UBS

Global Research

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Japan Economic Comment

Japanese economic, political outlook for 2016–17

Economics

Japan

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Summary

UBS has announced new global economic forecasts through 2017, envisaging gradually accelerating global economic growth from 3.1% in 2015 to 3.4% in 2016 and 2017. We estimate that Japan's real economic growth will run at 1.3% in 2016 and 0.8% in 2017 for an average of about 1.1% as recovery in consumption and capex is compounded by the rush in demand to beat the next consumption tax hike, followed by the subsequent pullback. Real export growth remains dull despite continued yen depreciation, and growth will mainly come from domestic demand.

Five key economic and political points for Japan

1. Will consumption recover? Companies are gradually starting to increase allocations to employment and wages. We think rising wages will start to feed visibly through to consumption growth in 2016, mainly as (1) a sustained increase in nominal wages is likely to lead to more active consumption, (2) positive real wage growth should become firmly established, and (3) we can look for policy support for household incomes and corporate wage hikes. 2. Will a gap start to open up between export volume and production? Global economic growth is slowing while Japanese companies' competitive strength has also fallen, making it hard for export volumes to grow. Even then we expect to see a gentle recovery, with some companies repatriating operations and strategically lowering export prices. We believe that capex will shift from investment targeting export volume growth to expansion in new areas, such as new product development, R&D, and payroll cost-savings. 3. What will the Three New Arrows bring? Two key events will take place in 2016, namely the July Upper House election and a decision in around October on whether or not to raise the consumption tax rate once more. Abenomics will likely switch from the policies undertaken so far aimed at yen depreciation and the wealth effect to those that stimulate domestic demand growth by encouraging corporate and household savings to feed through to demand. 4. How far will the yen fall? BoJ and US Fed monetary policies are moving in different directions, with the former maintaining a loose policy and the latter raising rates, and the resulting difference in US-Japanese interest rates will likely weaken the yen further against the dollar. We estimate that the yen will depreciate further to ¥130/$ at the end of 2016 and ¥135/$ in 2017, albeit falling at a more gentle pace than in the past. 5. Will the inflation rate reach 2%? It should be fairly easy for core CPI to accelerate to about 0.5% as the impact of energy prices drops away. On the other hand, the rise in food prices should gradually slow, and we estimate that core CPI will be stable at about the 1% mark, running at 1% at the end of 2016 and 1.3% at the end of 2017. The BoJ is targeting 2% inflation, but it has not tied itself to reaching this in two years. The BoJ will probably not ease if solid economic growth of at least 1% annualized continues. However, expectations of further easing may grow around autumn 2016, when the decision on the next consumption tax hike will be made.

This report has been prepared by UBS Securities Japan Co., Ltd. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 15.**

UBS Research THESIS MAP

2016–17 Outlook: Domestic demand to lead growth, mainly via consumption and capex

Q: Will consumption recover?

Yes. Companies are gradually starting to increase allocations to employment and wages. We believe wage growth will feed visibly through to consumption in 2016 as wages continue to rise, positive real wage growth becomes established, and policies also provide support. However, the negative impact on the economy from the consumption tax hike will likely be visible in FY17.

Q: Will a gap start to open up between export volume and production?

Yes. With export volume growth only gentle, we think capex will shift its focus from increasing export volumes to expansion in new areas, such as new product development, R&D, and payroll cost-savings.

Q: What will the Three New Arrows bring?

2016 will bring the Upper House election in July and the decision on whether to raise the consumption tax rate again in around October, and Abenomics is likely to focus on policies to expand domestic demand by encouraging corporate and household savings to feed through to demand.

Q: How far will the yen fall?

BoJ and US Fed monetary policies are moving in different directions, with the former maintaining a loose policy and the latter raising rates, and the resulting differential in US-Japanese interest rates will likely weaken the yen further.

Q: Will inflation reach 2%?

No. It should be fairly easy for core CPI to accelerate to about 0.5% as the impact of energy prices drops away. On the other hand, the rise in food prices should gradually slow, and we estimate that core CPI will be stable at around +1%.

UBS VIEW

Real GDP growth to remain positive at +1.3% yoy in 2016 and +0.8% yoy in 2017
We estimate that core CPI will be stable at about 1%, running at 1% at the end of 2016 and 1.3% at the end of 2017 (excluding the consumption tax hike). We forecast further depreciation in the yen against the dollar to ¥130/$ at the end of 2016 and ¥135/$ in 2017.

EVIDENCE

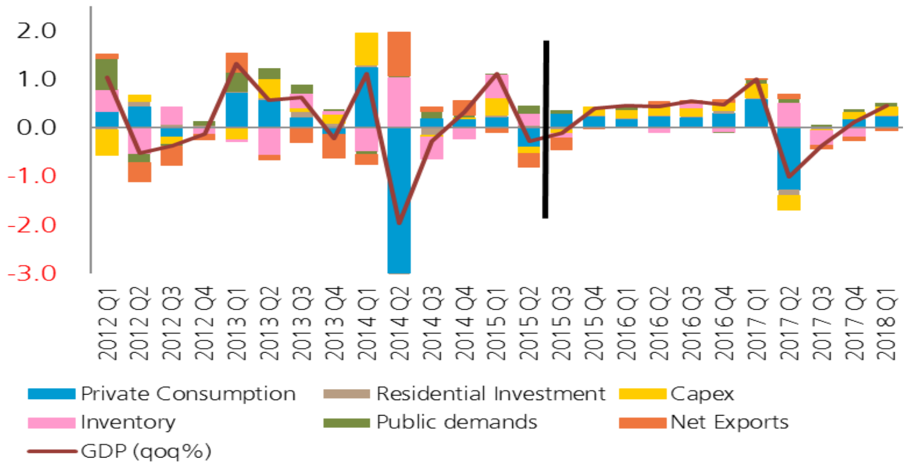
Sustainability of rising wages, positive real wage growth to become established

Companies are gradually starting to increase allocations to employment and wages. Main reasons that rising wages should start to lead visibly to growth in consumption are that (1) a sustained increase in nominal wages is likely to lead to more active consumption, (2) positive real wage growth should become firmly established, and (3) we can look for policy support for household incomes and corporate wage hikes.

WHAT'S PRICED IN?

Consumption recovery, continued yen depreciation: 2016 growth of 1.3% yoy broadly matches consensus, but our forecast for the rise in consumption (+1.3% in 2016) is slightly above the consensus forecast +1% yoy). Our yen-dollar rate estimate of ¥130/$ at the end of 2016 envisages a weaker yen than the consensus forecast (¥125/$) because Japanese and US monetary policies are moving in different directions.

Figure 1: Japanese economic growth to accelerate gently, mainly on domestic demand



Source: Cabinet Office, UBS estimates

Figure 2: UBS global real GDP forecasts

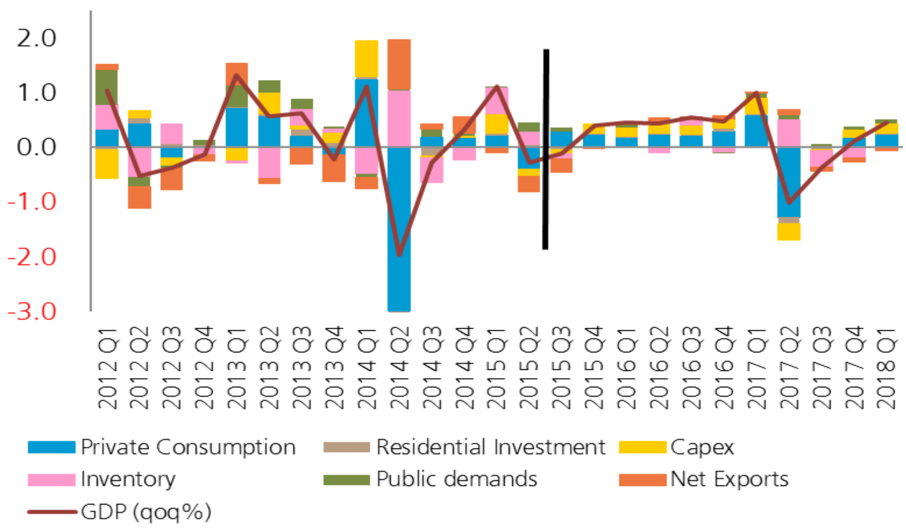
%yoy	2014	2015F	2016F	2017F
US	2.4	2.5	2.8	2.6
Japan	-0.1	0.5	1.3	0.8
Western Europe	1.3	1.7	1.9	1.9
of which:				
Eurozone	0.9	1.5	1.8	1.8
UK	2.9	2.4	2.4	2.3
Asia	6.3	5.9	5.7	5.5
of which:				
China	7.3	6.9	6.2	5.8
India	7.3	7.1	7.6	7.8
Brazil	0.1	-3.0	-2.0	0.7
Advanced economies	1.8	2.0	2.3	2.1
Developing economies	4.8	4.1	4.3	4.4
WORLD	3.4	3.1	3.4	3.4

Source: UBS estimates

Japanese economic outlook for 2016–17

We estimate that real GDP will continue to grow, accelerating from +0.5% yoy in 2015 to +1.3% yoy in 2016 and +0.8% yoy in 2017. We expect domestic demand to be the main driver, primarily consumption and capex. However, we factor in the demand rush ahead of the 2ppt consumption tax hike (about 1% of GDP) due in April 2017, and the subsequent pullback, and we think this will push up 2016 growth by 0.4ppt. On average we see growth at 1.1%, in line with the potential growth rate. Domestic demand should contribute 1.5ppt in 2016 and 0.7ppt in 2017, accounting for just about all the growth. Some companies are repatriating overseas facilities, and although they are lowering export prices in contract currencies, inadequate overseas demand is likely to hold down exports. The contribution from net exports should be neutral for economic growth at -0.1ppt in 2016E and +0.1ppt in 2017E.

Figure 3: UBS real economic growth rate forecasts (Japan) and contribution by component

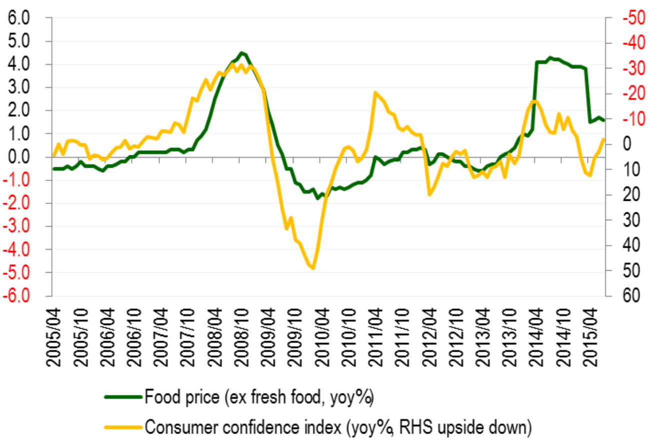


Source: Cabinet Office, UBS estimates

Japanese economic and political highlights (1): Will consumption recover?

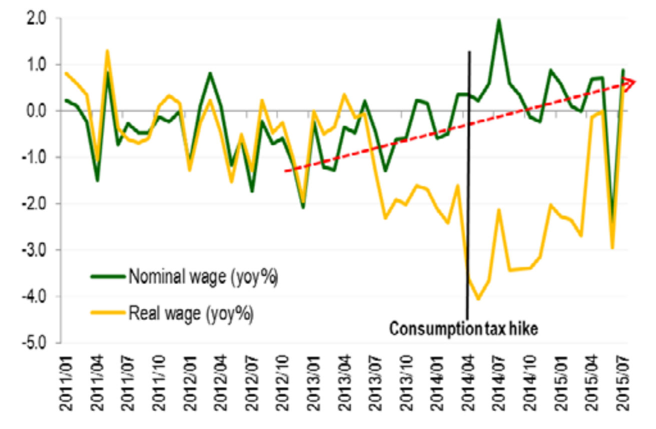
The market's primary focus for the economy in 2016 is likely to be on whether consumption really recovers. Companies have gradually started to increase allocations to wages as they book record-high earnings supported by the weaker yen, inbound demand, and consumption by active seniors. We think the link from rising wages to consumption growth will finally start to become evident in 2016, We estimate that real consumption will turn up from -0.7% yoy in 2015 to consistent growth at +1.3% in 2016 and +0.1% in 2017. However, this reflects the rush in demand to beat the next consumption tax hike and the subsequent pullback, and we envisage average growth of about 0.7%. The first reason for consumption to rise is the recognition of sustainable wage growth. According to our Evidence Lab, a major reason that households are not increasing consumption is that it remains unclear whether wage growth is sustainable. The government will press companies to lift wages further in the run-up to the 2016 Shunto. The increasingly acute labour shortage also is putting growing upward pressure on wages. A further rise in nominal wages in the wake of the April 2016 Shunto would provide reassurance over the sustainability of wage growth, likely triggering more active consumption. The second reason is that growth in real wages should take root. Core-core CPI (excluding fresh food, energy), which shows underlying trends in prices, currently stands at +0.8%, elevated by the price of food products. We believe domestic food prices will stop rising from here on, affected as the yen is stable at a low level and as global food prices fall, and we do not expect inflation to run substantially above 1%. In 2016 growth in nominal wages should finally remain consistently above the rate of inflation. The third reason is policy support. Abenomics will focus on reviving domestic demand in the run-up to the July 2016 Upper House election and the year-end decision on whether to raise the consumption tax rate the following year. We think developments such as a supplementary budget, policies under Three New Arrows (plan for a society with 100m active participants) and tax reforms will include a string of measures to support household incomes, mainly focussing on households with two working parents and on families with children. Incentives such as corporate tax breaks are also being introduced for companies that raise wages by at least 3%, and we can look for more of this kind of incentive.

Figure 4: Food prices and Consumer Confidence Index: some inverse correlation



Source: Ministry of Finance, Cabinet Office, UBS

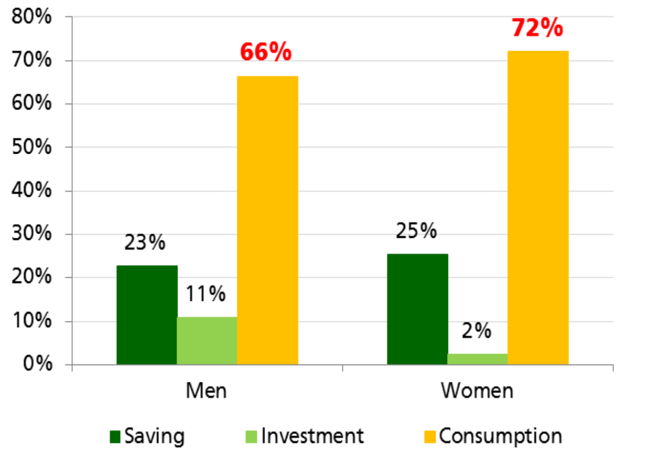
Figure 5: Nominal and real wages: Real wage growth to be consistently positive



Source: Ministry of Health, Labour, and Welfare, UBS

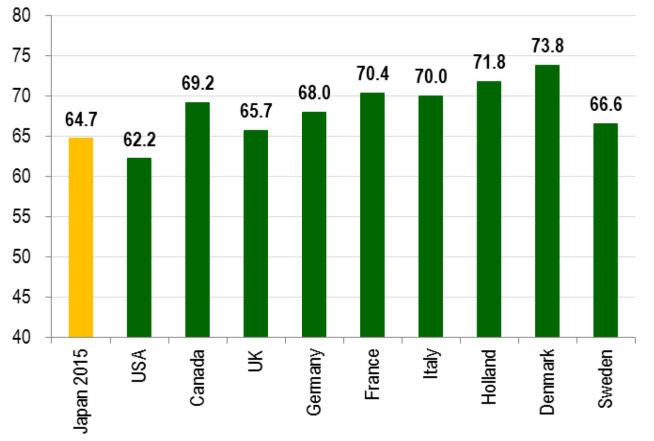
Furthermore, we think the key to recovery in consumption will lie in increased spending not only by seniors but also by women. The first reason for this is women's higher marginal propensity to consume. According to the UBS Evidence Lab, the proportion of income growth allocated to consumption (marginal propensity to consume) is 6% higher among women than men. From the macro perspective, too, the wage gap between the genders is high compared with overseas, and we can look for policies to correct this alongside overall income growth. We believe the labour shortage will lead to further growth in employment for women, as well. Women's labour force participation rate has currently risen to 64.7%, but we think it will climb still further. We believe consumption driven by growth in women's income and employment is likely to become more evident from here on. Please see our 28 October UBS Evidence Lab report for the possibility of growth in consumption by women.

Figure 6: Proportion of income growth allocated to savings, investment, consumption (from the UBS Evidence Lab)



Source: UBS Evidence Lab

Figure 7: Labour force participation rate for women aged 15–64 — international comparison



Source: OECD、UBS

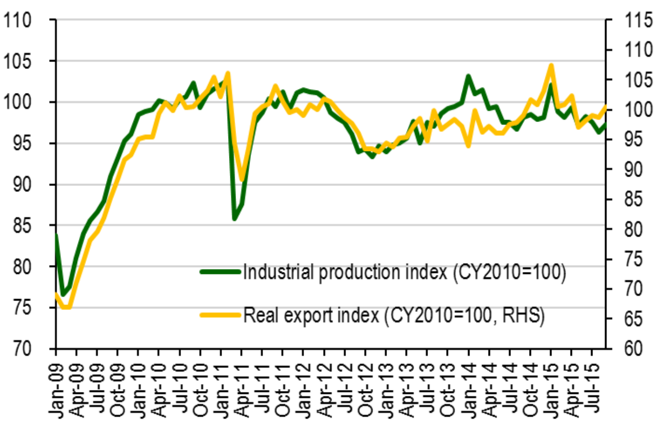
Japanese economic and political highlights (2): Will a gap start to open up between export volume and production?

The real export and production indexes have correlated closely with each other following the Lehman Brothers collapse, showing that growth in export volume has led to higher production. Global economic expansion is currently slowing, while Japan's manufacturing sector has seen its competitive edge erode since the Lehman Brothers crisis and catastrophic earthquake, blunting export volume growth, and production is also no longer rising. We envisage only a marginal increase in the global economic growth rate to about 3.4%, bearing in mind US rate hikes and the slowing Chinese economy, and doubts remain over whether export volume can rise sharply.

However, one positive point is that export prices on a contract currency basis are falling sharply. Companies kept contract currency export prices relatively steady despite the sharp fall in the yen since Abenomics, leading to high nominal earnings even in the absence of increased export volumes. However, the weaker yen has prompted some companies to start to repatriate operations from around mid-2014, such as by reallocating overseas investment to Japan, and they have begun

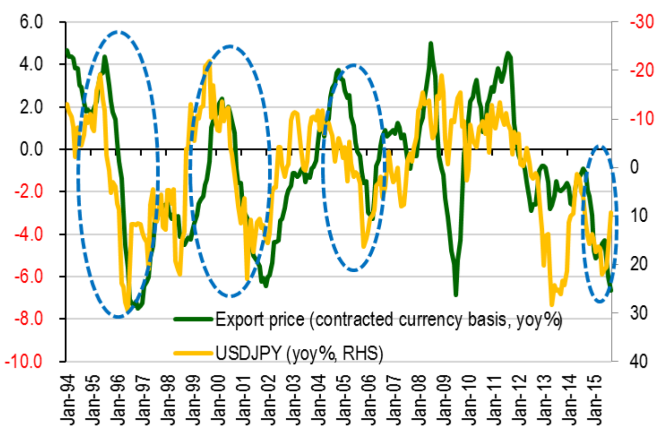
to find room for price cuts. We believe conditions will be increasingly conducive to growth in real exports if prices decline and the global economy proves stronger than expected. We estimate that real exports will turn up from +1.4% yoy in 2015 to modest growth of +2.7% in 2016 and +2.9% in 2017.

Figure 8: Industrial production and real export indexes



Source: Bank of Japan, Ministry of the Economy, Trade and Industry, INDB, UBS

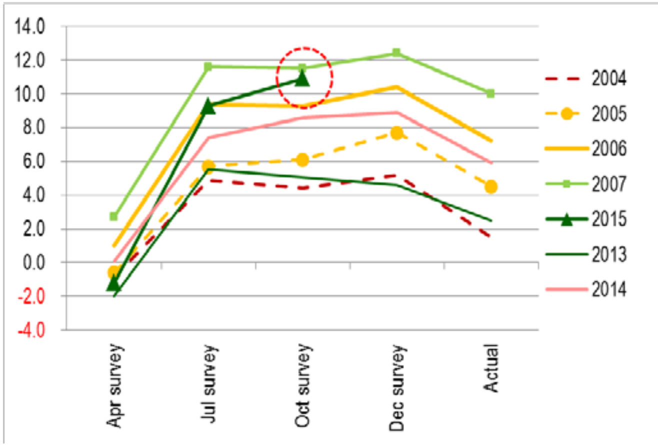
Figure 9: Export prices in contracted currency and USD/JPY



Source: Bank of Japan, Bloomberg, UBS

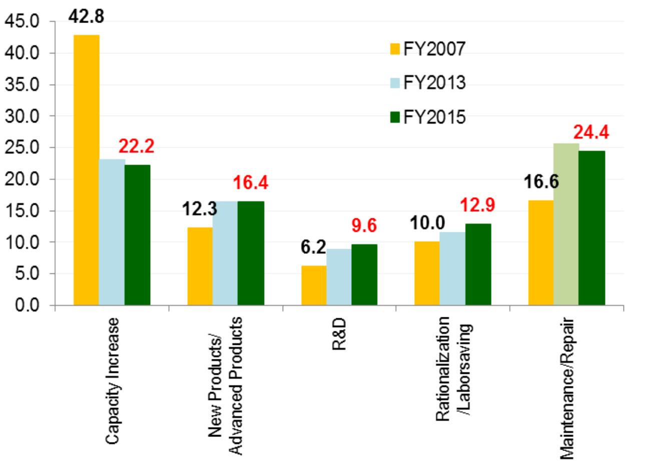
A gap may start to become evident in this relationship between export volume and production. The manufacturing sector is sitting on high savings, and its capex is likely to be driven by fresh motives, such as new product development, R&D, payroll cost-savings, and repair/maintenance, not by the traditional investment to expand production capacity in a bid to increase volumes. The non-manufacturing industry also faces structural change, including responding to the aging society, IT, inbound consumption and the Olympic Games, and there is great appetite to invest, alongside the increasingly acute labour shortage. Major companies' capex plans showed growth of 10.9% yoy in BoJ's October Tankan, as strong as plans in FY07. Companies have not yet moved to the implementation phase, but we think they are likely to become more active from here on if uncertainty over the global economy lifts and strength in domestic demand is confirmed. We estimate that capex growth will pick up from 0.9% in 2015 to 3.5% in 2016, and 2.5% in 2017, so although there will be some impact from the next consumption tax hike, on average we envisage consistent growth around 3%.

Figure 10: Large corporations' capex plans: as strong as in FY07 in Oct survey



Source: Bank of Japan, UBS

Figure 11: Big changes in motives for manufacturing industry capex

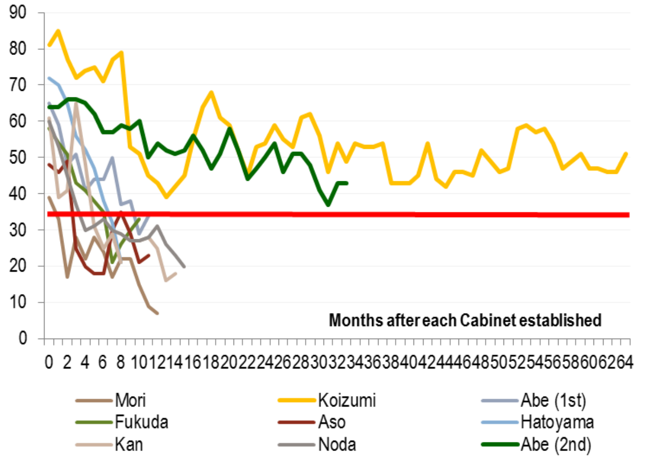


Source: Development Bank of Japan, UBS

Japanese economic and political highlight (3): What will the Three New Arrows bring?

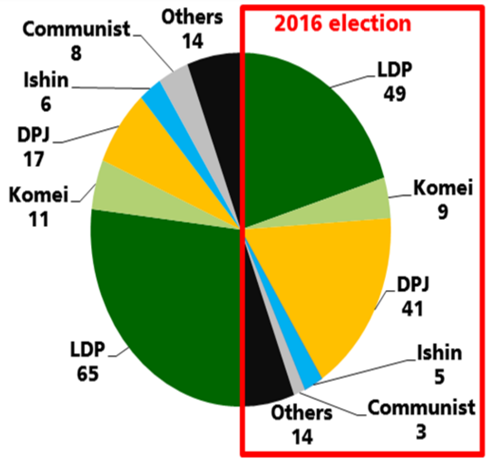
Two key events will take place in 2016, namely the July Upper House election and a decision in around October on whether or not to raise the consumption tax rate once more. In particular the decision on whether to go ahead with the next consumption tax hike or defer it again will likely have a major impact on the economy and markets in H2 2016. Abenomics is likely to switch from the policies undertaken so far aimed at yen depreciation and the wealth effect to initiatives to encourage corporate and household savings to feed through to demand, in a drive to revive domestic demand and lift the cabinet approval rate among Japanese citizens. Specifically, on top of a supplementary budget and tax reforms, there will be particular interest in concrete policies in the plan for a society with 100m active participants, which is targeting the three new Abenomics Arrows (nominal GDP of ¥600trn, a fertility rate of 1.8X, and ending the need for people to leave their jobs to provide nursing care).

Figure 12: 35% marks defence line for Cabinet approval rate



Source: NHK、UBS

Figure 13: Distribution of Upper House seats: 28-seat gain by LDP/Komeito gives 2/3 majority, incl. non-re-elected seats



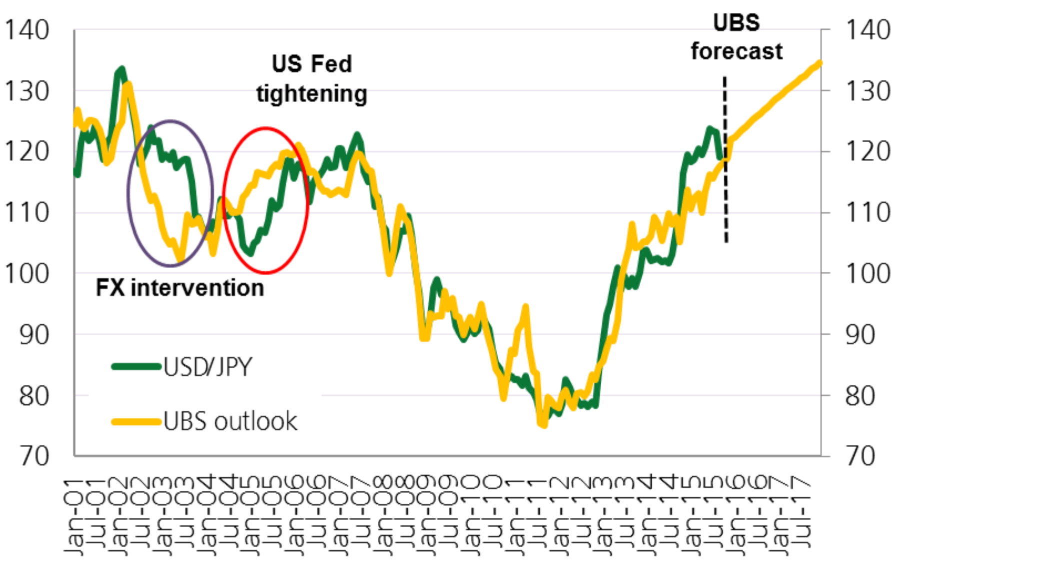
Source: Development Bank of Japan、UBS

More precisely, preferential measures for households with children and those with low incomes will take concrete shape in developments such as budgets and tax reforms. A radical overhaul to income taxation is due to take place under tax system reforms, and alongside gift tax, inheritance tax and taxes levied on financial assets, we could see a comprehensive policy to redistribute income. The over-60s own more than 65% of the ¥1,717trn in household savings (end-June 2015), and asset transfers would likely stimulate consumption among younger generations. On the corporate side, areas likely to be in the spotlight include the corporate tax rate cut (to 31.3%), preferential treatment for capex and wage hikes, and the abolition of tax levies on fully depreciated assets within fixed asset taxation. It looks as though regulations will also be eased in areas such as AI, self-driving automobiles, and the use of robots. All of these are policies intended to increase household consumption and corporate investment. We also highlight areas such as efforts to nurture the healthcare industry, roll out IT in medicine, and encourage the use of PFI/PPP in the road, airport, and waterworks businesses, helping contribute not only to developing industry but also to improving government finances.

Japanese economic and political highlight (4): How far will the yen fall?

BoJ and US Fed monetary policies are moving in different directions, with the former maintaining a loose policy and the latter raising rates, and the resulting differential in US-Japanese interest rates will likely weaken the yen further against the dollar. We estimate that the yen will depreciate further to ¥130/$ at the end of 2016 and ¥135/$ in 2017, albeit falling at a more gentle pace than in the past. However, yen depreciation of more than 10% has a major adverse impact on SMEs and households over the near term. The government/BoJ could intervene if the yen were to drop steeply. The yen could also appreciate under temporary risk-off conditions, as happened in 2004 immediately following US rate hikes. This is because US two-year rates tend to rise as they factor in the pace of hikes in policy interest rates.

Figure 14: USD/JPY trends and UBS estimates



Source: Bloomberg, UBS

USD/JPY (logarithmic) =

5.4 + 0.18 x US 2yr yield (logarithmic) + 0.003 x base money (yoy)

- 0.09 x current account balance (36-mth moving average, logarithmic)

(Estimate timeframe: Jan 2001 – Sep 2015; $R2 = 0.88$)

Japanese economic and political highlight (5): Will inflation reach 2%?

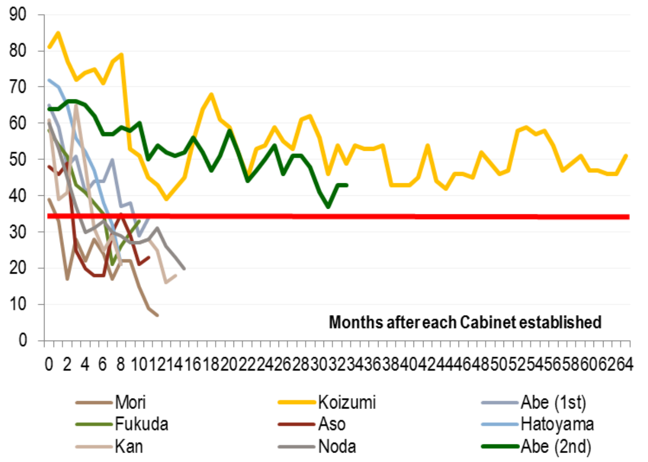
Energy has hitherto made a major negative contribution to core CPI (all items excluding fresh food), but the impact of this should drop away, setting the stage for acceleration to about 0.5% in H1 2016. On the other hand, although food prices have risen consistently because of the delayed impact of yen depreciation and as firms transfer costs into prices, growth in these should gradually slow (turning negative qoq), making inflation far above 1% unlikely. We estimate that the core CPI will reach +1.0 at the end of 2016 and +1.3% at the end of 2017, remaining steady at around the 1.0% mark. Core CPI has been heavily influenced by moves to pass along the impact of the weaker yen and by food prices, but we think growth from the demand side supported by recovery in consumption will also be evident in 2016–17. In particular, we can look for growth in consumption by women and the seniors, and since such consumption tends to focus on the luxury end, preferring quality over quantity, we think there will be stronger upward pressure on prices in the services segment rather than on manufactured goods.

One technical factor that needs bearing in mind is that the basis for core CPI will be revised under the regular five-yearly reset (transition to the FY15 base) from the

July 2016 figure (announced at the end of August). Under the previous transition to the 2010-base (announced in August 2011), core CPI was revised down by 0.6%, leaving a strong deflationary impression. However, the August 2016 revision could bring an upward revision of 0.1–0.3ppt if there is also a quality adjustment for housing, and a completely different result from resets in the past could emerge. Under the current base we forecast July 2016 core CPI growth of 0.7% yoy, but an upward revision of 0.3ppt or more could push core CPI growth abruptly up to 1%.

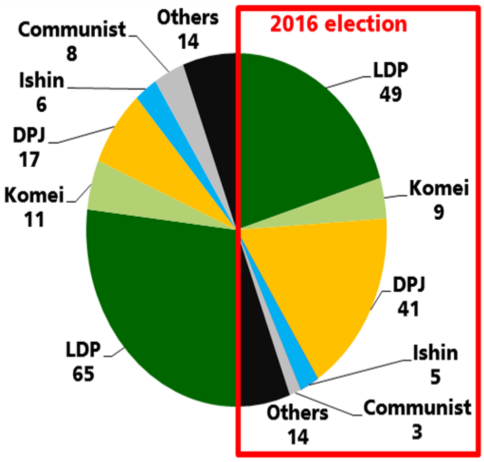
The BoJ will keep monetary policy loose as it targets a 2% inflation rate, but it has not committed itself irrevocably to reaching this in two years, and even if prices rise only gently, it is unlikely to ease, provided the economy continues to grow firmly at a rate of at least 1% (annualized) amid a gradually falling yen. That said, expectations of further easing may grow around autumn 2016, when the decision on the next consumption tax hike will be made. The BoJ is also clearly likely to ease without hesitation if the yen strengthens to ¥115/$ or beyond, or if the economy threatens to turn down.

Figure 15: 35% marks defence line for Cabinet approval rate



Source: NHK, UBS

Figure 16: Distribution of Upper House seats: 28-seat gain by LDP/Komeito gives 2/3 majority, incl. non-re-elected seats



Source: Development Bank of Japan, UBS

There is little upward pressure on 10-year JGB yields from domestic factors, since the BoJ continues to buy about 90% of JGB issuance as part of its accommodative monetary framework, while domestic prices are rising only gently. Indeed, we think the dynamics of overseas investors' risk-on behaviour associated with rising US interest rates will have a greater impact on Japanese interest rates. We estimate that a 1% rise in the US two-year interest rate will push up Japan's 10-year yield by 0.18ppt. A fall in the corporate saving rate from its current positive figure to close to zero would also put upward pressure on the 10-year yield. We estimate that Japan's 10-year interest rate will trend upwards — albeit very gently — alongside recovery in domestic demand and an increase in US interest rates, reaching 0.5% at the end of 2016 and 0.7% at the end of 2017.

Upside and downside risk scenarios for the Japanese economy

On the upside (15% probability), key points include robust overseas economic growth (particularly the US and China), as well as substantial tax reforms and deregulation on the policy front. A reduction in the corporate tax rate to below 30%, the abolition of some fixed asset taxes, and radical deregulation in areas such as healthcare, medical/nursing, robots/IoT and AI would likely also encourage corporate capex. In our upside scenario we forecast 2016 GDP growth of 1.8% and core CPI at 1.3%.

On the other hand our downside scenario (10% probability) posits the threat of yen appreciation triggered by rapid risk-off behaviour in overseas economies. Companies would again emphasize savings, and both wage growth and capex would likely slow. On the policy front we would expect a supplementary budget of about ¥10trn from the government, as well as further BoJ easing on a similar scale. We think a supplementary budget would push up GDP by about 1%, factoring in the multiplier effect. However, this would come through after a significant time-lag, and only a very small amount of the impact would be felt in 2016. Although the BoJ would ease monetary policy further, it has less scope to do so than the US or Europe, and we could not look for the same impact on yen depreciation as before. We would expect real 2016 growth of -0.7% and core CPI of -0.4%, dropping sharply.

Key Japanese economic and political agenda items for 2016–17

2015

November: Preliminary Q3 GDP announcement (16th)

November: BoJ Monetary Policy Meeting (19th)

December: Decisions on FY16 supplementary budget bill, FY16 tax reforms

December: BoJ Monetary Policy Meeting (18th)

2016

January: Ordinary Diet session convened (focus on areas such as supplementary budget, TPP ratification)

January: BoJ Monetary Policy Meeting (interim GDP, inflation forecast assessment; 29th)

January: State/regional medium- to long-term economic and fiscal forecasts announced

February: Preliminary Q4 GDP announcement (15th)

March: BoJ Monetary Policy Meeting (15th)

April: Start of completely liberalized electricity retailing (1st)

April: BoJ Monetary Policy Meeting (28th)

May: G7 leaders' Japanese summit (26th)

May: Preliminary Q1 GDP announcement

June: BoJ Monetary Policy Meeting (16th)

June: Revised Growth Strategy

July: Upper House election

July: BoJ Monetary Policy Meeting (29th)

August: Preliminary Q2 GDP announcement

September: BoJ Monetary Policy Meeting (21st)

November: BoJ Monetary Policy Meeting (1st)

November: US presidential election, congressional election (8th)

November: Preliminary Q3 GDP announcement

December: BoJ Monetary Policy Meeting (20th)

2017

April: Consumption tax rate due to rise to 10% (1st)

UBS Economic Forecasts

(New) UBS Economic Forecast as at 4 November 2015

	2015				2016				CY			FY		
Q/Q	Q1 A	Q2 A	Q3 E	Q4 E	Q1 E	Q2 E	Q3 E	Q4 E	2015E	2016E	2017E	2015E	2016E	2017E
Real GDP	1.1	-0.3	-0.1	0.4	0.5	0.4	0.6	0.5	0.5	1.3	0.8	0.9	1.9	0.0
Real GDP (annualized)	4.5	-1.2	-0.4	1.6	1.8	1.8	2.2	1.9						
Domestic Demand*	1.2	0.0	0.1	0.4	0.4	0.4	0.5	0.4	0.4	1.5	0.7	1.2	1.8	-0.1
Private Consumption	0.4	-0.7	0.5	0.4	0.3	0.4	0.4	0.5	-0.7	1.3	0.1	0.5	1.7	-0.9
Housing	1.7	1.9	-2.0	1.0	1.0	1.0	1.2	2.0	-4.4	3.1	-1.0	0.5	4.1	-3.9
Capex	2.6	-1.2	-0.5	1.2	1.2	1.2	1.2	1.2	0.9	3.5	2.5	1.6	4.7	1.1
Public Investment	-1.4	2.1	0.5	-1.0	0.5	0.5	-1.0	-1.0	1.3	0.1	1.4	1.6	-0.5	2.4
Net Exports*	-0.1	-0.3	-0.2	0.0	0.0	0.1	0.1	0.1	0.1	-0.1	0.1	-0.3	0.1	0.0
Exports	1.6	-4.4	-0.5	1.2	1.5	1.2	1.0	1.0	1.4	2.7	2.9	-0.9	4.4	2.3
Imports	1.8	-2.6	1.0	1.5	1.5	1.0	0.8	0.8	0.7	3.8	2.6	1.2	4.4	2.3
Y/Y														
Real GDP	-0.8	0.8	1.0	1.1	0.4	1.2	1.8	1.9						
Nominal GDP	2.6	2.3	2.6	2.5	1.8	2.4	3.0	2.8	2.5	2.5	1.6	2.3	2.9	0.8
Industrial Production	-2.1	-0.4	0.6	0.7	0.5	2.7	3.6	3.3	-0.3	2.5	2.4	0.2	3.2	2.1
Labour Market Y/Y														
Unemployment Rate (%)	3.5	3.4	3.4	3.3	3.3	3.2	3.2	3.2	3.3	3.2	3.1	3.3	3.2	3.1
Total Employee Earnings	1.4	0.8	1.0	1.0	1.0	1.1	1.1	1.1	1.0	1.1	1.3	0.9	1.1	1.3
Others														
GDP Deflator	3.5	1.5	1.6	1.4	1.3	1.2	1.1	0.9	2.0	1.1	0.8	1.4	1.0	0.8
CPI	2.4	0.5	0.2	0.8	0.9	0.9	1.1	1.0	0.9	1.0	1.2	0.6	1.0	1.2
Core CPI**	2.1	0.1	0.0	0.2	0.7	0.8	1.0	1.0	0.6	0.9	1.2	0.2	1.0	1.2
Current Account (% GDP)	3.1	3.4	2.6	3.1	2.7	2.6	2.3	3.2	3.0	2.7	3.0	2.9	2.8	2.9
Interest & Exchange Rates (end period)														
BoJ Policy Rate	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1
10 yr Yield	0.45	0.36	0.35	0.40	0.40	0.45	0.45	0.50	0.40	0.50	0.70	0.40	0.55	0.70
JPY/USD	120	120	120	126	126	127	127	130	126	130	135	126	130	135

Source: Cabinet Office, MIC, METI, BoJ, Bloomberg, UBS estimates

*Contribution to growth (pts), **ex fresh food

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