FY2014, FY2015 Economic Outlook

- The “Triple Merits” will boost the Japanese economy -

November 18, 2014

Mizuho Research Institute

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Key points of our forecast

- Even though the global economy will follow a gradual recovery driven mainly by the developed economies, the world will still face a shortage of demand.

- Although the world faces downside risks, the current conditions are a far cry from the global economic downturn two years ago because of the expansion of the US economy.

- Among the risk factors are the downturn of the Chinese and Eurozone economies, geopolitical risks and the formation of bubbles.

- We have revised upward our forecast on the Japanese economy in FY2015 due to the delay of the next consumption tax hike. The “Triple Merits” of (1) additional monetary easing, (2) fiscal expansion, and (3) lower crude oil prices, should push up the rate of economic growth by at least 1%.

- To stem the downturn of the Japanese economy, Mizuho Research Institute Ltd. (MHRI) proposes a three-point package of economic measures (measures for the low-income bracket, a travel points system, and support for the working generation).

- Inflation will likely fall short of the Bank of Japan’s (BOJ) target, leading to forecasts of further monetary easing in 2015.

- The financial markets face the risks of the volatility of long-term interest rates in contrast to the rise of stock prices and weakening of the yen. In the event of a postponement of the consumption tax hike, it would be essential to indicate Japan’s commitment to fiscal discipline, in ways such as the abolishment of the clause that makes the tax hike conditional on an economic upturn.

Market implications

- Volatility will tend to rise in the financial markets due to the rise and fluctuation of asset prices reflecting the continuation of monetary policy easing by central banks around the world.

- Amid the globalization of the world economy, the divisive nature of geopolitical conditions may serve to accelerate the market-moving factors.

- Concerns regarding the weakening of emerging country currencies will continue to linger amid speculation on a US interest rate hike and the instability of the emerging economies.

- The fall of commodity prices reflecting the weakness of demand will serve to push down the inflation rate while contributing to the deceleration of the resource-rich countries and tailwinds for the recovery of the developed countries.

- The rise of long-term interest rates will remain subdued due to the global shortage of demand and fall of future expectations. Interest rates among eurozone economies are expected to remain under downward pressures.

- Despite the current slowdown of the Japanese economy, the "Triple Merits" should provide the economy with more momentum. As a result, the stock market and real estate prices will follow an uptrend. At the same time, the yen will continue to depreciate.

- Even though the fluctuation of long-term interest rates should be kept subdued by the BOJ's purchases of JGBs, it will contain a mix of good and bad rise of interest rates – a "virtuous rise" accompanying recovery and a "vicious rise" stemming from uncertainties regarding fiscal discipline.

Overview – albeit downside risks, we still hold on to a recovery scenario of the global and Japanese economies

- Even though our forecast on global growth (the weighted average of countries and regions included in MHRI's forecast) of +3.2% in 2014 is not much different from 2013, growth in 2015 should accelerate to +3.5% as the developed economies gather momentum. The US economy will grow at a pace around the upper half of the +2% to +3% level p.a. on a quarterly basis, and the Japanese economy will start to pick up as the impact of the consumption tax hike wears off. Growth among the emerging economies will fall, dragged down mainly by China and Russia.

- Despite our main scenario of a gradual recovery of the global economy, downside risks will linger among the emerging economies such as China, as well as the eurozone economy. Keep a close eye upon the possibility of a global economic slowdown including simmering geopolitical risks.

- Looking forward, based upon the premise of a postponement of the consumption tax hike in Japan, growth in FY2015 should turn out stronger than expected, helped by the "Triple Merits" of (1) further monetary easing, (2) fiscal expansion, and (3) lower crude oil prices. That said, note the potential volatility of long-term interest rates stemming from concerns regarding fiscal discipline.

- The fall of crude oil and the weaker yen should serve to widen Japan's current account surplus. The downward pressure of the fall of crude oil prices upon Japan's price level will outpace the upward pressure stemming from the weak yen, making it difficult to achieve the BOJ's inflation target.

The global economy should gradually expand

○ We hold on to our view that the global economy will follow a mild recovery in 2015, driven mainly by the developed economies.

- 2014: we have made a slight upward revision of our projection on US growth in contrast to a downward revision with respect to Japan and Asia.
- 2015: despite an upward revision of our forecast on Japan, we have made a slight downward revision of our projection on the overall forecast area due to a downward revision of the eurozone and Asian economies.

[Outlook on the global economy]

Calender year	2012 (Actual)	2013 (Actual)	2014 (Forecast)	2015 (Forecast)	2014 (September forecast)	2015 (September forecast)	2014 (breadth of revision)	2015 (breadth of revision)
	(Y-o-y % change)				(Y-o-y % change)		(% pt)	
Total of forecast area	3.2	3.1	3.2	3.5	3.2	3.6	—	-0.1
Japan, US, Eurozone	1.1	1.2	1.5	2.1	1.5	2.1	—	—
US	2.3	2.2	2.2	2.9	2.1	2.9	0.1	—
Eurozone	-0.7	-0.5	0.8	1.0	0.8	1.2	—	-0.2
Japan	1.5	1.5	0.4	2.0	1.2	1.4	-0.8	0.6
Asia	6.1	6.1	6.0	5.9	6.1	6.1	-0.1	-0.2
China	7.7	7.7	7.4	7.1	7.5	7.3	-0.1	-0.2
NIEs	2.0	2.8	3.3	3.1	3.4	3.4	-0.1	-0.3
ASEAN5	6.2	5.2	4.6	5.2	4.6	5.1	—	0.1
India	4.8	4.7	5.0	5.1	5.0	5.1	—	—
Australia	3.6	2.4	3.1	2.6	3.1	2.6	—	—
Brazil	1.0	2.5	0.2	1.0	0.2	1.0	—	—
Russia	3.4	1.3	0.3	0.5	0.1	1.0	0.2	-0.5
Japan (FY)	0.7	2.2	-0.4	2.5	0.5	1.5	-0.9	1.0
Crude oil price (WTI,USD/bbl)	94	98	95	79	98	94	-3	-15

Note: The total of the forecast area is calculated upon the 2012 GDP share (PPP) by the IMF.
Sources: International Monetary Fund (IMF), MHRI.

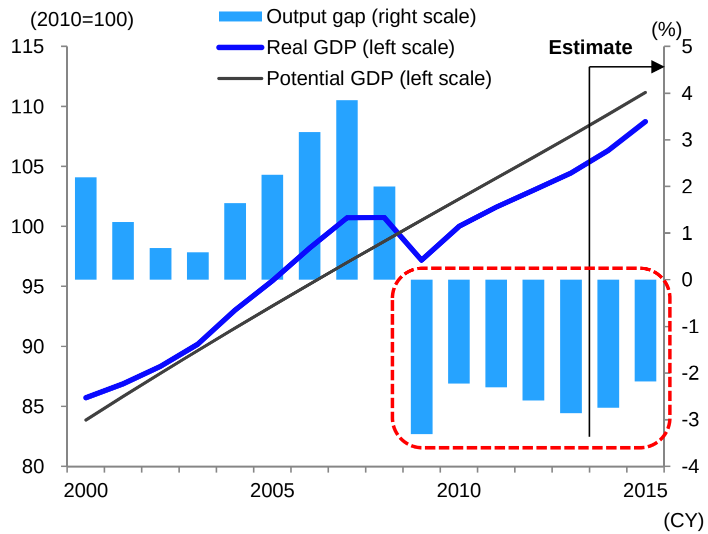
Downside risks to the global economy: the developed economies will continue to face a shortage of demand

○ Ever since the "Lehman Shock", the shortage of demand among the developed countries of the world has dragged the ouput gap into negative territory.

- Since the downturn after the Lehman Shock, capital investment (as a percentage of GDP) among developed countries has been slow to recover.
- At the Brisbane Summit (November 15th, 16th), the G20 leaders announced the Brisbane Action Plan to raise GDP growth to over 2% in order to stem the shortage of demand.

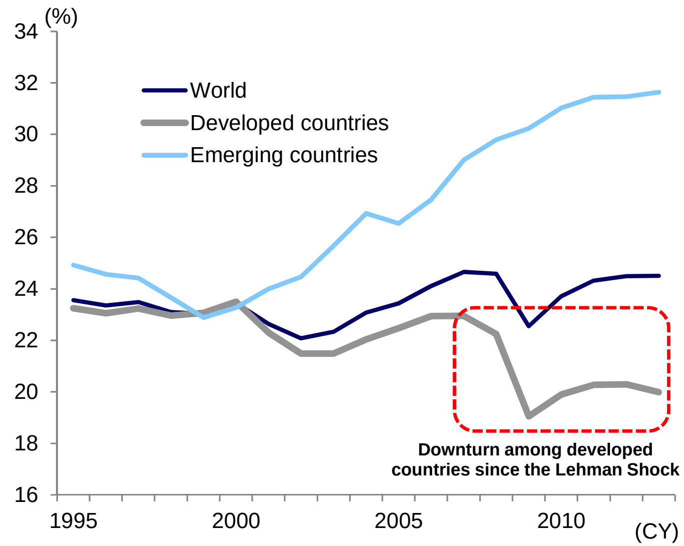
  - Even so, the structural mechanism remains unchanged that it will ultimately be up to monetary policy, given the large number of countries which are taking a cautious stance toward fiscal spending.

[Output gap among developed countries (estimates)]



Notes: Data on developed countries (US, eurozone, Japan, UK, S. Korea, Canada, Australia, Taiwan): real GDP indexed with 2010 as the base year, synthesized by 2010 share of PPP-based GDP.
Data on Japan, US, eurozone from 2014 onward are forecasts by MHRI. All others are based upon IMF forecasts.
* Potential GDP is calculated by HP filter.
Sources: Made by MHRI based upon releases by the IMF and statistical releases of the relevant countries.

[Capital investment (% of GDP)]



Sources: Made by MHRI based upon releases by the IMF.

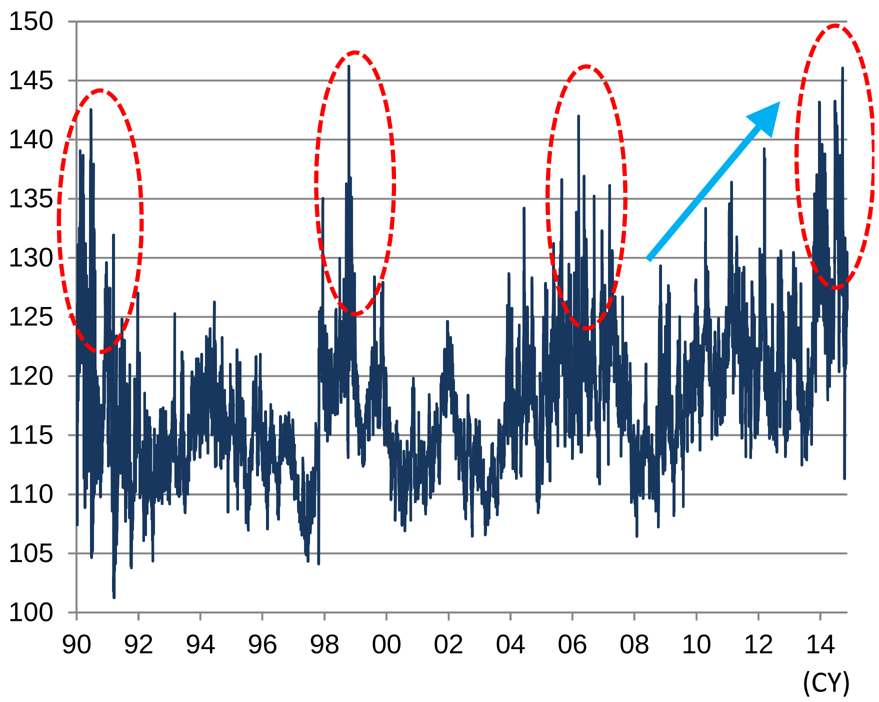
Watch out for downside risks to the global economy

○ Watch out for market destabilization stemming from the prolonged monetary easing around the world.

- As shown by the high level of the Skew Index (*), some risk indicators indicate the rise of risks of market adjustment.
- A certain level of caution is needed, given a large number of downside risks to the global economy such as a further economic downturn in China and the eurozone, the destabilization of the financial and money markets due to concerns regarding a bubble, and the rise of geopolitical tensions.

* The Skew Index measures the risks of extreme events referred to as "Tail Risks" and "Black Swan Events" (random and extreme market downturns).

[Skew Index]



Note: The value of the Skew Index increases along with the "skewness" of the S&P500 options market.
Source: Made by MHRI based upon the Chicago Board Options Exchange (CBOE).

[Major risks in 2015]

Major risks regarding the global economy
China's sharp economic slowdown starting in the real estate market
The eurozone's economic downturn and the fall into deflation & debt problem
The risks of a bubble due to a prolonged liquidity glut
Geopolitical risks in areas such as Ukraine and the Middle East
Capital outflow from the emerging countries accompanying the US monetary exit strategy
Major risks regarding the Japanese economy
Stagnation stemming from the downturn of consumer spending and prolonged inventory adjustment
Rise of long-term interest rates reflecting the postponement of the consumption tax hike

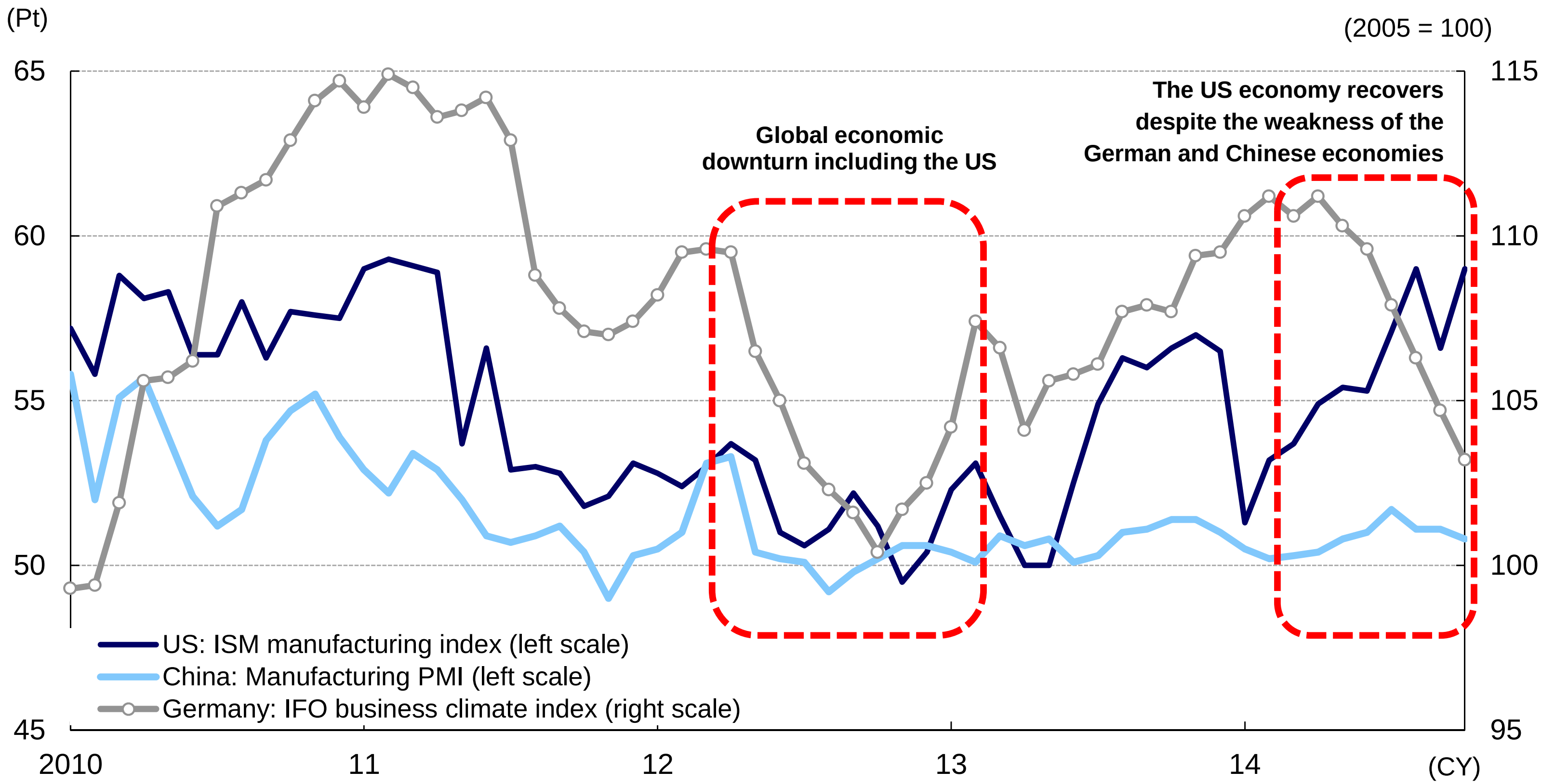
Source: Made by MHRI.

But it won't be as bad as 2012

○ Even though the Chinese economy is projected to moderate, a global economic slowdown should be avoided.

・In contrast to the global economic slowdown in 2012 when there was a uniform slowdown of the major economies, the global economy is currently underpinned by the strength of the US economy.

[Business conditions indexes of the US, China and Germany]



Sources: Institute for Supply Management, Ifo Institute for Economic Research, National Bureau of Statistics of China.

The Japanese Economy – postponement of the second consumption tax hike. Economic stimulus measures to prop up consumption will lead to an economic recovery

- In view of the contraction of the economy for the second quarter in a row in the Jul-Sep quarter of 2014, MHRI's forecast is based upon the premise that the consumption tax hike scheduled in October 2015 will be delayed until April 2017. At the same time, we expect the compilation of economic stimulus measures to support the low-income bracket of consumers and child rearing families.

- From the Oct-Dec quarter of 2014, the Japanese economy should gradually return to a recovery track as the backlash to the last-minute rush of demand prior to the 2014 consumption tax hike wears off. Personal consumption will continue to pick up amid the improvement of labor market conditions, the materialization of the wealth effect, and financial support toward the low-income bracket of consumers. Even the decision to delay the consumption tax hike will have a positive impact upon confidence among consumers in the low-income bracket. Exports and capital investment should also continue to pick up. Nevertheless, the contraction in the first half of the fiscal year will drag down growth, leading to a contraction (-0.4%) in FY2014.

- In FY2015, a further rise of wages as a result of the *shunto* annual labor-management negotiations should serve as tailwinds, leading to the steady growth of personal consumption. Look forward to the expansion of the economy driven by the recovery of exports and ongoing increase of capital investment. Growth in FY2015 is projected to reach +2.5%.

- Given the peak-out of import prices, the year-on-year change of the core CPI (excluding the impact of the consumption tax hike) will fall below 1% until mid-FY2015. The achievement of the inflation target of "2% in two years" appears increasingly tenuous. Even so, the annual wage hike of base wages (the "base-up") should rise further and the core inflation rate (excluding the impact of volatile prices such as energy) should improve steadily in FY2015.

Japan: postponement of the consumption tax hike in 2015. Look forward to an economic recovery underpinned by the "Triple Merits"

○ MHRI's outlook on the economy is based upon the assumption that the consumption tax hike will be delayed until April 2017. A virtuous cycle will start to unfold, pushing the economy on to a recovery track.

- The Japanese economy recorded a contraction for the second quarter in a row during the period from July to September of 2014, due in part to inventory cuts and unseasonable weather conditions. The next consumption tax hike will likely be postponed until April 2017.
- In the second half of FY2014, we expect a return to recovery track. Having said so, the contraction in the first half of the fiscal year will serve as a drag, keeping growth in negative territory (-0.4%) even on a full-year basis.
- In FY2015, the economy should start to expand on the back of the government's economic stimulus measures and further monetary easing by the BOJ. Real GDP growth is forecast to reach +2.5%.

 - Nominal GDP should grow +3.3% in FY2015, reaching the highest level since FY1991 (+4.9%).

[Outlook on the Japanese economy]

		2012 FY	2013	2014	2015	2013 Oct-Dec	2014 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2015 Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	2016 Jan-Mar
GDP (real)	Q-o-q % ch	0.7	2.2	-0.4	2.5	-0.4	1.6	-1.9	-0.4	1.0	1.1	0.6	0.6	0.5	0.3
	Q-o-q % ch p.a.	--	--	--	--	-1.6	6.7	-7.3	-1.6	4.0	4.3	2.4	2.2	2.2	1.2
Domestic demand	Q-o-q % ch	1.4	2.7	-0.9	2.4	0.2	1.8	-2.8	-0.5	1.0	1.0	0.6	0.5	0.5	0.3
Private sector demand	Q-o-q % ch	1.4	2.2	-1.3	3.0	0.1	2.5	-3.7	-0.9	1.4	1.5	0.7	0.6	0.5	0.2
Personal consumption	Q-o-q % ch	1.5	2.5	-2.4	2.4	-0.0	2.2	-5.0	0.4	1.0	1.0	0.5	0.4	0.4	0.3
Housing investment	Q-o-q % ch	5.4	9.5	-11.3	3.3	2.2	2.3	-10.0	-6.7	-0.9	2.4	2.2	1.5	0.6	0.0
Capital investment	Q-o-q % ch	0.7	2.6	2.7	4.5	0.8	7.5	-4.8	-0.2	2.8	2.6	0.5	0.5	0.6	0.5
Inventory investment	Q-o-q contribution, % pt	-0.1	-0.5	0.5	0.1	-0.1	-0.5	1.2	-0.6	0.1	0.1	0.1	0.1	0.0	-0.1
Public sector demand	Q-o-q % ch	1.4	4.2	0.3	0.6	0.5	-0.6	0.1	0.7	-0.3	-0.3	0.2	0.3	0.5	0.4
Government consumption	Q-o-q % ch	1.5	1.8	0.5	1.7	0.2	-0.2	-0.0	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Public investment	Q-o-q % ch	1.3	15.0	-0.5	-3.9	1.7	-2.0	0.3	2.2	-3.3	-3.2	-0.9	0.2	0.2	0.1
External demand	Q-o-q contribution, % pt	-0.8	-0.5	0.5	0.1	-0.6	-0.2	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports	Q-o-q % ch	-1.3	4.8	6.0	5.4	0.2	6.4	-0.5	1.3	1.1	1.2	1.3	1.4	1.5	1.5
Imports	Q-o-q % ch	3.6	7.0	2.4	4.2	3.7	6.2	-5.4	0.8	1.0	1.0	1.0	1.1	1.1	1.2
GDP (nominal)	Q-o-q % ch	-0.2	1.9	1.9	3.3	0.1	1.5	-0.1	-0.8	2.2	0.9	0.7	0.4	1.3	0.0
GDP deflator	Y-o-y % ch	-0.9	-0.4	2.3	0.7	-0.4	-0.1	2.0	2.1	2.6	2.6	0.9	1.1	0.6	0.4
Domestic demand deflator	Y-o-y % ch	-0.8	0.3	2.2	0.5	0.5	0.7	2.4	2.4	2.1	1.8	0.3	0.4	0.6	0.7

Notes: Figures in the shaded areas are forecasts.
Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP*

Japan: inflation will fall below 1% until mid-2015. The underlying rate of price increase is improving

[Outlook on the Japanese economy (major economic indicators)]

		FY 2012	FY 2013	FY 2014	FY 2015	2013 Oct-Dec	2014 Jan-Mar	2014 Apr-Jun	2014 Jul-Sep	2014 Oct-Dec	2015 Jan-Mar	2015 Apr-Jun	2015 Jul-Sep	2015 Oct-Dec	2016 Jan-Mar
Industrial production	Q-o-q % ch	-2.9	3.2	-0.9	2.9	1.8	2.9	-3.8	-1.9	1.2	1.1	0.7	0.8	0.9	0.7
Ordinary profits	Y-o-y % ch	8.1	20.9	6.1	8.9	25.1	17.2	2.8	2.7	10.1	7.8	12.4	12.8	6.3	5.7
Nominal compensation of employees	Y-o-y % ch	0.1	1.0	1.6	1.7	1.6	0.5	1.6	2.6	1.3	1.1	1.3	1.7	2.1	1.5
Unemployment rate	%	4.3	3.9	3.6	3.5	3.9	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5
New housing starts	P.a., 10,000 units	89.3	98.7	88.1	92.2	104.1	93.4	88.7	85.5	88.2	90.2	91.6	92.7	92.5	92.2
Current account balance	P.a., JPY tril	4.2	0.8	4.3	6.9	0.0	-5.5	2.8	2.6	8.3	4.6	7.3	7.6	9.6	4.2
Domestic corporate goods prices	Y-o-y % ch	-1.1	1.9	3.4	0.8	2.5	2.0	4.3	4.0	2.7	2.5	0.1	0.6	1.0	1.5
Consumer prices	Y-o-y % ch	-0.2	0.8	3.0	1.1	1.1	1.3	3.3	3.2	2.9	2.8	0.9	1.0	1.2	1.2
Consumer prices (ex consumption tax)	Y-o-y % ch	-0.2	0.8	1.1	1.1	1.1	1.3	1.4	1.2	0.9	0.8	0.9	1.0	1.2	1.2
Uncollateralized overnight call rate	%	0.06	0.04	0～0.10	0～0.10	0.07	0.04	0.06	0.03	0～0.10	0～0.10	0～0.10	0～0.10	0～0.10	0～0.10
Yield on newly-issued 10-yr JGBs	%	0.78	0.69	0.56	0.75	0.64	0.63	0.60	0.53	0.53	0.60	0.65	0.80	0.75	0.80
Nikkei average	JPY	9,650	14,424	16,300	18,900	14,972	14,964	14,650	15,562	16,900	18,200	18,400	18,600	19,100	19,400
Exchange rate	JPY/USD	83	100	109	119	101	103	102	104	113	117	118	119	121	121
Crude oil price (WTI nearest term contract)	USD/bbl	92	99	90	80	98	99	103	97	80	80	79	79	80	81

Notes: 1. Figures in the shaded areas are forecasts.The readings above may differ from public releases because the rates of change are calculated based upon actual results.
2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry* (all industries) (ex finance & insurance, and production, transmission and distribution of electricity services).
3. Consumer prices exclude fresh food. Based upon the assumption that the consumption tax in October 2015 will be postponed.
4. Quarterly data on the unemployment rate, new housing starts and current account balance are seasonally-adjusted.
5. Of the finance-related indices, the uncollateralized overnight call rate refers to the rate at the end of term, the yield on newly-issued 10-yr JGBs refers to the average of the end-of-month rates during the relevant term, and all others are averages during the relevant terms.

Sources: Made by MHRI based upon Cabinet Office*, Preliminary Quarterly Estimates of GDP*, Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Quarterly*, Ministry of Internal Affairs and Communications, *Labor Force Survey, Consumer Price Index*, Ministry of Land, Infrastructure, Transport and Tourism, *Current Survey on Construction Statistics*, Bank of Japan, *Balance of Payments*, *Corporate Goods Price Index*, *Financial and Economic Statistics Monthly, Foreign Exchange Rates*, Japan Bond Trading Co., Ltd., *Latest Daily JGB Rates*, Nikkei Inc. and Bloomberg

The Japanese economy is softening mainly in personal consumption due partially to unseasonable weather conditions

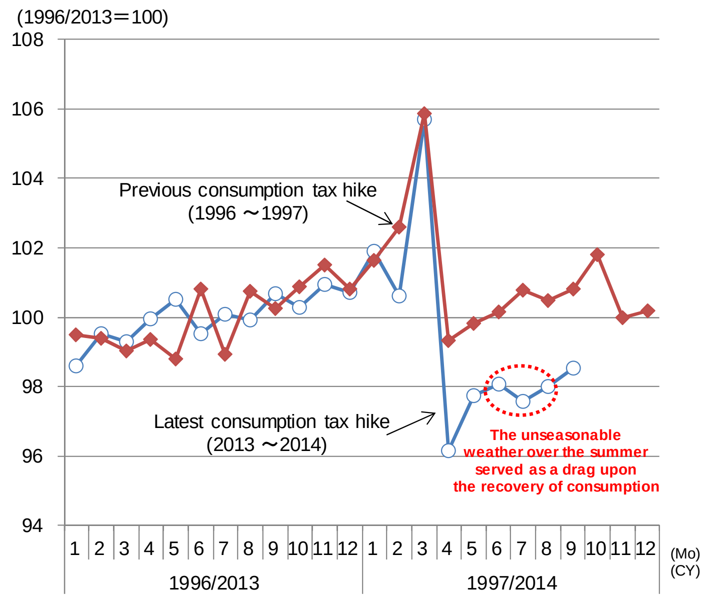
○ The Japanese economy stagnated mainly in personal consumption in the Jul-Sep quarter due in part to unseasonable weather conditions.

・The synthetic consumption index reveals that the recovery stalled in July and August due to the impact of bad weather conditions. It also appears that the stagnation of consumption in the low income bracket served as a drag.

- It should also be noted that a sample bias in the *Family Income and Expenditure Survey* may have weighed down upon the synthetic consumption index and GDP data.

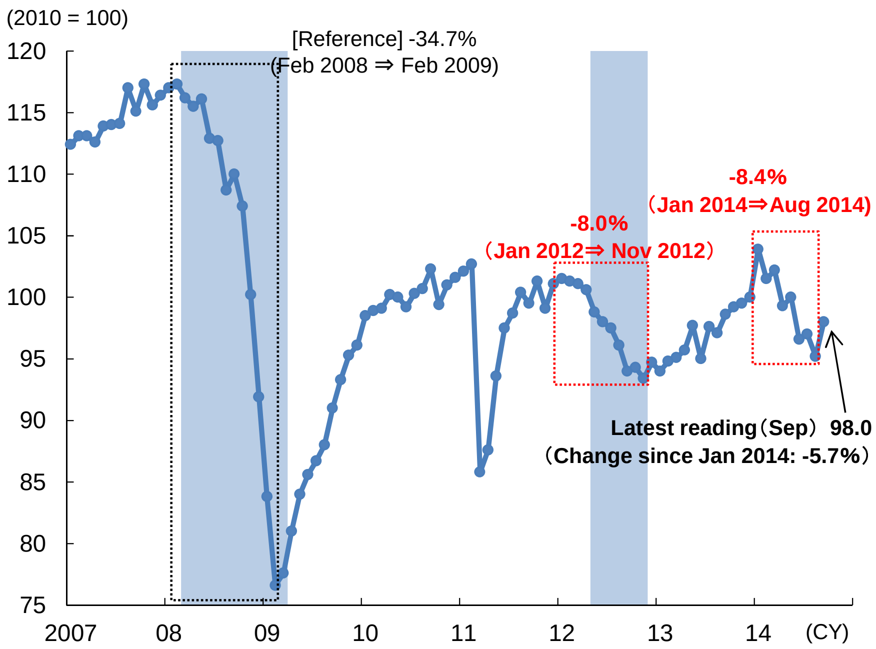
○ Turning to industrial production, manufacturers (mainly the automobile sector) adjusted their output. The depth of the output cut during the period from January to August of 2014 was comparable to the economic downturn in 2012. However, note that there are signs that production may be bottoming out, as indicated by the stronger increase of production in September.

[The synthetic consumption index (comparison with the previous consumption tax hike)]



Source: Made by MHRI based upon Cabinet Office, *Synthetic Consumption Index.*

[Industrial production]

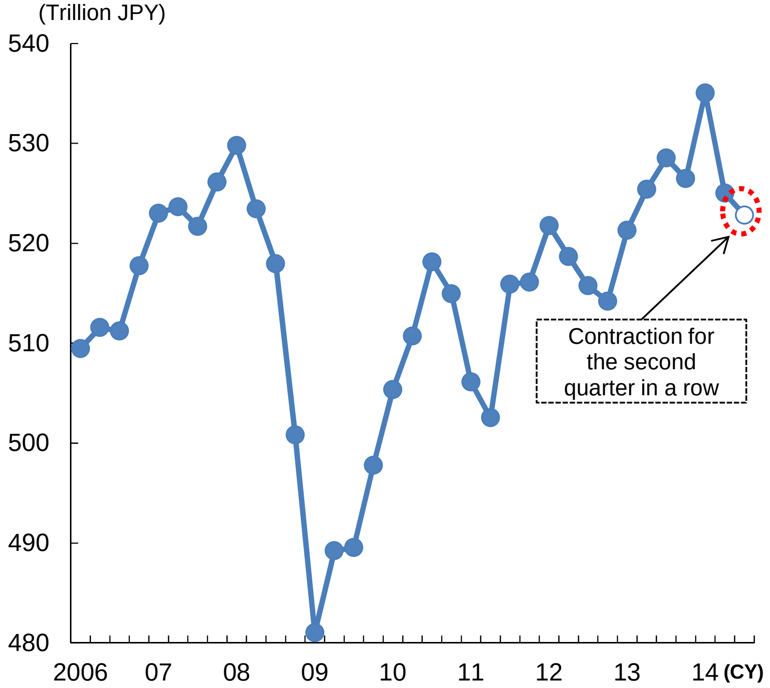


Source: Made by MHRI based upon Ministry of Economy, Trade and Industry, *Indices of Industrial Production.*

The FY2015 fiscal rehabilitation target is within reach even if the consumption tax hike is delayed

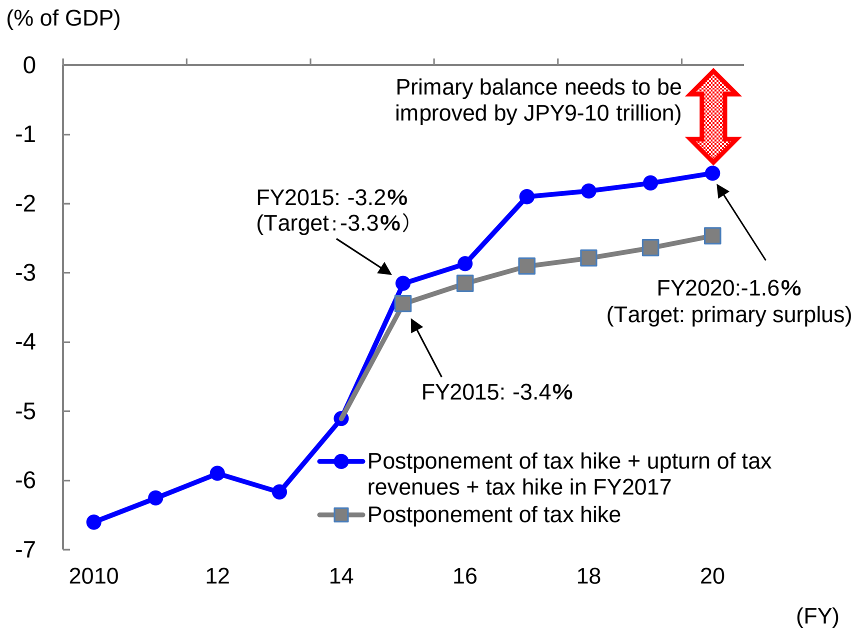
- The Japanese economy contracted for the second quarter in a row in the Jul-Sep quarter. The consumption tax hike is expected to be postponed until April 2017.
- In terms of the consumption tax hike delay alone, the upturn of tax revenues will make it possible to achieve the target to halve the primary deficit (by half from FY2010 as a percentage of GDP) in FY2015. However, it is uncertain if the target can be achieved if the economic stimulus measures and the corporate tax cut are implemented.
  - It will become more difficult to achieve a primary surplus in 2020. The steady implementation of the next consumption tax hike in April 2017 is extremely important.

[Real GDP level]



Source: Made by MHRI based upon Cabinet Office, *National Accounts,* and others.

[Outlook on the primary balance (trial calculation of the postponement of the tax hike and upturn of tax revenues]



Note: Based upon trial projections by the Cabinet Office (Economic Revitalization Case).
Sources: Made by MHRI based upon Cabinet Office, *National Accounts, Economic and Fiscal Projections for Medium to Long Term Analysis* (submitted to the Council on Economic and Fiscal Policy on July 25, 2014).

The "Triple Merits" will boost real GDP by 1.1% pt amid the ongoing improvement of labor market conditions

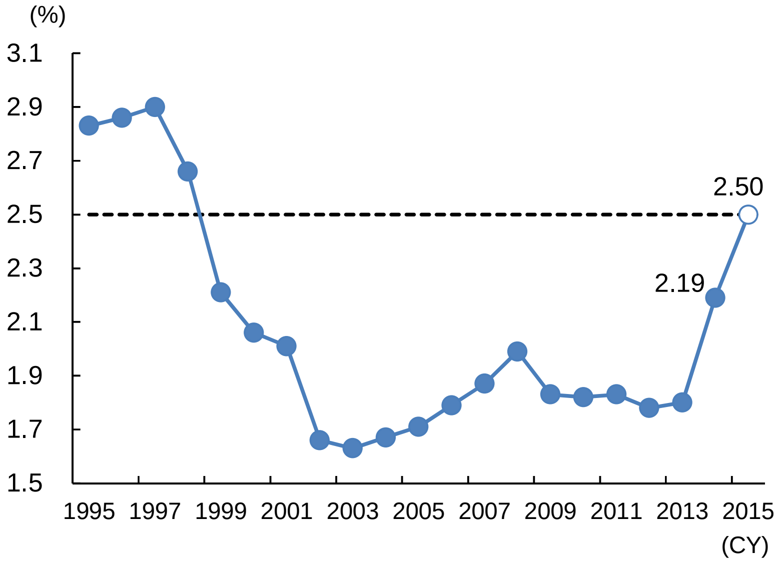
○ Looking forward, as the impact of the unseasonal weather wears off, personal consumption should continue to pick up, underpinned by the improvement of labor market conditions. The Bank of Japan's (BOJ) additional monetary easing and the government's economic stimulus measures will also serve as tailwinds upon Japan's economic recovery.

・The improvement of labor market conditions reflecting the tighter supply-demand balance of labor should underpin the recovery of consumption.

- 2014 winter bonus payments should grow at a slightly faster pace (+2.2% y-o-y). The *shunto* annual labor-management wage negotiations should bring about a higher wage hike rate (2.19% in 2014 →2.50% in 2015).

・According to MHRI's trial calculations, the additional monetary easing, economic stimulus measures and lower price of crude oil should lift real GDP by 1.1% pt on a cumulative basis.

[Forecast of the *shunto* wage hike rate (major corporations)]



Note: The reading for 2015 is based upon projections by MHRI.
Source: Made by MHRI based upon releases by the Ministry of Health, Labor and Welfare.

[Impact of the additional monetary easing, economic stimulus measures and lower crude oil prices upon real GDP (trial calculation)]

	Boost to real GDP (cumulative, % Pt)
Additional monetary easing (QQE2)	0.3
Boost export volume via weaker yen	0.2
Boost personal consumption through rise of stock prices (wealth effect)	0.1
Economic stimulus measures	0.3
Measures to support personal consumption (support for low-income bracket)	0.2
Public works (mainly for disaster response)	0.1
Lower crude oil prices	0.5
Total	1.1

Source: Made by MHRI based upon various releases.

MHRI's Proposal: "Three measures" totaling "Three trillion yen" to close the gaps in the "Three arrows"

① Provide, as soon as possible, a more robust package of measures for the low-income bracket of consumers to respond swiftly to concerns regarding the loss of momentum of the Japanese economy

② Launch a "Travel Points" system as part of "Local Abenomics" (Abenomics to prop up the local economy)

- Promote spending on travel which has significant ripple effects upon the local economy by providing points to stir incentives. This should also be accompanied by work-style reforms.

③ Provide more robust support for the working generation. Along with the promotion of women's participation in the labor market and society and the transfer of income and assets to the working generation, nurture the development and growth of housekeeping services and childcare businesses and service-providers such as NPOs.

[MHRI's Proposal (A Three-Point Package of Economic Measures)]

Economic measures		Purpose	Contents	Effect	Size of project (size of budget)
Measures for the low income bracket of consumers		Prioritized support with emphasis upon prompt relief to low income earners who are affected signifiantly by the consumption tax hike	The provision of additional benefits in the Jan-Mar quarter of 2015 toward households which are current beneficiaries of temporary welfare benefits and special benefits for child rearing households (total budget approximately JPY500 billion)	The measure would boost consumption by JPY143.8 billion (nominal). In the case of households with annual income less than JPY3 million, the payout of JPY10,000 would boost consumption expenditures on a half-year basis by approximately 0.9% pt.	JPY0.5 trillion (JPY0.5 trillion)
Travel Points		Stimulation of demand for travel (increases consumption of services), work style reforms (promotion of paid leave on week days)	Grant persons making domestic overnight trips, travel points (JPY10,000/person/usage) which can be used on their next domestic overnight trip on a week day, at government expenses (total budget JPY500 billion)	Given a utilization rate of 70% of the points would boost travel expenditures by JPY790 billion. When including the ripple effect, the travel points would create value added of JPY835 billion (multiplier: approximately 1.7)	JPY0.8 trillion (JPY0.5 trillion)
Support toward the working generation	Vouchers for childcare and housekeeping support	Support toward the utilization of women in the workforce, expansion of service providers	Issuance of vouchers toward child rearing households (with an expiration date) like the child rearing-vouchers of the Suginami Ward.	The issuance of JPY500 billion worth of vouchers has the impact of creating approximately 40,000 jobs	JPY0.7 trillion (JPY0.5 trillion)
	Expansion of coverage and flexible application of the reduction of gift tax	Alleviation of burdens upon the working generation by promoting the intergenerational shift of assets	The expansion of coverage to marriage expenses, flexible application of educational expenses (abolishing the upper limit on extra-curricular expenses such as cram schools), simplification of paperwork	The measure is expected to increase consumption in other items and services by reducing the burden of educational expenses for child rearing households	JPY1.0 trillion (JPY0.2 trillion)
					Total JPY3.0 trillion (JPY1.7 trillion)

Source: Made by MHRI based upon various releases.

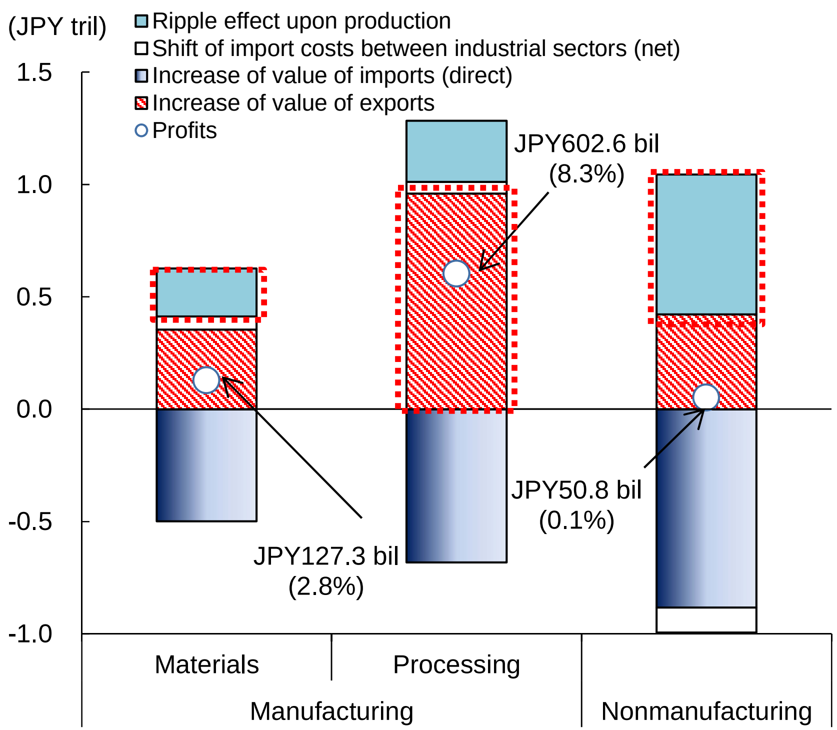
MIZUHO

A weak yen is a merit for both manufacturers and nonmanufacturers. The addition of lower crude oil prices will also lead to the improvement of SME profits.

○ Even though the merit of the weak yen is concentrated in the processing sectors, it would also benefit the materials sectors and nonmanufacturers if its ripple effect upon production is included.

・The fall of crude oil prices by more than 20% will lift ordinary profits by JPY2 trillion (expanding to approximately JPY5 trillion over the long term – results of simulations using the MHRI Macroeconomic Model). Lower crude oil prices will be a large benefit also for SMEs, and should provide leeway for the increase of wages.

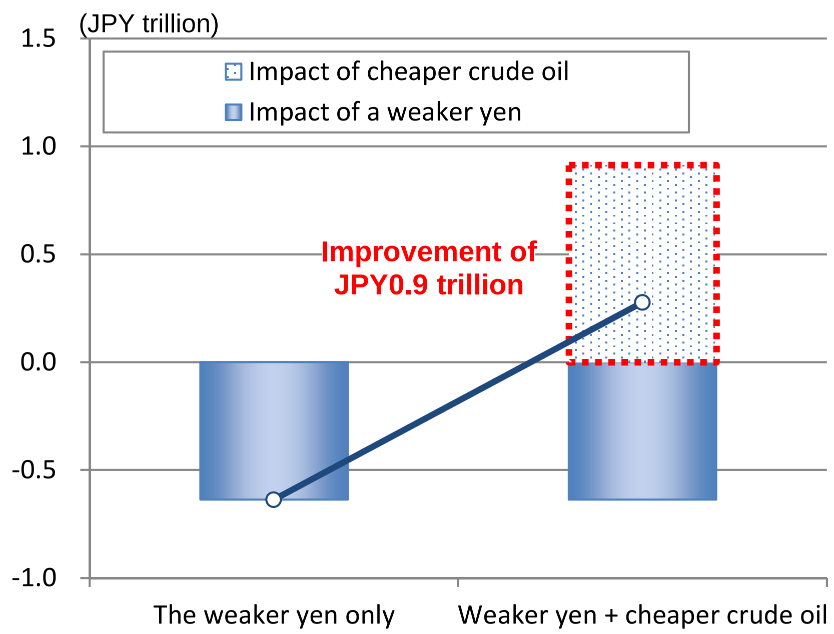
[The impact of a 5% depreciation of the yen upon corporate profits (by sectors)]



Sources: Made by MHRI based upon Ministry of Finance, *Trade Statistics,* Ministry of Economy, Trade and Industry, *The 2010 Updated Input-Output Table.*

[Change of SME input costs due to the weaker yen and cheaper crude oil]

(in the case of a 5% weakening of the JPY and a 20% fall of crude oil prices)



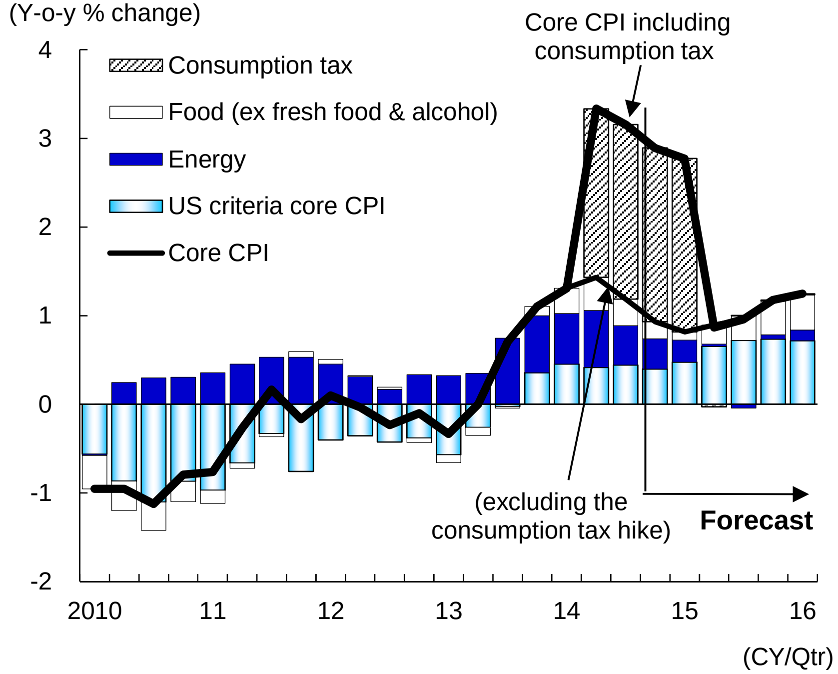
Note: Change of input costs of SMEs accompanying the weaker yen and cheaper crude oil, based upon the Input-Output Tables by corporate size.
Source: Made by MHRI based upon releases by the Small and Medium Enterprise Agency.

MIZUHO

The fall of crude oil prices will push down the inflation rate. Even so, the underlying inflation rate will improve steadily.

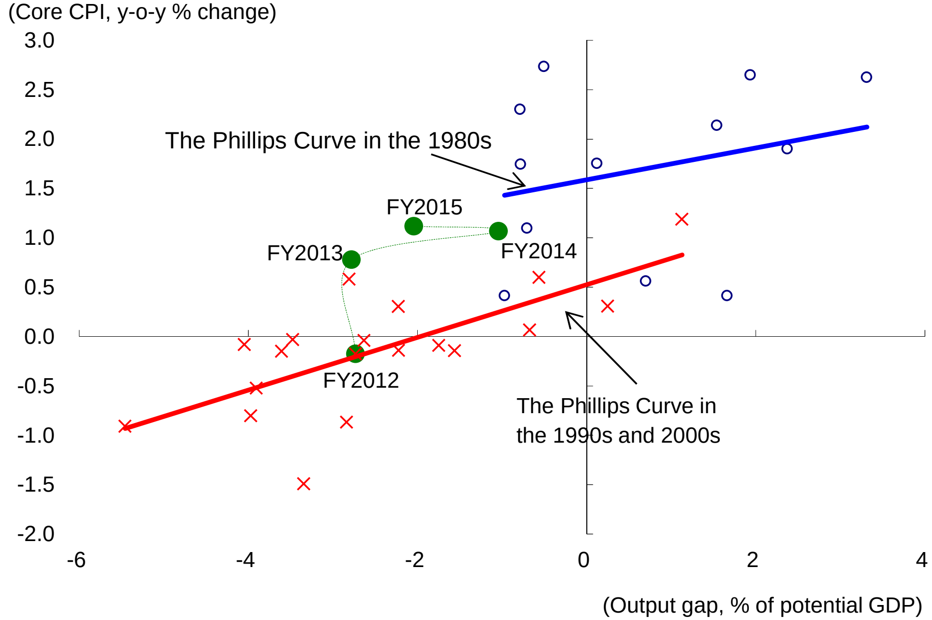
- ○ The core CPI is projected to remain under 1% until mid-FY2015 (falling to 0.8% in the Jan-Mar quarter of 2015).
  - ･Looking forward, the increase of auto insurance premiums (October), increase of electricity rates by Hokkaido Electrical Power Co., Inc. (November), and the further depreciation of the yen will contribute to the rise of the core CPI. In contrast, the fall of crude oil prices will serve as a drag. The negative impact stemming from the fall of crude oil prices will likely surpass the boost to prices by the weak yen.
- ○ The postponement of the consumption tax hike will serve as tailwinds upon the achievement of the inflation target by stimulating expectations toward the improvement of the output gap (→ leading to the improvement of inflation expectations). Although it will be difficult to achieve the 2% inflation target in FY2015, the underlying inflation rate should improve steadily.

[Core CPI]



Note: The breakdown shows the contribution to the core CPI excluding the consumption tax hike.
Source: Made by MHRI based upon

[The output gap and core CPI]



Note: The output gap has a one year lag.
Sources: Made by MHRI based upon Cabinet Office, *National Accounts,* Ministry of Internal Affairs and Communications, *Consumer Price Index.*

The BOJ is maintaining a bullish forecast on the economy and prices. Additional monetary easing expected in 2015.

- The BOJ is maintaining a bullish forecast on the economy and prices, keeping its outlook unchanged on the achievement of its 2% inflation target in or around FY2015.
- BOJ Governor Haruhiko Kuroda indicated the possibility of additional monetary easing. We expect to see a further bout of monetary easing when risks arise regarding the achievement of the inflation target during the period in or around FY2015.
  - In the implementation of additional monetary easing, it will also be important to pay due regard to fiscal discipline as in January 2013 when the BOJ and government took a more collaborative policy stance.
  - In 2015, the terms of office will expire for two of the Policy Board members. The framework of QQE may change depending upon their successors.

[BOJ *Outlook for Economic Activity and Prices (Oct 2014)*]

(Y-o-y % change)

		Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
FY2014		+0.2～+0.7 (+0.5)	+3.1～+3.4 (+3.2)	+1.1～+1.4 (+1.2)
	Forecasts made in July 2014	+0.6～+1.3 (+1.0)	+3.2～+3.5 (+3.3)	+1.2～+1.5 (+1.3)
FY2015		+1.2～+1.7 (+1.5)	+1.8～+2.6 (+2.4)	+1.1～+1.9 (+1.7)
	Forecasts made in July 2014	+1.2～+1.6 (+1.5)	+1.9～+2.8 (+2.6)	+1.2～+2.1 (+1.9)
FY2016		+1.0～+1.4 (+1.2)	+1.9～+3.0 (+2.8)	+1.2～+2.3 (+2.1)
	Forecasts made in July 2014	+1.0～+1.5 (+1.3)	+2.0～+3.0 (+2.8)	+1.3～+2.3 (+2.1)

Note: The figures in parentheses indicate the median of the Policy Board members' forecasts.
Source: Made by MHRI based upon releases by the Bank of Japan and others.

[Members of the BOJ Policy Board]

		For or against additional easing	Previous position	Term of office (5 years)
Governor	Haruhiko Kuroda	For	Asian Development Bank, President	2018/Apr
Deputy Governor	Kikuo Iwata	For	Gakushuin University, Professor	2018/Mar
	Hiroshi Nakaso	For	BOJ, Executive Director	2018/Mar
Members of the Policy Board	Ryuzo Miyao	For	Kobe University, Professor	2015/Mar
	Yoshihisa Morimoto	Against	Tokyo Electric Power Company	2015/Jun
	Sayuri Shirai	For	Keio University, Professor	2016/Mar
	Koji Ishida	Against	Sumitomo Mitsui Financial Group	2016/Jun
	Takahide Kiuchi	Against	Nomura Securities Co., Ltd.	2017/Jul
	Takehiro Sato	Against	Morgan Stanley MUFG Securities Co., Ltd.	2017/Jul

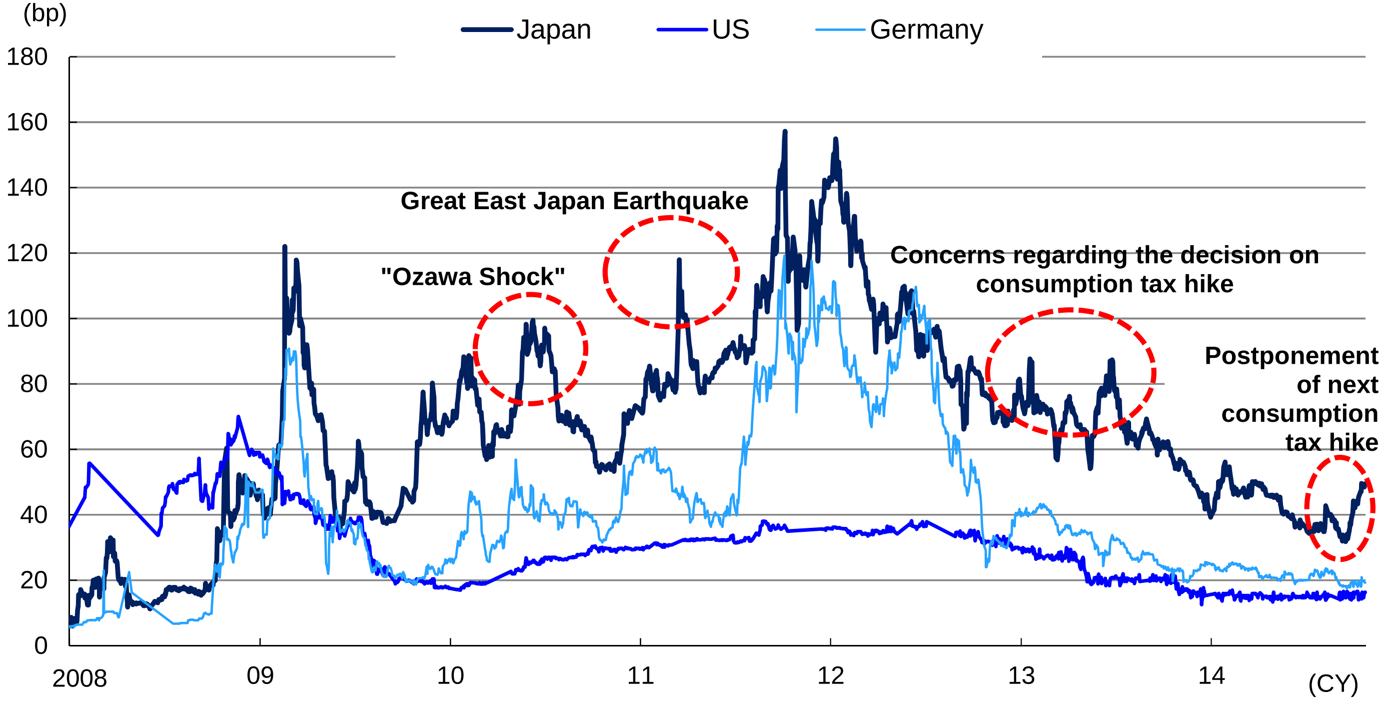
Note: For or against additional easing: stance on additional easing on October 31, 2014
Source: Made by MHRI based upon releases by the Bank of Japan and others.

MIZUHO

The postponement of the consumption tax hike involves uncertainties regarding the volatility of long-term interest rates

- The yield on 10-yr JGBs rose momentarily to the 0.5%-level due to the rise of stock prices and speculation on the delay of the consumption tax hike.
  - After the additional monetary easing, the surge of government bond-buying operations in the super long-term zone led to the decline of yields on super long-term government bonds.
  - The CDS spread took an upturn due to speculation on the postponement of the consumption tax hike.
- Speculation surrounding the delay of the consumption tax hike may lead to the rise of volatility over the short term.
  - From the perspective of fiscal discipline, the clause making the consumption tax hike conditional upon the upturn of economic growth should be abolished in the decision to delay the hike.

[CDS spread]



Source: Bloomberg.