

For Immediate Release

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**Issuance of the FY2017 - 2019 “Japanese Economy Outlook”
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- Japanese Economy Outlook: The importance of Nominal GDP in deflation: (Summary) -

Highlights:

- Although real GDP growth rate for first quarter of 2017 is above 2% (annualized rate), GDP deflator shows the largest decline after Abenomics launched.
- We believe we should focus on nominal GDP and deflator rather than real GDP when the economy falls in deflation as current Japanese economy.
- Large decline in GDP deflators shows that the Japanese companies are very reluctant to increase their prices even if the import price increases.
- We extend our economic and price outlook for Japanese economy to FY2019. Although we assume the government will raise consumption tax rate from current 8% to 10% in October 2019, that will create huge downward pressure on economy and prices. In order to achieve 2% inflation target, the government may need to take further accommodative fiscal and monetary policy based on current low rates environment.

1. 2017-Q1 GDP deflator shows the biggest decline after Abenomics begun

Japan's 2017-Q1 GDP data draw attention because the real GDP grew at 0.5% (2.2% on annualized rate) from previous quarter, five-consecutive growth which is the longest growth in the last 11 years. But we believe that we should more focus on the weakness in GDP deflator which decline by 0.6% in the same period.

2. The nominal data should be paid more attention when the economy in deflation

Nominal GDP is more likely to fit the consumers' sentiment than the real GDP. We believe that we should analyze the nominal GDP and deflators when the economy in deflation. If you looked at the “Nominal GDP” of Japan, it shows “time of constant growth”, and there is no “lost decade(s)”. Nominal GDP is more worth to watch because Japanese economy has failed to achieve price stability.

3. Back ground of GDP deflator weakness: Difficulty of price transfer from import price to domestic price

When yen cheapened against US dollar after late-2012, the domestic demand deflator increased after the rise in import price. But current import price escalation has not followed the domestic demand deflator increase. This implies that the corporation is pessimistic about the future sales and growth.

4. Future Outlook to FY2019: Tax burden may push down growth and price

We extend our economic and price outlook to FY2019. If the consumers worry about the government will attempt to achieve fiscal consolidation by increase tax rate, the price growth will be deteriorating and it may be difficult to achieve price target. Current low interest rates may provide good opportunity for government and the central bank to implement policy mix, further accommodative monetary and fiscal policy.

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