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Forecast for the Japanese Economy in Fiscal 2006 and 2007

—Growth of about 2% in the Post-Deflationary Era—



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1. Forecast for the Japanese Economy in Fiscal 2006 and 2007

—Growth of about 2% in the Post-Deflationary Era

(1) Current State of the Economy

The Japanese economy is continuing to recover. The real GDP expanded 1.3% over the previous quarter during the October to December period (5.4% at an annualized rate), a high rate of growth that was above most expectations. Compared with the same quarter of the previous fiscal year, the margin of decline in the GDP deflator expanded for the second consecutive quarter, to -1.6%, reflecting increases in import prices. The nominal growth rate over the previous quarter became positive again and amounted to 0.8% (3.4% at an annualized rate).

By principal component of GDP, domestic private-sector demand, namely personal consumption, private capital investment, and private residential investment, continued to rise, thus remaining on the upward trend evident in the July–September quarter, showing that well-balanced growth is continuing. Construction work to repair damages following natural disasters was largely completed, and government investment spending declined for the first time in three quarters, leading to a drop in public-sector demand for the quarter. However, the contribution of total domestic demand expanded from the previous quarter, to +0.7 percentage point. In addition, the contribution of the external sector rose markedly, to +0.6 percentage point, as the increase in exports continued, but imports decreased, thus boosting the overall growth rate.

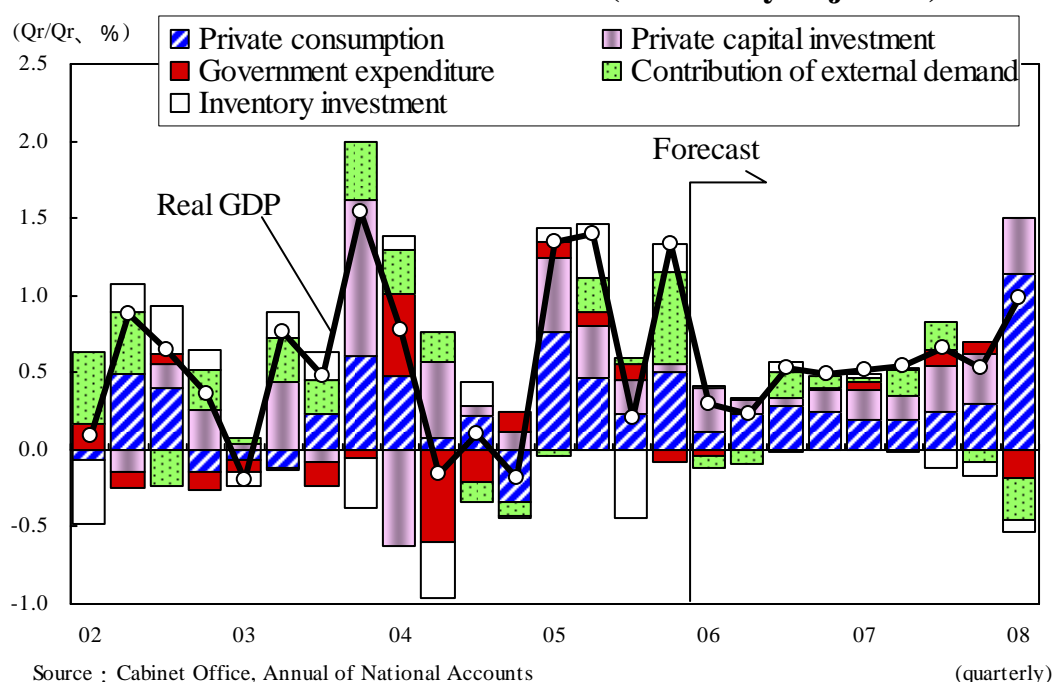
Along with growth in the world economy, Japan's exports are rising. Domestic industrial production escaped from the no-growth zone and is continuing to increase. Along with the improvement in corporate profitability, private capital investment is continuing on an upward trend, and, in parallel with the rallying of employment and personal incomes, a gradual rising trend in personal consumption is continuing.

(2) Outlook for the Economy in Fiscal 2006 and Fiscal 2007

This recovery mechanism is expected to continue for the time being. In fiscal 2006, although growth in corporate profits will decrease and the rate of expansion in private capital investment will be slower than in the previous fiscal year, firm recovery in consumption will continue, and the economy will remain on an expansionary trend. While real GDP growth in fiscal 2006 will be lower than the estimate of 3.2% for fiscal 2005, it is forecast to grow 2.0%, thus marking the fifth consecutive year of positive growth. Moreover, the margin of decline in the GDP deflator will shrink substantially, and expansion in nominal terms is expected to be 1.7%, the fourth consecutive year of positive growth.

Even in fiscal 2007, we are looking for the economy to remain on a real growth path of about 2% and are forecasting expansion of 2.3% for the fiscal year. The economy may slow temporarily, but it is unlikely that it will overheat, and we believe it will be difficult for such factors as increases in inventories, expansion in excess capacity, or rising inflation to emerge and put an end to the recovery trend. In addition, we are assuming that the consumption tax will be increased (from 5% to 7%) in April 2008. This is likely to bring a surge, mainly in private consumption, in advance of the tax increase and will be a factor pushing the growth rate upward.

Exhibit 1 : Real GDP Growth (seasonally adjusted)



(3) Growth Potential in the Post-Deflationary Era

Views that the length of the current recovery, which began in January 2002, may exceed the length of the so-called Izanagi boom, which lasted 57 months and thus far has been the longest in the postwar period, are looking more and more likely to be accurate. Interest among the general public is shifting from the issue of whether the recovery will be followed by a recession to Japan's growth potential, or just how much growth will be possible on average going forward. Calendar 2006 is finally coming to be known as the year when Japan escaped from deflation, but people are now wondering how much growth potential Japan will have in the post-deflationary era.

Demand-Pull Inflation Unlikely

Although observers are talking about the "post-deflationary" era, the rate of increase in consumer prices has just barely exceeded zero, and, rather than seeing a rekindling of inflation, Japan is continuing to experience disinflation. On the other hand, reflecting the rise in prices of crude oil and other raw materials, corporate prices of domestic companies near the production stage have been on the increase for about two years now. The rate of increase in these prices was 2.7% year on year in January 2006. This is the highest rate of increase, excluding the period following the introduction of the consumption tax, since March 1981 at the time of the second oil crisis. Inflationary conditions are, therefore, continuing according to this measure.

In other words, companies are experiencing difficulties in passing on price increases at the production stages to the consumer level. Going forward, there is a possibility that companies will be able to pass on these increases in their prices to some extent. In addition, as a result of the bottoming out of wages, personnel costs may rise, leading to higher prices for services. However, under present economic conditions, it is unlikely that strong demand from consumers will boost prices. We expect that the rate of increase in consumer prices in fiscal 2006 and fiscal 2007 will fall at most somewhere around 0.5%.

Negative Effects of Japan's Bubble on Companies Eliminated, but the Lessons Remain

We cannot say that as the economy escapes from deflation that its recovery momentum will increase. Movement into the post-deflationary era will bring both positive and negative structural factors into play in the economy. First, positive factors will include the full purging, at least from the corporate sector, of the negative “assets,” or lingering effects, of Japan’s bubble economy. Adjustments in corporate balance sheets to reduce excess capacity and liabilities as well as reductions in employment and wages aimed at improving profitability have made it difficult for companies to increase capital investment and for households to increase their consumption. However, going forward, we expect that both capital investment and consumption will increase and support the economic recovery.

However, the lessons of the collapse of Japan’s bubble economy are still well remembered, and companies are likely to be cautious about expanding capital investment and increasing wages and employment. Unless corporate managers begin to have rising expectations of economic growth, we believe that growth in capital investment and personal consumption will be only gradual.

Households Will Continue to Adjust Their Cash Flows

Negative factors for the economy include the fact that the negative assets of Japan’s bubble economy are continuing to have an impact on the household sector. After the collapse of the bubble economy, corporations were confronted with the necessity of making adjustments in their balance sheets. Households, however, were obliged to make adjustments in their cash flows. On the one hand, repayments of housing loans borrowed to finance homes that were purchased at high prices increased household payments, while the weak growth in wages and the drop in interest income, because of the decline in interest rates, restrained household incomes. To make adjustments to this gap between cash in and cash out, households reduced their consumption and make withdrawals from their savings.

Households will have to continue to make such adjustments until their housing loans are fully repaid. In addition, if their savings plans for post-retirement years have been delayed, it is possible that their future consumption may be restrained. If cash inflows expand, because of improvements in employment and income conditions, this should lead to expansion in consumption as consumer psychology improves. However, a portion of the increase in incomes may be directed toward restoring the level of savings to make up for the amounts households drew down in previous years.

Trends toward Smaller Families and Demographic Aging Will Restrain Growth

Other factors that may have a negative impact on the economy are the trends toward smaller families and demographic aging of the population. However, these are not new developments because birthrates, rates of increase in the population, and household formation rates reached a peak in Japan in the first half of the 1970s. Problems that these trends will bring are the shortage of labor that the retirement of the baby boom generation will create and the lack of young workers. Attention is focused on the supply side issues that the decline in labor input will have in reducing the growth potential of the Japanese economy. However, the volume of labor input is already on the decline, but, thus far, the impact of this trend has been offset by increases in labor productivity.

Despite this offsetting effect of rising labor productivity, the impact of the trends toward smaller families and aging are gradually having an adverse effect on demand and may have a negative impact on the economy. If we compare consumption expenditures for categories of households grouped by the age of the head of the household, those with the highest expenditures are those where the household head is between 45 and 55 years of age, the period when educational costs increase. Since the baby boomer generation has already moved into the 55-to-60 age bracket, the number of households where the head is between 45 and 55 years of age is continuing to shrink. When the baby boomers move into the senior citizen age-groups, the

so-called “silver,” or gray, market should expand, but this will not mean an overall increase in Japan’s consumer spending.

As the consideration of the above factors suggests, Japan has escaped from the extremely low growth period that followed the collapse of its bubble economy and is experiencing continued moderate growth. However, we believe it may be difficult for Japan to sustain high rates of growth in excess of 3% that is expected for fiscal 2005.

(4) Risk Factors

As the previously mentioned considerations suggest, the Japanese economy is likely to continue stable, but moderate, growth, but there are a number of risk factors that may interfere with this outlook (our main scenario). These are as follows.

Trends in the World Economy (Upside and Downside Risks)

Although the world economy may experience a temporary slowdown, we assume it will continue to recover. Depending on whether growth in the global economy is above or below the assumed rates of expansion, the outlook for growth in the Japanese economy may be subject to upside or downside risk. If China and other newly emerging economies experience higher growth than expected and expansion in the U.S. economy continues without experiencing a slowdown, this will tend to push Japan’s growth rates upward.

Among downside risks that may lead to lower growth in Japan are the possible lack of sustainability of the housing bubble in the United States, which has been caused by low interest rates, and the U.S. current account deficit. If these conditions become unsustainable, rapid adjustments may be necessary. Although we believe the likelihood that such adjustments will occur is small, if they should be necessary, they may cause a hard landing in the U.S. economy and could have a major negative impact on Japan’s economy.

Rising Oil Prices (Downside Risk for the Economy)

The price of crude oil (on a WTI basis) rose temporarily to \$70 a barrel but subsequently has remained generally in the relatively high \$60-to-\$70 a barrel range. Going forward, our outlook is not for a continuation of further major increases that might move oil prices to ever-higher levels, but for oil prices to fluctuate in a relatively high range. If, contrary to this outlook, crude oil prices continue to show further substantial increases, corporate profitability may deteriorate rapidly. This may weaken capital investment and other activities of the corporate sector and increase the risk of a downturn in the economy.

Higher Interest Rates (Downside Risk for the Economy)

Long-term interest rates are forecast to rise along with the economic recovery. Moreover, if short-term interest rates rise above zero after the removal of the policy of monetary relaxation, this will have an effect on long-term interest rates. There will be no problems with increases in interest rates that are appropriate for the condition of the economy, but, if long-term rates rise above what is appropriate for the economy, because of the removal of the policy of monetary relaxation and zero interest rates, the risk will remain that these circumstances will have a negative effect on the economy.

In addition, the government fiscal deficit continues to be a factor that may potentially bring higher interest rates. If this occurs, there is concern that long-term interest rates may rise substantially and bring a downturn in the economy. However, growth in demand for funds from the private sector is still moderate; therefore, we believe the possibility of a shortage of funds needed by the private sector leading to a sharp rise in interest rates is small.

Increase in the Burden of Payments to the Public Sector (Downside Risk for the Economy)

The phasing down or elimination of previous cuts in tax rates and the increases in various social insurance charges are factors that will reduce disposable income, principally of worker households. However, the funds taken in by the government will be used for fiscal expenditures and social welfare payments and thus lead to a redistribution of income. Accordingly, an increase in the burden of payments to the public sector will not necessarily have a negative effect on the economy. However, increases in taxes and social insurance premiums may have a negative effect on the consumer psychology of those who are obliged to pay more to the government from their incomes. Thus, there is a possibility that this higher burden may have a negative impact on the economy.

2. Forecasts from the Perspective of Economic Sectors

(1) Corporate Sector

- Companies have almost completed the disposal of the negative assets left over from the time of Japan's economic bubble, and their financial positions and earnings power have recovered. Therefore, the risk of a major downturn in production and capital investment has diminished, and corporate activities are gathering momentum along with the economic recovery.
- Although production leveled off temporarily, it has been expanding moderately since summer 2005 following the completion of inventory adjustments in the digital product related industries and the accelerated recovery in the world economy. Companies are cautious about adding to inventories, making it unlikely that the pace of increase in production will rise. However, going forward, the rising trend in production will continue along with expansion in demand in Japan and overseas.
- As a result of the improvement in corporate profitability and the economic recovery, recurring profits have already exceeded the previous peak at the time of the bubble economy. While profits are expected to remain at a high level, a number of factors may bring deterioration in the environment for profits. Raw material prices are rising, but, with the exception of certain industries, companies are experiencing difficulty in passing on their higher costs to their sales prices and marginal profits may decline. In addition, the recovery in employment and capital investment will push fixed costs, including personnel expenses and depreciation, upward.
- Slower growth in corporate profitability will restrain expansion in capital investment. However, the need for replacement investments, which companies have been postponing, is continuing, and companies will have to make investments to increase the value added of their products and services as well as improve competitiveness. For these reasons, the slowdown in capital investment will be minor and the upward trend in investment will continue.

(2) Household Sector

- Employment and wages are continuing to recover gradually, and, along with the recovery in consumer psychology, personal consumption is increasing. Thus, the improvement in economic conditions that began in the corporate sector is spreading to the household sector.
- Severe corporate restructuring efforts to reduce employment have run their course. A feeling that labor may be in shorter supply going forward is emerging as members of the baby boom generation begin to retire from 2007 and the number of younger workers begins to decline, thus leading to a growing desire among companies to employ more workers. In part because of the improvement in corporate profitability, the trend toward improvement in the employment and income environments is expected to continue.
- However, one of the factors supporting corporate profitability is the restraint on expansion in wages; therefore, companies are expected to be cautious about making wage increases. In addition, the expected increases in taxes and the social welfare burden on households will tend to lower disposable income of members of the workforce. Accordingly, the expansion in consumption is expected to remain moderate.
- The demand for private residential investment is expected to continue to be firm, as the sons and daughters of baby boomers (the “junior” baby boomer generation) begin to purchase their first homes. Along with the recovery in the economy, expectations of rising interest rates and observations of a bottoming out of land prices are expected to keep private housing investment firm.

(3) Government Sector

- With the bursting of Japan’s economic bubble as a turning point, government finances deteriorated rapidly, leading to a major increase in government bond issues. In addition to the decline in nominal growth rates, government tax revenues subsequently dropped along with major reductions in tax rates. Moreover, government expenditures rose as social welfare payments climbed along with the demographic aging of the population and government public works expenditures expanded as

part of large government spending programs aimed at stimulating the domestic economy.

- The Cabinet of Prime Minister Junichiro Koizumi, however, has not implemented large-scale economic policy packages to stimulate the economy and, instead, has reduced public investment spending to achieve fiscal structural reforms. In addition, the financial condition of local governments has deteriorated, and their public investment spending has continued to decline. Although tax revenues will begin to expand again, along with the economic recovery, going forward, the government will continue its policies of fiscal structural reform. Therefore, expenditures for public investments at the national and local levels are expected to show further declines.
- Another basic policy of the government to reduce the fiscal deficit will be to restrain its consumption expenditures. As part of this policy, the government is working to hold down the increase in social welfare payments through systemic reforms. However, even if such reforms are implemented, they may only succeed in slowing the speed of expansion, and the upward trend in government consumption will continue, led mainly by growing social welfare payments.

(4) External Sector

- Although there are a number of causes for concern, including the rise in crude oil prices, tensions in the Middle East, the “bubble” in U.S. housing prices, and overheating in the Chinese economy, there is little need for anxiety about a stalling of the global economy. Although there may be temporary slowdowns in some countries, the growth trend in the world economy will continue.
- Accordingly, the environment for exports from Japan will remain favorable. However, certain factors may restrain Japan’s exports, including expanding production in China; the loosening of the supply and demand balance in Asia, principally for industrial materials; and the expansion in production of Japanese-affiliated plants overseas. Nevertheless, Japan’s exports are forecast to expand as the demand for electronic components expands, principally in Asia, and worldwide demand for automobiles increases rapidly. In addition, along with the

rise in crude oil prices, exports to oil-producing countries in the Middle East and elsewhere are rising.

- Japan's imports of products and components, principally from the rest of Asia, will continue along with the rapid growth in industrial production capacity in China and other newly emerging economies and further progress by Japanese-affiliated companies in establishing systems for the international division of production. Furthermore, imports of raw materials in value terms will expand along with increases in prices.
- As both exports and imports are forecast to expand, net exports will continue to make a positive contribution to Japan's economic growth rate. In addition, as the percentage of production of Japanese-affiliated companies overseas has risen relative to exports from Japan, dividend and other income from these overseas subsidiaries has increased, and the surplus in Japan's income balance has risen to approximately the same level as the surplus in its trade balance.

3. Outlooks for Prices and Financial Markets

- Prices of raw materials, including crude oil, will remain high, but the sudden increases experienced thus far appear to have run their course. Corporate prices will continue to show a rising trend compared with the previous year, but the margin of increase is expected to decline. Consumer prices are forecast to rise slightly above the previous year's levels, reflecting such factors as the tightening of the supply and demand balance accompanying the economic recovery, higher personnel costs, and increases in prices of oil-related products.
- The Bank of Japan's quantitative policy of monetary easing was lifted in March, following confirmation that consumer prices (excluding fresh foods) have risen above the levels for the previous year and that the economy is continuing to recover. After the ending of this policy, the zero interest rate policy is expected to be reinstated and will remain in effect throughout fiscal 2006. In fiscal 2007, policy interest rates are likely to be increased, as the monetary authorities confirm the continuation of the economic recovery and the increase in consumer prices.

- Long-term interest rates will remain on a rising trend as the economic recovery continues and the previously mentioned changes in monetary policy take effect. However, short-term interest rates will remain at extremely low levels, thus limiting the room for upward movement in long-term interest rates. Also, stock prices are likely to stay at high levels as the economic recovery proceeds and then begin to rise again. The value of the yen is expected to continue to be relatively weak for the time being but thereafter start to appreciate again. However, in fiscal 2007, the yen may weaken and the dollar strengthen again as the United States tightens its monetary policy.

Exhibit 2: Outlook for fiscal 2006-2007

half/half, %
Yr/Yr, %

	Forecast								FY2004 (actual)	FY2005 (forecast)	FY2006 (forecast)	FY2007 (forecast)
	FY2004		FY2005		FY2006		FY2007					
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Nominal GDP	0.0	0.1	1.4	1.2	0.9	0.6	1.1	1.4	0.5	2.0	1.7	2.1
	1.0	0.1	1.5	2.6	2.0	1.5	1.7	2.4				
Real GDP	0.3	0.5	2.2	1.6	0.6	1.0	1.1	1.4	1.7	3.2	2.0	2.3
	2.6	0.9	2.7	3.7	2.3	1.7	2.2	2.5				
Contribution of domestic demand (Qr/Qr,%)	0.0	0.7	2.0	1.0	2.0	1.0	0.7	0.8	1.2	2.8	1.6	2.0
Private Consumption	0.7	0.3	1.7	1.2	0.8	0.8	0.7	1.7	1.7	2.4	1.8	2.0
	2.5	1.0	2.0	2.9	2.0	1.6	1.6	2.5				
Housing investment	1.8	-0.2	-1.7	3.0	-0.1	1.0	0.5	-0.8	1.7	-0.4	1.8	0.7
	1.6	1.7	-1.9	1.2	2.8	0.8	1.5	-0.2				
Private capital investment	1.6	2.8	4.8	2.1	1.7	1.7	2.6	4.3	5.4	7.3	3.6	5.8
	6.5	4.5	7.8	6.8	3.7	3.4	4.4	7.1				
Contribution of Inventory investment (Qr/Qr,%)	-0.2	0.1	0.2	-0.0	0.0	0.0	-0.0	-0.2	-0.3	0.2	0.1	-0.1
Government expenditure	-1.9	0.3	0.8	-0.2	-0.1	0.2	0.3	0.2	-1.4	0.8	-0.1	0.5
	-1.0	-1.8	1.2	0.5	-0.1	-0.1	0.7	0.4				
Public investment	-11.6	-2.1	0.9	-4.0	-3.1	-2.3	-2.2	-3.8	-12.4	-2.2	-6.1	-5.3
	-11.9	-12.9	-1.1	-3.1	-7.1	-5.3	-4.4	-5.9				
Government final consumption expenditure	0.8	0.9	0.9	0.7	0.8	0.8	1.0	1.1	1.8	1.7	1.6	2.0
	1.9	1.6	1.7	1.6	1.5	1.6	1.9	2.2				
Contribution of external demand (Qr/Qr,%)	0.3	-0.2	0.2	0.6	0.2	0.6	-0.1	0.2	0.5	0.4	0.3	0.3
Export of goods and services	6.0	1.3	4.9	5.5	4.2	4.1	4.9	4.1	11.4	8.5	9.2	9.2
	15.7	7.5	6.3	10.8	10.0	8.5	9.2	9.2				
Import of goods and services	4.6	3.1	3.8	1.5	5.2	3.4	3.5	5.5	8.7	6.2	7.8	8.2
	9.5	8.0	7.1	5.4	6.8	8.8	7.1	9.2				
GDP deflator (Yr/Yr,%)	-1.5	-0.8	-1.2	-1.1	-0.3	-0.3	-0.5	-0.0	-1.2	-1.2	-0.3	-0.2

	Forecast								FY2004 (actual)	FY2005 (forecast)	FY2006 (forecast)	FY2007 (forecast)
	FY2004		FY2005		FY2006		FY2007					
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Current account balance (trillion yen)*	6.9	6.7	8.2	8.9	9.4	9.1	8.6	10.3	18.2	18.6	19.8	20.2
balance on goods (trillion yen)*	5.9	5.9	5.9	7.3	7.2	6.4	4.5	5.6	13.5	10.0	9.6	8.7
balance on service (trillion yen)*	-2.7	-2.5	-1.5	-1.9	-2.0	-1.6	-1.5	-1.0	-3.6	-2.5	-2.2	-2.0
balance on income (trillion yen)*	4.2	3.8	4.3	4.2	4.7	5.0	5.9	6.6	9.6	12.1	13.3	14.4
Industrial production (Qr/Qr, %)	4.2	1.4	0.2	4.8	2.2	-0.1	0.3	2.7	4.1	1.4	2.3	3.1
(Yr/Yr, %)	-0.1	5.8	1.6	5.5	6.8	1.6	0.2	2.6				
Corporate goods prices(Yr/Yr,%)	-2.3	-1.3	-0.9	-1.3	1.3	2.4	2.8	5.2	1.8	4.0	2.1	0.4
Domestic corporate goods prices(Yr/Yr,%)	-2.1	-1.1	-0.9	-0.2	1.4	1.7	1.6	2.1	1.5	1.9	0.9	0.6
Consumer prices(Yr/Yr,%)	-0.9	-0.4	-0.3	-0.2	-0.2	0.2	-0.2	-0.1	0.0	-0.2	0.5	0.6
excluding freshfood(Yr/Yr,%)	-0.9	-0.8	-0.3	0.0	-0.2	-0.3	-0.1	0.3	-0.2	0.1	0.4	0.6
Yen/U.S.Dollar	123.1	120.7	118.0	108.1	109.8	105.2	109.4	117.3	107.5	113.4	117.4	115.4
Newly issued government bond yields(10years)	1.31	0.91	0.90	1.34	1.62	1.42	1.31	1.51	1.52	1.41	1.75	2.20
WTI future price(near month contract, US dollar/barrel)	27.3	31.0	29.6	33.2	41.1	49.2	58.2	61.3	45.1	59.7	62.3	64.5
Dubai crude oil prices (US dollar/barrel)	24.9	26.8	25.5	28.5	34.7	38.5	51.8	55.8	36.6	53.8	58.8	61.0

*Seasonally adjusted annual rate

Exhibit 3: Outlook for calendar 2005-2006

	Forecast								half/half,% Yr/Yr,%			
	CY2004		CY2005		CY2006		CY2007		CY2004	CY2005	CY2006	CY2007
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Nominal GDP	0.8	-0.3	1.1	0.9	1.3	0.7	1.5	1.8	1.1	1.4	2.1	1.6
	1.8	0.5	0.8	1.9	2.2	2.0	1.5	1.7				
Real GDP	1.5	-0.1	2.0	1.6	1.1	0.9	1.0	1.2	2.3	2.7	2.3	2.1
	3.3	1.4	2.0	3.4	2.7	2.0	2.0	2.2				
Contribution of domestic demand	0.9	0.0	1.9	1.1	0.9	0.7	0.9	1.0	1.5	2.6	1.9	1.8
Private consumption	1.4	0.2	1.5	1.3	0.8	0.9	0.7	0.9	1.9	2.2	1.9	1.6
	2.3	1.6	1.7	2.7	2.1	1.8	1.6	1.6				
Housing investment	0.7	1.0	-2.0	1.7	1.3	-0.1	1.6	-1.0	1.9	-0.7	2.0	1.1
	2.1	1.8	-1.1	-0.4	3.0	1.1	1.5	0.6				
Private capital investment	0.9	2.7	5.0	2.8	2.4	1.1	2.2	3.5	4.9	7.8	4.4	4.5
	6.2	3.6	7.8	7.8	5.4	3.5	3.3	5.8				
Contribution of inventory investment	-0.3	0.0	0.3	-0.2	0.1	0.1	0.0	-0.2	-0.2	0.2	0.1	0.0
Government expenditure	1.1	0.4	1.2	0.7	0.9	0.5	1.2	1.2	-0.4	0.1	-0.1	0.6
	0.3	-1.1	-1.1	1.3	0.2	-0.4	0.3	0.9				
Public investment	-0.1	-10.7	0.0	-0.6	-4.8	-1.8	-3.1	-1.3	-8.6	-6.0	-5.8	-4.7
	-6.6	-10.5	-11.3	-0.7	-5.2	-6.4	-5.0	-4.5				
Government final consumption expenditure	1.1	0.4	1.2	0.7	0.9	0.5	1.2	1.2	2.0	1.7	1.5	2.0
	2.5	1.5	1.6	1.9	1.6	1.4	1.7	2.4				
Contribution of external demand	0.6	-0.1	0.0	0.4	0.2	0.2	0.2	0.3	0.8	0.2	0.3	0.2
Export of goods and services	9.2	2.7	2.0	6.7	3.9	4.9	3.7	5.5	13.9	6.9	9.9	9.1
	15.8	12.1	4.8	8.9	10.8	9.0	8.7	9.4				
Import of goods and services	5.5	3.9	2.2	3.9	3.0	4.4	3.0	4.7	8.5	6.2	7.3	7.7
	7.2	9.7	6.2	6.2	7.0	7.5	7.5	7.9				
GDP deflator	-1.5	-0.9	-1.2	-1.4	-0.6	-0.1	-0.5	-0.4	-1.2	-1.3	-0.3	-0.4

	Forecast								Yr/Yr, %			
	CY2004		CY2005		CY2006		CY2007		CY2004	CY2005	CY2006	CY2007
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)*	9.6	9.0	8.8	9.3	9.9	9.8	10.0	10.1	18.6	18.0	19.7	20.1
balance on goods (trillion yen)*	7.3	7.0	5.3	5.3	4.7	5.2	4.1	4.8	14.3	10.5	9.9	8.9
balance on service (trillion yen)*	-1.8	-2.0	-1.3	-1.4	-1.0	-1.3	-0.9	-1.2	-3.7	-2.7	-2.2	-2.1
balance on income (trillion yen)*	4.7	4.6	5.4	5.9	6.7	6.3	7.3	6.9	9.3	11.4	13.0	14.2
Industrial production (Qr/Qr, %)	3.6	0.4	1.0	0.9	1.8	0.8	1.1	1.9	5.5	1.3	2.4	3.4
(Yr/Yr, %)	7.0	4.1	0.9	1.7	2.4	2.5	1.8	2.9				
Corporate goods prices(Yr/Yr,%)	-0.1	2.4	2.3	3.9	4.9	1.7	0.1	0.4	1.2	3.1	3.3	0.3
Domestic corporate goods prices(Yr/Yr,%)	0.6	1.9	1.5	1.8	1.9	0.8	0.5	0.7	1.2	1.7	1.3	0.6
Consumer prices(Yr/Yr,%)	-0.2	0.2	-0.2	-0.4	0.4	0.5	0.5	0.6	0.0	-0.3	0.4	0.6
excluding freshfood(Yr/Yr,%)	-0.1	-0.2	-0.3	0.0	0.5	0.4	0.5	0.6	-0.2	-0.1	0.4	0.6
Yen/U.S.Dollar	108.5	107.9	106.1	114.3	118.2	117.5	114.8	115.5	108.2	110.2	117.8	115.1
Newly issued government bond yields (10years)	1.4	1.5	1.3	1.4	1.6	1.7	2.0	2.3	1.5	1.4	1.7	2.1
WTI future price(near month contract, US dollar/barrel)	36.8	46.1	51.6	61.6	61.8	62.5	63.5	64.5	41.4	56.6	62.1	64.0
Dubai crude oil prices (US dollar/barrel)	31.3	35.9	44.7	54.2	58.2	59.0	60.0	61.0	33.6	49.4	58.6	60.5

*Seasonally adjusted annual rate

Exhibit 4: Outlook for 2005-2006 (Quarterly)

	Forecast												Qr/Qr, % Yr/Yr, %
	FY2005				FY2006				FY2007				
	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	1.2	-0.1	0.8	0.8	0.2	0.6	0.1	0.4	0.5	0.6	0.3	1.5	
	1.4	1.5	2.4	2.8	1.6	2.4	1.6	1.3	1.6	1.7	1.7	3.2	
Real GDP	1.4	0.2	1.3	0.3	0.2	0.5	0.5	0.5	0.5	0.7	0.5	1.0	
	2.6	2.8	4.0	3.3	2.1	2.4	1.5	1.8	2.1	2.3	2.1	2.8	
Contribution of domestic demand(Qr/Qr,%)	1.2	0.2	0.7	0.4	0.3	0.4	0.4	0.5	0.4	0.5	0.6	1.2	
Private Consumption	0.8	0.4	0.9	0.2	0.4	0.5	0.4	0.3	0.3	0.4	0.5	2.0	
Housing investment	-1.9	1.6	2.1	0.2	-0.0	-0.5	0.8	0.8	0.8	-1.3	-0.1	0.0	
Private capital investment	2.3	1.5	0.4	1.9	0.5	0.4	0.9	1.2	1.0	1.9	2.1	2.3	
Contribution of Inventory investment(Qr/Qr,%)	7.6	7.9	7.6	6.2	4.4	3.2	3.8	3.1	3.6	5.2	6.5	7.6	
Government expenditure	0.4	0.4	-0.3	-0.2	0.0	-0.1	0.1	0.2	-0.1	0.5	0.3	-0.9	
Public investment	0.5	1.8	0.9	0.2	0.1	-0.5	-0.3	0.1	0.4	0.8	0.9	-0.3	
Government final consumption expenditure	1.0	0.3	-2.7	-3.0	-1.0	-1.2	-0.2	-3.0	-0.2	-1.1	-0.4	-5.8	
	-3.3	0.8	-1.8	-4.4	-6.3	-7.7	-5.4	-5.3	-4.5	-4.4	-4.5	-7.3	
Government final consumption expenditure	0.3	0.4	0.3	0.5	0.4	0.2	0.2	1.0	0.1	0.9	0.6	0.2	
	1.4	2.1	1.7	1.5	1.6	1.4	1.4	1.8	1.5	2.2	2.6	1.8	
Contribution of external demand(Qr/Qr,%)	0.2	0.0	0.6	-0.1	-0.1	0.2	0.1	0.0	0.2	0.2	-0.1	-0.3	
Export of goods and services	3.5	3.1	3.5	0.9	2.5	2.5	2.2	1.3	2.5	3.4	1.7	1.4	
Import of goods and services	4.9	7.6	10.2	11.4	10.3	9.7	8.3	8.7	8.7	9.7	9.1	9.3	
	2.2	3.2	-0.9	1.6	3.6	1.6	2.0	1.2	1.6	2.6	2.5	3.2	
	6.2	7.9	4.6	6.3	7.7	6.0	9.0	8.6	6.5	7.6	8.1	10.2	
GDP deflator(Yr/Yr,%)	-1.1	-1.3	-1.6	-0.7	-0.5	-0.0	-0.1	-0.5	-0.4	-0.5	-0.4	0.4	

	Forecast												Yr/Yr,
	FY2005				FY2006				FY2007				
	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)*	4.3	4.3	5.3	5.0	4.9	4.9	5.1	5.1	4.9	5.1	5.3	5.2	
balance on goods (trillion yen)*	2.5	2.1	2.7	2.9	2.6	2.3	1.9	2.6	2.4	2.3	1.7	2.2	
balance on service (trillion yen)*	-0.7	-0.8	-0.4	-0.6	-0.6	-0.6	-0.4	-0.5	-0.6	-0.6	-0.3	-0.5	
balance on income (trillion yen)*	2.8	3.1	3.4	3.2	3.6	3.5	3.2	3.5	4.0	3.8	3.5	3.7	
Industrial production (Qr/Qr, %)	-0.4	-0.2	2.6	0.4	0.2	0.5	0.4	0.4	1.0	0.8	1.1	1.3	
(Yr/Yr, %)	0.3	0.1	3.4	1.7	3.0	3.6	1.4	1.2	2.3	2.6	3.3	4.1	
Corporate goods prices(Yr/Yr,%)	2.7	3.0	4.9	5.4	4.4	2.6	0.9	0.5	-0.2	0.3	0.6	0.9	
Domestic corporate goods prices(Yr/Yr,%)	1.7	1.6	2.1	2.2	1.5	1.0	0.5	0.4	0.5	0.6	0.7	0.8	
Consumer prices(Yr/Yr,%)	-0.1	-0.3	-0.5	0.3	0.4	0.5	0.5	0.4	0.6	0.6	0.6	0.7	
excluding freshfood(Yr/Yr,%)	-0.1	-0.1	0.1	0.5	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.7	
Yen/U.S.Dollar	107.6	111.2	117.3	117.3	119.0	118.0	117.0	115.5	114.0	115.0	116.0	116.5	
Newly issued government bond yields (10years)	1.27	1.34	1.52	1.50	1.65	1.70	1.75	1.90	2.00	2.20	2.30	2.30	
WTI future price(near month contract, US dollar/barrel)	53.2	63.2	60.0	62.5	61.0	62.0	63.0	63.0	64.0	64.0	65.0	65.0	
Dubai crude oil prices (US dollar/barrel)	47.9	55.6	52.9	58.8	57.5	58.5	59.5	59.5	60.5	60.5	61.5	61.5	

*seasonally adjusted