

Mid-Year Economic Projection for FY2020

July 30, 2020
Cabinet Office

The Japanese economy is significantly below the growth path that was assumed in the “Fiscal 2020 Economic Outlook and Basic Stance for Economic and Fiscal Management” (Cabinet Decision on January 20, 2020) owing to the impact of the Novel Coronavirus. The economy was in an extremely severe condition from April to May as economic activities were suppressed under the state of emergency to prevent the spread of the infectious disease.

Economic activity has gradually resumed since the state of emergency was lifted in late May, and private consumption is picking up and exports are bottoming out, although the influence of the infectious disease remains. As a whole, although the Japanese economy is still in a severe condition, it is showing movements of picking up.

Concerning future prospects, it is expected that the economy will continue to show movements of picking up supported by the effects of government policies, while socio-economic activities will resume gradually with measures to prevent the spread of the infectious disease. However, full attention should be paid to the impact of the infectious disease on domestic and overseas economies.

This Mid-Year Economic Projection, which is based on the premise of “With Corona”, shows the Japanese economy moving towards a high-quality economy and society with a “new daily life”, through social change and changes in the public’s consciousness and behavior with the help of total mobilization of policies while preventing the spread of the infectious disease and maintaining socio-economic activities.

Specifically, as new goods and services that respond to the “new daily life” take root while preventing the spread of infection, there are appropriate consumption activities supported by the effects of various policies, and private consumption is expected to continue picking up after hitting bottom in April and May. And private non-residential investment is expected to recover toward next year with an increase in R&D investment and digital investment amid the progress in digital transformation and the shift to a non-face-to-face business model. Under these circumstances, the level of the Japanese economy (GDP) will return to the level before the spread of the infectious disease.

In order to achieve such a return, the government will promote various measures to realize the “new daily life” as stated in the "Basic Policy for Economic and Fiscal Management and Reform 2020 - Overcoming the Crisis and Toward a New Future -" (Cabinet Decision on July 17, 2020). The government will also continue to swiftly

implement the "Emergency Economic Measures to Cope with the Novel Coronavirus" (Cabinet Decision on April 20th) including the FY 2020 Supplementary Budget and the FY 2020 Second Supplementary Budget.

Under these circumstances, GDP for FY 2020 is projected to contract by approximately 4.5% in real terms and 4.1% in nominal terms, while that for FY 2021¹ is projected to grow by approximately 3.4% in real terms and 3.5% in nominal terms.

Note that based on the scenarios of international organizations (OECD and World Bank) that a large second wave of the infectious disease will occur overseas in the fall of 2020, real GDP is estimated to contract by approximately 5.0% for FY 2020 and 3.0% for FY2021.

¹ The estimated values for FY2021 are preliminary calculations made as a reference for considering the macro economy in FY2021.

Main Economic Indicators

(% or approximate %)

	FY2019 (Actual)	FY2020 (January projection)	FY2020 (New projection)
Real GDP	0.0	1.4	▲4.5
Private consumption expenditure	▲0.6	1.0	▲4.5
Private residential investment	0.5	▲1.9	▲9.0
Private non-residential investment	▲0.2	2.7	▲4.9
Government expenditure	2.6	1.8	2.4
Government final consumption expenditure	2.4	1.3	2.6
Public fixed capital formation	3.3	3.9	1.9
Exports of goods and services	▲2.7	2.4	▲17.6
Less: Imports of goods and services	▲1.7	3.1	▲7.9
Contribution of domestic demand	0.2	1.5	▲2.9
Contribution of private demand	▲0.4	1.0	▲3.5
Contribution of public demand	0.6	0.5	0.6
Contribution of external demand	▲0.2	▲0.1	▲1.7
Real GNI	0.1	1.3	▲4.0
Nominal GDP	0.8	2.1	▲4.1
Unemployment rate	2.3	2.3	3.2
Number of employees	1.1	0.6	▲1.3
Industrial production	▲3.8	2.1	▲11.2
Domestic corporate goods price index	0.1	1.0	▲2.0
Consumer price index (all items)	0.5	0.8	▲0.3
GDP deflator	0.8	0.8	0.4

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

(Note 2) The figures for “January Projection” in FY2020 are those shown in “FY2020 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January 20, 2020)”.

(Note 3) The effects of the consumption tax hike in October 2019 on the consumer price index (all items) and GDP deflator for FY2020 are estimated to be approximately 0.5% points and 0.4% points, respectively. The effects of free early childhood education and free tertiary education on the consumer price index (all items) for FY2020 are estimated to be approximately ▲0.3% points and ▲0.1% points, respectively.

(Note 4) The Japanese economy mainly consists of private activity and is influenced by unforeseeable market fluctuations and other changes, especially those in the trend of domestic and overseas infections and the international environment. Accordingly, the main economic indicators above should be recognized as being subject to upside and downside risks.

(Note 5) Based on the scenarios of international organizations (OECD and World Bank) that a large second wave of infectious disease will occur overseas in the fall of 2020, the real GDP growth rate for FY2020 is estimated to be approximately ▲5.0%.

Reference for FY2021

Based on certain assumptions, the preliminary estimate for FY 2020 envisages a real GDP growth rate of approximately 3.4% and a nominal GDP growth rate of approximately 3.5%.

(Approximate %)

	FY2021
Real GDP	3.4
Private consumption expenditure	4.1
Private residential investment	3.5
Private non-residential investment	3.9
Contribution of domestic demand	2.7
Contribution of external demand	0.7
Real GNI	3.2
Nominal GDP	3.5
Unemployment rate	2.7
Number of Employees	0.7
Domestic corporate goods price index	0.7
Consumer price index (all items)	0.5
GDP deflator	0.2

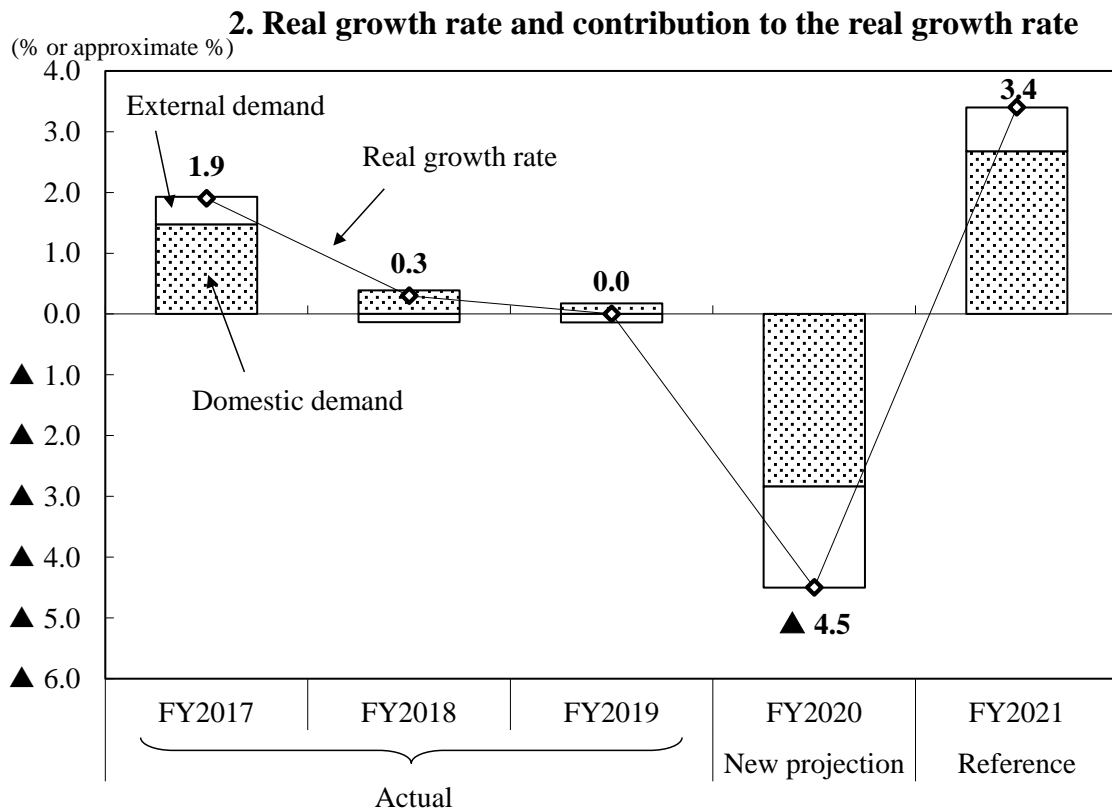
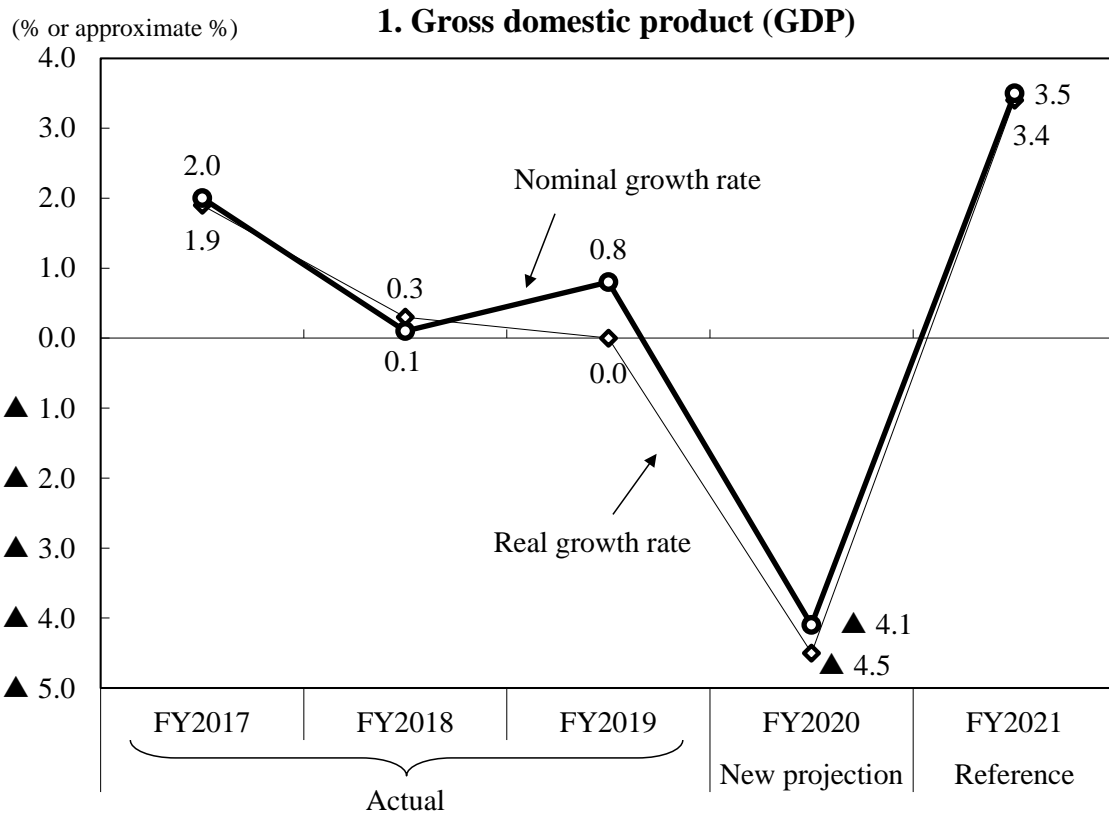
(Note 1) The figures represent the year-over-year rate of change except for the unemployment rate and the contributions of domestic and external demand.

(Note 2) References for FY2021 indicate preliminary estimates intended for discussions on the macro economy in FY2021 and should be recognized as being subject to considerable upside and downside risks with various uncertainties including the trend of domestic and overseas infections.

(Note 3) Based on the scenarios of international organizations (OECD and World Bank) that a large second wave of infectious disease will occur overseas in the fall of FY2020, the real GDP growth rate for 2021 is estimated to be approximately 3.0%.

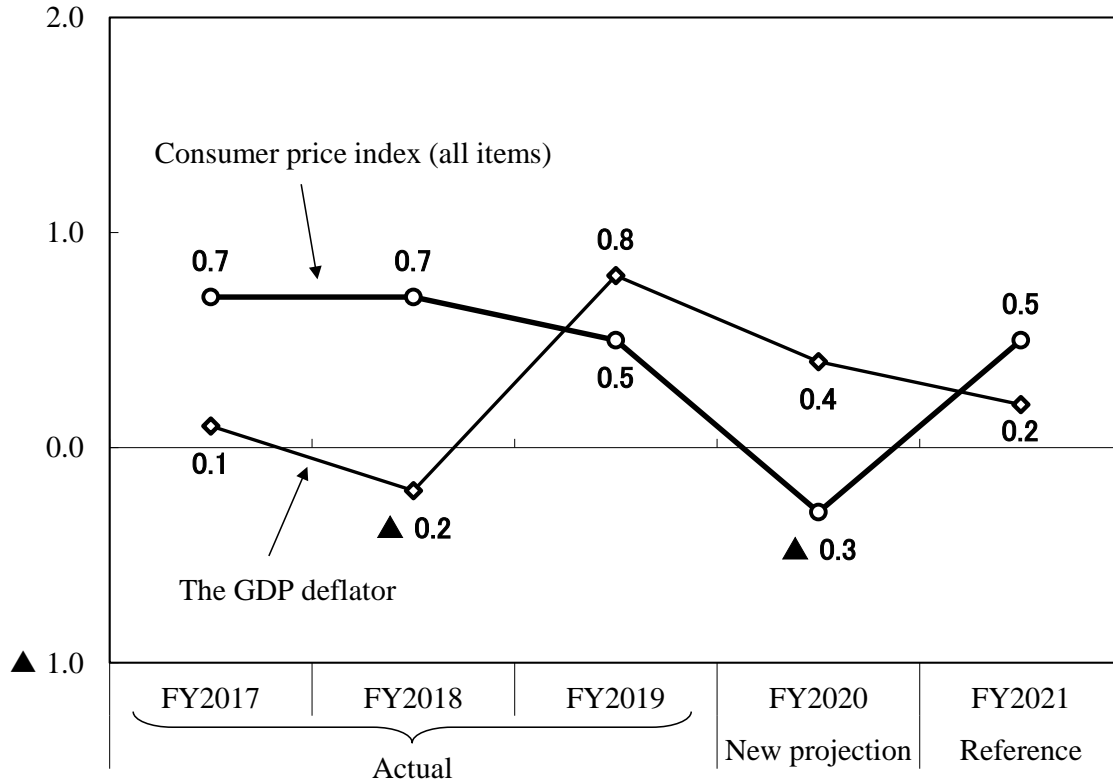
(Note 4) The government economic outlook for FY2021 will be announced in the “FY2021 Economic Outlook and Basic Stance for Economic and Fiscal Management”, which will be formulated and approved by the cabinet at the end of 2020, based on policy responses for the next fiscal year as well as future economic conditions.

Main Economic Indicators



3. Percentage change in price index

(% or approximate %)

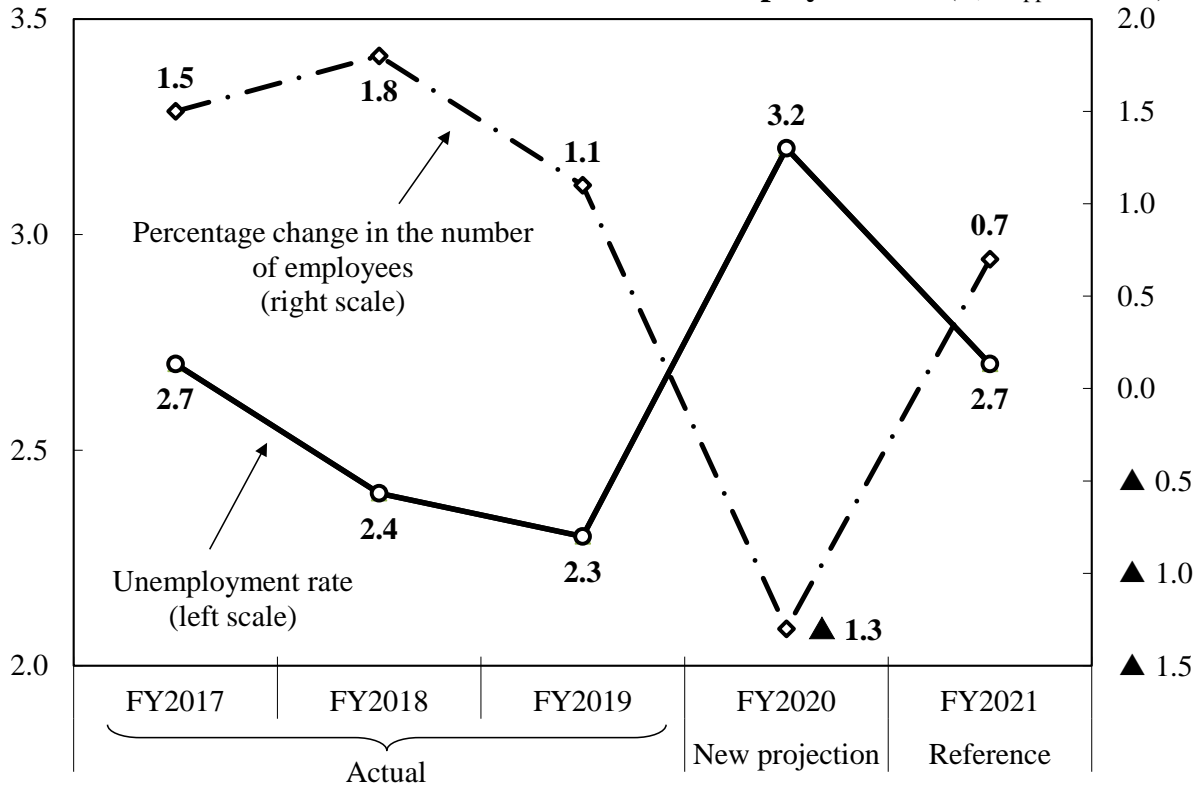


※ The effects of the consumption tax hike in October 2019 on the consumer price index (all items) and GDP deflator for FY2020 are estimated to be approximately 0.5% points and 0.4% points, respectively. The effects of free early childhood education and free tertiary education on the consumer price index (all items) for FY2020 are estimated to be approximately ▲0.3% points and ▲0.1% points, respectively.

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

(% or approximate %)

(%, or approximate %)



Notes on the Mid-Year Economic Projection for FY2020

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

	FY 2020		FY 2021 (Reference)
	(January projection)	(Mid-year projection)	
Real growth rate of world GDP (excluding Japan) (%)	2.9	▲4.9	6.4
Exchange rate (yen/dollar)	108.9	107.6	107.6
Crude oil import price (dollar/barrel)	65.6	43.1	45.8

Remarks

- (1) The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations. Based on the scenario of international institutions (OECD and World Bank) that a large second wave of infectious disease will occur overseas in the fall of 2020, the real growth rate of world GDP (excluding Japan) for FY2020 and FY2021 are assumed to be ▲6.9% and 5.9%, respectively.
- (2) The exchange rate is assumed to stay constant at 107.6 yen/dollar (monthly average from June 1 to June 30, 2020) from July 2020 onward.
- (3) The crude oil import price is assumed to stay constant at 45.8 dollars/barrel (the monthly average spot price of Dubai crude from June 1 to June 30, 2020, plus freight and insurance) from July 2020 onward.