

Today's

Topic

Japanese Economic Outlook for Year 2016

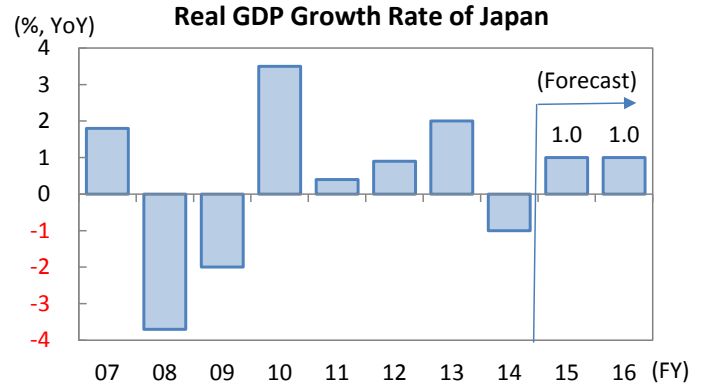
**Moderate Economic Recovery will Continue**

## Point 1

**FY 2015 GDP growth is expected to turn positive**

**Inflation likely to be revised downward**

- Fiscal year 2015 real GDP growth rate is expected to turn positive to + 1.0% YoY. On a quarterly basis, Apr.-Jun. 2015 saw negative growth of - 0.5% QoQ as exports to China and private consumption slowed. However, the Japanese economy seems to have maintained its moderate recovery trend as Jul.-Sep. 2015 managed to avoid two consecutive quarters of negative growth.
- Inflation has stayed far below BOJ's target of 2% due to factors such as lower crude oil price. It is expected to be around + 0.1% for FY2015.



(Note) Data period is from FY2007 to FY2016. SMAM's forecast for FY2015 and beyond.

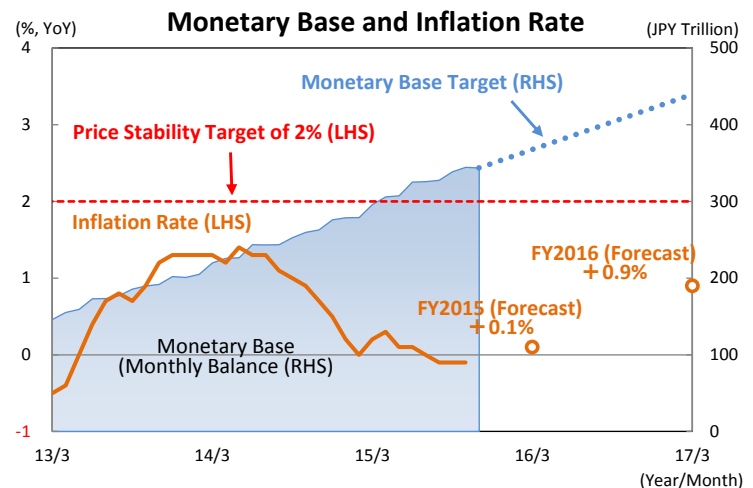
(Source) SMAM, based on Cabinet Office, Japan data.

## Point 2

**Moderate GDP growth is expected for FY2016, too.**

**Inflation rate to be around + 1%**

- For FY2016, the Japanese economy is likely to maintain its moderate recovery as: i) global economy is expected to moderately recover and ii) solid private consumption is expected to continue supported by the improvements in employment and wage environment. Real GDP growth rate of FY2016 is expected to be + 1.0% YoY, almost same as that of FY2015.
- On the other hand, inflation rate is expected to be around + 0.9% as crude oil price is likely to stabilize gradually.



(Note) Data period is from March 2013 to March 2017. Data of Inflation Rate is till October 2015. Data of Monetary Base is till November 2015. Monetary Base of December 2015 and beyond is calculated on the assumption that it will increase by JPY 80 trillion every year. SMAM's forecast is used for Inflation Rate of FY2015 and FY2016. Inflation Rate is Consumer Price Index (All items excluding fresh food).

(Source) SMAM, based on Bloomberg L. P. data.

## Future Outlook

**FY2016 may be the year to determine the future direction of Japan**

- FY2016 might be an important year as the future directions of both Japanese economy and politics are likely to be determined. The House of Councilors election is scheduled in July. The enforcement of the consumption tax hike (from 8% to 10%) scheduled in April 2017 needs to be determined. Confidence on solid economic growth will be a key for both events.
- Expectations on government policies seem to be stronger in the first half of the year. Such expectations are likely to positively influence Japanese equity investment together with solid corporate earnings in FY2016, which is expected to continue renewing record highs from FY2015. Meanwhile, overseas factors such as the Chinese economy and crude oil price need to be carefully watched.

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