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Forecast for the Japanese Economy in Fiscal 2006 and 2007

— Shadows of Economic Slowdown Lurk Behind Stable Growth —



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1. Forecast for the Japanese Economy in Fiscal 2006 and Fiscal 2007 —Shadows of Economic Slowdown Lurk Behind Stable Growth

(1) Current State of the Economy

The Japanese economy is continuing to recover. As the world economy grows, exports are expanding, and industrial production continues to be on a gradual upward trend. Private capital investment is expanding, supported by improvement in corporate profitability, and personal consumption is continuing to rise gradually along with the improvement in employment and income conditions.

The real GDP expanded 0.5% over the previous quarter during the January-to-March period of 2006, or at an annualized rate of 1.9%. Although this pace of growth was lower than in the October-to-December period of 2005, it remained firm, and the economy thus reported a high 3.0% rate of expansion in real GDP for fiscal 2005, ended March 31, 2006, as a whole. On the other hand, nominal growth for the January-to-March quarter was 0.0%, or virtually level with the previous quarter after rounding off and amounted to 0.2% at an annualized rate. However, nominal GDP growth for fiscal 2005 amounted to 1.7%, representing the third consecutive year of positive growth.

The GDP deflator for the January-to-March quarter of 2006 was 1.3% below the level of the same quarter of 2005, but the margin of decline year on year is shrinking. Especially noteworthy has been the substantial shrinkage in the margin of decline in the deflator for domestic private demand, which reflects trends in domestic prices, to 0.2% year on year, or virtually level with a year earlier.

By principal component of GDP, domestic private-sector demand—namely personal consumption, private capital investment, and private residential investment—continued to rise, reflecting the continuation of well-balanced growth. As part of measures to reform government finances, public-sector investment is continuing on a decreasing trend, and the rate of expansion in

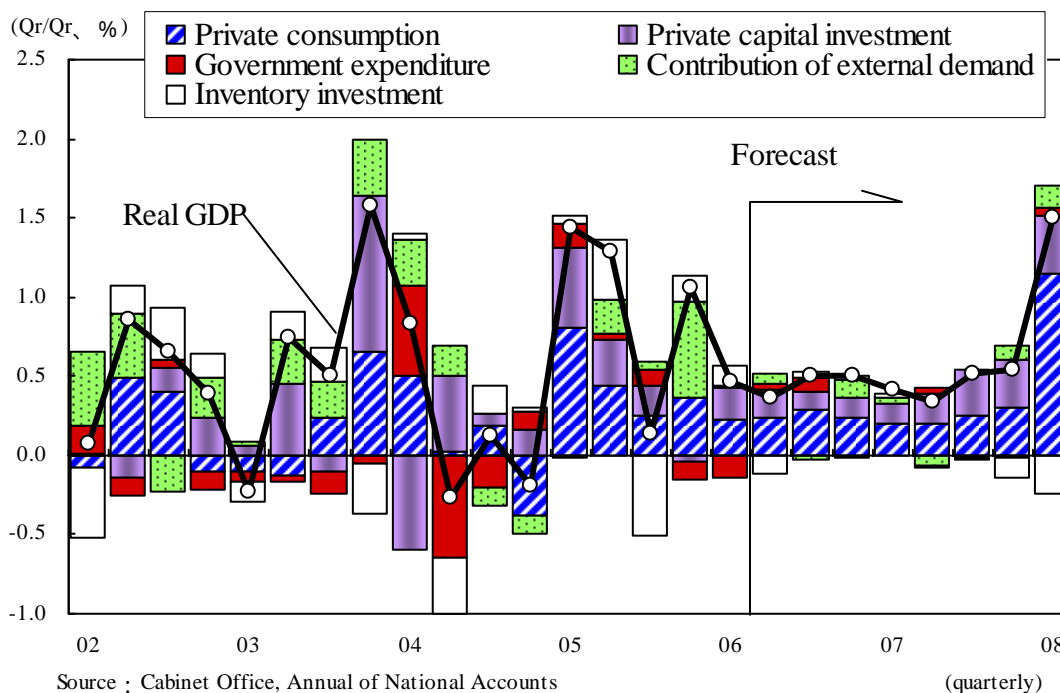
government consumption expenditures has declined to a low figure, leading to an overall decline in public-sector demand. However, the contribution of total domestic demand to GDP was +0.5%, showing that domestic demand is leading growth. On the other hand, although exports expanded, as a result of the resumption of growth in imports, the contribution of the external sector was virtually neutral, amounting to 0.0.

(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 in fiscal 2005, we are forecasting real growth of 2.0%, thus marking the fifth consecutive year of positive expansion. Moreover, the margin of decline in the GDP deflator will shrink substantially, and GDP expansion in nominal terms is expected to be 1.7%, the fourth consecutive year of positive growth.

Even in fiscal 2007 and subsequent years, we expect the economy will remain on a real growth path of about 2% and are forecasting expansion of 2.1% for the fiscal year. In addition, we expected the GDP deflator to rise 0.3%, the first increase in 10 years since Japan's consumption tax was raised in 1997. We also anticipate that nominal GDP growth will rise to 2.4%, exceeding growth in real GDP. 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 production 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 temporarily.

Exhibit 1 : Real GDP Growth (seasonally adjusted)



(3) Hidden Factors that May Slow the Economy

The current recovery in the Japanese economy, which began after the low point reached in January 2002, has been one of the longest on record and is now approaching the length of the so-called Izanagi period of prosperity (the 57-month period lasting from November 1965 to July 1970), which has been the longest to date in the post-World War II era. The 3.0% real growth attained in fiscal 2005 is one of the highest rates of expansion in recent years, and expectations about sustained, stable growth are mounting. However, at the same time, as the recover extends longer, anxiety about when the economy will decelerate is emerging since recoveries cannot last indefinitely. How long will the current recovery last? Or, putting it another way, when will nascent signs of a slowdown emerge?

Expectations for Sustained Recovery

The current recovery is closely linked with growth in the United States, China, and other countries around the world. Along with the expansion in world demand, exports from Japan are increasing. This growth in exports is

boosting domestic production, and, as a result, along with the rise in capacity utilization and improvement in corporate profitability, companies are showing a stronger drive to invest in capital equipment, and this, in turn, is leading to growth in demand in Japan and overseas. In addition, in the early stages of economic recovery, even though profits expanded, companies maintained strong restructuring policies, and very little improvement was seen in the income and employment environments. However, the number of employed persons has begun to rise, and wages have started to increase, albeit by a small margin. As a result, personal consumption has begun to show stable, even if gradual, increases.

Now that the two principal components of domestic demand, namely personal consumption and private capital investment, have begun to rise, our appraisal is that the recovery is on a firm footing. Certainly, if we search for factors that might slow the economy, there appear to be none on the horizon. For example, inventories are increasing incrementally, but they remain at a low level. It would still be difficult to imagine a scenario where inventory adjustments could lead to cutbacks in production. In addition, the problems of excess capital equipment, excess debt, and excess employment that plagued the Japanese economy after the collapse of the bubble economy have virtually been resolved. In fact, shortages appear to have emerged in some areas. It seems quite unlikely that problems of excessive capacity, debt, or employment will return any time soon to act as a drag on the economy. What is more, at this stage, the era of deflation seems to be finally coming to an end; therefore, it appears unlikely that a sharp rise in inflation will appear and reduce real income, leading to a collapse of the recovery trend.

Shadows of Economic Slowdown Lurk Behind Stable Growth

Nevertheless, we cannot ignore the concern that economic recoveries are unlikely to last indefinitely. Stock prices, which advanced steadily through the beginning of this year, have entered a period of adjustment, apparently because of concerns about future trends in the economy. Could there be some other factor, unlike anything we have experienced before, that might bring a slowdown in the economy?

a. External Shocks

One of the first possibilities that comes to mind is a development, or series of developments, such as the first and second oil crises, that might upset the economic recovery mechanism. Examples would include a collapse of the housing bubble in the United States, unavoidable adjustments made necessary by the overheating of the Chinese economy, a sharp rise in oil prices as a result of a rise in geopolitical risk, sudden increases in interest rates, or a substantial fall in the value of the U.S. dollar. However, these developments have always been possibilities, the probability they may occur is low, and they are factors that are difficult to predict accurately. Later on in this forecast, in section “1. (4) Risk Factors,” we will present some further thoughts on these possibilities.

b. Changes in the World’s Price Structure

Another possibility is that growth of the newly emerging industrial countries, such as China, will change the world’s price structure. As a result of rapid growth of manufacturing industries in these emerging countries, which process raw materials into finished goods and export them, prices of raw materials for which demand is strengthening rapidly are increasing. On the other hand, prices of industrial goods for which supply capacity is rapidly expanding in the newly emerging industrial countries are declining. In other words, an economic structure has developed where these emerging countries are importing inflation and exporting deflation. For Japanese companies, which have thus far imported raw materials and exported finished goods, the new price structure, which is characterized by inflation upstream and deflation downstream, is squeezing margins and putting pressure on profitability.

Fortunately, at present, the expansion in world demand is bringing increases in exports from Japan, and the rise in unit volume of sales is absorbing the impact of the decline in margins, thus making it possible for Japanese companies to sustain high levels of profitability. However, if growth in domestic and international demand should weaken for some

reason, these hidden factors may surface and put stronger pressure on profits, thus leading to the possibility of a slowdown in the economy.

c. Impact of the Escape from Deflation

Different people have differing definitions of deflation, but the fact that Japan has escaped from deflation in the broad sense could itself be a factor leading to a slowdown in the economy. For example, the improvement in employment and income conditions for households implies higher personnel expenses for the corporate sector. Until a few years ago, there were quite a few companies that used cuts in personnel expenses as an effective way of securing profits. There appear to be differences among companies in this respect that depend on whether they have an earnings base that allows them to absorb increases in fixed costs.

In addition, increases in consumer prices mean a decline in real income for households. If economic conditions are improving and incomes are rising, households may be able to absorb the effects of higher prices. However, we often hear arguments that an increase in the consumption tax rate will bring a slowdown in the economy. The impact on consumer spending will differ depending on whether the rise in consumer prices is caused by expansion in demand or because of the effects of higher raw material prices from upstream. If the primary cause is higher raw material prices, then this will have the same effect as an increase in the consumption tax rate.

Economy Should Sustain Growth of 2% for the Time Being

The economy will not continue to expand indefinitely but eventually will begin to show slower growth. However, the factors leading to the slowdown may very well differ from what we have experienced thus far. Even though there are limits to how well the factors discussed under “a. External Shocks” can be forecast, it will be important to be fully aware that the factors discussed under “b. Changes in the World’s Price Structure” and “c. Impact of the Escape from Deflation” may lead to the next economic slowdown. However, these factors are not likely to emerge suddenly. If, at a minimum, growth in the world economy continues and the rises in

personnel costs and consumer prices are relatively small, the economy will continue to expand gradually. In fiscal 2006 and fiscal 2007, there is a strong possibility that the Japanese economy will remain on a real growth path of about 2%.

(4) Risk Factors

The Japanese economy is likely to continue stable, but moderate, growth; however, 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 have a positive impact on Japan's growth.

In contrast, a pessimistic scenario would be for a serious slowdown in the U.S. housing market and an expansion in the U.S. current account deficit to unsustainable proportions—developments that would require rapid adjustments. 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 this could have a major negative impact on Japan's economy.

Rising Oil Prices (Downside Risk for the Economy)

Although the price of crude oil (on a West Texas Intermediate (WTI) basis) may decline temporarily, the rising trend is continuing; recently, prices have risen to the middle of the \$70 to \$80 a barrel range. Going forward, our outlook is for oil prices to fluctuate in a relatively high range, with the

possibility that prices may gradually rise to new highs. If oil prices increase more rapidly, to levels higher than we anticipate, corporate profitability is likely to deteriorate substantially, and corporate activities, including capital investment, will weaken, leading to the risk of an economic downturn. However, this scenario would not be in the interests of OPEC and the other oil-producing countries. We believe the occurrence of an artificial run-up in crude oil prices that might lead to a global recession, similar to what happened at the time of the first and second oil crises, is unlikely.

On the other hand, if oil prices should decline substantially, there is a possibility that corporate profitability would improve. However, if such a drop in oil prices results from a slowdown in the world economy, this rise in profitability would not be likely to have an upside, positive impact on the economy.

Higher Interest Rates (Downside Risk for the Economy)

Long-term interest rates are expected to rise along with the recovery in the economy and the marginal increases that are foreseen in policy 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, as a consequence of the removal of the zero interest rate policy, this may give rise to the risk of negative effects on the economy. The Bank of Japan is aiming for gradual increases in the policy interest rate, while taking care not to cause sharp increases in long-term interest rates.

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, which might lead to a sharp rise in interest rates, is small.

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.
- Production is expanding gradually, as exports remain strong, especially in the automobile and IT-related sectors. 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, while the rise in interest rates will bring higher interest payments.
- 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 improve their competitiveness by increasing the value added of their products and services. 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 confidence, 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, especially of current members of the workforce. Accordingly, the expansion in consumption is expected 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 have begun to expand again, along with the economic recovery, 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.
- Although expansion in the deficits of the government sector may not be stemmed, the government has set a goal of bringing the basic fiscal accounts into balance by the beginning of the 2010's and is considering various policies to improve fiscal soundness through "simultaneous reform in revenues and expenditures." At present, the government is moving forward with a review of options and preparation of an action plan, primarily under the leadership of the Council on Economy and Fiscal Policy, and is scheduled to make an announcement in June this year.

(4) External Sector

- Although there are a number of causes for concern, including the adoption of tighter monetary policies in various countries, the rise in crude oil prices, the slowdown in the U.S. housing market, and overheating in the Chinese economy, there is little need for anxiety

about the stalling of the global economy. While some countries, such as the United States, may experience temporary slowdowns, the growth trend in the world economy will continue, without a serious loss of momentum.

- Accordingly, the environment for exports from Japan will remain favorable. The rise in production of Japanese-affiliated plants overseas will become a factor restraining exports. However, demand for electronic parts, principally in Asia outside Japan, will expand, and worldwide demand for automobiles is expected to grow rapidly, thus leading to expansion in exports from Japan. In addition, along with the rise in crude oil prices, exports to oil-producing countries in the Middle East and elsewhere will increase.
- Japan's imports of products and components, principally from the rest of Asia, will continue to increase 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. Outlook 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. The margin of increase in corporate prices, measured year on year, will shrink as the passing on of price increases in raw materials runs its course. Thereafter, corporate prices are expected to begin rising again along with the improvement in domestic demand and supply conditions. 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 recovery, higher personnel costs, and increases in prices of oil-related products.

- The Bank of Japan lifted its quantitative policy of monetary easing in March and shifted to a zero interest rate policy. This latter policy is expected to be lifted in the July–to–September quarter of 2006 and replaced by a policy interest rate target for unsecured, overnight funds in the interbank call market of 0.25%. Thereafter, during 2007, a series of policy interest rate increases is likely, as the monetary authorities confirm the continuation of the economic recovery, increases in consumer prices, and trends in demand for funds.
- Long-term interest rates will remain on a rising trend as the economic recovery continues and monetary policy remains relatively tight. Stock prices are expected to move within a limited range in fiscal 2006, as the pace of improvement in corporate performance slows but may subsequently begin to rise again as the economy continues to recover. In foreign exchange markets, it is possible that the U.S. dollar may fall to somewhat lower levels for the time being, but in fiscal 2007, the dollar may begin to strengthen, and the yen weaken, along with the acceleration recovery in the U.S. economy and a rising differential between interest rates in Japan and the United States.

Exhibit 2: Outlook for fiscal 2006-2007

	FY2003 (actual)	FY2004 (actual)	FY2005 (actual)	Forecast ↘	
				FY2006 (forecast)	FY2007 (forecast)
Nominal GDP	1.0	0.5	1.7	1.7	2.4
Real GDP	2.3	1.7	3.0	2.0	2.1
Contribution of domestic demand (Qr/Qr,%)	1.5	1.2	2.6	1.6	2.0
Private Consumption	0.8	1.6	2.3	1.8	2.0
Housing investment	-0.0	1.7	-0.1	1.6	0.1
Private capital investment	7.0	5.6	6.6	3.7	5.7
Contribution of Inventory investment (Qr/Qr,%)	0.2	-0.3	0.2	-0.0	-0.1
Government expenditure	-0.5	-1.4	0.6	-0.2	0.2
Public investment	-9.5	-12.4	-2.5	-5.7	-4.8
Government final consumption expenditure	2.5	1.8	1.5	1.4	1.6
Contribution of external demand (Qr/Qr,%)	0.8	0.5	0.5	0.4	0.1
Export of goods and services	9.7	11.4	9.2	10.6	8.5
Import of goods and services	3.2	8.7	6.7	8.6	8.8
GDP deflator (Yr/Yr,%)	-1.3	-1.2	-1.3	-0.3	0.3

	FY2003 (actual)	FY2004 (actual)	FY2005 (actual)	Forecast ↘	
				FY2006 (forecast)	FY2006 (forecast)
Current account balance (trillion yen)*	17.3	18.2	18.9	18.3	19.3
balance on goods (trillion yen)*	13.3	13.5	9.6	8.8	8.6
balance on service (trillion yen)*	-3.4	-3.6	-2.4	-2.6	-2.6
balance on income (trillion yen)*	8.5	9.6	12.6	12.9	14.1
Industrial production (Qr/Qr, %) (Yr/Yr, %)	3.5	4.0	1.6	2.5	2.9
Corporate goods prices(Yr/Yr,%)	-1.0	1.8	4.1	2.8	1.8
Domestic corporate goods prices(Yr/Yr,%)	-0.5	1.5	2.1	1.8	1.4
Consumer prices(Yr/Yr,%)	-0.2	0.0	-0.2	0.7	0.9
excluding freshfood(Yr/Yr,%)	-0.2	-0.2	0.1	0.6	1.0
Yen/U.S.Dollar	113.0	107.5	113.3	111.6	112.3
Newly issued government bond yields (10years)	1.12	1.52	1.43	2.05	2.43
WTI future price(near month contract, US dollar/barrel)	31.4	45.1	60.0	70.5	74.5
Dubai crude oil prices (US dollar/barrel)	27.0	36.6	53.7	66.1	71.0

Exhibit 3: Outlook for calendar 2005-2006

	CY2003 (actual)	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
				CY2006 (forecast)	CY2007 (forecast)	
Nominal GDP	0.2	1.1	1.3	1.7	1.9	
Real GDP	1.8	2.3	2.6	2.3	1.8	
Contribution of domestic demand	1.2	1.5	2.4	1.7	1.7	
Private consumption	0.6	1.9	2.1	1.9	1.6	
Housing investment	-0.9	1.9	-0.7	2.2	0.3	
Private capital investment	5.9	4.9	7.7	3.9	4.6	
Contribution of Inventory investment	0.4	-0.2	0.2	0.1	0.0	
Government expenditure	-1.1	-0.4	0.1	-0.5	0.3	
Public investment	-10.8	-8.6	-6.0	-6.3	-4.5	
Government final consumption expenditure	2.3	2.0	1.7	1.1	1.6	
Contribution of external demand	0.6	0.8	0.2	0.3	0.1	
Export of goods and services	9.0	13.9	7.0	12.1	7.7	
Import of goods and services	3.9	8.5	6.3	8.8	7.9	
GDP deflator	-1.6	-1.2	-1.3	-0.6	0.1	

	CY2003 (actual)	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
				CY2006 (forecast)	CY2007 (forecast)	
Current account balance (trillion yen)*	15.8	18.6	18.3	18.9	18.8	
balance on goods (trillion yen)*	12.3	14.3	10.3	9.3	8.4	
balance on service (trillion yen)*	-3.6	-3.7	-2.6	-2.5	-2.6	
balance on income (trillion yen)*	8.3	9.3	11.4	13.1	13.8	
Industrial production (Qr/Qr, %) (Yr/Yr, %)	3.2	5.5	1.1	2.9	3.3	
Corporate goods prices(Yr/Yr,%)	-1.3	1.2	3.1	3.9	1.3	
Domestic corporate goods prices(Yr/Yr,%)	-0.8	1.2	1.7	2.3	1.2	
Consumer prices(Yr/Yr,%)	-0.3	0.0	-0.3	0.6	0.9	
excluding freshfood(Yr/Yr,%)	-0.3	-0.2	-0.1	0.6	0.9	
Yen/U.S.Dollar	115.9	108.2	110.2	113.3	111.0	
Newly issued government bond yields (10years)	1.0	1.5	1.4	1.9	2.4	
WTI future price(near month contract, US dollar/barrel)	31.0	41.4	56.6	68.9	72.5	
Dubai crude oil prices (US dollar/barrel)	26.8	33.6	49.5	64.0	69.0	

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	1.0	-0.2	0.7	0.0	0.9	0.2	0.6	-0.2	1.1	0.5	1.0	0.8	
	1.5	1.4	2.1	1.8	1.5	2.0	1.6	1.6	1.6	2.0	2.2	3.6	
Real GDP	1.3	0.1	1.1	0.5	0.4	0.5	0.5	0.4	0.3	0.5	0.5	1.5	
	2.6	2.8	3.7	3.1	2.0	2.5	1.7	1.9	1.7	1.8	1.7	3.0	
Contribution of domestic demand(Qr/Qr,%)	1.1	0.1	0.4	0.5	0.3	0.5	0.4	0.4	0.4	0.5	0.5	1.4	
Private Consumption	0.8	0.4	0.6	0.4	0.4	0.5	0.4	0.3	0.3	0.4	0.5	2.0	
	2.0	2.0	3.2	2.2	1.9	1.9	1.7	1.7	1.6	1.5	1.6	3.3	
Housing investment	-1.9	1.7	2.1	1.1	-0.9	0.4	0.5	0.8	-0.5	0.0	-0.3	0.9	
	-2.7	-1.3	0.5	3.1	1.9	2.7	1.1	0.9	0.2	-0.1	0.1	0.3	
Private capital investment	2.0	1.3	-0.2	1.4	1.2	0.8	0.8	0.9	1.2	1.9	2.0	2.3	
	7.7	7.9	6.6	4.6	3.9	3.1	4.2	3.7	3.9	4.8	6.1	7.7	
Contribution of Inventory investment(Qr/Qr,%)	0.4	-0.5	0.2	0.1	-0.1	0.0	0.0	0.0	-0.0	0.0	-0.1	-0.2	
Government expenditure	0.2	0.4	-0.5	-0.7	0.2	0.4	-0.1	-0.0	0.2	-0.1	-0.1	0.2	
	0.5	1.8	0.8	-0.7	-0.5	-0.5	-0.3	0.4	0.7	0.1	-0.1	0.2	
Public investment	0.8	0.2	-2.9	-3.5	-0.2	-1.0	-1.0	-2.1	-0.4	-2.0	-1.1	-1.3	
	-3.4	0.8	-1.8	-5.5	-7.3	-7.3	-5.4	-3.4	-4.1	-5.3	-5.3	-4.5	
Government final consumption expenditure	0.1	0.5	0.1	0.1	0.4	0.7	0.2	0.4	0.5	0.4	0.2	0.5	
	1.4	2.1	1.6	0.8	1.1	1.3	1.4	1.7	1.8	1.5	1.5	1.6	
Contribution of external demand(Qr/Qr,%)	0.2	0.1	0.6	0.0	0.1	-0.0	0.1	0.0	-0.1	-0.0	0.1	0.1	
Export of goods and services	3.5	3.1	3.8	2.7	3.0	2.0	1.9	0.5	2.4	2.4	3.5	2.1	
	4.9	7.6	10.6	13.7	13.2	12.0	9.9	7.5	6.9	7.3	9.0	10.8	
Import of goods and services	2.2	3.2	-0.6	3.0	2.9	2.6	1.3	0.2	3.0	2.7	3.3	1.4	
	6.2	7.9	4.7	8.0	8.7	8.1	10.2	7.2	7.3	7.5	9.6	10.8	
GDP deflator(Yr/Yr,%)	-1.1	-1.3	-1.6	-1.3	-0.5	-0.5	-0.1	-0.3	-0.1	0.2	0.5	0.6	

	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	4.4	5.3	4.9	4.9	4.4	4.7	4.3	4.7	4.7	5.2	4.7	
balance on goods (trillion yen)*	2.5	2.2	2.5	2.3	2.7	1.9	1.8	2.2	2.3	1.9	1.7	2.2	
balance on service (trillion yen)*	-0.7	-0.8	-0.3	-0.6	-0.7	-0.8	-0.4	-0.6	-0.7	-0.8	-0.4	-0.6	
balance on income (trillion yen)*	2.8	3.0	3.3	3.5	3.6	3.4	3.1	3.4	3.9	3.7	3.4	3.6	
Industrial production (Qr/Qr, %)	-0.1	-0.5	2.8	0.6	0.4	0.3	0.3	0.3	0.7	1.1	1.1	1.5	
(Yr/Yr, %)	0.3	-0.2	3.0	3.2	3.3	4.0	1.3	1.6	1.6	2.3	3.0	4.5	
Corporate goods prices(Yr/Yr,%)	2.7	3.1	4.9	5.6	4.6	3.4	2.0	1.1	0.9	1.2	2.1	2.9	
Domestic corporate goods prices(Yr/Yr,%)	1.7	1.7	2.2	2.8	2.5	2.1	1.7	1.0	0.9	1.1	1.6	1.7	
Consumer prices(Yr/Yr,%)	-0.1	-0.3	-0.5	0.4	0.6	0.6	0.7	0.6	0.7	1.0	1.1	1.1	
excluding freshfood(Yr/Yr,%)	-0.1	-0.1	0.1	0.5	0.6	0.5	0.6	0.6	0.7	1.0	1.1	1.2	
Yen/U.S.Dollar	107.6	111.2	117.3	116.9	113.5	112.0	111.0	110.0	110.0	111.0	113.0	115.0	
Newly issued government bond yields(10years)	1.27	1.34	1.52	1.57	1.90	2.00	2.10	2.20	2.30	2.40	2.50	2.50	
WTI future price(near month contract, US dollar/barrel)	53.2	63.2	60.0	63.5	70.0	72.0	70.0	70.0	72.0	73.0	75.0	78.0	
Dubai crude oil prices (US dollar/barrel)	47.9	55.6	52.9	58.2	65.0	67.0	66.0	66.5	68.5	69.5	71.5	74.5	

*seasonally adjusted