

March 22, 2012

Machine Production will expand with Growing Demand from Emerging Economies
- Ishikawa comes top, followed by Hiroshima and Nagano
- Labor Shortages expected in the Nursing Care Sector in Most Prefectures

JCER Medium Term Economic Forecast Team *

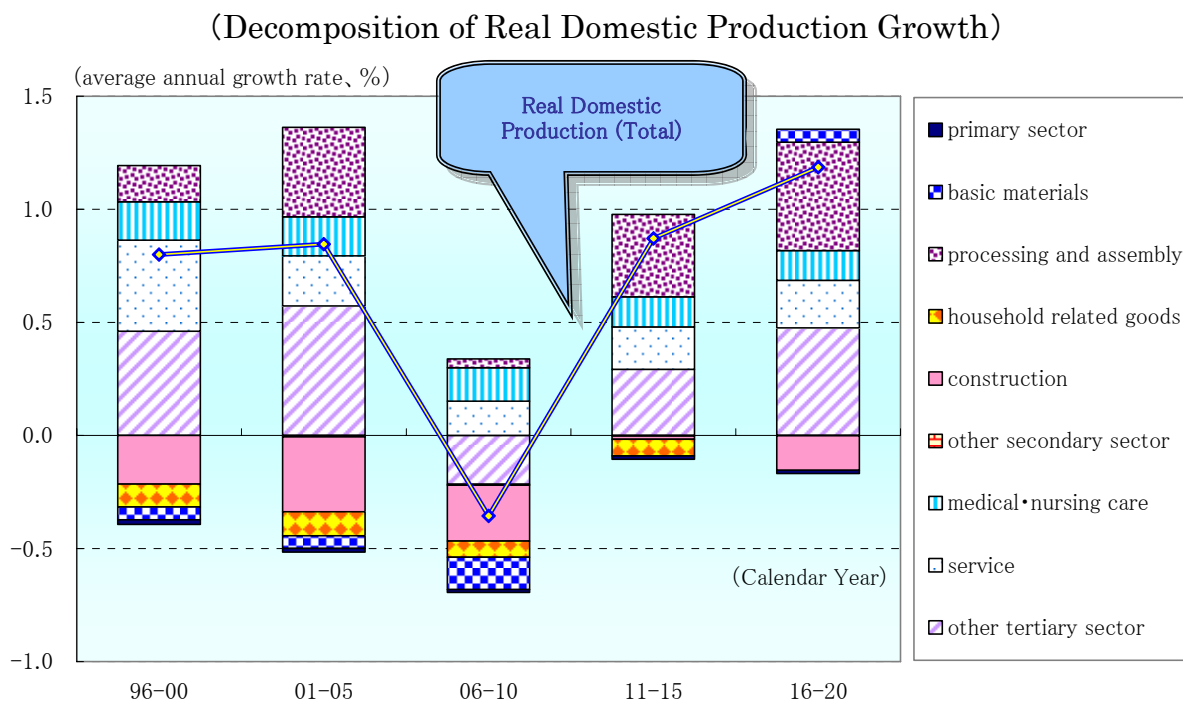
Based on the 38th Medium Term Economic Forecast, the Japan Center for Economic Research (JCER) has assessed the growth outlook (in terms of real domestic production growth) for FY2011-2020 by region and by industry. We have made revisions to our December 2011 forecast to change assumptions concerning the proposed consumption tax hike and the outlook of the global economy. Consequently, the average real GDP growth for FY2011-2020 is forecasted at 0.9%, down from our 1.1% December forecast. Adopting this revised growth rate, we evaluated growth projections for various industries by prefecture. Due to growing demand from emerging economies, the processing and assembly type manufacturing industry (e.g. machines and cars) is expected to show the largest expansion. The average annual growth rate is forecasted at 2.5% for FY2011-15, and 3.0% for FY2016-20. For the growth outlook by prefecture, Ishikawa came top, followed by Hiroshima and Nagano, all regions with a large processing and assembly sector. However, since streamlining efforts are being made within the sector, even if growth is achieved, it will not necessarily lead to increased opportunities for employment. Therefore, the next largest engines of growth, the health, nursing care and services sectors, will become the main job creating sectors.

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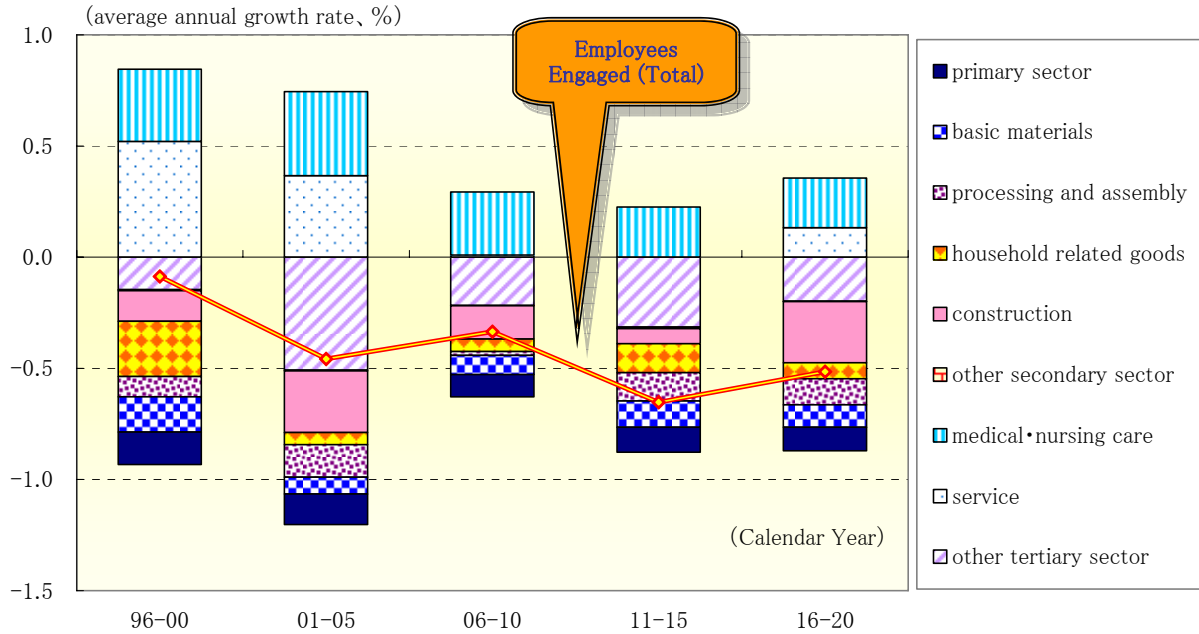
Key Points

1. The processing and assembly type manufacturing industry (e.g. semiconductors and electronic parts, general machinery, cars etc) is expected to be the main engine of growth, with an anticipated increase in exports bound for emerging economies. However, strong growth will not necessarily lead to increases in employment opportunities.
2. It is anticipated that growth in the health, nursing care and services sectors will create new jobs. According to the JCER prefecture population projections, particularly in the health and nursing care sector, there is heightening concern about a future labor shortage in many regions.
3. For the growth outlook by prefecture, Ishikawa came top, followed by Hiroshima and Nagano, all regions with large processing and assembly sectors. Low rates of growth are expected in the three disaster-stricken Tohoku prefectures. Increased investment in the affected areas to alleviate supply constraints, and a framework to stimulate external demand, will lead to advances in the reconstruction process.

Figure1 Processing and Assembly type Manufacturing Industries and the Services Sector to be the Main Engines of Growth



(Decomposition of Employees Engaged in Each Sector)



Note: primary sector=agriculture, forestry and fisheries industry, secondary sector=mining ~ construction, tertiary sector=electricity, gas and heat supply ~ others, basic materials=pulp & paper ~ processed metals, processing and assembly=general industrial machinery ~ precision machine, household related goods=food & beverages, textiles, other manufacturing

Source: Ministry of Internal Affairs and Communications, 1995-2000-2005 connected input-output tables

Figure2 Machinery Sector-Abundant Prefectures Ranked High

(Growth rate by Prefecture;
2011-20 Average Annual Growth Rate of Real Domestic Product)

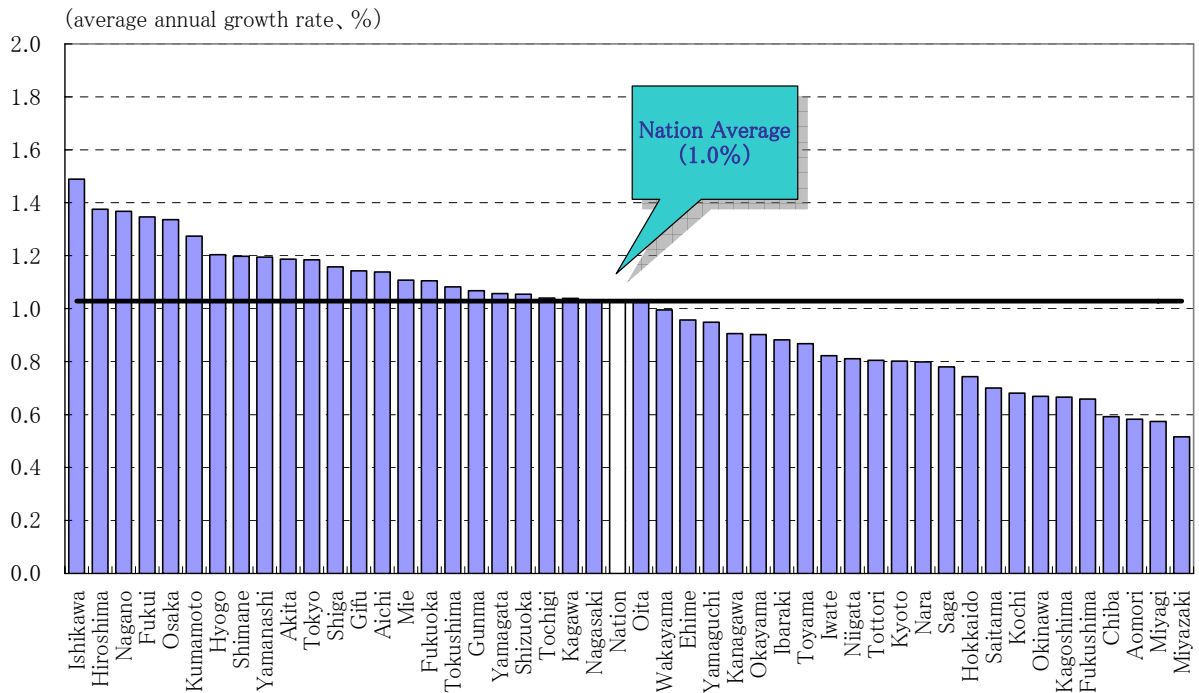


Table Main Economic Indicators Forecast

	Forecast					
	FY'2001~10 : Averages			FY2011~20 : Averages		
		01~05	06~10		11~15	16~20
Real GDP growth rate (2005 prices)	0.7	1.2	0.1	0.9	0.8	1.1
Private Demand (contribution to change)	0.3	0.9	▲ 0.3	0.5	0.5	0.5
Public Demand (contribution to change)	▲ 0.0	▲ 0.1	0.1	0.1	0.2	0.0
Net Exports (contribution to change)	0.4	0.4	0.4	0.3	0.1	0.5
Potential GDP growth rate (three year backward moving average)	0.9	0.9	0.9	0.5	0.5	0.6
GDP gap ※		0.5	▲ 3.1		▲ 1.4	0.8
Nominal GDP growth rate	▲ 0.6	▲ 0.2	▲ 1.1	0.2	0.1	0.2
Consumer Price Index (general, year on year)	▲ 0.3	▲ 0.4	▲ 0.1	0.3	0.5	0.1
Primary Balance(nominal GDP ratio) ※		▲ 0.8	▲ 6.7		▲ 3.9	▲ 3.0
Government debt (Nominal GDP ratio) ※		142.2	170.7		210.0	234.4
Current Accounts (Nominal GDP ratio)※		3.8	3.4		1.3	▲ 0.4
Real GDP per capita (year on year)	0.6	1.1	0.1	1.4	1.2	1.5
Compensation of employee per capita (year on year)	▲ 1.1	▲ 1.3	▲ 1.0	0.2	0.2	0.3
Household Sector Saving rate ※		0.9	2.5		0.1	▲ 4.2
Labor force population (year on year)	▲ 0.3	▲ 0.4	▲ 0.2	▲ 0.6	▲ 0.6	▲ 0.6
Unemployment rate ※		4.3	5.0		4.2	3.9
10-years Government Bonds Rate ※		1.4	1.2		1.4	1.7
Yen / U.S. Dollar exchange rate ※		113.2	85.7		81.6	78.4
Crude Oil Price (\$ per barrel, calendar year) ※		56.7	79.6		120.8	154.1
Real GDP of U.S.A. (year on year, calendar year)	1.6	2.4	0.7	2.5	2.5	2.5
Real GDP of China (year on year, calendar year)	10.5	9.8	11.2	8.4	9.0	7.9
World real GDP growth rate(calendar year)	4.3	4.1	4.5	4.6	4.7	4.5
CO2 emisions(percentage change from the level of FY1990)		13.5	6.0		3.3	3.7

Notes : 1.% if not otherwise specified.

2. Potential GDP, GDP gap and World real GDP are calculated by JCER.

3.All figures denoted by ※ are those in the final year ,not averages.

4. Primary balance and government debt are those of central and local governments.

Source : Cabinet Office "National Accounts"

We have revised our forecast published in December 2011.

The differences in assumptions between our revised forecast and December forecast are as follows.

1. Considering the spread of credit unease in Europe, we have lowered our projection of world GDP (average annual growth rate between 2011 and 2015) by 0.2% to 4.7%
2. In light of recent movements, WTI prices have been revised upward to 154.1 dollar par barrel in 2020 (146.9 dollar par barrel in our December forecast)

3. The results of the 2005 benchmark revision of Japan's SNA have been incorporated into the revision (The December forecast was based on the 2000 benchmark)
4. The government's consumption tax hike plan, which anticipates raising the tax rate from the current 5% to 8% in April 2014 and to 10% in October 2015, has been adopted as our main scenario (In our December forecast, we estimated that consumption tax rate would be raised by 1% each year from FY2015, to reach 10% in FY2019)
5. We have developed and incorporated our own population projections into the revision (in December, we referred to projections released by the National Institute of Population and Social Security Research)

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