September 2001

Revised Economic Outlook For Fiscal 2001 and Fiscal 2002

SRIC Corporation
Economic Research Department

1. Current Situation: Japanese Economy Continues to Rapidly Lose Steam

The economy continues to cool rapidly. In the April–June quarter, year-on-year GDP growth was -0.8% in real terms and -2.7% in nominal terms, an alarming rate of contraction. At the same time, the GDP deflator was -1.1% compared with the same quarter of the previous fiscal year, confirming the strength of deflationary pressures. With GDP figures and a string of other recently released indicators suggesting a slowdown, it is increasingly difficult to be optimistic about the future direction of the economy.

In our previous economic outlook released in June, we forecast a real growth rate of 0.3% in fiscal 2001 and 2.2% in fiscal 2002. Based on developments in the intervening three months, our perception of the current state of the economy is as follows.

① The Japanese economy is being weighed down by a chain of developments beginning with the slowdown in the world economy. This has led to a reduction in exports, which in turn has blunted production. We predicted this pattern; however, the scale of the reduction in exports and production has exceeded our expectations. The reason is an increasing sharp slowdown in the U.S. and the world economy. With corporate earnings also taking a knock, capital investment has shrunk faster than expected, particularly in the IT sector.

② However, with full-scale inventory adjustment under way, preparations are well set for a recovery. The depth of inventory adjustment is likely to be greater than expected, but its timing is in line with our forecasts.

③ Employment and personal income are now under severe pressure. The total unemployment rate has reached a record-high 5%, and the number of people entering the workforce continues to decline year on year. The deterioration in the employment and personal income environment was expected, but its degree is worse than forecast due to factors such as the continuing steep drop in the number of self-employed people and those employed in family businesses.

④ Despite these conditions, private consumption increased for a second straight quarter in April–June in real terms. This probably reflects tardiness on the part of consumers in reacting to the slowdown in the economy, but private consumption is firmer than expected even taking account of this. Likely key contributors are a rush to buy electrical appliances in the four categories to be covered by electric appliance recycling legislation due to soon come into effect, new model launches that have invigorated the car market, and the buoyancy of personal spending in single-person households. Another possible factor supporting consumption is declining prices due to deflationary pressures.

⑤ With the resources allocated by the Supplementary Budget in autumn 2000 now used up, public works spending fell off in the April–June quarter. This has occurred earlier than we expected, but the scale of the decline is within the scope forecast.

⑥ Consumer prices remain at low ebb, as forecast. In addition to weak demand, such supply-side factors as the stagnation in commodity prices, falling prices for machinery due to technological innovation, and an increase in cheap imports have steepened the decline in consumer prices.

2. Outlook for Fiscal 2001–2002

(1) 0.1% Growth Expected for Fiscal 2001 as Signs of Recovery Emerge in the Latter Half

We expect a real growth rate of 0.1% in fiscal 2001. There are increasing signs of economic adjustment in the first half due to intensifying contraction in the world economy and exports. In this revised outlook, we are sticking with our basic scenario of recovery for the second half of the fiscal year. The key factor will be recovery in the world economy. At the end of the year, easing of monetary policy and tax cuts are likely to reinvigorate the U.S. economy. If there is a recovery in export demand as the completion of inventory adjustment comes into sight by the end of the year, production will begin to increase again. A recovery in production will increase facility utilization rates, and a concomitant recovery in corporate earnings will cause capital investment to rise again after its period of decline. In addition to regular investment to replace outmoded facilities, there is a possibility of a more prominent role being played by IT-related investment.

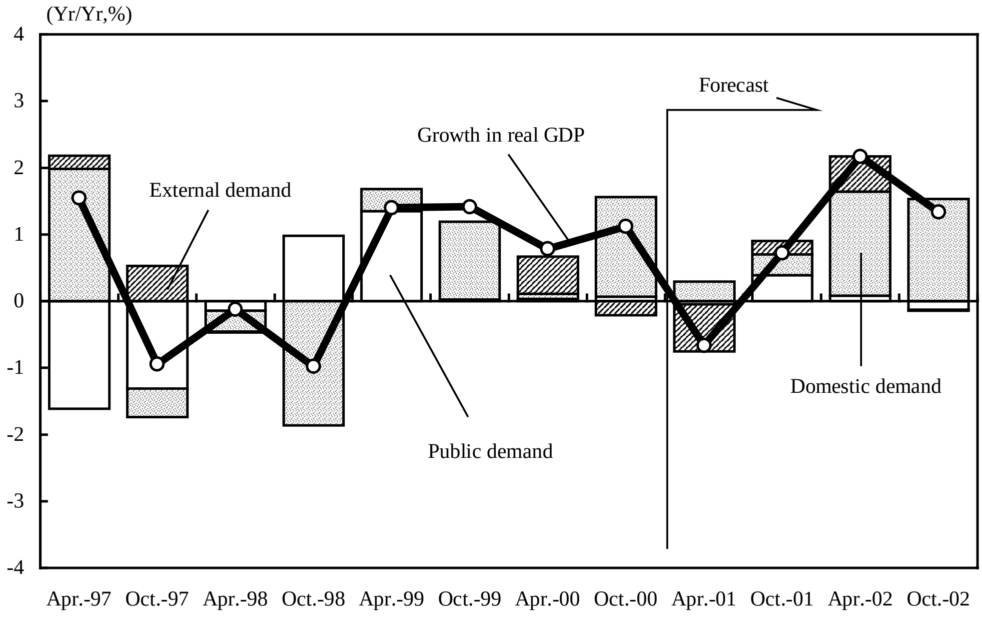
With companies continuing to curb personnel expenses, the scope for improvement of personal income is limited. Nonetheless, any expansion in income would prop up consumption. In the January–March quarter, an increase in public-works investment can be expected, reflecting additional projects made possible by the Supplementary Budget. With consumer prices continuing to languish, we expect nominal negative growth of -1.0%, making this the fourth consecutive year of negative growth.

The risk factor in our scenario for recovery in the coming fiscal year is a delay in recovery in the world economy. If a rebound in the U.S. economy does not occur until late next year, prospects for increased Japanese exports and domestic production will fade. At the same time, there is a possibility that private consumption, currently firm after bottoming out, will also be pushed down again. We do not believe that the recent terrorist attacks in the United States will have a significant impact on that country's economy as a whole, but dampened consumer sentiment could affect Christmas sales drives and other spending, increasing concerns that recovery in the world economy will be set back.

(2) 1.7% Growth Expected for Fiscal 2002; Recovery Driven by Domestic Demand Will Slow in the Second Half

We forecast a real growth rate of 1.7% in fiscal 2002. As in the latter half of the previous fiscal year, we expect an expansion of production driven by rising exports to lead recovery and overseas demand to become a positive factor. We also expect capital investment to expand, based on the renewal of facilities and IT-oriented investment, and private consumption to improve in line with recovery in personal income. Despite ongoing deflationary pressures, nominal growth is expected to turn positive for the first time in five years, at 0.8%, although the situation whereby nominal GDP growth is less than real GDP growth will continue. However, there is likely to be a gradual sense of slowdown in the economy from the latter half of fiscal 2002 as the rebound in capital investment peaks year on year in mid-fiscal 2002.

Exhibit1: Real GDP Growth through Fiscal 2002



Source:Cabinet Offfice, *Annual of National Income Statistics*

3. Outlook for Demand by Category

(1) The following assumptions have been made in this outlook.

① *World Economy*

Although the U.S. economy's real growth rate of 1.5% in 2001 will be down significantly from the previous year, it will move toward recovery around the end of the year as the impact of eased monetary policy and tax cuts makes itself felt. However, strong stock adjustment pressures are likely to rule out a rapid recovery, and a growth rate of about 2.5% is expected for 2002.

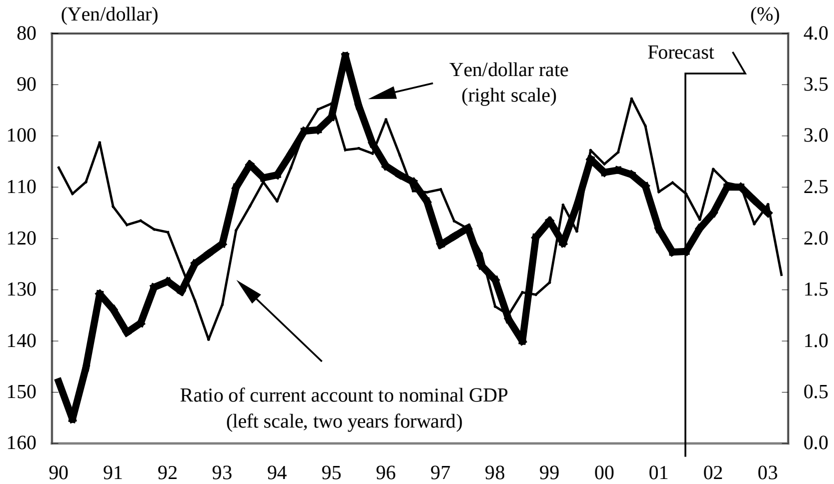
Like Japan and the United States, Europe is now showing clear signs of slowing growth. However, increased spending as consumer prices stabilize and recovery in the world economy are likely to initiate a rebound in Europe at the end of 2001, and in 2002 a steady rate of growth can be expected in the euro zone—1.6% in 2001 and around 2.4% in 2002.

Although boom in the People's Republic of China will continue, we expect a sluggish overall growth rate of 4.0–4.4% in 2001 in nine Asian countries and regions (excluding Japan), due mainly to slowdowns in Newly Industrialized Economies (NIEs) with a high dependence on the IT sector. In 2002, this rate will probably increase to 5.5–5.9% on the back of recovery in the U.S. economy.

② *Yen-Dollar Exchange Rate: ¥120 in Fiscal 2001, ¥112 in Fiscal 2002*

After a period of weakness in the first half, the yen is likely to rise gradually in the second half of fiscal 2001 as signs of recovery in the Japanese economy and other positive factors emerge. There is also a possibility that the yen's rise will be temporarily hastened by dollar selling resulting from negative sentiments following the terrorist attacks in the United States. The yen will probably continue to strengthen until the first half of fiscal 2002 and will again enter a period of weakness in the second half in reaction to movements in the current account surplus/GDP ratio.

Exhibit2 Outlook for the Yen/Dollars Exchange Rate



Sources: Bank of Japan, *Finacial and Economic Statistics Monthly*, *Monthly Balance of Paymens Statistics of Japan;* Cabinet Office, *Annual of National Income Statistics* (annual, quarterly)

③ WTI Crude Oil Prices: $27.60 in Fiscal 2001, $28.10 in Fiscal 2002

Amid sluggishness in the world economy, crude oil prices remain weak. However, a temporary jump is possible as a result of the terrorist attacks in the United States, and a rebound can be expected in the October–December quarter, when demand is strong, as the world economy recovers. Although prices will be higher than the average throughout the 1990s, price maintenance efforts by OPEC, including the introduction of a price-band system, are having a beneficial effect. Overall, we expect prices to fluctuate within a tight band.

Exhibit3: Outlook for WTI Crude Oil Price

Source: Cabinet Office, *Monthly Data on Overseas Economies* (annual, quarterly)

④ *Fiscal Policy*

In our earlier forecast in June, we assumed that no economic stimulus policies would accompany public-works investment in fiscal 2001. However, the slowdown in the economy and the plunge in stock prices have prompted speculation that some kind of stimulus policy will be implemented after all, in combination with the Supplementary Budget. For this reason, we are assuming in this revised outlook that the Supplementary Budget will involve a new issue of government bonds, totaling up to ¥30 trillion (excluding issues intended to cover tax revenue shortfalls) and that an additional public-works investment package of around ¥1.5 trillion will be implemented (as well as a package of around ¥1 trillion to spur employment). Also, as the Japanese government has formulated a budget that keeps intact into fiscal 2002 its policy of keeping total new government bond issues below ¥30 trillion, public-works investment will continue to downtrend.

⑤ *Monetary Policy*

To prevent the short-term disruption of financial markets due to the terrorist attacks in the United States, the Bank of Japan is larding the financial system with fund infusions in excess of its targeted balance of current deposits of ¥6 trillion. However, this is an emergency measure, and, when markets return to a normal state, funding will be brought back in line with the targeted balance of current deposits. However, there is a strong possibility that monetary policy will be further relaxed (by raising the targeted balance of current deposits) to pep up the slowing economy and relieve the pain of structural reform. These measures could temporarily increase stock prices and weaken the yen, but we believe there will be very little direct effect on the real economy. There is also a possibility that some kind of inflation target will be set, as pressure increases for such a measure to be taken.

(2) Trends in Demand by Category

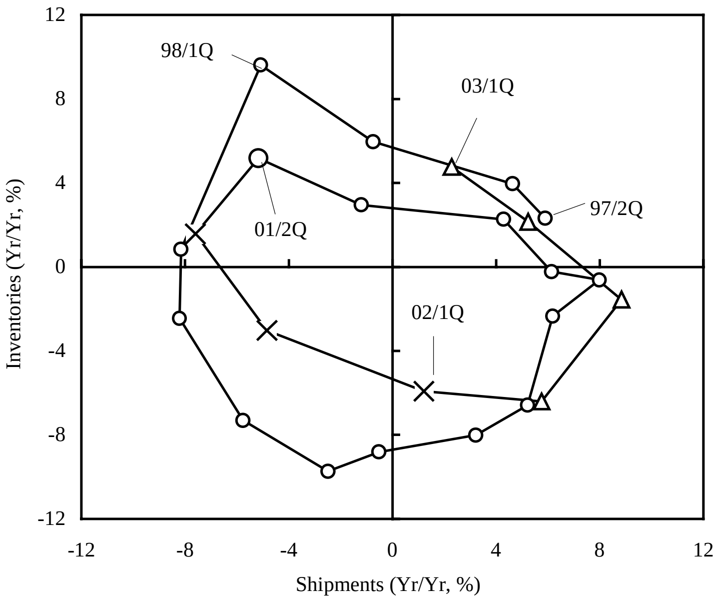
① *Corporate Recovery to Begin in the Latter Half of Fiscal 2001*

<u>Prospects of increased production to emerge in the latter half of fiscal 2001</u>

In the first part of 2001, industrial production (mining and manufacturing) was in retreat. We expect a negative performance in the July–September quarter as well, but, from the October–December quarter, production is likely to stage a comeback. Our main grounds for believing this are that exports will begin to increase again as the U.S. economy bottoms out and that inventory adjustment at makers of semiconductors and other producer goods will peak in the July–September quarter. In fiscal 2001, we expect negative growth of -5.2% in industrial production.

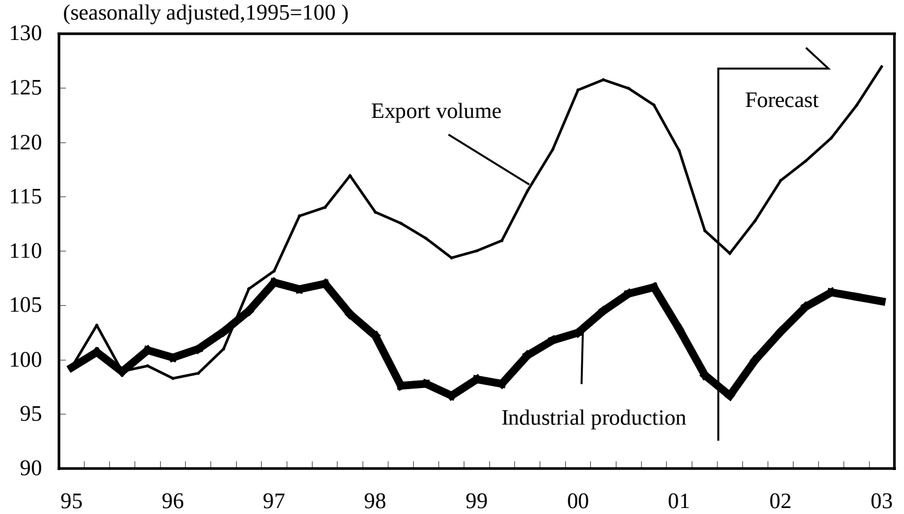
Production is expected to continue to grow in fiscal 2002, led by exports, and pick up speed toward the middle of the fiscal year as capital investment and private consumption give self-sustaining impetus to demand. However, there is a possibility of a decline in production in the latter half, as cyclical inventory buildups begin after capital investments run their course. We forecast a 6.1% rise in production in fiscal 2002.

Exhibit4:Inventory Cycle Movements



Note: Inventories are for the end of period. Figures from the second quarter of are forecasts.
Source: Ministry of Economy, Trade and Industry (METI),
Economic and Industrial Statistics

Exhibit5: Outlook for Industrial Production and Exports



Sources: Ministry of Finace (MOF), *The summary Report on Trade of Japan* ;
METI, *Economic and Industrial Statistics*

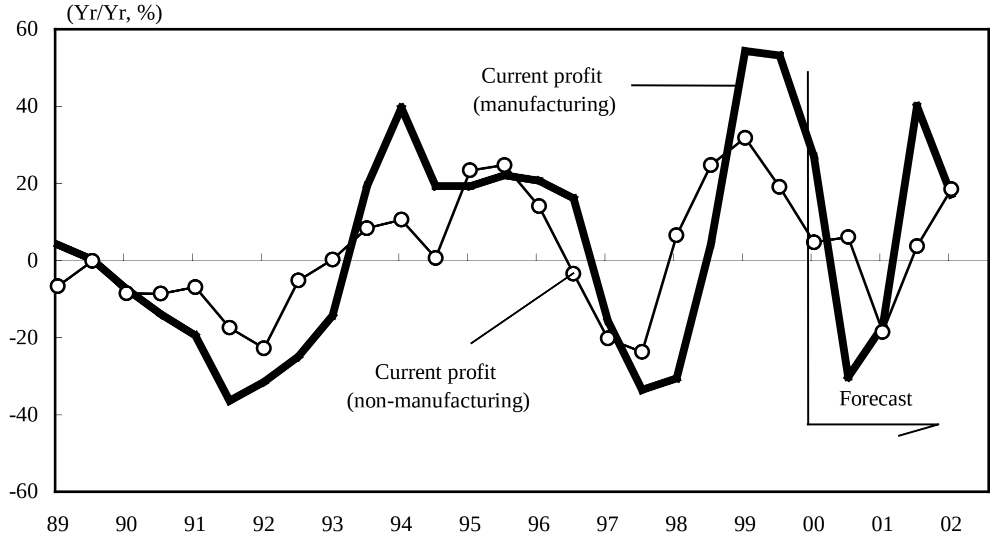
(annualy, quarterly)

Corporate profits and earnings to fall in fiscal 2001 and increase in fiscal 2002

In fiscal 2001, both manufacturing and non-manufacturing sectors will likely suffer declining profits and earnings. In addition to declining production in unit terms due to reduced exports and inventory adjustment, the manufacturing sector is likely to see profits wilt as sales prices fall amid soft markets. However, a recovery in exports and production beginning in the second half of fiscal 2001 will generate brighter earnings prospects. Non-manufacturing industries are also likely to see blunted sales growth, especially in services for business sites, retailing, and construction, due to the slowdown in the economy. Recovery is likely to take longer in non-manufacturing industries, as their ratio of personnel costs is higher than in the manufacturing sector and they have more difficulty in absorbing lower sales prices.

Because economic recovery is set to continue, both the manufacturing and non-manufacturing sectors will see profits and earnings rise again in fiscal 2002. Although prices will continue to fall steeply, sales will increase in unit terms. Furthermore, cost-cutting drives will help companies push up their profitability.

Exhibit6: Outlook for Corporate Performance



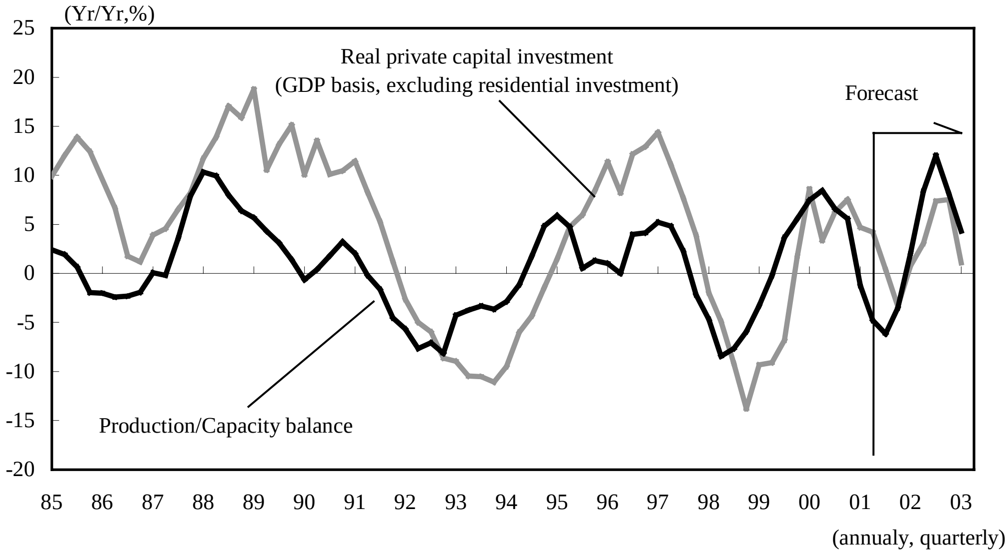
Source: MOF, *Quarterly Statistics on Incorporated Enterprises* (annual, semiannual)

<u>Capital investment to suffer severe setbacks in fiscal 2001 but pick up in fiscal 2002</u>

We expect capital investment to rise only 0.3% in fiscal 2001, far short of the previous fiscal year's growth. With the semiconductor industry making major downward revisions of projected outlays, caution is the watchword among capital investment planners. However, we expect capital investment to show signs of recovery in line with a rebound in production and earnings in the second half of the fiscal year, as an acute, but latent, need remains for IT-related investment in connection with production facilities replacement and the rising need for information strategy development.

In addition to continuing demand for the replacement of equipment, centered on manufacturing industries, we also expect smaller businesses and non-manufacturing companies to contribute to an increase in IT-related capital investment. However, when IT-related investment and investment in facilities replacement runs out of steam, capital investment overall is likely to tail off toward the end of the fiscal year.

Exhibit7: Production/Capacity Balance and Capital Investment



Note: Production/capacity balance is computed by subtracting the change in production capacity over the previous year from the change in production over the previous year.

Sources: Cabinet Office, *Annual of National Acounts*; METI, *Economic and Industrial Statistics*

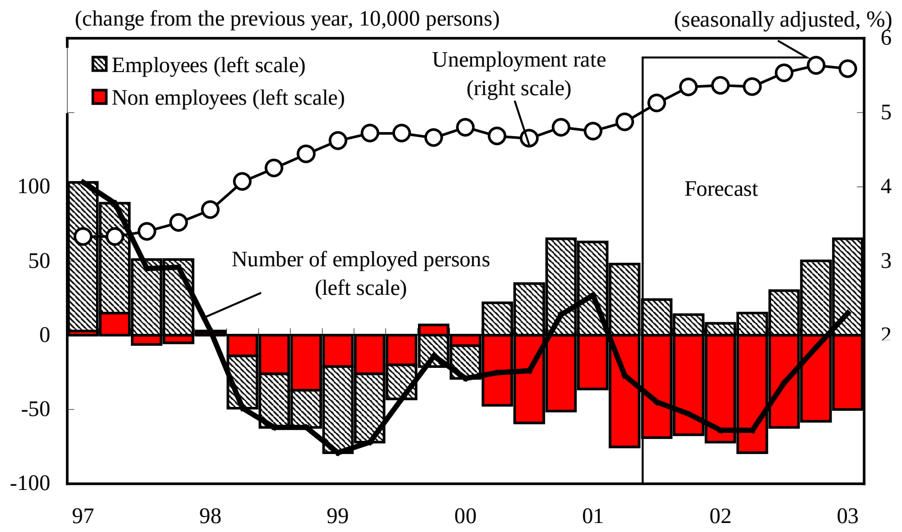
② Increasing Signs of Sustained Recovery Expected in Private consumption as End of Fiscal 2002 Approaches

<u>Employment and income environment</u>

Since the beginning of the year, the employment and income environment has continued to worsen. The number of people in work has already fallen compared with the previous year due to a decline in the number of self-employed people and those working in family businesses, and this pattern is likely to be repeated in 2002. The number of employees has peaked, but demand for part-time workers remains steady and is expected to pick up faster in fiscal 2002. Gradual improvement in the employment situation is therefore likely, although it will be several steps behind recovery in the broader economy. However, the number of unemployed and the unemployment rate are likely to reach all-time highs due to a mismatch of demand and supply in the labor market.

Improvement in corporate earnings will lift personal incomes, but recovery will be restrained by vigorous corporate efforts to curb personnel expenses. Non-scheduled earnings, which have declined in line with production, are likely to improve year on year in 2002, due to recovery in production. Both regular and over-time wages will probably fuel growth in personal incomes. However, recovery in bonuses is not likely to appear before winter 2002, lagging recovery in corporate earnings.

Exhibit8: Unemployment Rate and Number of Persons Employed



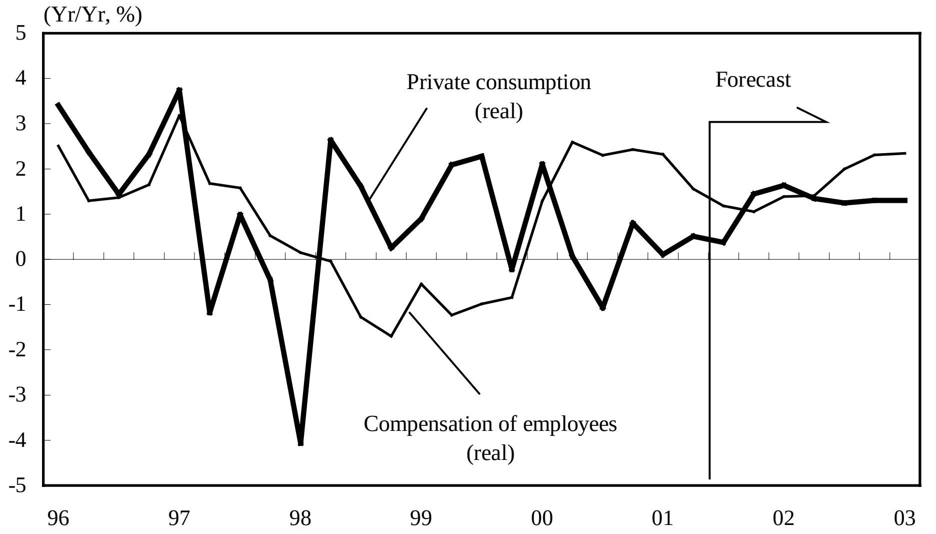
Note: 'Non-employees' consisits of 'Self employed' and 'Family workers'.
Source: Ministry of public Management, Home Affairs, Posts and Telecommunications, *Labor Force Survey*

<u>Private consumption</u>

Although the rate of increase of personal income declined in the first half of fiscal 2001 and after, declines in private consumption will be partly offset by increased purchasing power in real terms due to falling consumer prices. Signs of recovery in the economy around the end of the fiscal year, as shown by such factors as rebounding production, will also nurture a gradual improvement in consumer sentiment, leading to a clear recovery in private consumption that will underpin overall recovery.

Consumption will hold steady throughout fiscal 2002. Limited but continuing expansion of personal income is expected to support growth in consumption. However, with employment figures brightening at a very slow rate, a rapid improvement in consumer sentiment cannot be expected. For this reason, recovery in private consumption is likely to circumscribed by increases in income.

Exhibit 9: Private Consumption and Workers Incomes



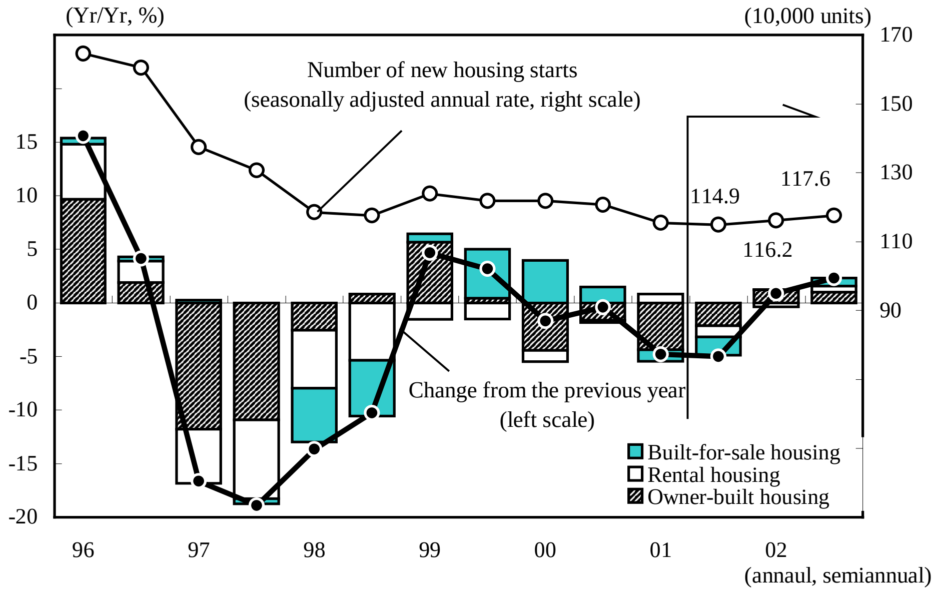
Source: Cabinet Office, *National Accounts* (annual, quarterly)

<u>Housing investment</u>

In fiscal 2001, housing investment is likely to continue to decline as the effects of special housing loan tax breaks and low interest rate policies wane. In addition to declines in starts for owner-occupied homes, which are sensitive to economic slowdowns, there are also signs of a hiatus in new construction of condominiums, which have been selling well recently. Rental housing and built-for-sale type (single-family) developments will also be sluggish throughout the fiscal year.

In fiscal 2002, there will be a gradual recovery in the number of housing starts as the economy gets back on track, and a year-on-year increase is likely. Continuing strong demand for luxury properties will lead recovery in condominium starts, and there will be a rush of housing starts before tax breaks for housing loan customers end in December 2003. Furthermore, increasing personal incomes will generate a rebound in new construction of owner-occupied homes.

Exhibit 10: Outlook for Housing Starts



Source: Ministry of Land, Infrastructure and Transport, *Housing Construction Starts Statistics*

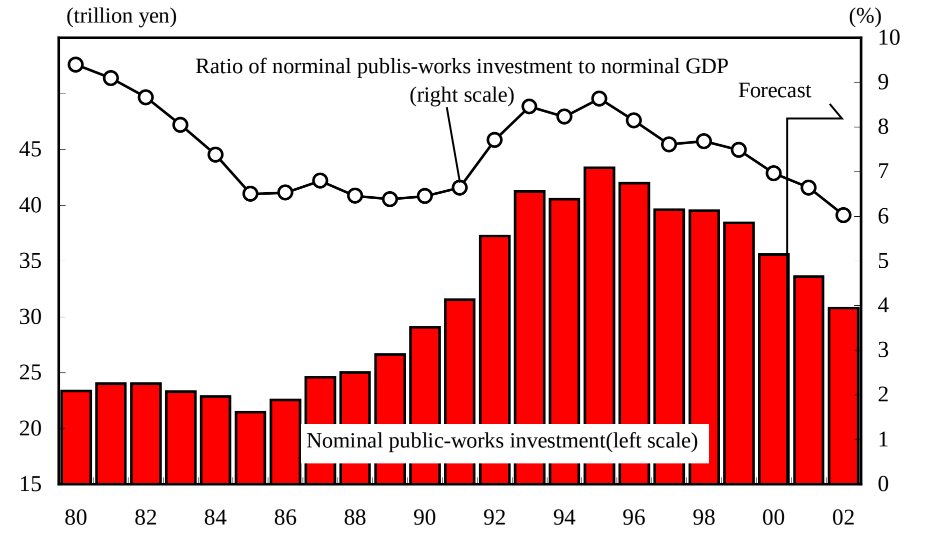
③ *No Support Likely from Public-works Investment*

Public-works to continue decline, to -4.2% in fiscal 2001 and -7.2% in fiscal 2002

With the effects of the Supplementary Budget of autumn 2000 having run their course, public-works investment is at low ebb at the moment. The Japanese government has decided to implement stimulus measures through the Supplementary Budget to prop up the economy. However, as it plans to continue into fiscal 2001 its policy of keeping new issues of government bonds below ¥30 trillion, total public-works expenditure in the Supplementary Budget is likely to be held to around ¥1.5 trillion (of which half will be implemented in fiscal 2001). To meet the target of keeping new issues of government bonds within the ¥30 trillion ceiling in the budget for fiscal 2002, 10% will be shaved off central government public-works investment compared with the initial budget for fiscal 2001. The pace of shrinkage is set to intensify as no additional public works spending envisaged in the Supplementary Budget.

Public works orders placed by local authorities are also likely to continue to decline in the face of severe fiscal pressures. However, curbing measures including the suspension of new projects have already been taken. But maintenance and repair of existing facilities and structures will have to be continued. For this reason, the reduction in public-works orders from local authorities is likely to be smaller in fiscal 2001 and fiscal 2002 than up to the present.

Exhibit 11: Outlook for Public-works Investment



Source: Cabinet Office, *National Accounts*

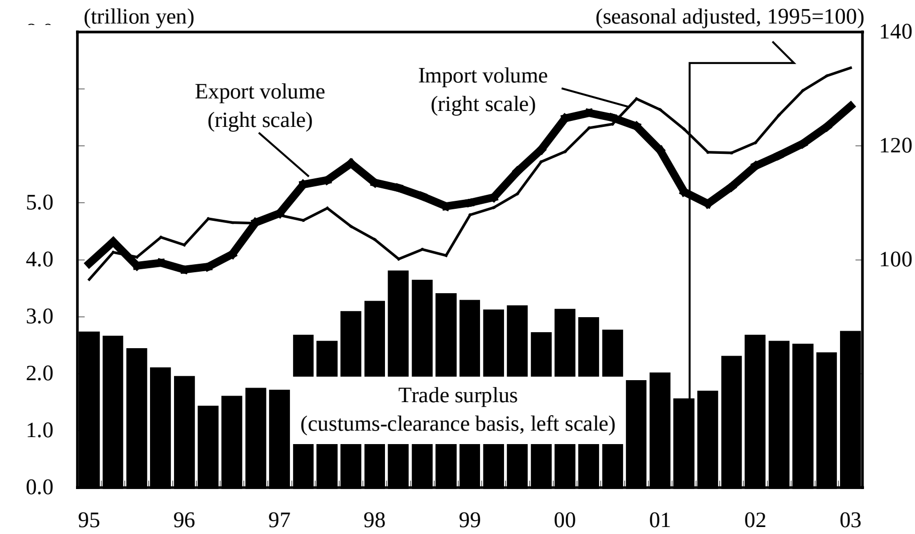
④ *The Role of Foreign Demand in Recovery*

At present, exports are in steep decline but are likely to stage a recovery in the latter half of fiscal 2001 as recovery in the U.S. economy and the yen's slide that began in 2000 spark a resurgence in volumes shipped. However, there is a possibility of a temporary adverse impact on exports from Japan from negative consumer sentiment and the disruption of everyday activities in the United States caused by the recent terrorist attacks. Although the yen will strengthen again in fiscal 2002, we believe the coming upswing in the world economy will make possible a sustained increase in exports.

Imports, which have hitherto continued to increase mainly by achieving higher penetration rates, are also likely to be adversely affected as the Japanese economy loses steam. However, we expect resurgence in line with recovery in production in the latter half of fiscal 2001. Imports will expand at a rapid rate in fiscal 2002, on the back of relatively stronger domestic demand and a high yen.

The contribution of real overseas demand is likely to be -0.2 reflecting sharply falling exports in the first half of fiscal 2001. Although the contribution of overseas demand will become positive in fiscal 2002, reaching 0.2, due to buoyancy in the world economy, it will not be a strong factor in pushing up real GDP because domestic imports will also rise due to firm demand.

Exhibit 12: Outlook for Trade

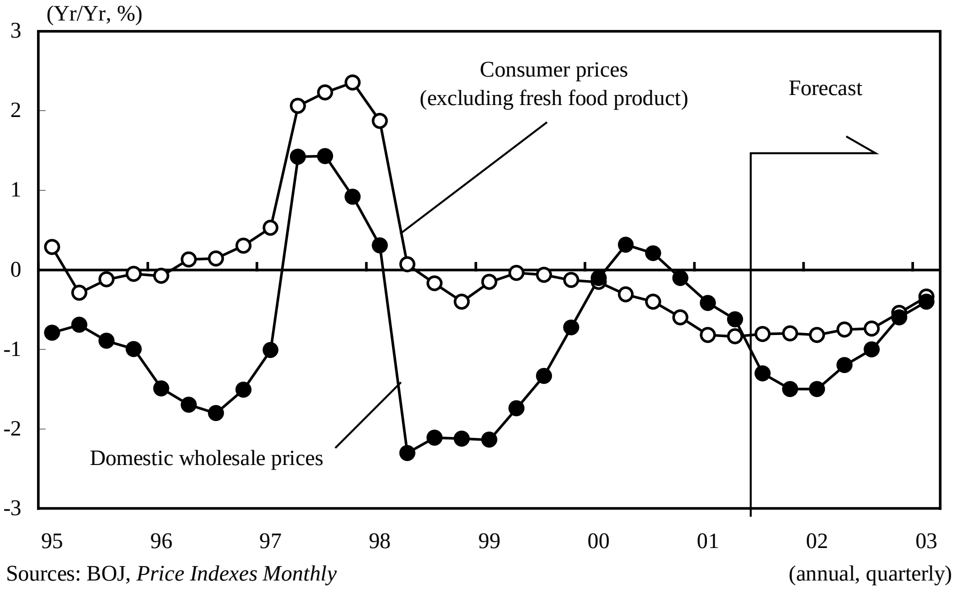


Source: MOF, *The Summary Report on Trade of Japan* (annual, quarterly)

⑤ Continuing Deflationary Pressures

Although crude oil prices are relatively high compared with the 1990s, other commodity markets are soft due to the slowdown in the world economy. As a result, we expect domestic wholesale prices to continue to fall (to -0.8% in fiscal 2001 and -0.6% in fiscal 2002). Likewise, consumer prices, except fresh food products, will continue to slide amid low wholesale prices and sluggish consumption (-0.8% in fiscal 2001 and -0.6% in fiscal 2002). Supply-side factors, such as technological innovation, deregulation, and an increase in inexpensive imports, will also help drive down prices. Furthermore, changes in categories of price statistics will increase the weighting of telecommunications as well as add such items as computers and *gyudon* beef—which have been showing conspicuous price decreases—and declines in prices under the new categories will be around 0.2–0.3% greater than under the former categories.

Exhibit13: Outlook for Prices



Sources: BOJ, *Price Indexes Monthly*
; Ministry of Public Management, Home Affairs, Post and Telecommunications, *Monthly on Price Indexes*

4. In Conclusion: What Will be the Economic Effect of the Terrorist Attacks on the United States?

With projections for the economy growing more pessimistic by the day, those expecting recovery during the second half of fiscal 2001 probably form a minority. The main reasons for the increasing pessimism are worsening economic indicators, deflationary pressures released by structural reform, and the tardiness of recovery in the U.S. and world economies. Below is a closer consideration of these factors.

First, economic indicators are indeed worsening, but this was predicted at the outset. As already shown, some indicators are performing even worse than predicted, but others are showing relative firmness. Taking an overall view of things, it is probably true that the Japanese economy is in worse shape than forecast, but inventory adjustment is underway with reductions due to falling production. There is no good reason for abandoning the recovery scenario for the second half of this fiscal year.

Second, there is a possibility that the danger of deflationary pressures unleashed by structural reform is being exaggerated, as we warned in our previous outlook. In the current revised outlook, which uses figures assumed in the program for reducing public-works investment embraced by the Koizumi administration, public-works expenditure is naturally reduced. However, we do not mean to say that a revolution in public-works expenditures has occurred—only that the downward trend will continue. Furthermore, it is not the elimination of bad debt that is forcing companies into bankruptcy and aggravating unemployment. Bankruptcies are the result of a failing economy. It goes without saying that bad debt must be cleared. It is unrealistic to say that elimination of bad debt is forcing existing and operating companies into needless bankruptcy.

The third point is the timing of recovery in the world economy, probably the most important factor governing prospects for recovery in the Japanese economy. Any number of indicators shows that there is a chance of recovery toward the end of the year in the U.S. economy. On the other hand, there is some possibility that the timing of recovery will be set back. In this connection, the view that the recent terrorist attacks on the United States has set back recovery in that country's economy for the moment is strengthening. So what impact will the attacks have on the U.S. and Japanese economies?

The impacts of this disaster are threefold. They can be roughly divided into impact on "flow" economic activities, the impact on "stock" supporting "flow" activities, and the impact on such economic infrastructure as financial markets. Let us consider "stock" aspects first. The attacks on the World Trade Center and other office buildings and the Pentagon destroyed many items of hardware and software as well as wiping out valuable human talent. It is indeed an incalculable loss, but, as President Bush said, the reduction of the World Trade Center building to rubble does not mean the destruction of American society.

There is also the question of such economic infrastructure as financial markets. Since the attacks, stock markets have been closed and financial institutions housed in the destroyed buildings as well as financial institutions in surrounding areas have ceased operations. But markets should slowly be returning to normal; this is not a case where financial services have been indefinitely interrupted. The Federal Reserve Board has also promised to inject an ample supply of funding in order to ensure liquidity in markets. Even if financial trading is no longer possible on New York's markets, it is on London's and Tokyo's.

The world's financial markets responded dramatically to the terrorist attacks. Stock markets plunged, and crude oil prices rose. If this situation persists, the U.S. and world economies will face a serious problem. However, any further increases in crude oil prices will be the result of the outbreak of war between the United States and another country in connection with the attacks. This possibility is probably small. Also, if stock markets continue to fall, it will be a case of a continued worsening of the "flow" economy directly impacting corporate profitability. Could such a thing happen?

Finally, let us consider the impact on the “flow” economy. Flow activities are divided into supply-side and demand-side activities. On the supply side, disruption of distribution is likely to affect production. The restrictions on movement of people and goods caused by closure of airports are affecting production of electronic parts and other items shipped by air. There is also a possibility of hampering of government functions through damage caused by the terrorist attack in Washington. However, neither the disruption of the flow of goods or government functions will last long. Even if production of a particular article is no longer possible in the United States, it should be possible to produce it elsewhere in the world. In the case of goods that can only be made in the United States, it will be a case of waiting until production is able to resume. In other words, temporary suspension of supply-side activities in the United States will result in increased production outside the country or inside it at a later date, assuming that demand remains constant.

The most important “flow” economy impact is that on the demand side. The most difficult but important “flow” economy aspect of the attacks is to assess is the degree of deterioration of consumer sentiment. If private consumption declines because of deterioration in consumer sentiment due to the attacks, prospects for the economy will suddenly darken. It is certainly true that fewer people will feel inclined to go on a journey by air for the moment. Also, people will be reluctant to go to functions such as concerts, stage events, and sports events where large numbers of people are gathered together. There is also likely to be reduced demand for Christmas gifts. Hence, there is a strong possibility of a short-term slide in consumption. However, if the decline persists, dragging the whole economy down, that will mean victory for the terrorists. It is inconceivable that the American mindset will allow that.

As shown above, the impact of the terror attacks on the U.S. economy is likely to be temporary. Over the next one to two months, production and consumption figures are likely to fall as a result of the attacks, but this is unlikely to be a factor causing prolonged recession in the U.S. economy. There is certainly a risk that the timing of the recovery of the U.S. economy has been set back, but this does not mean that recovery itself has become impossible. There is no reason to abandon the recovery scenario for the Japanese economy in the second half of this fiscal year due to the terrorist attacks.

Economic Outlook for Fiscal 2001 & 2002

Forecast

(Yr/Yr %)

	FY2000		FY2001		FY2002		FY2000	FY2001	FY2002
	First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Nominal GDP	-0.8	-0.3	-1.7	-0.3	1.0	0.7	-0.6	-1.0	0.8
Real GDP	0.8	1.1	-0.7	0.7	2.2	1.3	1.0	0.1	1.7
Contribution of domestic demand	0.1	1.6	0.2	0.7	1.6	1.4	0.8	0.3	1.5
Private consumption	-0.5	0.5	0.1	1.5	1.3	1.3	0.0	0.8	1.3
Housing investment	-2.8	-1.0	-8.9	-7.7	0.6	2.8	-1.9	-8.3	1.7
Private capital investment	3.0	6.1	2.2	-1.2	5.3	4.1	4.6	0.3	4.7
Public demand	0.5	0.0	0.3	0.8	0.1	-0.7	0.2	0.5	-0.3
Public-works investment	-6.5	-5.9	-5.6	-3.1	-6.2	-7.9	-6.1	-4.2	-7.2
Contribution of external demand	0.6	-0.2	-0.7	0.2	0.5	0.0	0.2	-0.2	0.2
Exports of goods and services	13.3	5.5	-6.5	-1.8	9.6	7.5	9.3	-4.2	8.5
Imports of goods and services	9.9	9.7	-0.6	-4.5	5.8	9.7	9.8	-2.6	7.8
Current account balance (trillion yen)	6.8	5.3	4.9	6.4	6.4	6.7	12.1	11.3	13.1
Trade balance (trillion yen)	6.7	4.8	4.3	5.7	6.0	6.1	11.5	10.1	12.0
Industrial produchtion	6.3	2.5	-7.3	-3.3	8.1	4.2	4.0	-5.2	6.1
Wholesale prices	-0.3	0.7	0.8	-0.9	-1.6	-0.5	0.2	-0.1	-1.0
Domestic wholesale prices	0.3	-0.3	-1.0	-1.5	-1.1	-0.5	0.0	-1.2	-0.8
Consumer prices	-0.7	-0.6	-0.7	-0.9	-0.9	-0.5	-0.6	-0.8	-0.7
Excluding fresh food product	-0.3	-0.8	-0.8	-0.8	-0.7	-0.4	-0.5	-0.8	-0.6
Yen/U.S.Dollar	107.1	114.0	122.6	116.5	110.0	113.8	110.5	119.5	111.9
Crude oil purchase price ($/barrel)	30.2	30.4	27.4	27.8	28.5	27.8	30.3	27.6	28.1
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	4.6	2.5	1.2	1.2	2.9	2.8	4.1	1.5	2.5

【Exports and Imports】

Forecast

(Yr/Yr %)

		FY2000		FY2001		FY2002		FY2000	FY2001	FY2002
		First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Exports (yen basis)		8.4	6.0	-4.9	-3.3	5.5	9.2	7.2	-4.1	7.4
	Volume	10.7	-0.6	-11.6	-5.5	7.6	9.2	4.8	-8.6	8.4
Importrs (yen basis)		14.5	18.3	6.1	-8.8	-2.0	10.2	16.4	-1.8	3.9
	Volume	11.9	7.8	-2.1	-6.0	5.5	11.2	9.8	-4.1	8.3
Exports surplus (trillion yen)		5.8	3.8	3.3	4.9	5.1	5.2	9.6	8.2	10.3

【Income and Employment】

Forecast

(Yr/Yr %)

		FY2000		FY2001		FY2002		FY2000	FY2001	FY2002
		First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Cash ernings of employees (per capita)		0.8	0.0	-0.6	-0.5	-0.1	0.1	0.4	-0.6	0.0
	Scheduled cash ernings*	0.6	0.0	0.0	0.1	0.3	0.3	0.3	0.0	0.3
	Non-scheduled	5.3	3.0	-4.6	-1.7	6.9	4.2	4.1	-3.1	5.5
Number of employees		0.5	1.2	0.7	0.2	0.4	1.1	0.9	0.4	0.7
Compensation of employees**		1.4	1.2	0.3	-0.1	0.5	1.2	1.3	0.1	0.8
									Actual	Forecast
Spring wage increase		—	—	—	—	—	—	2.06	2.01	2.05
Unemployment rate		4.7	4.8	5.0	5.4	5.4	5.6	4.7	5.2	5.5

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfair, Monthly Labour Statistics.

** Figures are spring wage increases compiled from data on the 290 companies listed on the First sections of the Tokyo and Osaka stock exchanges that have a lavor union and capital of 2billion yen or more as well as 1,000 or more employees.
(Compile dby the Ministry of Health, Labour and Welfare)

【New Housing Starts】

(10,000 units)

		FY2000	FY2001	FY2002
		Actual	Forecast	Forecast
Number of new housing starts (change from the previous year)		121.3 (-1.1)	115.4 (-4.9)	117.2 (1.6)
	Owner-built housing	43.8 (-8.0)	39.8 (-9.1)	41.1 (3.2)
	Rental housing	41.8 (-1.8)	41.7 (-0.2)	41.8 (0.2)
	Built-for-sale housing	34.6 (11.0)	33.0 (-4.8)	33.4 (1.3)

【Summary Comparison with the Previous Ooutlook】

(Yr/Yr %)

	Previous	Current
	FY2001	FY2001
Real GDP	0.3	0.1
Private comsumption	0.7	0.8
Residential investment	-6.6	-8.3
Non-residential investment	0.9	0.3
Public investment	-4.2	-4.2
Contribution of external demand	-0.1	-0.2
Production	-2.6	-5.2