.3%, and the nominal GDP is expected to increase by approximately 1.5%. The rate of increase in consumer prices (all items) is projected to be approximately 0.0%.

2. Basic Stance for FY2017 Economic and Fiscal Management

The government remains committed to the basic principle of “Without economic revitalization, there can be no fiscal consolidation,” and aims at achieving both the target of nominal GDP of 600 trillion yen and fiscal consolidation target of FY2020.

The government will implement the economic measures swiftly and steadily in order to lead to sustained economic growth led by private demand and a steady realization of a society in which all citizens are dynamically engaged, beyond short-term demand stimulus.

In order to realize a society in which all citizens are dynamically engaged, the government will implement the measures along with the “new three arrows” of Abenomics. Aiming at the target of “the largest nominal GDP in postwar history of 600 trillion yen,” the government will reinforce the

positive cycle of the economy and ensure the progress toward overcoming deflation by utilizing the full range of policies, including facilitating regional reinvigoration, building national resilience and the empowerment of women. In addition, the government will steadily implement the “Japan Revitalization Strategy 2016” to promote a growth strategy toward expanding investments for the future. Aiming at the targets of “a desirable birthrate of 1.8” and “no one forced to leave their jobs for nursing care,” the government will promote environmental improvements for childcare and nursing care, offer support to fulfill the hope of every single citizen, dispel the people’s concerns regarding the future, and enhance the potential growth rate in order to tackle the issues of an aging society with a low birth rate.

With regard to fiscal consolidation, the government will strengthen expenditure reform in keeping with the “Plan to Advance Economic and Fiscal Revitalization” stipulated in the “Basic Policy on Economic and Fiscal Management and Reform 2015,” and the “Economic and Fiscal Revitalization Action Program 2016.” In FY2017, the second year of the plan, the government will firmly implement reform, including expenditure reform set out in the plan.

The government expects the Bank of Japan to achieve its price stability target of 2% inflation, in light of the current state of the economy and prices.

3. Economic Outlook for FY2017

In FY2017, the Japanese economy is expected to recover, supported by the growth in private demand. Implementation of the economic measures and the policy measures shown in “2. Basic Stance for FY2017 Economic and Fiscal Management” will lead to an extension of the positive cycle of the economy with improvements in employment and income conditions.

With regard to prices, the rate of increase in consumer prices is expected to increase, reflecting the tightening of demand and supply conditions with economic recovery. In this way, progress toward overcoming deflation is expected.

Consequently, in FY2017, the real GDP is projected to increase by approximately 1.5%, and the nominal GDP is expected to increase by approximately 2.5%. The rate of increase in consumer prices (all items) is projected to be approximately 1.1%.

Attention should be given to the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Private consumption expenditure will increase moderately, supported by improvements in employment and income conditions. (An increase of approximately 0.8% is projected.)

(ii) Private Residential Investment

With improvements in employment and income conditions, private residential investment will remain almost flat, supported by an accommodative monetary environment. (An increase of approximately 0.1% is projected.)

(iii) Private Non-Residential Investment

Private non-residential investment will continue to increase owing to increases in industrial production and higher corporate earnings, etc. (An increase of approximately 3.4% is projected.)

(iv) Government Expenditure

Government spending will increase owing to a smooth and steady implementation of the economic measures and an increase in social security-related costs. (An increase of approximately 1.6% is projected.)

(v) External Demand

External demand will increase owing to a moderate recovery of the world economy. (The contribution of external demand to the real GDP growth rate will be approximately 0.1%.)

(2) Real Gross National Income

Real gross national income will grow faster than real GDP owing to an increase in income from overseas. (An increase of approximately 1.7% is projected.)

(3) Labor and Employment

With improvements in employment conditions, the number of employees will continue to increase moderately, mainly owing to the further participation of women and the elderly in the labor market. (An increase of approximately 0.8% is projected.) The unemployment rate will decline slightly (to approximately 2.9%).

(4) Industrial Production

Industrial production will increase owing to increases in exports and domestic demand, etc. (An increase of approximately 2.7% is projected.)

(5) Prices

The rate of increase in the consumer price index (all items) will be approximately 1.1%, reflecting the tightening of demand and supply conditions with the economic recovery. The GDP deflator is expected to continue to rise. (An increase of approximately 0.9% is projected.)

(6) Balance of Payments

The trade surplus and the current account surplus will increase owing to an increase in exports on the back of a moderate recovery of the world economy and an increase in income from overseas, etc. (The current account balance will be approximately 4.3% as a percentage of nominal GDP.)

(Note 1) The preparation of this economic forecast is premised on the economic and fiscal management set out in “2. Basic Stance for FY2017 Economic and Fiscal Management.”

(Note 2) The Japanese economy consists mainly of private economic activity, and is influenced by unforeseeable market fluctuations and other changes in the international environment. Accordingly, the indicators above should be recognized as being subject to upside and downside deviations.

Main Economic Indicators

	FY2015	FY2016	FY2017	Percentage changes over the previous fiscal year					
	(Actual)	(Estimate)	(Forecast)	FY2015		FY2016		FY2017	
	Trillion yen (Current price)	Trillion yen (Approx.) (Current price)	Trillion yen (Approx.) (Current price)	% (Current price)	% (Constant price)	% (Approx.) (Current price)	% (Approx.) (Constant price)	% (Approx.) (Current price)	% (Approx.) (Constant price)
Gross domestic product	532.2	540.2	553.5	2.8	1.3	1.5	1.3	2.5	1.5
Private consumption expenditure	299.9	301.0	305.8	0.5	0.5	0.4	0.7	1.6	0.8
Private residential investment	15.9	16.7	17.0	2.7	2.7	5.1	5.4	1.7	0.1
Private non-residential investment	81.2	82.3	86.3	1.1	0.6	1.3	2.1	4.8	3.4
Increase in private inventory *1	2.4	1.6	1.8	(0.3)	(0.4)	(-0.2)	(-0.2)	(0.1)	(0.0)
Government expenditure	132.8	134.0	137.2	1.0	1.2	1.0	1.1	2.4	1.6
Government final consumption expenditure	106.0	107.1	108.8	1.7	2.0	1.0	1.1	1.6	1.0
Public-sector fixed capital formation	26.7	26.9	28.4	-1.4	-2.0	0.7	1.1	5.4	4.2
Exports of goods and services	91.7	85.9	91.0	-0.7	0.8	-6.3	0.8	5.9	3.2
Less: Imports of goods and services	91.6	81.3	85.7	-9.2	-0.2	-11.3	-1.2	5.3	2.6
Contribution of domestic demand				1.1	1.1	0.7	1.0	2.3	1.4
Contribution of private demand				0.8	0.8	0.4	0.7	1.7	1.0
Contribution of public demand				0.3	0.3	0.2	0.3	0.6	0.4
Contribution of external demand				1.7	0.2	0.9	0.3	0.1	0.1
National income	388.5	393.4	404.2	2.7		1.3		2.7	
Compensation of employees	263.4	268.3	273.8	1.5		1.8		2.1	
Income from properties	25.7	25.1	26.5	4.7		-2.1		5.2	
Business income	99.3	100.0	103.9	5.4		0.6		3.9	
Gross national income	552.1	558.8	573.6	2.8	2.7	1.2	1.5	2.7	1.7
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)				% (Approx.)		% (Approx.)
Labor force	6,605	6,654	6,669				0.7		0.2
Employed persons	6,388	6,449	6,477				1.0		0.4
Employees	5,662	5,732	5,777				1.2		0.8
Unemployment rate	%	% (Approx.)	% (Approx.)						
	3.3	3.1	2.9						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-1.0	1.0	2.7						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	-3.2	-2.0	2.0						
Consumer price index	0.2	0.0	1.1						
GDP deflator	1.4	0.2	0.9						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)				% (Approx.)		% (Approx.)
Balance of goods and services	-0.6	4.2	5.1						
Trade balance	0.5	5.6	6.1						
Exports	73.1	68.2	72.4			-3.3	-6.7		6.1
Imports	72.6	62.7	66.4			-11.7	-13.7		5.9
Current balance	18.0	20.2	23.6						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	3.4	3.7	4.3						

*1 Figures in parentheses represent contribution to GDP growth.

(Note 1) The figures for the consumer price index include all items.

(Note 2) We have assumed the real growth rate of world GDP (excluding Japan), the yen's exchange rate, and the crude oil import price as below. These assumptions are neither projections nor the outlook of the government but are made solely for the sake of preparing this work.

	FY2015	FY2016	FY2017
Real growth rate of world GDP (excluding Japan) (%)	2.8	2.9	3.2
Exchange rate (yen/dollar)	120.1	107.5	111.5
Crude oil import price (dollar/barrel)	49.4	45.9	48.2

(Remarks)

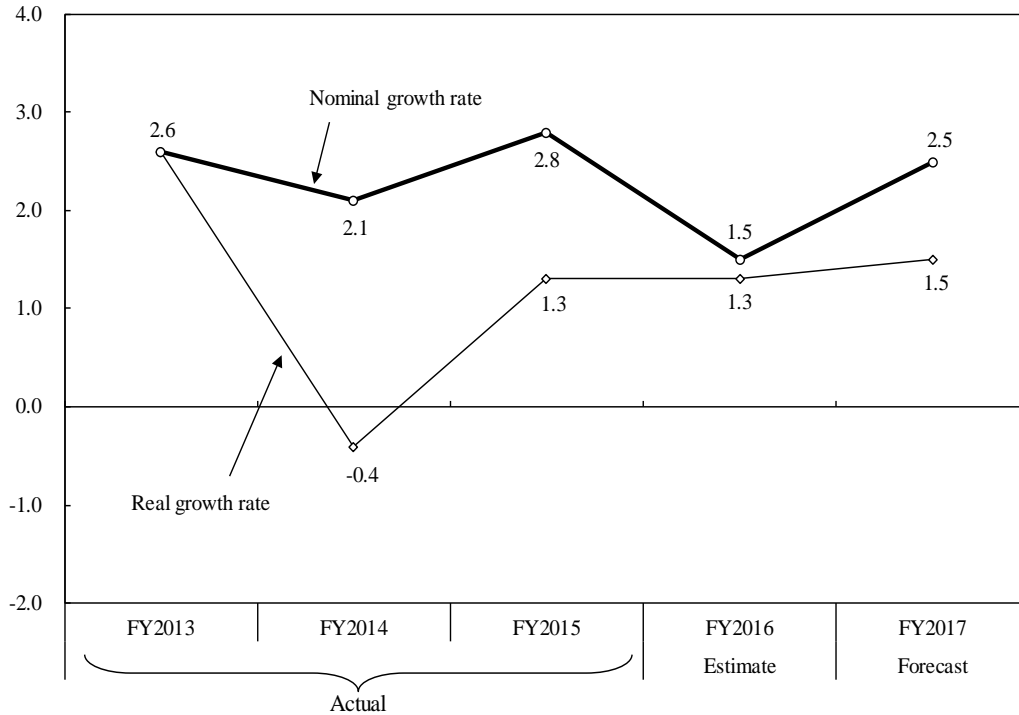
1. The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
2. The exchange rate is assumed to stay constant at 111.5 yen/dollar (average from November 10 to December 9, 2016) from December 12, 2016 onward.
3. The crude oil import price is assumed to stay constant at 48.2 dollars/barrel (the average spot price of Dubai from November 10 to December 9, 2016, plus freight and insurance) from December 12, 2016 onward.

(Reference)

Main Economic Indicators

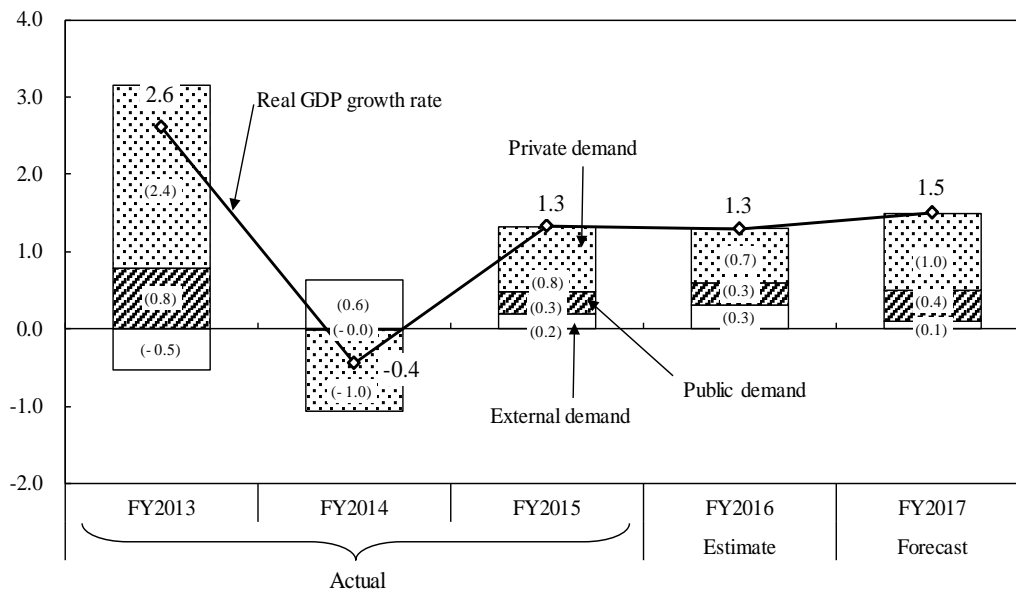
(% or approximate %)

1. Gross domestic product (GDP)



(% or approximate %)

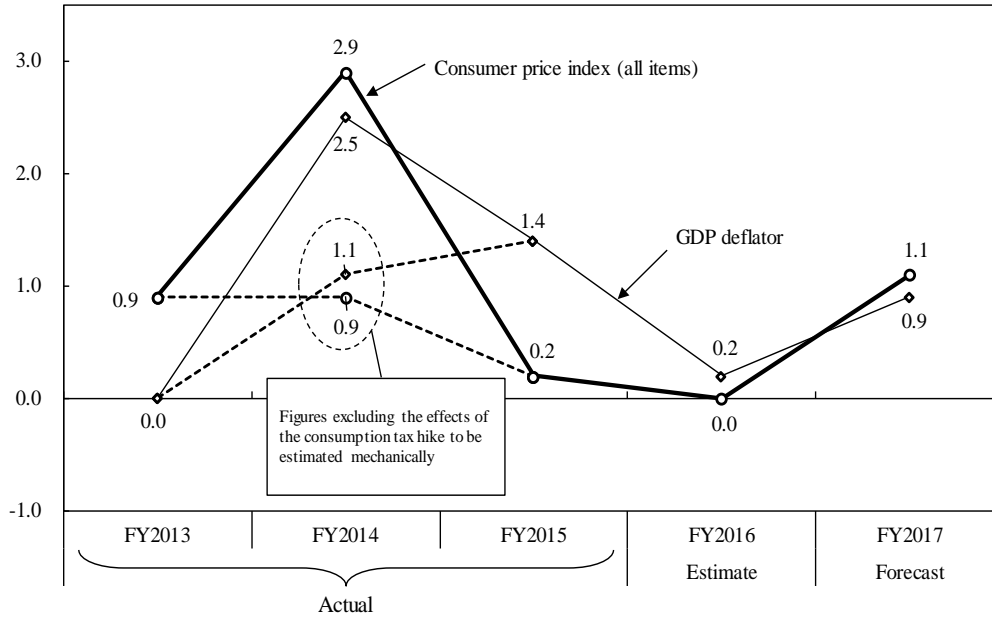
2. Real GDP growth rate and contributions to the real GDP growth rate



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

(% or approximate %)

3. Percentage change in price related indices



(% or approximate %)

4. Unemployment rate and the number of employees

(Ten thousands or approximate ten thousands)

