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*SA167 Short-Term Forecast (2016/7-9—2018/1-3)*

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## ***Little Change in Fiscal 2016–17 Growth Projections***

***—Stimulus Package Should Prop Up Demand in the Face of Global Uncertainties—***

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April–June was the second straight quarter of real GDP growth, although the uptrend was rather anemic. Consumption continued to edge upward, but exports and capital spending remained weak.

The future outlook, moreover, remains uncertain, even with the global economy projected to register moderate growth on the strength of trends in the US and other industrial markets and the gradual return of momentum in the emerging economies. The stronger yen will mean lower real net overseas income, and trading losses will expand again in fiscal 2017 as the impact of falling crude oil prices wears off and as a result of corporate export pricing strategies (see summary table).

In such a climate, our latest projections call for 0.6% real growth in fiscal 2016 and 0.9% in fiscal 2017—even with the government’s latest stimulus package—far short of the 2% promised by Abenomics.

The biggest concern going forward is the stronger yen, although exports are expected to hold steady ever under the current circumstances. The global financial market has been marked by greater volatility since early this year, as the outlook in emerging economies became increasingly murky. The appreciation was driven by expanded purchases of the yen—considered a safe asset—in the currency market. The Brexit vote in June exacerbated the trend. There are no immediate signs of a weakening, so we anticipate the exchange rate to remain at current levels for the foreseeable future.

Many Japanese manufacturers of high-value-added products, including autos, have adopted pricing-to-market (PTM) strategies to keep prices competitive in overseas markets. This strategy will likely be maintained even in the face of a stronger yen, enabling exports to maintain their moderate growth.

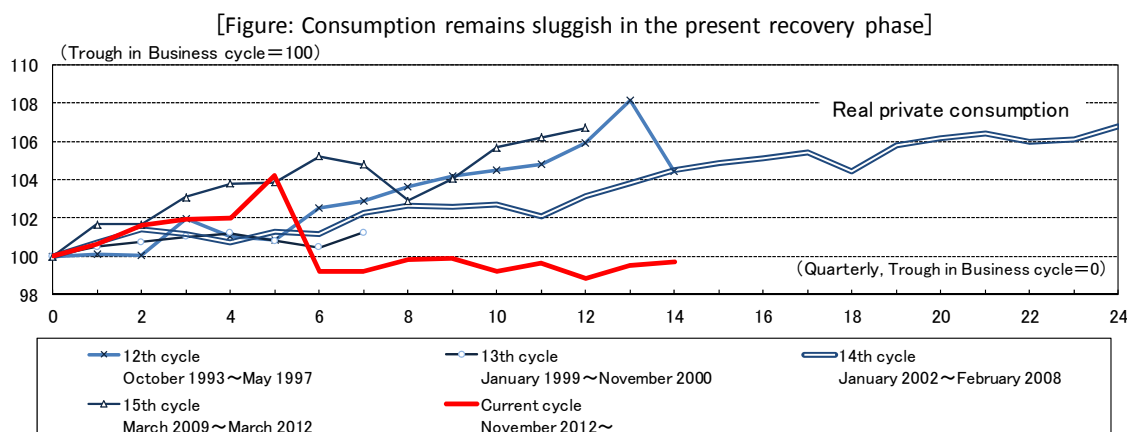
Looking at foreign markets, Britain’s decision to leave the EU is a certainly a matter of concern, but as a share of Japan’s total exports, Britain accounted for only 1.9% (in fiscal 2015). The repercussions may be much greater, though, should Britain’s major trading partners in the EU and elsewhere begin slowing down.

Turning to domestic trends, the economic package announced by Prime Minister Shinzo Abe in August should push up GDP by a cumulative total of 0.8% in fiscal 2016 and 2017. The ¥28 trillion package is the biggest over the past 10 years, with the exception of the post-Lehman-crisis stimulus. Our latest projection incorporates the contributions to GDP from the estimated ¥4 trillion in public works projects (out of the ¥7.5 trillion in additional spending by the national and local governments) and the boost in personal consumption expected from the ¥300 billion to be provided as subsidies to low-income households.

While such stimulus will have some impact, private demand is likely to remain weak. The virtuous cycle of higher income triggering spending—which has supported the recovery thus far—will continue for the time being, but we anticipate its momentum to slow.

As for the corporate sector, the stronger yen and the chipping away of benefits from lower oil prices will henceforth squeeze profits, particularly among export-reliant businesses. We believe that the blunting of growth in the overseas markets will prompt some manufacturers to put off their capital spending plans.

Household consumption, meanwhile, remains sluggish, despite improvements in the employment and income picture (see figure). One reason is that spending is taking longer than expected to rebound following the April 2014 hike in the consumption tax. Consumers may also be holding off purchases due to future anxieties about higher tax and social security burdens in the light of ballooning public debt and aging demographics.



Source: Cabinet Office, "Quarterly Estimates of GDP"

Is there a way for Japan to surmount its economic woes? Wage trends will hold the key, as stronger consumption will be needed to drive a recovery. The 2016 spring wage negotiations resulted in lower pay raises than the year before; given that corporate earnings during the current fiscal year are projected to decline, wage hikes are expected to be even smaller in spring 2017. The job market may continue to improve, but this will not lead to stepped-up spending. We project growth in personal spending to be only slightly higher than the rise in wages.

We project CPI (excluding fresh food) growth to be 0.0% in fiscal 2016 and 0.7% in 2017. Many businesses had finally begun raising prices, but there has been a recent blunting of this trend, and both households and businesses, as well as market participants, now have lower inflation expectations. The supply-demand gap is unlikely to be narrowed in the near future, so reaching the 2% inflation target set by the BOJ in fiscal 2017 should prove to be difficult.

Additional risks include political developments that could reverse the global trend toward economic openness and integration, a renewed financial crisis in Europe, and a US interest rate hike leading to financial turmoil in emerging markets. Domestically, a stronger yen and lower share prices could prompt businesses and households to put off their investment and spending plans.

Boosting the longer-term dynamism of the Japanese economy remains a daunting task given the country's dwindling and aging population and other difficult challenges. The latest stimulus package, which Prime Minister Abe called an "investment in the future," is aimed at promoting longer-term growth and is headed in the right direction.

But, as many economists have noted, continued monetary easing and fiscal stimulus need to be augmented with the prompt and steady implementation of a growth strategy, such as measures to boost productivity through workstyle and technological innovations. For example, the working conditions of nonregular employees should be enhanced by ensuring equal pay for equal work, and private-public collaboration should be encouraged in promoting new financial technologies and developing artificial intelligence applications. Efforts are needed to tap the full strength of the Japanese economy in achieving the goals of the "three new arrows" of the Abenomics growth strategy.

# Summary Table of the 167<sup>th</sup> Quarterly Forecast

		Forecast																			
四半期／年度／暦年 Quarter / Fiscal Year / Calendar Year	単位 Unit	2015				2016				2017				年度(FY) 2014 (実績) Actual	年度(FY) 2015 (実績) Actual	年度(FY) 2016 (予測) Forecast	年度(FY) 2017 (予測) Forecast	暦年(CY) 2014 (実績) Actual	暦年(CY) 2015 (実績) Actual	暦年(CY) 2016 (予測) Forecast	暦年(CY) 2017 (予測) 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) Real GDE (Chained 2005 Yen)	前期比% ** 前年同期比% ****	-0.4 0.7	0.5 1.8	-0.4 0.7	0.5 0.2	0.0 0.6	0.2 0.3	0.1 0.8	0.3 0.6	0.3 0.9	0.3 0.9	0.2 1.1	0.1 0.8	-0.9	0.8	0.6	0.9	-0.0	0.5	0.5	0.9
国内需要 Domestic Demand	寄与度%ポイント ++	-0.0	0.3	-0.5	0.4	0.3	0.2	0.1	0.4	0.3	0.3	0.2	0.1	-1.6	0.8	0.7	1.0	0.0	0.1	0.5	1.0
民間最終消費支出 Private Consumption	前期比% **	-0.7	0.5	-0.8	0.7	0.2	0.1	0.2	0.3	0.2	0.3	0.2	0.1	-2.9	-0.2	0.6	0.9	-0.9	-1.2	0.4	0.9
民間住宅投資 Private Residential Investment	前期比% **	1.7	1.1	-0.5	-0.1	5.0	1.4	-3.6	-1.8	-0.6	-0.5	-0.2	-0.2	-11.7	2.4	3.6	-3.9	-5.3	-2.5	4.0	-3.3
民間企業設備投資 Private Non-Residential Investment	前期比% **	-0.9	0.7	1.2	-0.7	-0.4	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.1	2.1	0.2	1.3	3.1	1.5	0.2	1.0
公的固定資本形成 Public Investment	前期比% **	1.2	-1.9	-3.3	0.1	2.3	1.1	1.8	5.4	2.2	0.5	-1.2	-3.0	-2.6	-2.7	3.3	6.5	0.4	-2.5	-0.4	9.7
外需 Net Exports of Goods & Services	寄与度%ポイント ++	-0.4	0.2	0.1	0.1	-0.3	0.1	-0.1	-0.1	0.0	-0.0	-0.0	0.0	0.6	0.1	-0.1	-0.1	-0.0	0.4	-0.1	-0.1
財貨・サービスの輸出 Exports of Goods & Services	前期比% **	-4.2	2.6	-0.9	0.1	-1.5	0.8	0.2	0.2	0.4	0.4	0.3	0.3	7.9	0.4	-0.5	1.4	8.3	2.8	-1.1	0.9
財貨・サービスの輸入 Imports of Goods & Services	前期比% **	-1.8	1.2	-1.1	-0.5	-0.1	0.4	0.6	0.7	0.4	0.5	0.5	0.2	3.4	-0.0	0.1	2.0	7.2	0.3	-0.9	2.0
名目国内総支出 GDE at Current Prices	前期比% ** 前年同期比% ****	0.0 2.2	0.6 3.6	-0.3 2.2	0.8 1.1	0.2 1.3	0.2 1.0	0.1 1.4	0.4 1.0	0.4 1.1	0.3 1.1	0.2 1.2	0.1 1.0	1.5	2.2	1.2	1.1	1.6	2.5	1.2	1.1
鉱工業生産指数 Indices of Industrial Production	前期比% **	-1.3	-1.0	0.1	-1.0	0.2	0.4	0.2	0.3	0.3	0.2	0.1	0.1	-0.5	-1.0	-0.4	0.8	2.1	-1.2	-1.4	0.9
企業物価指数 Corporate Goods Price Index	前年同期比% ****	-2.2	-3.7	-3.7	-3.4	-4.3	-3.5	-2.1	-0.6	0.1	0.4	0.5	0.5	2.7	-3.2	-2.7	0.4	3.1	-2.3	-3.3	0.1
消費者物価指数(生鮮食品除く) Consumer Price Index excl. Fresh Food	前年同期比% ****	0.2	-0.2	-0.1	-0.1	-0.4	-0.3	0.2	0.6	0.6	0.7	0.7	0.6	2.8	0.0	0.0	0.7	2.6	0.5	-0.1	0.6
名目雇者報酬 Compensation of Employees	前期比% ** 前年同期比% ****	0.5 0.9	0.9 1.7	0.5 1.9	0.6 2.5	0.1 1.9	0.3 1.5	0.3 1.3	0.3 1.1	0.2 1.2	0.2 1.1	0.2 1.0	0.2 0.9	1.9	1.7	1.5	1.1	1.6	1.6	1.8	1.1
完全失業率 Unemployment Rate	% *	3.4	3.4	3.3	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0	2.9	3.5	3.3	3.1	3.0	3.6	3.4	3.1	3.0
新発10年国債流通利回り(店頭基準気配) 10-Year Government Bond Yield	%	0.401	0.395	0.306	0.051	-0.121	-0.150	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	0.478	0.288	-0.118	-0.100	0.548	0.360	-0.080	-0.100
日経平均株価 Nikkei Stock Average	円 / yen	20,058	19,475	19,035	16,843	16,394	16,278	16,376	16,445	16,507	16,639	16,726	16,784	16,253	18,855	16,373	16,664	15,460	19,204	16,473	16,579
IMFベース経常収支 Current Account Balance (IMF)	千億円/100 Billion yen* 名目GDP比% **	39.9 3.2	39.8 3.2	48.0 3.8	49.7 4.0	46.9 3.7	46.4 3.7	47.0 3.7	45.8 3.6	41.7 3.3	42.0 3.3	42.3 3.3	41.5 3.2	87.2 1.8	180.0 3.6	195.3 3.9	176.8 3.5	38.8 0.8	164.1 3.3	199.8 4.0	181.0 3.6
対ドル円レート Yen to US Dollar Exchange Rate	円/ドル yen / dollar	121.4	122.3	121.4	115.3	108.0	103.1	103.5	103.9	104.4	105.2	105.7	106.2	109.7	120.1	104.8	105.4	105.8	121.1	107.5	104.8
WTI原油価格 WTI Crude Oil Price	ドル/バレル dollar / barrel	58.0	46.5	42.2	33.6	45.6	44.0	46.1	48.1	48.6	49.6	49.9	50.8	80.8	45.1	45.9	49.7	92.9	48.8	42.3	49.0
米国実質国内総支出 U.S. Real GDP (2009 Dollars)	前年比年率% ***	2.6	2.0	0.9	0.8	1.2	3.1	2.8	2.3	2.3	2.3	2.3	2.4	2.8	2.2	1.8	2.4	2.4	2.6	1.6	2.4
中国実質国内総支出 China Real GDP (1990 Prices)	前年同期比% ****	7.0	6.9	6.8	6.7	6.7	6.3	6.4	6.1	6.0	6.0	5.7	5.7	7.2	6.9	6.4	5.9	7.3	6.9	6.5	6.0

(注) 1. \*季節調整値、\*\*季節調整済み前期比  
2. \*\*\*季節調整済み前年比年率換算、\*\*\*\*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