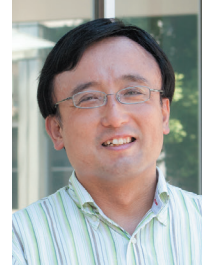


# Government Economic Outlook – Stronger Optimism Bias



Author Nobuo Iizuka

By Nobuo Iizuka

## Real Growth of 1.4% Expected, But ...

On Jan. 20, 2020, the Cabinet reached a decision on the fiscal 2020 economic outlook. Under its analysis that the current Japanese economy will slowly recover around domestic demand and that raising the consumption tax rate does not impact the recovery trend of the economy, GDP growth is anticipated to be 1.4% for real GDP and 2.1% for nominal GDP. What is the actual feasibility of this outlook?

Since the 1990s, the magnitude of the optimism bias in the Government Economic Outlook has been pointed out by researchers both at home and abroad. But according to my own analysis in 2014, since the 2000s, at least until fiscal 2012, the difference between the government and private outlooks has almost disappeared, and it became clear that the optimism bias had been resolved.

*Chart 1* shows the trends in the outlook by the government and professional forecasters (private outlook) on real GDP growth and the actual figures. Private outlook uses the “Private Research Institutions Economic Outlook” which was published at the beginning of each year in the Japan Center for Economic Research Newsletter until fiscal 2004, and after fiscal 2005 the “ESP Forecast Survey” which is published in January each year is used. The actual figures use the preliminary results for each fiscal year.

In looking at this chart, it can be seen that in fiscal 2013 when “Abenomics” began, the government outlook once again became more optimistic compared to the private outlook. Of course, there were times when an optimistic government figure was closer to the actual figure, as in fiscal 2013, but in recent years the private outlook has been closer to the actual figures. For example, while the government outlook for real GDP for fiscal 2018 was 1.8% and the private outlook 1.3%, the actual rate was 0.6%.

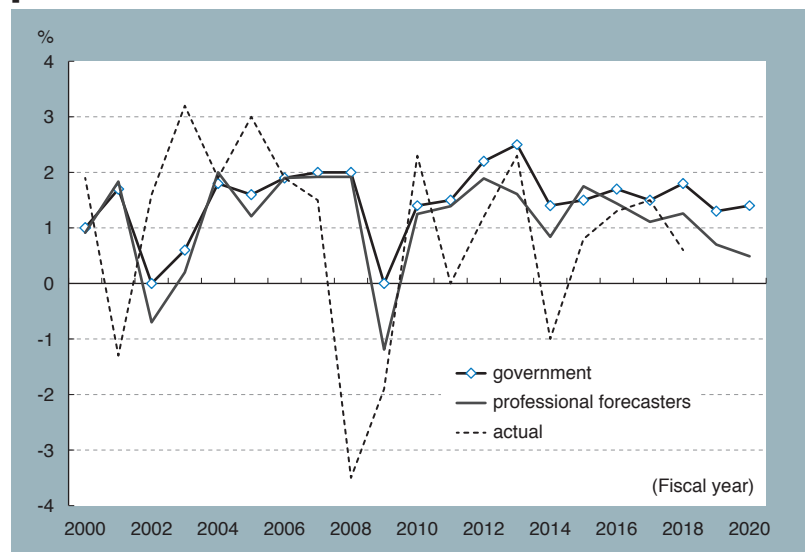
## Two Consecutive Years of Downward Revision

The Government Economic Outlook, which is released in January each year right before the fiscal year begins, is revised twice after that – first in the Mid-Year Economic Projection released in July and then the Estimated Result released together with the Government Economic Outlook.

*Chart 2* shows figures for the initial government forecast, the mid-year projection, the estimate and the actual rate since fiscal 2002, when release of mid-year revisions began. For periods after fiscal 2013, the years when revisions since the initial forecast were revised upward were only fiscal 2013 and fiscal 2017. The fiscal 2018 and 2019 outlooks both saw downward revisions. The fiscal 2018 real GDP growth rate outlook from the government was initially forecasted at 1.8%, then revised to 1.5% at the mid-year revision, and the estimated result remained unchanged at 0.9%.

CHART 1

### Trends in the outlook by the government & professional forecasters



Source: Cabinet Office “Economic Outlook”, J CER “ESP Forecast Survey”, Cabinet Office “Quarterly Estimates of GDP”

### Economy Already in Recession?

When economic outlooks are slowly revised upwards, it is when the economy is expanding, and when revised downwards, it is when the economy is shrinking. For example, the government forecast for fiscal 2014 was initially 1.4%, but the estimated result was a negative 0.5%. For fiscal 2015 also, while the initial forecast was 1.5%, the estimated result was revised down to 1.2%. Although it was not certified as such, many economists point to this period as being a recession (the dotted line period in *Chart 3*).

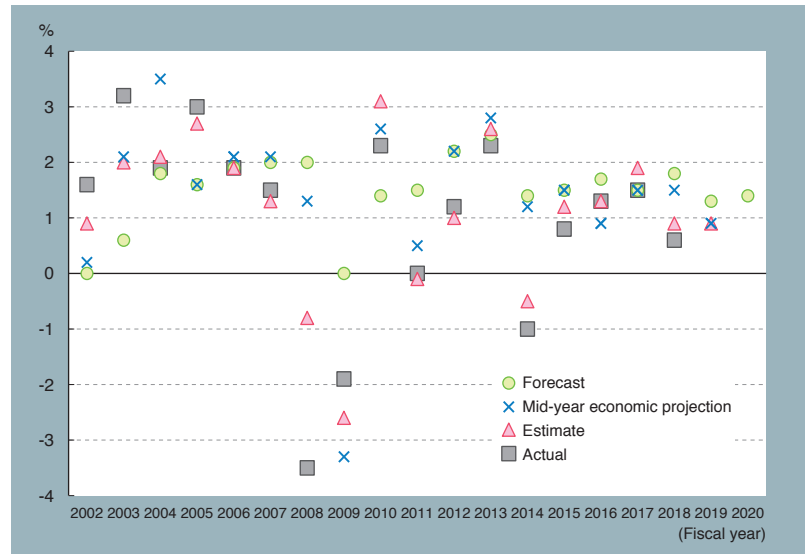
For fiscal 2018 and 2019 which saw downward revisions, Indexes of Business Conditions continued to fall. As seen in *Chart 3*, the Coincident Index of the Indexes of Business Conditions peaked in March 2014 and has been on a declining trend again since the end of 2017. Like fiscal 2018, the actual result for fiscal 2019 is very likely to be lower than the government outlook.

The Bank of Japan, incidentally, also releases an outlook by its Policy Board and its median is the "Outlook for Economic Activity and Prices". According to the latest such release on Jan. 21, 2020, the real GDP growth outlook for fiscal 2020 is 0.9%. This is lower than the 1.4% seen by the government and higher than the 0.51% in the private outlook. It can be said that the optimism bias in the Government Economic Outlook is strengthening.

**Note:** This article has been written based on information obtained by Jan. 12, 2020.

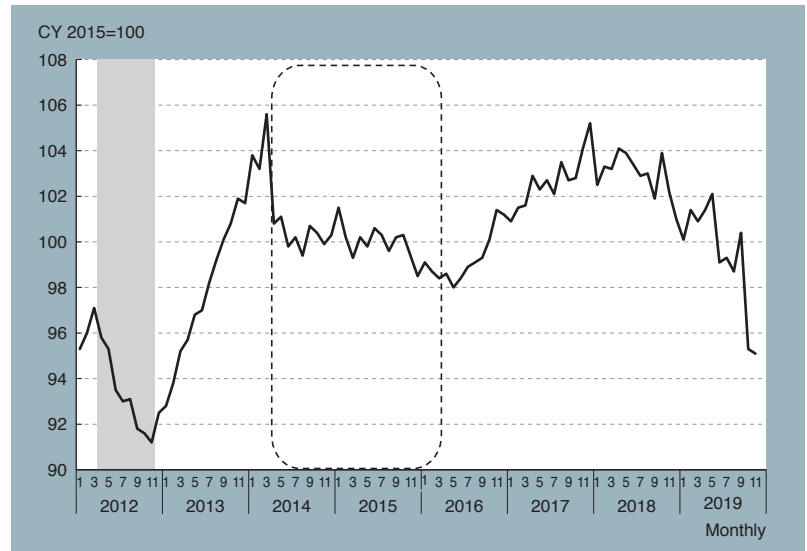


CHART 2  
**Changes in the economic outlook**



Source: Cabinet Office "Economic Outlook"

CHART 3  
**Trends in Indexes of Business Conditions (Coincident Index)**



Source: Cabinet Office "Indexes of Business Conditions"

Nobuo Iizuka is a professor of the Department of Economics at Kanagawa University and adviser of the Policy Data Lab at the Tokyo Foundation for Policy Research. He worked for the *Nihon Keizai Shimbun (Nikkei)* and the Japan Center for Economic Research for more than 20 years, and is one of the most highly-regarded commentators on Japanese business and the economy.

## ECONOMIC INDICATORS FOR JAPAN

| Calendar year, Quarter and Month | Real GDP   |  | Nominal GDP           |  | IIP rate of increase over previous year/term (month) (%)                    | CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%) |
|----------------------------------|--|--|-----------------------|--|---|---|
|                                  | Amount (trillion yen)                              | Rate of increase over previous year/term (%) | Amount (trillion yen) | Rate of increase over previous year/term (%) |   |   |
| 2012                             | 498.8  | 1.5  | 495.0                 | 0.7  | 0.6   | -0.1  |
| 2013                             | 508.8  | 2.0  | 503.2                 | 1.7  | -0.3  | 0.4   |
| 2014                             | 510.7  | 0.4  | 513.9                 | 2.1  | 2.0   | 2.6   |
| 2015                             | 516.9  | 1.2  | 531.3                 | 3.4  | -1.2  | 0.5   |
| 2016                             | 519.6  | 0.5  | 535.5                 | 0.8  | 0.0   | -0.3  |
| 2017                             | 530.9  | 2.2  | 545.9                 | 1.9  | 3.1   | 0.5   |
| 2018                             | 532.6  | 0.3  | 547.1                 | 0.2  | 1.1   | 0.9   |
| 2019                             | 536.5  | 0.7  | 554.5                 | 1.3  | -2.9  | 0.6   |
| 2019/1st Qtr.                    | 536.7  | 0.6  | 552.9                 | 1.2  | -2.5  | 0.8   |
| 2nd Qtr.                         | 539.3  | 0.5  | 555.8                 | 0.5  | 0.6   | 0.8   |
| 3rd Qtr.                         | 539.9  | 0.1  | 558.5                 | 0.5  | -0.5  | 0.5   |
| 4th Qtr.                         | 531.2  | -1.6   | 551.5                 | -1.2   | -4.1  | 0.6   |
| 2019/May                         | —  | —  | —                     | —  | 2.0   | 0.8   |
| June                             | —  | —  | —                     | —  | -3.3  | 0.6   |
| July                             | —  | —  | —                     | —  | 1.3   | 0.6   |
| Aug.                             | —  | —  | —                     | —  | -1.2  | 0.5   |
| Sept.                            | —  | —  | —                     | —  | 1.7   | 0.3   |
| Oct.                             | —  | —  | —                     | —  | -4.5  | 0.4   |
| Nov.                             | —  | —  | —                     | —  | -1.0  | 0.5   |
| Dec.                             | —  | —  | —                     | —  | 1.2   | 0.7   |
| Sources                          | "SNA (National Accounts of Japan)", Cabinet Office |  |                       |  | "Indices of Industrial Production", Ministry of Economy, Trade and Industry | "Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications                          |

| Calendar year, Quarter and Month | Foreign Trade Statistics                         |   |                               |   |                                     |   |                                       |   |                                     |   |
|----------------------------------|--|---|-------------------------------|---|-------------------------------------|---|---------------------------------------|---|-------------------------------------|---|
|                                  | Exports amount (trillion yen)                    | Exports rate of increase over previous year/ the same term (month) of the previous year (%) | Imports amount (trillion yen) | Imports rate of increase over previous year/ the same term (month) of the previous year (%) | Exports amount to US (trillion yen) | Exports to US rate of increase over previous year/ the same term (month) of the previous year (%) | Imports amount from US (trillion yen) | Imports from US rate of increase over previous year/ the same term (month) of the previous year (%) | Exports amount to EU (trillion yen) | Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%) |
| 2012                             | 63.7   | -2.7  | 70.7                          | 3.8   | 11.2                                | 11.7  | 6.1                                   | 2.5   | 6.5                                 | -14.7   |
| 2013                             | 69.8   | 9.5   | 81.2                          | 14.9  | 12.9                                | 15.6  | 6.8                                   | 12.0  | 7.0                                 | 7.7   |
| 2014                             | 73.1   | 4.8   | 85.9                          | 5.7   | 13.6                                | 5.6   | 7.5                                   | 10.7  | 7.6                                 | 8.4   |
| 2015                             | 75.6   | 3.4   | 78.4                          | -8.7  | 15.2                                | 11.5  | 8.1                                   | 6.9   | 8.0                                 | 5.3   |
| 2016                             | 70.0   | -7.4  | 66.0                          | -15.8   | 14.1                                | -7.1  | 7.3                                   | -9.2  | 8.0                                 | -0.0  |
| 2017                             | 78.3   | 11.8  | 75.4                          | 14.1  | 15.1                                | 6.9   | 8.1                                   | 10.5  | 8.7                                 | 8.5   |
| 2018                             | 81.5   | 4.1   | 82.7                          | 9.7   | 15.5                                | 2.4   | 9.0                                   | 11.4  | 9.2                                 | 6.4   |
| 2019                             | 76.9   | -5.6  | 78.6                          | -5.0  | 15.2                                | -1.4  | 8.6                                   | -4.4  | 9.0                                 | -2.8  |
| 2019/1st Qtr.                    | 19.2   | -3.9  | 19.7                          | -2.0  | 3.9                                 | 4.3   | 2.2                                   | 4.2   | 2.4                                 | 2.6   |
| 2nd Qtr.                         | 19.1   | -5.6  | 19.4                          | -0.1  | 4.0                                 | 6.0   | 2.2                                   | -0.5  | 2.2                                 | -5.4  |
| 3rd Qtr.                         | 19.2   | -5.0  | 19.7                          | -4.9  | 3.7                                 | -1.4  | 2.1                                   | -5.7  | 2.2                                 | 0.2   |
| 4th Qtr.                         | 19.5   | -7.8  | 19.8                          | -11.9   | 3.7                                 | -13.0   | 2.1                                   | -13.8   | 2.2                                 | -8.1  |
| 2019/May                         | 5.8  | -7.8  | 6.8                           | -1.4  | 1.2                                 | 3.3   | 0.8                                   | -1.3  | 0.6                                 | -7.1  |
| June                             | 6.6  | -6.6  | 6.0                           | -5.2  | 1.4                                 | 4.9   | 0.7                                   | -2.4  | 0.7                                 | -6.7  |
| July                             | 6.6  | -1.5  | 6.9                           | -1.1  | 1.4                                 | 8.4   | 0.8                                   | 3.5   | 0.8                                 | 2.2   |
| Aug.                             | 6.1  | -8.2  | 6.3                           | -11.9   | 1.2                                 | -4.4  | 0.7                                   | -9.2  | 0.7                                 | -1.3  |
| Sept.                            | 6.4  | -5.2  | 6.5                           | -1.5  | 1.2                                 | -7.9  | 0.6                                   | -11.5   | 0.7                                 | -0.5  |
| Oct.                             | 6.6  | -9.2  | 6.6                           | -14.7   | 1.3                                 | -11.4   | 0.7                                   | -17.1   | 0.7                                 | -8.4  |
| Nov.                             | 6.4  | -7.9  | 6.5                           | -15.6   | 1.2                                 | -12.9   | 0.7                                   | -10.2   | 0.7                                 | -7.9  |
| Dec.                             | 6.6  | -6.3  | 6.7                           | -4.9  | 1.2                                 | -14.9   | 0.7                                   | -13.6   | 0.8                                 | -8.1  |
| Sources                          | "Trade Statistics of Japan", Ministry of Finance |   |                               |   |                                     |   |                                       |   |                                     |   |

| Calendar year, Quarter and Month | Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%) | Active job openings-to-applicants ratio (time(s))                                  | Unemployment rate (%)   | M2 rate of increase over previous year/ the same term (month) of the previous year (%) | Balance of payments                        |                                | Yen/\$ rate (averaged during the term) |
|----------------------------------|---|--|---|--|--|--------------------------------|--|
|                                  |   |  |   |  | Trade balance (trillion yen)               | Current balance (trillion yen) |  |
| 2012                             | -0.9  | 0.80   | 4.3   | 2.5  | -4.3                                       | 4.8                            | 79.8                                   |
| 2013                             | -0.2  | 0.93   | 4.0   | 3.6  | -8.8                                       | 4.5                            | 97.6                                   |
| 2014                             | 0.5   | 1.09   | 3.6   | 3.4  | -10.5                                      | 3.9                            | 105.8                                  |
| 2015                             | 0.1   | 1.20   | 3.4   | 3.6  | -0.9                                       | 16.5                           | 121.0                                  |
| 2016                             | 0.6   | 1.36   | 3.1   | 3.4  | 5.5  | 21.4                           | 108.8                                  |
| 2017                             | 0.4   | 1.50   | 2.8   | 4.0  | 4.9  | 22.6                           | 112.2                                  |
| 2018                             | 1.4   | 1.61   | 2.4   | 2.9  | 1.2  | 19.2                           | 110.4                                  |
| 2019                             | -0.3  | 1.60   | 2.4   | 2.4  | 0.6  | 20.1                           | 109.0                                  |
| 2019/1st Qtr.                    | -0.8  | 1.63   | 2.5   | 2.3  | 0.2  | 6.0                            | 110.2                                  |
| 2nd Qtr.                         | -0.1  | 1.62   | 2.4   | 2.5  | -0.0                                       | 4.6                            | 109.8                                  |
| 3rd Qtr.                         | -0.3  | 1.58   | 2.3   | 2.4  | -0.0                                       | 5.8                            | 107.3                                  |
| 4th Qtr.                         | 0.0   | 1.57   | 2.2   | 2.6  | 0.4  | 3.8                            | 108.7                                  |
| 2019/May                         | -0.5  | 1.62   | 2.4   | 2.6  | -0.7                                       | 1.7                            | 109.8                                  |
| June                             | 0.4   | 1.61   | 2.3   | 2.3  | 0.8  | 1.3                            | 108.1                                  |
| July                             | -1.0  | 1.59   | 2.2   | 2.3  | -0.1                                       | 2.0                            | 108.2                                  |
| Aug.                             | -0.1  | 1.59   | 2.2   | 2.4  | 0.0  | 2.2                            | 106.3                                  |
| Sept.                            | 0.5   | 1.57   | 2.4   | 2.4  | 0.0  | 1.6                            | 107.4                                  |
| Oct.                             | 0.0   | 1.57   | 2.4   | 2.4  | 0.3  | 1.8                            | 108.1                                  |
| Nov.                             | 0.1   | 1.57   | 2.2   | 2.7  | -0.0                                       | 1.4                            | 108.9                                  |
| Dec.                             | 0.0   | 1.57   | 2.2   | 2.7  | 0.1  | 0.5                            | 109.2                                  |
| Sources                          | "Monthly Labour Survey", Ministry of Health, Labour and Welfare                                       | "Employment Referrals for General Workers", Ministry of Health, Labour and Welfare | "Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications | "Money Stock", Bank of Japan   | "Balance of Payments", Ministry of Finance |                                | Bank of Japan                          |

| Calendar year, Quarter and Month | Foreign Trade Statistics                         |   |   |   |   |   |  |  |  |  |
|----------------------------------|--|---|---|---|---|---|--|--|--|--|
|                                  | Imports amount from EU (trillion yen)            | Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%) | Exports amount to Asia (excluding China) (trillion yen) | Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%) | Imports amount from Asia (excluding China) (trillion yen) | Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%) | Exports amount to China (trillion yen) | Exports to China rate of increase over previous year/ the same term (month) of the previous year (%) | Imports amount from China (trillion yen) | Imports from China rate of increase over previous year/ the same term (month) of the previous year (%) |
| 2012                             | 6.6  | 3.6   | 23.3  | -1.8  | 16.3  | 3.3   | 11.5                                   | -10.8  | 15.0                                     | 2.7  |
| 2013                             | 7.6  | 15.2  | 25.2  | 8.1   | 18.3  | 12.6  | 12.6                                   | 9.7  | 17.7                                     | 17.4   |
| 2014                             | 8.2  | 6.8   | 26.1  | 3.5   | 19.4  | 6.2   | 13.4                                   | 6.0  | 19.2                                     | 8.6  |
| 2015                             | 8.6  | 5.6   | 27.1  | 3.7   | 18.9  | -2.6  | 13.2                                   | -1.2   | 19.4                                     | 1.3  |
| 2016                             | 8.2  | -5.5  | 24.7  | -8.7  | 16.2  | -14.5   | 12.4                                   | -6.5   | 17.0                                     | -12.4  |
| 2017                             | 8.8  | 7.4   | 28.0  | 13.3  | 18.6  | 14.8  | 14.9                                   | 20.5   | 18.5                                     | 8.5  |
| 2018                             | 9.7  | 11.0  | 28.8  | 2.9   | 20.0  | 7.8   | 15.9                                   | 6.8  | 19.2                                     | 4.0  |
| 2019                             | 9.7  | -0.1  | 26.6  | -7.6  | 19.0  | -5.4  | 14.7                                   | -7.6   | 18.4                                     | -3.9   |
| 2019/1st Qtr.                    | 2.4  | -1.1  | 6.6   | -6.3  | 4.9   | -4.1  | 3.4                                    | -7.5   | 4.6                                      | 0.2  |
| 2nd Qtr.                         | 2.4  | 5.2   | 6.6   | -7.4  | 4.6   | -3.1  | 3.6                                    | -8.7   | 4.5                                      | -0.0   |
| 3rd Qtr.                         | 2.5  | 1.8   | 6.6   | -8.8  | 4.7   | -3.5  | 3.6                                    | -9.4   | 4.7                                      | -2.1   |
| 4th Qtr.                         | 2.4  | -5.6  | 6.8   | -7.9  | 4.8   | -10.2   | 4.0                                    | -5.1   | 4.7                                      | -12.2  |
| 2019/May                         | 0.9  | 8.7   | 2.0   | -13.4   | 1.6   | -5.5  | 1.1                                    | -9.7   | 1.5                                      | -0.8   |
| June                             | 0.7  | -3.7  | 2.3   | -7.2  | 1.5   | -7.0  | 1.2                                    | -10.1  | 1.4                                      | -5.3   |
| July                             | 0.9  | -4.2  | 2.2   | -7.7  | 1.7   | -0.7  | 1.2                                    | -9.3   | 1.6                                      | 2.9  |
| Aug.                             | 0.8  | -2.3  | 2.1   | -10.3   | 1.5   | -11.3   | 1.2                                    | -12.1  | 1.4                                      | -8.5   |
| Sept.                            | 0.9  | 13.3  | 2.3   | -8.3  | 1.6   | 1.8   | 1.2                                    | -6.7   | 1.6                                      | -0.9   |
| Oct.                             | 0.8  | -10.8   | 2.2   | -11.7   | 1.6   | -12.4   | 1.3                                    | -10.3  | 1.6                                      | -15.4  |
| Nov.                             | 0.8  | -5.5  | 2.3   | -5.9  | 1.5   | -12.6   | 1.3                                    | -5.4   | 1.6                                      | -16.4  |
| Dec.                             | 0.8  | 0.1   | 2.3   | -6.1  | 1.6   | -5.3  | 1.4                                    | 0.8  | 1.5                                      | -3.6   |
| Sources                          | "Trade Statistics of Japan", Ministry of Finance |   |   |   |   |   |  |  |  |  |