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Forecast for the Japanese Economy in Fiscal 2006 and 2007

**— Shadows of Economic Slowdown Spread
as the Economy Escapes from Deflation —**



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1. Forecast for the Japanese Economy in Fiscal 2006 and Fiscal 2007 —Shadows of Economic Slowdown Spread as the Economy Escapes from Deflation

(1) Current State of the Economy

The Japanese economy is continuing to recover. As the world economy grows, Japan's exports are expanding and the rate of increase in industrial production is rising. Supported by high levels of corporate profitability, the speed of expansion in private capital investment is accelerating. Personal consumption is continuing to rise gradually along with the improvement in employment and income conditions.

The real gross domestic product (GDP) in the April-to-June period of 2006 showed a marginal increase of 0.2% over the previous quarter, or 0.8% at an annualized rate, the sixth consecutive quarterly rise. By demand component, the rate of expansion in exports slowed, and the contribution of the external sector was minus 0.1%, the first negative contribution in five quarters. In addition, the margin of decline in public works spending expanded, and, as a result of a drop in medical expenditures, government consumption began to decline, thus reducing the rate of growth in public-sector demand (and resulting in a contribution of public-sector demand to growth of minus 0.2%).

However, expansion in private-sector demand is driving the economic recovery. Although private housing investment declined for the first time in four quarters in the April-to-June period, personal consumption marked its sixth consecutive quarter of increase and private capital investment, its ninth consecutive rise, thus acting as the driving forces in the economic recovery. Private capital investment especially increased, and was up 3.8% over the previous quarter, representing an annualized rate of 16.2%, thus continuing its high pace of expansion.

In nominal terms, GDP posted a gain of 0.3% over the previous quarter, the third consecutive quarter-to-quarter rise, representing an annual growth rate of 1.1%. Nominal GDP growth exceeded real GDP growth for the first time

in three years, thus reversing the trend of slower growth in nominal GDP than in real GDP. The GDP deflator was 0.8% below the level for the same quarter of the previous year, thus continuing a declining trend year on year, but the margin of decline is shrinking. This reflected the shrinkage in the margin of increase in the import deflator, which has become a factor lowering the deflator. In addition, examination of deflators for individual components of demand shows that the deflators for private housing investment, public works investment, and government final consumption are already above the levels of the same period of the previous year. In addition, the margins of decline in the deflators for consumption and private capital investment have decreased, and they are virtually level with the previous year.

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

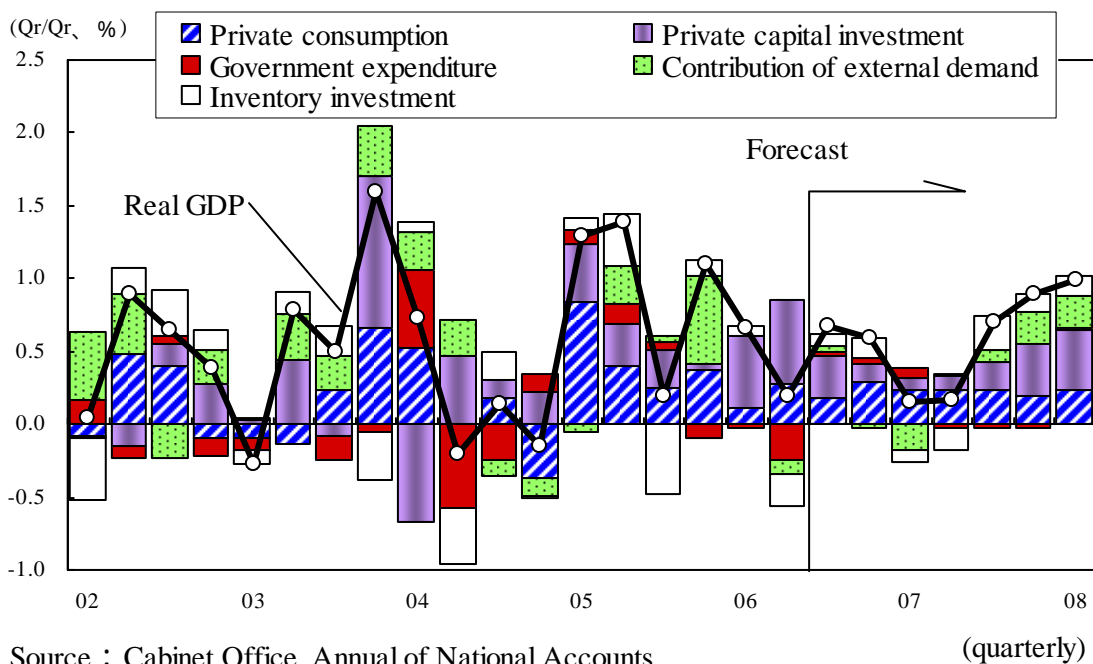
The recovery in the Japanese economy is expected to continue, and real economic growth in fiscal 2006 is expected to be 2.1%, representing the fifth consecutive annual increase. In addition, the margin of decline in the GDP deflator is forecast to shrink significantly, and the nominal GDP growth rate for the fiscal year is expected to be 1.9%, the fourth consecutive year of positive growth.

However, in the latter half of fiscal 2006, a trend toward lower growth is expected. First, the increase in inventories of digital-related products, such as semiconductors and LCDs, will be matched in part by higher shipments of these goods, but some of the rise in inventories will be unintended, thus giving rise to the possibility of some adjustments in production. In addition, the pace of growth in exports is expected to decline somewhat as a result of slower expansion in the world economy, including the United States. Private capital investment is likely to show firm expansion for the time being, supported by high levels of corporate profitability, but toward the end of the fiscal year, slower growth in profits is expected to reduce the rate of expansion in capital investment. Consumer spending will continue to recover gradually, supported by improvement in employment conditions, but the rate of increase in consumer prices will rise gradually, thus restraining growth in real consumption.

In fiscal 2007, the trend toward economic slowdown of the previous year will linger in the first half, but this will not bring an economic downturn, and we are forecasting growth of 2.0% in real GDP. In addition, the GDP deflator is expected to rise 0.5% over the previous year, the first increase in 10 years, since the consumption tax was increased in 1997. The nominal growth rate will rise to 2.5%, and nominal growth will exceed real GDP growth.

Household income is forecast to rise by only a small margin, and, since consumer prices will continue to rise, the expansion in personal consumption will be moderate but is expected to continue to support the recovery trend in the economy. In addition, adjustments in the digital-related product sector will be completed, and, as the world economy begins to accelerate again, exports from Japan will pick up in the second half of fiscal 2007, and the pace of increase in production will rise. Since this is expected to bring an improvement in corporate profitability, private capital investment, which will have decelerated temporarily, is likely regain expansionary momentum.

Exhibit 1: Real GDP Growth (seasonally adjusted)

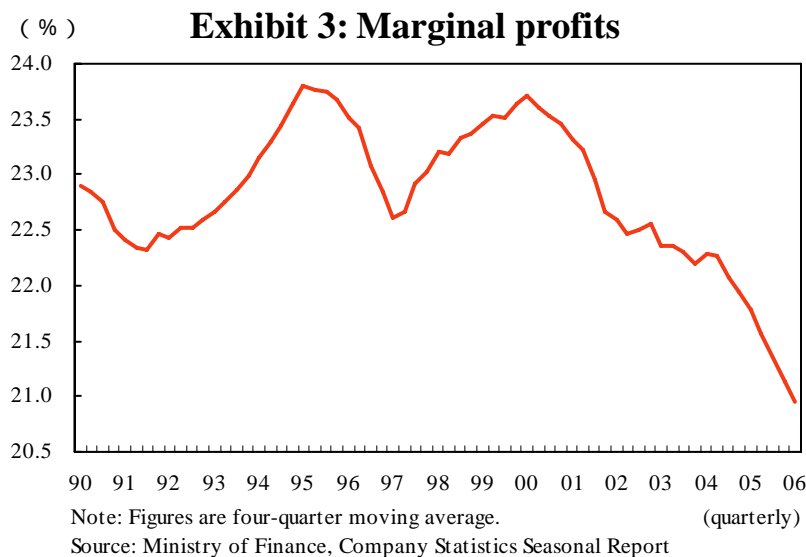
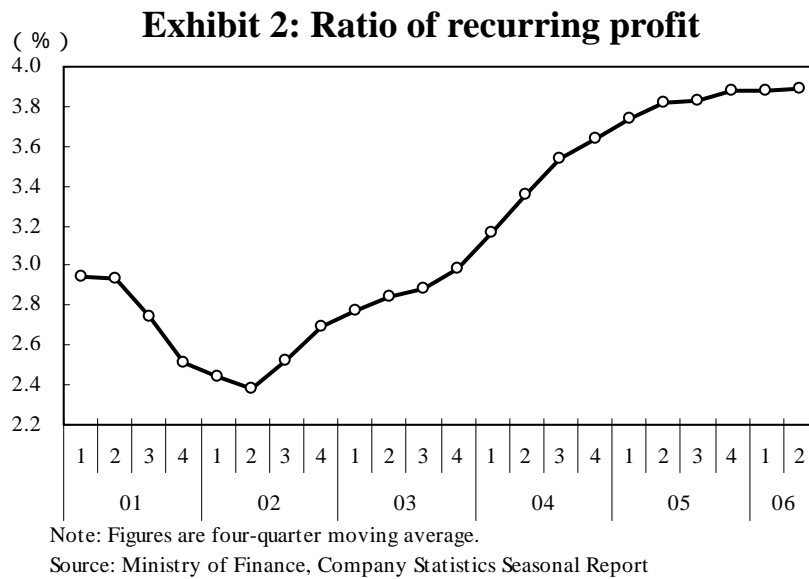


(3) Corporate Behavior in an Era of Rising Prices

The current economic recovery is poised to possibly equal or exceed the length of the so-called “Izanagi Boom,” which, until now, has been the longest period of recovery in Japan’s postwar history. Factors accounting for this have been the elimination of the negative assets left from Japan’s bubble economy, improvements in corporate financial positions and earnings power, and expansion in Japan’s exports supported by growth in the world economy. If the recovery continues, the gap between supply and demand will shrink and deflationary pressures will recede. Therefore, a shift in consumer price movements from a declining to an increasing trend would be a natural outcome.

Nevertheless, deflation has been eliminated as a result of the economic recovery, and it is, therefore, unlikely that the escape from deflation will bring further improvement in economic conditions. Moreover, the recent factors countering the deflationary trend have included the shrinkage in the gap between supply and demand, but we can also point to the fact that the run-up in prices of primary products, including crude oil, has resulted in cost pressures from upstream that are now being passed on to the consumer levels downstream. Even prior to the escape from deflation, the Japanese economy has been required to respond to an era of rising costs.

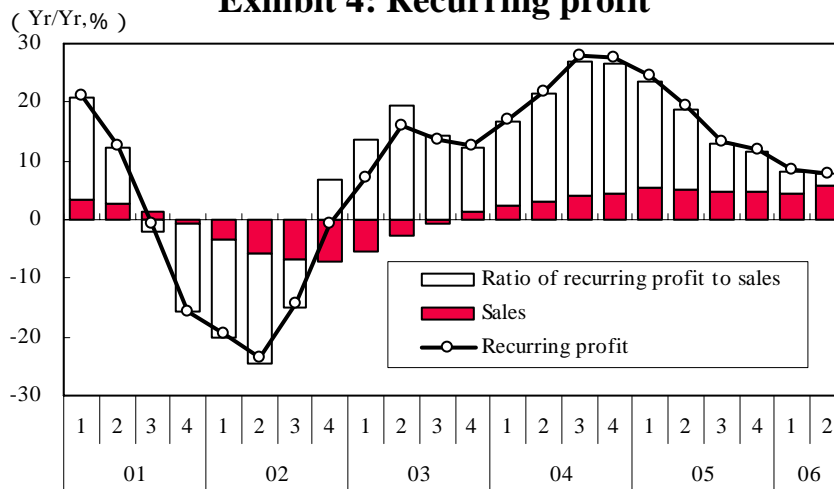
The impact of higher costs is already evident in corporate profitability. Recurring profits are now at levels reached during the bubble years and at historical highs, but the ratio of recurring profit to sales has reached a peak. (Please refer to Exhibit 2.) This is because, while prices of some final goods are declining, principally household appliances and IT equipment, prices of raw materials are increasing. The decline in marginal profits is putting pressure on corporate profitability. (Please refer to Exhibit 3.)



Securing Profitability through Expanding Unit Volume

Even if corporate profits are under pressure as costs increase, profits will expand, provided the unit volume of sales increases sufficiently. Thus far, growth in the world economy has continued and exports have risen, thus contributing to maintaining high levels of profitability. (Please refer to Exhibit 4.) Shipments into the domestic market have accounted for the majority of sales, but from the perspective of potential for expansion, overseas markets are more important than the domestic market.

Exhibit 4: Recurring profit



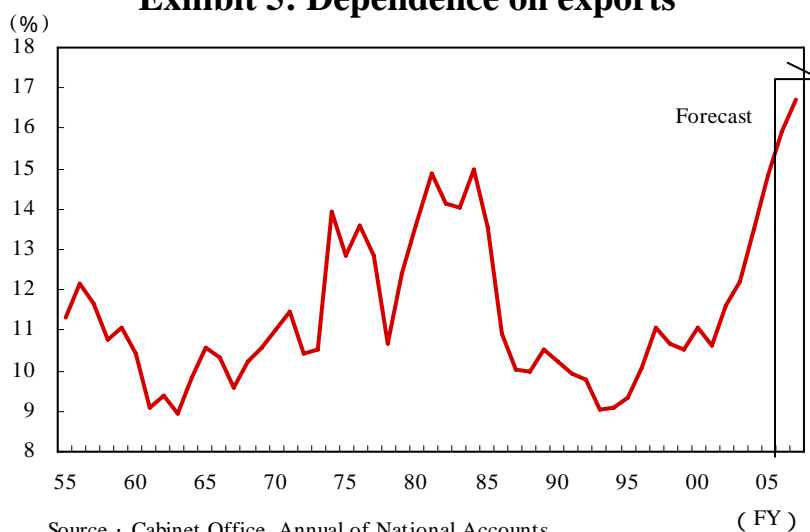
Note: Figures are four-quarter moving average.

Source: Ministry of Finance, Company Statistics Seasonal Report

To increase export competitiveness, capital investments are needed to introduce new products, increase productivity, and expand production capacity. In fact, the pace of increase in capital investments has risen since the beginning of the year. This momentum is expected to continue for the time being and boost overall economic growth. Capital investments are especially important for introducing new products and increasing productivity, and there is a possibility that these investments will continue their stable expansion as companies seek to remain competitive with their overseas rivals.

If Japanese companies improve their competitiveness and expand exports, this will boost Japan's economic growth rate, but if, at the same time, dependence on imports increases, Japan's susceptibility to fluctuations in the world economy will increase. Japan's dependence on exports has already risen to levels reached just prior to the time of the Plaza Accord in 1985, and there is a strong possibility that it may rise further. (Please refer to Exhibit 5.) In considering corporate profitability and future economic trends, developments in the world economy—especially in the United States, China, and other regions—will become increasingly important.

Exhibit 5: Dependence on exports

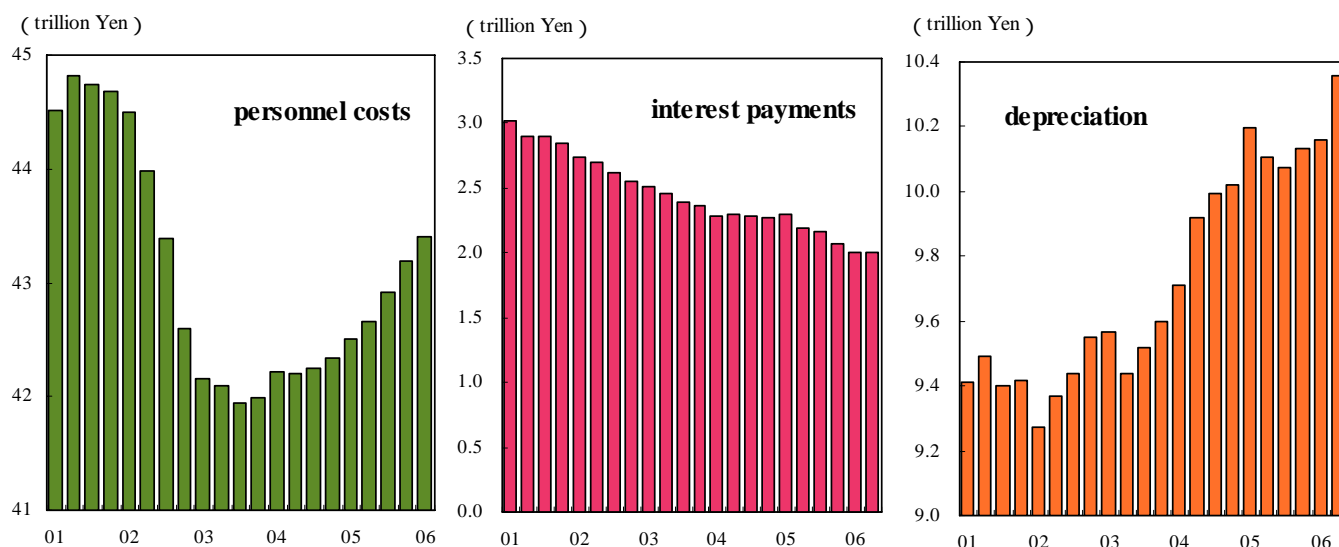


Fixed Costs Begin to Rise

If increases in capital investments are necessary for companies to increase sales, there are also times when increasing employment may be necessary. Expansion in capital investments brings a rise in depreciation charges; if funds necessary for capital investments are borrowed, interest payments will also rise. In addition, if employment levels increase, personnel costs will expand. Companies are increasingly reporting that they are short of personnel, and if some corporations want to secure additional personnel, even if they are obliged to increase wages, the pace of increase in personnel costs will rise.

If companies seek to expand the scope of their business activities in this way to increase profits, fixed costs will rise. Some companies may be able to absorb the increase in fixed costs by expanding sales, but other companies may not have this much leeway. Fixed costs—such as personnel costs, interest payments, and depreciation—thus far have declined, as companies resorted to restructuring, as interest rates declined, and as companies restrained their capital investments; all of these developments have had a positive impact on corporate profits. However, if fixed costs, especially personnel costs, begin to rise, this will place pressure on profitability. (Please refer to Exhibit 6.)

Exhibit 6: Fixed costs



Note: Figures are four-quarter moving average.

Source: Ministry of Finance, Company Statistics Seasonal Report

Costs Passed on to Sales Prices

Many companies are experiencing increases in variable expenses, such as raw material and fuel costs, and the number of companies reporting increases in personnel costs and depreciation along with expansion in employment and capital investments is also rising. While there may be companies that can absorb these increases in costs, other companies may not be able to do so. Companies that cannot absorb higher costs fully may be obliged to boost prices of their products.

It appears that the number of companies unable to fully absorb higher costs is increasing. Gasoline prices have increased substantially, and industries that are vulnerable to the impact of higher crude oil prices, such as transportation services, have already reached a limit on additional costs they can absorb. As a result, the increase in costs is being passed on to the prices of chemical products as well as prices of heating and lighting services, such as electric power. Moreover, those service industries whose performance is sensitive to increases in personnel costs are expected to raise their prices.

If this process leads to an expansion in the margin of increases in consumer

prices, this will be strong evidence of the escape from deflation. However, since the movement to pass on price increases will reach the consumer level, there is concern that the profit environment for corporations may become increasingly severe.

(4) Shadows of Economic Slowdown Spread as the Economy Escapes from Deflation

Normally, corporations can increase their sales prices when supply is short in comparison to demand. If prices rise, pulled upward by strong demand, companies can increase sales and profits. On the other hand, if companies increase sales prices because of pressures caused by higher raw material costs on the supply side, demand may decline. Thus far, companies have “been able to secure profits without passing on higher costs to final prices through efforts to reduce fixed costs and by taking advantage of the favorable environment created by growth in the world economy.” This non-inflationary behavior of corporations has made it possible to sustain economic recovery even as raw material prices have increased.

In contrast to these circumstances, if inflationary behavior becomes more prevalent among corporations, as they find they must pass cost increases on to final prices, this may imply an escape from deflation, but this behavior will result in reasons for concern about future trends in the economy, particularly in consumer spending.

Nevertheless, corporations are basically stronger, now that they have disposed of the negative assets left from the time of Japan’s bubble economy. If the current environment continues, in which the world economy remains on a growth trend and exports rise, the amount of cost increases that companies will have to pass on to consumers will be marginal. First and foremost, companies have learned from previous experience during the oil shocks that taking the easy course of passing on higher costs to sales prices will bring a weakening of demand and put pressure on corporate profits. Accordingly, we believe the risk is small of moving to a scenario where the escape from deflation is followed by a sharp rise in inflation and an economic downturn.

However, it will be necessary to be aware that in times of rising costs, as companies shift toward inflationary behavior and pass cost increases on to consumers, there will be a risk that signs of economic slowdown will spread.

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 investments has diminished, and, signs of proactive corporate behavior are increasingly in evidence, including measures to increase production capacity.
- Production is expanding, as exports continue to grow, especially in the automobile and IT-related sectors, and domestic demand, private capital investment in particular, remains strong. Companies are cautious about adding to inventories, making it unlikely that the pace of increase 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 their previous peak reached at the time of the bubble economy. While profits are expected to remain at a high level, a number of factors have emerged that may bring deterioration in the operating 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 investments will push fixed costs, including personnel expenses and depreciation, upward, while the rise in interest rates will mean higher interest payments.
- As the rate of growth in corporate profits slows, expansion in capital investments will be restrained. 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 investments will be minor, and the upward trend in investments will continue.

(2) Household Sector

- Employment and wages are continuing to recover gradually, and 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 starting in 2007, and the number of younger workers available for hire 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 has been the restraint on expansion in wages; therefore, companies are expected to exercise caution in making salary 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 to remain moderate.
- 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 and an increase in 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 administration of Prime Minister Junichiro Koizumi, however, has focused on reducing public investment spending to achieve fiscal structural reforms and has not implemented large-scale economic policy packages to stimulate the economy. Also, 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 recovery in the economy, the new administration that will follow the Koizumi government is expected to continue policies of fiscal restructuring and reform. Therefore, cuts in expenditures for public investments at the national and local levels are expected to continue.
- To reduce the fiscal deficit, the basic policy of the government is to restrain its consumption expenditures. Accordingly, the government is working to restrain increases in social welfare payments through systemic reforms. However, even if these 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

- The world economy is continuing on an expansionary trend. However, 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—and the global economy may experience a temporary deceleration. However, we believe the risk of a serious loss of momentum, due to a hard landing caused by a collapse in the value of the U.S. dollar, is small.

- There is a possibility that Japan's exports will experience a temporary adjustment as the world economy slows, but the upward trend in exports is expected to continue. 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 rising exports from Japan. In addition, along with the rise in crude oil prices, exports to oil-producing countries in the Middle East and elsewhere as well as to other resource-producing nations 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 rise, net exports will basically continue to make a positive contribution to Japan's economic growth rate. Moreover, reflecting the global expansion of Japanese companies, dividends and other income from overseas subsidiaries and income from monetary assets held overseas are increasing. As a result, the surplus in Japan's international 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 higher prices of raw materials comes to an end. However, the pace of increase will accelerate again along with the improvement in domestic demand and supply conditions going into the latter half of fiscal 2007. 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 accompany economic

recovery, higher personnel costs, and increases in prices of oil-related products.

- The zero interest rate policy was lifted in July 2006, and the policy interest rate target for unsecured, overnight funds in the interbank call market was increased to 0.25% p.a. Looking ahead, a series of gradual increases in policy interest rates is likely, as the monetary authorities confirm the continuation of the economic recovery, increases in consumer prices, and trends in the demand for funds.
- Long-term interest rates will remain on a rising trend as the economic recovery continues and monetary policy continues to be relatively tight. Stock prices are expected to move within a limited range as the pace of improvement in corporate performance slows in the latter half of fiscal 2006 but may subsequently begin to rise again in fiscal 2007 in anticipation of stronger growth in the economy. In foreign exchange markets, there is a possibility that the yen may strengthen somewhat temporarily, based on views of possible interest rate increases in Japan, in the latter half of fiscal 2006. In fiscal 2007, the dollar may begin to strengthen, and the yen weaken, along with recovery in the U.S. economy and the rising interest rate differential between interest rates in Japan and the United States.

Exhibit 7: Outlook for fiscal 2006-2007

	FY2003 (actual)	FY2004 (actual)	FY2005 (actual)	Forecast ↘	
				Yr/Yr, %	
				FY2006 (forecast)	FY2007 (forecast)
Nominal GDP	1.0	0.5	1.8	1.9	2.5
Real GDP	2.3	1.7	3.2	2.1	2.0
Contribution of domestic demand (Qr/Qr,%)	1.5	1.2	2.7	1.9	1.9
Private Consumption	0.8	1.6	2.3	1.7	1.6
Housing investment	-0.0	1.7	-0.2	0.9	0.9
Private capital investment	7.0	5.6	7.5	8.9	4.6
Contribution of Inventory investment (Qr/Qr,%)	0.2	-0.3	0.2	-0.2	0.1
Government expenditure	-0.5	-1.4	0.8	-1.1	0.1
Public investment	-9.5	-12.4	-1.4	-6.7	-4.5
Government final consumption expenditure	2.5	1.8	1.5	0.5	1.5
Contribution of external demand (Qr/Qr,%)	0.8	0.5	0.5	0.2	0.1
Export of goods and services	9.7	11.4	9.1	6.5	6.2
Import of goods and services	3.2	8.7	6.5	5.9	6.0
GDP deflator (Yr/Yr,%)	-1.3	-1.2	-1.3	-0.2	0.5

	FY2003 (actual)	FY2004 (actual)	FY2005 (actual)	Forecast ↘	
				Yr/Yr, %	
				FY2006 (forecast)	FY2006 (forecast)
Current account balance (trillion yen)*	17.3	18.2	19.1	16.7	18.4
balance on goods (trillion yen)*	13.3	13.5	9.6	7.7	8.4
balance on service (trillion yen)*	-3.4	-3.6	-2.2	-2.8	-3.1
balance on income (trillion yen)*	8.5	9.6	12.6	12.9	14.0
Industrial production (Qr/Qr, %) (Yr/Yr, %)	3.5	4.0	1.6	4.8	2.5
Corporate goods prices(Yr/Yr,%)	-1.0	1.8	4.1	4.1	1.5
Domestic corporate goods prices(Yr/Yr,%)	-0.5	1.5	2.1	2.8	1.1
Consumer prices(Yr/Yr,%)	-0.2	0.0	-0.2	0.7	1.0
excluding freshfood(Yr/Yr,%)	-0.2	-0.2	0.1	0.6	1.0
Yen/U.S.Dollar	113.0	107.5	113.3	114.2	115.3
Newly issued government bond yields (10years)	1.12	1.52	1.43	2.00	2.40
WTI future price(near month contract, US dollar/barrel)	31.4	45.1	60.0	71.7	73.5
Dubai crude oil prices (US dollar/barrel)	27.0	36.6	53.7	66.8	69.5

Exhibit 8: Outlook for calendar 2006-2007

	CY2003 (actual)	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
				CY2006 (forecast)	CY2007 (forecast)	
Nominal GDP	0.2	1.1	1.3	2.0	2.1	
Real GDP	1.8	2.3	2.6	2.6	1.7	
Contribution of domestic demand	1.2	1.5	2.4	2.1	1.8	
Private consumption	0.6	1.9	2.1	1.7	1.7	
Housing investment	-0.9	1.9	-0.7	1.6	1.0	
Private capital investment	5.9	4.9	7.7	9.1	4.7	
Contriburyion of Inventory investment	0.4	-0.2	0.2	-0.1	0.0	
Government expenditure	-1.1	-0.4	0.1	-0.9	0.1	
Public investment	-10.8	-8.6	-6.0	-5.5	-4.5	
Government final consumption expenditure	2.3	2.0	1.7	0.5	1.4	
Contribution of external demand	0.6	0.8	0.2	0.3	0.0	
Export of goods and services	9.0	13.9	7.0	9.4	3.7	
Import of goods and services	3.9	8.5	6.2	6.8	4.7	
GDP deflator	-1.6	-1.2	-1.3	-0.5	0.4	

	CY2003 (actual)	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
				CY2006 (forecast)	CY2007 (forecast)	
Current account balance (trillion yen)*	15.8	18.6	18.3	17.7	17.8	
balance on goods (trillion yen)*	12.3	14.3	10.3	8.3	8.0	
balance on service (trillion yen)*	-3.6	-3.7	-2.6	-2.7	-3.0	
balance on income (trillion yen)*	8.3	9.3	11.4	13.1	13.8	
Industrial production						
(Qr/Qr, %)	3.2	5.5	1.1	4.7	3.5	
(Yr/Yr, %)						
Corporate goods prices(Yr/Yr,%)	-1.3	1.2	3.1	4.8	1.5	
Domestic corporate goods prices(Yr/Yr,%)	-0.8	1.2	1.7	3.0	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	115.1	114.0	
Newly issued government bond yields (10years)	1.0	1.5	1.4	1.9	2.3	
WTI future price(near month contract, US dollar/barrel)	31.0	41.4	56.6	70.0	71.5	
Dubai crude oil prices (US dollar/barrel)	26.8	33.6	49.5	64.9	67.5	

Exhibit 9: Outlook for 2006-2007 (Quarterly)

	Forecast											
	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	-0.1	0.7	0.4	0.3	0.9	0.7	-0.4	0.8	0.9	1.2	0.2
	1.5	1.4	2.1	2.4	1.2	2.5	2.1	1.8	2.1	2.1	2.4	3.3
Real GDP	1.4	0.2	1.1	0.7	0.2	0.7	0.6	0.1	0.2	0.7	0.9	1.0
	2.6	2.8	3.7	3.6	2.0	2.7	1.9	1.7	1.6	1.6	1.8	2.9
Contribution of domestic demand(Qr/Qr,%)	1.1	0.2	0.5	0.7	0.3	0.6	0.6	0.3	0.2	0.6	0.7	0.8
Private Consumption	0.7	0.4	0.6	0.2	0.5	0.3	0.5	0.4	0.4	0.4	0.3	0.4
	2.0	2.0	3.2	1.9	1.9	1.6	1.5	1.8	1.6	1.7	1.6	1.6
Housing investment	-1.5	1.9	1.8	0.7	-2.7	1.9	0.6	0.4	-0.0	-0.4	0.7	-0.5
	-2.7	-1.3	0.5	3.1	1.6	1.5	0.4	0.2	2.7	0.4	0.7	-0.1
Private capital investment	1.9	1.8	0.3	3.3	3.8	1.8	0.8	0.5	0.6	1.2	2.2	2.5
	7.8	7.9	6.6	7.5	9.8	9.3	9.9	7.1	3.9	3.0	4.5	6.6
Contribution of Inventory investment(Qr/Qr,%)	0.4	-0.5	0.1	0.1	-0.2	0.1	0.1	-0.1	-0.2	0.2	0.1	0.1
Government expenditure	0.6	0.2	-0.4	-0.1	-1.1	0.1	0.2	0.3	-0.1	-0.1	-0.1	0.1
	0.5	1.8	0.8	0.2	-1.2	-1.5	-1.1	-0.6	0.7	0.4	-0.2	-0.3
Public investment	1.4	0.3	-2.7	-0.6	-4.6	-0.5	-0.4	-0.3	-1.7	-1.8	-1.3	-1.0
	-3.4	0.8	-1.8	-1.4	-7.5	-8.2	-5.9	-5.6	-2.8	-4.1	-5.0	-5.6
Government final consumption expenditure	0.4	0.2	0.2	0.0	-0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.3
	1.4	2.1	1.6	0.8	0.2	0.3	0.6	1.0	1.6	1.6	1.4	1.3
Contribution of external demand(Qr/Qr,%)	0.3	0.0	0.6	0.0	-0.1	0.0	-0.0	-0.2	0.0	0.1	0.2	0.2
Export of goods and services	3.6	3.1	3.8	2.2	0.9	2.2	-0.1	-1.3	1.4	3.5	3.5	3.1
	4.9	7.6	10.6	13.4	10.2	9.3	5.3	1.6	2.2	3.5	7.2	12.0
Import of goods and services	1.9	3.3	-0.6	2.5	1.8	2.2	0.1	-0.2	1.4	3.1	2.3	1.9
	6.2	7.9	4.7	7.4	7.2	6.0	6.7	3.9	3.5	4.5	6.8	9.1
GDP deflator(Yr/Yr,%)	-1.1	-1.3	-1.6	-1.2	-0.8	-0.2	0.1	0.0	0.5	0.5	0.6	0.4

	Forecast											
	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	5.1	4.3	4.1	4.3	4.2	4.3	4.5	5.0	4.7
balance on goods (trillion yen)*	2.5	2.2	2.5	2.3	2.0	1.8	1.6	2.0	2.0	1.9	1.7	2.2
balance on service (trillion yen)*	-0.7	-0.8	-0.3	-0.4	-0.7	-1.0	-0.5	-0.6	-0.8	-1.0	-0.5	-0.6
balance on income (trillion yen)*	2.8	3.0	3.3	3.6	3.3	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	0.9	2.7	0.4	-0.4	-0.3	1.8	1.2	1.3
(Yr/Yr, %)	0.3	-0.2	3.0	3.2	4.1	7.0	4.3	3.8	2.5	1.4	2.1	4.0
Corporate goods prices(Yr/Yr,%)	2.7	3.1	4.9	5.6	4.9	5.1	3.8	2.6	1.4	0.8	1.4	2.7
Domestic corporate goods prices(Yr/Yr,%)	1.7	1.7	2.2	2.8	3.1	3.2	2.8	2.0	1.0	0.8	1.0	1.6
Consumer prices(Yr/Yr,%)	-0.1	-0.3	-0.5	0.4	0.7	0.7	0.7	0.7	0.8	0.9	1.1	1.0
excluding freshfood(Yr/Yr,%)	-0.1	-0.1	0.1	0.5	0.6	0.6	0.6	0.7	0.7	0.9	1.1	1.1
Yen/U.S.Dollar	107.6	111.2	117.3	116.9	114.4	115.2	114.0	113.0	113.0	114.0	116.0	118.0
Newly issued government bond yields(10years)	1.27	1.34	1.52	1.57	1.89	2.00	2.00	2.10	2.20	2.40	2.50	2.50
WTI future price(near month contract, US dollar/barrel)	53.2	63.2	60.0	63.5	70.7	74.0	72.0	70.0	70.0	71.0	75.0	78.0
Dubai crude oil prices (US dollar/barrel)	47.9	55.6	52.9	58.2	64.8	69.0	67.5	66.0	66.0	67.0	71.0	74.0

*seasonally adjusted