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*SA165 Short-Term Forecast (2016/1-3—2018/1-3)*

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## ***Growth Projections for Fiscal 2015–17 Revised Downward - Economy Confronts Mounting Slowdown Risks***

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Signs of a slowdown in the Japanese economy are becoming clearer, with real GDP in October–December 2015 again registering negative growth. Domestic demand, particularly household-related items like personal consumption and housing, remains weak. And while external demand contributed positively to GDP growth, this was largely the result of a decline in imports. Given these realities, we project no more than 0.7% real growth in fiscal 2015.

Prospects for robust growth in fiscal 2016 and beyond—either in domestic or external demand—are dim. We anticipate real economic growth in the fiscal year starting April 2016 to reach only 1.0%, despite the likelihood of last-minute buying before the scheduled consumption tax hike to 10% in April 2017. There are risks of a further downswing in the absence of growth engines to fuel a sustained recovery (see table).

Most forecasts issued around this time a year ago were more optimistic, as it was believed that lower crude oil prices and rising wages would push up consumption and drive economic growth. Outflows of income to foreign countries (trading losses) were declining sharply due to lower fuel prices, and real net income from abroad was rising owing to a weaker yen. Indeed, Japan's gross national income—calculated by adding these figures to real GDP—during calendar year 2015 grew by 2.4%, the highest level in five years.

While these GNI trends can be seen in improved corporate earnings, investments in plant and equipment have not expanded as much as expected, and worker wages have remained static. There has been a decline in real wages for the fourth straight year, and this spring's annual negotiations for hikes in the basic salary are likely to result in even fewer gains for workers than last year.

Why have higher corporate earnings, then, failed to generate more spending? We believe there are three factors at work.

The first is the weakness of the recovery in foreign markets. While the world still looks to the United States to drive economic growth, the US market faces increasing recessionary risks arising from a strong dollar and cheap oil prices. China is saddled with both excess capacity and debt, causing corporate activity to stagnate, as authorities in Beijing continue to search in vain for potent antidotes. Many commodity producing states have seen their economies contract as exports to China plummet, raising real fears of a currency crisis.

The second is the ongoing confusion in the financial market that began in mid-2015 with the Shanghai stock market crash and repeated devaluations of the yuan. Market players are still wary of a worst-case scenario, leading to a vicious cycle whereby investor fears impact negatively on the real economy—a phenomenon that renowned investor George Soros has named “reflexivity.”

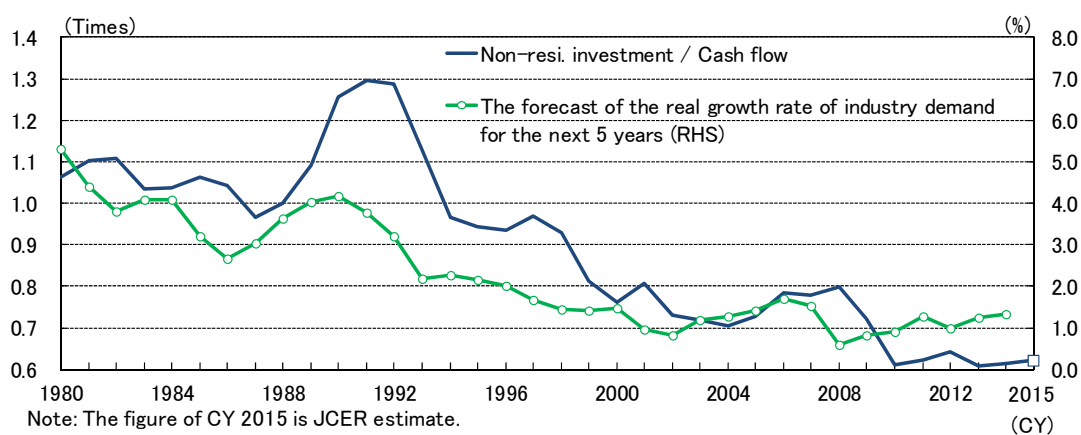
Sharply lower share prices and a stronger yen are likely to force both businesses and households to tighten their purse strings, and could convince businesses to put off plans to hike prices and wages. The BOJ’s decision to introduce negative interest rates on current accounts held by banks at the central bank should be seen positively. At a time when deflation began looming as too formidable to overcome, the worst choice would have been to do nothing.

The dip into negative territory was essentially a move to further lower interest rates, and long-term rates reacted accordingly. Long-term interest levels are determined by (1) future projections of short-term rates and (2) the term premia; the former will no longer be constrained by the BOJ’s inability to reduce nominal rates any further, and continued quantitative and qualitative monetary easing will keep pushing down the latter.

A decline in long-term interest rates benefits the real economy, through lower lending rates. Moreover, it can help stabilize exchange rates and share prices by expanding options for further monetary easing.

The third factor holding back the activities of both the corporate and household sectors is the lack of confidence in Japan’s future prospects. This is something that must be addressed with great urgency, since monetary and fiscal initiatives will not be effective when businesses have a gloomy outlook. The main reason companies are putting off additional investment is because they have little confidence in the future of the Japanese market (see figure). They hesitate to raise wages for fear that higher earnings will be short-lived. And households are reluctant to spend when they know that they will be soon asked to shoulder a bigger social security burden in the light of Japan’s aging and dwindling population.

[Figure: Expected growth and non-residential investment]



The bearish sentiment pervading both the corporate and household sectors in itself can push the economy into a vicious circle of ever-lower expectations. To break such a circle, Prime Minister Shinzo Abe will need to speed up the implementation of his Abenomics strategy of economic growth. The updated “three arrows” are significant for clearly identifying Japan’s demographic challenges, but for the arrows to hit their targets, the administration will need to fire effective, concrete measures in rapid succession.

Business opportunities must also be expanded through deregulation and market liberalization. Facilitating investment and the hiring of high-skilled professionals from abroad will help boost Japan’s productivity.

In this context, we anticipate Japan’s core CPI to remain flat at 0.0% during fiscal 2015 and to edge up by only 0.4% in fiscal 2016. Downward pressure will be exerted by continuing low energy prices and a wider supply-demand gap. The BOJ’s 2% inflation target appears increasingly unreachable, even by the end of fiscal 2017. With market expectations of inflation continuing to decline, greater vigilance is needed to guard against additional downswings.

As we’ve seen, neither domestic nor international conditions offer bright prospects for growth. That said, market assessments of the economy going forward appear overly pessimistic. Steps have been taken to bolster the resilience of the international financial system since the 2008 Lehman crisis, and another global financial crisis is not likely. Recent trends suggest that oil prices may soon be bottoming out.

Japan’s major export markets are projected to grow by 3.3% in real terms in 2016—on a par with 3.4% growth in 2015. Employment and income levels are expected to continue improving, moreover, providing a much needed boost.

External shocks can be absorbed not just through additional monetary easing but also with fiscal measures, such as by implementing a supplementary budget ahead of schedule. Even without additional fiscal outlays, it may be possible to induce growth by shifting expenditures to productive areas, such as infrastructure exports and information and communication technologies.

# Summary Table of the 165<sup>th</sup> Quarterly Forecast

| 四半期／年度／暦年<br>Quarter / Fiscal Year / Calendar Year        | 単位<br>Unit                         | Forecast    |             |             |             |             |             |             |             |             |             |             |              | 年度 (FY)                |                          |                          |                          | 暦年 (CY)                |                        |                          |                          |
|---|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|------------------------|--------------------------|--------------------------|--------------------------|------------------------|------------------------|--------------------------|--------------------------|
|   |                                    | 2015        |             |             |             | 2016        |             |             |             | 2017        |             |             |              | 2014<br>(実績)<br>Actual | 2015<br>(予測)<br>Forecast | 2016<br>(予測)<br>Forecast | 2017<br>(予測)<br>Forecast | 2014<br>(実績)<br>Actual | 2015<br>(実績)<br>Actual | 2016<br>(予測)<br>Forecast | 2017<br>(予測)<br>Forecast |
|   |                                    | 4-6         | 7-9         | 10-12       | 1-3         | 4-6         | 7-9         | 10-12       | 1-3         | 4-6         | 7-9         | 10-12       | 1-3          |                        |                          |                          |                          |                        |                        |                          |                          |
| 実質国内総支出 (2005暦年連鎖価格)<br>Real GDE (Chained 2005 Yen)       | 前期比% **<br>前年同期比% ****             | -0.3<br>0.7 | 0.3<br>1.7  | -0.4<br>0.5 | 0.0<br>-0.3 | 0.4<br>0.4  | 0.4<br>0.5  | 0.3<br>1.1  | 0.9<br>2.0  | -0.9<br>0.7 | -0.0<br>0.2 | 0.2<br>0.1  | 0.3<br>-0.5  | -1.0                   | 0.7                      | 1.0                      | 0.1                      | -0.0                   | 0.4                    | 0.4                      | 0.8                      |
| 国内需要<br>Domestic Demand                                   | 寄与度%ポイント ++                        | -0.0        | 0.1         | -0.5        | 0.2         | 0.3         | 0.4         | 0.4         | 1.0         | -1.2        | -0.2        | 0.1         | 0.1          | -1.6                   | 0.6                      | 1.0                      | -0.2                     | -0.0                   | -0.0                   | 0.5                      | 0.6                      |
| 民間最終消費支出<br>Private Consumption                           | 前期比% **                            | -0.8        | 0.4         | -0.8        | 0.3         | 0.4         | 0.4         | 0.5         | 1.6         | -2.4        | 0.2         | 0.2         | 0.2          | -2.9                   | -0.4                     | 1.3                      | -0.6                     | -0.9                   | -1.2                   | 0.3                      | 0.6                      |
| 民間住宅投資<br>Private Residential Investment                  | 前期比% **                            | 2.3         | 1.6         | -1.2        | -0.3        | 0.7         | 2.8         | 1.3         | -0.8        | -2.8        | -3.8        | -2.4        | -0.1         | -11.7                  | 2.3                      | 2.7                      | -6.1                     | -5.3                   | -2.6                   | 2.4                      | -2.9                     |
| 民間企業設備投資<br>Private Non-Residential Investment            | 前期比% **                            | -1.2        | 0.7         | 1.4         | 0.4         | 0.5         | 0.5         | 0.6         | 1.0         | -1.4        | 0.3         | 0.2         | 0.2          | 0.1                    | 2.2                      | 2.6                      | 0.2                      | 3.1                    | 1.3                    | 2.3                      | 1.0                      |
| 公的固定資本形成<br>Public Investment                             | 前期比% **                            | 3.3         | -2.0        | -2.7        | 0.7         | -0.3        | -0.3        | -0.2        | -0.5        | -0.6        | -0.6        | -0.6        | -0.6         | -2.6                   | -1.0                     | -2.0                     | -2.2                     | 0.4                    | -2.2                   | -1.9                     | -1.9                     |
| 外需<br>Net Exports of Goods & Services                     | 寄与度%ポイント ++                        | -0.3        | 0.2         | 0.1         | -0.1        | 0.1         | -0.0        | -0.1        | -0.1        | 0.3         | 0.1         | 0.1         | 0.1          | 0.6                    | 0.1                      | -0.0                     | 0.4                      | -0.0                   | 0.4                    | -0.0                     | 0.2                      |
| 財貨・サービスの輸出<br>Exports of Goods & Services                 | 前期比% **                            | -4.6        | 2.6         | -0.9        | -0.2        | 0.6         | 0.7         | 0.7         | 0.8         | 0.8         | 0.8         | 0.8         | 0.9          | 7.8                    | 0.2                      | 1.8                      | 3.2                      | 8.3                    | 2.7                    | 0.3                      | 3.1                      |
| 財貨・サービスの輸入<br>Imports of Goods & Services                 | 前期比% **                            | -2.6        | 1.3         | -1.4        | 0.6         | 0.4         | 0.8         | 1.7         | 1.4         | -1.2        | 0.2         | 0.2         | 0.1          | 3.3                    | -0.1                     | 2.2                      | 1.1                      | 7.2                    | 0.2                    | 0.6                      | 2.3                      |
| 名目国内総支出<br>GDE at Current Prices                          | 前期比% **<br>前年同期比% ****             | -0.0<br>2.1 | 0.6<br>3.5  | -0.3<br>2.0 | 0.4<br>0.7  | 0.3<br>1.0  | 0.8<br>1.3  | 0.3<br>1.9  | 0.6<br>2.0  | -0.7<br>1.0 | 0.3<br>0.5  | 0.5<br>0.6  | -0.1<br>-0.0 | 1.5                    | 2.1                      | 1.6                      | 0.5                      | 1.6                    | 2.5                    | 1.2                      | 1.0                      |
| 鉱工業生産指数<br>Indices of Industrial Production               | 前期比% **                            | -1.4        | -1.2        | 0.5         | -0.3        | 0.1         | 0.4         | 1.0         | 1.9         | -2.2        | 0.0         | 0.1         | 0.4          | -0.4                   | -1.0                     | 1.1                      | 0.0                      | 2.1                    | -0.9                   | -0.4                     | 1.3                      |
| 企業物価指数<br>Corporate Goods Price Index                     | 前年同期比% ****                        | -2.2        | -3.6        | -3.6        | -2.9        | -3.5        | -2.3        | -0.7        | 0.4         | 2.9         | 2.8         | 2.7         | 2.5          | 2.8                    | -3.1                     | -1.5                     | 2.7                      | 3.1                    | -2.2                   | -2.4                     | 2.2                      |
| 消費者物価指数 (生鮮食品除く)<br>Consumer Price Index excl. Fresh Food | 前年同期比% ****                        | 0.1         | -0.1        | 0.0         | -0.1        | -0.2        | 0.2         | 0.5         | 1.0         | 1.7         | 1.8         | 1.8         | 1.6          | 2.8                    | 0.0                      | 0.4                      | 1.7                      | 2.6                    | 0.5                    | 0.1                      | 1.6                      |
| 名目雇用者報酬<br>Compensation of Employees                      | 前期比% **<br>前年同期比% ****             | 0.2<br>0.9  | 0.9<br>1.7  | 0.4<br>1.8  | 0.2<br>1.7  | 0.7<br>2.2  | 0.3<br>1.6  | 0.2<br>1.5  | 0.4<br>1.6  | 0.1<br>1.0  | 0.3<br>1.1  | -0.2<br>0.6 | 0.9<br>1.1   | 1.9                    | 1.5                      | 1.7                      | 1.0                      | 1.6                    | 1.5                    | 1.8                      | 1.1                      |
| 完全失業率<br>Unemployment Rate                                | % *                                | 3.3         | 3.4         | 3.2         | 3.2         | 3.2         | 3.2         | 3.1         | 3.1         | 3.2         | 3.2         | 3.2         | 3.2          | 3.5                    | 3.3                      | 3.2                      | 3.2                      | 3.6                    | 3.4                    | 3.2                      | 3.2                      |
| 新発10年国債流通利回り (店頭基準気配)<br>10-Year Government Bond Yield    | %                                  | 0.401       | 0.395       | 0.306       | 0.100       | 0.109       | 0.118       | 0.128       | 0.137       | 0.146       | 0.156       | 0.166       | 0.175        | 0.478                  | 0.301                    | 0.123                    | 0.161                    | 0.548                  | 0.360                  | 0.114                    | 0.151                    |
| 日経平均株価<br>Nikkei Stock Average                            | 円 / yen                            | 20,058      | 19,475      | 19,035      | 16,939      | 17,171      | 17,596      | 18,074      | 18,516      | 18,428      | 18,729      | 19,173      | 19,378       | 16,253                 | 18,877                   | 17,839                   | 18,927                   | 15,460                 | 19,204                 | 17,445                   | 18,712                   |
| IMFベース経常収支<br>Current Account Balance (IMF)               | 千億円/100 Billion yen*<br>名目GDP比% *# | 42.2<br>3.4 | 36.5<br>2.9 | 45.5<br>3.6 | 63.1<br>5.0 | 60.6<br>4.8 | 54.9<br>4.3 | 50.6<br>4.0 | 57.3<br>4.5 | 56.0<br>4.4 | 50.9<br>4.0 | 52.8<br>4.1 | 60.9<br>4.8  | 79.3<br>1.6            | 192.0<br>3.8             | 227.9<br>4.5             | 225.3<br>4.4             | 26.5<br>0.5            | 166.4<br>3.3           | 233.5<br>4.6             | 221.4<br>4.3             |
| 対ドル円レート<br>Yen to US Dollar Exchange Rate                 | 円/ドル<br>yen / dollar               | 121.4       | 122.3       | 121.4       | 116.3       | 116.8       | 117.9       | 118.4       | 119.5       | 120.5       | 121.0       | 121.5       | 122.0        | 109.7                  | 120.4                    | 118.1                    | 121.3                    | 105.8                  | 121.1                  | 117.4                    | 120.6                    |
| WTI原油価格<br>WTI Crude Oil Price                            | ドル/バレル<br>dollar / barrel          | 58.0        | 46.5        | 42.2        | 30.5        | 33.8        | 36.1        | 38.2        | 40.4        | 41.4        | 42.3        | 43.6        | 44.2         | 80.8                   | 44.3                     | 37.1                     | 42.8                     | 92.9                   | 48.8                   | 34.6                     | 41.9                     |
| 米国実質国内総支出<br>U.S. Real GDP (2009 Dollars)                 | 前期比年率% ***                         | 3.9         | 2.0         | 0.7         | 1.5         | 2.7         | 2.7         | 2.6         | 2.5         | 2.5         | 2.5         | 2.5         | 2.5          | 2.7                    | 2.2                      | 2.2                      | 2.5                      | 2.4                    | 2.4                    | 2.0                      | 2.5                      |
| 中国実質国内総支出<br>China Real GDP (1990 Prices)                 | 前年同期比% ****                        | 7.0         | 6.9         | 6.8         | 6.8         | 6.5         | 6.3         | 6.1         | 6.4         | 6.2         | 6.0         | 5.9         | 5.9          | 7.2                    | 6.9                      | 6.3                      | 6.0                      | 7.3                    | 6.9                    | 6.4                      | 6.1                      |

(注) 1. \*季節調整値、\*\*季節調整済み前期比  
2. \*\*\*季節調整済み前期比年率換算、\*\*\*\*前年同期比  
3. # 名目GDP比  
4. ++ 前期比寄与度

[Note] 1. \* Seasonally adjusted, \*\* Seasonally adjusted changes from the previous quarter  
2. \*\*\* Seasonally adjusted changes from the previous quarter in annual rate, \*\*\*\* Year-on-year percentage change  
3. # % of nominal GDP  
4. ++ Contributions to changes from the previous quarter