

November. 2002

Forecast for the Japanese Economy
In Fiscal 2003

 **UFJ Institute**

Economic Research Department

1. Current State of the Japanese Economy

The following pages summarize the current state of the Japanese economy, based on a review of published economic indicators.

(1) Japanese Economy in the Process of Recovering

Japan's real GDP in the July–September 2002 period rose 0.7% over the previous quarter, the third consecutive quarterly increase, and stood 1.7% higher year on year, the first increase in five quarters. The GDP deflator was down 1.6% year on year, indicating that deflation is continuing, but even under deflationary conditions, economy recovery is continuing. An examination of the relationship between industrial shipments and inventories shows that companies will enter a period of increase in inventories and suggests that the economy is unlikely to suddenly slip backward at this stage of the business cycle.

(2) Signs of Recovery in Domestic Demand

While exports are experiencing a lull, there are signs of recovery in domestic demand. First, private consumption has been expanding gradually since the early stages of the recovery. According to GDP data for the July–September period, real household consumption expenditures were up 0.8%, the fourth consecutive quarterly increase. Despite severe employment and income environments, consumption appears to be supported by improvement in consumer confidence along with the recovery in the economy. In addition, there are signs of improvement in the employment and income environments where recovery has been delayed. The number of employed persons in September was 430,000 lower year on year, but the margin of decline has been shrinking for four consecutive months. Non-scheduled cash earnings, which is closely linked with production activities, is also recovering and in September was 1.5% above that of the previous year, the second consecutive month for this indicator to increase year on year.

Corporate profits are improving as a result of the positive impact of restructuring—which has lowered costs—and recovery in sales, especially exports. The upturn in corporate profits has still not led to expansion in private capital investment, and investment was again 0.9% below the previous quarter during the July–September period. However, the margin of decline is gradually shrinking, suggesting capital investment may be in the process of bottoming out.

(3) Signs of Slowing Exports, Which Have Been a Driving Force

Exports, which have been a driving force for the economy, are decelerating. According to “The Summary Report on Trade of Japan of the Ministry of Finance, the value of exports on a seasonally adjusted basis has declined for the four consecutive months through September. In addition, the GDP statistics show that growth in exports (goods and services) for the July–September quarter is slowing and that the contribution of the external sector for the quarter was minus 0.1%, the first negative figure in four quarters. Moreover, although the upward trend in production is continuing, the rate of growth in production is slowing along with the decline in exports. Industrial production in the April–June quarter recorded a 3.8% rise over the previous quarter, but growth in production slipped to 2.2% in the July–September quarter.

(4) Growing Concerns about Future Trends

In addition to the emergence of trends toward a slowdown in exports and production, concerns about the deceleration of the U.S. economy are also growing. The growing possibility that the United States may attack Iraq is also contributing to concern about a slowdown in that country. Also, in Japan, the pace of improvement in employment and income environments is gradual, and there is anxiety that the decline in stock prices and the accelerated disposal of nonperforming loans may have a depressing effect on the economy. For these reasons, confidence in the corporate and household sectors is deteriorating, and, according to the Business and Investment Survey of Incorporated Enterprises conducted by the Cabinet Office, the indicator of judgment of economic conditions in the domestic

economy (BSI: responses indicating an “upward trend” minus responses indicating a “downward trend”) shows that the spread between “downward trend” responses and “upward trend” responses expanded in the July–September quarter for the first time in a year. In addition, the Monthly Survey of Consumption Trends (for Tokyo), also published by the Cabinet Office, reached a peak in July and has declined for three months, through October.

2. Outlook for Fiscal 2002 and Fiscal 2003

(1) Environment Surrounding the Japanese Economy

The key factors in the economic environment for forecasting the future course of the economy are as follows:

World Economy

In the U.S. economy, production is stagnant, and consumer confidence and employment-related indicators are deteriorating. There is concern that a slowdown in the U.S. economy will have a negative impact on other regions, including the EU and Asia. However, although the U.S. economy is slowing, private consumption and private residential investment, which have benefited from low interest rates, remain at high levels, and there seems to be little possibility that the U.S. economy will experience a serious downturn. Similarly, there is a risk that the EU and Asia may experience a slowdown, but they are likely to continue to recover.

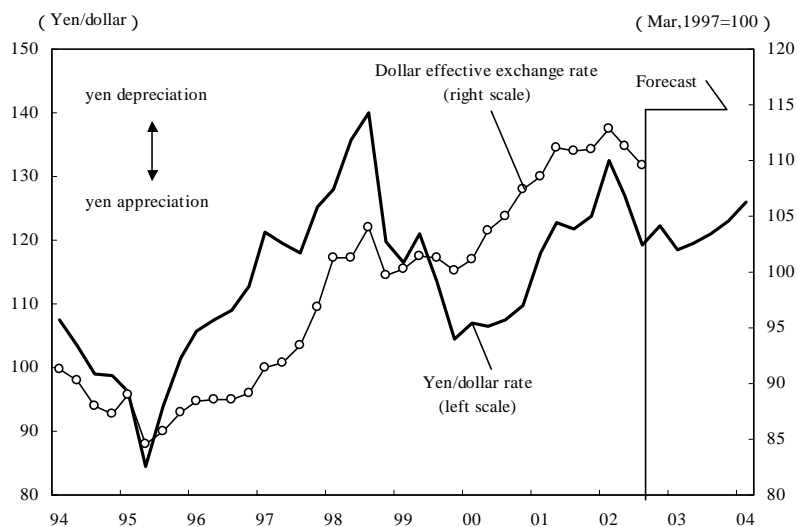
The possibility remains that the United States will attack Iraq. Although there is cause for concern that, in the event of major military action, private consumption and capital investment may be restrained, as long as the military campaign is not prolonged, the influence of an attack on Iraq is likely to be only temporary.

Foreign Exchange Rates

For fiscal 2002 (ending March 31, 2003), the U.S. dollar is expected to show a weakening trend against the yen as the possibility of an attack on Iraq and other factors generate concerns about future trends in the U.S.

economy. However, in fiscal 2003, along with the conclusion of any attack on Iraq, expectations of a recovery in the United States are likely to grow. On the other hand, the rate of expansion in the Japanese economy is expected to slow, thus leading to a weakening of the yen against the dollar, most likely into the ¥120 to ¥125 per dollar range.

Exhibit 1: Outlook for the Yen-Dollar Exchange Rate

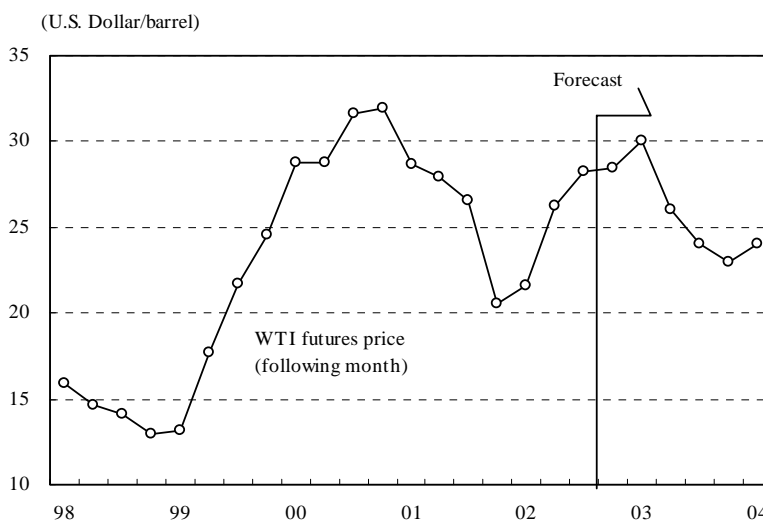


Sources: Bank of Japan, Financial and Economic Statistics Monthly, FRB (Federal Reserve Bulletin),

Crude Oil Prices

Currently, oil prices are declining because of speculation that, along with the slowdown in the United States and the rest of the world economy, oil supplies may exceed demand. However, as the possibility of an attack on Iraq increases and until military action actually begins, oil prices may have a tendency to rise. Nevertheless, even if the attack begins, the conflict is forecasted likely to reach a conclusion relatively quickly, and a disruption of oil supplies from the Middle East appears to be unlikely. Consequently, thereafter, oil prices may begin to decline.

Exhibit 2: Outlook for WTI Crude Oil Price



Fiscal Policy

In fiscal 2002, a supplementary budget of between ¥3 trillion and ¥4 trillion is likely to be passed, to supplement the shortfall in tax revenues and due to other factors, and this is likely to include an additional ¥1 trillion in public works investment (excluding projects for disaster recovery). In fiscal 2003, as the economy shows clearer signs of a slowdown, demands for further increases in public works investment through supplementary budgetary allocations is likely to increase, but a stringent budgetary policy is expected to continue.

Concerning tax policy, various tax-reduction measures are expected to come into effect in fiscal 2003, including tax cuts (amounting to about ¥1 trillion) for R&D and IT-related investments, the consolidation of the donation and inheritance taxes, and reduction in inheritance taxes. However, certain taxes are likely to increase as the government reviews special deductions for spouse and, in the case of consumption taxes, reduces the exemption limit and eliminates the simplified reporting system. As there is concern about the negative impact on the economy of these measures to increase taxes, the rise in revenues from these measures may be limited to between ¥100 billion and ¥200 billion.

Monetary Policy

At its monetary policy meeting, held on October 30, 2002, the Bank of Japan (BOJ) decided to increase its target level for the outstanding balance of current accounts held at BOJ from the ¥10 trillion to ¥15 trillion range to between ¥15 trillion and ¥20 trillion. The BOJ also decided to increase the pace of its purchases of long-term Japanese government bonds from ¥1 trillion a month to ¥1.2 trillion.

Members of the government and the ruling party are likely to call on the BOJ to take further monetary relaxation measures. Specifically, this is likely to include requests for further increasing the target level for current accounts and additional purchases of government bonds. Additional measures requested may include new kinds of policies to ease monetary conditions, such as the introduction of inflation targeting and the purchasing of assets other than government bonds, including commercial paper, corporate bonds, and foreign securities.

(2) Outlook for Fiscal 2002 and Fiscal 2003

In the previous economic outlook we issued in September, we gave the following scenario for the current state and future trends in the Japanese economy.

- (a) Along with a recovery in exports, accompanying the recovery in the world economy, and progress toward inventory adjustments, the economy began to recover from the beginning of calendar year 2002.
- (b) The movement toward recovery led by the external demand would spread to domestic demand, including capital investment, as corporate profitability improved.
- (c) The current recovery, accompanying the inventory cycle, will be short term, and the recovery in private capital investment will be limited. The economy will weaken in the latter half of fiscal 2003.

Our basic views for the outlook this time have not changed from the previous outlook, but in view of changes since September, we have included three additional points for consideration.

- (a) The emergence of a slowdown in the world economy, which thus far has acted as a driving force for the Japanese economy
- (b) The concern that private capital investment may not recover as confidence has deteriorated and prospects for corporate profitability have declined
- (c) The concern that the economy may suffer a downturn as a result of factors unrelated to the business cycle, including the accelerated disposal of non-performing loans

Depending on how we view these three points, the outlook for fiscal 2003 may change considerably. Our views of the implications of these three points are as follows.

(a) The emergence of a slowdown in the world, which thus far has acted as a driving force for the Japanese economy

The U.S. economy is already experiencing a slowdown, and exports from Japan have dropped more than anticipated. The EU and Asian economies are also decelerating, and forecasts for growth in exports have been revised downward. However, even though the world economy continues to slow, we do not expect that the Japanese economy will stall. The rates of growth in exports, compared with the same periods of the previous year, are declining, but exports are still expanding year on year.

Since the pace of increase of production activities that are linked to exports is slowing, we have assumed the rate of growth year on year will peak in the October–December quarter in 2002. However, the level of production (seasonally adjusted) is forecast to continue rising through the July–September quarter in 2003. Although the rate of increase has been reduced, we have not changed our scenario that the rising trend in production will continue through the first half of fiscal 2003.

(b) The concern that private capital investment may not recover as confidence has deteriorated and prospects for corporate profitability have declined

The deterioration in corporate confidence and the downward revision of corporate profitability have a negative impact on capital investment, and compared with the September outlook we have lowered our forecast for growth in capital investment in fiscal 2003. However, this does not mean we are ruling out recovery completely. Corporations have reduced their investments sharply and the room for reduction is becoming more limited. Although the outlook for profitability has been lowered, the scenario for improvement in corporate profitability remains unchanged. If cash flow increases, some amount of funds will be allocated to capital investment. In fact, capital investment—which had been declining—appears to have almost bottomed out. Even if investment is restrained temporarily as a result of the decline in corporate confidence, along with the improvement in cash flow, replacement investment, IT-related investment, and other necessary capital investment should expand. For this reason, moving into fiscal 2003, the momentum of recovery in private capital investment is expected to increase. However, we should not expect increases in investment to expand capacity, and we are looking for a short recovery period in investment, lasting through 2003. Investment is likely to begin to decline again beginning with the January–March quarter of 2004.

(c) The concern that the economy may suffer a downturn as a result of factors unrelated to the business cycle, including the accelerated disposal of non-performing loans

The principal factor creating pessimism about future trends in the Japanese economy is concern about event risk. There are many important uncertainties surrounding exactly how the disposal of non-performing loans will be implemented, and it is extremely difficult to forecast the impact of these measures. However, matters will not be a so simple story that the acceleration of the disposal of non-performing loans would bring out a sharp increase in bankruptcies and unemployment and a decline in the economic growth rate. A substantial volume of non-performing loans has

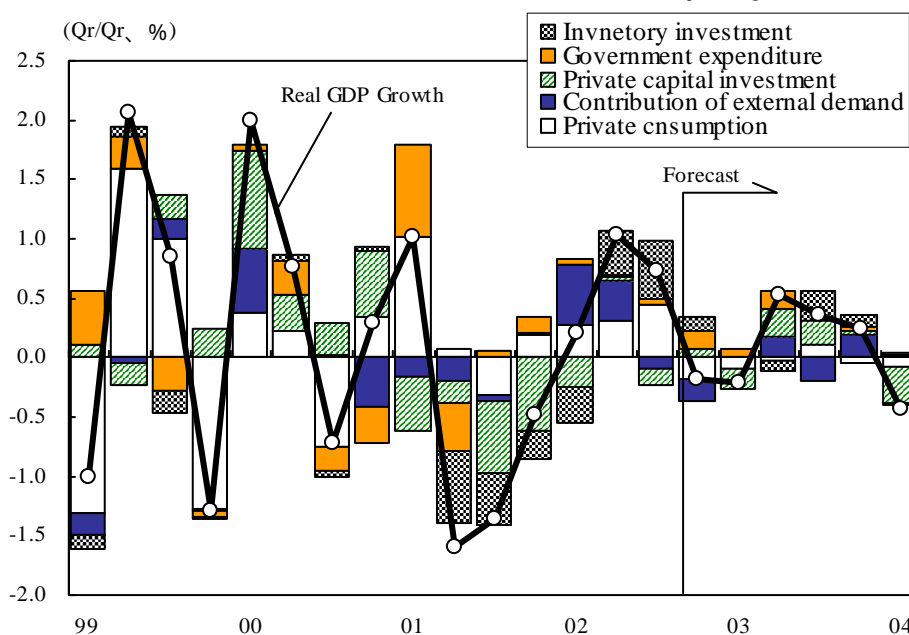
already been disposed of. If it were true, as we are told, that the disposal of non-performing loans will lead to a sharp rise in bankruptcies and unemployment, the number of bankruptcies and unemployed workers would already be higher than it is now. Rather than adopt the view that corporate bankruptcies will rise if the disposal of non-performing loans increases, it seems more natural to take the stance that the disposal of non-performing loans will expand as a result of the failure of corporate managements.

There is also a concern that if loan quality evaluation criteria are applied more strictly and more reserves must be set aside against non-performing loans, banks will adopt a stricter stance toward lending and lead to an overall shrinkage of credit. However, the Financial Services Agency is supposed to carry out strict inspections regarding whether banks are asking for the repayment of their loans to small and medium-sized companies. Therefore, banks are not likely to resort so simply to calling in their loans. In addition, regarding companies that are being restructured with the support of banks, there may be instances where a review of restructuring plans results in these loans being declared non-performing. Nevertheless, even if this happens, the number of cases appears likely to be limited. In an environment where loan demand is weak, it is difficult to increase the volume of loan assets, but it would appear to be equally difficult to implement a major reduction in loan assets, as is being suggested by some commentators.

What is most difficult to forecast and what may have the greatest impact as a result of the disposal of non-performing loans is what may happen as a result of the deterioration in corporate and consumer confidence. At the time of the strong concern about the financial system in 1998, the deterioration in corporate and consumer confidence may have restrained capital investment and private consumer spending. However, this does not mean that the same thing will happen this time. At least we can say that measures and systems to prevent uncertainty about the financial system, such as the ample provision of funds by the BOJ, have been improved since that time. Fanning the flames of uncertainty may have the reverse impact of having a more negative impact on the economy.

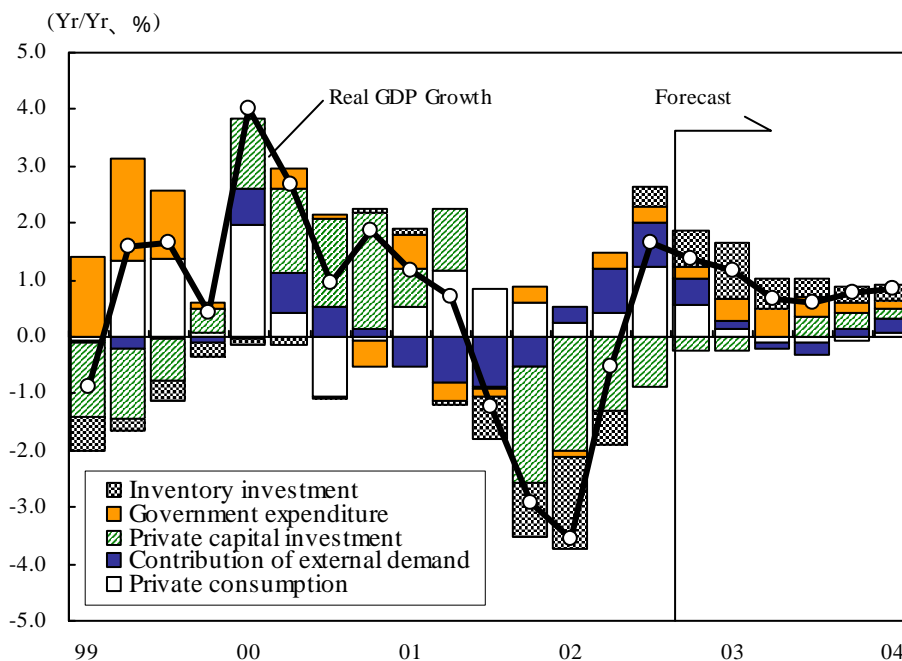
Taking these various considerations into account, we have prepared economic forecasts for fiscal 2002 and fiscal 2003 as shown in exhibits 3 and 4. The forecast for fiscal 2002 has been revised upward from the previous forecast in view of the upward movement in growth as evidenced by recent indicators. However, we have revised our forecast for fiscal 2003 downward because of the deceleration anticipated in the coming quarters. At present, the pace of recovery is slowing, and we anticipate that the economy may move into recession in the latter half of fiscal 2003. For these reasons, we are now forecasting real GDP growth in fiscal 2003 of 0.7%, lower than our forecast of 0.9% real growth in fiscal 2002.

Exhibit 3: Real GDP Growth (seasonally adjusted)



Source : Cabinet Office, Annual of National Accounts

Exhibit 4: Real GDP Growth



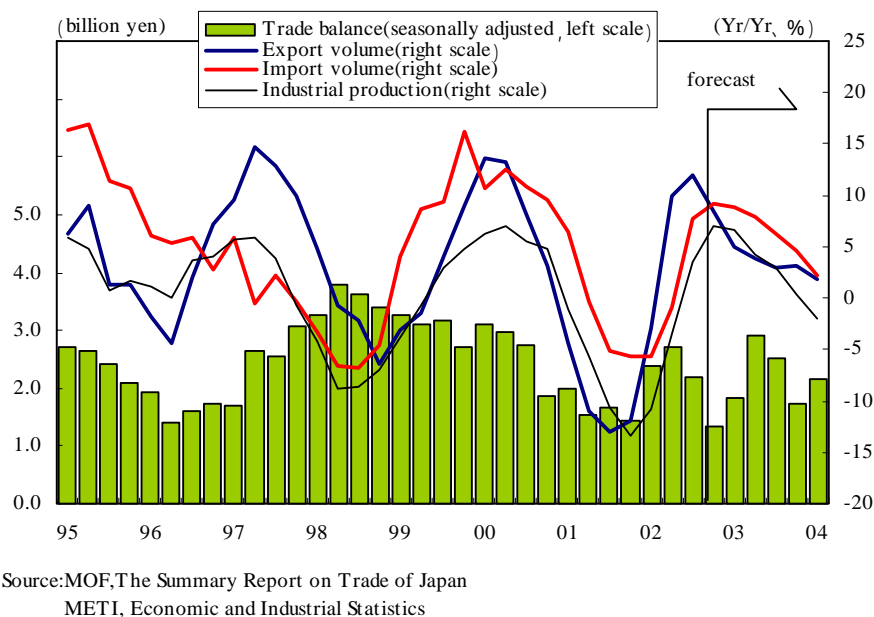
Source : Cabinet Office, Annual of National Accounts

3. Outlook for Components of Final Demand

(1) External Demand

An upward trend in exports, principally to other countries in Asia, is continuing at present, but the rate of growth is declining. Although we expect this year-on-year rising trend in exports to continue through fiscal 2003, we anticipate a decline in the rate of growth. For imports, although we do not expect a major increase because of weak recovery momentum in industrial production, various structural factors, including the rising penetration of imports, are expected to bring a continuing upward trend through fiscal 2003. The contribution of external demand in fiscal 2002 is expected to be a large positive factor because the recovery in exports has preceded the rise in imports. In fiscal 2003, the rate of growth in imports will become relatively faster than that of exports, resulting in a decline in the contribution of external demand to 0.0%, making the contribution of the external demand neutral.

Exhibit 5: Outlook for Trade



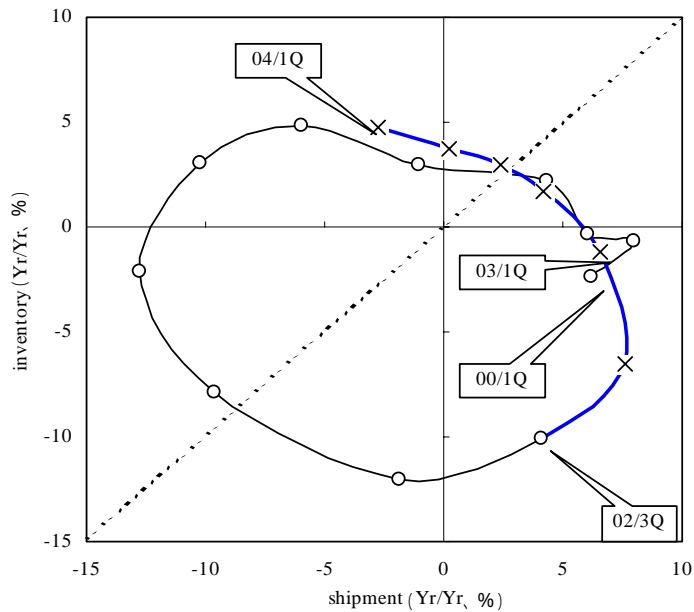
(2) Weakness in the Corporate Sector to Continue in Latter Half of Fiscal 2002, with Deceleration in the Latter Half of Fiscal 2003

Production: After a lull for the time being, downward trend expected in the latter half of fiscal 2003

At present, the industrial sector is making the transition from a period of unintended inventory decrease to intended inventory increase. Inventories are expected to continue to rise through the fiscal 2003. The industrial sector will enter a period of unintended inventory investment in the latter half of fiscal 2003.

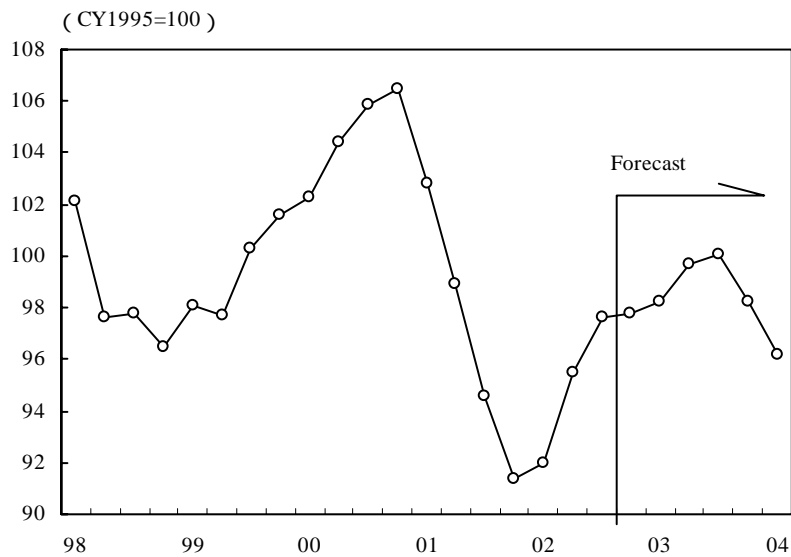
Production will remain virtually flat in the latter half of fiscal 2002 as growth in exports slows and domestic demand remains relatively weak. Although production may rally in the first half of fiscal 2003, producers will restrain output in the latter half because of the increase in unintended inventory stocks.

Exhibit 6: Inventory Cycle Movements



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

Exhibit 7: Outlook for Industry Production

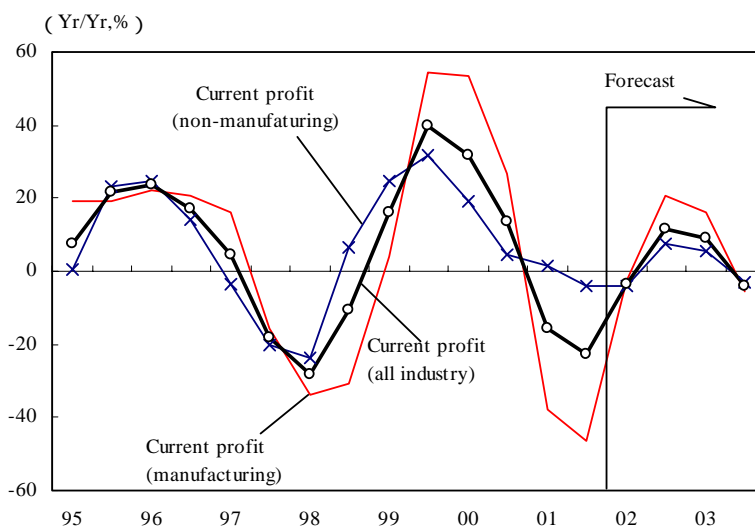


Source: Ministry of Economy, Trade and Industry (METI),
 Economic and Industrial Statistics

Corporate profits: Continued improvement through the first half of fiscal 2003 but deterioration thereafter

Both manufacturing and non-manufacturing sectors are currently reporting improvement in profitability. Although prices are stagnant, increases in the volume are contributing to recovery in sales. Sales will gradually weaken, but the impact of restructuring measures, including cutbacks in personnel costs, will bring improvement in profitability through the first half of fiscal 2003. However, because of the weakness in domestic demand, sales will fall and profits will begin to decline in the second half of fiscal 2003.

Exhibit 8: Outlook for Corporate Performance



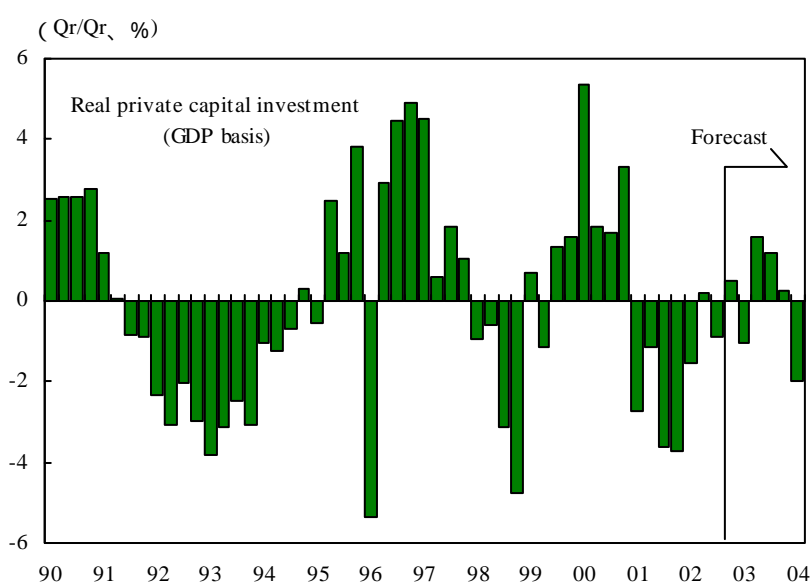
Source:MOF,Quarterly Statistics on Incorporated Enterprises

Capital investment: Lacking in robustness, will decline in the latter half of fiscal 2003

There are no clear signs of an increase in capital investment, as reflected in the absence of an upward trend in machinery and equipment orders(private sector orders, excluding shipping and electric industry), which are the leading indicator for capital investment. Since the recovery in corporate confidence is lagging, there is a possibility that weakness in capital investment will continue throughout fiscal 2002, but corporate performance is improving and rates of capacity utilization are rising. These developments may bring upward trends, principally in replacement

investment and IT-related capital outlays, in the first half of fiscal 2003. However, as domestic demand remains weak, corporations are not likely to make major investments for increasing capacity, and, as growth in corporate profits begins to weaken in the second half of fiscal 2003, companies are likely to adopt a more cautious stance toward capital investment. There is a possibility that the increase in capital investment will be relatively small and brief.

Exhibit 9: Private Capital Investment

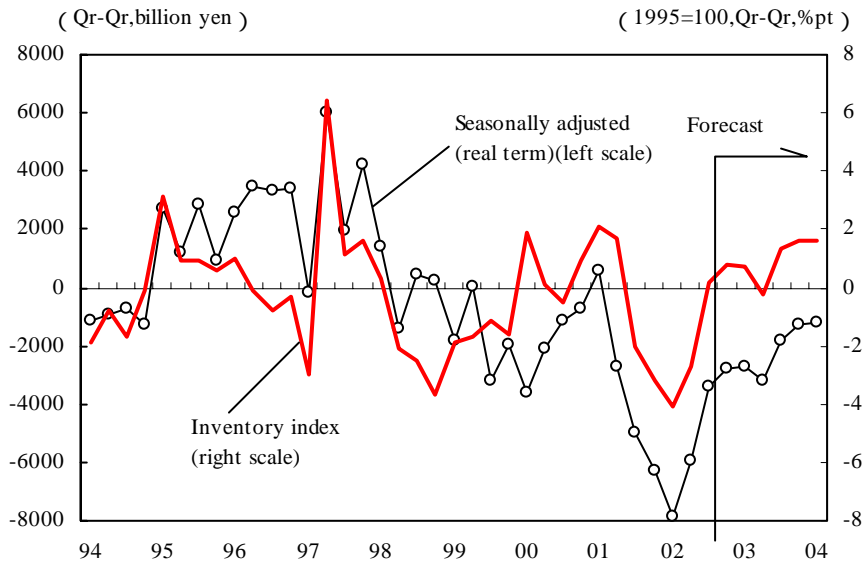


Sources: Cabinet Office, Annual of National Accounts

Inventory investment: Higher growth rates in fiscal 2002 and fiscal 2003

Since the industrial sector is entering a phase of expanding inventory investment, the rate of decline in inventory investment is shrinking, and inventory investments are making a positive contribution to GDP growth. Since domestic demand is weak, corporations are not likely to make aggressive inventory investments, but in the latter half of fiscal 2003 as growth in shipments declines, corporations will gradually move into an unintended inventory investment phase. For this reason, through fiscal 2003, the rate of decline in inventory investment will continue to shrink and push GDP growth upward.

Exhibit 10: Inventory Investment



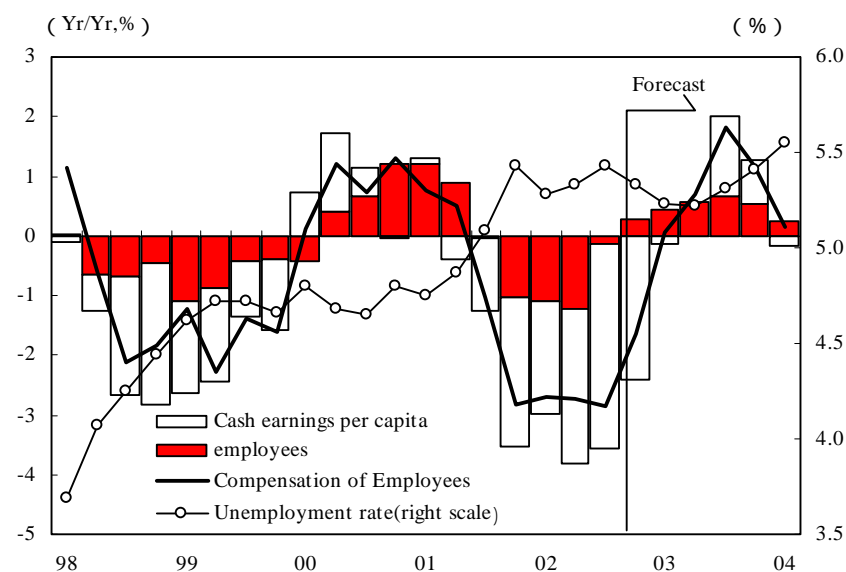
Source: Ministry of Economy, Trade and Industry (METI),
Economic and Industrial Statistics
Cabinet Office, Annual of National Accounts

(3) Employment and Income Environments to Improve, but with Only Marginal Improvement in the Household Sector

Employment and income environments

The number of employees is recovering, especially in the manufacturing sector, as industrial production increases. However, the unemployment rate continues to be in excess of 5%, since, along with the recovery, the labor force seeking employment has expanded. Although scheduled and non-scheduled cash earnings continue to recover, the recovery in bonuses is marginal and is lagging behind the recovery in corporate profits. Consequently, a major improvement in compensation per employee is not expected.

Ehibit11: 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

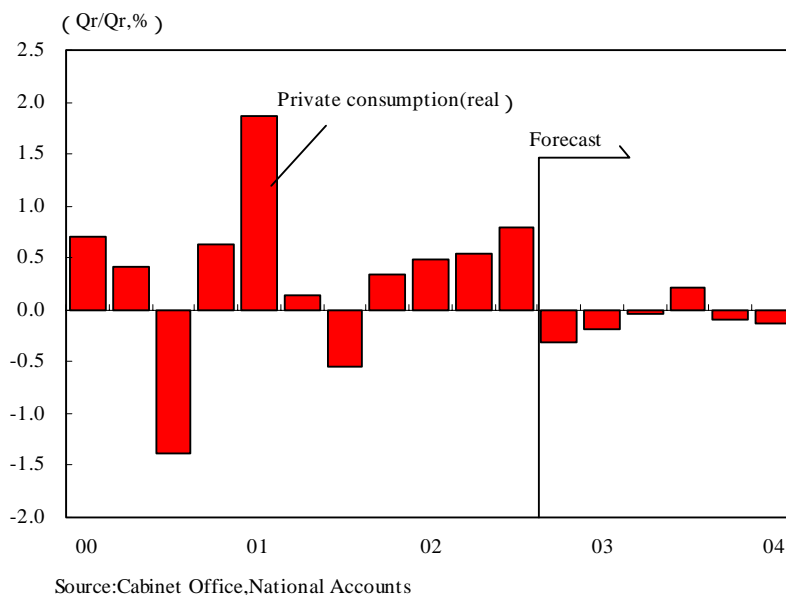
Private consumption: Owing to deterioration in disposable income and consumer confidence, consumption is stagnant.

During the latter half of fiscal 2002 and subsequently, private consumption has continued to be firm in the midst of a severe income environment. Real private consumption on a GDP basis continued to rise in the July–September period for the fourth consecutive quarterly increase. However, consumer confidence is weak, in part because of anxiety about future trends in the economy and possible expansion in unemployment and corporate bankruptcies as a result of measures to accelerated disposal of non-performing loans. Winter bonuses, following the summer bonuses, are expected to remain below the previous year's levels. Because of these and other factors, recovery in the income environment is lagging, and there is a possibility that consumer spending may begin to decline.

Moving into fiscal 2003, income of employees will begin to recover, but as a result of the increase in the burden of social security payments, including an increase in health care insurance premiums, household disposable income will be pushed downward. Moreover, as signs of a slowdown in the latter half of fiscal 2003 emerge, consumers may become

even more cautious. Therefore, private consumption is expected to remain weak in fiscal 2003.

Exhibit12: Real Private Consumption

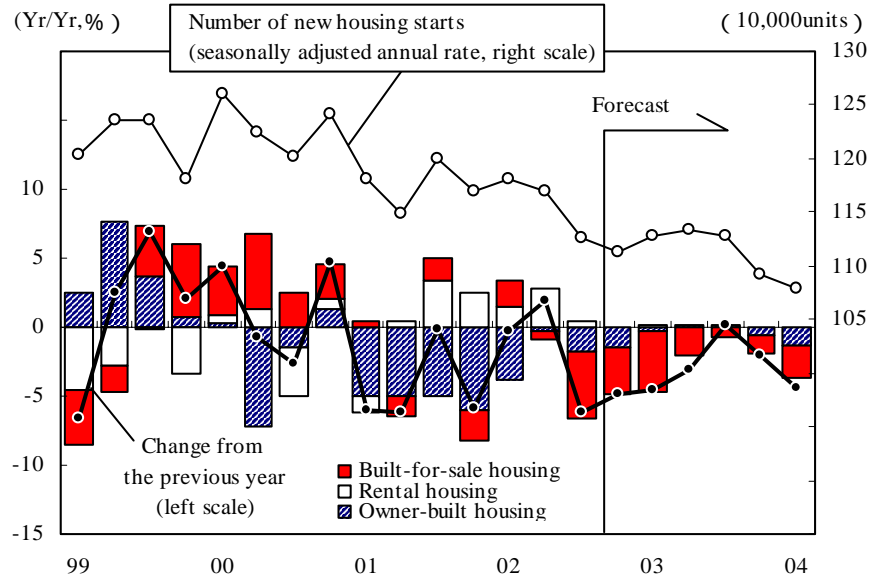


Private residential investment: Condominium starts and overall housing investment on a declining trend

Since the latter half of the fiscal 2001, the number of housing starts had been running, on an annualized basis, in the upper half of the 1.1 million to 1.2 million range, but since the middle of fiscal 2002, the rate has declined to the lower half of this range. While condominium starts, which were running at a high rate, have run out of steam, owner-built housing starts have been unable to escape stagnation and are continuing to decline unchecked.

There is a possibility of a surge in demand, especially for owner-built and built-for-sale housing, through the middle of fiscal 2003, as the deadline for taking advantage of special housing loan tax measures approaches. (home-builders or purchasers must move into their new housing by the end of December 2003 to take advantage of this tax break.) However, a major upswell in housing starts is not anticipated.

Exhibit 13: Outlook for Housing Starts

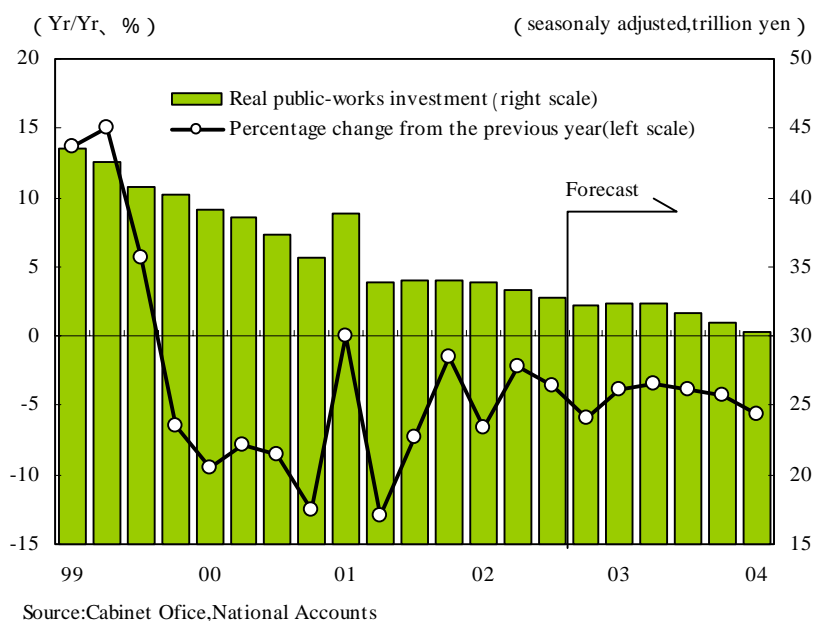


Source: Ministry of Land, Infrastructure and Transport,
Housing Construction Starts Statistics

Public works investment: Continuing downward trend

The increase in public works investment under the government's supplementary budget for fiscal 2002 is expected to receive an additional boost in the next regular Diet session, with the approval of a further ¥1 trillion. The support provided by these additional public works investment will emerge in the first half of fiscal 2003, but because of continuing declines in public works projects of regional governments, the net result will be a slight shrinkage in the overall decline in total public works investment at the national and local levels. In the latter half of fiscal 2003, the effect of the supplementary budget allocation will virtually disappear, resulting in an increase in the margin of decline in public works investment.

Exhibit 14: Outlook for Public-works Investment

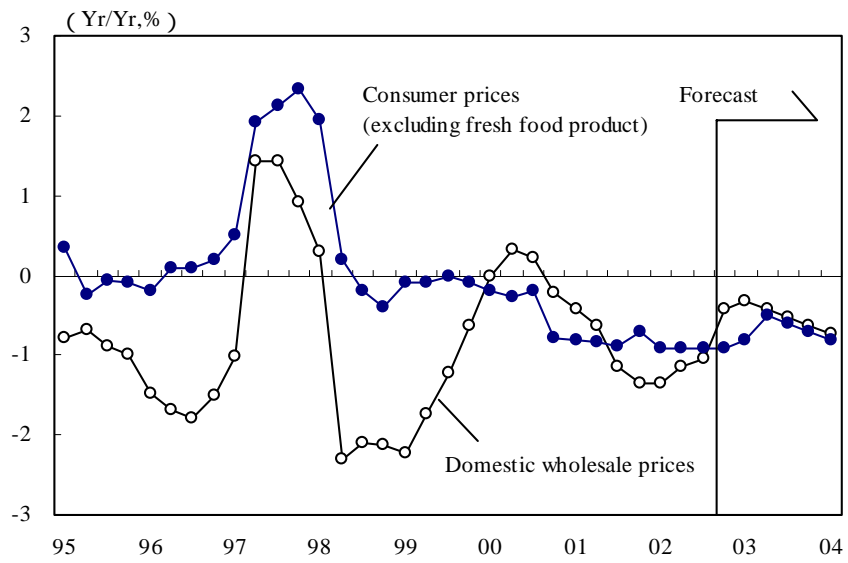


Price levels: Deflationary pressures to ease only temporarily

The margin of decline in domestic wholesale prices is shrinking as a result of increases in crude oil and other commodity prices and the tightening of the supply-demand balance as the economy recovers. However, moving into fiscal 2003, along with the decline in oil prices, the economy is expected to slow and bring a weakening of the growth rate in production. The margin of decline in domestic wholesale prices is, therefore, expected to expand again.

Consumer prices are forecast to continue at levels approximately 1% below the previous year, owing to weak demand and competition with low-cost imports. In fiscal 2003, along with the increase in medical expense burden as health care system reforms are implemented, the margin of decline in consumer prices is expected to shrink, by about 0.2 percentage point. However, excluding this factor, a gradual declining trend, like that experienced thus far, is expected to continue.

Exhibit 15: Outlook for Price



Sources: Bank of Japan(BOJ), Price Indexes Monthly
; Ministry of Public Management, Home Affairs, Post and
Telecommunications, Monthly on Price Indexes

Economic Outlook for fiscal 2003

Yr / Yr, %
(half/half, %)

	FY2001		FY2002		FY2003		FY2001	FY2002	FY2003
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Nominal GDP	-1.6 (-2.4)	-3.8 (-1.3)	-0.7 (0.5)	-0.4 (-0.5)	-0.2 (0.3)	-0.1 (-0.4)	-2.7	-0.6	-0.2
Real GDP	-0.3 (-2.1)	-3.2 (-1.1)	0.6 (1.5)	1.3 (0.1)	0.6 (0.6)	0.8 (0.2)	-1.8	0.9	0.7
Contribution of domestic demand	0.6	-3.1	-0.2	0.9	0.8	0.6	-1.3	0.4	0.7
Private consumption	1.8 (0.5)	0.8 (0.3)	1.5 (1.2)	0.6 (-0.0)	-0.2 (-0.0)	0.0 (-0.1)	1.3	1.1	-0.1
Housing investment	-7.8 (-8.2)	-8.2 (-0.3)	-2.4 (-2.0)	-7.6 (-5.2)	-3.3 (1.5)	-1.7 (-3.1)	-8.0	-5.0	-2.6
Private capital investment	3.2 (-5.3)	-11.5 (-6.2)	-6.6 (-1.0)	-1.5 (-0.5)	1.2 (1.7)	1.5 (-0.2)	-4.7	-4.1	1.4
Contributory of Inventory investment	-0.4	-1.3	-0.1	0.8	0.4	0.3	-0.9	0.3	0.3
Government expenditure	-0.9 (-0.4)	0.4 (0.9)	1.2 (0.3)	1.1 (0.9)	1.8 (0.8)	0.6 (0.1)	-0.2	1.2	1.2
Public investment	-10.0 (-4.3)	-4.0 (-0.0)	-3.0 (-2.6)	-4.9 (-2.5)	-3.6 (-1.0)	-4.9 (-4.0)	-6.7	-4.1	-4.4
Government final consumption expenditure	2.7 (1.4)	2.6 (1.1)	2.5 (1.3)	3.5 (2.2)	3.5 (1.3)	3.0 (1.6)	2.6	3.0	3.2
Contribution of external demand	-0.8	-0.2	0.8	0.3	-0.2	0.2	-0.5	0.5	0.0
Export of goods and services	-7.9 (-7.2)	-8.2 (-0.9)	7.6 (8.6)	7.1 (-1.4)	5.0 (6.6)	4.4 (-2.1)	-8.0	7.4	4.7
Import of goods and services	-0.7 (-4.8)	-8.4 (-3.7)	0.5 (4.3)	5.1 (0.9)	8.4 (7.4)	3.4 (-3.8)	-4.7	2.8	5.9
Current account balance (trillion yen)	4.9	7.0	7.0	5.7	6.9	6.6	11.9	12.7	13.5
balance on goods (trillion yen)	4.2	4.7	6.0	4.4	6.7	5.4	9.0	10.4	12.0
balance on service (trillion yen)	-3.0	-2.2	-2.7	-2.2	-3.0	-2.6	-5.1	-4.9	-5.6
balance on income (trillion yen)	4.1	4.6	4.2	4.0	3.7	4.3	8.7	8.2	8.0
Industrial production	-8.2 (-7.5)	-12.2 (-5.2)	0.0 (5.3)	6.9 (1.5)	3.5 (1.9)	-0.8 (-2.7)	-10.2	3.4	1.3
Wholesale prices	0.6	-0.7	-1.2	-0.3	-0.8	-0.6	0.0	-0.7	-0.7
Domestic wholesale prices	-0.8	-1.4	-1.2	-0.4	-0.5	-0.7	-1.1	-0.7	-0.6
Consumer prices	-0.7	-1.2	-0.9	-0.7	-0.6	-0.8	-1.0	-0.7	-0.7
excluding freshfood	-0.8	-0.8	-0.9	-0.9	-0.6	-0.8	-0.8	-0.9	-0.7
Yen/U.S.Dollar	122.2	128.1	123.1	120.4	120.3	124.5	125.1	121.7	122.4
Crude oil price (U.S.dollar/barrel)	27.3	21.1	27.3	29.3	25.0	23.5	24.2	28.3	24.3
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	-0.4	0.1	3.5	2.1	0.7	3.3	0.3	2.3	1.7

【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	6.5	5.1	4.5	4.4	-6.6	5.8	4.5
Volume	-11.9	-7.5	11.1	6.7	3.4	2.5	-9.8	8.9	3.0
Imports (yen basis)	4.7	-8.6	-1.3	8.2	2.2	0.7	-2.3	3.4	1.4
Volume	-2.6	-5.6	3.5	9.0	7.1	3.4	-4.1	6.2	5.2
Exports surplus (trillion yen)	3.3	3.8	5.1	3.4	5.8	4.4	7.1	8.5	10.2

【Income and Employment】

Forecast ↘

(Yr/Yr, %)

	FY2001		FY2002		FY2003		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	-3.0	-1.5	0.6	0.3	-1.5	-2.2	0.5
Regular compensation*	-0.3	-0.8	-1.4	-0.5	0.4	0.2	-0.5	-0.9	0.3
Overtime compensation	-4.1	-7.4	-1.5	4.3	4.2	0.4	-5.8	1.4	2.3
Number of employees	0.4	-1.1	-0.7	0.4	0.6	0.4	-0.3	-0.2	0.5
Compensation of employees**	-0.1	-2.8	-2.8	-0.9	1.2	0.7	-1.4	-1.9	1.0
							(Actual)	(Forecast)	(Forecast)
Spring wage increase * *	-	-	-	-	-	-	2.01	1.66	1.60
Unemployment rate	5.0	5.4	5.4	5.3	5.3	5.5	5.2	5.3	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	117.3	113.3	110.7
(change from the previous year)	(-3.3)	(-3.4)	(-2.3)
Owner-built housing	37.7	36.5	36.1
	(-13.9)	(-3.1)	(-1.1)
Rental housing	44.2	45.3	45.0
	(5.8)	(2.3)	(-0.7)
Built-for-sale housing	34.4	30.6	28.7
	(-0.7)	(-11.2)	(-6.0)

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