

July 2002

**Forecast for the Japanese Economy
In Fiscal 2002 and Fiscal 2003**



Economic Research Department

Views expressed, forecasts presented, and other information in this report may contain judgments based on data available at the time of preparation and may be subject to revision without prior notification.

1. Current State of the Japanese Economy

Japan's real gross domestic product (GDP) in the January–March period of 2002 rose 1.4% from the previous quarter, marking the first positive growth in four quarters. The GDP deflator declined 0.9 percentage point, thus continuing on a downward trend and indicating no significant change in the deflationary conditions, but the GDP growth rate in nominal terms rose 1.1%, marking the first increase in four quarters.

By principal component of demand, exports rose 6.4% over the previous quarter, supported by a recovery in the world economy, and external demand contributed 0.7 percentage point to overall growth. In addition, private consumption made a relatively strong showing, rising 1.6% for the quarter, marking the second consecutive quarterly increase, despite continued severe conditions in the employment and income environments. Also, it appears that the additional public works investment spending under the government's supplementary budget has begun to have an effect as public investment rose 4.1% for the quarter. On the other hand, private capital investment declined 3.2% for the second consecutive quarter, reflecting the adverse impact of the sharp drop-off in industrial production and deterioration in corporate profitability in 2001. Residential investment also declined, by 2.3%, for the second consecutive quarterly drop.

As the results for the GDP show, the Japanese economy has begun to show clear signs of a recovery since the beginning of the year. First, exports, which had been on a downtrend, reached bottom in December 2001 accompanying the recovery in the world economy. Exports of automobiles to the United States and shipments of steel and chemicals to other countries in Asia are showing significant gains. Along with the recovery in exports, industrial production reach bottom in November last year and has begun to rise. Reductions in inventories have proceeded since the middle of last year, and, considering this together with the recovery in industrial shipments, we believe that inventory adjustments were completed during the April–June quarter.

The employment and income environments remain severe, but further deterioration appears unlikely. The number of employed workers continued to be substantially below the level of the previous year, but overtime compensation is recovering along with the rise in industrial output, and the number of new job openings is increasing. The unemployment rate remains high but is somewhat below the peak reached in December 2001. Corporate profits remain below those of the previous year, but there are signs that profitability is bottoming out, indicating the effects of corporate restructuring to date. Although capital investment continues to decline, there are signs in recent data that orders for machinery and equipment—the leading indicator for private capital investment—are beginning to bottom out. Therefore, while conditions in the real economy remain difficult, signs of a recovery are spreading gradually.

2. Outlook for Fiscal 2002 and Fiscal 2003

(1) Outlook for Fiscal 2002: Real Growth of 0.4% and Nominal Growth of –0.3%

Gradual recovery is expected to continue in fiscal 2002. Recovery in the world economy, especially in the United States and Asia, will continue, and exports will continue on a rising trend. Although some have doubts about the outlook for the U.S. economy, a collapse of the recovery trend there appears to be unlikely. Inventory adjustments have already been completed, and the recovery trend in industrial production will continue.

Moreover, in the latter half of fiscal 2002, the recovery trend should gain momentum. Along with the recovery in production, corporate profitability will improve and capital investment should begin to increase. As corporate profits recover, latent demand for investment to replace aging machinery and facilities and for IT-related equipment should emerge. In addition, there is a possibility that investment by IT-related sectors, which was suspended following the sharp downturn in 2001, may resume.

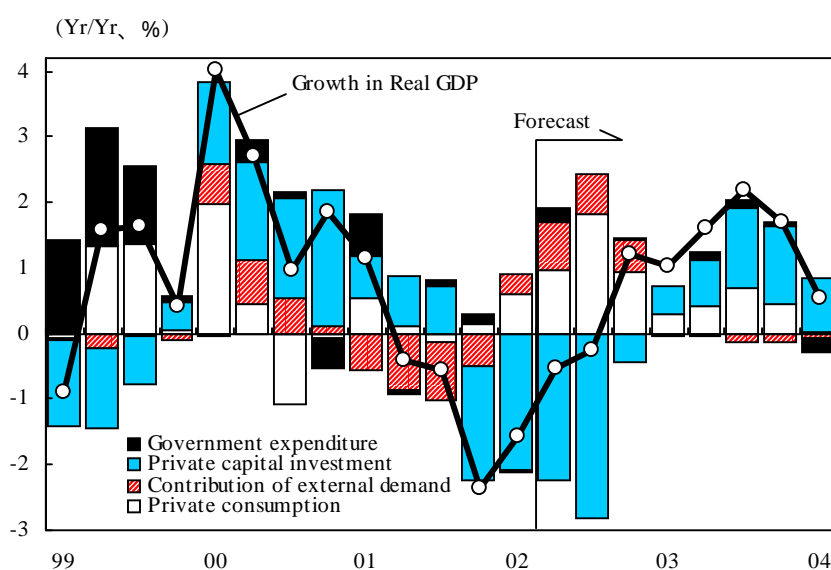
Along with the recovery in production, overtime compensation is already rising, but, next, regular wages may also begin to rise gradually. However, since recovery in bonuses will lag the revival of corporate profits, increases

in bonuses may be carried over into fiscal 2003. In addition, the number of job openings is increasing, and the number of employed workers is forecast to rise. As a result of this improvement in the employment and income environments, recovery in private consumption should become firmer.

(2) Outlook for Fiscal 2003: Real Growth of 1.5% and Nominal Growth of 1.0%—Continued Recovery but Possibility of a Slowdown in the Second Half

The chain of events in fiscal 2002 will continue in fiscal 2003, and recovery will continue. GDP growth will be positive in both real and nominal terms. Although recovery is likely to continue through the first half of the fiscal year, there is a possibility the economy may slow in the second half. We believe the current recovery, accompanying the inventory cycle, may be relatively short term. Capital investment will also recover, but it appears unlikely that investment will move into an expansionary phase in the medium term. If corporate profits decline along with the drop in production, capital investment will also lose momentum, and, as growth in compensation of employees slows, private consumption will also weaken.

Exhibit 1: Real GDP Growth through Fiscal 2002 and Fiscal 2003



Source: Cabinet Office, Annual of National Income Statistics

3. Outlook for Components of Final Demand

(1) Assumptions Underlying the Forecasts

We made the following assumptions in the preparation of our forecasts:

World Economy

The U.S. economy is believed to have entered an expansionary phase at the beginning of 2002, but the pace of recovery in employment and capital investment is weak, and the annual real GDP growth rate is expected to be only 2.4%. In 2003, the growth rate is expected to rise to 3.0% because of the outlook for the emergence of replacement demand for IT-related equipment.

The European economies (the euro region economies) are expected to begin to expand about the middle of the year as the world economy strengthens and inventory adjustments are completed. However, real growth will remain about 1.2%. In 2003, internal demand is believed likely to recover as the employment environment improves and the growth rate is forecast to rise to 3.0%.

In the economies of Asia outside Japan, China is expected to sustain growth of more than 7% in 2002, and the NIEs, such as Korea and Taiwan, are expected to recover mainly led by expansion in exports. Thus, overall growth in the nine countries and region included in Asia is expected to recover to 5.2%. In 2003, growth is forecast to rise to 5.9% as strong external demand has a favorable impact on domestic private consumption and capital investment.

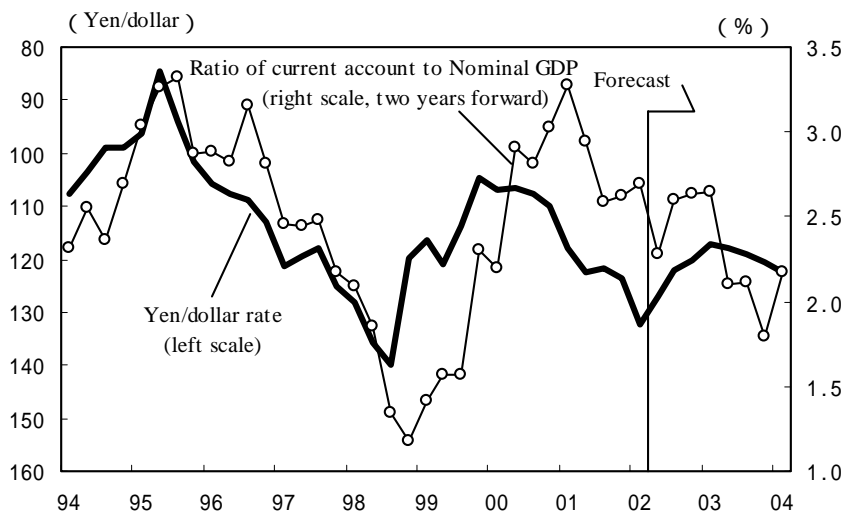
Exchange Rates: Fiscal 2002—¥121.6 ; Fiscal 2003—¥120.0

After the beginning of 2002, the yen weakened significantly to around ¥130 to the U.S. dollar, as concern about the outlook for the Japanese economy grew and expectations of recovery in the United States rose. But, as the outlook for recovery in the Japanese economy has begun to improve

and views have emerged that the U.S. recovery trend may be weaker than expected, the yen strengthened temporarily to ¥122 to the dollar. However, at the end of April, following major intervention by the Japanese monetary authorities, the trend toward yen appreciation weakened and the yen has fluctuated in the mid-120s.

The markets are likely to remain cautious about possible intervention, and, recovery in the United States will continue, tending to bring a stronger dollar. However, the yen may tend to strengthen, as the recovery trend in the Japanese economy becomes clearer. After the beginning of 2003, the recovery in the U.S. economy will continue on the one hand, but the expansion in the Japanese economy is expected to slow, thus very likely bringing a weakening of the yen against the dollar. During the forecast period, we are not looking for any major changes in the value of the yen and expect it will fluctuate primarily in the range between ¥118 and ¥123 to the dollar.

Exhibit 2: Outlook for the Yen-Dollar Exchange Rate



Sources: Bank of Japan, Financial and Economic Statistics Monthly,
 Monthly Balance of Payments Statistics of Japan;
 Cabinet Office, Annual of National Income Statistics

Crude Oil Prices (WTI, following month forward price)

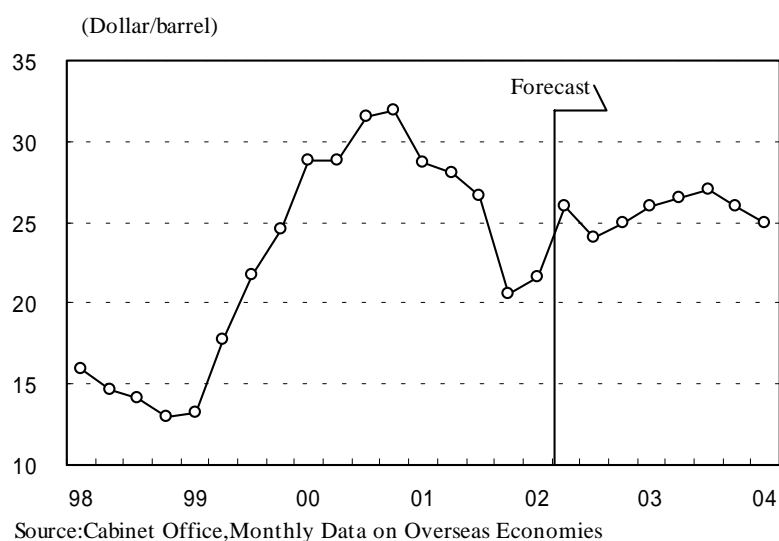
: Fiscal 2002—\$25.3/barrel; Fiscal 2003—\$26.1/barrel

Crude oil prices in 2001 dropped temporarily to \$17/barrel as the world

economy slipped deeper into recession and the terrorist attacks in September brought stronger expectations that the further slowing of the world economy would bring diminished demand for oil. Thereafter, in January 2002, the cooperative production cutbacks by OPEC and non-OPEC countries caused oil prices to bottom out, and, along with the growing expectations of a recovery in the world economy, crude oil prices began to rise gradually, recovering the \$20 level in February. After the beginning of March, the tensions in the Middle East brought an increase to \$28, but, recently, even though the situation in the Middle East remains tense, prices dropped to \$24. This is because markets have already taken account of expectations of recovery in the world economy, and moves to expand oil inventories and failure of cooperative production cutbacks of OPEC and non-OPEC countries lowered crude oil prices.

In forecasting future oil prices, we have assumed that the OPEC production limits would remain unchanged through the end of 2002. Since tensions in the Middle East may gradually subside, we believe oil prices, which have been pushed upward by speculative monetary flows into the market, will fall back for a while. Thereafter, because the recovery in the world economy will continue and demand forecasts will be revised upward, the oil price may rise gradually. Toward the end of 2003, increased production by OPEC and non-OPEC countries will bring increased supply and declines in prices.

Exhibit 3: Outlook for WTI Crude Oil Price



Government Fiscal Policy

The fiscal 2002 budget calls for fiscal stringency, with new issues of government bonds restrained to ¥30 trillion and general account expenditures reduced. In our previous outlook, published in March 2002, we assumed that a supplementary budget would be passed in the fall (with an increase in national government public works spending of ¥1 trillion), but subsequently, the government of Prime Minister Junichiro Koizumi has strengthened its stance of restraining expenditures, and, as recovery continues, additional fiscal expenditures have become less likely. For this reason, for our current forecast, we are assuming that the government will not pass a supplementary budget. In fiscal 2003, we believe the Koizumi administration will continue to emphasize the restructuring of government finances in its budget setting and that fiscal expenditures of the national and local governments will continue to be restrained.

Monetary Policy

At the Monetary Policy Meeting held on December 19, 2001, the Bank of Japan (BOJ) increased its target for current deposits to between ¥10 trillion and ¥15 trillion. At the session of the Monetary Policy Meeting held on February 28, 2002, the amount of monthly purchases of long-term Japanese government bonds (JGBs) was increased from ¥800 billion to ¥1 trillion. In addition, in preparation for the end of March, when most companies come to the end of their business year, the Bank of Japan's current deposits were well above the targeted level, thus providing a high degree of liquidity in financial markets. As a series of measures have been adopted to loosen monetary conditions based on the policy of quantitative relaxation, the unsecured call market rate (overnight) and other short-term rates have hovered just above zero.

As the economy moves toward recovery, the margin of decline in prices is beginning to shrink, and requests for further quantitative relaxation by the BOJ have subsided from previous levels. Since the current situation is expected to continue, we believe there is little likelihood of a further monetary relaxation for the time being. However, even if the margin of

decline in consumer prices (excluding fresh foods) does shrink, the declining trend will continue, and we expect the quantitative relaxation policy to continue during fiscal 2003.

There is a possibility that demands for further measures to relax monetary conditions will be heard again as the economy slows in the latter half of fiscal 2003. Specific measures that may be suggested will include raising the BOJ's current deposit target, increasing purchases of JGBs from the market, introducing inflation targeting, and purchasing assets other than JGBs, such as commercial paper and corporate bonds. One or more of these policies may actually be adopted, but while this may have an impact on financial markets, the impact on the real economy will be marginal.

(2) Trends in Demand by Category

Contribution of the External Sector to Become Positive owing to the Rise in Exports

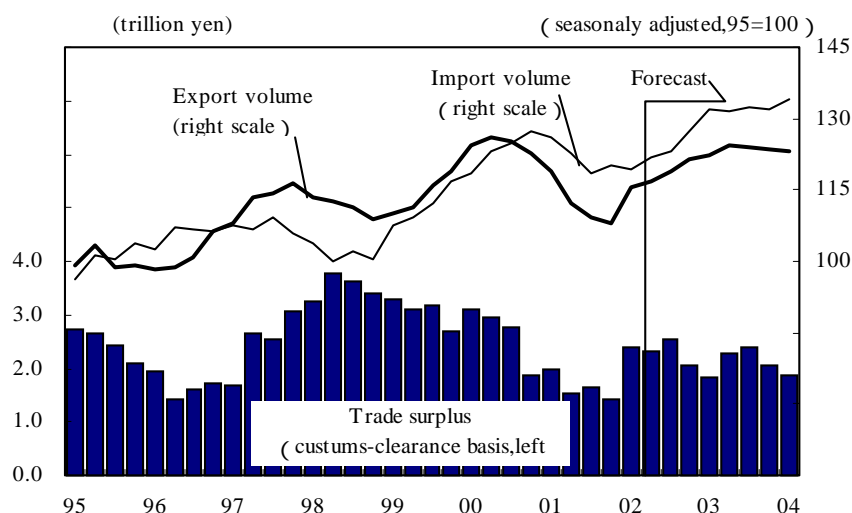
Exports were on the decline because of the slowdown in the world economy, but signs of recovery emerged after the beginning of 2002. Together with the recovery in the world economy, exports, especially of automobiles to the U.S. market, are continuing strong. Semiconductor-related exports have also bottomed out. In addition, exports to Asia, principally steel and chemicals, are recovering rapidly. In fiscal 2002, along with the recovery in the United States and Asia, the weakness of the yen since last year is also having an impact, and the increasing trend in exports is forecast to continue. In fiscal 2003, the economies of the United States, Europe, and Asia are forecast to remain strong, but the expected appreciation of the yen during fiscal 2002 may bring a peaking out of the expansionary trend in exports.

Imports remain on a downward trend, reflecting stagnant conditions in the domestic economy. However imports are forecast to begin to increase, reflecting the recovery in the domestic economy in fiscal 2002 and a structural factor, namely, the rising penetration of imports, including

imports from Japanese production facilities overseas (reverse imports). In fiscal 2003, imports are forecast to remain on a rising trend because of the expansion of domestic demand and the impact of the anticipated strengthening of the yen in fiscal 2002.

The contribution of external demand in real terms will increase from -0.5 percentage point in fiscal 2001 to $+0.4$ percentage point in fiscal 2002 because the recovery in exports is expected to proceed the rise in imports. However, since imports will also rise in fiscal 2003, the contribution of the external demand will drop again to -0.1 percentage point.

Exhibit 4: Outlook for Trade



Source:MOF,The Summary Report on Trade of Japan

The Corporate Sector to Remain Strong but Weaken in the Latter Half of Fiscal 2003

✧ Production to Increase, as Inventory Adjustments Are Completed

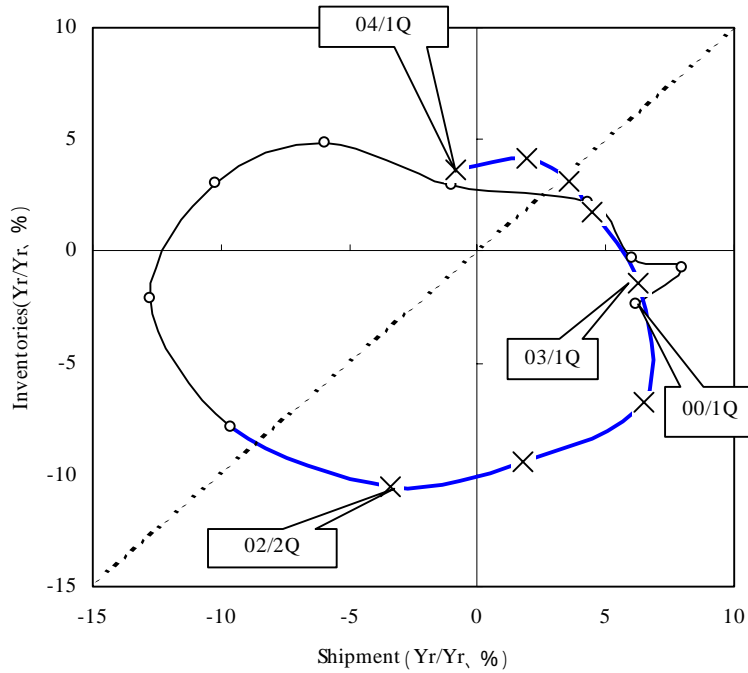
Industrial production rose 0.7% over the previous quarter in the January–March period of 2002, the first increase in five quarters. Although domestic demand remains weak, exports, especially to Asia, are expanding

firmly, and external demand is leading the recovery in production. In addition, producer goods industries, such as semiconductors, that led the drop-off in production in the most recent downtrend have been quick to approach the completion of their inventory adjustments and have put the brakes on the decline in production.

In the accompanying inventory cycle graph, the line indicating the stages of inventory adjustments is expected to cross over the 45-degree line—which shows when inventory adjustments have been completed—by the April–June quarter of 2002. The line had already crossed the 45-degree line for the single month of April. Although the delay in the recovery of final demand, principally in capital goods for investment, is conspicuous, exports are strong, reflecting the recovery in overseas economies and the cumulative impact to date of the weakening of the yen. For this reason, we believe the recovery in production will continue. In addition, when viewed by industry, the recovery trend in production is expected to spread gradually from IT-related goods to other industries, and, in the latter half of fiscal 2002, we expect the recovery trend in production to become more pronounced as companies begin to replenish their inventories and private capital investment begins to bottom out.

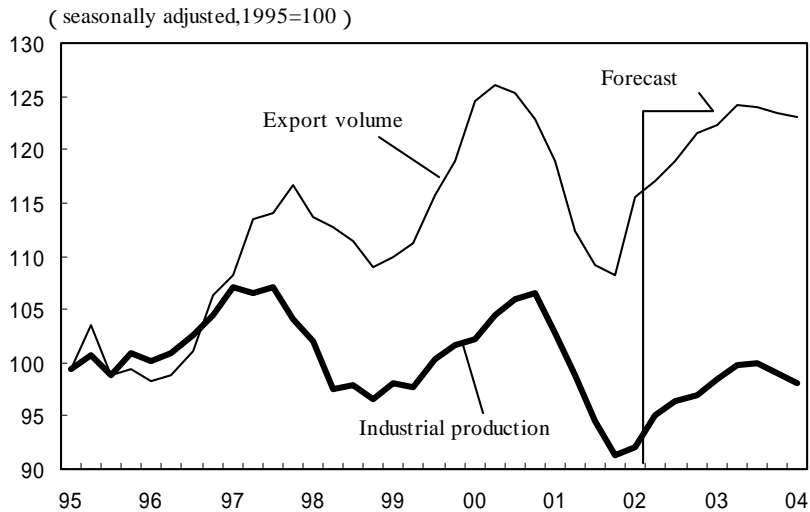
However, in the latter half of fiscal 2003, there is a possibility that the uptrend in production will weaken. This is because the current recovery phase is likely to be relatively short-lived, caused mainly by the inventory cycle, and production may enter a period of cyclical adjustment in the latter half of fiscal 2003. The recovery in capital investment is also likely to be short-termed, and capital spending will not extend into the medium term. Moreover, the expansionary trend in Japan's exports, accompanying the recovery in the world economy, may begin to slow around this time and, therefore, become a factor restraining production.

Exhibit 5: Inventory Cycle Movements



Note: Figures from the first quarter of 2002/2Q are forecasts.
 Source: Ministry of Economy, Trade and Industry (METI), Economic and Industrial Statistics

Exhibit 6: Outlook for Industrial Production and Export



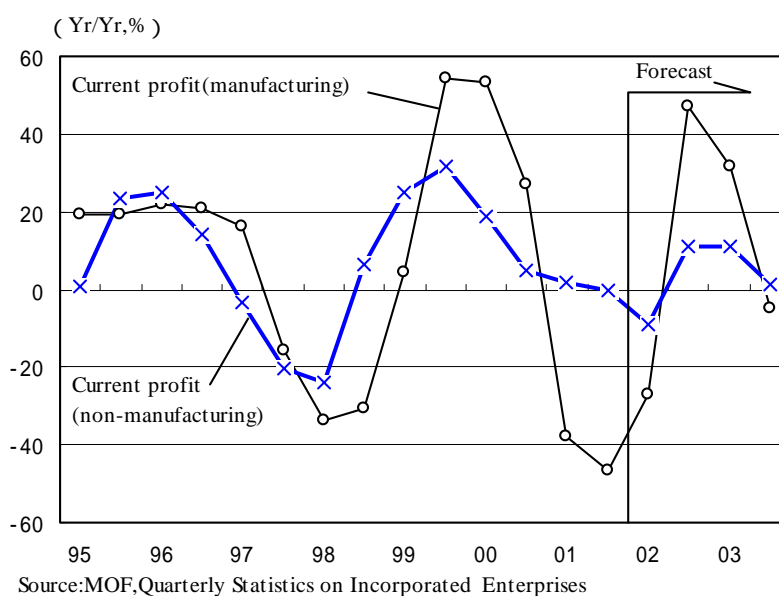
Sources: Ministry of Finance (MOF), The summary Report on Trade of Japan;
 METI, Economic and Industrial Statistics

✧ Corporate Profits to Rebound Sharply in the Latter Half of Fiscal 2002

In the first half of fiscal 2002, both manufacturing and nonmanufacturing sectors are expected to show continued declines in sales and profits compared with the previous year. Especially in the manufacturing sector, although production may strengthen, this may not bring an increase in sales, as prices will not rise. Profitability will be supported by the increase in exports and the positive impact of restructuring measures, such as reduction in redundant personnel, but these factors will not be sufficient to push profitability upward. In the second half of fiscal 2002, sales and profits in both manufacturing and nonmanufacturing are expected to begin to rise. Sales are expected to begin to show a steady uptrend supported by increases in production volume and the gradual braking of the slide in product prices. Profits are likely to show a strong rebound. These trends are expected to continue through the first half of fiscal 2003.

However, in the latter half of fiscal 2003, since the economy will begin to slow, growth in sales will gradually lose momentum and corporate profits will begin to drop. Another factor putting pressure on profits will be an increase in fixed costs, including personnel expenses.

Exhibit 7: Outlook for Corporate Performance

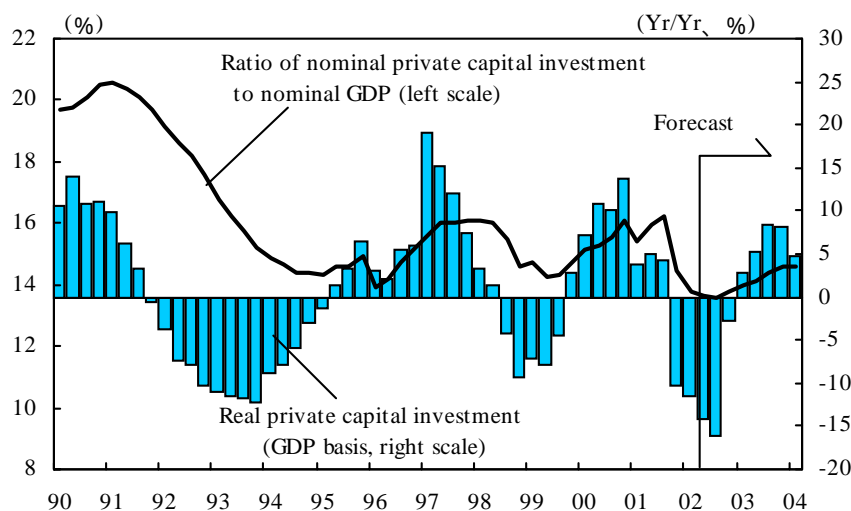


✧ **Recovery in Capital Investment to Begin in the Second Half of Fiscal 2002**

According to the most recent data, after a sharp drop in the latter half of fiscal 2001, private capital investment is continuing to decline. Investment plans for fiscal 2002 are also conservative, and trends in orders for machinery and equipment do not point to a clear trend toward recovery in capital investment. However, as industrial production rises, rates of capacity utilization will also increase, and a gradual trend toward recovery in capital investment should emerge. As the recovery in corporate profitability grows more robust in the latter half of fiscal 2002 and corporate sentiment about future trends improves, we expect a recovery trend in capital investment to emerge.

The recovery in capital investment is likely to continue through the first half of fiscal 2003. However, since the recovery momentum in domestic demand will lack strength, companies are expected to continue to adopt a cautious stance toward the expansion of production capacity. There is a possibility that capital outlays may be limited to the minimum-required investments, including the replacement of aging plants and equipment and investments in IT-related equipment. Even if some investment goes into new facilities, this may be located at overseas production bases, principally in Asia. Also, the cash flow from improvements in profitability may be directed toward lowering debt. Corporations are likely to adopt an even more cautious stance toward capital investment in the latter half of fiscal 2003, as production begins to slow and profitability starts to weaken.

Exhibit 8: Private Capital Investment



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

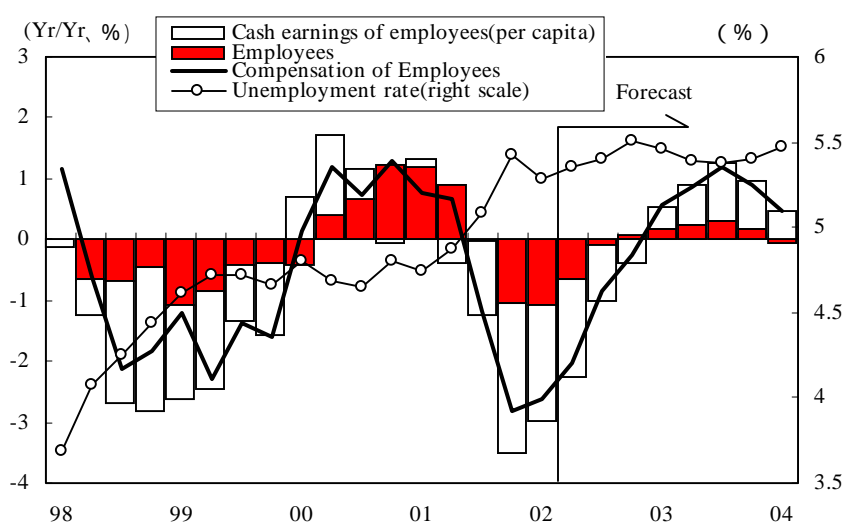
Recovery Momentum in the Household Sector to Strengthen Gradually

- ✧ **The Employment Environment to Remain Severe, but the Income Environment to Show Some Progress toward Recovery.**

The margin of decline in the number of employed workers will show a decreasing trend along with the recovery in production, but companies will continue to hold the line on personnel expenses. Thus, even if production rises, no major increases in personnel compensation are expected. The number of self-employed persons and family workers is expected to show further declines because of the prolonged period of low economic growth. For these reasons, the number of employed workers in fiscal 2002 will continue below the level for the previous year, and employment in fiscal 2003 will remain at fiscal 2002 levels. The unemployment rate is expected to remain at a high level, even as the economy recovers, because unemployed workers who had given up the hope of finding jobs will return to the labor market as industrial production recovers.

The recovery in bonuses, which have continued on a downward trend since last year, will lag the recovery in corporate performance and will remain below the level of the previous year during fiscal 2002. Nevertheless, scheduled and non-scheduled cash earnings will bottom out and begin to rise along with the recovery in corporate profits and production; they should move above the levels of the previous year in the latter half of fiscal 2002. Cash earnings per capita may begin to show a rising trend in fiscal 2003 and later, when bonuses recover to the previous year's levels.

Ehibit9: Unemployment Rate and Compensation of Employees



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

✧ Private Consumption

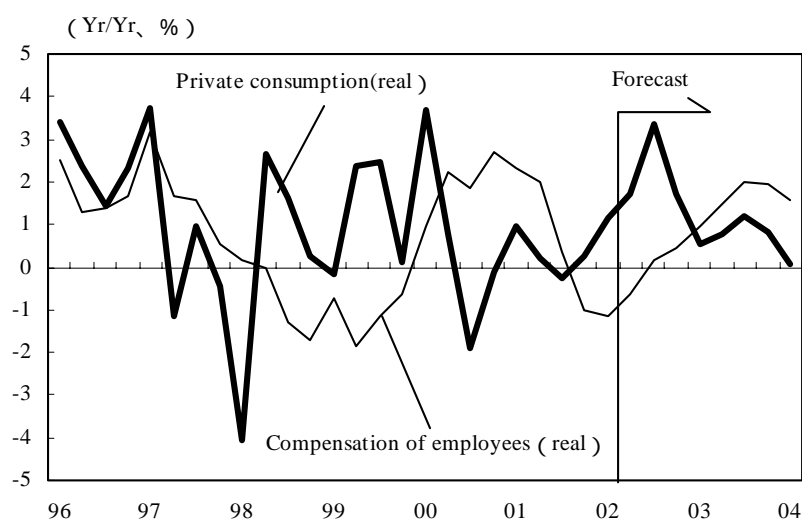
In the first half of fiscal 2001, private consumption dropped sharply owing to (1) a reactionary decline following the surge in spending preceding the enactment of the Electric Appliance Recycling Law and (2) the decline in consumer confidence accompanying the recession and the deterioration in the employment environment. However, in the latter half of fiscal 2001, consumer spending became firmer, in part as a reaction to the

decline in the first half of the fiscal year. At present, although incomes are below the levels of the previous year, consumer confidence is improving, partially because of signs that the economy is beginning to recover; thus, consumer spending continued to be firm.

In the first half of fiscal 2002, consumption may be somewhat weak because of the decline in summer bonuses and other factors, but in the second half, the recovery in the corporate sector will have a positive effect on the household sector, and the rate of growth in consumption is expected to rise along with increases in incomes. By consumer product, the driving forces behind the improvement in consumption are expected to include IT-related items, automobiles, and health as well as medical care expenditures.

As a result of the rise in incomes through the first half of fiscal 2003, consumer spending is expected to remain firm. However, in the latter half of the fiscal year, growth in incomes may exceed growth in consumption because of the appearance of signs of a slowdown in the economy.

Exhibit10: Private Consumption and Workers Incomes



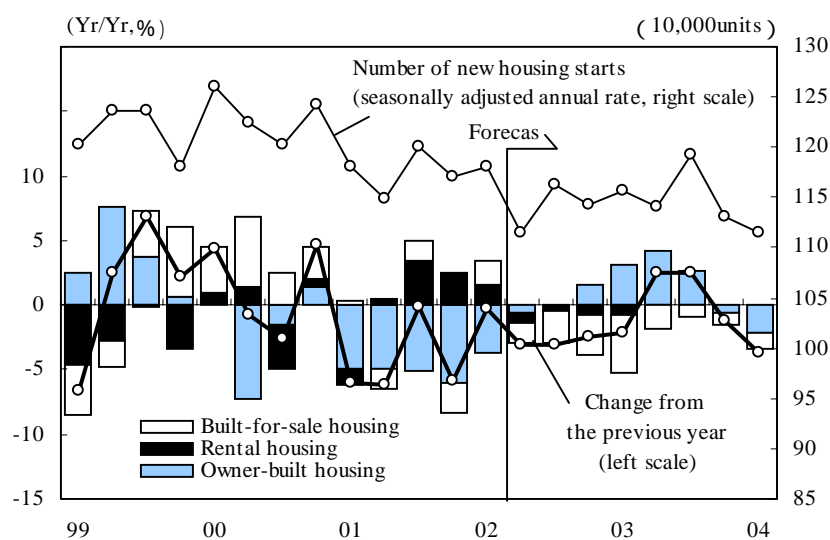
Source: Cabinet Office, National Accounts

✧ **Private Residential Investment**

In fiscal 2002, private residential investment is expected to fluctuate without a definite trend. Along with the recovery in the economy as a whole, owner-built housing investment may rise gradually. However, judging from recent trends in the sales contract ratios for condominiums, starts of condominium apartments are slowing, and the margin of decline may increase beginning in the latter half of the fiscal year. Residential investment for rebuilding of rental housing and starts of owner-built residences with rental units are expected to continue to be relatively firm, but increased spending will be difficult, and the level is likely to fall somewhat below that of the previous year. The number of housing starts is forecast to be 1.142 million units, a slight decline from the prior fiscal year.

In fiscal 2003, private residential investment is likely to continue to fluctuate. In the first half of the fiscal year, starts of owner-built housing are expected to remain firm because of the improvement in the income environment. In addition, the tax reduction for housing loans will terminate at the end of December 2003, and this may stimulate a surge, principally in starts of owner-built housing and units built for sale, around the middle of fiscal 2003. However, in the second half of the year, there may be a reactionary decline to this surge, and this, together with the slowdown in the economy mentioned previously, may bring a drop in the number of housing starts. We are forecasting total housing starts of 1.143 million in fiscal 2003.

Exhibit 11: Outlook for Housing Starts



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

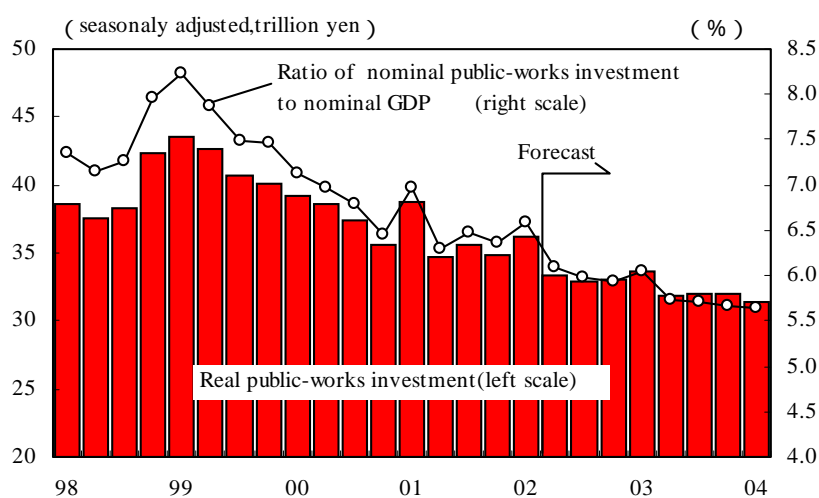
Continued Declining Trend in Public Investment

The government's supplementary budget that boosted public works spending in the January–March quarter of 2002 is expected to be exhausted in the April–June quarter. The public investment financed by national government's budget for fiscal 2002, on an initial budget basis, showed a substantial decline of 10.7% compared with fiscal 2001. Local government public works expenditures are also continuing to show significant declines because of the deterioration in the financial position of local governments. Although there is a possibility that requests may increase for additional public works spending through the passage of a supplementary budget, we have assumed that none will be passed as the Koizumi Cabinet will not deviate from its policy of restraining government expenditures. For this reason, we forecast that total national and local public works spending in fiscal 2002 will decline 5.9%, about the same margin of decline as in the previous fiscal year.

The Koizumi Cabinet is also expected to continue its policy of fiscal stringency in preparing the budget for fiscal 2003. Since increases in social welfare related expenses are unavoidable, because of the trends toward

smaller families and the demographic aging of the population, further cuts in public works investment on an initial budget basis are likely. However, there is a possibility that the increase in tax revenues accompanying the recovery in the economy may be shifted to public works spending. Therefore, we forecast that the decline in public works spending will be 4.2%, somewhat smaller than the drop in fiscal 2002.

Exhibit 12: Outlook for Public-works Investment



Source:Cabinet Office,National Accounts

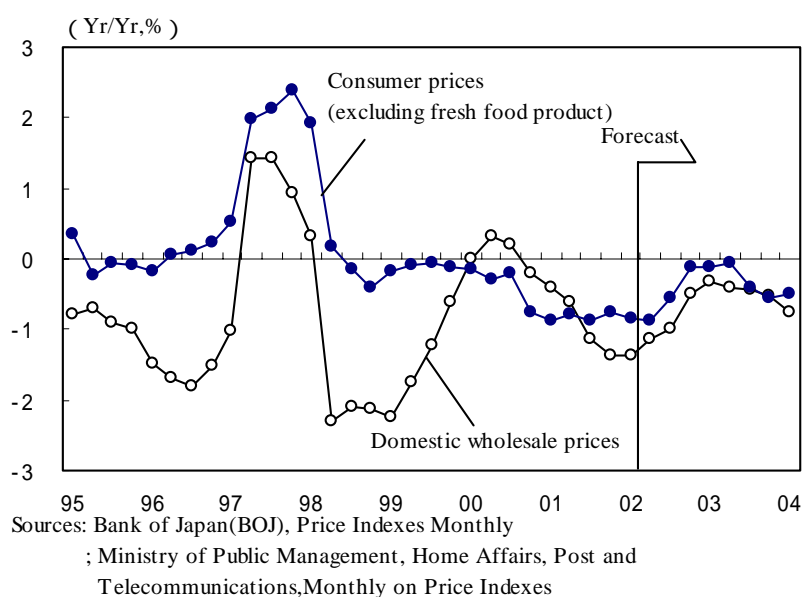
Easing of Deflationary Pressures

Since the beginning of 2002, the margin of decline in domestic wholesale prices has shown a shrinking trend owing to such factors as the bottoming out of commodity prices, including crude oil and semiconductors and the weakness of the Yen since last year. During fiscal 2002, although the yen is forecast to appreciate, the trend toward small margins of decline in domestic wholesale prices will continue since crude oil prices will remain at relatively high levels and production activities will recover. In fiscal 2003, the slowing of industrial production will tend to push prices downward and domestic wholesale prices will be relatively weak. Domestic wholesale prices are forecast to decline 0.8% in fiscal

2002 and show a further drop of 0.5% in fiscal 2003.

Regarding consumer prices, upward cost pressures on the supply side, namely the bottoming out of wholesale prices and the decline in the value of the yen, will put a brake on the margin of decline in consumer goods prices, and, for certain products, increased costs will be passed on to retail prices. Looking forward, since the recovery in demand will gain momentum, there will be less pressure than before on companies to lower prices. For this reason, there will probably be a shrinkage in the margin of decline in consumer goods prices. In addition, service prices, which have a high component of personnel costs that tend to be inflexible downward, may begin to rise gradually accompanying the bottoming out of nominal wages. As a consequence, moving toward 2003, the margin of decline in consumer prices may diminish. However, thereafter, a feeling of deceleration in the economy will emerge, and wholesale prices may again start to fall. These developments may lead to an increase in the margin of decline in consumer prices. On a fiscal-year basis, the decline in consumer prices (excluding fresh foods) will be smaller in fiscal 2002 than in fiscal 2001. We are forecasting a decline in consumer prices of 0.4% in fiscal 2002 and a further drop of 0.4% in fiscal 2003.

Exhibit 13: Outlook for Price



Economic Outlook for Fiscal 2002/2003

(Yr/Yr,%)	Forecas						(Yr/Yr,%)		
	FY2001		FY2002		FY2003		FY2001	FY2002	FY2003
	First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Nominal GDP	-2.0	-3.0	-1.0	0.5	1.4	0.5	-2.5	-0.3	1.0
Real GDP	-0.5	-2.0	-0.4	1.1	1.9	1.1	-1.3	0.4	1.5
Contribution of domestic demand	0.4	-1.9	-1.1	0.9	2.0	1.2	-0.8	-0.1	1.6
Private consumption	0.0	0.7	2.5	1.1	1.0	0.4	0.3	1.8	0.7
Housing investment	-8.5	-8.5	-2.7	0.5	4.8	-1.7	-8.5	-1.2	1.7
Private capital investment	4.7	-10.9	-15.2	0.0	6.8	6.4	-3.7	-7.6	6.6
Government expenditure	0.0	0.3	0.4	0.1	0.5	-0.3	0.1	0.2	0.1
Public investment	-6.8	-4.9	-5.6	-6.1	-3.3	-5.0	-5.8	-5.9	-4.2
Contribution of external demand	-0.9	-0.1	0.7	0.2	-0.1	-0.1	-0.5	0.4	-0.1
Exports of goods and services	-7.8	-8.1	2.7	3.8	1.6	-0.7	-8.0	3.3	0.4
Imports of goods and services	-0.4	-8.8	-4.5	2.0	3.1	0.2	-4.7	-1.3	1.7
Current account balance (trillion yen)	4.9	7.1	7.0	6.5	6.6	6.1	11.9	13.5	12.7
Trade balance (trillion yen)	4.2	4.7	5.7	5.0	5.6	5.2	9.0	10.8	10.9
Industrial production	-8.2	-12.2	-0.8	6.6	4.5	0.8	-10.2	2.8	2.6
Wholesale prices	0.6	-0.7	-1.0	-1.3	-1.1	-0.4	0.0	-1.1	-0.7
Domestic wholesale prices	-0.8	-1.4	-1.1	-0.4	-0.4	-0.6	-1.1	-0.8	-0.5
Consumer prices(excluding freshfood)	-0.8	-0.8	-0.7	-0.1	-0.2	-0.5	-0.8	-0.4	-0.4
Yen/U.S.Dollar	122.2	128.1	124.6	118.5	118.5	121.5	125.1	121.6	120.0
Crude oil purchase price (\$/barrel)	27.3	21.1	25.0	25.5	26.8	25.5	24.2	25.3	26.1
U.S. Real GDP (CY)									
(seasonally-adjusted annual rate)	1.2	-0.2	3.7	2.3	3.0	3.7	1.2	2.4	3.0

【Exports and Imports】

Forecast

(Yr/Yr %)

	FY2001		FY2002		FY2003		FY2001	FY2002	FY2003
	First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Exports (yen basis)	-6.2	-7.1	4.0	2.4	0.0	0.1	-6.6	3.2	0.1
Volume	-11.9	-7.5	6.6	9.0	5.2	1.1	-9.8	7.8	3.1
Imports (yen basis)	4.7	-8.6	-3.2	1.5	0.6	-1.1	-2.3	-0.9	-0.2
Volume	-2.6	-5.6	1.5	8.4	7.8	2.5	-4.1	4.9	5.1
Exports surplus (trillion yen)	3.3	3.8	4.9	4.1	4.8	4.4	7.1	9.0	9.2

【Income and Employment】

Forecast

(Yr/Yr %)

	FY2000		FY2001		FY2002		FY2001	FY2002	FY2003
	First half	Second half	First half	Second half	First half	Second half	Actual	Forecast	Forecast
Cash earnings of employees (per capita)	-0.8	-2.3	-1.3	-0.1	0.8	0.6	-1.6	-0.7	0.7
Scheduled cash earnings*	-0.3	-0.8	-0.6	0.2	0.6	0.4	-0.6	-0.2	0.5
Non-scheduled	-4.1	-7.4	-0.6	5.3	4.6	1.7	-5.9	2.4	3.1
Number of employees	0.4	-1.1	-0.4	0.1	0.3	0.1	-0.3	-0.1	0.2
Compensation of employees**	-0.2	-2.7	-1.5	0.1	1.0	0.7	-1.5	-0.7	0.9
							Actual	Forecast	Forecast
Spring wage increase * *	-	-	-	-	-	-	2.01	1.67	1.60
Unemployment rate	5.0	5.4	5.4	5.5	5.4	5.4	5.2	5.4	5.4

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfare, 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 labor union and capital of 2billion yen or more as well as 1,000 or more employees.

(Compiled by the Ministry of Health, Labour and Welfare)

【New Housing Starts】

(10,000 units)

	FY2001	FY2002	FY2003
	Actual	Forecast	Forecast
Number of new housing starts (change from the previous year)	117.3 (-3.3)	114.2 (-2.7)	114.3 (0.1)
Owner-built housing	37.7 (-13.9)	38.8 (2.9)	40.1 (3.4)
Rental housing	44.2 (5.8)	43.5 (-1.7)	43.7 (0.6)
Built-for-sale housing	34.4 (-0.7)	31.0 (-9.8)	29.6 (-4.5)

Note: The views, forecasts, and certain other information contained in this report are based on judgments made using data available at the time of preparation and may be subject to change without prior notice.