



JRI news release

**Reasons for the Unexpectedly High Level of Real GDP
— The Need for Economic Policy to Take Nominal GDP Into Consideration —**

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Overview

The Japanese economy continues to recover; as of the April-June quarter of 2003, real GDP has grown for six consecutive quarters. However, nominal GDP and production statistics, which are said to have the greatest impact on perceptions of the state of the economy among both consumers and company directors, still show little sign of recovery, and the “strength” of real GDP is making little impression. One reason for the gap between popular perception and the level of real GDP is the fact that the rate of weakening of the GDP deflator has accelerated.

The four main reasons for the acceleration in the rate of weakening of the GDP deflator are (i) improvement in the performance of computers and other information technology, (ii) changes in the weight of categories, (iii) falling wage levels, and (iv) the deterioration of trade conditions. Of these, the single greatest reason for the gap between real GDP and perceptions of the economic trend is that real GDP has been boosted by the incorporation of the improved performance of information technology in deflation. On the other hand, the weakening of the GDP deflator due to changes in category weight is a true reflection of the real economy and, if anything, it is the strength of the economy that is being underestimated.

As a result of the increased impact on the GDP deflator of improved performance and changes in weight, the relationship has become a trade-off — when the economic trend is downward, the rate at which the GDP deflator weakens actually slows. Looking ahead, with the economy expected to show clearer signs of recovery in the second half of the fiscal year, it is possible that the weakening of the GDP deflator will accelerate still further.

As the GDP tends to grow in proportion to the degree to which it incorporates improvements in quality, it is necessary to make allowance for the level of the real growth rate. Comparing the present situation with conditions at the beginning of the year, it is clear that the greatest change has been in the strength of the GDP deflator and, since there has been little change in the real economy, the government should not assign excessive importance to the high level of real GDP, and should come up with policy measures geared to raising the nominal growth rate.