

Monthly Report of Prospects for Japan's Economy

October 2014

Macro Economic Research Centre
Economics Department



The Japan Research Institute, Limited

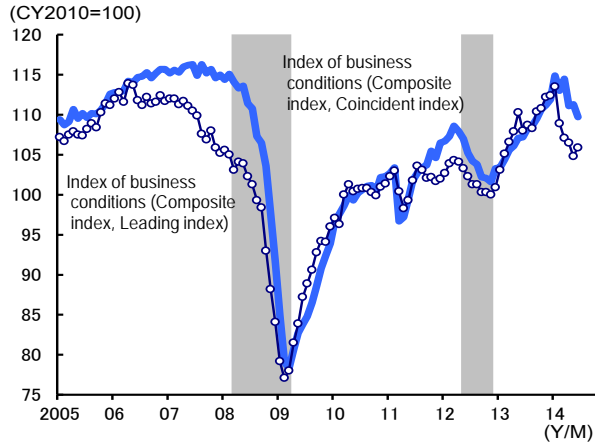
<http://www.jri.co.jp/english/periodical/>

This report is the revised English version of the September 2014 issue of the original Japanese version.

The general situation of Japan's economy – Economic activity has shown signs of bottoming out

Figure 1-1 Economic Activity

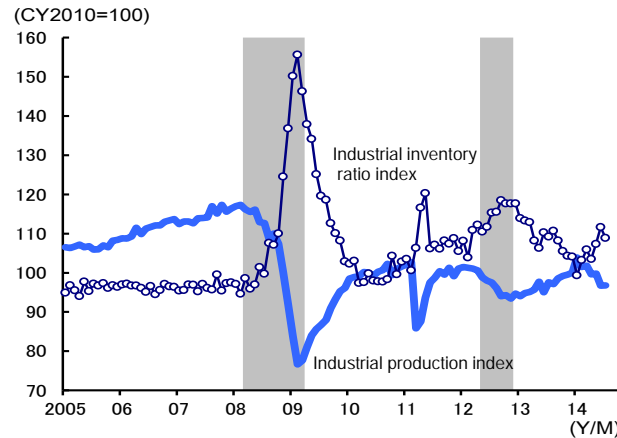
The leading index of business conditions rose for the first time in 5 months, due to the picking up in consumer sentiment, etc.



Source: The Cabinet Office.

Figure 1-2 The Corporate Sector

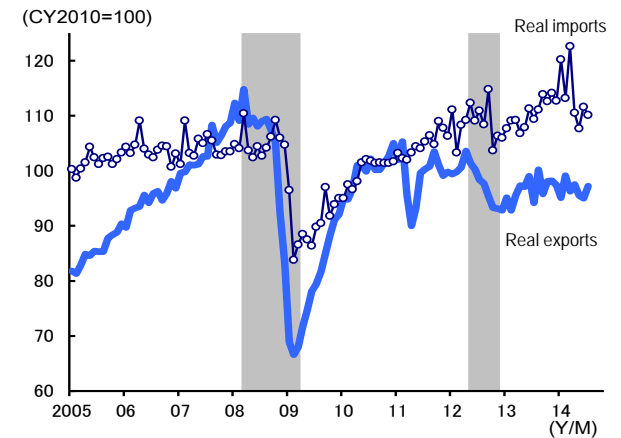
Production was showing signs of bottoming out. The inventory ratio decreased due to the increase in shipments.



Source: The Ministry of Economy, Trade and Industry.

Figure 1-3 Overseas Demand

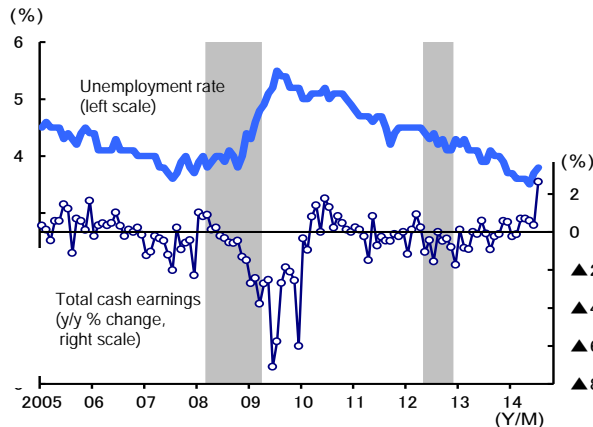
Exports continued to seesaw, while imports fell again.



Source: The Bank of Japan.

Figure 1-4 Employment and Income

The unemployment rate rose due to the continued participation of women into the labour force. Scheduled (regular) cash earnings increased at the highest rate year-on-year since November 2004.

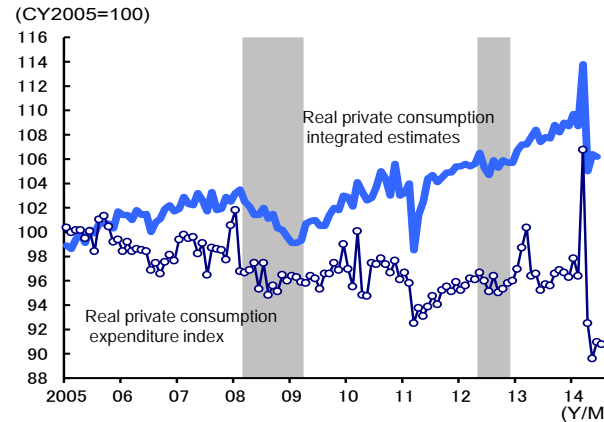


Source: The Ministry of Internal Affairs and Communications, The Ministry of Health, Labour and Welfare.

* The shaded area indicates the phase of recession.

Figure 1-5 Private Consumption Expenditure

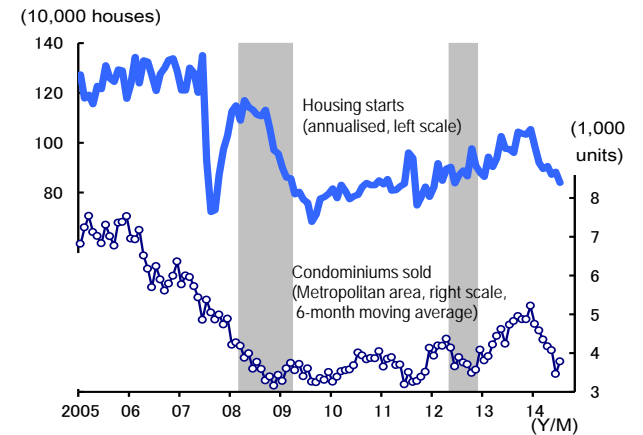
Private consumption expenditure continued to be sluggish because of bad weather this summer, in addition to the reactionary fall after the consumption tax rise in April.



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications.

Figure 1-6 Housing Investment

Housing starts continued their falling trend. Condominium sales were showing signs of bottoming out.



Source: The Ministry of Land, Infrastructure and Transport, Real Estate Economic Institute Co., Ltd.

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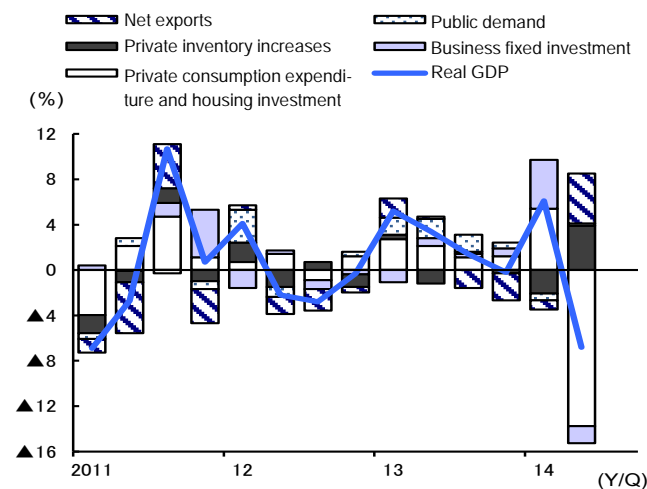
Economic activity declined due to the tax rise, yet has shown signs of picking up

Japan's economic activity declined temporarily after this April when the consumption tax rate was raised from 5 to 8 per cent. Based on national accounts, real GDP in the April-June period decreased by 7.1 per cent on an annualised quarter-on-quarter change basis, the largest negative figure after Q1 2011 (minus 6.9) when the Great East Japan Earthquake and tsunami occurred. Viewed by demand item, private consumption expenditure and housing investment fell considerably, due to the reactionary fall after the last-minute surge in demand caused by the consumption tax rate rise. Also, business fixed investment, which had increased visibly in the previous quarter, decreased for the first time in 4 quarters.

On the other hand, signs of picking up have been seen. For example, in the household sector, the negative change rate year-on-year in sales of goods such as household appliances and clothing has narrowed. In the corporate sector, production forecasts estimate that the pace of increase in production will have accelerated in August and September. The rapid pace of decrease in machinery orders seems to have stopped and to have shown signs of bottoming out. Thus, the negative effect of the reactionary fall will have been easing on the whole. Nevertheless, the tempo of economic recovery will likely be moderate, because reduced real income and cautious attitudes of enterprises could weigh down economic activity.

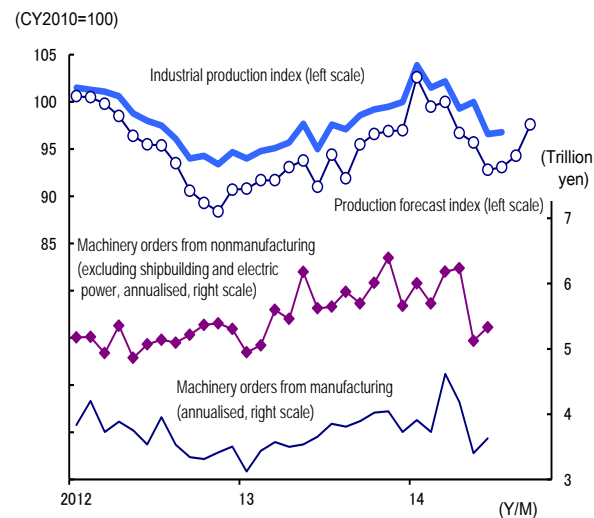
Meanwhile, real exports continue to be roughly flat. Exports to China are still on a declining trend, while those to other Asian countries have increased mainly led by exports of transport equipment. Exports to the US and EU continue to seesaw.

Figure 2-1 Contributions of Demand Items to Real GDP Change Rate
<the first preliminary estimates, seasonally adjusted, annualised q/q change rate>



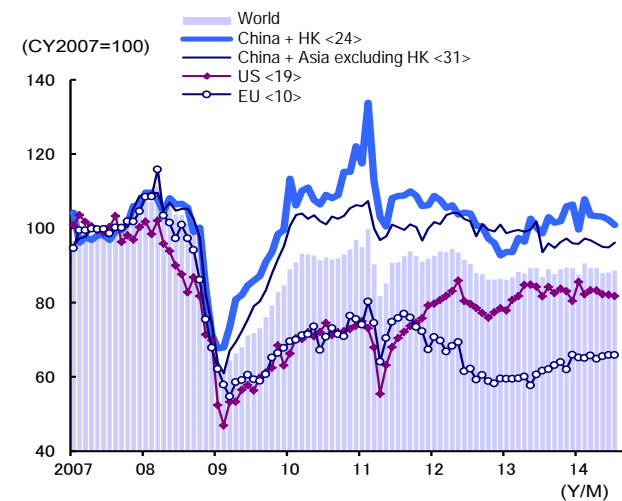
Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office.

Figure 2-2 Industrial Production Index and Machinery Orders Received
<seasonally adjusted>



Source: The Ministry of Economy, Trade and Industry, The Cabinet Office.

Figure 2-3 Real Exports
<seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan.

Note: Figures in the angle brackets show the shares in FY2013.

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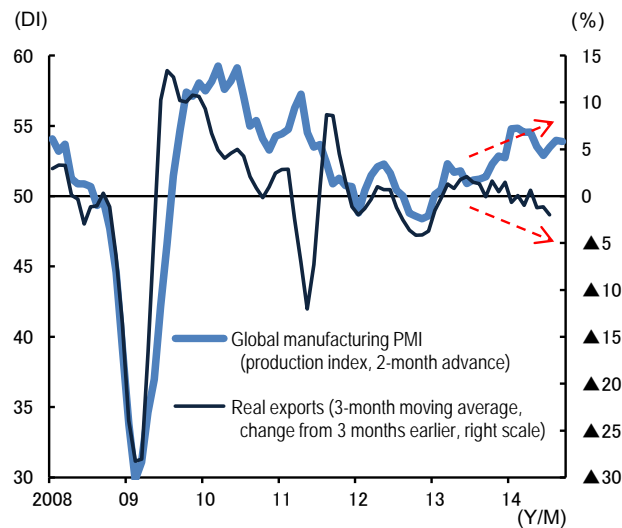
Exports will likely pick up moderately, after a certain period of delay in their recovery

Concerning overseas demand, stagnation in exports has been prolonged, in spite of favourable trends such as the weaker yen and a picking up in the world economy. Japan's real exports once correlated with global manufacturing production. However, the two have started to separate since early 2013, and their difference has become even larger thereafter.

This trend of divergence seems to be due to several factors. First, emerging economies in Asia continue to stagnate. Importantly, these countries have larger shares in Japan's total value of exports, compared with their share in the world economy. Second, a shift of production facilities of Japanese manufacturers from domestic to overseas sites has had negative effects on real exports. Third, an increase in the local buying-in ratio in these overseas production facilities has curbed their imports of producer goods such as parts and devices from Japan (= Japan's exports of these goods). As a result, real exports have continued to seesaw since early 2013. For example, exports of transport equipment including cars to the US have been very slow to increase, in spite of the fact that car sales in the US have done well as a whole.

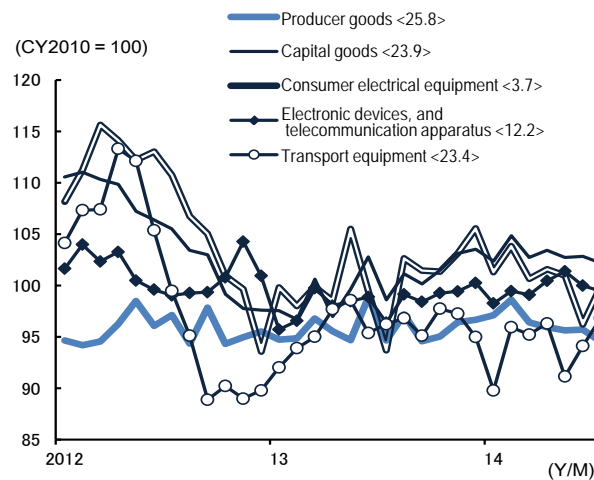
Looking ahead, it is predicted that real exports will pick up moderately, because Asian emerging economies are expected to pick up gradually, and the mild yen depreciating trend against the US dollar will likely continue. However, the pace of recovery in exports will likely be moderate, taking into account the structural changes such as the shift of production facilities to overseas sites, the rise in the local buying-in ratio in those facilities, and lowering competitiveness in a certain number of Japanese industries.

Figure 3-1 Global Production Index and Japan's Real Exports



Source: Markit / J.P. Morgan, The Bank of Japan.

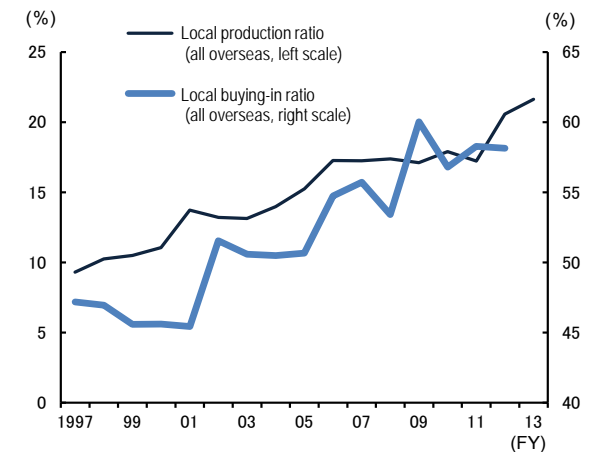
Figure 3-2 Real Exports by Goods



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan.

Note: Figures in the angle brackets show the shares in total nominal exports in FY2013.

Figure 3-3 Local Production Ratio and Local Buying-in Ratio in Japanese Manufacturers



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Economy, Trade and Industry.

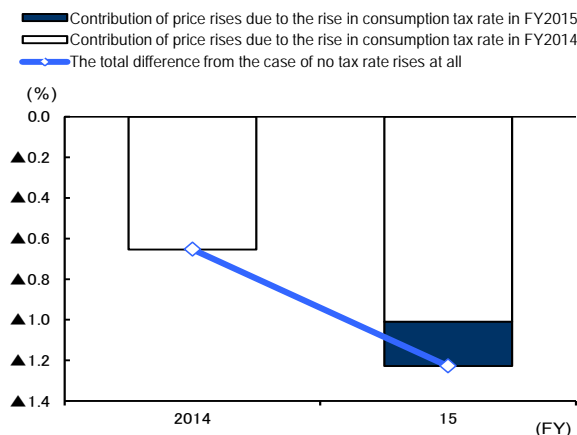
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Economic measures against the consumption tax rise could bolster economic activity

In domestic demand, the rise in the consumption tax rate and economic measures against the tax rise continue to be fluctuating factors to economic activity. Although the reactionary fall in demand after the consumption tax rise from 5 to 8 per cent in April has been diminishing gradually, the reduced purchasing power continues to have a negative effect on the economy, through a decrease in real income due to the price rises stemming from the tax rise. Assuming that the consumption tax rate will be raised again from 8 to 10 per cent in October 2015 as planned, it is estimated that these rises will reduce the annual real GDP growth rate in FY2014 and FY2015 by 0.7 and 1.2 percentage points, respectively.

On the other hand, the measures in order to ease the negative effects of the consumption tax rise will have been implemented in earnest and bolster economic activity. These measures are expected to increase public investment, and expand business fixed investment, private consumption expenditure, and so on, through tax cuts for enterprises and support for households. It is projected that their effect will increase the annual real GDP growth rate in FY2014 by 0.8 percentage points. Especially, public investment, which is a main part of the measures, is predicted to increase, as the pace of rise in the value of contracts for public works, its leading indicator, has tended to accelerate. The recent budget situation shows that the amount which was carried forward to next fiscal year among public works has been increasing progressively. If those public works, which have been left behind thus far, are also implemented, it could be a delayed boosting factor for the economy.

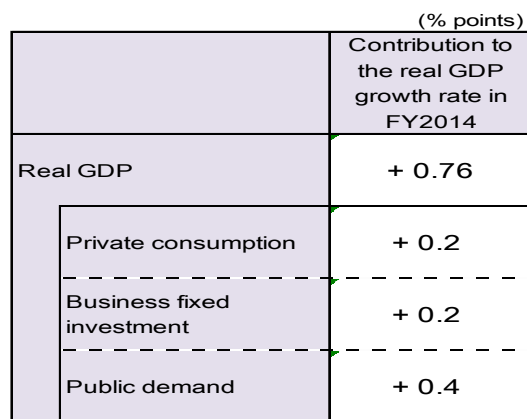
Figure 4-1 Contributions of the Effect of Consumption Tax Rises in April 2014 and October 2015 to Real GDP Growth Rate



Source: Macro model simulation by JRI, based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications, and so on.

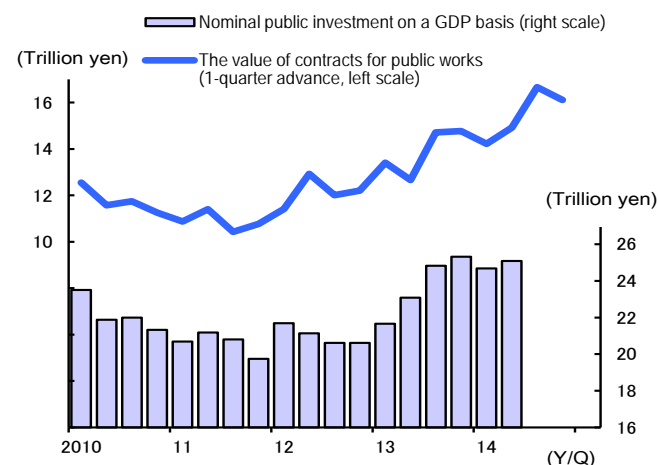
Note: Based on the assumption that the consumption tax rate would be raised in October 2015 from 8% to 10%.

Figure 4-2 The Effect of the Measures against the Consumption Tax Rise on Real GDP <FY2014, estimate>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Cabinet Office, and so on.

Figure 4-3 The Value of Contracts for Public Works and Public Investment <annualised, seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Land, Infrastructure and Transport, Construction Surety Co., Ltd (East Japan, West Japan, Hokkaido).

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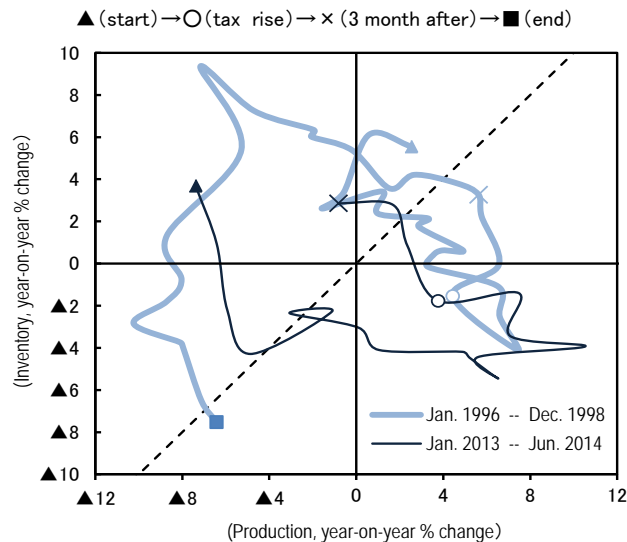
Business activity will likely return to moderate recovery trend after temporary pause

With regard to the corporate sector, Japanese manufacturers reduced production, affected by the consumption tax rise this time, more than they had reduced in the previous tax rise in 1997. Namely, the negative effect of this tax rise on corporate activity such as production was larger than previously anticipated. The fall in production seems to be caused by an increase in inventory reflecting stagnation of demand at home and abroad. On the other hand, as for the speed of production adjustment, a chart of inventory cycles shows that the adjustment speed this time has been faster than that in the previous time. Therefore, a further piling up of industrial inventory will likely be able to be avoided. This favourable trend is reflected also in the production forecast index, which is predicting that industrial production will pick up hereafter.

Meanwhile, based on Financial Statements Statistics of Corporations by Industry (Quarterly), business fixed investment decreased by 1.8 per cent in the April-June period from the previous quarter on an all industries basis, the first decline in 3 quarters, reflecting a cautious attitude of enterprises. Especially, investment in plant and equipment in manufacturing decreased by 7.1 per cent, a considerable decline.

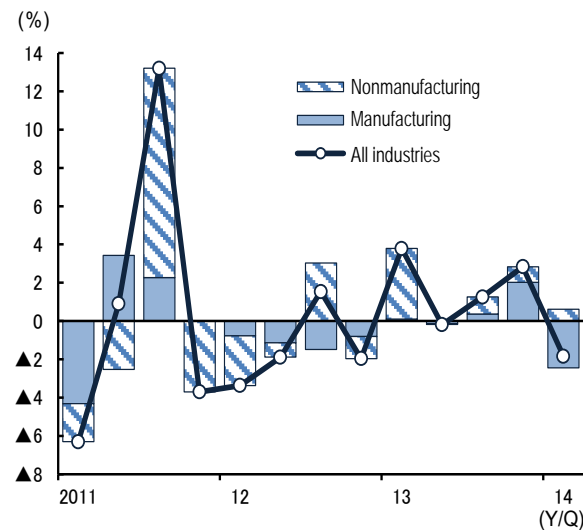
However, it is likely that business fixed investment will return to the moderate recovery trend, as the negative effects caused by the consumption tax rise ease gradually, taking the following points into account. First, environments surrounding capital investment have improved in terms of corporate profits and financing, as shown in a further increase in cash flow and a falling real interest rate. Second, profitability in Japanese enterprises has strengthened through restructuring, resulting in, for example, the advancing trend in the ratio of current profits to sales.

Figure 5-1 Inventory Cycles before and after the Consumption Tax Rise
<April 1997 and April 2014>



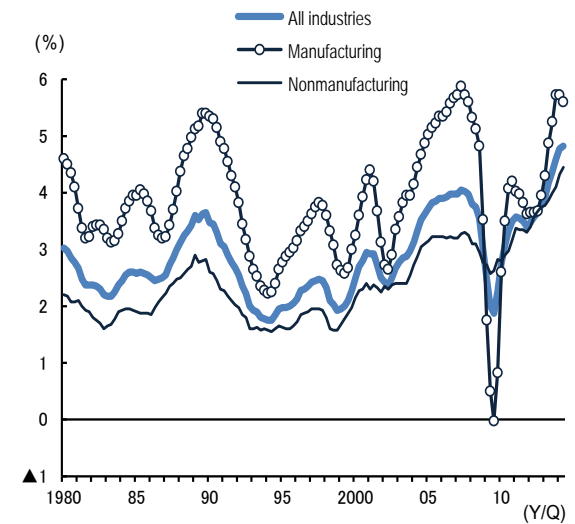
Source: The Ministry of Economy, Trade and Industry.

Figure 5-2 Business Fixed Investment
<seasonally adjusted, q/q change rate>



Source: The Ministry of Finance.
Note: Excluding financial institutions.

Figure 5-3 Ratio of Current Profits to Sales in Nonfinancial Enterprises



Source: The Ministry of Finance.

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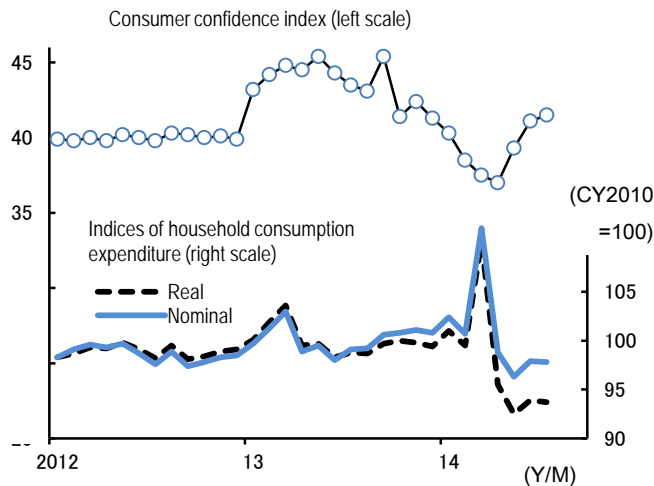
The advance in corporate profits will likely improve household income environments

Real private consumption expenditure decreased by 19.0 per cent in the April-June period on an annualised quarter-on-quarter change basis, a considerable decline, due to the reactionary fall after the rise in the consumption tax rate in April. Also, its pace of recovery since July has been slow, because of additional factors such as bad weather this summer. Although the level of private consumption expenditure in nominal terms is almost at the same level as before the rushed demand, that in real terms remains short of enough recovery.

Nevertheless, consumer sentiment continues to improve, reflecting that the advance in corporate profits in the corporate sector has started to spread to the household sector. Employment environments have been favourable, as shown in the fact that the number of full-time employees has increased since the second half of 2013. Wage environments also have improved, as both the wages of full-time employees and the hourly wages of part-time employees have tended to rise since early 2013. Also, a rise in base pay ("base-up" in Japanese) really spread, mainly among large enterprises, in wage negotiations this spring. As a result, the rate of wage rises accelerated this year compared to last year.

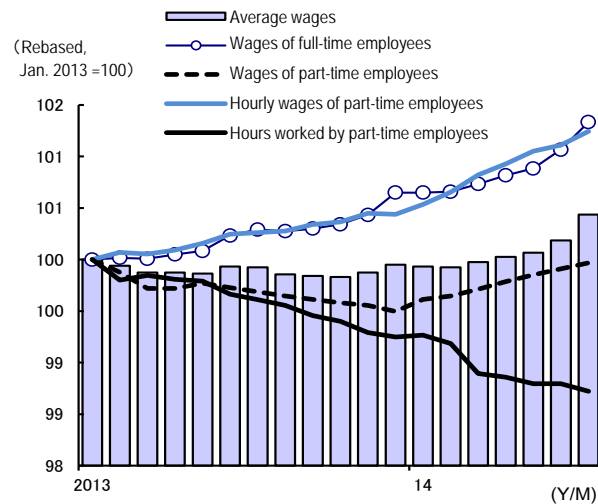
Looking ahead, the increasing trend in employment will likely to be maintained, as a sense of a shortage of workers intensifies. In addition, the advance in corporate profits will likely bring about a rise in special cash earnings such as bonuses. Accordingly, it is predicted that compensation for employees on an aggregate basis will continue to be solid. To sum up, it is likely that private consumption expenditure will continue its recovery trend, although the pace of recovery will be mild due to stagnant real income caused by price rises.

Figure 6-1 Consumer Sentiment and Household Consumption Expenditure <seasonally adjusted>



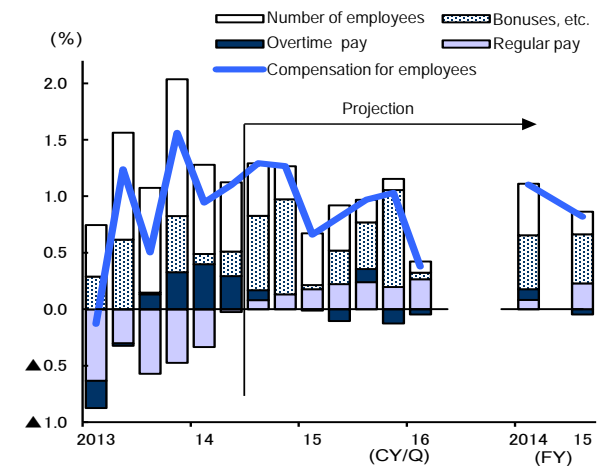
Source: The Cabinet Office, The Ministry of Internal

Figure 6-2 Wages by Type of Employment <12-month moving averages>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Health, Labour and Welfare.

Figure 6-3 Contributions to Year-on-year Change in Compensation for Employees



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, and so on.

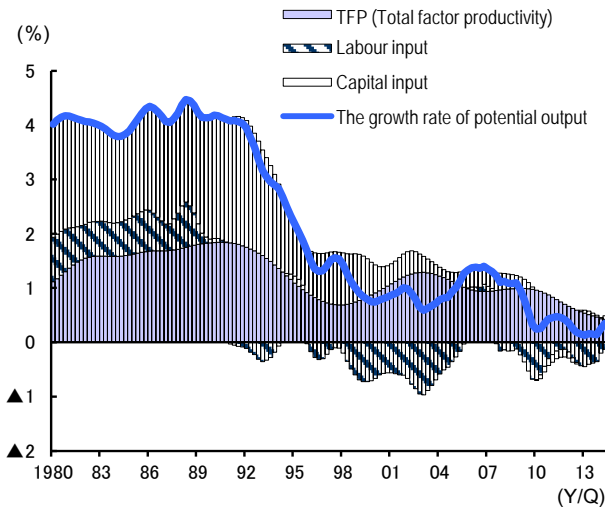
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The decline in potential output growth rate suggests Japan's "power of growth" is decreasing

Japan's economy is at present in a situation where the autonomous economic recovery mechanism has started to work as mentioned on earlier pages. At the same time, the economy is in a situation where Japan's "power of growth" as real ability to grow has fallen, as suggested by the current estimate that the growth rate of potential output of the economy declined to a level of from slightly above zero to 0.5 per cent, having declined from around 1.0 per cent before the Lehman shock. Looking at the background behind the decline, falling capital productivity can be pointed out. After the Lehman shock through 2012, the value of domestic business fixed investment had sunk to a level below the value of depreciation expenses, against the background of the considerable decrease in corporate profits and the accelerated shift of production facilities of manufacturers to overseas sites. The delay in introducing the newest model of plants and equipment and the increase in superannuated existing facilities have reduced capital productivity (real GDP / capital stock) on an aggregate basis significantly.

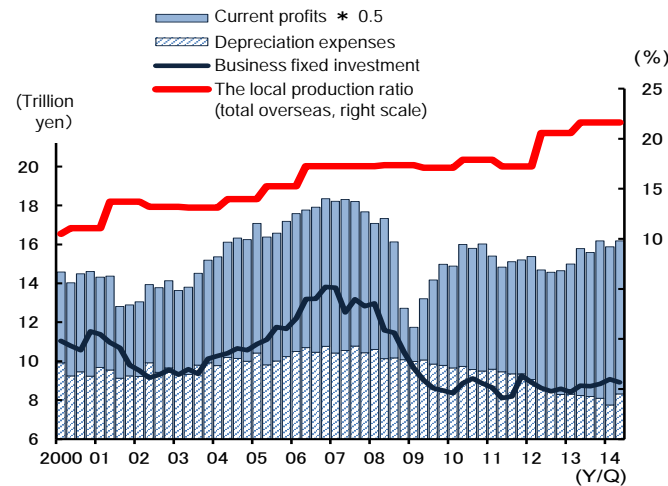
Also, the "power of taking in growing overseas demand", as was clearly seen in Japan's exports, is estimated to have fallen. This trend is due to factors such as the shift of production facilities to overseas sites, and the decreased competitiveness of Japanese enterprises reflecting declining capital productivity. The decline in this power is observed in the fact that income elasticity to export quantity has dropped noticeably. Therefore, it is likely that the pace of recovery in exports will be curbed, even under the circumstances where overseas economies are in firm condition.

Figure 7-1 Contributions to the Growth Rate of Potential Output <year-on-year % change, 4-quarter moving averages>



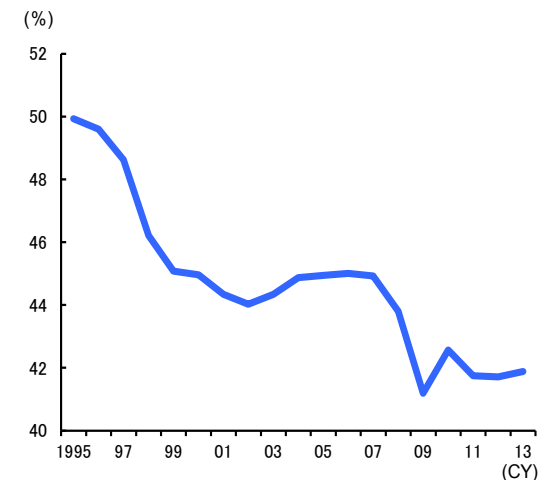
Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, and so on.

Figure 7-2 Local Production Ratio Overseas, Corporate Profits and Business Fixed Investment <seasonally adjusted>



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Finance.
Note: The local production ratio is for the average in each fiscal year. The figure in FY2013 is an estimate.

Figure 7-3 Capital Productivity



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office.

Note: Capital productivity = real GDP / capital stock in private enterprises

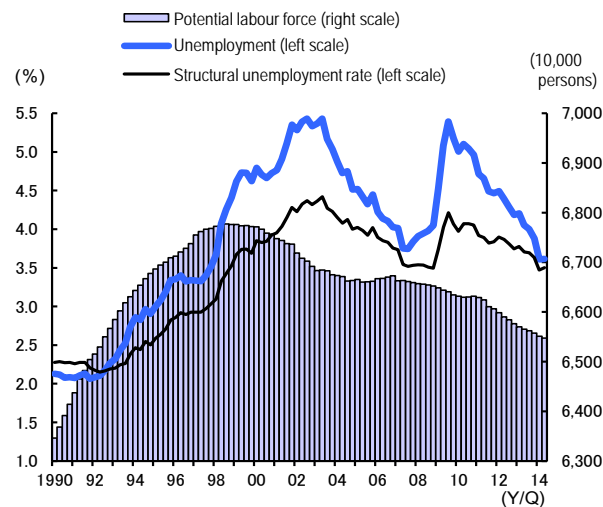
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Labour shortage in nonmanufacturing could be a curbing factor to public and capital investment

With regard to the labour market, factors such as 1) the decrease in the labour force due to an aging population, a low birth rate, and the retirement of the baby-boom generation, and 2) the structural unemployment rate staying at a high level because of mismatches between needs of job seekers and employers, have weighed down Japan's potential growth rate. Viewed by the type of industry, demand for labour has been unevenly distributed, shown in the fact that a sense of inefficiency in employment in nonmanufacturing has strengthened visibly, while that in manufacturing has heightened only somewhat. Thus, it is likely that a shortage of workers in nonmanufacturing will be a curbing factor to public investment and business fixed investment.

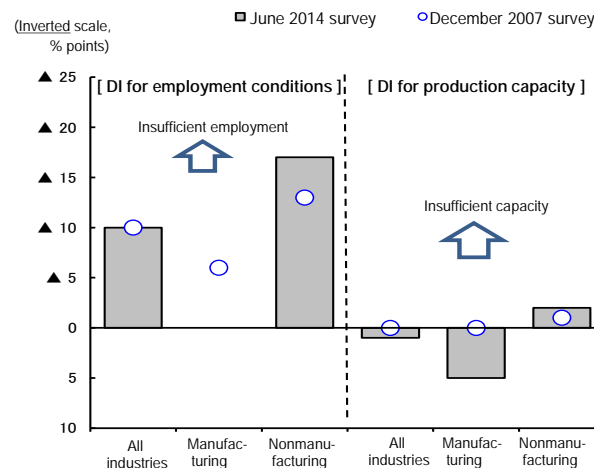
For example, the construction industry, which has had the most serious labour shortage, has managed to cope with the increase in public investment by improving labour productivity. However, its hourly labour productivity is already at almost the same high level as in the previous period of economic expansion, and has little room to advance further. Under the circumstances where the construction industry has difficulty in securing enough workers, the delay in coping with added public investment and increased private construction investment could curb the pace of increase in public investment and business fixed investment on an aggregate basis. Also, in the retailing and eating-out industries, there are a certain number of enterprises which have reviewed plans to open new branch stores and have discussed a reduction in existing stores, because of the shortage of workers. These trends will also likely be a limiting factor to business fixed investment in nonmanufacturing.

Figure 8-1 Potential Labour Force and Structural Unemployment Rate



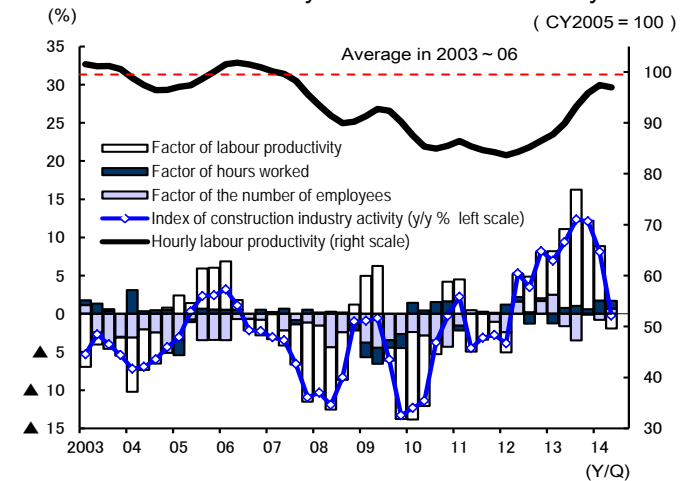
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications, The Ministry of Health, Labour and Welfare, and so on.

Figure 8-2 Inefficient Employment and Inefficient Production Capacity by Type of Industry



Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan, "The Tankan Surveys".

Figure 8-3 Index of Construction Industry Activity and Labour Productivity



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications, The Ministry of Economy, Trade and Industry.

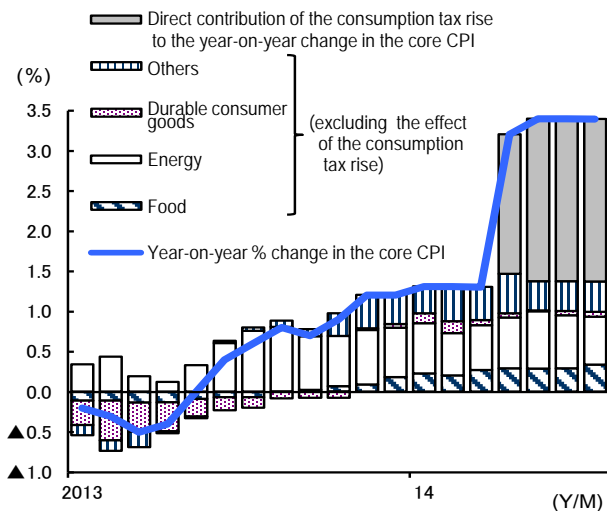
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Core CPI inflation of slightly above 1.0 to about 1.5 per cent excluding tax effect will continue

Except for the direct effect of the consumption tax rise, the core CPI, which excludes fresh food, has increased by a high of about 1.5 per cent year-on-year. As the background behind this, factors such as the increase in costs for imports due to the weaker yen and the improvement in the supply-demand condition can be pointed out. For example, correlation between consumption expenditure and CPI inflation by item shows that the more demand for an item increases, the more pressure to push up its price strengthens. It is likely that, although the effect of the weaker yen will decline gradually, a further advance in the supply-demand condition will be a pushing up factor for prices, as the economic recovery at a pace above the potential growth rate continues. In addition, a sense of inefficiency of employment has heightened in nonmanufacturing, in which personnel costs are a large share of total costs. This trend will also be a cost-push factor to prices through rises in wages.

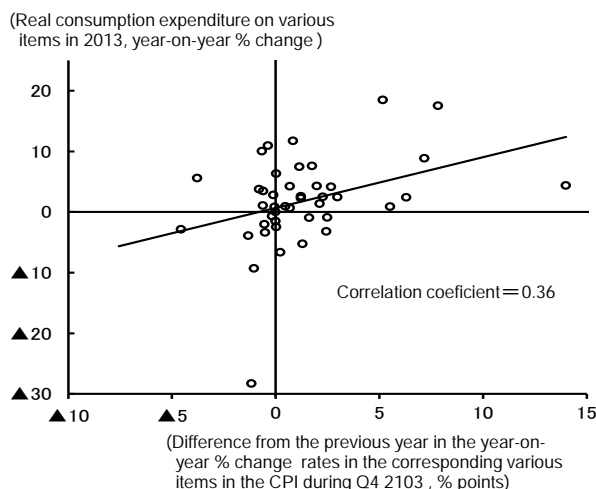
Taking the above mentioned factors into consideration, it is likely that core CPI inflation will continue to stay at a rate of slightly above 1.0 per cent to around 1.5 per cent year-on-year hereafter. As for the goal set by the Bank of Japan of the "continuously stable core CPI inflation rate at a pace of 2 per cent year-on-year", it seems to be vital for the Phillips curve, which shows correlation between the supply-demand balance and the core CPI inflation, to shift upwards through an increase in inflation expectations. Thus far, the upward shift in the Phillips curve has been limited. In order for the goal of the BoJ to be achieved, it is necessary for inflation expectations held by households and enterprises to increase further.

Figure 9-1 Contributions to the Year-on-year Change Rate of the Core CPI <year-on-year % change>



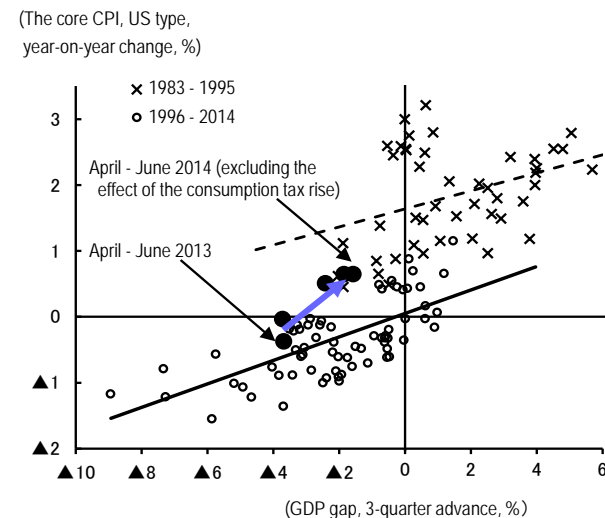
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 9-2 Difference from the Previous Year in the Year-on-year Change Rates in the CPI and Real Consumption Expenditure by Item



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 9-3 Phillips Curve



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications, The Cabinet Office, and so on.

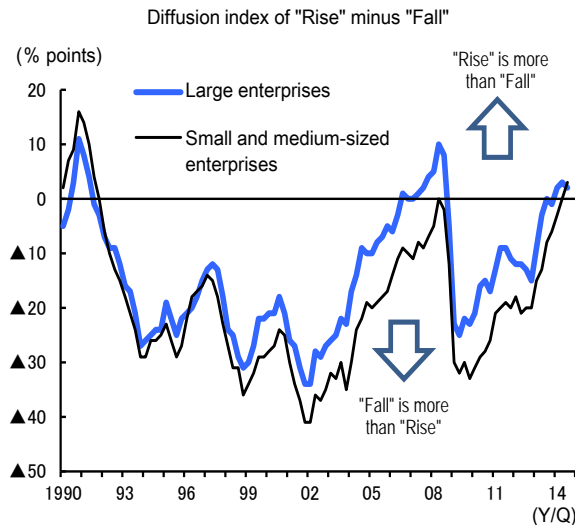
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Raising of sales prices has been seen in small and medium-sized enterprises as well

It seems to be necessary to note that the trend of raising sales prices has been seen not only in large enterprises but also in small and medium-sized enterprises (SMEs). Based on BoJ's Tankan Survey, the diffusion indices (DIs) of output (sales) price conditions in industries such as manufacturing, retailing, services for individuals, and accommodation and eating services, which have a strong correlation with consumer prices, tended to improve in small and medium -sized industries. Although the rising trend in prices is expected to level off in the forecast DIs on an all-sized basis, the degree in slowdown in SMEs is forecast to be milder than that in large enterprises. This appears to suggest that SMEs still have a vigorous attitude towards maintaining or raising the prices of their goods.

Meanwhile, in the core CPI, which excludes fresh food, the share of industrial goods in manufacturing is currently 37 per cent. Then, the share of industrial goods produced by SMEs is estimated to be slightly less than 40 per cent. Accordingly, the raising of the sales prices by SMEs will be able to contribute directly to pushing up the total inflation rate. On the other hand, the SMEs' raising of prices in services and retailing in nonmanufacturing might have not been reflected fully in the CPI, because the price survey in the CPI is conducted usually in large-scale stores in terms of sales and employees. However, if SMEs maintain their aggressive price setting behaviours, they will be able to contribute to cementing gradually the moderate rising trend in the CPI, through the curbing of the competition by reducing prices.

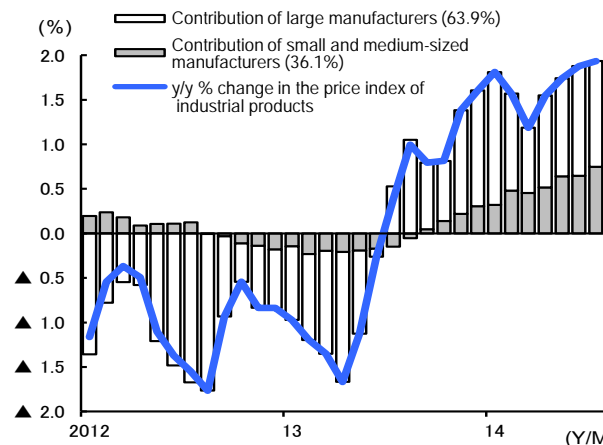
Figure 10-1 Diffusion Index of Output (Sales) Price Conditions <BoJ's Tankan Survey>



Source: The Bank of Japan.

Notes: The latest figures are forecasts in June 2014 Survey.

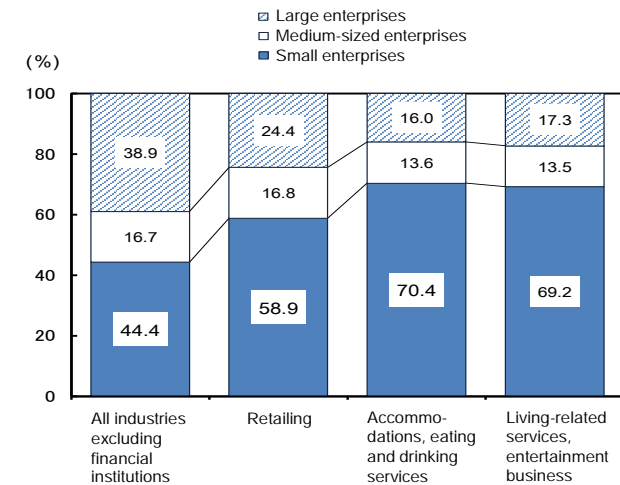
Figure 10-2 Contributions to Year-on-year Change Rate in Price Index of Industrial Products in CPI



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Notes: 1. Excluding the effect of the rise in the consumption tax rate in April 2014. 2. Figures in the angle brackets show the shares in industrial products.

Figure 10-3 Share of Each Size of Enterprises in Sales Proceeds by Industry



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.

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Prospects for Japan's economy - Projected real GDP change; 0.4% in FY2014 and 1.2% in FY2015

(1) In the second preliminary estimates of GDP, Japan's real GDP in the April-June period this year decreased by 7.1 per cent on an annualised quarter-on-quarter change basis. This was a downward revision from the first preliminary estimates (minus 6.8), mainly due to a significant downward revision in business fixed investment. This was also the largest negative change rate after the January-March quarter 2011 (minus 6.9) when the Great East Japan Earthquake and tsunami occurred (Mach 2011).

Even as of September, the negative effect on economic activity of the reactionary fall after the surge in demand caused by the rise in the consumption tax rate in April still remains. Therefore, the pace of economic recovery seems to have been slow. However, because the negative effect is predicted to diminish, albeit gradually, there is no fundamental change in JRI projection itself mentioned in the previous issue.

(2) With regard to the rest of FY2014, Japan's economic activity will return to the former recovery pace from around this autumn onwards. This is because of 1) a diminishing of the reactionary fall after rushed demand, 2) a bolstering of domestic demand through economic measures, such as public investment, tax cuts for enterprises and support for households, and 3) an improvement in employment and income environments in households owing to a rise in employment and summer bonuses. On the other hand, a decrease in real income due to price rises could weigh down an expected solid recovery in private consumption expenditure hereafter. Taking these trends and factors into consideration, the real GDP growth rate in FY2014 as a whole will likely be 0.4 per cent over the previous fiscal year.

(3) Looking ahead, in FY2015, it is projected that public investment will see quarterly declines because the implementation of the economic measures will have peaked. However, the corporate sector will continue to be affected favourably by investment tax cuts, corporate tax cuts, and so on. The household sector will also be influenced positively by the moderate improvement in employment and income environments, and will likely remain firm. Thus, it is forecast that the economy will strengthen its "autonomous recovery mechanism" gradually, while shifting from the "recovery reflecting policy measures". As a result, the economic growth rate will likely be 1.2 per cent in FY2015.

(4) Meanwhile, it should be noted that, during the projected period, "supply constraints" will likely weigh down a recovery in economic activity and curb the pace of economic growth. These "supply constraints" are such trends as 1) a decline in domestic production capacity under the situation where Japanese manufacturers have shifted their production facilities to overseas sites, and 2) a worsening shortage of workers in a wider range of industries due to the decrease in labour force and mismatches between needs of jobseekers and employers.

(5) As for consumer prices, the improvement in the supply-demand balance and a heightened sense of labour shortages have contributed to pushing up prices, while the boosting effect of the weaker yen on prices has lessened. As a result, it is likely that core CPI inflation will continue to stay at a rate of slightly above 1.0 per cent to around 1.5 per cent year-on-year. The Bank of Japan will continue to hold firmly to the goal of the "continuously stable core CPI inflation rate at a pace of 2 per cent year-on-year". At the same time, the BoJ will likely take a flexible attitude which would allow the inflation rate to be detached from the goal to some extent for a short period of time. This flexibility suggests that it is unlikely that the BoJ will take a large scale of additional measures for monetary easing hereafter.

Figure 12 Projections for GDP Growth and Main Indicators of Japan (as of September 8, 2014)

	(seasonally adjusted, annualised % changes from the previous quarter)										(% changes from the previous fiscal year)		
	CY2013	CY2014				CY2015				CY2016	FY2013	FY2014	FY2015
	10~12 (Actual)	1~3 (Actual)	4~6 (Actual)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	4~6 (Projection)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	(Actual)	(Projection)	(Projection)
Real GDP	▲ 0.5	6.0	▲ 7.1	3.7	2.1	2.0	1.5	1.9	▲ 2.5	0.1	2.3	0.4	1.2
Private Consumption Expenditure	1.5	8.4	▲ 19.0	3.8	1.0	1.1	1.3	3.4	▲ 5.5	1.6	2.5	▲ 2.6	0.9
Housing Investment	10.1	8.2	▲ 35.6	▲ 7.2	1.0	4.5	4.9	▲ 5.6	▲ 11.9	▲ 6.3	9.5	▲ 8.0	▲ 1.4
Business Fixed Investment	3.9	34.8	▲ 18.8	5.8	3.6	3.6	3.6	3.8	1.0	1.5	2.7	2.5	3.2
Private Inventories (percentage points contribution)	(▲ 0.3)	(▲ 2.1)	(5.5)	(▲ 0.2)	(0.0)	(0.1)	(▲ 0.3)	(▲ 0.7)	(0.1)	(0.0)	(▲ 0.5)	(0.8)	(▲ 0.2)
Government Consumption Expenditure	0.8	▲ 0.7	0.3	0.6	0.6	0.5	0.5	0.5	0.5	0.5	1.8	0.3	0.5
Public Investment	5.8	▲ 9.8	▲ 2.0	6.1	0.5	0.5	0.3	▲ 1.5	▲ 9.8	▲ 25.9	15.1	0.9	▲ 3.4
Net Exports (percentage points contribution)	(▲ 2.9)	(▲ 0.8)	(4.3)	(0.4)	(0.6)	(0.4)	(0.2)	(0.1)	(1.7)	(0.1)	(▲ 0.5)	(1.7)	(0.5)
Exports of Goods and Services	1.1	28.6	▲ 2.0	6.9	5.9	5.1	4.1	3.9	3.6	3.6	4.8	6.6	4.5
Imports of Goods and Services	15.7	28.0	▲ 20.6	4.3	2.5	2.9	2.4	2.9	▲ 4.5	2.6	7.0	2.3	1.9

	(% changes from the same quarter of the previous year)										(% changes from the previous fiscal year)		
Real GDP	2.5	3.0	▲ 0.1	0.6	0.9	0.2	2.4	1.8	0.6	0.2	2.3	0.4	1.2
Nominal GDP	2.0	2.9	1.9	2.6	2.8	2.0	2.6	2.2	1.9	1.4	1.9	2.3	2.0
GDP deflator	▲ 0.4	▲ 0.1	2.0	2.0	1.9	1.7	0.2	0.4	1.3	1.2	▲ 0.4	1.9	0.8
Consumer Price Index (excluding fresh food)	1.1	1.3	3.3	3.2	3.3	3.4	1.4	1.5	2.8	2.9	0.8	3.3	2.2
(excluding fresh food and consumption tax)	1.1	1.3	1.4	1.2	1.3	1.4	1.4	1.5	1.5	1.6	0.8	1.3	1.5
Industrial Production Index	5.8	8.3	2.6	0.3	1.1	▲ 0.9	4.3	5.4	1.8	1.1	3.2	0.7	3.1
Unemployment Rate (%)	3.9	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.9	3.5	3.5
Current Account Balances (trillion JY)	▲ 1.43	▲ 0.82	0.31	1.14	▲ 0.46	1.01	0.80	1.87	0.63	1.76	0.83	2.00	5.06
Share of Nominal GDP (%)	▲ 1.1	▲ 0.7	0.3	0.9	▲ 0.4	0.8	0.7	1.5	0.5	1.4	0.2	0.4	1.0
Exchange Rates (JY/US\$)	100	103	102	104	105	106	107	108	109	110	100	104	109
Import Price of Crude Oil (US\$/barrel)	112	112	110	108	105	105	105	105	105	105	110	107	105

Source: The Cabinet Office; The Ministry of Internal Affairs and Communications; The Ministry of Economy, Trade and Industry; The Ministry of Finance.

The projection figures are based on those of The Japan Research Institute, Ltd.

Note 1: "▲" indicates minus.

2: It is assumed that the consumption tax rate will be raised from 8% to 10% in October 2015.

3: The assumptions on the real GDP growth rate in 2013(actual result), 2014 and 2015 in major overseas economies: the US, 2.2%, 2.1%, 3.0%; the euro area, ▲0.4%, 0.7%, 1.0%; China, 7.7%, 7.5%, 7.4%.