

Overview of Japan's Economy

Oct 2013

Macroeconomic Affairs Division
Economic and Industrial Policy Bureau
Ministry of Economy, Trade and Industry

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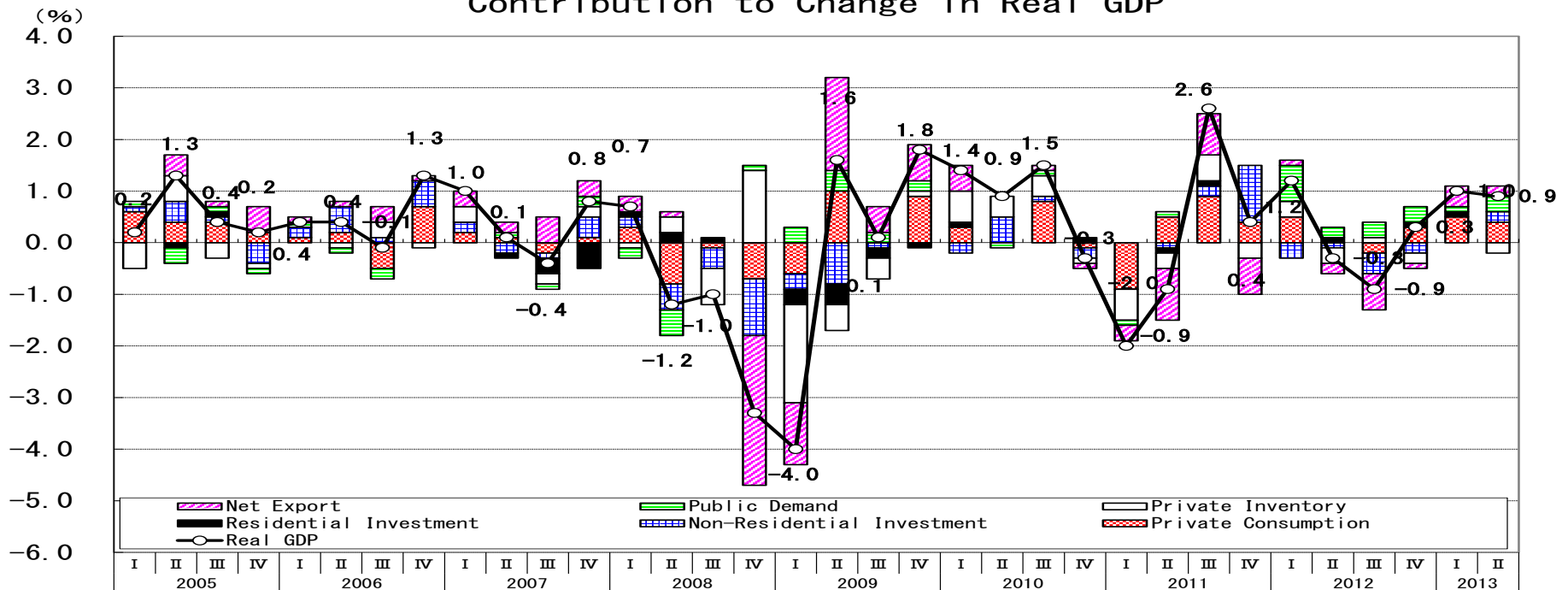
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GDP

- ❖ The Cabinet Office provisionally determined that a decline in the business cycle has been occurring since April 2012.
- ❖ The second quarter of 2013 showed positive GDP growth for the third consecutive term. The Japanese economy is on the way to recovery at a moderate pace.
- ❖ Concerning short-term prospects, the recovery is expected to take hold as household income and business investment continue to be on upward trends, while exports pick up and the effects of the policies develop.
- ❖ However, a slowing down of overseas economies is still a downside risk to the Japanese economy.

Contribution to Change in Real GDP



Source : The 1st Preliminary Quarterly Estimates of GDP Apr.-Jun. 2013, Cabinet Office

Economic Outlook For FY2013 & FY2014

- ❖ Cabinet of Japan decided “Economic Outlook For FY2013 & FY2014” on August 2, 2013.
- ❖ GDP growth rate in FY 2013 is estimated to be 2.8% positive.
- ❖ GDP growth rate in FY 2014 it is expected to continue positive growth (1.0%).

○ Main Economic Indicators

	FY12 (actual)	FY13 (estimate)	FY14 (forecast)
Real GDP	+ 1.2	+ 2.8	+ 1.0
Contribution of domestic demand	-	(+ 2.5)	(+ 0.4)
Contribution of private demand	(+ 2.0)	(+ 1.7)	-
Private consumption expenditure	+ 0.9	+ 2.1	+ 0.5
Private residential investment	+ 1.6	+ 7.8	- 3.3
Private non-residential investment	+ 5.3	+ 1.9	+ 4.9
Contribution of public demand	(- 1.4)	(+ 0.8)	-
Government consumption	+ 1.1	+ 1.5	-
Public investment	+ 2.2	+ 9.2	-
Contribution of external demand	(+ 15.0)	(+ 0.3)	(+ 0.6)
Exports of goods and services	- 0.8	+ 5.2	-
Imports of goods and services	- 1.3	+ 3.1	-
Nominal GDP	+ 0.3	+ 2.6	+ 3.1
Unemployment rate	+ 4.3	+ 3.9	+ 3.7
Number of employees	+ 0.2	+ 0.9	+ 0.6
Consumer price index	- 0.3	+ 0.5	+ 3.3
Domestic corporate goods price index	- 1.1	+ 1.7	+ 4.0
Industrial production	- 2.9	+ 3.2	-
GDP deflator	- 0.9	- 0.2	+ 2.1

(note) 1. Figures except unemployment rate show percentage.

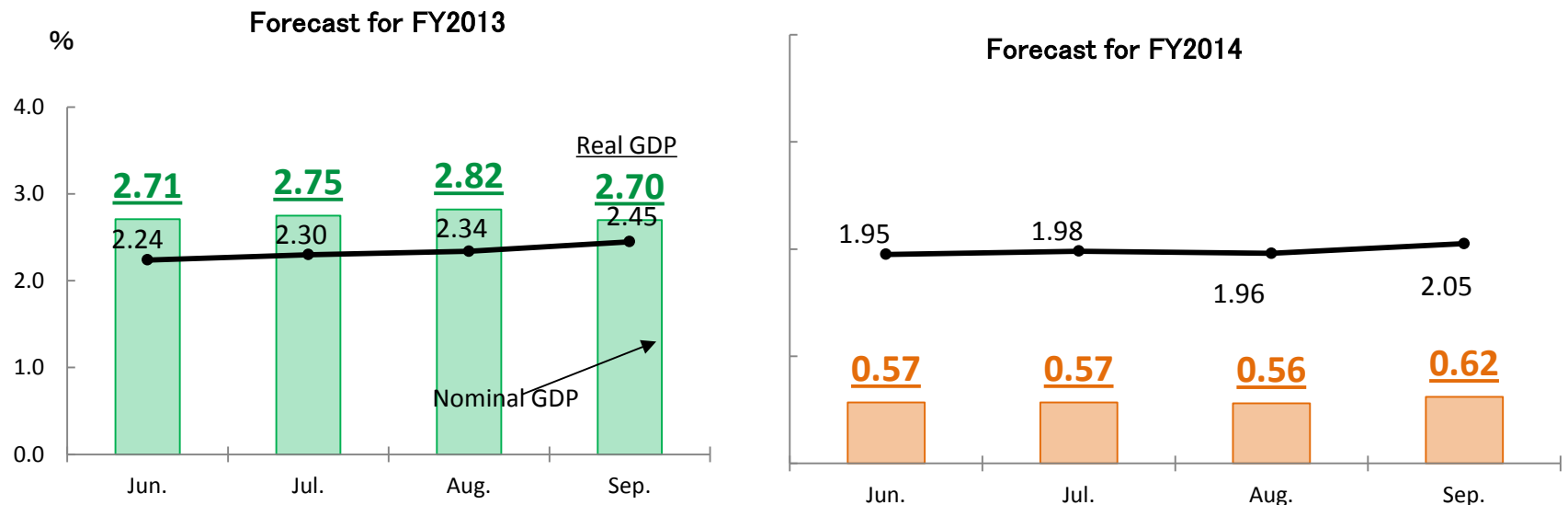
2. Those in the parentheses are the contribution to GDP growth.

Source: Economic Projection for FY2013, Cabinet Office

The Forecast by Economists

- ❖ According to a monthly survey of private economists' forecasts (the "ESP' Forecast"),
 - average of real GDP growth rate in FY 2013 is estimated to be 2.70% positive.
 - in FY 2014 it is expected to continue positive growth (0.62%).
- Note: 'ESP' is an acronym of the Cabinet Office public relations magazine, 'Economy, Society, and Policy'
- ❖ In the September edition of the 'ESP' Forecast, in 3Q 2013, the real GDP becomes positive growth, and after this quarter, the real GDP is also expected to continue positive growth.

The estimated growth rate of real GDP



The Forecast by the IMF

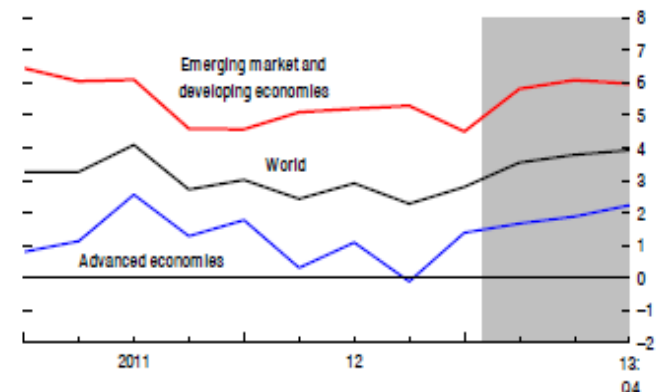
- ❖ According to the IMF World Economic Outlook (July 2013), the real GDP growth rate of the world will be 3.1% in 2013 and 3.8% in 2014, less than the forecast in April 2013, driven to a large extent by;
 - ① appreciably weaker domestic demand and slower growth in several key emerging market economies,
 - ② deeper and more protracted recession in the euro area,
 - ③ slowed U.S. economy expansion led by stronger fiscal contraction weighed on improving private demand.
- ❖ New downside risks have emerged, including the possibility of a longer growth slowdown in emerging market economies, especially given risks of lower potential growth, slowing credit and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in U.S. leads to sustained capital flow reversals.
- ❖ Although tail risks in advance economies have diminished, additional measures will be needed to keep them at bay, including increases in the U.S. debt ceiling and mitigation of financial fragmentation in the euro area.
- ❖ As for Japan, the stronger forecast for 2013 than previously projected reflects the effects of recent accommodative policies, while the somewhat softer forecast for 2014 reflects the weaker global environment.
- ❖ Key advance economies should pursue a policy mix that supports near-term growth, anchored by credible plans for medium-term public debt sustainability.

Real GDP growth rate (%)

	2012	Projections		Difference from July	
		2013	2014	2013	2014
World	3.1	3.1	3.8	▲ 0.2	▲ 0.2
United States	2.2	1.7	2.7	▲ 0.2	▲ 0.2
Euro Area	▲ 0.6	▲ 0.6	0.9	▲ 0.2	▲ 0.1
Germany	0.9	0.3	1.3	▲ 0.3	▲ 0.1
France	0.0	▲ 0.2	0.8	▲ 0.1	0.0
Italy	▲ 2.4	▲ 1.8	0.7	▲ 0.3	0.2
Spain	▲ 1.4	▲ 1.6	0.0	0.0	▲ 0.7
United Kingdom	0.3	0.9	1.5	0.3	0.0
Japan	1.9	2.0	1.2	0.5	▲ 0.3
ASEAN5	6.1	5.6	5.7	▲ 0.3	0.2
China	7.8	7.8	7.7	▲ 0.3	▲ 0.6
India	3.2	5.6	6.3	▲ 0.2	▲ 0.1
Russia	3.4	2.5	3.3	▲ 0.9	▲ 0.5
Brazil	0.9	2.5	3.2	▲ 0.5	▲ 0.8
Middle East & North Africa	4.5	3.0	3.7	▲ 0.1	0.1

[Source]IMF World Economic Outlook Update (July 2013)]

Figure 1. Global GDP Growth
(Percent; quarter over quarter, annualized)



Source: IMF staff estimates.

International comparison of GDP

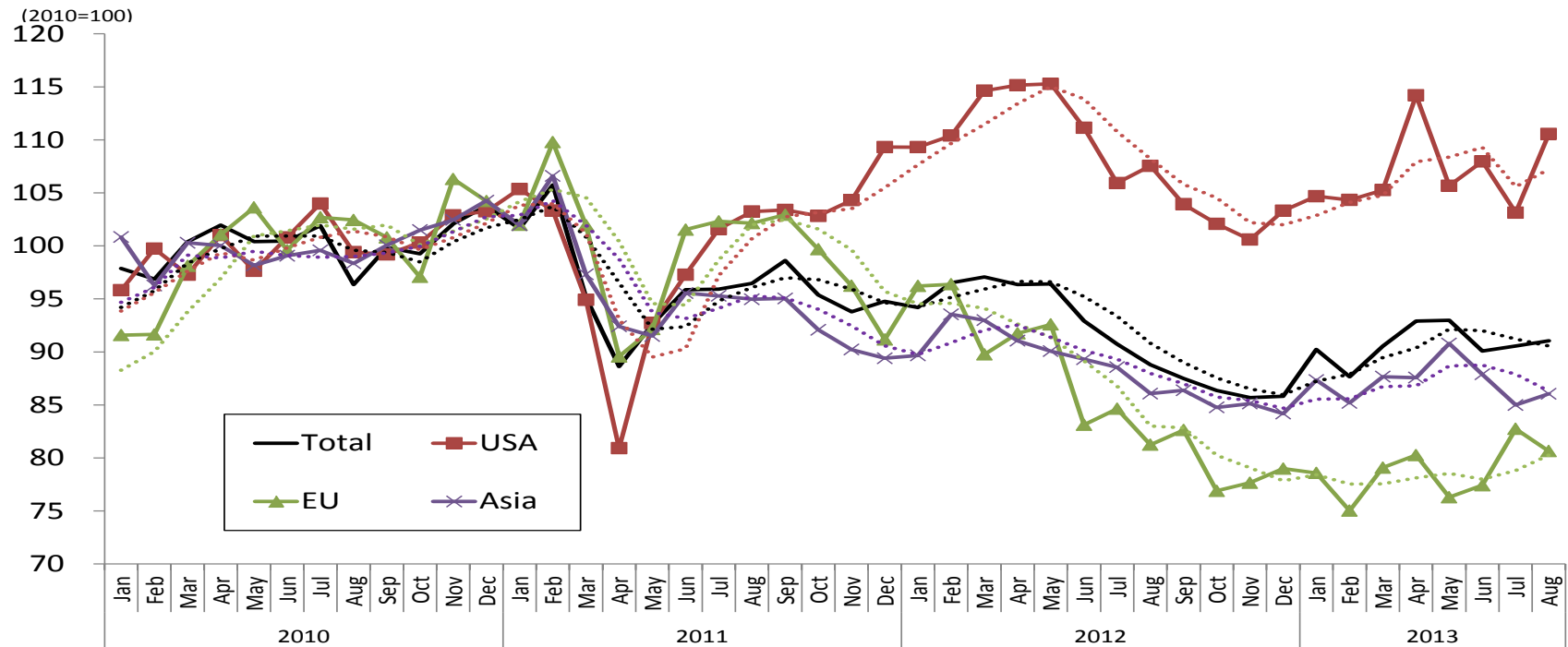
	Growth rates of GDP (percentage change compared with the previous quarter)		Growth rates of GDP (annual rate/percentage change compared with the previous quarter)		Growth rates of GDP (percentage change compared with the same quarter of the previous year)	
	2013 Q1	2013 Q2	2013 Q1	2013 Q2	2013 Q1	2013 Q2
Japan	+1.0	+0.9	+4.1	+3.8	+0.3	+1.2
United States	+0.3	+0.6	+1.1	+2.5	+1.3	+1.6
Euro area	▲ 0.2	+0.3	▲ 0.6	+1.2	▲ 1.0	▲ 0.5
Germany	0.0	+0.7	0.0	+2.9	▲ 0.3	+0.5
United Kingdom	+0.3	+0.7	+1.1	+2.9	+0.3	+1.5
China	+1.6	+1.7	-	-	+7.7	+7.5

【Source】Cabinet Office (Japan), Department of Commerce (U.S.), Eurostat, National Bureau of Statistics of China, Bloomberg

Exports

- ❖ Exports show movements of picking up although its upward trend becomes moderate recently.
- ❖ By region, exports to Asia have been flat. Exports to the U.S. have been flat recently. Exports to EU show signs of picking up.
- ❖ As for short-term prospects, exports are expected to continue picking up, reflecting the steady overseas economies and the trend of exchange rate depreciation of the yen so far. However, it should be noted that there are risks of a downturn in overseas economies.

Export Quantity Index(Seasonally adjusted)

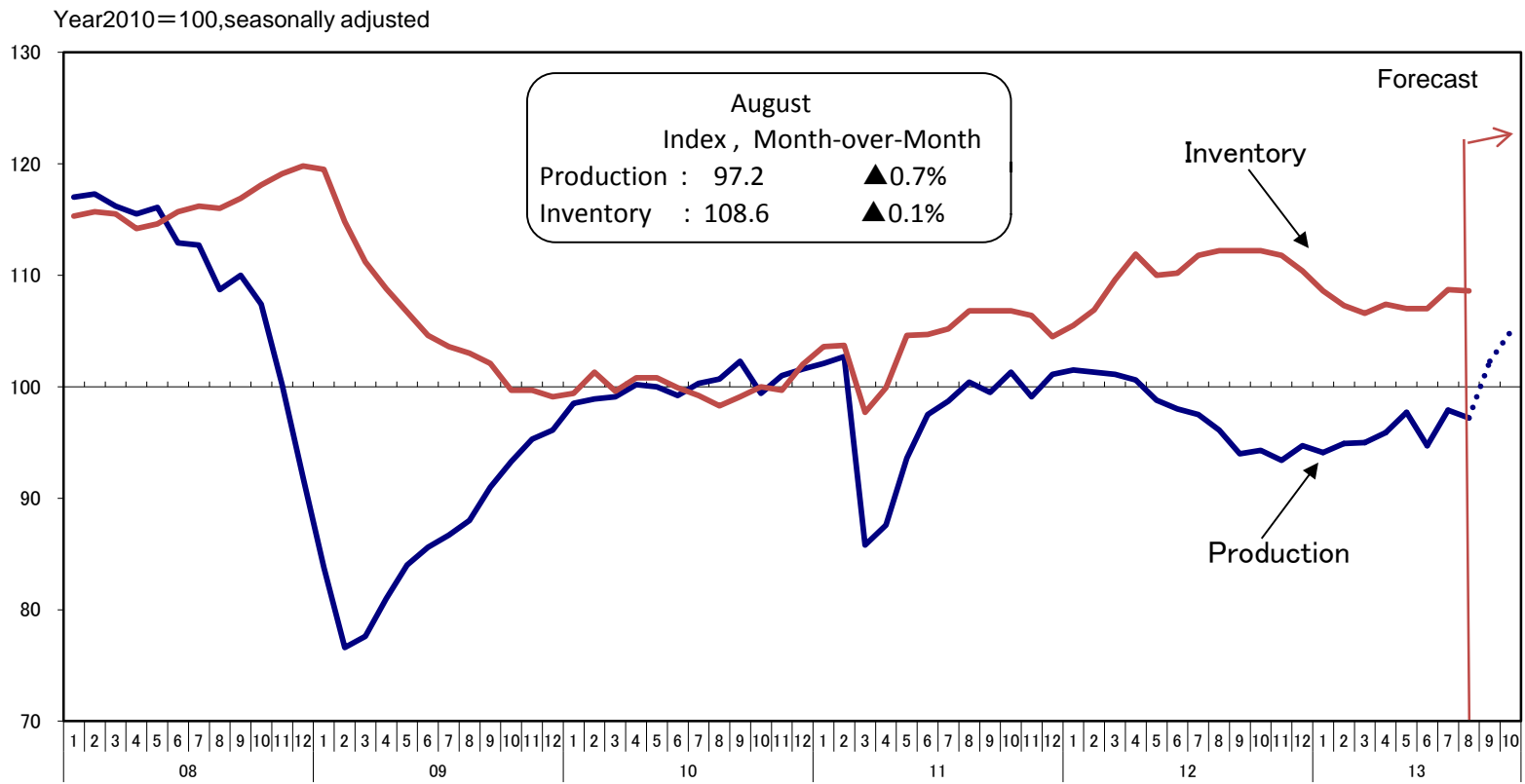


Source :Trade statistics of Japan(Ministry of Japan,seasonally adjusted by the Cabinet Office)

Industrial Production

- ❖ Industrial production is showing gradual movements of picking up.
- ❖ According to the Survey of Production Forecast in Manufacturing, production is expected to increase in September and October.

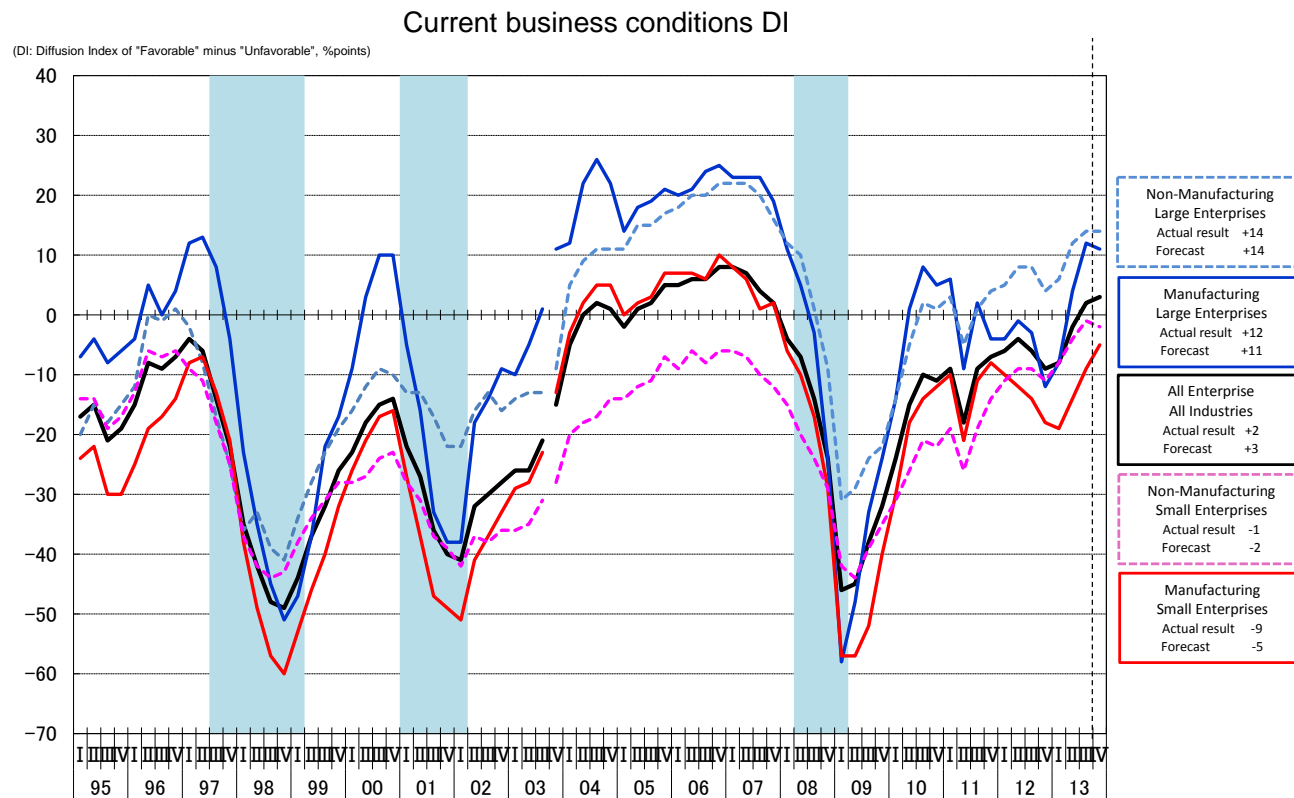
Industrial Production Index and Forecast



Source:Indices of Industrial Production, METI

Business Conditions (BOJ Tankan)

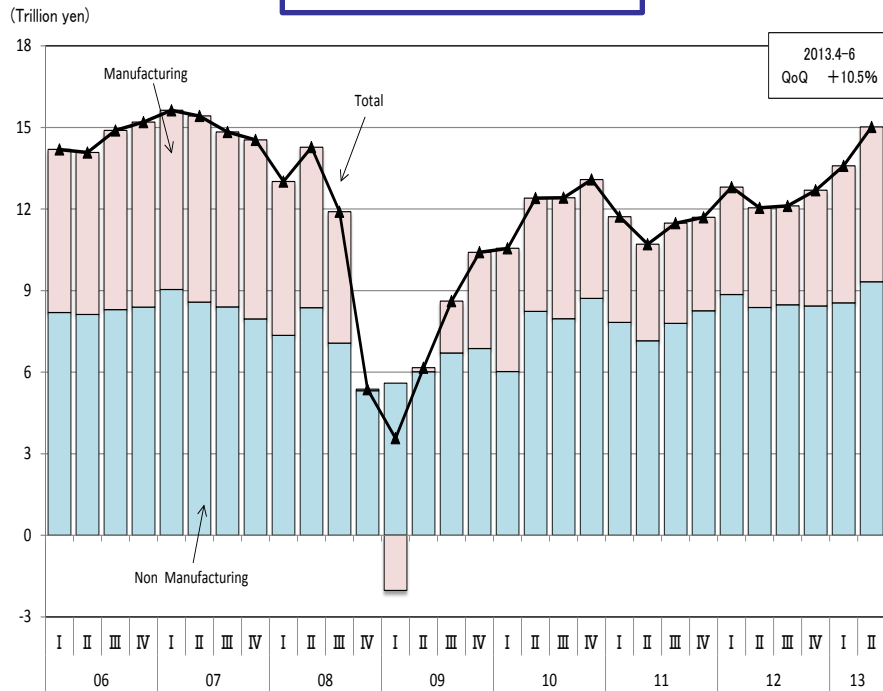
- ❖ The Bank of Japan short-term business sentiment survey (Tankan) reveals that firms' judgment on current business conditions shows an improvement by 4 points for all enterprises in all industries.
- ❖ By industry, large manufacturers' judgment on current business conditions improved by 8 points, that for large non-manufacturers improved by 2 points, that for small manufacturers improved by 5 points, and that for small non-manufacturers improved by 3 points.



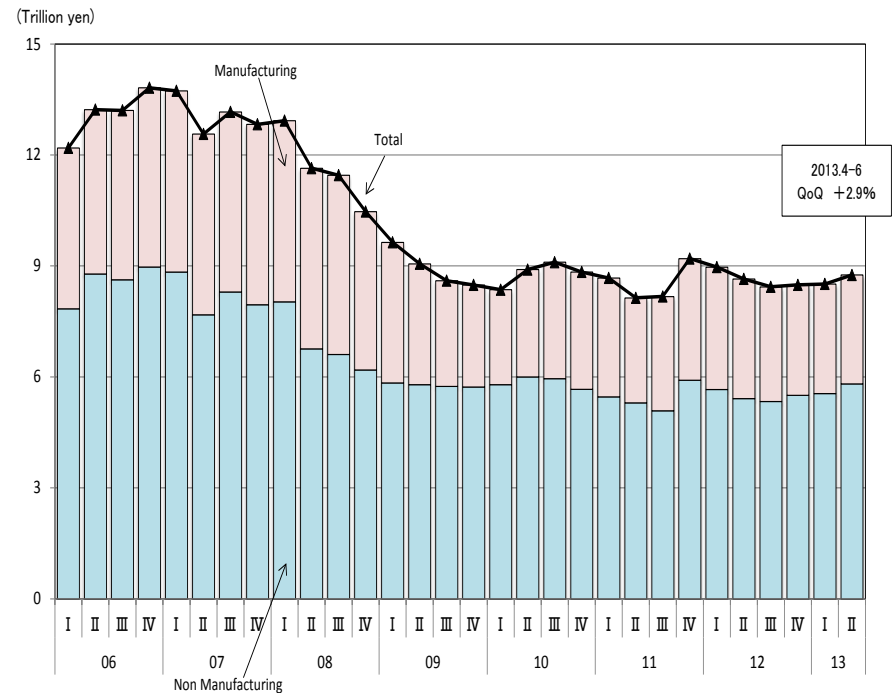
Corporate Profits and Business Investment

- ❖ According to the Quarterly Financial Statements Statistics of Corporations, corporate profits during the April-June quarter of 2013 increased by 10.5% from the previous quarter after seasonal adjustment.
- ❖ Business investment is leveling off and shows some movements of picking up. According to the same statistics, business investment increased in the April-June quarter.

Corporate Profits

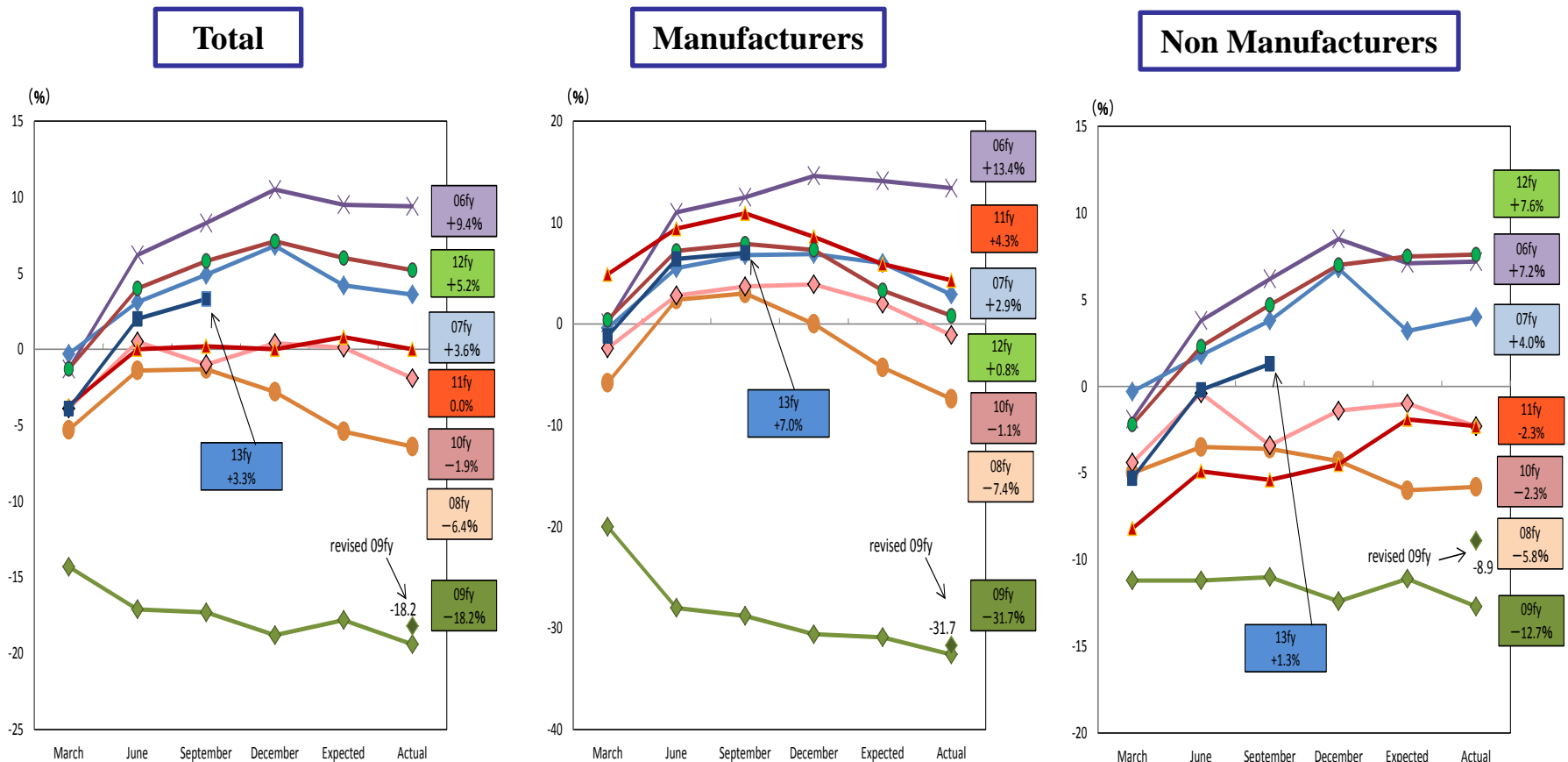


Business Investment



Business Investment (BOJ Tankan)

- According to the Bank of Japan short-term business sentiment survey (Tankan), planned business investment in the fiscal year 2013 is expected to increase for the third consecutive year for manufacturers, and that for non-manufacturers is expected to increase for the second consecutive year, thus that for all industries is expected to increase for the second consecutive year.



Source: Short Term Economic Survey of Enterprise (Tankan)

Settlement of Accounts 1Q FY 2013 : Listed Companies (1)

(US\$ mil)

(¥87.58 = \$1.00 on Dec 28 ,2012) (¥95.05 = \$1.00 on Mar 29 ,2013) (¥98.71 = \$1.00 on Jun 28 ,2013)

INDUSTRY _NAME	CORP_NAME	Net Sales								Net income (or loss)							
		2012/ 10-12	Year- on-year change (%)	2013/ 1-3	Year- on-year change (%)	2013/ 4-6	Year- on-year change (%)	FY2013 (2014/3)	Year- on-year change (%)	2012/ 10-12	Year- on-year change (%)	2013/ 1-3	Year- on-year change (%)	2013/ 4-6	Year- on-year change (%)	FY2013 (2014/3)	Year- on-year change (%)
Textile & Apparels	Toyobo Co. , Ltd.	893	▲ 3.1	944	▲ 1.1	864	2.7	3,546	3.2	21	13,776.9	33	-	30	501.4	96	24.4
	Teijin Ltd.	2,110	▲ 8.5	2,132	▲ 21.7	1,859	5.3	8,408	11.3	17	▲ 75.4	▲ 316	-	2	-	81	-
Pulp & Paper	Oji Paper Co. , Ltd.	3,666	3.8	3,321	8.0	3,227	4.7	13,575	7.9	126	55.6	65	99.3	86	25.2	304	17.2
Chemicals	Kao Corp.	4,609	26.2	3,041	2.8	3,403	14.0	13,170	28.4	303	42.4	111	244.1	78	▲ 50.6	679	7.4
	Kuraray Co. , Ltd.	1,041	1.2	1,025	4.5	944	5.2	4,356	16.4	99	5.2	78	22.7	66	12.6	355	21.5
	Fujifilm Holdings Corp.	6,275	2.7	6,350	4.6	5,762	9.7	23,807	6.1	210	108.8	267	26.7	151	497.0	709	29.0
	Sumitomo Chemical Co. , Ltd.	5,263	3.4	5,578	5.2	5,222	5.2	23,807	20.4	▲ 315	-	▲ 109	-	79	760.3	304	-
	Mitsui Chemicals, Inc.	3,732	▲ 5.1	4,196	12.7	3,678	3.1	16,209	13.8	64	-	16	-	48	-	51	-
	Toray Industries, Inc.	4,792	4.9	4,407	7.7	4,080	10.6	18,742	16.2	197	24.5	118	9.2	134	31.5	658	34.1
	Asahi Kasei Corp.	4,740	7.7	4,882	15.0	4,356	17.8	19,157	13.5	171	52.3	190	134.9	199	522.3	780	43.4
	Mitsubishi Chemical Holdings Corp.	8,860	▲ 1.4	8,236	▲ 8.0	7,915	2.8	36,167	15.6	67	-	99	172.4	112	-	517	174.3
Oil Products	Idemitsu Kosan Co. , Ltd.	12,622	▲ 0.1	12,802	7.1	11,206	4.7	49,640	12.0	159	510.9	355	75.3	229	-	517	1.7
	JX Holdings, Inc.	32,718	5.7	33,297	7.9	28,100	8.7	124,101	9.2	743	102.9	711	471.8	361	-	1,722	6.6
Iron & Steel	JFE Holdings, Inc.	9,732	9.9	9,281	7.4	8,508	14.9	-	-	233	-	186	2,730.1	233	26.6	-	-
	NIPPON STEEL & SUMITOMO METAL Corp.	13,181	▲ 19.0	13,858	▲ 7.1	13,037	▲ 1.2	-	-	282	154.8	288	▲ 37.2	642	-	-	-

Settlement of Accounts 1Q FY 2013 : Listed Companies (2)

(US\$ mil)

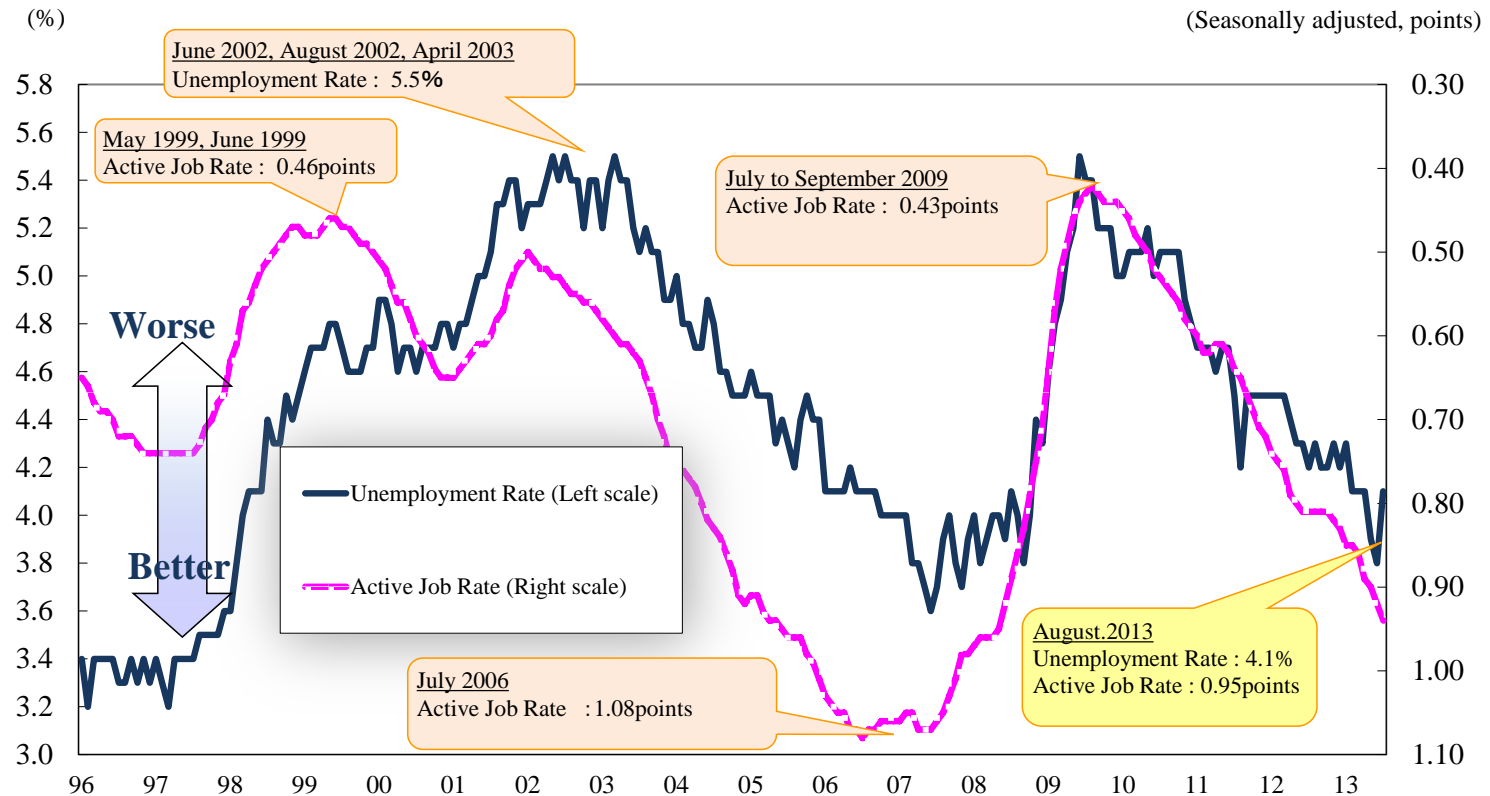
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Electric Appliances	Ricoh Co. , Ltd.	5,362	2.6	5,654	6.1	5,285	13.6	21,578	10.7	64	-	160	75.8	103	55.4	810	146.4
	Sharp Corp.	7,745	15.1	7,324	26.1	6,159	32.6	27,353	8.9	▲ 420	-	▲ 1,273	-	▲ 182	-	51	-
	Kyocera Corp.	3,632	13.2	3,719	15.7	3,360	11.4	14,183	9.4	224	▲ 22.7	226	196.7	229	244.8	973	44.4
	Mitsubishi Electric Corp.	9,258	▲ 0.7	11,155	▲ 1.7	8,457	6.7	38,598	6.8	63	▲ 55.8	214	▲ 32.1	258	▲ 16.4	1,114	58.2
	Murata Manufacturing Co. , Ltd.	2,194	29.3	1,832	24.3	1,951	35.1	7,902	14.5	186	109.8	116	-	177	391.3	709	65.1
	Toshiba Corp.	15,495	▲ 5.9	18,488	0.6	14,088	9.6	61,797	5.2	335	-	242	▲ 62.4	54	-	1,013	29.0
	Hitachi, Ltd.	24,128	▲ 6.7	27,063	▲ 9.0	21,102	▲ 1.8	93,202	1.8	231	▲ 41.0	1,315	▲ 52.3	109	54.0	2,127	19.8
	Konica Minolta Holdings, Inc.	2,214	6.5	2,476	13.4	2,214	15.4	9,118	10.7	31	64.3	51	▲ 68.0	99	6,246.8	263	71.9
	Sony Corp.	22,242	6.9	18,233	8.3	17,351	13.0	80,032	16.2	▲ 123	-	988	-	35	-	507	16.2
	Panasonic Corp.	20,570	▲ 8.1	19,604	▲ 0.9	18,484	0.6	72,941	▲ 1.4	700	-	▲ 1,372	-	1,092	741.8	507	-
Canon Inc.	10,863	▲ 1.4	8,592	▲ 1.5	9,795	7.5	39,003	10.6	698	▲ 0.4	430	▲ 33.5	674	28.6	2,634	15.8	
Transport Equipment	Honda Motor Co. , Ltd.	27,698	24.9	28,879	14.1	28,711	16.3	122,581	22.5	884	62.5	797	5.8	1,241	▲ 7.0	5,876	58.0
	Toyota Motor Corp.	60,730	9.3	61,411	2.4	63,371	13.7	243,136	8.8	1,141	23	3,303	159.4	5,695	93.6	14,993	53.8
	Fuji Heavy Industries Ltd.	5,397	26.3	5,705	11.2	5,541	27.5	21,072	8.7	145	217.2	699	3,815.9	491	196.4	1,226	1.2
	Suzuki Motor Corp.	6,804	4.2	7,949	5.8	6,846	4.8	28,366	8.6	75	▲ 24.2	336	140.9	274	10.5	1,013	24.4
	Nissan Motor Co. , Ltd.	25,216	▲ 5.3	30,241	6.0	22,621	17.8	105,055	7.7	618	▲ 34.6	1,158	46.1	831	14.0	4,255	22.6
Wholesale Trade	Sumitomo Corp.	20,357	▲ 11.9	20,867	▲ 4.5	19,665	2.8	86,111	13.3	675	▲ 12.5	461	38.9	617	24.9	2,431	3.2
	Itochu Corp.	36,063	10.2	34,484	6.5	33,594	9.2	144,869	13.9	752	10.1	759	▲ 11.6	783	9.4	2,938	3.5
	Mitsui & Co. , Ltd.	28,202	▲ 5.2	27,218	▲ 2.1	28,200	11.5	-	-	977	▲ 24.3	568	▲ 42.7	1,274	20.4	3,748	20.2
	Marubeni Corp.	29,883	4.6	31,316	0.6	31,658	17.3	138,790	28.3	538	23.4	▲ 235	-	649	18.2	2,127	61.4
	Mitsubishi Corp.	58,069	▲ 1.5	57,558	10.4	54,772	12.5	211,731	3.4	1,064	▲ 24.6	804	▲ 7.0	1,173	15.3	4,052	11.1
Other Financing Business	Orix Corp.	3,112	19.5	2,969	5.0	2,826	11.3	12,157	12.6	346	38.1	229	29.0	456	29.4	1,368	20.6

Employment

- ❖ The employment situation is improving.
- ❖ The total unemployment rate increased by 0.3 percentage points from the previous month to 4.1% in August.
- ❖ The effective ratio of job offers to applicants has been rising because of an increase in the number of new job offers, etc.

Trend in Unemployment Rate and Active Job Opening Rate

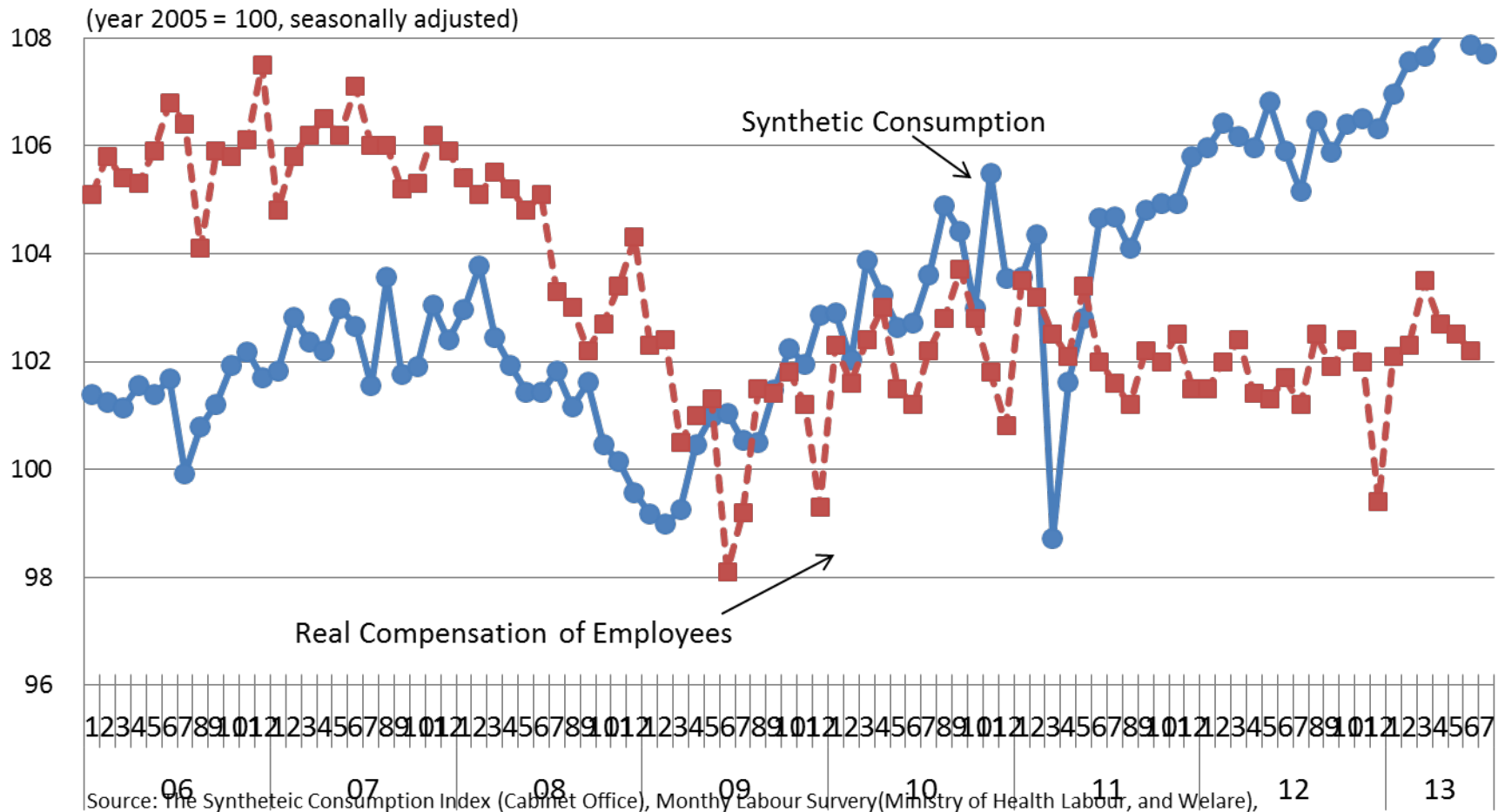


Source: Monthly Labour Survey, Ministry of Health, Labour and Welfare
Report on Employment Service, Ministry of Internal Affairs and Communications

Private Consumption

- ❖ Private consumption has a trend of picking up.
- ❖ As for short-term prospects, recovery is expected to continue its trend of picking up supported by the improvement of employment and income situations.

Private Consumption and Compensation of Employees



Source: The Synthetic Consumption Index (Cabinet Office), Monthly Labour Survey (Ministry of Health Labour, and Welfare), Labour Force Survey (Ministry of Internal Affairs and Communications)

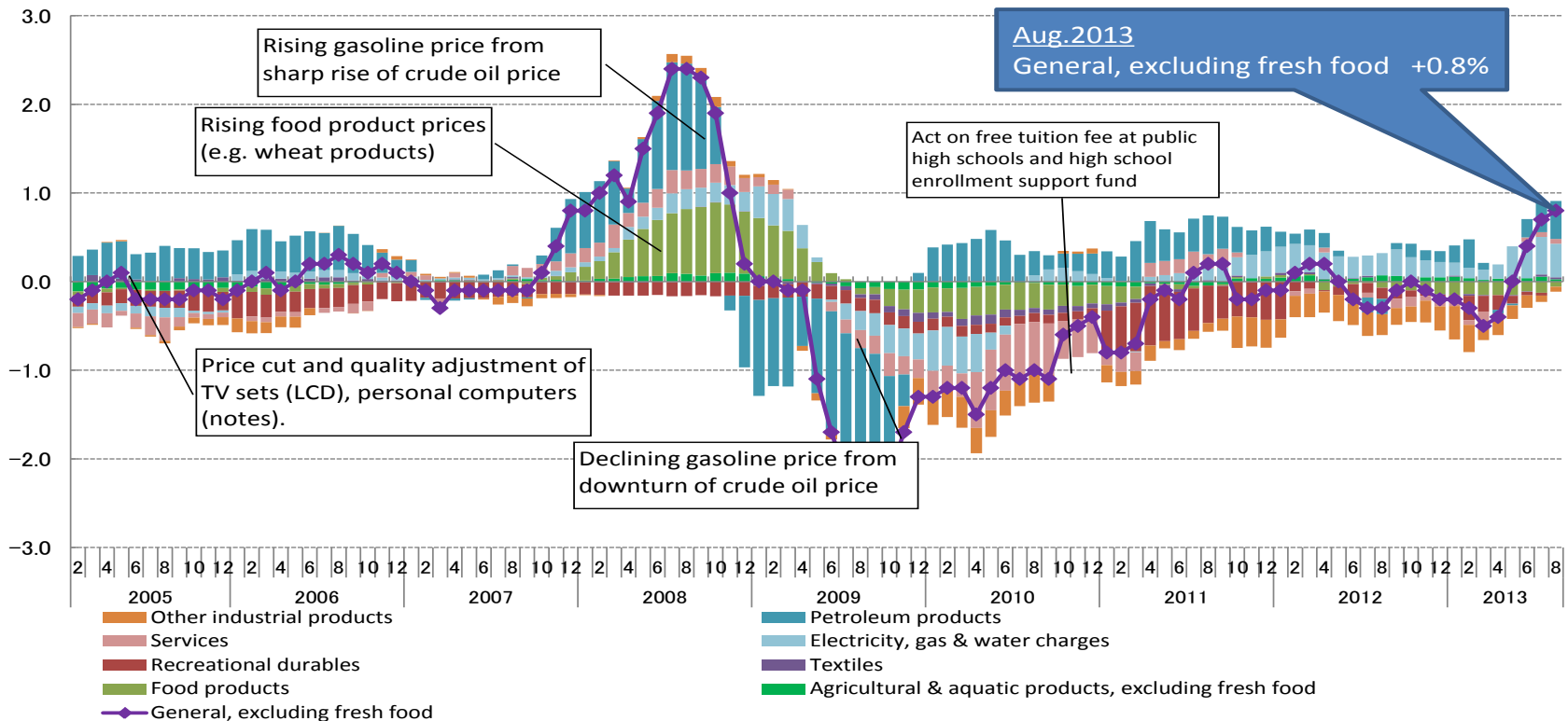
Note: Real compensation of employees was estimated by METI.

Consumer Prices

- ❖ Consumer prices, in terms of "general, excluding fresh food " (referred to as "core") have been increasing gradually.
- ❖ As for short-term prospects, consumer prices, in terms of general, excluding fresh food, petroleum products and other specific components (referred to as "core core") are expected to hold firm for the time being.

(Growth over the same month previous year :%)

Contribution Rate of CPI by Goods and Service Group



Source : Consumer Price Index (Ministry of Internal Affairs and Communications)