

## **Fiscal 2019 Economic Outlook and Basic Stance for Economic and Fiscal Management**

( January 28, 2019  
Cabinet Decision )

### **1. Japanese Economy in FY2018**

In FY2018, the Japanese economy is recovering at a moderate pace. While exports are almost flat, business investment is increasing, supported by the record-high corporate profits, and private consumption is improving, reflecting improvements in the employment and income situation. As a result, a virtuous cycle of the economy is now being realized. However, due to natural disasters in the summer, the economy was temporarily pushed down, mainly by weak private consumption and exports.

The government is making progress on implementation of the FY2018 first supplementary budget swiftly and steadily to fully promote restoration and reconstruction in the afflicted areas of a series of natural disasters. In addition, the government adopted the FY2018 second supplementary budget to properly address additional fiscal demands, including Three-year Emergency Response Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience. The economy is expected to continue recovery reflecting continued improvement in the employment and income situations, supported by the effects of various policy measures.

With regard to prices, the rate of increase in the Consumer Price Index (all items) is increasing from the previous year, reflecting the increase in crude oil prices in the first half of the fiscal year.

Consequently, in FY2018, the real GDP is projected to increase by approximately 0.9%, and the nominal GDP is expected to increase by approximately 0.9%. The rate of increase in Consumer Price Index (all items) is projected to increase by approximately 1.0%.

### **2. Basic Stance for FY2019 Economic and Fiscal Management**

The government remains committed to the basic principle of “Without economic revitalization, there can be no fiscal consolidation,” and aims to achieve both a 600 trillion yen economy and fiscal consolidation target.

The government places priority on the Human Resources Development Revolution to improve the quality of manpower and the Supply System Innovation that is a pillar of the growth strategy, as one of the supply-side

reform measures, for raising the potential growth rate and following a sustainable growth path.

In order to tackle the biggest challenges of falling birthrate and aging population, the government aims to achieve “the desirable birthrate of 1.8” and “no one forced to leave their jobs for nursing care,” and promote employment of the elderly and establish a social security for all generations to bring about a society in which people can be active through their entire lives.

By promoting measures such as regional reinvigoration, building national resilience, active participation by women, promotion of employment of people with disabilities or intractable diseases, work-style reform, and acceptance of new human resources from overseas, the government ensures a virtuous cycle of the economy and aims to build a society in which all citizens are dynamically engaged and everyone can find their own motivations.

The government will take Temporal and Special Measures in the initial budgets for FY2019 and FY2020, making every effort to ensure continued economic revitalization and mitigate the negative impact of the hike in the consumption tax rate on October 1, 2019, including measures for smoothing out demand fluctuations.

With regard to fiscal consolidation, the government aims for the primary surplus of the central and local governments by FY 2025, and simultaneously aims for reducing the public debt to GDP ratio steadily. In FY2019, the first year of the foundation-reinforcement period in the “New Plan to Advance Economic and Fiscal Revitalization<sup>1</sup>,” the government will steadily implement expenditure reform, etc. as set out in the Plan.

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

### **3. Economic Outlook for FY2019**

In FY2019, while the consumption tax rate hike is scheduled for October, the Japanese economy is expected to recover, driven by the growth in domestic demand, as improvements in the employment and income situation continue, helped by the policy measures described in “2. Basic Stance for FY2019 Economic and Fiscal Management,” such as the Temporal and Special Measures implemented in the initial budget for FY2019 against the adverse impact by the hike in the consumption tax rate, ensuring the continuing economic recovery trend.

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<sup>1</sup> “Basic Policy on Economic and Fiscal Management and Reform 2018”, Chapter 3 (June 15, 2018, Cabinet Decision)

Prices are expected to increase, under tightening supply and demand conditions along with the economic recovery. In this way, progress toward overcoming deflation is expected.

Consequently, in FY2019, the real GDP is projected to increase by approximately 1.3%, and the nominal GDP is expected to increase by approximately 2.4%. The rate of increase in Consumer Price Index (all items) is projected to be approximately 1.1%.

Attention should be given to the risks, including the effects of situations over trade issues on the world economy, the uncertainty in overseas economies, the effects of fluctuations in the financial and capital markets, etc.

## **(1) Real Gross Domestic Product**

### **(i) Private Consumption Expenditure**

Private consumption expenditure will increase, supported by the effect of measures to be taken in response to the consumption tax hike, as the improvements in the employment and income situations continue. (An increase of approximately 1.2% is projected.)

### **(ii) Private Residential Investment**

Private residential investment will increase, supported by the effect of measures to be taken in response to the consumption tax hike, under an accommodative monetary environment. (An increase of approximately 1.3% is projected.)

### **(iii) Private Non-Residential Investment**

Private non-residential investment will increase owing to solid corporate profits, and need to address the labor shortage, etc. (An increase of approximately 2.7% is projected.)

### **(iv) Government Expenditure**

Government spending will increase, owing to an increase in social security-related expenditure and in public works-related expenditure for Three-year Emergency Response Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience, etc. (An increase of approximately 1.0% is projected.)

### **(v) External Demand**

External demand will remain almost flat, owing to an increase in imports reflecting the domestic demand, while exports will increase with the moderate recovery of the overseas economy. (The contribution of external demand to the real GDP growth rate will be approximately 0.0%.)

## **(2) Real Gross National Income**

Real gross national income will be an increase over real GDP owing to a moderate improvement of terms of trade and an increase in income from abroad. (An increase of approximately 1.6% is projected.)

## **(3) Labor and Employment**

With improvement in the employment situation, the number of employees will continue to increase, mainly owing to the participation of women and the elderly in the labor market. (An increase of approximately 0.9% is projected.) The unemployment rate will decline slightly (to approximately 2.3%).

## **(4) Industrial Production**

Industrial production will increase, owing to increases in domestic demand, exports, etc. (An increase of approximately 2.4% is projected.)

## **(5) Prices**

The rate of increase in the Consumer Price Index (all items) will be approximately 1.1%, under tightening supply and demand conditions along with the economic recovery. The GDP deflator is expected to continue to rise. (An increase of approximately 1.1% is projected.)

## **(6) Balance of Payments**

The surplus in current account balance will increase owing to an increase in income from abroad, etc. (The current account balance will be approximately 3.9% 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 FY2019 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

	FY2017 (Actual)	FY2018 (Estimate)	FY2019 (Forecast)	Percentage change over the previous fiscal year					
				FY2017		FY2018		FY2019	
				Trillion yen (Current price)	Trillion yen (Approx.) (Current price)	Trillion yen (Approx.) (Current price)	% (Constant price)	% (Approx.) (Current price)	% (Approx.) (Constant price)
Gross domestic product	547.4	552.5	566.1	2.0	1.9	0.9	0.9	2.4	1.3
Private consumption expenditure	303.2	306.6	313.4	1.4	1.0	1.1	0.7	2.2	1.2
Private residential investment	17.2	16.7	17.3	1.1	▲ 0.7	▲ 2.8	▲ 4.2	3.3	1.3
Private non-residential investment	86.2	90.2	93.1	5.4	4.6	4.7	3.6	3.2	2.7
Change in private inventory *1	0.7	1.0	0.9	(0.1)	(0.1)	(0.1)	(0.0)	(▲ 0.0)	(▲ 0.0)
Government expenditure	135.2	136.1	138.6	1.4	0.5	0.7	0.1	1.8	1.0
Government final consumption expenditure	107.6	108.5	110.1	1.1	0.4	0.9	0.7	1.5	1.0
Public-sector fixed capital formation	27.6	27.7	28.6	2.3	0.5	0.3	▲ 1.4	3.3	1.2
Exports of goods and services	98.2	102.5	107.4	10.5	6.4	4.4	2.7	4.8	3.0
Less: Imports of goods and services	93.3	100.7	104.7	11.7	4.1	7.9	2.8	4.0	3.3
Contribution of domestic demand	/			2.1	1.4	1.5	0.9	2.3	1.4
Contribution of private demand				1.7	1.3	1.3	0.9	1.8	1.1
Contribution of public demand				0.4	0.1	0.2	0.0	0.5	0.2
Contribution of external demand				▲ 0.1	0.4	▲ 0.6	0.0	0.2	▲ 0.0
National income	404.2	413.3	423.9	3.3	/	2.2	/	2.6	/
Compensation of employees	276.3	284.3	292.5	1.9	/	2.9	/	2.9	/
Income from properties	25.8	26.6	27.5	8.9	/	3.2	/	3.2	/
Business income	102.1	102.3	103.9	6.1	/	0.2	/	1.5	/
Gross national income	567.3	573.3	587.8	2.2	1.6	1.1	0.5	2.5	1.6
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			% (Approx.)		% (Approx.)	
Labor force	6,750	6,831	6,871			1.0		1.2	
Employed persons	6,566	6,665	6,711			1.4		1.5	
Employees	5,848	5,950	6,006			1.5		1.7	
Unemployment rate	2.7	% (Approx.) 2.4	% (Approx.) 2.3						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	2.9	1.4	2.4						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	2.7	2.7	2.0						
Consumer price index	0.7	1.0	1.1						
GDP deflator	0.1	0.0	1.1						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)			% (Approx.)		% (Approx.)	
Balance of goods and services	4.1	1.0	2.0						
Trade balance	4.6	1.5	1.0						
Exports	78.3	83.0	86.4	10.6		6.0		4.1	
Imports	73.7	81.5	85.4	13.4		10.6		4.8	
Current balance	21.8	20.4	22.3						
Current balance as a percentage of GDP	% 4.0	% (Approx.) 3.7	% (Approx.) 3.9						

\*1 Figures in parentheses represent contribution to GDP growth.

(Note 1) The figures for Consumer Price Index include all items.

(Note 2) The effects of the consumption tax hike on consumer price index (all items) and GDP deflator are estimated to be approximately 0.5% point and 0.4% point, respectively. The effect of free early childhood education on consumer price index (all items) is estimated to be approximately 0.3% point.

(Note 3) We have assumed the real growth rate of the world GDP (excluding Japan), the yen's exchange rate, and the crude oil import price as below. These assumptions are neither projections nor outlook of the government but are solely for the sake of this preparation work.

	FY2016	FY2017	FY2018
Real growth rate of world GDP (excluding Japan) (%)	3.5	3.6	3.3
Exchange rate (yen/dollar)	110.8	111.8	113.4
Crude oil import price (dollars/barrel)	57.1	73.0	68.6

(Remarks)

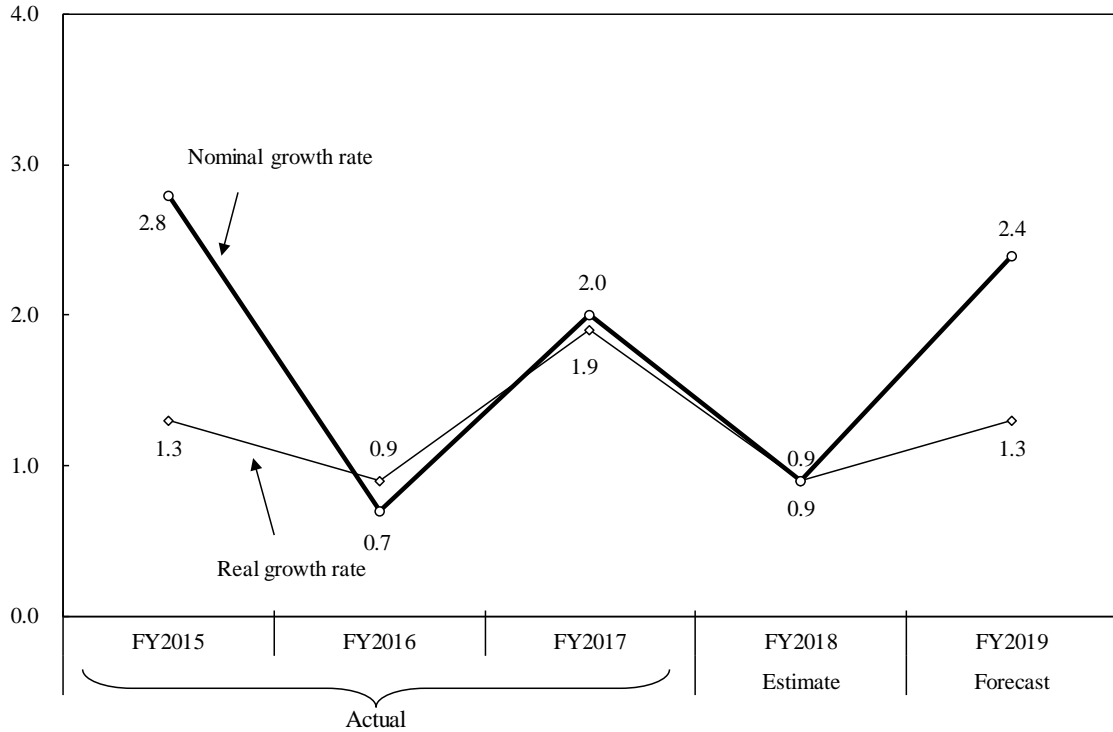
- The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
- The exchange rate is assumed to stay constant at 113.4 yen/dollar (average from November 1 to November 30, 2018) from December, 2018 onward.
- The crude oil import price is assumed to stay constant at 68.6 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2018, plus freight and insurance) from December, 2018 onward.

(Reference)

## Main Economic Indicators

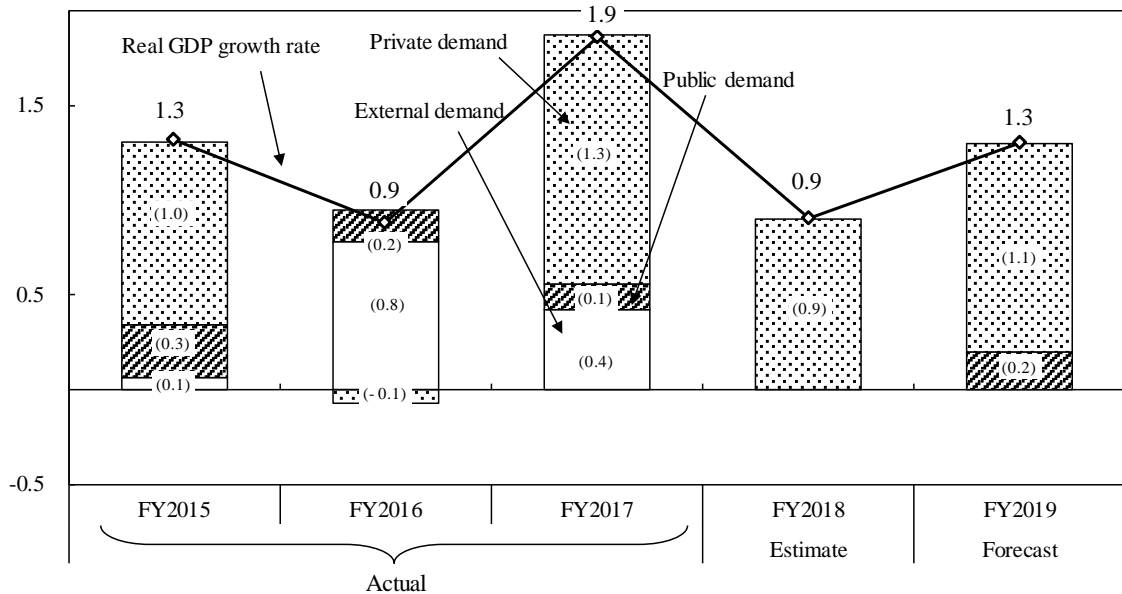
(%, or approximate %)

### 1. Gross domestic product (GDP)



(%, or approximate %)

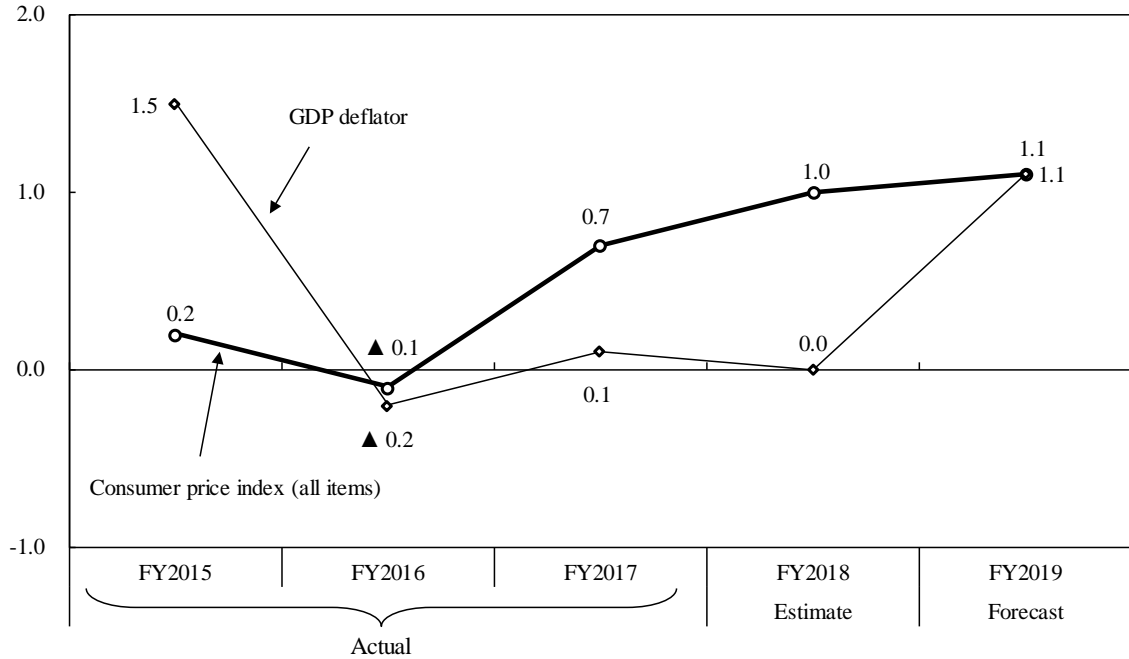
### 2. Real GDP growth rate and contributions to the real GDP growth rate



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



\* The effects of the consumption tax hike on consumer price index (all items) and GDP deflator for FY2019 are estimated to be approximately 0.5% point and 0.4% point, respectively. The effect of free childhood education on consumer price index (all items) is estimated to be approximately 0.3% point.

(%, or approximate %)

### 4. Unemployment rate and the number of employees

(Ten thousands, or approximate Ten thousands)

