Japan’s Economic Prospects 2015

Japanese Economy in 2015
- 10 Issues to Watch -

January 2015

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Japan Center for Economic Research
### Will “Abenomics” be re-activated?

Changes since the start of “Abenomics”

<table>
<thead>
<tr>
<th></th>
<th>CY2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (%, C.Y.)</td>
<td>1.8</td>
<td>0.2*</td>
</tr>
<tr>
<td>Unemployment rate (%, year end)</td>
<td>4.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Exchange rate (yen/dollar, year end)</td>
<td>86.3</td>
<td>119.8</td>
</tr>
<tr>
<td>Nikkei stock average (yen, year end)</td>
<td>10,395</td>
<td>17,450</td>
</tr>
<tr>
<td>CPI core (y/y, %, C.Y)</td>
<td>-0.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Outstanding debt of central and local governments (trillion yen, C.Y.)</td>
<td>897</td>
<td>965*</td>
</tr>
</tbody>
</table>

Notes: * denotes JCER estimates, the others are actual value. 
CPI core in 2014 is Jan.-Nov. average (excluding consumption tax)
2 Weaker Yen vs. Fall of Oil Prices

Costs & benefits from weaker yen (JCER estimates)
(ratio to GDP, %)

Benefits from higher export prices (in yen)
Costs from higher import prices (in yen)
Net effect

Notes: 10% Yen depreciation simulation. 2010 estimates are based upon counterfactual scenario of no active nuclear power plants.
Sources: Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry, JCER
Big Chance for Real Wage to Rise

Real wage (labor cost per hour \( W \) / consumer price \( P \))

\[
\frac{W}{P} = \frac{Y}{H} \times \frac{W \times H}{Y \times Def} \times \frac{Def}{P}
\]

Notes: Labor productivity = Real GDP/Total hours worked, one year lagged from wage.

Real wage of FY2014 is calculated as an average from Apr. to Nov.

Sources: Cabinet Office, Ministry of Health, Labor and Welfare, Ministry of Internal Affairs and Communications

Source: Cabinet Office “Quarterly Estimates of GDP”
Exit Strategy Needed for BOJ’s QQE

Asset size of BOJ, FRB, and ECB (ratio to GDP, %)

Sources: Bank of Japan, Cabinet Office, FRB, BEA, ECB, Eurostat
Keeping Population Size of 100 Million

Labor participant ratio and old-age dependency ratio

Note: Old-age dependency ratio represents the number of individuals aged 65 and over to the population aged 15 to 64.
Source: National Institute of Population and Social Security Research (Medium-fertility, medium-mortality projection), International Labour Organisation
Local Economies: What’s the Problem?

Inflow & outflow of population

(1000 persons, cumulative since 2000)

Source: Ministry of Internal Affairs and Communications
“Report on Internal Migration in Japan”
TPP: Big Benefits from Tariff Elimination

Significant burden on households for protecting agriculture:

six “sacred” farm products

(Ratio to real disposable income, %)
Why Not Investing in Japan?

Amount outstanding of FDI by country (2013)

World Bank’s “Doing Business” ranking

Ranking by item for Japan (2009-2014)

- Starting a Business: 91 (2009) to 83 (2014)
- Dealing with construction permits: 45 (2009) to 83 (2014)
- Registering property: 54 (2009) to 73 (2014)
- Protecting minority investors: 16 (2009) to 35 (2014)
Fiscal Crisis to Come.....

Projection of primary balance (ratio to GDP)

(ratio to GDP, %)

Sources: Cabinet Office
Social Security Costs Continue to Grow

Changes of revenue & expenditure structure

Budget for social security (Pension & Medical care)

Source: Ministry of finance
# Fiscal 2015 Economic Outlook

## Appendix

<table>
<thead>
<tr>
<th></th>
<th>Government (January 12, 2015)</th>
<th>JCER(SA160R) (December 8, 2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% (Current prices)</td>
<td>% (Constant prices)</td>
</tr>
<tr>
<td>Gross domestic product</td>
<td>2.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Private consumption expenditure</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Private residential investment</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Private non-residential investment</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Increase in private inventory (contribution to GDP growth)</td>
<td>▲ 0.0</td>
<td>▲ 0.0</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>7.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Less: Imports of goods and services</td>
<td>2.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Contribution of domestic demand</td>
<td>2.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Contribution of private demand</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Contribution of public demand</td>
<td>▲ 0.5</td>
<td>▲ 0.6</td>
</tr>
<tr>
<td>Contribution of external demand</td>
<td>0.8</td>
<td>0.1</td>
</tr>
</tbody>
</table>

## Prices

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<tr>
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<th>Government (January 12, 2015)</th>
<th>JCER(SA160R) (December 8, 2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic corporate goods price index</td>
<td>▲ 1.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>1.2</td>
<td>▲ 0.1</td>
</tr>
</tbody>
</table>
Thank You for Your Attention!