

Monthly Report of Prospects for Japan's Economy

January 2015

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 December 2014 issue of the original Japanese version.

The general situation of Japan's economy – Economic activity is making a mild and patchy recovery

Figure 1-1 Economic Activity

The leading index of business conditions increased for the first time in 2 months, due to the rise in stock prices, etc.

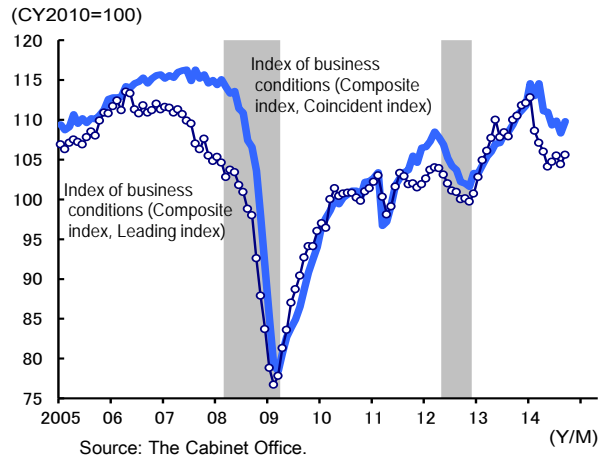


Figure 1-2 The Corporate Sector

Production continued to pick up moderately. The inventory ratio increased slightly.

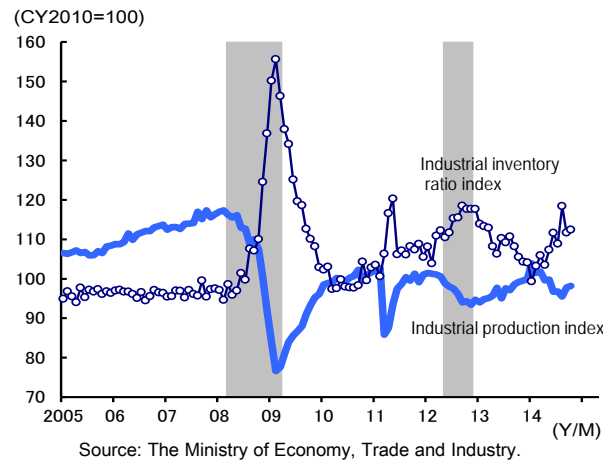


Figure 1-3 Overseas Demand

Exports increased, led by those of automobiles and industrial machinery. Imports decreased, mainly in crude oil.

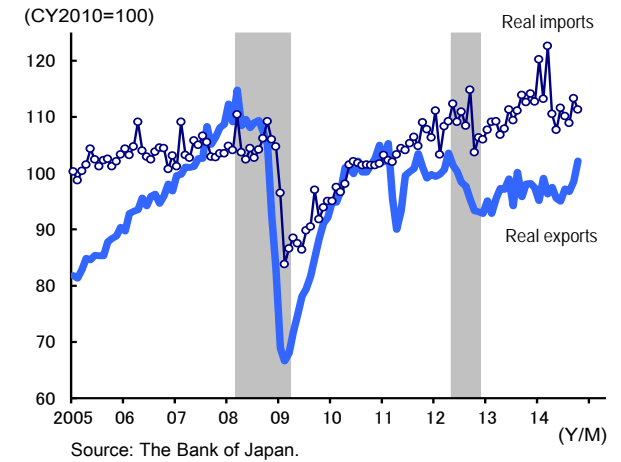
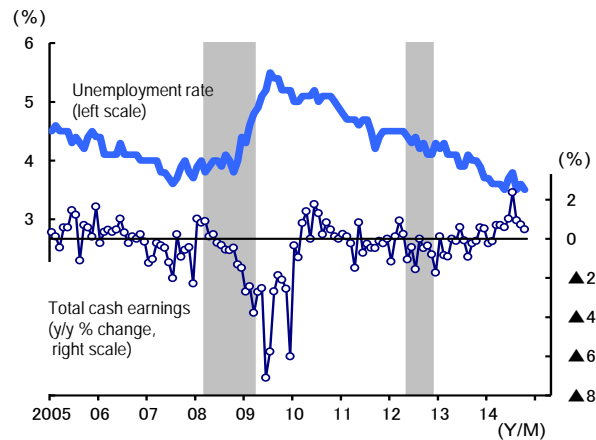


Figure 1-4 Employment and Income

The unemployment rate fell for the first time in 2 months. The pace of year-on-year increase in total cash earnings slowed.



* The shaded area indicates the phase of recession.

Figure 1-5 Private Consumption Expenditure

Private consumption expenditure continued to pick up moderately, although weighed on by factors such as bad weather.

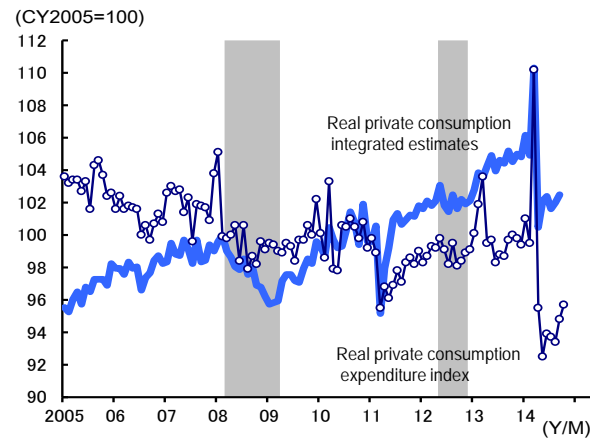
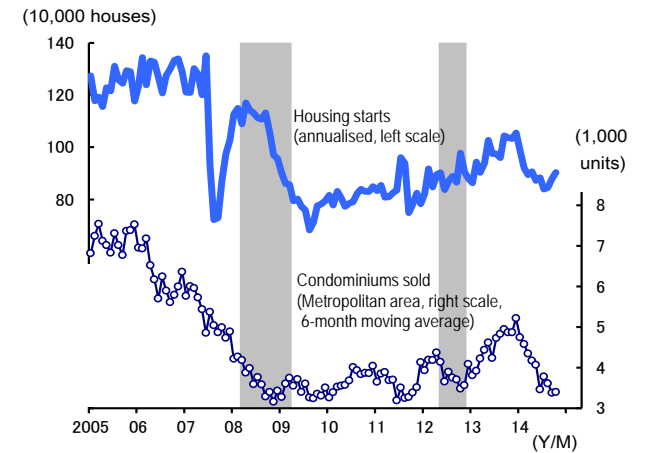


Figure 1-6 Housing Investment

Housing starts recovered to the level 6 months before. Condominium sales continued their sluggish trend at a low level.



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The pace of recovery in private consumption expenditure remains moderate

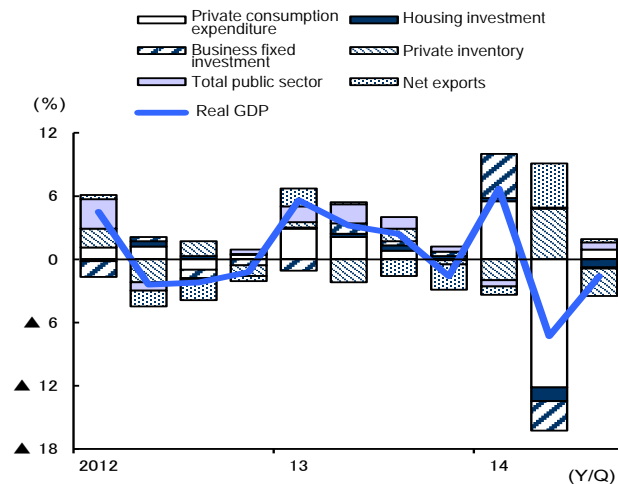
Concerning Japan's economic activity, the pace of recovery from the reactionary fall after the consumption tax rise in April last year has been slow. In the second preliminary estimates of GDP, Japan's real GDP in the July-September period decreased by 1.9 per cent on an annualised quarter-on-quarter change basis, the second consecutive decline. The pace of the picking up in private consumption expenditure, which had declined in Q2 significantly, was slow. Also, the declining trend continued in housing investment and business fixed investment.

Looking at the statistics figures thereafter, in the household sector, sales value in large-scale retail stores, which had continued to pick up, fell in October, partly due to bad weather. On the other hand, in the corporate sector, industrial production rose by 0.4 per cent in October, a rise for 2 months running. Although inventory adjustment pressure remains mainly in durable consumer goods such as automobiles, production forecast showed an increase both in November and December.

In addition, machinery orders increased for 4 months in a row. Further, the effective ratio of job offers to applicants remained at a high level of over 1.0. Thus far, both favourable investment and employment environments seem to have bolstered economic activity.

While domestic demand has weakened, real exports increased in October. Viewed by region and goods, exports of ships to Asia rose considerably and the pace of increase in exports of goods such as general machinery to the US accelerated.

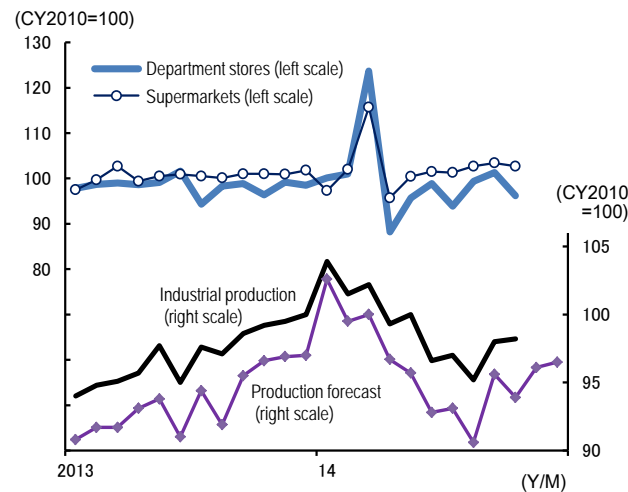
Figure 2-1 Real GDP Quarterly Growth Rate
<the first preliminary estimates, seasonally adjusted, annualised Q/Q change rate>



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

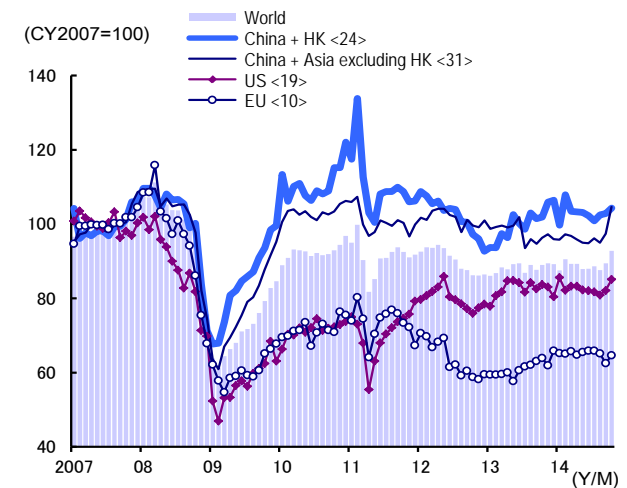
Note: Total public sector = government consumption expenditure + public capital formation + public inventory change

Figure 2-2 Indices of Sales Value in Large-scale Retail Stores and Industrial Production
<seasonally adjusted>



Source: The Ministry of Economy, Trade and Industry.

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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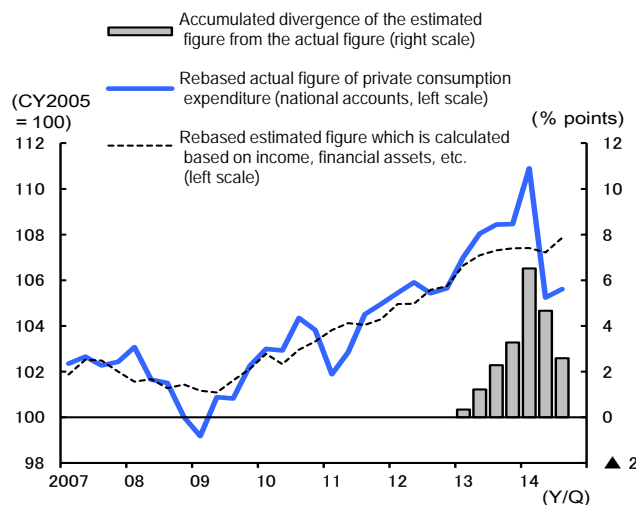
The stagnation in private consumption can be viewed as a reaction to the pre-tax rise upswing

It seems to be necessary to note that the considerable decline in private consumption expenditure after the consumption tax rise can be viewed as a reaction to the upswing before the tax rise. This upswing had been formed against the background of the improvement in consumer sentiment after the start of "Abenomics", and had risen to the level over what was estimated based on the environments during that period. Namely, private consumption expenditure had diverged from the estimated figure which was calculated using factors such as income, financial assets, and so on, since more than a year before the consumption tax rise in April 2014. Accordingly, it is likely that the reactionary downswing from the upswing after the tax rise will weigh down private consumption expenditure for the time being.

Meanwhile, looking at income environments in households, elements such as the number of employees and nominal wages per employee continue their moderate increasing trend, although price rises stemming from the consumption tax rise have pushed down compensation for employees considerably in real terms. Also, labour's relative share has fallen to the level before the Lehman shock, mainly in nonmanufacturing, which suggests the desirable situation where the improvement in corporate profits will lead to the increase in household income. Thus, it is likely that income environments in households will continue to improve moderately.

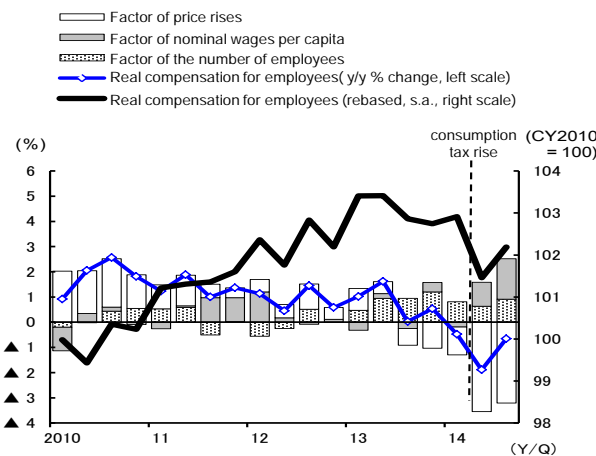
Judging from the factors and trends above, it is predicted that private consumption expenditure will return to the level corresponding to income environments, and then stay firm at that level, as the reactionary fall from the upswing nears the end.

Figure 3-1 Upward Divergence in Private Consumption Expenditure after the Start of the Abe Administration



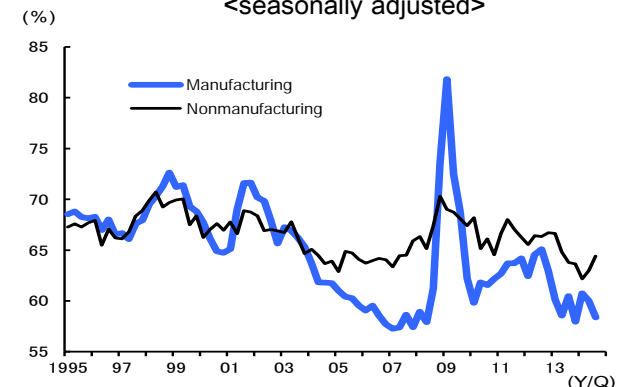
Source: JRI based on The Cabinet Office, The Ministry of Internal Affairs and Communications, The Bank of Japan, and so on.

Figure 3-2 Contributions to Year-on-year Change in Real Compensation for Employees



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

Figure 3-3 Labour's Relative Share by Type of Industry <seasonally adjusted>



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

Note: Labour's relative share = personnel expenses / value added
Value added = personnel expenses + current profits + depreciation expenses + interests paid, etc.

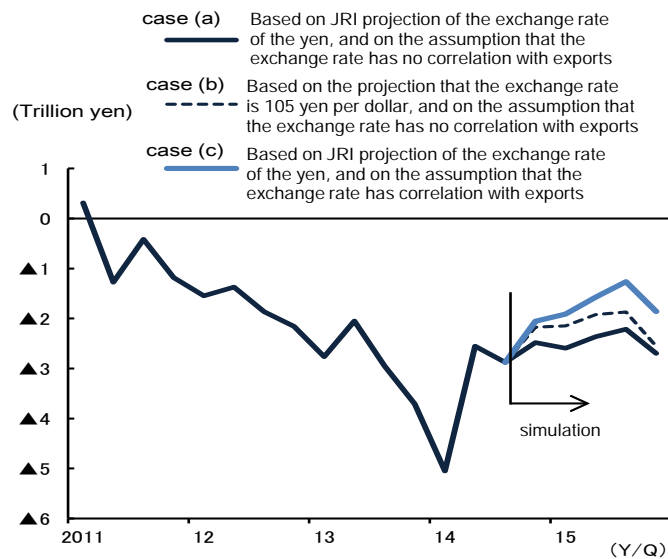
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The weak yen is beneficial to net corporate profits, while it expands trade deficits at present

Reflecting the expansion of the quantitative and qualitative monetary easing announced by the Bank of Japan on October 31, 2014, which was taken as a surprise, a fall in the exchange rate of the yen and a rise in stock prices have accelerated further. As for the rise in stock prices, it will likely improve consumer and business sentiment and contribute to bolstering economic activity, together with a postponement of the consumption tax rise. As for the depreciation of the yen, it seems to have both favourable and unfavourable effects on the economy. First, in the aspect of trade balance, it is likely that the weaker yen will worsen the balance. This trend is against the backgrounds that the boosting effect of the weak yen on export quantity has diminished, that import quantity remains at a high level due to the increase in the share of crude fuels, and so on.

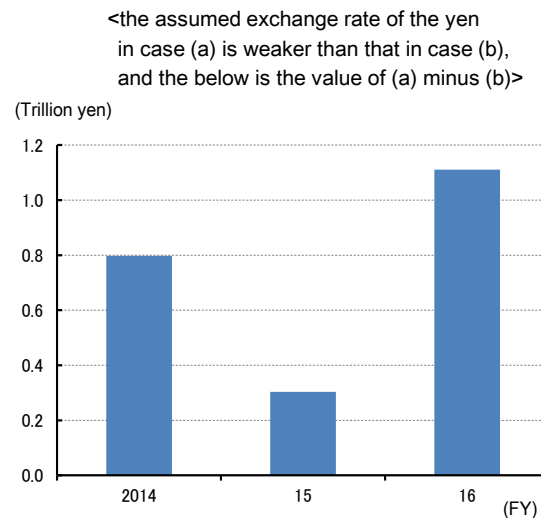
Second, in the aspect of corporate profits, the depreciation of the yen will likely continue to have a positive effect on corporate profits on an aggregate net basis. For example, it is estimated that the latest 10 per cent of the depreciation of the yen will increase corporate profits by about 1.3 trillion yen during one year to come. The major cause of the increase is the expanding primary income surpluses in the balance of payment. Thus far, external assets of Japanese enterprises have increased rapidly, as the result of active M&A and purchase of foreign securities during the strong yen period from the Lehman shock to the start of "Abenomics". Together with the effect of the weaker yen on the value, the latest yen-denominated surpluses in primary income balance amounted to the highest value in the past.

Figure 4-1 Simulation on Trade Deficits on a Customs Basis



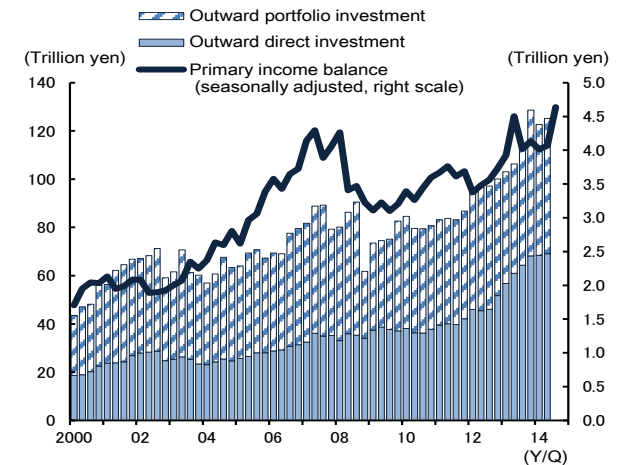
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, JRI macro model simulation.

Figure 4-2 Difference in Corporate Profits in Japanese Enterprises between Case (a) and Case (b) in Figure 4-1



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

Figure 4-3 External Asset Balance by Type and Primary Income Balance in Current Accounts



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

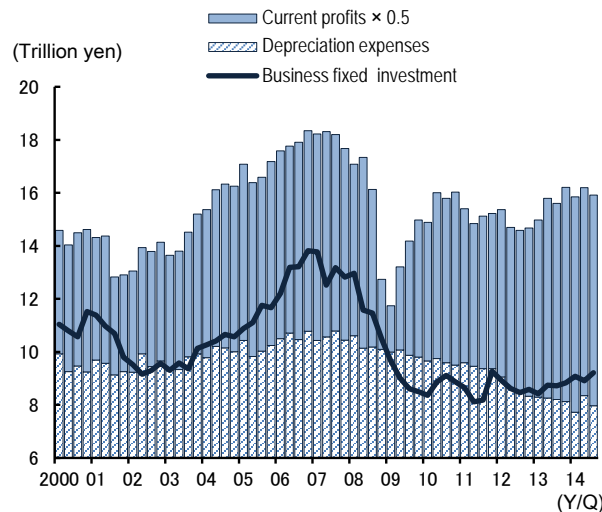
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Price rises due to the weaker yen will likely weigh on private consumption expenditure

Besides a moderate improvement in corporate profit environments, the latest depreciation of the yen is expected to increase corporate profits further. Taking this trend into consideration, it is likely that business fixed investment will increase firmly hereafter. Also, Japanese enterprises had held off investment in plants and equipment after the Lehman shock through 2012 especially. As a result, capital productivity (real GDP / capital stock) on an aggregate basis has fallen significantly, due to the increase in superannuated existing facilities. This situation suggests that more and more capital investment for maintenance and renewal will be needed. In addition, demand for capital investment for rationalisation and labour-saving is expected to rise, judging from the situation where the labour shortage is becoming more acute.

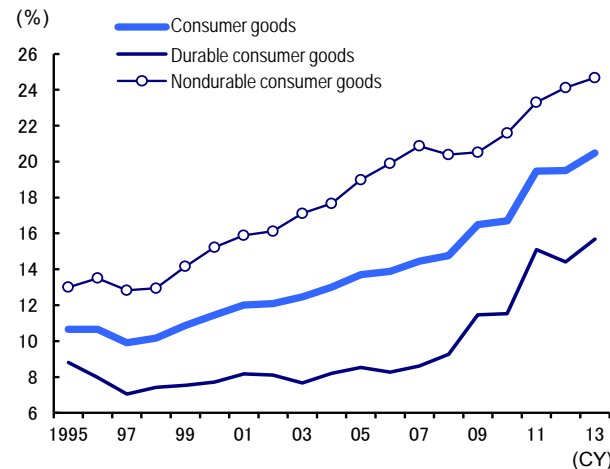
Meanwhile, as for the effect of the latest weaker yen, it is true that a further advance in corporate profits will likely lead to an improvement in income and employment environments in households. However, more importantly, it is highly likely that price rises reflecting increased costs for imports will be a weighing down factor on private consumption expenditure. The effect of increased costs due to the weaker yen on consumer prices has been growing in recent years, against the background that the import penetration rate (the ratio of imports in the total of domestic shipments and imports) has been rising.

Figure 5-1 Value of Business Fixed Investment and Cash Flow in Japanese Enterprises



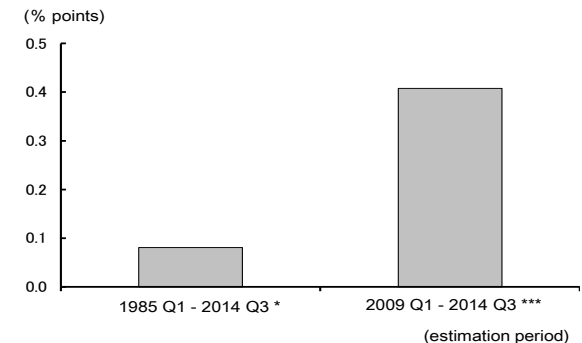
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.
 Note: Cash flow = Current profits × 0.5 + Depreciation expenses

Figure 5-2 Import Penetration Rate in Consumer Goods by Type



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Economy, Trade and Industry.
 Note: The import penetration rate = (the index of imports × the weight of imports) / (the index of domestic shipments and imports × the weight of domestic shipments and imports)

Figure 5-3 Effect of the 10 per cent Yen Depreciation on Year-on-year Change in Core CPI <estimate>



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications, and so on.
 Note: 1. This is based on the estimated figures of the coefficient γ in the following equation: Y/Y % change in the core CPI = $\alpha + \beta \times \text{GDP gap} <-2 \text{ quarters}> + \gamma \times \text{nominal effective exchange rate} <-3 \text{ quarters}>$
 2. The mark * and *** show that the figure is statistically significant at the significant level of 10% and 1%, respectively.

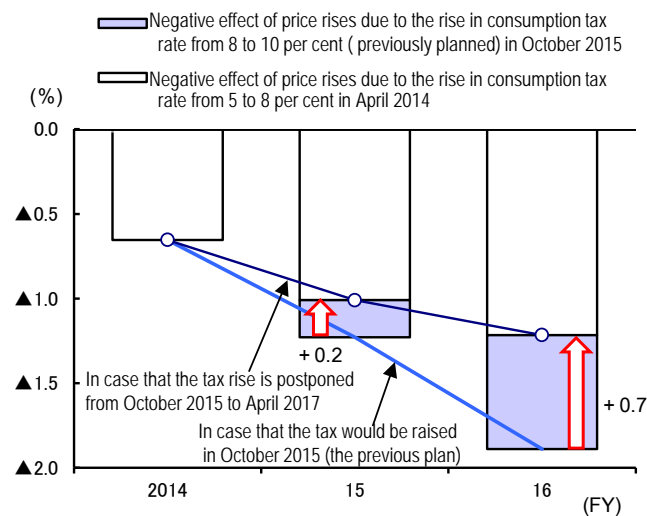
Postponement of the tax rise will benefit the economy for a while, yet will retreat fiscal consolidation

It is true that the pace of recovery from the reactionary fall after the consumption tax rise has been slower than previously expected. However, the "autonomous expansion mechanism" in Japan's economic activity, where positive factors in the corporate sector such as favourable corporate profit environments have spread to the household sector, has not wobbled.

Meanwhile, the government postponed the planned rise in the consumption tax rate from 8 to 10 per cent in October 2015 to in April 2017, appearing to have given a top priority to recovering economic activity and to overcoming deflation fully. This postponement is predicted to have a positive effect on economic activity for the time being, as downward pressure on private consumption expenditure, through a decline in purchasing power of households due to price rises stemming from the tax rise, ceases to exist. In addition, an implementation of economic measures, which are expected to be taken in the planned supplementary budget for FY2014, will likely bolster the economic activity in FY2015 further.

On the other hand, the postponement of the consumption tax rise will bring about dark clouds over the already planned fiscal reconstruction path. An expected considerable downswing in the consumption tax revenue will worsen the primary balance in central and local governments. Also, a scheduled enrichment and stabilisation in social security such as medical services, family care, and the pension system will face a retreat, as an increase in the consumption tax revenue set aside for these expenditure items no longer exists.

Figure 6-1 The Effect of Price Rises Stemming from Tax Rises to Real GDP Growth Rate <estimate>



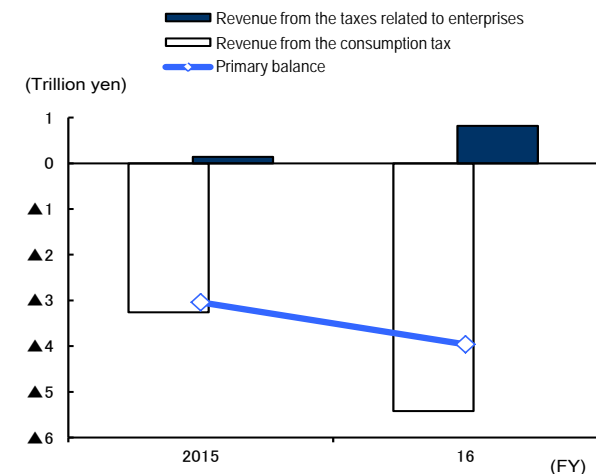
Source: Simulation by JRI based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications, and so on.

Figure 6-2 The Effect of Postponement of Rise in the Consumption Tax Rate and Economic Measures on Real GDP Growth Rate <estimate>

	(% points)	
	FY2015	FY2016
Boosting effect on the real GDP growth rate		
Postponement of rise in the consumption tax rate from 8 to 10 per cent	+0.2	+0.5
Supplementary budget for FY2014 (from 2 to 3 trillion yen)	+0.2	-0.2

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

Figure 6-3 The Effect of Postponement of Rise in the Consumption Tax Rate on Tax Revenue



Source: Simulation by JRI based on the data of The Ministry of Finance, The Cabinet Office, and so on.

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Benefits in corporate profits vary widely among different type and scale of industries

In the corporate sector, benefits in corporate profits brought by the depreciation of the yen vary widely among different type and scale of industries. Viewed by type, in manufacturing, while the machinery industries such as transport equipment have enjoyed a considerable increase in profits, manufacturers of petroleum products and foodstuffs have suffered a significant decrease. Nonmanufacturing as a whole has felt a negative effect on profits, as an increase in the costs for imports have been large in many industries including services. Viewed by scale, small and medium-sized enterprises seem to have got only smaller benefits in profits from the weaker yen, compared with large enterprises. This is against the background that a shift of facilities to overseas sites could be riskier for small and medium-sized enterprises, and that even those which have already had overseas subsidiaries or stores can achieve only lower profitability from overseas businesses than large enterprises.

After the Lehman shock, Japanese global enterprises such as large manufacturers have improved profitability by reorganising their businesses through restructuring and the shift or expansion of their facilities to overseas sites. On the other hand, the enterprises with domestic demand businesses have lagged behind in improving their profitability. Under these circumstances, the depreciation of the yen after the start of "Abenomics" have widened the gap in corporate profits among different type and scale of industries further. In order for increased profits in the global enterprises to extend to the domestic economy as a whole, it is vital to promote rising wages and increasing capital investment, and to provide favourable environments to reduce the burden of the enterprises with domestic demand businesses.

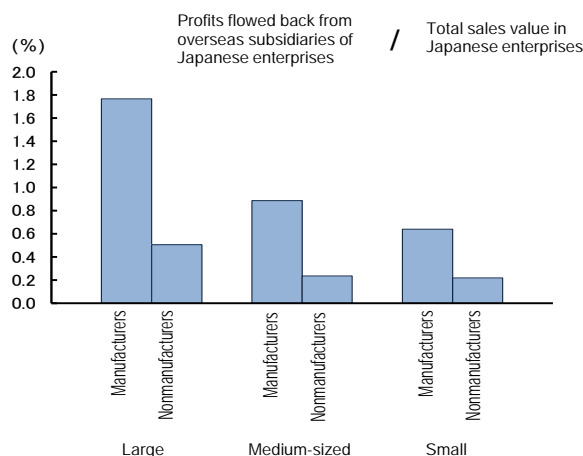
Figure 7-1 10 per cent of Depreciation of the Yen on Corporate Profits by Industry <estimate>

(100 million yen)

	Trade balance	Primary income balance	Total
Manufacturing	7,441	13,740	21,181
Food	-3,318	174	-3,144
Petroleum, coal	-9,151	78	-9,072
General machinery	4,177	1,094	5,272
Electrical machinery	2,468	1,185	3,653
Transport equipment	7,958	6,718	14,676
Nonmanufacturing	-17,976	3,390	-14,586
Electricity, gas	-6,550	5	-6,545
Services	-8,830	140	-8,691
Total	-10,535	17,130	6,595

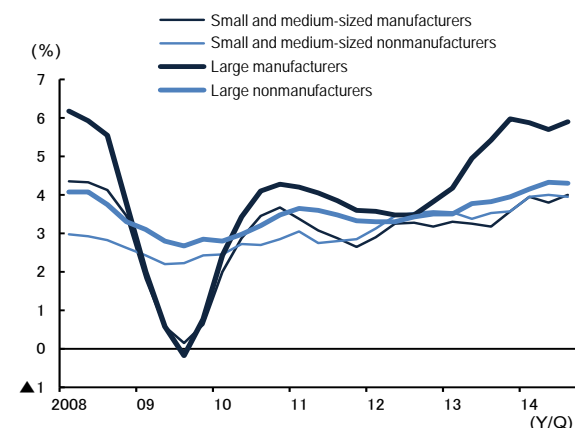
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Ministry of Economy, Trade and Industry, JRI macro simulation, and so on.
Note: If the ripple effects are included, the total would be 1.3 trillion yen.

Figure 7-2 Ratio of Profits from Overseas Subsidiaries to Total Asset Value in Japanese Enterprises by Type and Scale of Industries



Source: The Ministry of Economy, Trade and Industry.

Figure 7-3 Return on Assets (ROA) by Type and Scale of Industries



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

Note: 4-quarter moving averages.

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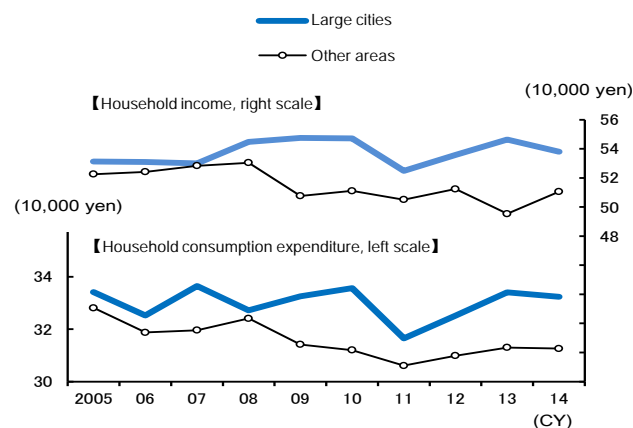
Benefits from Abenomics in households vary widely among areas of residence

In the household sector, benefits in households brought by "Abenomics" vary remarkably among areas of residence. Household consumption expenditure in local areas has stagnated, reflecting sluggish household income there, compared with that in large city areas.

With regard to this trend, the following seems to have contributed to widening the gap among areas. First, large enterprises, many of which are located in large city areas, have improved their corporate profits ahead of small and medium-sized enterprises. Second, the pace of increase in two-income households in large cities accelerated since 2012, which has pushed up household income there. Third, the wealth effect brought by stock price rises has been felt mainly in households in large cities, which hold more stocks than those in local areas. Fourth, demographic movements have also contributed to widening the gap. While the population of those 15 years old or more has increased by 760 thousand persons in large cities, that segment has decreased by 360 thousand persons in local areas. Especially, the population from 24 to 64 years old, which tends to spend more than other segments, has fallen in local areas. Fifth, the rate of increase in consumer prices in local areas has been more than that in large cities, because the effect of the weaker yen has been felt more acutely in local households, which have a larger share of expenditure on gasoline and fuels. Accordingly, this trend has weighed on household consumption in local areas through reduced real income.

Taking the above trends into consideration, it is a more urgent need in local areas than in large cities to create and establish a sustainable growth model, which makes the most use of the characteristics and resources in each area.

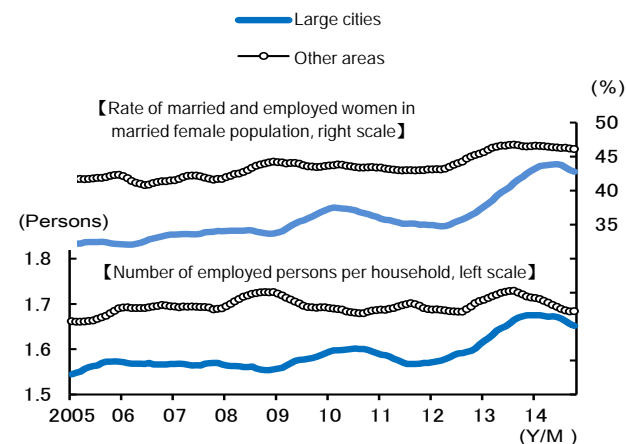
Figure 8-1 Household Income and Consumption Expenditure by Area



Source: The Ministry of Internal Affairs and Communications.

- Note: 1. Large cities mean Tokyo ward area and cities designated by cabinet order.
2. Households are workers' households with 2 or more members.

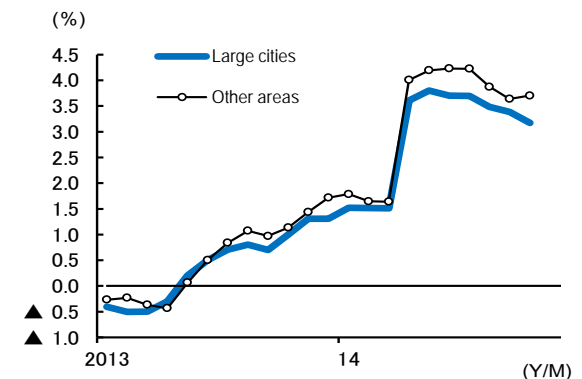
Figure 8-2 Number of Employed Persons per Household and Rate of Employed Women in Married Female Population by Area



Source: The Ministry of Internal Affairs and Communications.

Note: The same as Figure 8-1.

Figure 8-3 Year-on-year Change in the Consumer Price Index by Area



Source: The Ministry of Internal Affairs and Communications.

Note: 1. Large cities mean Tokyo ward area and cities designated by cabinet order.

2. The CPI excludes fresh food and imputed service of owner-occupied dwellings.

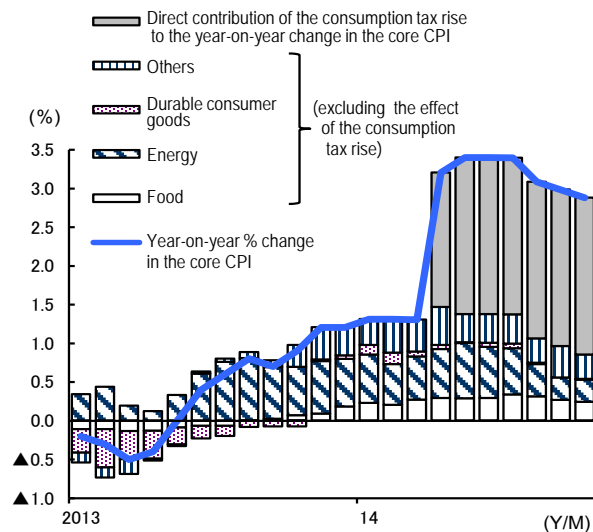
The pace of rise in core CPI will accelerate again as the effect of the latest weaker yen materialises

Except for the direct effect of the consumption tax rise, the core CPI, which excludes fresh food, increased by 0.9 per cent year-on-year in October last year, having decelerated since the peak in April. In addition to the considerable fall in oil price, the delay in the improvement in the supply-demand condition, due to unfavourable effects of the consumption tax rise, has been a weighing down factor on consumer prices.

Meanwhile, reflecting the additional monetary easing measures taken by the Bank of Japan on October 31, the yen has depreciated further. The weaker yen is expected to push up consumer prices through a rise in costs for imports, and an improvement in the supply-demand condition if an advance in corporate profits through the weaker yen leads to an increase in business fixed investment and in household income. It is estimated that it takes more than 6 months for the effect of the depreciation of the yen to be felt in consumer prices. Therefore, although the slow pace of rise in the core CPI will remain for the time being, the pace will likely accelerate again as the effect of the weaker yen materialises.

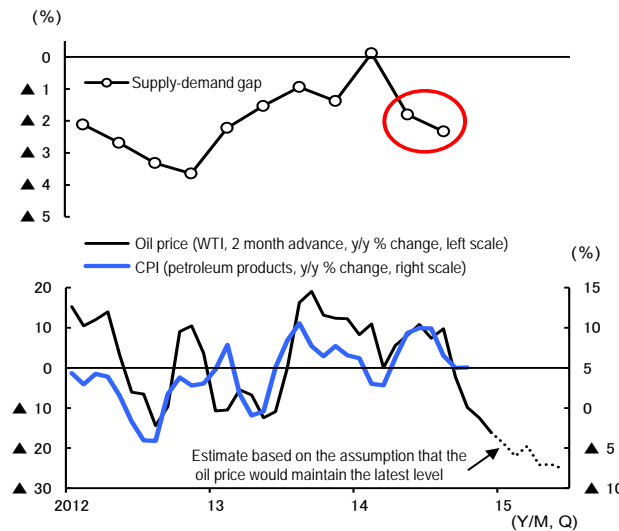
In order to achieve the goal set by the BoJ of the "continuously stable core CPI inflation rate at a pace of 2 per cent year-on-year", it is vital for the rate of increase in the core CPI inflation to accelerate stably hereafter through a rise in inflation expectations. In order for inflation expectations to rise, it is imperative that the acceleration in the core CPI inflation thus far be realised by households and enterprises firmly, as actual figures have considerable influences on inflation expectations. In any case, it will take time to achieve the goal.

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



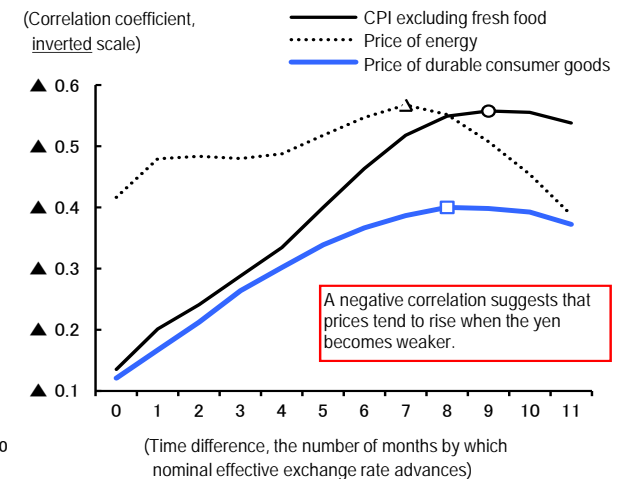
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 9-2 Supply-Demand Gap and Oil Price



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

Figure 9-3 Time-lag Correlation between Exchange rate of the Yen and CPI by Item



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

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Prospects for Japan's economy - Projected real GDP change; - 0.7% in FY2014 and 1.5% in FY2015

(1) It is predicted that Japan's economic activity will pick up again in the second half of FY2014. This is because of 1) favourable corporate profit environments and a positive attitude of enterprises to investment in plant and equipment, 2) a continued improvement in income and employment conditions for households, and so on. On the other hand, a slow pace of recovery in private consumption expenditure and remaining inventory adjustment pressure could weigh down economic activity. Considerably affected by the reactionary fall after the consumption tax rise in April 2014, it is projected that real GDP will decline by 0.7 per cent in FY2014 as a whole over the previous fiscal year, the first negative fiscal yearly growth since FY2009.

(2) The "autonomous economic expansion mechanism", where the positive effects felt in the corporate sector such as the increase in corporate profits lead to increased business fixed investment, employment and wages, is expected to work increasingly more visibly. However, the pace of recovery will likely remain moderate, because 1) increased costs stemming from the latest further depreciation of the yen could weigh on households and a certain part of domestic demand-related enterprises, and 2) a driving force from overseas demand could not be counted on much hereafter just as it has been unable to thus far.

(3) Under these circumstances, the government postponed the planned rise in the consumption tax rate from 8 to 10 per cent in October 2015 to April 2017, appearing to have given a top priority to recovering economic activity and to overcoming deflation fully. This postponement is predicted to have a positive effect on economic activity in FY2015, as downward pressure on private consumption expenditure, through a decline in purchasing power of households due to price rises stemming from the tax rise, ceases to exist. In addition, an implementation of economic measures, which are expected to be taken in the planned supplementary budget for FY2014, will likely bolster the economic activity in FY2015 further. As these favourable factors bring about firm economic activity, the economic growth rate will likely be 1.5 per cent in FY2015.

(4) Looking ahead further, although the "autonomous economic expansion mechanism" will continue to work, the pace of economic growth will likely slow down through the middle of FY2016. This is because of factors such as stagnant real income through price rises due to the depreciation of the yen, a slowdown in overseas economies such as in the US and China, and so on. However, towards the fourth quarter of FY2016 to March 2017, it is projected that rushed demand in private consumption expenditure and others will boost economic activity before the rescheduled rise in the consumption tax rate in April 2017. As a result, real GDP is predicted to grow by 1.4 per cent in FY2016 as a whole.

(5) Besides the considerable fall in the oil price, the delay in the improvement in the supply-demand condition, due to unfavourable effects of the consumption tax rise, has been a weighing down factor on consumer prices. Therefore, it is predicted that the increase in the core CPI, which excludes fresh food, will continue to be slow for the time being. However, from the second half of FY2015 onwards, the pace of increase in the core CPI will likely accelerate, as upward pressure on consumer prices from the depreciation of the yen materialises, with a lag.

Figure 11 Projections for GDP Growth and Main Indicators of Japan (as of December 8, 2014)

	(seasonally adjusted, annualised % changes from the previous quarter)											(% changes from the previous fiscal year)			
	CY2014		CY2015				CY2016				CY2017	FY2013	FY2014	FY2015	FY2016
	7~9 (Actual)	10~12 (Projection)	1~3 (Projection)	4~6 (Projection)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	4~6 (Projection)	7~9 (Projection)	10~12 (Projection)	1~3 (Projection)	(Actual)	(Projection)	(Projection)	(Projection)
Real GDP	▲ 1.9	2.1	1.9	1.6	1.5	1.3	1.4	1.4	1.2	1.2	1.8	2.1	▲ 0.7	1.5	1.4
Private Consumption Expenditure	1.5	1.6	1.0	1.2	1.1	1.0	1.0	0.9	0.9	1.5	3.4	2.5	▲ 3.0	1.2	1.1
Housing Investment	▲ 24.4	2.4	3.0	3.0	2.8	2.6	2.5	2.5	2.7	4.5	4.9	9.3	▲ 11.0	0.9	3.0
Business Fixed Investment	▲ 1.5	4.1	3.6	3.6	3.5	3.5	3.6	2.6	2.8	3.1	3.3	4.0	0.5	3.3	3.1
Private Inventories (percentage points contribution)	(▲ 2.5)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(▲ 0.3)	(▲ 0.7)	(▲ 0.5)	(0.5)	(▲ 0.1)	(▲ 0.0)
Government Consumption Expenditure	1.1	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.7	1.6	0.4	0.5	0.6
Public Investment	5.5	▲ 2.5	0.5	1.4	0.2	▲ 2.0	0.0	▲ 0.5	▲ 1.0	▲ 1.2	▲ 1.3	10.3	1.4	0.2	▲ 0.8
Net Exports (percentage points contribution)	(0.3)	(▲ 0.4)	(▲ 0.2)	(▲ 0.1)	(▲ 0.0)	(0.1)	(▲ 0.0)	(▲ 0.0)	(▲ 0.1)	(▲ 0.3)	(▲ 0.5)	(▲ 0.5)	(0.4)	(▲ 0.1)	(▲ 0.1)
Exports of Goods and Services	5.2	7.5	3.8	4.3	4.5	4.6	4.6	4.9	4.2	3.9	3.8	4.7	6.4	4.7	4.4
Imports of Goods and Services	3.0	7.7	3.8	4.1	3.9	3.7	4.1	4.3	4.0	4.3	5.1	6.7	2.8	4.3	4.2

	(% changes from the same quarter of the previous year)											(% changes from the previous fiscal year)			
	7~9	10~12	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12	1~3	2013	2014	2015	2016
Real GDP	▲ 1.3	▲ 0.3	▲ 1.1	1.0	1.9	1.4	1.5	1.4	1.3	1.3	1.5	2.1	▲ 0.7	1.5	1.4
Nominal GDP	0.7	1.4	0.5	0.9	2.3	1.7	1.9	1.6	1.6	1.6	1.8	1.8	1.1	1.7	1.7
GDP deflator	2.0	1.6	1.6	▲ 0.2	0.4	0.3	0.4	0.2	0.3	0.3	0.4	▲ 0.3	1.8	0.2	0.3
Consumer Price Index (excluding fresh food)	3.2	2.8	2.9	1.1	1.3	1.5	1.6	1.4	1.4	1.4	1.5	0.8	3.1	1.4	1.4
(excluding fresh food and consumption tax)	1.1	0.8	0.9	1.1	1.3	1.5	1.6	1.4	1.4	1.4	1.5	0.8	1.1	1.4	1.4
Industrial Production Index	▲ 1.0	▲ 1.5	▲ 2.9	1.9	4.3	3.3	2.0	1.4	1.2	1.2	1.2	3.2	▲ 0.7	2.9	1.3
Unemployment Rate (%)	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.9	3.5	3.4	3.4
Current Account Balances (trillion JY)	1.67	0.45	2.99	1.04	2.55	0.49	3.30	0.95	2.37	0.17	3.34	0.83	5.46	7.38	6.83
Share of Nominal GDP (%)	1.4	0.3	2.4	0.8	2.1	0.4	2.6	0.8	1.9	0.1	2.6	0.2	1.1	1.5	1.3
Exchange Rates (JY/US\$)	104	114	119	121	122	123	124	125	125	125	125	100	110	123	125
Import Price of Crude Oil (US\$/barrel)	108	90	84	84	84	84	85	85	86	86	87	110	98	84	86

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 April 2017.

3: It is also assumed that economic measures through the supplementary budget will be implemented (assumed amount: from 2 to 3 trillion yen).

4: The assumptions on the real GDP growth rate in 2013 (actual result), 2014, 2015 and 2016 in major overseas economies: the US, 2.2%, 2.3%, 3.1%, 2.8%; the euro area, ▲0.4%, 0.8%, 0.9%, 1.3%; China, 7.7%, 7.4%, 7.2%, 7.0%.