Provisional translation

Mid-Year Economic Projection for FY2021

July 6, 2021
Cabinet Office

The Japanese economy shows further weakness in some components such as service consumption, although it remains in picking up mainly in the exports sector, and industrial production in a severe situation due to the Novel Coronavirus.

Concerning short-term prospects, the economy is expected to show movements of picking up, supported by the effects of policies and improvement in overseas economies, while socio-economic activities will be resumed with measures to prevent the spread of infectious disease and accelerate vaccinations. However, full attention should be given to the movement of infections that would affect the domestic and foreign economy. Also, attention should be given to the effects of fluctuations in the financial and capital markets.

The Government will continue to implement the FY2020 third supplementary budget and the FY2021 budget swiftly and properly. Moreover, the Government will implement necessary measures in a flexible manner through utilizing reserve funds and conduct flexible macroeconomic policy management of self-sustaining economic growth without hesitation.

Under these circumstances, GDP for FY 2021 is projected to grow approximately 3.7% in real terms and 3.1% in nominal terms. In the first half of the fiscal year, the economy is expected to recover at a moderate pace partly because economic activities having been restricted to prevent the spread of COVID-19. In the latter half of the year, it will accelerate as service consumption starts to recover along with promoting vaccinations, and as exports and private investment steadily increase with the support of government expenditure. As a result, the level of the economy is expected to return to the pre-pandemic level by the end of 2021.[1]

GDP for FY2022[2] is projected to grow approximately 2.2% in real terms and 2.5% in nominal terms, and the economy will reach its highest ever level.

[1] In "Fiscal 2021 Economic Outlook and Basic Stance for Economic and Fiscal Management" (Cabinet Decision, January 18, 2021), the government envisaged that the level of the economy is expected to return to the pre-pandemic level by the end of FY2021.
[2] The estimated values for FY2022 are preliminary calculations made as a reference for considering the macro economy in FY2022.

Main Economic Indicators

(% or approximate %)

	FY2020		FY2021	
	January Projection	Actual	January Projection	New Projection
Real GDP	▲ 5.2	▲ 4.6	4.0	3.7
Private consumption expenditure	▲ 6.0	▲ 6.0	3.9	2.8
Private residential investment	▲ 6.7	▲ 7.1	1.8	0.8
Private non-residential investment	▲ 8.1	▲ 6.9	2.9	3.8
Government expenditure	3.7	3.4	3.3	1.5
Government final consumption expenditure	3.2	3.2	3.3	1.4
Public fixed capital formation	5.4	4.3	3.3	2.1
Exports of goods and services	▲ 13.7	▲ 10.5	11.4	14.9
Less: Imports of goods and services	▲ 6.4	▲ 6.9	6.7	6.9
Contribution of domestic demand	▲ 4.0	▲ 4.0	3.3	2.5
Contribution of private demand	▲ 4.9	▲ 4.8	2.4	2.1
Contribution of public demand	0.9	0.9	0.9	0.4
Contribution of external demand	▲ 1.2	▲ 0.6	0.7	1.2
Real GNI	▲ 4.1	▲ 3.6	3.6	2.9
Nominal GDP	▲ 4.2	▲ 3.9	4.4	3.1
Unemployment rate	3.1	2.9	2.7	2.7
Number of employees	▲ 1.2	▲ 1.0	0.7	0.3
Industrial production	▲ 11.0	▲ 9.5	9.4	13.4
Domestic corporate goods price index	▲ 1.8	▲ 1.4	0.7	3.6
Consumer price index (all items)	▲ 0.6	▲ 0.2	0.4	0.1
GDP deflator	1.0	0.6	0.3	▲0.6

(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" are those shown in "FY2021 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet Decision, January 18, 2021)".
(Note 3) The effect of lowering mobile phone charges on the consumer price index is estimated to be approximately ▲0.5 % pt in 2021.
(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.

(Annex 1)

Reference for FY2022

Based on certain assumptions, the preliminary estimate for FY 2022 envisages a real GDP growth rate of approximately 2.2% and a nominal GDP growth rate of approximately 2.5%.

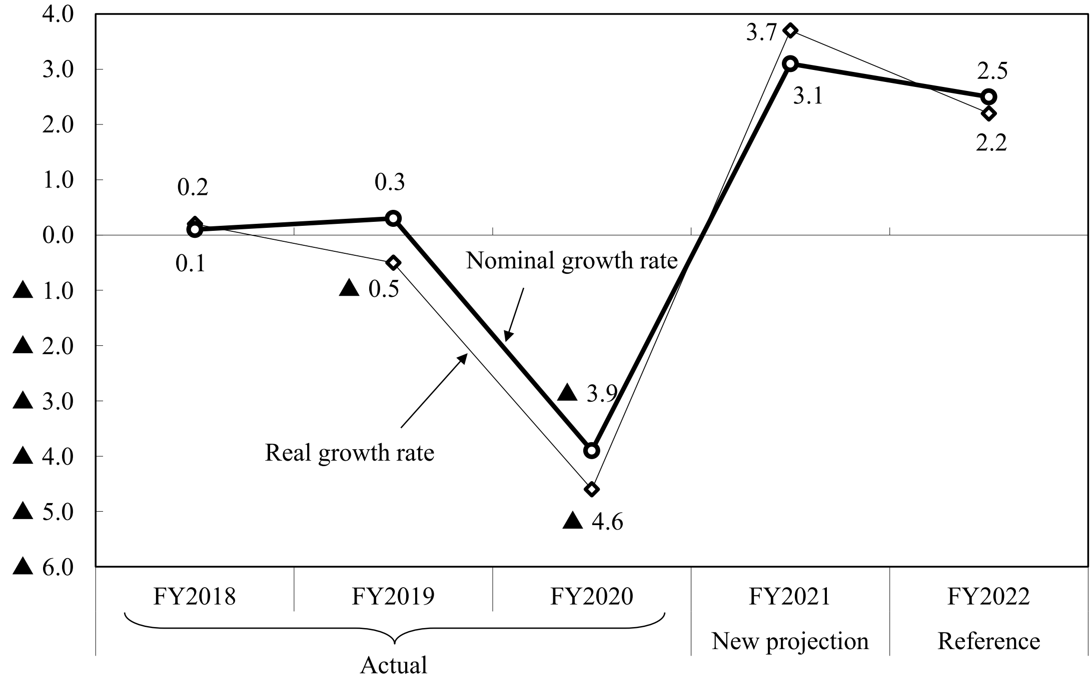
(Approximate %)

	FY 2022
Real GDP	2.2
Private consumption expenditure	4.0
Private residential investment	1.2
Private non-residential investment	4.2
Contribution of domestic demand	1.8
Contribution of external demand	0.4
Real GNI	2.2
Nominal GDP	2.5
Unemployment rate	2.4
Number of Employees	0.3
Domestic corporate goods price index	0.6
Consumer price index (all items)	0.7
GDP deflator	0.3

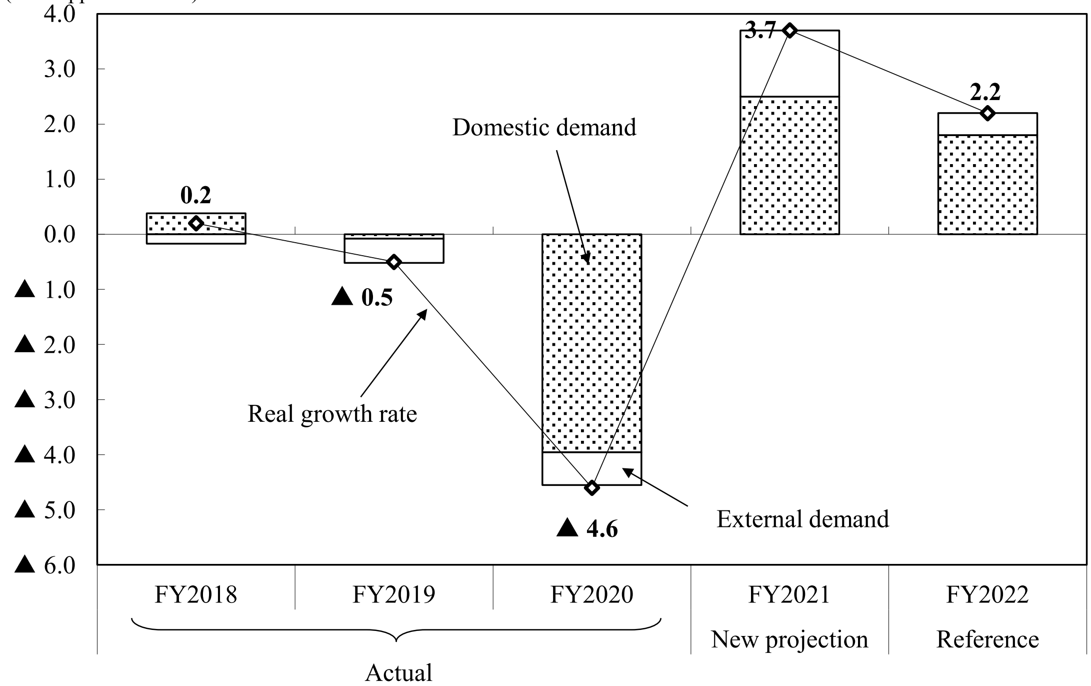
(Note 1) The figures represent the year-over-year rate of change except for the unemployment rate and the contributions of domestic and external demand.
(Note 2) References for FY2022 indicate preliminary estimates intended for discussions on the macro economy in FY2022 and should be recognized as being subject to considerable upside and downside risks with various uncertainties, including the trend of domestic and overseas infections.
(Note 3) In the above preliminary estimate, public fixed capital formation in FY2022 is assumed to be the average amount in recent five years (FY2016 to 2020) in nominal level.
(Note 4) The government economic outlook for FY2022 will be announced in the “FY2022 Economic Outlook and Basic Stance for Economic and Fiscal Management”, which will be formulated and approved by the Cabinet at the end of 2021, based on policy responses for the next fiscal year as well as future economic conditions.

Main Economic Indicators

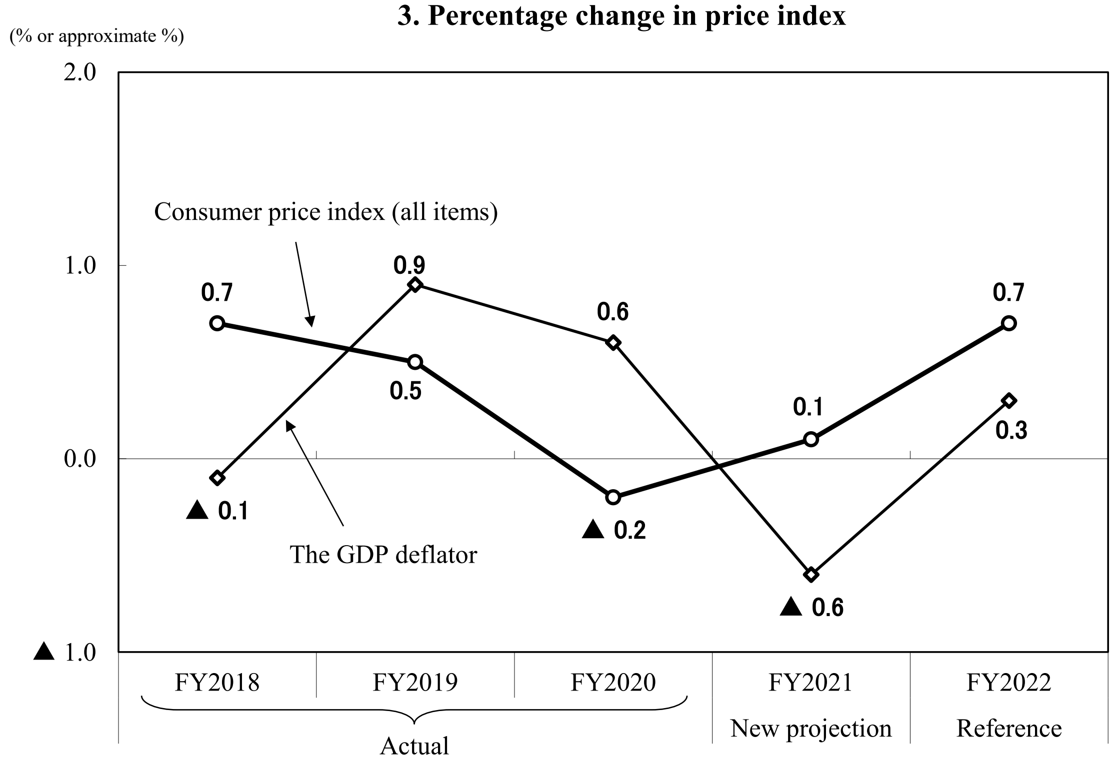
1. Gross domestic product (GDP)



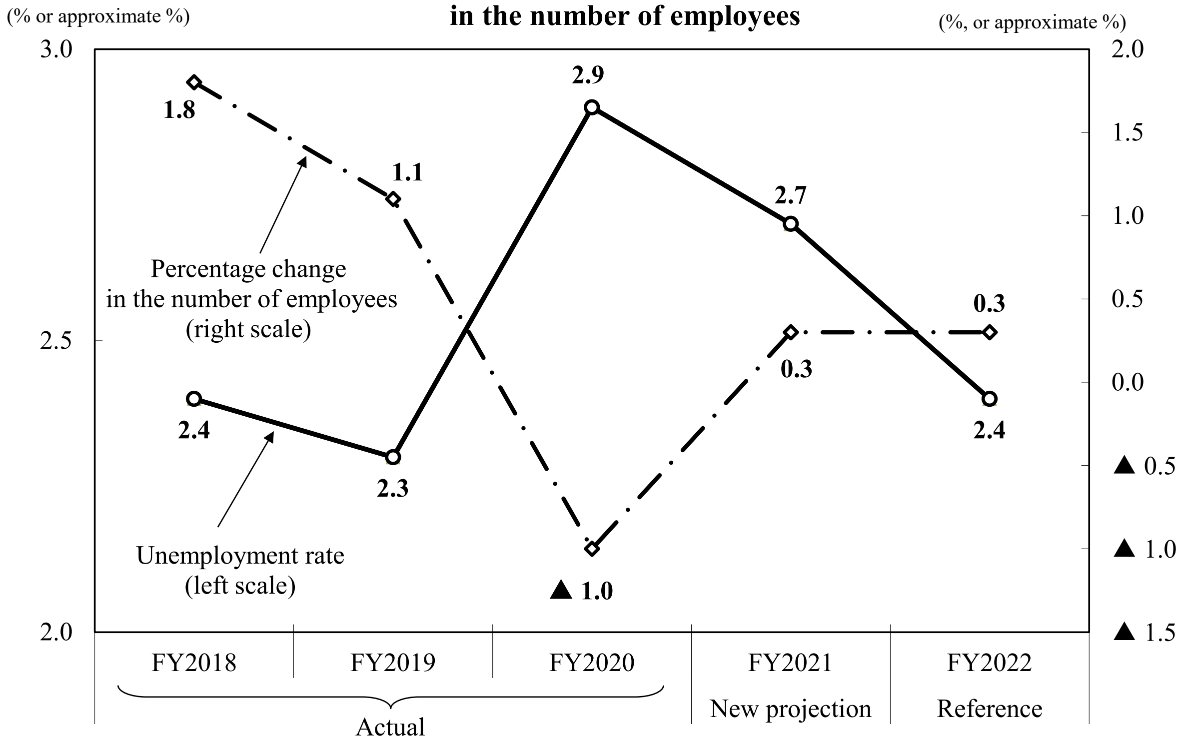
2. Real growth rate and contribution to the real growth rate



3. Percentage change in price index



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



Notes on the Mid-Year Economic Projection for FY2021

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

	FY 2021		FY 2022 (Reference)
	(January projection)	(Mid-year projection)	
Real growth rate of world GDP (excluding Japan) (%)	5.9	7.4	3.7
Exchange rate (yen/dollar)	104.4	109.2	109.2
Crude oil import price (dollar/barrel)	44.8	66.3	66.8

Remarks

(1) The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations.

(2) The exchange rate is assumed to stay constant at 109.2 yen/dollar (monthly average from May 5th to June 4th, 2021) from June 5th, 2021 onward.

(3) The crude oil import price is assumed to stay constant at 66.3 dollars/barrel (the monthly average spot price of Dubai crude from May 5th to June 4th 2021 plus freight and insurance) from June 2021 5th onward.