Abenomics: Politics and Policy

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Japan Economics

Abenomics: Politics and Policy

What will this ..... 

..... Do to this?

Japan Economic and Market Forecasts

2014 2015e 2016e
Economy % Change 
GDP CY -0.1 0.5 1.6
FY -0.9 0.9 1.9
CPI* CY 0.6 0.5 1.3
FY 0.5 0.6 1.5

Markets Year-end level
Yen/US$ 120 121 125
10yr JGB (%) 0.45 0.60 1.00
TOPIX** 1537 1740

* Excluding food, energy, and VAT.
** 1537 is current level. 1740 forecast for 3Q2016

GDP forecast as of Sep 2015
Source: Morgan Stanley Research.

Note: Due to the nature of the fixed income market, the issuers or bonds of the issuers recommended or discussed in this report may not be continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers or bonds of the issuers.

For important disclosures, refer to the Disclosures Section, located at the end of this report.
The Weaker Yen Cannot Offset a Weak China

Real Exports and Imports (2010=100, to August 2015)

- Real Exports
- Real Imports

Inbound Tourism, to July 2015

- Tourism Receipts (Annualized, Y trl)
- 12mo MA

Source: Cabinet Office, BoJ, METI, Morgan Stanley Research
Prices: Which Index to Choose?

Nationwide CPI excluding C-tax

Latest: July, 2015

The Kuroda Chart

Consumer Prices

Note: Figures for consumer prices are adjusted for the direct effects of the consumption tax hike in April 2014.
Sources: Cabinet Office, Ministry of Internal Affairs and Communications.

Moving Forward: Japan’s Economy under Quantitative and Qualitative Monetary Easing

August 26, 2015
Haruhiko Kuroda
Governor of the Bank of Japan
The rise of female participation rates across the age profile has sufficed to prevent the overall participation rate for females from falling. But Japanese female labor participation is about the same as the US now. There is not much more room for increase.
Abenomics: Political Background Is Stable

**Crisis**
- Summer 2014
  - GDP slowdown
  - Price deceleration

**Response**
- Autumn 2014
  - BoJ Second QE
  - Consumption Tax Postponement
  - Corporate Tax Cut
  - Agricultural Reform
  - Budget tilt to control spending

**Improvement**
- Winter 2014–15
  - Corporate Governance Reforms

**Complacency**
- Early Spring 2015
  - Yen move to 120
  - Stock market rise
  - Economic indicator improvement

**Cabinet Approval Rating: 2008 - present**

**Probability of Cabinet Change within Three Months**

**CSR**: Cabinet Support Rate.

**RMO**: Difference of support rates of the ruling party and the main opposition party.

**Aoki Rule**: Sum of Cabinet support rate and ruling party support rate.
Abenomics: The Real Challenge Is Productivity Growth

Productivity growth in Japan has stemmed from several factors:

- More capital stock
- Better capital stock
- Better quality of labor
- Better technology
- Better resource use

All of these sources of productivity growth will need to be harnessed in the future as well.

Source: METI, Economic White Paper 2013, Figure I-1-4-1., and Morgan Stanley calculations. See http://www.meti.go.jp/report/tsuhaku2013/2013honbun/i1140000.html
Fiscal Japanification: The Key Is Social Security Cost Control

Consolidated Government: Social Security and Operational Accounts (¥ Trln)

General Government (¥ Trln)

Fiscal Reform Choices: What do Japanese general audiences want?

The MoF Fiscal Commission says that Japan needs an extra ¥60 trln of fiscal adjustment, even after the Consumption Tax is hiked to 10%. Any of the following combinations will achieve this goal. Which is best?


Source: Morgan Stanley Research.
Simplified Energy Nexus: Japan, 2013

Primary Energy Sources

- 19.36 EJ
- 7.71 EJ
- 1.57 EJ
- 20.93 EJ

Energy Delivery

- Fuel
  - 12.04 EJ
  - Loss: 9.3%
  - 10.92 EJ
  - 7.79 EJ

- Electricity
  - 8.89 EJ
  - Loss: 62.8%
  - 3.31 EJ

Non-Transport

- 11.03 EJ
- 3.19 EJ
- 14.23 EJ

Transport

- 20.93 EJ
- 14.23 EJ

Notes: (1) Thickness of lines is proportional to total primary energy used, and paths less than 1EJ are dashed. (2) Sums may differ slightly from components, due to rounding.

EJ = Exojoules = 10^{18} Joules
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