

May 2005

Forecast for the Japanese Economy
In Fiscal 2005 and 2006

 **UFJ Institute**

Economic Research Department

1. Current State of the Japanese Economy

Since the beginning of fiscal 2004, the Japanese economy has shown negative or zero growth, but a high rate of 1.3% growth over the previous quarter was reported for the January–March period. Exports, which had been expanding, showed their first decline in approximately three years. However, private consumption and private capital investment, which are the mainstays of domestic demand, rose for the first time in three quarters. In addition, inventory investment also increased, helping to boost the growth rate.

2. Outlook for Fiscal 2005 and Fiscal 2006

During the first half of fiscal 2005, adjustments in digital-related products are expected to continue, and exports are expected to be weak. As a result, the growth rate of the Japanese economy for the fiscal year will not be high. Moreover, since declines in selling prices and increases in crude oil and other commodity prices will lead to deterioration in corporate profits, capital investment is expected to decelerate.

Nevertheless, corporate financial positions and basic earnings power have improved, and the slowdown in the economy is not expected to be severe. In the latter half of fiscal 2005, conditions in the Japanese economy are forecast to improve, as inventory adjustments in the digital-related product industries will be completed and growth in overseas economies is expected to accelerate.

In fiscal 2006, recovery in the economy is expected to continue, and the growth rate of the Japanese economy for the fiscal year will be rather high. Along with the recovery in exports and industrial production, corporate profitability will improve, and, thus private capital investment will begin to rise again.

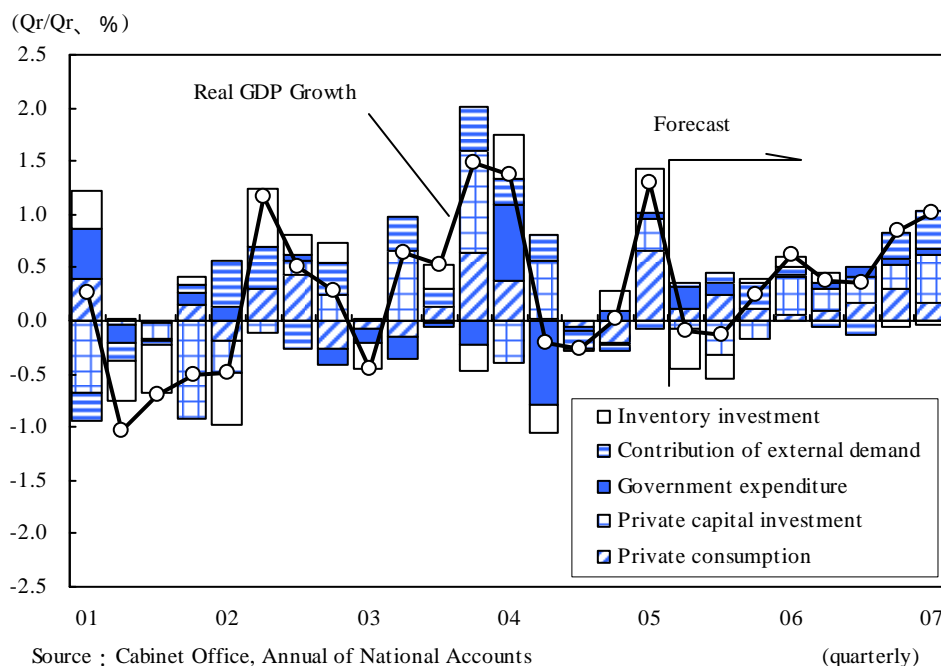
3. Key Points of the Outlook

- (a) The economy will begin to show improvement as inventory

adjustments in the digital-related product industries are proceeding and growth in overseas economies accelerates.

- (b) Corporate profits will be under pressure because of declines in product prices downstream and increases in raw material costs upstream. These factors will have a restraining effect on private capital investment.
- (c) The income environment for households will continue to be challenging, but incomes are expected to bottom out and private consumption will remain firm.

Exhibit 1 : Real GDP Growth (seasonally adjusted)



1 . Private Consumption

Current Conditions

The income environment for households remains difficult. Following the improvement in corporate performance, special compensation (bonuses and other unscheduled compensation) is increasing, thus bringing a bottoming out in the decline in per capita wages. However, weakness in scheduled wages is continuing. In addition, the increase in employment, which peaked in the April–June quarter of 2004, has run its course, and employee compensation is sluggish. Private final consumption in real terms for the January–March quarter of 2005 climbed a substantial 1.2% over the previous quarter. However, on average, the rate of expansion in the latter half of fiscal 2004 was a low 0.2%. As a whole, private consumption is virtually flat.

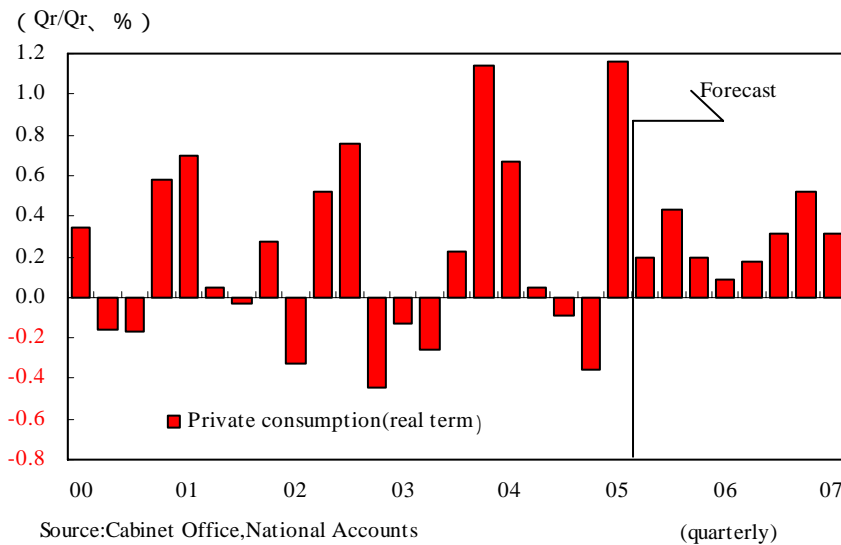
Outlook for Fiscal 2005

Because of the effects of the slowdown in the economy, the income environment continues to be difficult. Growth in quarter-to-quarter consumer spending is forecast to remain marginal because of a number of factors. These include little expected growth in winter bonuses for 2005, as the effects of the recent slowdown in corporate profits will emerge around that time. Other factors will be increases in the burden on households as employment and pension insurance premiums were increased in April 2005, and the shrinkage in the margin of income tax cuts that will begin in January 2006 (June 2006 for local taxes).

Outlook for Fiscal 2006

Although corporations are expected to continue to hold the line on personnel costs, the trend toward reflecting improvements in corporate performance in bonuses is becoming stronger. As a result, we anticipate that in fiscal 2006 the increase in bonuses will push consumer spending upward. Although the increase in the burden on households mentioned previously will tend to restrain consumption, we believe consumer confidence will improve as the economy shows greater resilience. Also, since per capita wages are expected to rise gradually, we are looking for somewhat stronger expansion in consumer spending.

Exhibit 2: Real Private Consumption



2. Private Housing Investment

Current Conditions

In the January–March quarter of 2005, private housing investment declined 1.4% from the prior quarter. This was the first decline in five quarters and reflected a reactionary decrease in response to the surge in demand in the July–September quarter in advance of the reduction in housing loan tax relief measures. Housing starts in the January–March period of 2005 increased over the previous quarter, reflecting robust activity in the rental housing and condominium markets, but recent monthly data suggest a loss of momentum. In addition, the average floor area per housing unit is declining, thus tending to push housing investment downward.

Outlook for Fiscal 2005

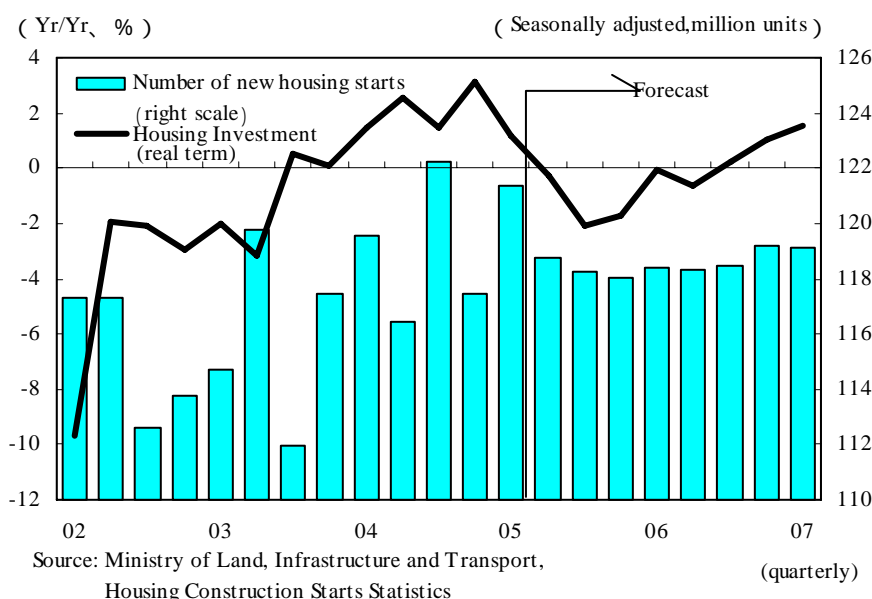
At present, the momentum in housing starts has weakened because of the deceleration of the economy and a pause in the trend toward moving back to urban centers, and housing investment is expected to slow from the beginning of fiscal 2005. However, new housing starts are forecast to hold firm at 1.182 million in fiscal 2005, compared with 1.193 million in fiscal 2004. This level of housing starts will be supported in part by first-time home purchases by second-generation baby boomers, who are now entering their 30s.

Outlook for Fiscal 2006

Private housing investment is forecast to begin rising again, along with the

recovery in the economy. As employee compensation rises, the outlook will be for increases in both owner-built and built-for-sale housing. Overall, new housing starts in fiscal 2006 are forecast to rise to 1.185 million, slightly above the level of the previous fiscal year.

Exhibit 3: Real Private Consumption



3. Private Capital Investment

Current Conditions

In the January–March quarter, private capital investment posted a firm gain of 2.0% in real terms, but this followed consecutive declines of –0.0% in the July–September quarter and –0.2% in the October–December quarter, suggesting a loss of momentum. Corporate profitability, which was firm because of the positive impact of higher sales and cost cuts through restructuring efforts, is already showing signs of weakening. Orders for machinery and equipment (excluding orders from the shipping and electric power industries), which are a leading indicator for capital investment, were virtually level with the previous quarter during the January–March period of 2005, and the outlook is for a decline in the April–June quarter.

Outlook for Fiscal 2005

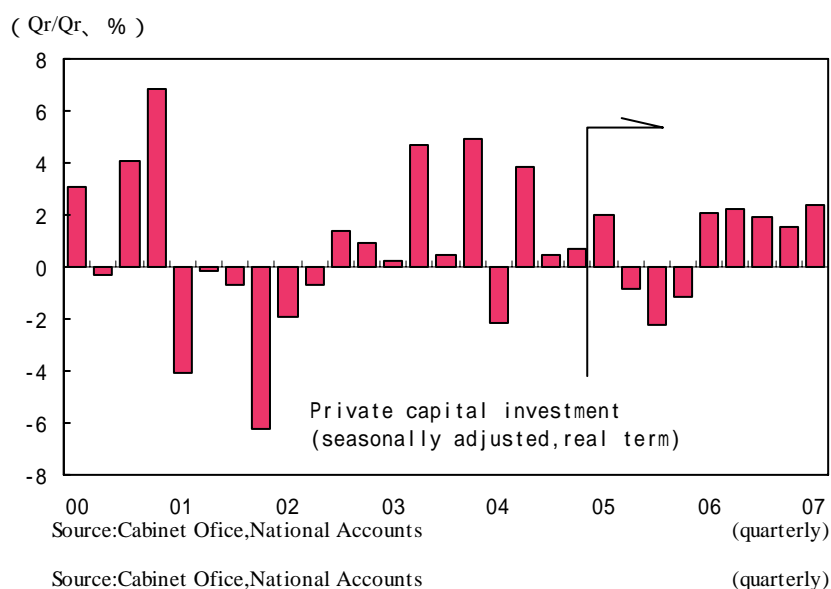
Corporate performance is expected to decline in the first half of the fiscal year as sales and profits fall because of the slowdown in export growth and

increases in costs accompanying higher international commodity prices, including the price of crude oil. Capital investment will continue to decline for the remainder of calendar 2005, because of the pause in the improvement of corporate profits. However, corporations appear to have little excess capacity and their financial positions are improving. Therefore, a sudden drop in capital investment seems unlikely, and the outlook is for a bottoming out as corporate performance recovers near the end of the fiscal year.

Outlook for Fiscal 2006

Corporate performance is expected to recover, as exports and production improve and sales and profits rise in the first half of fiscal 2006. For this reason, capital investment is expected to begin to rise. However, since corporations are likely to be selective in making investments and give careful attention to profitability, the rise in capital investment is likely to be gradual.

Exhibit 4: Private Capital Investment



4. Inventory Investment

Current Conditions

After two consecutive quarters of decline in the July–September 2004 and October–December 2004 periods, industrial production expanded 1.7%

over the previous quarter in the January–March 2005 period. However, since the beginning of fiscal 2004, production has remained virtually unchanged and is continuing to hover at about the same level. Inventories of transport equipment and general machinery are rising, but the overall level of inventories in manufacturing is low. In addition, despite previous concerns about inventories of digital-related goods, the completion of adjustments appears to be in sight.

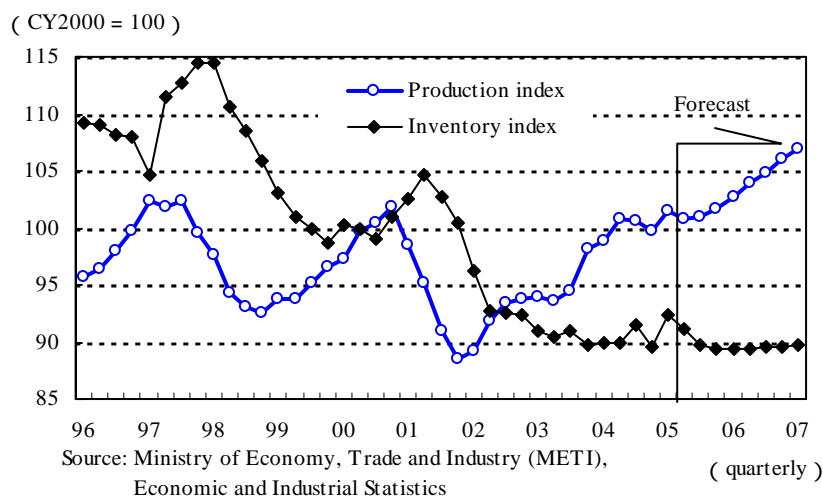
Outlook for Fiscal 2005

Production levels are expected to fluctuate during the first half of the fiscal year, as inventory adjustments proceed for digital-related goods and exports lack strong momentum. However, in the latter half of the fiscal year, production is forecast to begin to rise, supported by improvement in exports and the completion of adjustments in digital product inventories. However, the pace of increase will be low because capital investment will remain sluggish through the end of the calendar year and because corporations are expected to remain cautious about adding to inventories, even after adjustments are completed.

Outlook for Fiscal 2006

Production is expected to show smooth expansion throughout fiscal 2006, because of firm increases in exports and recovery in private capital investment. However, the appropriate level of inventories for a given level of demand is lower than in the past. Therefore, even if production expands, the increase in inventories is expected to be marginal.

Exhibit 5: Outlook for Production and Inventory



5. Government Expenditures

Current Conditions

Government public works spending is significantly below the initial budget. Public works expenditures by local governments are continuing to decline. As a result, total public investment in fiscal 2004 posted a substantial decline of 15.5%.

Government consumption expenditures, however, are remaining firm because of expansion in social benefits in kind, including medical costs and nursing expenditures for senior citizens. These costs are boosting the rate of expansion in government consumption.

Outlook for Fiscal 2005

The initial budget for public investment is 3.6% lower than for the previous year. These expenditures may rise temporarily on a quarterly basis during the first half of fiscal 2005, owing to the carryover of substantial budgetary allocations from the previous fiscal year and the use of public investment allocations included in the supplementary budget for fiscal 2004 related to disaster recovery work. In addition, although regional governments are expected to maintain fiscal stringency, the margin of decline in their public investment is likely to be somewhat less than before.

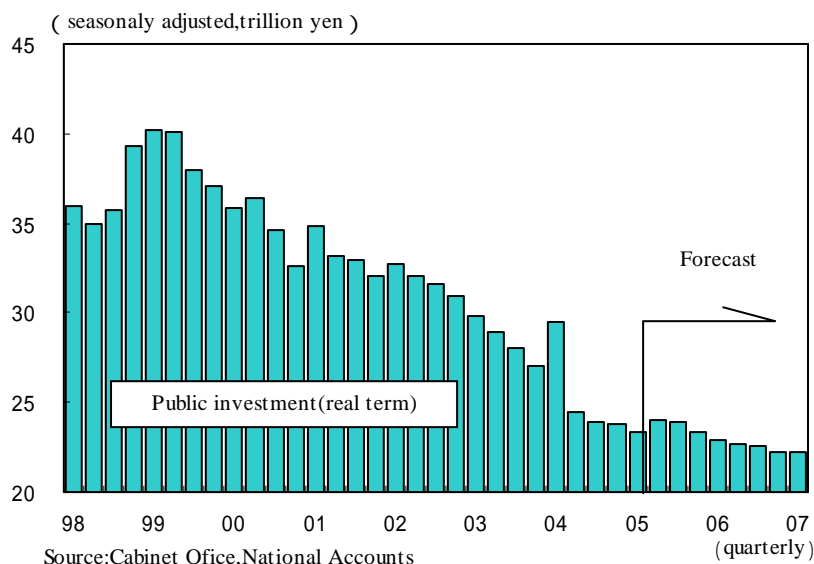
No major changes are foreseen in the medical care and nursing systems, and expenditures in kind will remain on an upward trend. As a consequence, government consumption expenditures are forecast to continue to show steady expansion.

Outlook for Fiscal 2006

We are assuming that the initial budget for public investment will be 3.0% lower in fiscal 2006 than in the previous fiscal year. The margin of decline in public investment, even by regional governments, however, is expected to shrink, and the overall drop in public investment is expected to be relatively small.

Government consumption is expected to continue on an upward trend, boosted mainly by the value of welfare goods and services provided in kind.

Exhibit 6: Outlook for Public-works Investment



6. External Demand

Current Conditions

Export growth slowed beginning in the latter half of calendar 2004, and a slight decline in exports was reported in the January–March quarter. Factors accounting for this were weakness in exports of parts, mainly to the rest of Asia—including especially China, Taiwan, and Korea—which were experiencing production adjustments in digital-related product areas, and slow growth in exports of capital goods to meet capital investment requirements in these areas. In addition, exports to the United States, especially automobiles, continue to be firm, but exports to Europe, where economic growth is weakening, are declining. On the other hand, growth of imports, principally electronic components, is slowing, but imports were up, albeit slightly, in the January–March quarter. As a result, the contribution of external demand (exports minus imports) in the January–March period was negative for the third consecutive quarter.

Outlook for Fiscal 2005

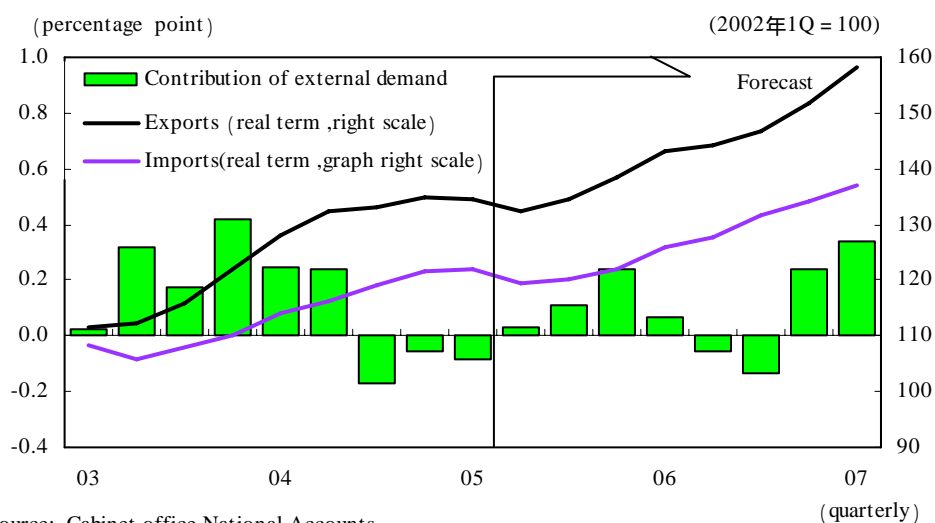
Exports may continue to be stagnant into the beginning of the fiscal year because of deceleration in overseas economies and adjustments in digital-related product areas. However, in the latter half of calendar 2005,

conditions in overseas economies will improve, and adjustments in the digital-related product area will have run their course, and, as a consequence, exports are expected to regain momentum. On the other hand, imports will also decline in the first half of calendar 2005, but, along with the recovery in production activities in Japan in the latter half, growth in imports should accelerate. The outlook is for external demand to make a continuing positive contribution.

Outlook for Fiscal 2006

Since economic recovery in Europe, Asia, and elsewhere will continue in fiscal 2006, we believe the upward trend in Japan's exports will persist. On the other hand, imports, principally from the rest of Asia, are expected to increase, along with recovery in final demand and production in Japan. Thus, in fiscal 2006, exports and imports will likely report high growth owing to a favorable virtuous circle in Japan and overseas.

Exhibit 7: Outlook for External Demand



7. Prices

Current Conditions

Domestic corporate prices have risen above the levels of the previous year, boosted by higher commodity prices, including the cost of crude oil. On the other hand, consumer prices (excluding fresh foods) are slightly below those of the previous year because of the positive impact of cost reduction

efforts in the corporate sector and decreases in public utility charges accompanying deregulation. Thus, in general, consumer prices are still on a mild deflationary trend.

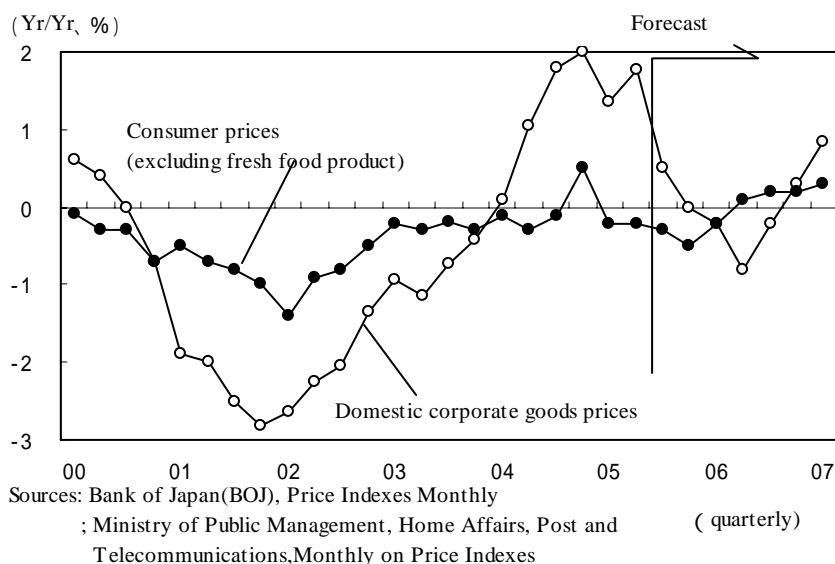
Outlook for Fiscal 2005

Domestic corporate prices are expected to drop below the previous year's levels in the latter half of the fiscal year as the increases in prices of raw materials, including crude oil, and other basic materials subside. Consumer prices are likely to show slight declines from the previous year's levels as the slowdown in the economy brings an easing of the supply/demand balance and a special factor: namely, reductions in public utility charges.

Outlook for Fiscal 2006

The tightening of the supply/demand balance accompanying the recovery in the economy and increases in commodity prices are expected to push domestic corporate prices above the previous year's levels again in the latter half of fiscal 2006. Consumer prices are likely to rise above the levels of the previous year as the effect of reductions in public utility charges runs its course and improvement in the economy leads to a tighter supply/demand balance.

Exhibit 8: Outlook for Prices

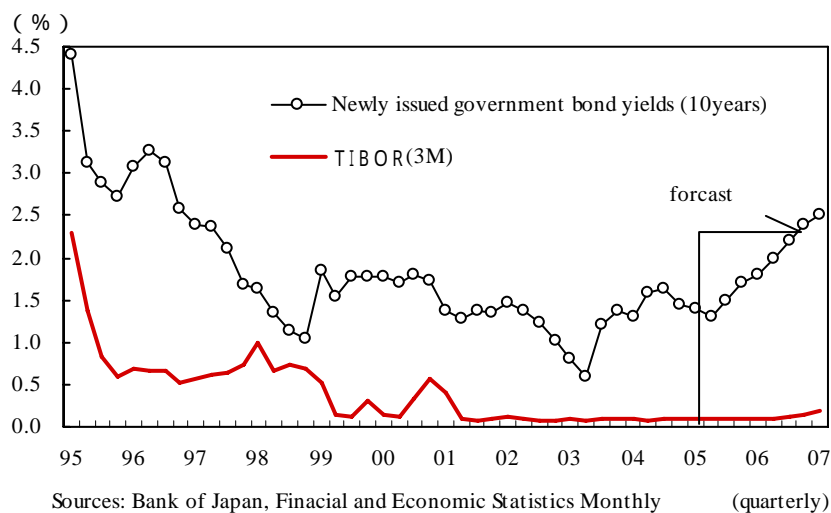


8. Interest and Foreign Exchange Rates

Interest Rates

Long-term interest rates remain at low levels because of the stagnation in stock market prices and remaining concerns about future trends in the economy. In the first half of fiscal 2005, long-term rates are forecast to remain in the range just above 1%, but, as the recovery gains momentum in the latter half of the fiscal year, long-term interest rates are expected to begin to rise. In fiscal 2006, as the consumer price index rises above the levels of the previous year and the economy continues its steady expansion, the probability will rise that the Bank of Japan will end its quantitative easing policy. This will place further upward pressures on long-term interest rates.

Exhibit 9: Outlook for Interest Rates



Foreign Exchange Rates

The U.S. dollar weakened in the latter half of calendar 2004, but, at present, the dollar is strengthening, in part because of the firmer trends in the U.S. economy in comparison with Japan and European countries. Through the latter half of fiscal 2005, due to the expected acceleration of the U.S. economy and increases in U.S. interest rates, we are forecasting a trend toward a stronger dollar and a weaker yen. Some observers have mentioned

an upward revaluation of the Chinese yuan, but we believe the market has already taken this into account, and, unless any upward revaluation of the yuan is major, this is not likely to be a factor causing the yen to strengthen. In fiscal 2006, we are looking for a stronger yen, because recovery in the Japanese economy is forecast to gain momentum, but no major fluctuations are expected.

Exhibit 10: Outlook for Yen-Dollar Exchange Rate

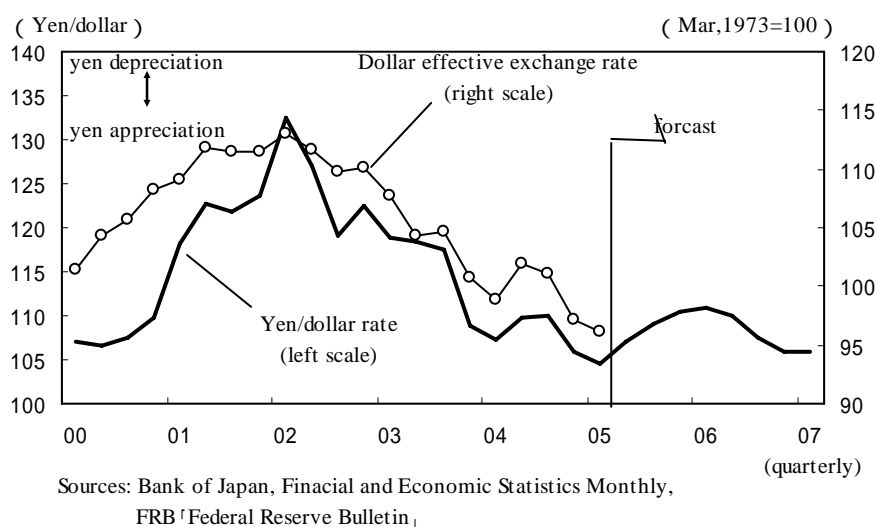


Exhibit 11: Outlook for fiscal 2005-2006 (1)

Economic Outlook for fiscal 2004-2005

	Forecast								half/half, % Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Nominal GDP	0.3	1.3	-0.1	0.3	-0.4	0.4	0.7	1.6	0.8	0.7	-0.0	1.7
Real GDP	0.7	2.5	0.3	0.5	0.5	0.5	0.9	1.5	2.0	1.9	0.9	1.9
Contribution of domestic demand (Qr/Qr,%)	0.2	1.8	0.1	0.7	0.4	0.2	0.4	0.2	1.2	1.4	0.8	1.7
Private Consumption	-0.2	1.6	0.3	0.2	1.0	0.5	0.4	0.8	0.5	1.2	1.3	1.0
Housing investment	0.6	0.1	2.0	0.2	-1.4	0.5	-0.8	2.1	-0.3	2.1	-1.1	0.5
Private capital investment	4.4	4.9	2.3	0.8	-0.6	-1.0	3.3	3.7	8.3	5.1	-0.8	4.8
Contribution of Inventory investment (Qr/Qr,%)	6.7	9.8	7.2	3.2	0.1	-1.7	2.4	7.1	0.1	0.2	-0.2	0.1
Government expenditure	-0.0	0.1	-0.1	0.4	-0.3	-0.0	0.1	-0.1	0.1	0.2	-0.2	0.1
Public investment	-1.2	0.5	-2.0	0.5	1.3	0.3	0.5	0.7	-1.4	-1.5	1.7	1.0
Government final consumption expenditure	-1.8	-1.0	-1.2	-1.7	1.8	1.6	1.0	1.1	-9.0	-15.5	-1.2	-4.6
Contribution of external demand (Qr/Qr,%)	-6.2	-0.9	-14.3	-2.5	1.8	-3.7	-2.1	-1.9	1.2	2.7	2.4	2.4
Export of goods and services	-11.1	-7.4	-15.5	-15.5	-0.9	-1.5	-5.8	-3.7	0.9	1.6	2.7	2.4
Import of goods and services	0.4	0.6	0.3	-0.2	0.0	0.3	0.0	0.3	0.8	0.5	0.1	0.2
GDP deflator (Yr/Yr,%)	2.9	9.5	6.3	1.5	-1.0	5.5	3.5	6.4	10.0	11.9	2.5	9.6
	7.1	12.7	16.3	8.0	0.5	4.4	9.1	10.1				
	-0.8	4.8	4.9	3.5	-1.6	3.4	4.7	4.5	3.1	9.3	1.8	8.8
	2.2	4.0	9.9	8.7	1.9	1.8	8.3	9.4				
	-1.0	-1.4	-1.6	-0.8	-1.0	-0.9	-0.3	-0.1	-1.2	-1.2	-0.9	-0.2

	Forecast								Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Current account balance (trillion yen)*	8.2	9.0	9.3	9.1	7.9	9.0	9.0	10.1	17.3	18.3	16.8	18.9
balance on goods (trillion yen)*	5.9	7.3	7.2	6.5	5.3	6.3	5.9	7.0	13.3	13.6	11.3	12.7
balance on service (trillion yen)*	-1.6	-2.1	-2.2	-1.8	-2.0	-1.8	-2.1	-1.8	-3.7	-4.0	-3.9	-3.9
balance on income (trillion yen)*	4.3	4.2	4.7	5.0	5.4	5.2	5.9	5.5	8.5	9.7	10.2	10.9
Industrial production (Qr/Qr, %)	0.2	4.8	2.2	-0.1	0.3	1.3	2.1	2.0	3.6	4.1	0.7	3.7
(Yr/Yr, %)	1.6	5.5	6.8	1.6	0.0	1.3	3.4	4.0				
Corporate goods prices(Yr/Yr,%)	-0.9	-1.3	1.3	2.4	2.0	1.1	-0.6	-0.1	-1.0	1.8	1.5	-0.3
Domestic corporate goods prices(Yr/Yr,%)	-0.9	-0.2	1.4	1.7	1.1	-0.1	-0.5	0.6	-0.5	1.5	0.5	0.1
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.2	0.2	-0.3	-0.4	0.2	0.3	-0.2	0.0	-0.3	0.2
excluding fresh food(Yr/Yr,%)	-0.3	0.0	-0.2	-0.3	-0.3	0.0	0.2	0.3	-0.2	-0.2	-0.2	0.3
Yen / U.S.Dollar	118.0	108.1	109.8	105.2	108.0	110.8	108.8	106.0	113.0	107.5	109.4	107.4
Newly issued government bond yields(10years, US dollar/barrel)	0.90	1.34	1.62	1.42	1.40	1.75	2.10	2.45	1.12	1.52	1.58	2.28
WTI future price(near month contract)	29.6	33.2	41.1	49.1	50.5	47.0	47.5	49.5	31.4	45.1	48.8	48.5
Dubai crude oil prices (US dollar/barrel)	25.5	28.5	34.7	38.5	44.5	41.0	41.5	43.5	27.0	36.6	42.8	42.5
Spring wage increases *	-	-	-	-	-	-	-	-	1.63	1.67	1.67	1.70

Notes:
* 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)

Exhibit 12: Outlook for fiscal 2005-2006 (2)

Economic Outlook for fiscal 2004-2005

【Exports and Imports】

	Forecast								Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Exports (yen basis)	4.9	7.7	12.9	7.5	0.4	4.8	8.2	8.6	6.3	10.1	2.7	8.4
Volume	2.5	10.1	12.9	1.1	-3.8	1.5	7.6	8.9	6.3	6.8	-1.2	8.2
Imports (yen basis)	6.5	2.0	11.1	13.5	7.9	8.8	7.5	7.3	4.2	12.3	8.4	7.4
Volume	6.6	8.0	6.6	4.3	1.3	2.7	7.9	9.4	7.3	5.4	2.0	8.7
Exports surplus (trillion yen)	5.0	6.2	6.1	5.3	4.3	4.5	4.8	5.3	11.2	11.4	8.8	10.1

【Income and Employment】

	Forecast								Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Cash earnings of employees* (per capita)	-0.5	-1.5	-0.7	0.0	0.1	-0.3	0.1	0.6	-1.0	-0.4	-0.1	0.4
Regular compensation	-0.6	-0.9	-0.9	-0.5	-0.2	-0.3	-0.2	0.0	-0.7	-0.7	-0.2	-0.1
Overtime compensation	2.6	6.1	6.2	1.0	0.2	1.3	2.7	3.3	4.4	3.5	0.8	3.0
Number of employees	0.1	0.3	0.5	0.0	-0.3	-0.2	0.3	0.5	0.2	0.3	-0.2	0.4
Compensation of employees*	-0.1	-1.8	-0.3	0.0	-0.1	-0.4	0.0	0.0	-1.0	-0.1	-0.3	-74.8
Unemployment rate	5.3	5.0	4.7	4.6	4.6	4.5	4.3	4.2	5.1	4.6	4.5	4.5

【New Housing Starts】

	Forecast								ten thousand units(annualized) Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
New housing starts (*)	115.9	118.5	119.3	119.4	118.5	118.2	118.4	119.1	117.4	119.3	118.2	118.5
(change from the previous year)	0.9	4.2	2.6	0.7	-0.9	-0.9	-0.2	0.8	2.5	1.2	-0.9	0.3
Owner-built housing	38.5	35.9	38.1	35.2	36.2	35.9	36.2	36.3	37.3	37.1	36.0	36.2
Rental housing	4.2	-0.5	-0.3	-3.1	-4.7	1.5	0.3	0.7	2.1	-0.6	-2.0	0.5
Built-for-sale housing	44.9	47.3	45.5	48.2	46.4	46.4	46.1	46.4	45.9	46.0	46.4	46.2
housing	-2.2	4.4	1.1	2.7	1.8	-3.3	-0.8	0.2	0.9	0.2	-0.8	-0.3
housing	32.0	34.8	35.0	34.8	35.3	34.7	35.4	35.2	33.4	34.8	35.0	35.3
housing	1.6	9.6	8.5	0.9	0.4	0.4	0.1	1.5	5.6	4.3	0.4	0.8

* Seasonally adjusted annual rate

Exhibit 13: Outlook for calendar 2005-2006 (1)

Economic Outlook for calendar 2004-2005

	half/half, %											
	Yr/Yr, %											
					Forecast				CY2003	CY2004	CY2005	CY2006
	CY2003		CY2004		CY2005		CY2006		(actual)	(forecast)	(forecast)	(forecast)
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Nominal GDP	-0.6	0.9	1.2	-0.4	0.4	-0.5	0.8	0.9	-0.1	1.5	-0.0	1.1
	-0.3	0.1	2.3	0.7	-0.0	-0.1	0.4	1.7				
Real GDP	-0.0	1.6	2.0	-0.4	1.3	-0.1	0.9	1.0	1.4	2.7	1.0	1.4
	1.3	1.4	3.8	1.6	1.0	1.1	0.9	1.8				
Contribution of domestic demand	-0.3	1.0	1.4	-0.3	1.4	-0.3	0.6	1.0	0.7	1.9	1.1	1.1
Private consumption	-0.5	0.7	1.3	-0.2	1.1	0.6	0.3	0.7	0.2	1.5	1.3	0.9
	0.4	0.1	2.0	1.0	0.9	1.7	0.9	0.9				
Housing investment	-1.3	1.5	0.7	1.6	-1.1	-0.9	0.6	0.0	-1.1	2.2	-0.8	0.1
	-2.6	0.3	2.0	2.3	0.4	-1.9	-0.3	0.6				
Private capital investment	3.1	5.3	2.3	1.7	1.6	-2.9	2.5	2.9	6.3	6.0	1.1	2.3
	4.3	8.3	8.2	3.9	3.5	-1.4	-0.6	5.5				
Contribution of inventory investment	-0.2	0.1	0.2	-0.1	0.3	-0.4	0.2	0.7	0.2	0.2	0.0	0.0
Government expenditure	0.2	0.7	1.8	1.0	1.3	1.2	1.2	1.2	-1.8	-0.4	0.4	1.1
	-1.1	-2.6	0.1	-0.9	-0.9	1.8	1.4	0.8				
Public investment	-5.9	-6.3	-2.1	-11.4	-0.6	-0.3	-3.4	-1.7	-10.6	-10.4	-7.1	-4.1
	-8.9	-12.1	-7.6	-13.2	-12.8	-1.1	-3.0	-5.0				
Government final consumption expenditure	0.2	0.7	1.8	1.0	1.3	1.2	1.2	1.2	1.2	2.7	2.4	2.4
	1.5	0.9	2.6	2.8	2.3	2.6	2.4	2.4				
Contribution of external demand	0.3	0.5	0.6	-0.1	-0.1	0.2	-0.4	2.1	0.6	0.8	-0.0	0.3
Export of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.3	9.1	14.4	2.2	8.5
	-6.0	7.3	9.1	14.4	2.2	8.5	0.0	0.0				
Import of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.8	3.8	8.9	2.7	7.4
	-0.7	1.3	3.8	8.9	2.7	7.4	0.0	0.0				
GDP deflator	-1.5	-0.8	-1.0	-1.1	-0.5	-0.1	-0.3	-0.1	-1.4	-1.2	-1.1	-0.3

	Yr/Yr, %											
	Forecast											
					CY2005				CY2006			
	CY2003		CY2004		CY2005		CY2006		(actual)	(actual)	(forecast)	(forecast)
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Current account balance (trillion yen)	7.3	8.5	9.6	9.0	8.6	7.9	9.3	9.1	5.4	5.2	5.2	5.9
balance on goods (trillion yen)	5.3	6.9	7.3	7.0	5.6	5.7	5.9	6.3	7.9	8.8	8.8	9.1
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.2	-1.8	-2.1	-1.8	-2.1	5.5	5.8	5.8	6.1
balance on income (trillion yen)	4.2	4.1	4.7	4.6	5.3	4.8	5.7	5.3	-2.0	-1.8	-1.8	-2.1
Industrial production	0.2	2.7	3.6	0.4	0.9	0.2	2.0	2.0	0.0	1.3	1.3	3.4
	3.9	2.5	7.0	4.1	0.6	1.1	1.8	4.1				
Corporate goods prices	-1.5	0.0	0.0	0.0	0.0	0.0	-2.1	-1.7	2.0	1.1	1.1	-0.6
Domestic corporate goods prices	-1.0	0.0	0.0	0.0	0.0	0.0	-2.4	-1.7	1.1	-0.1	-0.1	-0.5
Consumer prices	-0.3	0.0	0.0	0.0	0.0	0.0	-1.2	-0.7	-0.3	-0.4	-0.4	0.2
excluding freshfood	-0.6	0.0	0.0	0.0	0.0	0.0	-0.9	-0.9	-0.3	0.0	0.0	0.2
Yen/U.S.Dollar	118.6	113.2	108.5	107.9	105.7	109.8	110.5	106.8	115.9	108.2	107.7	108.6
Newly issued government bond yields (10years)	0.7	1.3	1.4	1.5	1.3	1.6	1.9	2.3	1.0	1.5	1.5	2.1
Dubai crude oil prices (US dollar/barrel)	26.5	27.1	31.3	35.9	43.2	43.0	40.5	42.5	26.8	33.6	43.1	41.5
WTI future price(near month contract)	31.4	30.7	36.8	46.1	50.5	49.0	46.5	48.5	31.0	41.4	49.8	47.5
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.2	5.8	4.1	3.6	2.9	3.4	3.8	3.7	3.0	4.4	3.2	3.7

Exhibit 14: Outlook for calendar 2005-2006 (2)

【Exports and Imports】

	Forecast										Yr/Yr, %	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Exports (yen basis)	3.8	5.5	12.5	11.8	2.4	1.4	7.8	8.0	4.7	12.1	1.9	7.9
Volume	5.0	4.9	13.5	7.9	-3.2	-2.0	5.5	8.5	4.9	10.6	-2.6	7.1
Imports (yen basis)	7.4	2.9	6.8	15.1	9.6	7.3	8.9	7.0	5.1	10.9	8.4	7.9
Volume	8.3	6.1	7.8	6.2	2.4	0.7	5.7	9.4	7.1	7.0	1.5	7.6
Exports surplus (trillion yen)	4.3	5.8	6.2	5.8	4.6	4.4	4.7	5.0	10.2	12.0	9.0	9.7

【Income and Employment】

	Forecast										Yr/Yr, %	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Cash earnings of employees (per capita)	-0.2	-1.5	-1.3	-0.2	0.1	-0.2	-0.1	0.5	-0.9	-0.7	0.0	0.2
Regular compensation*	-0.6	-0.9	-0.8	-0.8	-0.3	-0.3	-0.2	0.0	-0.7	-0.8	-0.3	-0.1
Overtime compensation	1.8	4.7	7.0	3.8	-0.1	1.0	1.7	3.3	3.2	5.4	0.4	2.5
Number of employees	0.1	0.0	0.5	0.2	-0.1	-0.3	0.0	0.4	0.1	0.4	-0.2	0.2
Compensation of employees*	0.0	-0.8	-1.7	0.0	-0.2	-0.4	-0.1	1.0	-0.5	-0.8	-0.3	0.5
Unemployment rate	5.4	5.1	4.8	4.7	4.6	4.6	4.4	4.2	5.2	4.7	4.6	4.3

Notes:

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

【New Housing Starts】

	Forecast										ten thousand units(annualized) Yr/Yr, %	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Number of new housing starts	117.2	114.7	118.0	119.9	120.1	118.2	118.4	118.8	116.0	118.9	118.9	118.4
(change from the previous year)	-0.1	1.4	0.7	4.5	1.8	-1.4	-1.4	0.6	0.8	2.5	0.0	-0.4
Owner-built housing	37.5	36.8	36.5	37.2	35.8	36.0	36.1	36.3	37.3	37.0	35.9	36.1
Rental housing	1.1	0.8	-2.8	1.1	-2.0	-3.4	0.9	0.9	1.3	-0.8	-3.0	0.7
Built-for-sale housing	46.9	43.6	47.1	46.5	48.1	46.3	46.3	46.2	45.2	46.5	47.0	46.2
Rental housing	5.3	-3.8	0.5	6.6	2.0	-0.3	-3.7	-0.3	0.3	3.0	1.0	-1.7
Built-for-sale housing	32.0	33.3	34.3	34.9	35.7	34.7	35.3	35.2	32.7	34.6	35.2	35.3
Rental housing	-5.1	7.0	7.3	4.7	4.1	-0.5	-1.1	1.3	0.8	5.8	1.8	0.2

* Seasonally adjusted annual rate

Exhibit 15: Outlook for 2005-2006 (Quarterly) (1)

Economic Outlook (Quarterly)

	Forecast																Qr/Qr, %	Yr/Yr, %
	FY2003				FY2004				FY2005				FY2006					
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3		
Nominal GDP	0.7	0.2	0.6	1.2	-0.6	-0.2	0.1	0.6	-0.4	-0.4	0.4	0.5	0.3	0.2	1.1	0.7		
	-0.0	0.0	0.2	3.2	1.3	1.3	0.3	0.0	-0.0	-0.2	0.0	-0.0	0.8	1.4	2.0	2.5		
Real GDP	0.6	0.5	1.5	1.4	-0.2	-0.3	0.0	1.3	-0.1	-0.1	0.2	0.6	0.4	0.4	0.8	1.0		
	0.9	1.1	1.7	4.5	3.2	2.6	0.6	1.2	0.8	1.0	1.1	0.7	1.2	1.6	2.0	2.8		
Contribution of domestic demand(Qr/Qr,%)	0.3	0.4	1.1	1.1	-0.4	-0.1	0.1	1.4	-0.1	-0.2	0.0	0.5	0.4	0.5	0.6	0.7		
Private Consumption	-0.3	0.2	1.1	0.7	0.0	-0.1	-0.4	1.2	0.2	0.4	0.2	0.1	0.2	0.3	0.5	0.3		
	0.0	-0.6	0.8	1.9	2.1	1.8	0.1	0.8	0.9	1.5	2.0	0.9	0.9	0.8	1.1	1.3		
Housing investment	0.0	2.1	-1.3	0.7	1.3	0.6	0.6	-1.4	-0.0	-1.4	1.1	0.3	-0.6	-0.7	2.0	0.9		
	-3.2	0.5	0.1	1.5	2.6	1.5	3.2	1.1	-0.3	-2.1	-1.7	-0.1	-0.6	0.2	1.0	1.6		
Private capital investment	4.5	-0.1	6.3	-2.5	3.6	-0.0	-0.2	2.0	-0.5	-2.1	-1.2	2.5	1.3	1.5	1.5	2.8		
	7.8	5.7	11.0	8.8	7.5	7.0	0.7	5.3	1.4	-1.0	-1.9	-1.5	0.5	4.1	7.0	7.3		
Contribution of Inventory investment(Qr/Qr,%)	0.0	0.2	-0.2	0.4	-0.3	-0.0	0.2	0.4	-0.4	-0.2	0.0	0.1	0.1	0.0	-0.1	-0.0		
Government expenditure	-0.9	-0.2	-1.0	3.2	-3.4	-0.1	0.4	0.2	0.9	0.5	0.0	0.1	0.3	0.4	0.3	0.3		
	-1.5	-2.1	-3.0	1.0	-0.9	-1.4	-0.5	-3.0	1.5	2.1	1.5	1.6	1.1	0.8	0.9	1.3		
Public investment	-3.2	-3.0	-3.7	9.0	-17.0	-2.1	-0.6	-1.7	2.9	-0.4	-2.7	-1.6	-1.1	-0.5	-1.4	-0.4		
	-10.5	-11.6	-12.4	-1.8	-16.0	-15.1	-11.7	-19.3	-1.8	-0.1	-1.8	-1.1	-5.7	-5.8	-4.4	-3.0		
Government final consumption expenditure	-0.3	0.9	0.1	1.4	0.7	0.3	0.6	0.8	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.5		
	0.8	0.9	0.9	2.1	3.0	2.5	3.1	2.5	2.2	2.6	2.6	2.4	2.4	2.4	2.4	2.4		
Contribution of external demand(Qr/Qr,%)	0.3	0.2	0.4	0.2	0.2	-0.2	-0.1	-0.1	0.0	0.1	0.2	0.1	-0.1	-0.1	0.2	0.3		
Export of goods and services	0.6	3.4	5.0	5.1	3.4	0.5	1.4	-0.2	-1.7	1.5	3.0	3.4	0.8	1.8	3.2	4.4		
	5.5	8.7	10.7	14.7	18.0	14.7	10.8	5.2	0.0	1.0	2.5	6.3	9.0	9.3	9.6	10.6		
Import of goods and services	-2.5	2.2	1.8	3.7	1.9	2.3	2.1	0.5	-2.2	0.8	1.3	3.3	1.4	3.1	1.7	2.4		
	2.5	1.9	2.8	5.3	9.7	10.2	10.4	7.0	2.7	1.1	0.4	3.2	7.0	9.5	9.9	8.9		
GDP deflator(Yr/Yr,%)	-0.9	-1.0	-1.5	-1.2	-1.8	-1.3	-0.4	-1.2	-0.8	-1.2	-1.1	-0.7	-0.3	-0.2	-0.0	-0.2		

	Forecast																Yr/Yr, %
	FY2003				FY2004				FY2005				FY2006				
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	
Current account balance (trillion yen)*	4.0	4.3	4.3	4.7	4.7	4.7	4.6	4.6	3.9	4.0	4.2	4.8	4.5	4.6	4.8	5.3	
balance on goods (trillion yen)*	2.8	3.0	3.6	3.7	3.7	3.5	3.2	3.3	2.6	2.7	2.8	3.5	3.2	2.7	3.1	3.9	
balance on service (trillion yen)*	-0.7	-0.9	-1.1	-1.0	-1.2	-1.0	-0.9	-0.9	-1.1	-1.0	-0.8	-1.0	-1.1	-1.0	-0.8	-1.0	
balance on income (trillion yen)*	2.0	2.3	2.0	2.1	2.3	2.4	2.5	2.5	2.7	2.6	2.5	2.8	3.1	2.9	2.7	2.8	
Industrial production (Qr/Qr, %)	-0.4	1.0	3.9	0.7	1.9	-0.1	-0.9	1.7	-0.7	0.2	0.6	1.1	1.1	0.9	1.1	0.9	
(Yr/Yr, %)	2.2	1.0	4.1	6.9	7.2	6.4	1.8	1.4	-0.2	0.3	2.0	0.6	3.0	3.8	4.3	3.8	
Corporate goods prices(Yr/Yr,%)	-1.4	-0.3	-1.9	-0.8	0.7	1.9	3.0	1.9	2.5	1.4	1.3	0.9	-0.5	-0.6	-0.4	0.3	
Domestic corporate goods prices(Yr/Yr,%)	-1.1	-0.7	-0.4	0.1	1.1	1.8	2.0	1.4	1.8	0.5		-0.2	-0.8	-0.2	0.3	0.8	
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1	0.5	-0.2	-0.2	-0.3	-0.5	-0.2	0.1	0.2	0.2	0.3	
excluding fresh food(Yr/Yr,%)	-0.4	-0.1	0.0	0.0	-0.2	-0.2	-0.2	-0.4	-0.3	-0.3	-0.1	0.1	0.2	0.2	0.2	0.3	
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	109.7	109.9	105.9	104.5	107.0	109.0	110.5	111.0	110.0	107.5	106.0	106.0	
Newly issued government bond yields (10years)	0.59	1.20	1.38	1.31	1.59	1.65	1.45	1.40	1.30	1.50	1.70	1.80	2.00	2.20	2.40	2.50	
WTI future price(near month contract)	28.9	30.2	31.2	35.3	38.3	43.9	48.3	50.0	51.0	50.0	48.0	46.0	47.0	48.0	49.0	50.0	
Dubai crude oil prices (US dollar/barrel)	24.5	26.6	27.6	29.4	33.2	36.3	35.6	41.3	45.0	44.0	42.0	40.0	41.0	42.0	43.0	44.0	

*seasonally adjusted

Exhibit 16: Outlook for 2005-2006 (Quarterly) (2)

Economic Outlook (Quarterly)

【Exports and Imports】

	Forecast																Yr/Yr. %
	FY2003				FY2004				FY2005				FY2006				
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	
Exports (yen basis)	2.7	7.1	4.0	11.7	13.4	12.3	11.2	3.8	1.0	-0.1	2.9	7.0	8.6	7.9	8.2	9.0	
Volume	2.6	2.3	7.3	13.1	13.9	12.0	4.1	-1.9	-4.4	-3.3	-0.8	4.0	7.1	8.1	9.0	8.7	
Imports (yen basis)	6.4	6.6	-0.5	4.5	9.0	13.1	17.0	10.0	9.2	6.6	7.9	9.8	8.0	7.0	7.0	7.5	
Volume	8.4	5.0	7.1	9.0	6.6	6.6	5.8	2.7	2.0	0.6	0.7	4.7	6.8	9.0	9.8	9.0	
Exports surplus (trillion yen)	2.4	2.7	3.2	3.0	3.2	2.9	2.9	2.4	2.2	2.1	2.3	2.2	2.5	2.3	2.7	2.6	

【Income and Employment】

	Forecast																Yr/Yr. %
	FY2003				FY2004				FY2005				FY2006				
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	
Cash earnings of employees* (per capita)	0.6	-1.7	-1.3	-1.7	-1.0	-0.4	0.0	0.0	0.2	-0.1	-0.3	-0.3	0.0	0.2	0.8	0.3	
Regular compensation	-0.4	-0.7	-0.9	-0.7	-0.9	-0.8	-0.7	-0.3	-0.2	-0.2	-0.3	-0.3	-0.2	-0.1	0.0	0.1	
Overtime compensation	2.8	4.2	3.7	7.1	7.0	5.5	2.3	-0.3	0.0	0.5	1.5	1.0	2.5	3.0	3.5	3.0	
Number of employees	0.3	-0.2	0.3	0.4	0.7	0.4	0.1	0.0	-0.2	-0.3	-0.3	-0.1	0.1	0.4	0.5	0.5	
Compensation of employees*	1.0	-1.3	-0.4	-3.6	-0.1	-0.5	0.4	-0.5	0.0	-0.3	-0.5	-0.2	0.0	0.5	1.5	1.0	
Unemployment rate	5.4	5.1	5.1	4.9	4.6	4.8	4.6	4.6	4.6	4.6	4.5	4.4	4.3	4.3	4.2	4.2	

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

【New Housing Starts】

	Forecast																ten thousand units(annualized) Yr/Yr. %
	FY2003				FY2004				FY2005				FY2006				
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	
New housing starts (*)	119.8	112.0	117.5	119.6	116.4	122.3	117.5	121.4	118.7	118.3	118.1	118.4	118.3	118.5	119.2	119.1	
(change from the previous year)	2.2	-0.6	3.2	5.4	-3.7	9.4	-0.1	1.5	1.5	-3.2	0.4	-2.5	-0.6	0.2	0.9	0.6	
Owner-built housing	39.2	37.9	35.7	36.1	36.9	39.3	35.1	35.3	36.2	36.1	35.8	36.0	36.1	36.2	36.3	36.3	
housing	3.6	4.9	-1.3	0.5	-6.0	5.9	-2.8	-3.3	-2.0	-7.3	1.5	1.5	-0.4	1.0	1.0	0.4	
Rental housing	47.7	42.2	45.0	49.5	44.8	46.3	46.7	49.7	46.4	46.4	46.3	46.4	46.1	46.1	46.4	46.4	
housing	2.0	-6.5	2.0	7.4	-6.4	9.4	3.0	2.3	3.5	0.1	-1.3	-5.7	-0.8	-0.8	0.0	0.4	
Built-for-sale housing	32.5	31.4	35.3	34.3	34.2	35.7	34.1	35.5	35.8	34.7	34.7	34.8	35.8	35.0	35.3	35.0	
housing	0.8	2.5	9.8	9.4	3.1	14.1	-2.1	4.2	3.6	-2.6	2.4	-1.7	-0.6	0.8	2.2	0.8	

* Seasonally adjusted annual rate