

February 2007

**Forecast for the Japanese
Economy in Fiscal 2007 and 2008**
— Interest in Income Distribution Rises as the Economy Experiences
Moderate Growth —



Mitsubishi UFJ Research and Consulting

Economic Research Department

1. Forecast for the Japanese Economy in Fiscal 2007 and Fiscal 2008

-- Interest in Income Distribution Rises as the Economy Experiences Moderate Growth

(1) Current State of the Economy

The economy is continuing to recover, but growth in the first half of fiscal 2006 remained low. During the April-June quarter, declines in public works investment, external demand, and inventory investment restrained economic growth, while in the July-September period, private consumption showed a marked decline, and the pace of expansion in private capital investment slowed. Real GDP growth in the July-September period was 0.1% over the previous quarter, virtually level, and, since the end of 2006, concern has risen about the future course of the economy.

Amid these developments, real GDP statistics announced on February 15 showed rapid growth in the October-December period of 1.2% over the previous quarter, or 4.8% at an annualized rate. In part due to a reaction to the significant decline in the previous quarter, personal consumption rose 1.1% in the October-December quarter, recovering to the level attained in the April-June quarter. Private capital investment continued on an upward trend, increasing 2.2% quarter-to-quarter, a higher margin of increase than in the previous quarter. In addition, although growth in exports was marginal, imports remained virtually level, and, as a result, the external sector continued to make a positive contribution of 0.2 percentage point to growth. Moreover, government public works expenditures, which showed an increasing margin of decline after the beginning of fiscal 2006, posted growth of 2.7%, the first rise in five quarters, and contributed to pushing GDP growth upward.

Therefore, the significance of the GDP results for the October-December quarter was not just evidence of higher growth but also that domestic demand, including public-sector demand, was expanding and that growth was well balanced, with the external sector contributing to expansion. Even if we take into consideration the reaction to the slowdown in private

consumption during the July–September quarter, the latest GDP statistics enable us to confirm that the Japanese economy is continuing to experience gradual recovery.

In nominal terms, the GDP rose 1.2% over the previous quarter in the October–December period, or 5.0% at an annualized rate, just slightly faster than the real GDP growth rate. In comparison with the previous year, the GDP deflator was still declining, down 0.5% for the October–December quarter, but the margin of decline continues to shrink. The deflator for domestic demand is fluctuating around 0% change from a year earlier, but the trend is toward smaller margins of decline and toward an increase over a year earlier. Therefore, reflecting the continued recovery in the economy, the trend is toward an end to deflation.

(2) Outlook for Fiscal 2007 and Fiscal 2008

Although the gradual recovery trend in the economy will continue, the pace of recovery may slow somewhat during the first half of 2007. First, the deceleration of the U.S. economy, owing the marked decline in housing investment, will have an impact on the world economy as a whole and will also be a factor restraining exports from Japan. Moreover, to deal with the substantial rise in inventories of semiconductors, LCDs, and other digital-related products, Japanese manufacturers of these products are beginning to restrain production to adjust their inventories. The slowdown in exports and production will restrain growth in corporate profits and bring weaker growth in private capital investment.

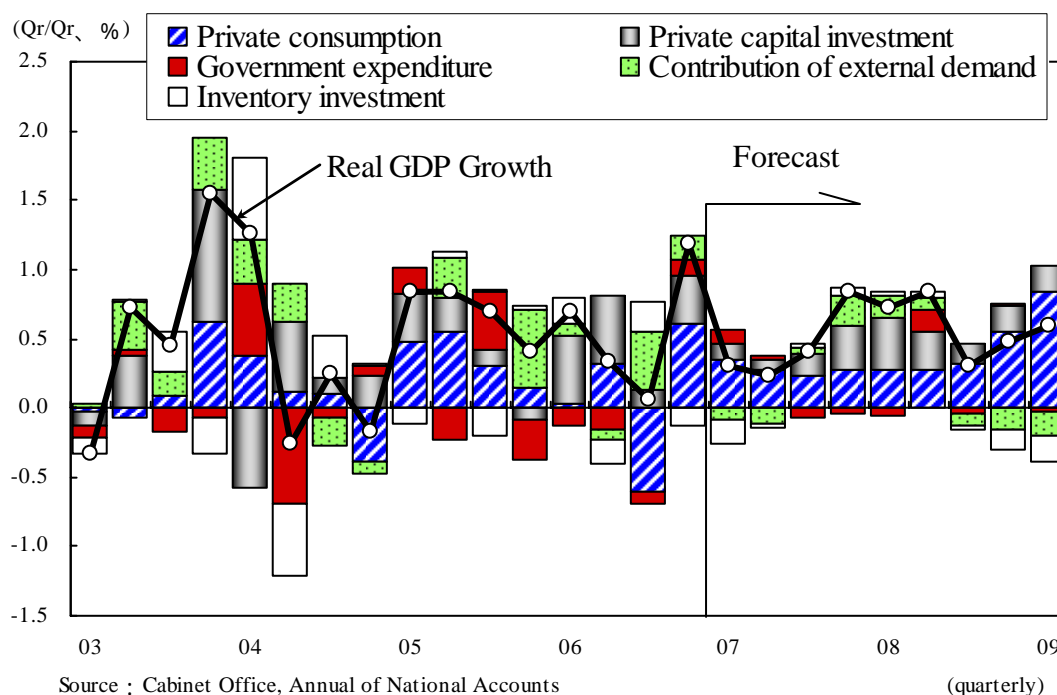
Nevertheless, in the latter half of fiscal 2007, the economy will begin to accelerate again. First, it appears that the slowdown in the world economy appear likely to be temporary. In the United States, the decline in housing investment has been accompanied by a decline in real estate prices, and, while there was concern that this might cause a drop in private consumption because of the negative wealth effect, for the time being consumer spending remains firm as incomes continue to rise. As housing investment begins to bottom out, growth in the U.S. economy should return to more than 3%, and growth in the world economy will also increase.

Moreover, the completion of the adjustment in inventories of digital-related products should come in sight by the end of the first half of 2007, and production will begin to increase again in the latter half of the year. The acceleration in exports and production will lead to improvement in corporate profitability, and it is likely that private capital investment, which had decelerated, will begin to rise again.

On the other hand, the employment environment is expected to continue to improve. As the number of employed persons remains on a rising trend, wages are likely to increase, albeit at a moderate pace, reflecting the tightening of supply and demand in the labor market. Despite the temporary slowdown in growth, the real GDP in fiscal 2007 is forecast to expand for the sixth consecutive year, at an annual rate of 2.0%, as consumer spending provides support for the economy. Also, in nominal terms, the GDP is forecast to grow at an annual rate of 2.2%, for the fifth year of positive growth, and the GDP deflator will begin to rise for the first time in 10 years, since the increase in the consumption tax in 1997.

The economy is also expected to remain on a moderate growth trend in fiscal 2008. As favorable external conditions continue, with growth in the world economy, expansion in exports will lead to an increase in production, and private capital investment will expand along with improvement in corporate profitability. The trend toward improvement in the employment and income environments will continue, although not to the same extent as in the corporate sector, and personal consumption will rise, thus providing support for the economy as a whole. In addition, in our forecast, we have assumed that the consumption tax will be increased from 5% to 7% in April 2009, and we are forecasting that this will bring a surge in consumer spending prior to the increase, mainly in the latter half of fiscal 2008, and push the growth rate upward. Public works investment and housing investment are expected to decline, but in fiscal 2008, we are looking for real GDP growth of 2.5%, the seventh year of positive growth, and nominal GDP growth of 2.7%, the sixth year of positive growth.

Exhibit 1: Real GDP Growth (seasonally adjusted)



(3) An Examination of Concerns about Economic Slowdown

The growth rate of the Japanese economy is very stable. The economy has repeatedly recovered and then slipped into a downturn, and, while the rate of economic growth has varied through these periods, the real economic growth rate since fiscal 2003 has been stable at about 2%. It is virtually certain that in fiscal 2006 the economy will expand at about this rate, meaning that 2% growth will have continued for four consecutive years. This has never occurred before, and, if our forecasts are correct, the 2% growth trend will continue at least through fiscal 2008.

We believe the continuation of moderate and stable growth in the economy reflects structural changes in the Japanese economy. In short, Japan is making the transition from a growth economy to a mature economy. If, along with the decline in the average family size and the demographic aging of the population, Japan moves into an era of population decline, the rapid growth of the past will be difficult to achieve. It will be important for moderate, stable growth to continue. The overall condition of the Japanese economy is actually quite good, supported in part by the favorable

environment provided by growth in the world economy.

However, with only moderate growth, the economy will lack robustness. As the size of the working population declines, there are concerns about a decline in the growth rate, and the policy of the government to increase the rate of growth is, therefore, not mistaken. However, this policy will probably only succeed in moving the growth rate from 2% to 3%. If Japan can attain the 5%-to-6% growth experienced during its bubble years, the salaries of most people would rise and the economy would become vibrant again. However, memories of the collapse of the bubble economy and Japan's ensuing "Lost Decade" following the years of growth during the bubble that exceeded the economy's actual capacity are still fresh in people's minds. It seems as if a consensus has emerged among the Japanese people that stable economic growth of about 2% to 3% is more desirable.

As moderate growth has become the norm, discussion of growth and economic disparities has increased. Now that people have concluded that Japan cannot hope for rapid growth, their interest has shifted to whether they are receiving the proper rewards of growth. For example, even though corporate profits have already exceeded the levels attained during the bubble economy and at the time of the IT boom, there is dissatisfaction because salaries are hardly increasing. However, companies have their own views about this issue; to win in the face of severe international competition, companies must improve their technology and restrain costs. Companies that take the simplistic course of merely increasing personnel costs may lose out to their competitors.

The ideas expressed by the government of Prime Minister Shinzo Abe that we should increase growth potential through "the power of innovation and an open stance," are correct, but people are still prone to feel dissatisfied about economic disparities. Corporations and the people who work in them must face the fact that they are exposed to intense global competition. The scenario where the nation's GDP, corporate profits, and the income of individual citizens all grow together is a thing of the past. Some companies will grow and others may lose out to their competitors. Even if companies grow, the salaries of the people working in those companies will not all rise

together. Even if we ask for equality in results, this will be difficult to realize, and the problem of distribution of income will come down to whether each of us is receiving compensation appropriate to the work we have performed.

In monetary policy also, we will have to remind ourselves of the importance of the interest rate mechanism and its role in resource allocation. To increase the economic growth rate, it might seem that lower interest rates are better, even if they have to be held down artificially. Certainly, interest rates were regulated during Japan's period of rapid growth. However, as we make the transition from a growth economy to a mature economy, allocating limited resources will become as important as achieving growth, and the roles that monetary policy is expected to play will change. The question will be whether interest rate levels represent an appropriate price to pay to the people who provide the funds (depositors). If we assume moderate growth, price stability, and moderate demand for funds, interest rate levels will naturally be lower than they were in the past, but the question will be whether or not today's superlow interest rates are just too low. We have to understand the meaning of the normalization of monetary policy that the Bank of Japan is working to implement from this perspective. Personal consumption and prices are important indicators, but confining the discussion just to these indicators makes it difficult to plot the future course of monetary policy.

2. Forecasts of Economic Activity by Sector

(1) Corporations

- Corporations have completed their disposal of negative assets left over from the bubble economy, and their financial positions and profitability have recovered. The risks of a possible downturn in production, capital investment, or other aspects of corporate activities have receded, and companies are moving forward with the further development of their activities, including the expansion of production capacity.
- Production is expanding supported by growth in exports of automobiles, digital-related products, and other items as well as favorable trends in

domestic demand, especially capital investment. Along with the expansion in shipments, inventory levels are also rising, but companies are adopting a cautious stance toward increasing inventories, and, with the exception of digital-related products and certain other industries, the rate of increase in inventories is moderate.

- As a result of the improvement in corporate profitability and recovery in the economy, recurring profit among corporations has already exceeded the previous peaks reached during the bubble economy and the IT boom and now stands at its highest level in history. The run-up in raw material prices has stopped for the time being, but such factors as increases in personnel costs and depreciation charges as well as the rise in interest payments accompanying higher overall interest rates are bringing a deterioration in the corporate profit environment. Nevertheless, gains in sales in Japan and overseas, including rising exports, are making it possible for companies to report increases in profits.
- If growth in corporate profitability becomes sluggish, this may restrain expansion in capital investment. However, corporations are still faced with the need to replace certain older equipment, and they must make further capital investments to increase the value added of their products and improve their competitiveness. For these reasons, the deceleration in capital investment is expected to be slight, and capital outlays are likely to continue on an upward trend.

(2) Households

- Employment and wages are continuing to recover, but the pace of improvement is gradual. The positive benefits of economic expansion have still not spread from the corporate sector to the household sector. Personal consumption is continuing to rise, but it is still not strong enough to be a driving force in the economy.
- The drastic restructurings that companies undertook to reduce excess employment have been completed for the time being. A sense that labor may be in shorter supply has emerged as companies have recognized that the baby boom generation of workers will begin to retire in 2007, and the number of younger workers will decline. Companies have,

therefore, shown growing interest in expanding their workforces. Since profitability is good, the employment and income environments are expected to show a continuing trend toward improvement.

- However, the restraint that corporations are showing regarding increases in personnel costs is one of the factors supporting profitability, and corporations, therefore, remain cautious about raising wages. In addition, the increases in taxes and the welfare burden that the workforce is expected to bear going forward will reduce disposable incomes, primarily of currently employed workers. Increases in consumer spending will, therefore, continue to be moderate.
- The pace of private housing investment is expected to slow somewhat in the medium term because of slower growth in the number of households, but remain firm in the short term as the sons and daughters of the baby boom generation purchase their first homes. In addition to recovery in the economy, other factors supporting housing investment will be expectations of rising interest rates and the prospects for a bottoming out and an increase in land prices.

(3) Government

- Following the bursting of Japan's economic bubble, government finances deteriorated rapidly, and the public sector has continued to issue large volumes of government bonds. Along with the decline in nominal economic growth rates, the government lowered tax rates, thus bringing a drop in tax revenues. Moreover, on the expenditure side, as the population has aged demographically, social welfare costs have risen, and, as a result of the implementation of major government spending programs to stimulate the economy, expenditures for public works increased.
- Former Prime Minister Junichiro Koizumi's administration did not undertake any major spending programs to stimulate the economy because he set the goal of making structural reforms in government finances. Instead, he reduced spending on public works. Moreover, local governments have experienced deterioration in their financial position and have cut their public works spending. Along with the ongoing economic recovery, tax revenues are expanding, but current

Prime Minister Shinzo Abe is maintaining the policy of his predecessor of making structural reforms in government finances. Accordingly, continued cutbacks in public works spending are expected at the national and the local levels.

- The basic policy of the government is to reduce government final consumption expenditure also to reduce its deficits. To this end, the public sector is endeavoring to restrain the increase in social welfare expenditures through systemic reforms. However, even if these reforms are implemented, they will probably only succeed in lowering the pace of expansion in these expenditures. We anticipate that government final consumption expenditures, principally social welfare payments, will continue to increase.

(4) Trends in Overseas Economies

- The world economy is continuing on an expansionary trend. A number of factors, however, may bring a temporary slowdown. These include the adoption of more stringent monetary policies in certain countries, higher crude oil prices, the slowdown in the U.S. housing market, the overheating of the Chinese economy, and demand trends in the digital-related product industries. However, at present, we believe the risk of a hard landing as a result of a sharp drop in the value of the U.S. dollar that might lead to a downturn in the world economy as a whole is minimal.
- Although there is a possibility that Japan's exports might experience a temporary adjustment because of a deceleration in the world economy, we believe the rising trend in Japan's exports will continue. The expansion in overseas production of Japanese companies will be one factor restraining exports. However, we are forecasting that exports from Japan will continue to rise because the demand for electronic parts, principally in the rest of Asia, is growing, and worldwide demand for automobiles is expanding rapidly. In addition, in view of the increase in and continuing high levels of primary product prices, we are looking for growth in exports to resource-exporting countries, such as the oil producers of the Middle East.

- Turning to imports, as China and other emerging industrialized countries rapidly expand their production capacity and Japanese companies continue to move to locate portions of their production capacity offshore Japan for the optimal division of production, Japan's imports of products and parts, principally from the rest of Asia, will continue to increase. In addition, as a result of the continuing high levels of primary product prices, imports of raw materials in value terms are expected to remain at a high level.
- We are looking for growth in both exports and imports, with net exports making a positive contribution to Japan's economic growth. Moreover, reflecting the overseas expansion of Japanese companies, dividends and other income from their overseas subsidiaries will expand, and income from monetary assets held in foreign countries will also increase. As a result, Japan's surplus in the income accounts of its balance of payments is on track to rise to, and then exceed, the levels of the trade surplus.

3. Forecasts for Prices and Financial Markets

- The run-up in prices of raw materials, including crude oil, has paused, but these prices remain at a high level by past standards. On the other hand, the supply capacity of China and other emerging industrialized countries is expanding, and this and other factors are resulting in declines in prices of industrial products. As a consequence, the world's price structure is undergoing major changes, owing to inflationary pressures upstream and deflationary pressures downstream.
- These developments are having an impact on Japan's domestic prices. While domestic corporate prices are increasing on the one hand, there is no broad-based trend toward a rise in consumer prices, even though the margin of decline in these prices has diminished.
- Regarding monetary policy, the quantitative policy of monetary easing was lifted in March 2006, and interest rates were increased 0.25 percentage point in July 2006, then again 0.25 percentage point in February 2007. The process of normalizing monetary policy to raise interest rates from their excessively low levels and permit the interest rate mechanism to operate properly has begun. Looking ahead, we

believe there will be a series of further slight increases at an unhurried pace, as the monetary authorities examine trends in the overall economy, prices, and the demand for funds.

- The upward trend in long-term interest rates is expected to continue as the economic recovery proceeds and the monetary policy interest rate increases. Stock prices are expected to continue to rise, reflecting the improvement in profitability not only in Japan but also in overseas markets. In foreign exchange markets, the yen remains stable and has not appreciated despite the expansion in Japan's current account surplus. Funds flow into the currencies of countries viewed as stronger, based on such factors as differences in perceptions of the state of the economies of the industrialized countries, interest rate differentials, and trends in monetary policy. At present, however, there are no major differences among economic trends in the industrialized countries, and we are forecasting that the yen will remain relatively stable.

Exhibit 2: Outlook for fiscal 2007-2008

	FY2004 (actual)	FY2005 (actual)	Forecast ↘			Yr/Yr, %
			FY2006 (forecast)	FY2007 (forecast)	FY2008 (forecast)	
Nominal GDP	0.9	1.0	1.4	2.2	2.7	
Real GDP	2.0	2.4	2.0	2.0	2.5	
Contribution of domestic demand (Qr/Qr,%)	1.4	1.9	1.3	1.8	2.4	
Private Consumption	1.3	1.9	0.7	1.9	2.5	
Housing investment	1.7	-1.0	0.5	1.3	-1.1	
Private capital investment	6.3	5.7	7.8	4.7	6.1	
Contribution of Inventory investment (Qr/Qr,%)	0.1	-0.1	-0.0	-0.1	-0.1	
Government expenditure	-1.5	0.4	-1.2	0.2	0.2	
Public investment	-12.7	-1.4	-9.1	-4.2	-3.6	
Government final consumption expenditure	1.7	0.9	0.9	1.3	1.2	
Contribution of external demand (Qr/Qr,%)	0.5	0.5	0.7	0.2	0.2	
Export of goods and services	11.4	9.0	7.0	5.3	7.7	
Import of goods and services	8.4	6.0	2.8	4.5	7.5	
GDP deflator (Yr/Yr,%)	-1.0	-1.3	-0.5	0.2	0.0	

	FY2004 (actual)	FY2005 (actual)	Forecast ↘			Yr/Yr, %
			FY2006 (forecast)	FY2007 (forecast)	FY2008 (forecast)	
Current account balance (trillion yen)	18.2	19.1	20.7	23.3	23.7	
balance on goods (trillion yen)	13.2	9.6	10.1	10.8	11.0	
balance on service (trillion yen)	-3.6	-2.2	-2.3	-2.3	-2.3	
balance on income (trillion yen)	9.6	12.6	14.1	15.9	16.1	
Industrial production (Qr/Qr, %) (Yr/Yr, %)	4.0	1.6	4.7	2.5	3.1	
Corporate goods prices(Yr/Yr,%)	1.8	4.1	4.4	1.6	1.3	
Domestic corporate goods prices(Yr/Yr,%)	1.5	2.1	2.8	0.7	1.1	
Consumer prices(Yr/Yr,%)	0.0	-0.3	0.4	0.4	0.5	
excluding freshfood(Yr/Yr,%)	-0.1	-0.1	0.1	0.4	0.6	
Yen/U.S.Dollar	107.5	113.3	117.3	123.0	120.8	
Newly issued government bond yields (10years)	1.52	1.43	1.78	1.85	2.05	
WTI future price(near month contract, US dollar/barrel)	45.1	60.0	64.9	64.0	69.5	
Dubai crude oil prices (US dollar/barrel)	36.6	53.7	60.7	60.5	66.0	

Exhibit 3: Outlook for calendar 2007-2008

	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
			CY2006 (forecast)	CY2007 (forecast)	CY2008 (forecast)
Nominal GDP	1.6	0.6	1.2	2.3	2.6
Real GDP	2.7	1.9	2.2	2.0	2.5
Contribution of domestic demand	1.9	1.7	1.4	1.8	2.3
Private consumption	1.6	1.6	0.9	1.8	2.1
Housing investment	1.9	-1.3	0.9	1.5	-1.0
Private capital investment	5.6	6.6	7.3	5.1	6.4
Contriburyion of Inventory investment	0.3	-0.1	0.1	-0.2	0.1
Government expenditure	-0.6	0.1	-1.4	0.3	-0.1
Public investment	-9.0	-6.2	-7.7	-3.7	-4.9
Government final consumption expenditure	1.9	1.7	0.3	1.4	1.2
Contribution of external demand	0.8	0.3	0.8	0.2	0.3
Export of goods and services	13.9	7.0	9.7	3.2	9.6
Import of goods and services	8.1	5.8	4.6	1.8	8.6
GDP deflator	-1.1	-1.3	-0.9	0.3	0.1

	CY2004 (actual)	CY2005 (actual)	Forecast		Yr/Yr, %
			CY2006 (forecast)	CY2007 (forecast)	CY2008 (forecast)
Current account balance (trillion yen)	18.6	18.3	19.8	23.0	24.3
balance on goods (trillion yen)	13.9	10.3	9.5	10.7	11.6
balance on service (trillion yen)	-3.7	-2.6	-2.1	-2.3	-2.3
balance on income (trillion yen)	9.3	11.4	13.7	15.6	16.1
Industrial production (Qr/Qr, %) (Yr/Yr, %)	5.5	1.1	4.6	2.6	3.1
Corporate goods prices(Yr/Yr,%)	1.2	3.1	5.0	2.0	1.6
Domestic corporate goods prices(Yr/Yr,%)	1.2	1.7	3.0	1.0	1.1
Consumer prices(Yr/Yr,%)	0.0	-0.3	0.2	0.3	0.6
excluding freshfood(Yr/Yr,%)	-0.1	-0.1	0.1	0.3	0.5
Yen/U.S.Dollar	108.2	110.2	116.3	122.5	121.3
Newly issued government bond yields (10years)	1.5	1.4	1.7	1.8	2.0
WTI future price(near month contract, US dollar/barrel)	41.4	56.6	66.2	61.8	69.0
Dubai crude oil prices (US dollar/barrel)	33.6	49.5	61.6	58.3	65.5

Exhibit 4: Outlook for 2007-2008 (Quarterly)

	Forecast											
	FY2006				FY2007				FY2008			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Nominal GDP	0.2	-0.1	1.2	0.9	0.0	0.4	0.9	0.6	1.0	0.4	0.5	0.6
	1.0	0.8	1.5	2.4	2.1	2.6	2.1	2.1	2.9	3.0	2.4	2.6
Real GDP	0.3	0.1	1.2	0.3	0.2	0.4	0.8	0.7	0.8	0.3	0.5	0.6
	2.1	1.5	2.1	2.2	1.8	2.2	1.7	2.3	2.8	2.8	2.2	2.3
Contribution of domestic demand(Qr/Qr,%)	0.4	-0.4	1.0	0.4	0.4	0.4	0.6	0.6	0.7	0.4	0.6	0.8
Private Consumption	0.6	-1.1	1.1	0.6	0.5	0.4	0.5	0.5	0.5	0.6	1.0	1.5
	1.5	-0.3	0.6	1.2	1.1	2.6	2.1	1.9	1.9	2.1	2.6	3.6
Housing investment	-2.1	-0.1	2.0	0.2	0.0	0.4	0.4	-1.4	0.0	-0.4	0.4	-1.1
	1.2	-0.1	0.7	0.1	2.1	2.6	1.0	-0.5	-0.6	-1.4	-1.4	-1.0
Private capital investment	3.3	0.8	2.2	0.7	0.4	1.0	1.9	2.3	1.6	0.9	1.1	1.2
	7.2	6.9	9.8	7.3	4.4	4.3	4.0	5.8	7.1	6.9	6.0	4.9
Contribution of Inventory investment(Qr/Qr,%)	-0.2	0.2	-0.1	-0.2	0.0	0.0	0.1	0.0	0.0	0.0	-0.1	-0.2
Government expenditure	-0.7	-0.4	0.5	0.4	0.1	-0.3	-0.2	-0.3	0.7	-0.2	0.1	-0.1
	-0.6	-2.7	-1.5	-0.1	0.8	0.9	-0.1	-0.9	0.1	0.1	0.2	0.3
Public investment	-6.3	-4.8	2.7	2.9	-3.2	-2.9	-1.5	0.0	-0.9	-1.3	-0.9	0.2
	-6.5	-14.8	-9.8	-5.4	-2.9	-0.9	-4.6	-7.3	-5.4	-3.8	-3.0	-2.8
Government final consumption expenditure	0.7	0.7	0.0	0.1	0.8	0.3	0.1	0.0	1.0	0.1	0.2	0.0
	0.6	0.3	1.1	1.5	1.6	1.4	1.3	1.2	1.3	1.1	1.2	1.3
Contribution of external demand(Qr/Qr,%)	-0.1	0.4	0.2	-0.1	-0.1	0.0	0.2	0.2	0.1	-0.1	-0.2	-0.2
Export of goods and services	0.7	2.4	1.1	-1.9	1.0	1.9	4.6	3.1	1.4	0.7	0.7	0.8
	10.0	9.4	6.8	2.2	2.5	2.0	5.7	11.1	11.6	10.2	6.0	3.6
Import of goods and services	1.4	-0.5	-0.0	-1.6	1.9	1.8	3.6	2.5	1.0	1.3	1.7	1.9
	6.7	2.5	2.7	-0.7	-0.1	2.1	5.9	10.2	9.2	8.6	6.6	6.0
GDP deflator(Yr/Yr,%)	-1.1	-0.7	-0.5	0.2	0.2	0.4	0.4	-0.2	0.1	0.2	0.1	0.3

	Forecast											
	FY2006				FY2007				FY2008			
	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	4.7	5.8	5.9	5.7	5.2	6.4	6.2	6.2	5.5	6.6	5.6
balance on goods (trillion yen)*	2.1	2.1	3.0	3.3	2.8	2.2	2.3	3.5	3.6	2.6	2.4	2.3
balance on service (trillion yen)*	-0.7	-0.7	-0.3	-0.6	-0.7	-0.7	-0.3	-0.6	-0.8	-0.7	-0.2	-0.6
balance on income (trillion yen)*	3.3	3.5	3.6	3.9	4.4	4.2	3.8	4.1	4.6	4.2	3.9	4.1
Industrial production (Qr/Qr, %)	0.9	1.0	2.6	-1.1	0.4	0.9	0.8	0.7	0.8	0.8	0.6	0.7
(Yr/Yr, %)	4.1	5.4	5.7	3.6	3.0	2.8	1.2	2.9	3.4	3.2	3.0	3.0
Corporate goods prices(Yr/Yr,%)	5.0	5.6	3.7	3.3	2.1	1.0	1.5	1.7	2.0	1.6	1.0	0.8
Domestic corporate goods prices(Yr/Yr,%)	3.1	3.5	2.6	2.0	1.1	0.3	0.6	0.8	1.4	1.3	1.0	0.7
Consumer prices(Yr/Yr,%)	0.2	0.6	0.3	0.3	0.4	0.2	0.5	0.5	0.5	0.6	0.5	0.6
excluding freshfood(Yr/Yr,%)	0.0	0.3	0.1	0.2	0.4	0.3	0.5	0.4	0.5	0.6	0.5	0.6
Yen/U.S.Dollar	114.4	116.2	117.8	121.0	122.0	123.0	124.0	123.0	121.5	120.5	120.0	121.0
Newly issued government bond yields (10years)	1.89	1.79	1.69	1.75	1.80	1.80	1.90	1.90	2.00	2.00	2.10	2.10
WTI future price(near month contract, US dollar/barrel)	70.7	70.5	60.2	58.1	61.0	63.0	65.0	67.0	69.0	70.0	70.0	69.0
Dubai crude oil prices (US dollar/barrel)	64.8	66.0	57.4	54.6	57.5	59.5	61.5	63.5	65.5	66.5	66.5	65.5

*seasonally adjusted