

Comment:
Will Abenomics Restore Japan's Growth?

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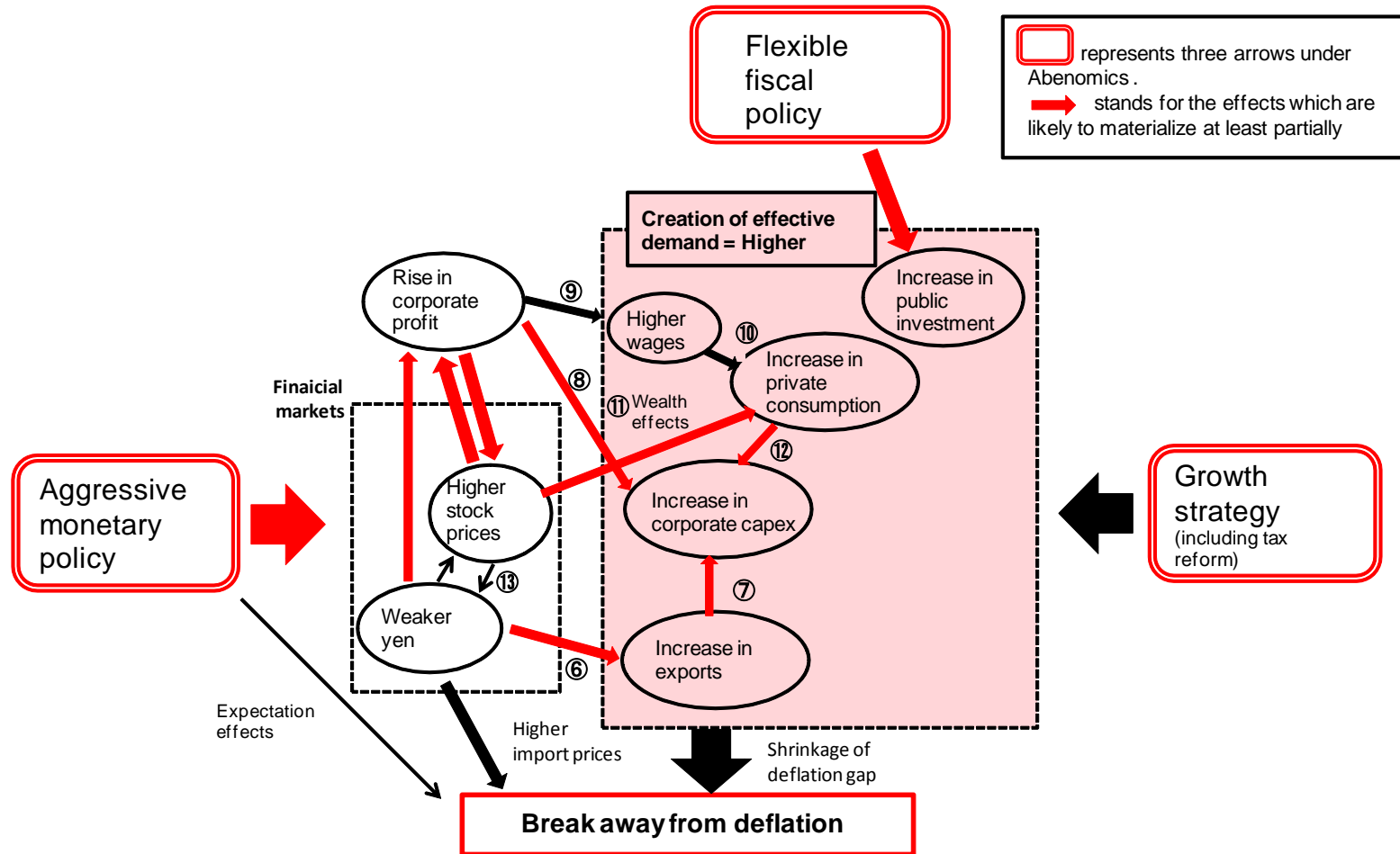
September 2013

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Any authors named on this report are research analysts unless otherwise indicated.

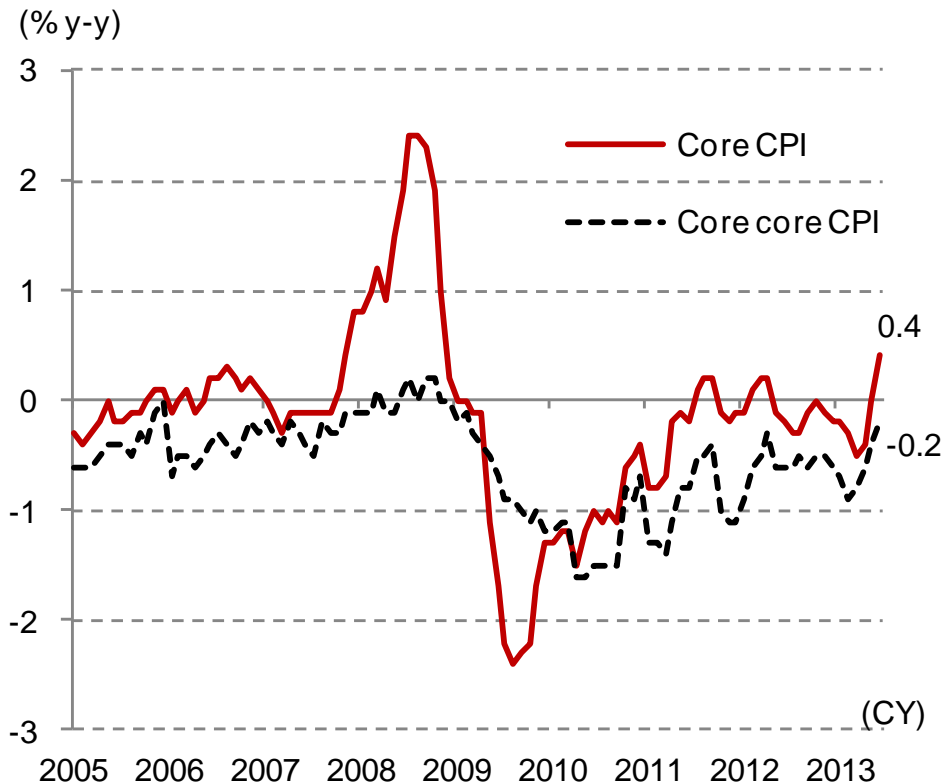
Economy gains momentum due to Abenomics

Channels through which effective demand rises under Abenomics



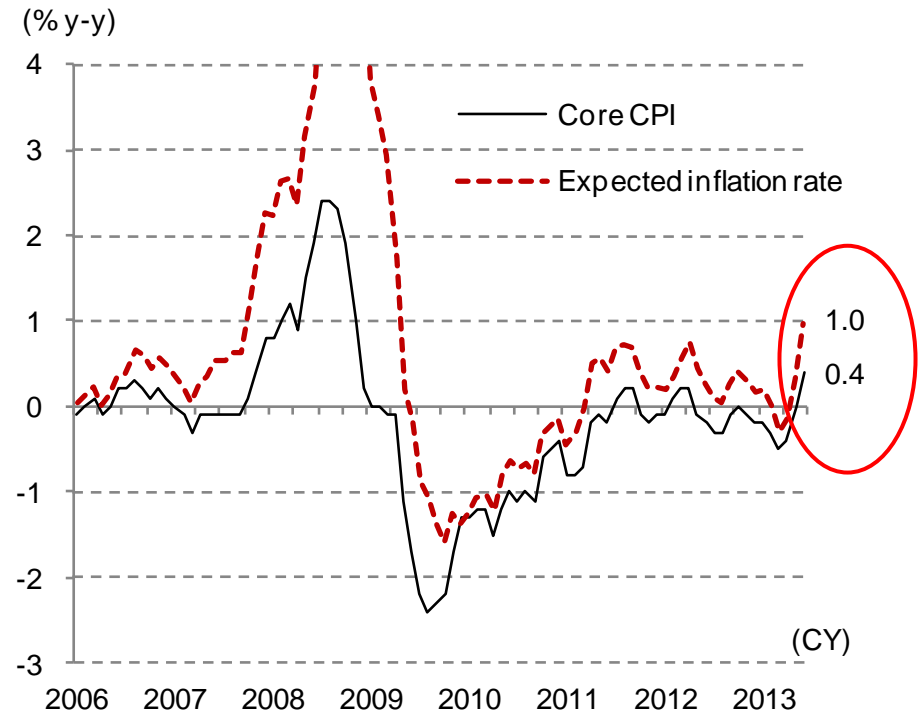
Inflation expectation is rising

All-Japan core CPI and core CPI



Source: Nomura, based on MIAC data

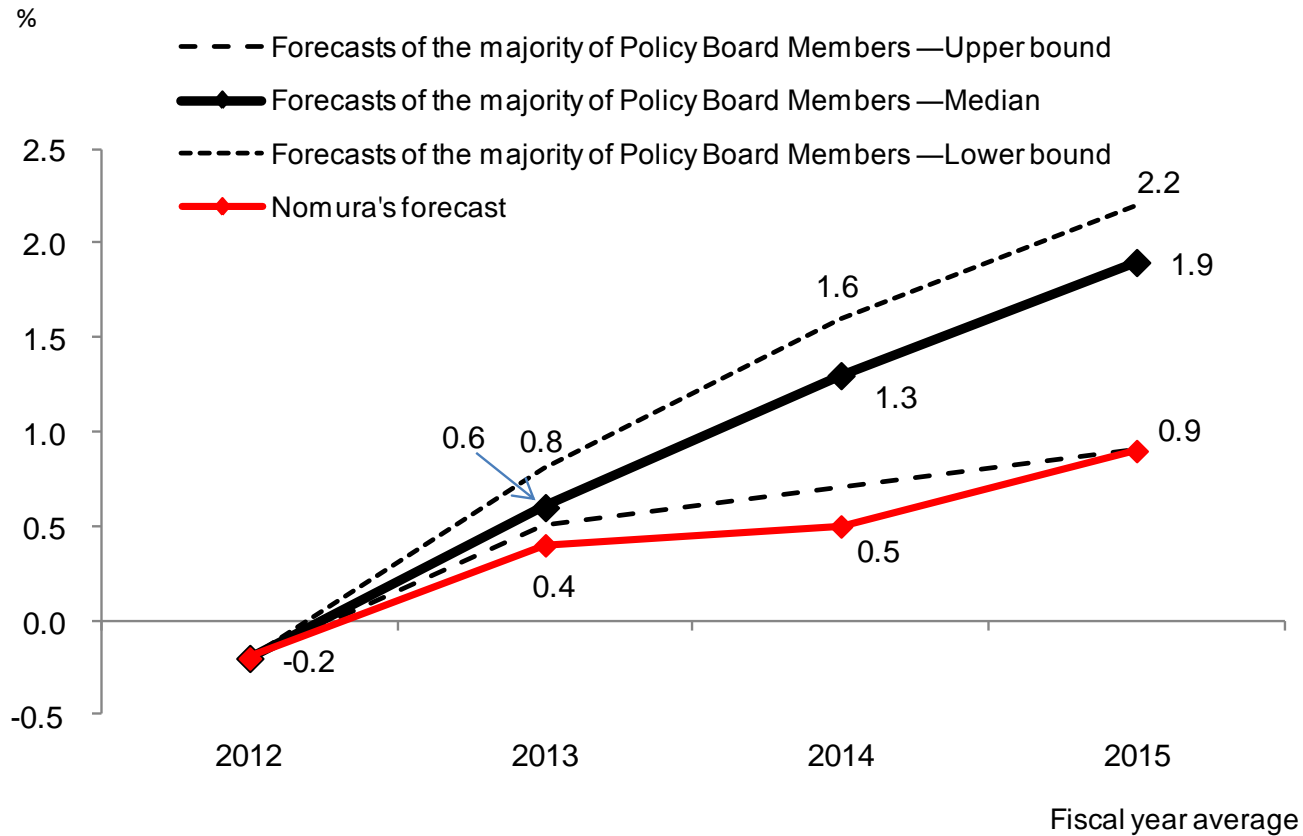
Expected inflation rate



Note: Unlike in the original Carlson-Parkin method, we calculated delta thresholds for price rises and falls based on the assumption that rational expectations up to one year out from a given point will on average agree with derived inflation expectations. In this case, delta values vary at each point in time. Expected inflation rate shows expectations for change in consumer prices one year out.

Source: Nomura, based on Cabinet Office, and MIAC data

Forecasts of the majority of Policy Board Members



Source: Nomura, based on BOJ and Cabinet Office data

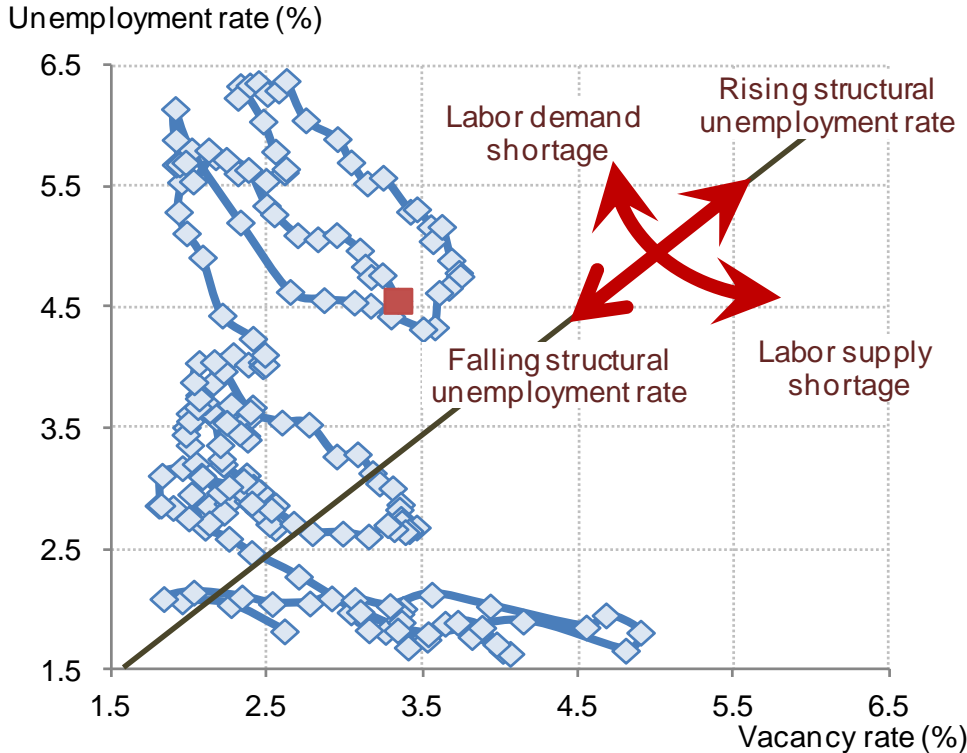
➤ We expect the BOJ to ease monetary policy further in mid-2014

1. The BOJ should be inclined to see the effects of growth strategy on growth and inflation, which is likely to be implemented rigorously starting from Q4 2013.
2. The actual inflation path in FY13 is unlikely to achieve the ideal inflation path, which leads to 2% inflation.

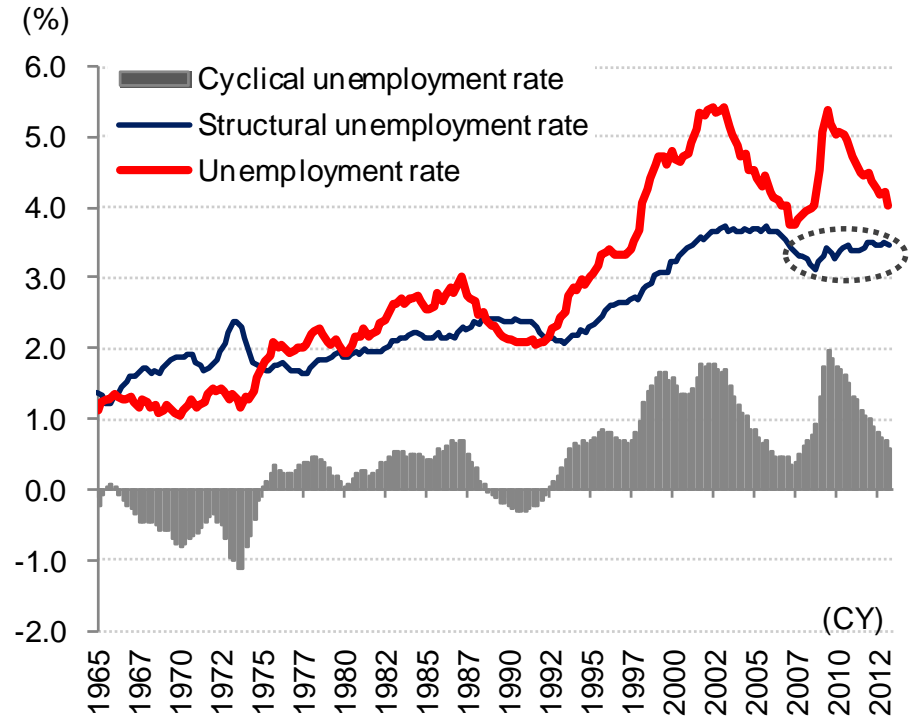
➤ We expect the next easing measures to include purchasing JPY10-15trn more JGBs per year and JPY1-1.5trn more risk assets, mainly equity ETFs

Structural unemployment rate now stands at 3.5%

Relationship between unemployment rate and vacancy rate (UV curve)



Structural unemployment remains high



Note: Unemployment rate = number of unemployed people / (number of employed people + number of unemployed people). Vacancy rate = (number of job openings - number of people in employment) / (number of job openings - number of people finding work + number of people in employment). Sample period is 1965 Q1–2013 Q2.

Source: Nomura, based on MIAC, Ministry of Health, Labour and Welfare (MHLW) data

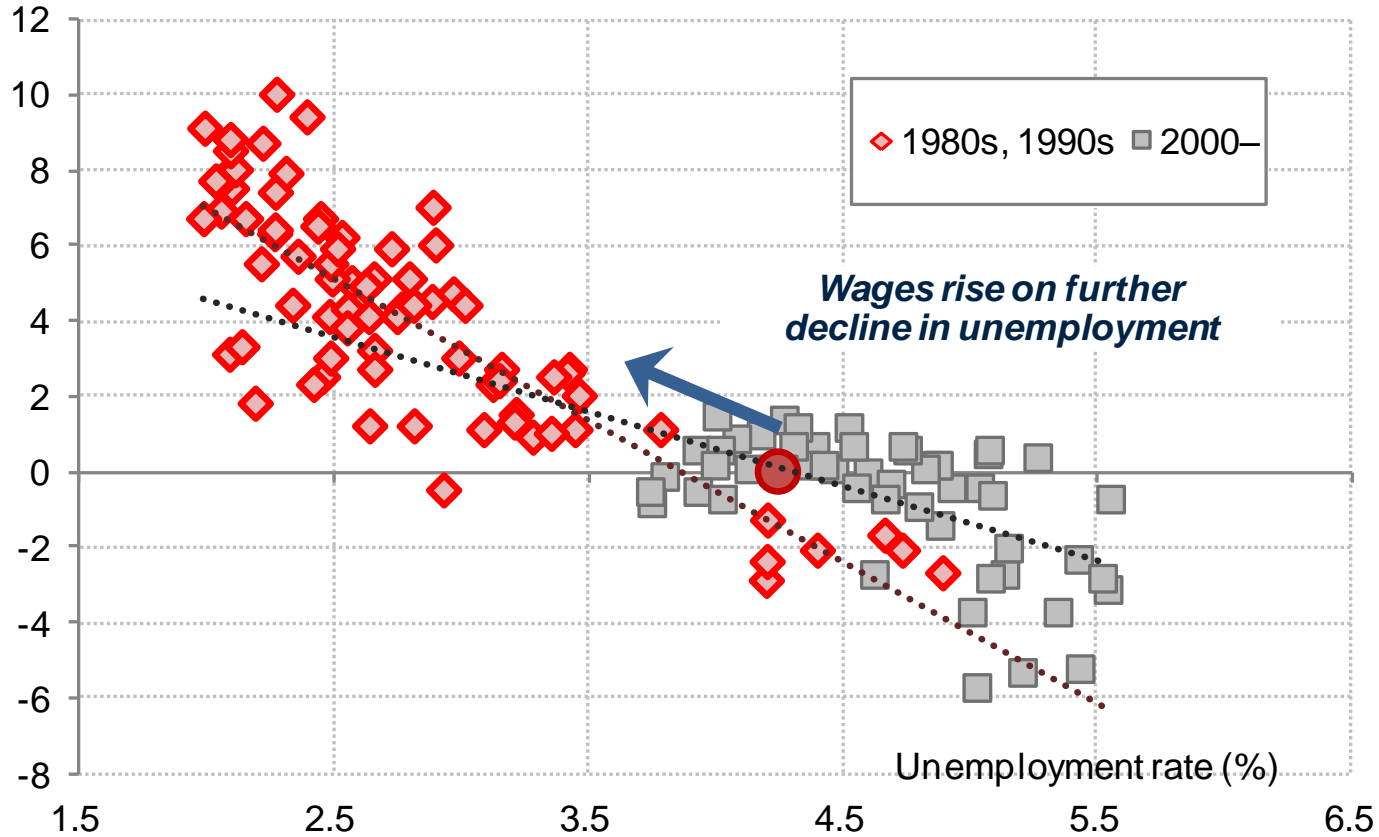
Note: Cyclical unemployment rate = unemployment rate - structural unemployment rate. We calculated the structural unemployment rate by first estimating β such that $\ln(\text{unemployment rate}) = \alpha + \beta \times \ln(\text{vacancy rate})$. We then derived the unemployment rate for the 45° line that represents a balanced labor market using the formula $\ln(\text{balanced unemployment rate}) = \{\ln(\text{unemployment rate}) - \beta \times \ln(\text{vacancy rate})\} (1 - \beta)$. We obtained the number of unemployed people that corresponds to the balanced unemployment rate, and derived the structural unemployment rate by dividing this number by the labor force.

Source: Nomura, based on MIAC and MHLW

Wage may rise by 2% if labor market continues to tighten **NOMURA**

Phillips curve

Nominal wages (% y-y)



Note: Uses Cabinet Office's employee compensation figures for nominal wages.

Source: Nomura, based on Cabinet Office, MIAC, and MHLW

➤ Make a decision to raise consumption tax

Decision will be made sometime in late September to early October.

➤ Implement growth strategy

The government aims to enact some bills in the extraordinary Diet session this fall.

➤ Engage in TPP negotiations

➤ Decide measures to reduce budget deficit in the social security areas

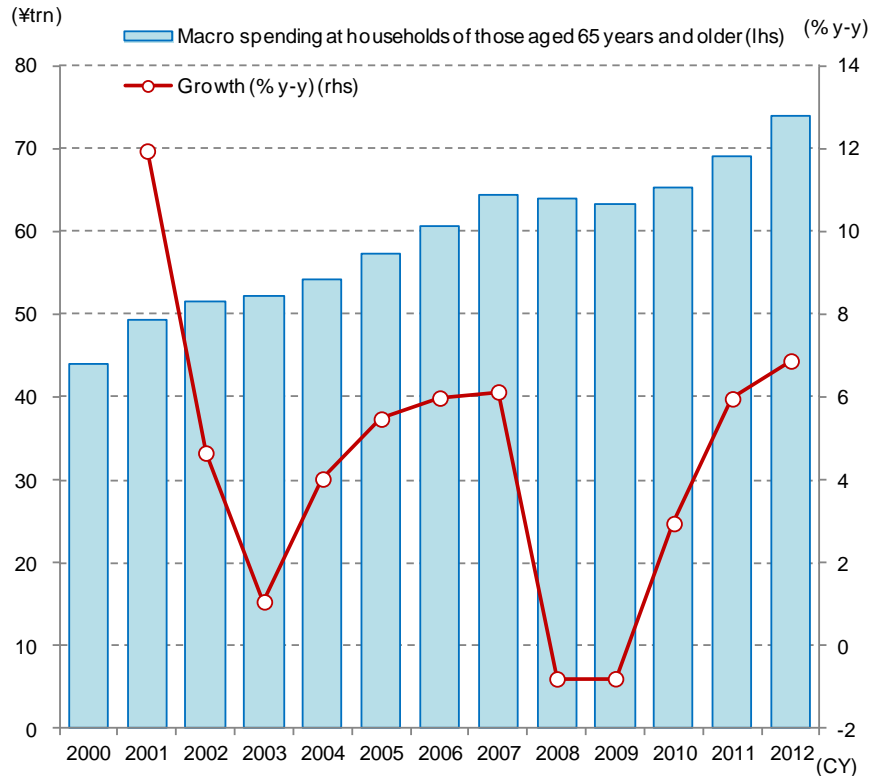
Growth strategy likely to boost growth by 0.32pp

Estimates for direct boost to growth from key parts of the growth strategies

Policy	Boost to real GDP (annual average for 2013–20)	Calculation method notes
Doubling of foreign direct investment in Japan by 2020	0.08ppt	Assumes 70% of investment amount boosts GDP
Promotion of TPP	0.07ppt	In addition to lowering of tariff and non-tariff barriers in member nations, assumes liberalization measures are enacted in the fields of services and investment
Promotion of electricity industry reform	0.04ppt	Assumes electric power-related investment increases by same amount each year
Promotion of PFI/PPP	0.03ppt	Assumes PFI/PPP value increases in equal annual increments from ¥4trn to ¥12trn in next 10 years. All project increases assumed to be new projects.
Promotion of infrastructure system exports	0.03ppt	Assumes cumulative infrastructure export value increases in equal annual increments from current ¥10trn to ¥30trn in 2020. Assumes 30% of value-added for infrastructure exports takes place in Japan
Increasing number of overseas visitors to Japan to 30mn by 2030	0.03ppt	Assumes market grows by same amount each year
Expanding size of agricultural sensory market from current ¥1trn to ¥10trn by 2020	0.024ppt	Assumes market grows by same amount each year
Easing of plot ratio regulations in national strategic special zones	0.01ppt	Assumes private-sector construction demand in Tokyo, Osaka and Nagoya increases 30% by 2020
Promotion of internationalization of medical technology and services	0.005ppt	Assumes demand increases by same amount each year up to 2030
Total	0.32ppt	

Source: Nomura

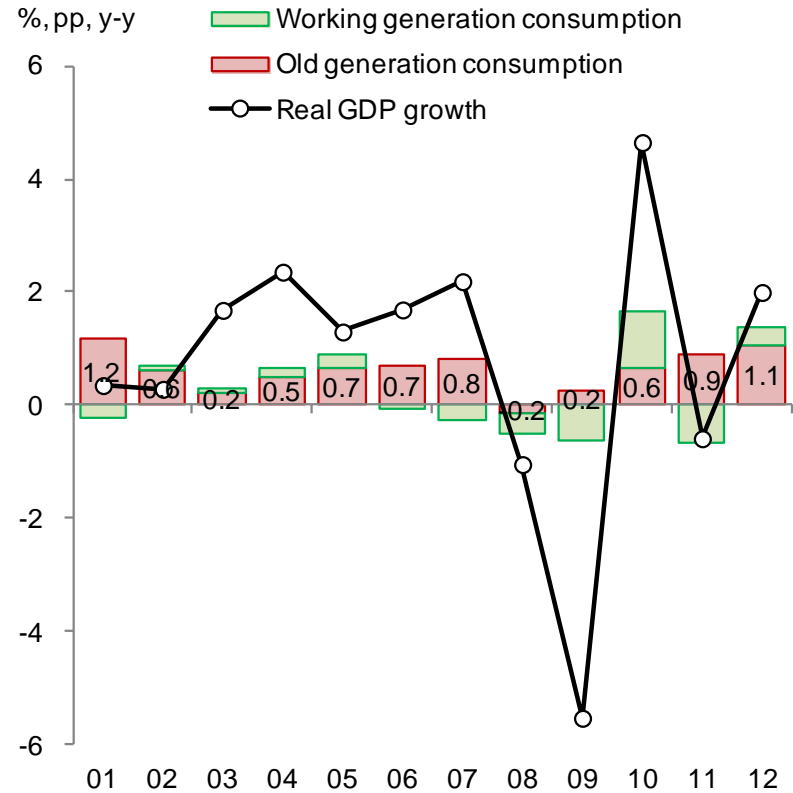
Macro spending (nominal) at elderly households



Note: Calculated by apportioning consumer spending at households of those aged 65 years and older in the Family Income and Expenditure Survey and the ratio of such households to household final consumption (excluding imputed rents) in GDP statistics. Nominal basis.

Source: Nomura, based on Cabinet Office and MIAC data

Contribution of elderly generation's consumption to real GDP growth



Source: Nomura, based on Cabinet Office and MIAC data