

August 2007

Forecast for the Japanese Economy in Fiscal 2007 and 2008

**— Continuing on a Moderate and Stable Growth Path
Even after Deflation Ends —**



Mitsubishi UFJ Research and Consulting

Economic Research Department

1. Forecast for the Japanese Economy in Fiscal 2007 and Fiscal 2008 -- Continuing on a Moderate and Stable Growth Path Even after Deflation Ends

(1) Current State of the Economy

The Japanese economy is slowing but continuing on a moderate recovery trend. According to the latest gross domestic product (GDP) data, for the April–June quarter, issued on August 13, GDP expanded 0.1% over the previous quarter (or at an annualized rate of 0.5%). Although this was a slower rate of expansion than during the latter half of the last fiscal year and virtually zero growth, it was the 10th consecutive quarter of positive growth. Moreover, in nominal terms, GDP rose 0.3% (or at an annual rate of 1.1%). This was a higher rate than real GDP growth, and the GDP deflator rose by a small margin over the previous quarter. Compared with the same period of the previous year, the GDP deflator was down a marginal 0.3%, influenced by the rise in the deflator for imports. However, after excluding the effects of export and import prices, the domestic demand deflator rose a slight 0.2%, and the end of deflation appears to be approaching.

Looking at domestic and external demand separately, first, the contribution of external demand was 0.0%, or virtually level, representing a significantly lower contribution than in the previous quarter. This was because of the effect of weaker growth in exports (0.9% over the previous quarter), principally to the United States. However, the growth trend in exports is continuing, along with overall growth in the world economy, and the environment for exports has not altered materially.

On the other hand, the contribution of domestic demand was only 0.1%, compared with the previous quarter. By demand component, personal consumption, which recorded a high rate of growth in the latter half of the previous fiscal year, rose 0.4% over the previous quarter, thus returning to an upward trend more in line with the moderate rise in incomes. Private housing investment posted a drop of 3.5%, the second consecutive quarterly decline and representing a larger drop than in the previous quarter,

reflecting the drop in new housing starts, particularly owner-built housing, in the first half of this year. Private capital investment rose 1.2% over the previous quarter, representing a faster rate of expansion than in the previous quarter, but this pace of growth was lower than in the previous year. Private inventory investment showed its third consecutive quarter of decline, thus continuing to exert a negative impact.

Public-sector demand had a negative overall effect as the increase of 0.3% quarter to quarter in government final consumption expenditures was offset by a continued decline of 2.1% in government public works spending.

(2) Outlook for Fiscal 2007 and Fiscal 2008

Although the domestic economy is slowing, it is not expected to slip into recession and is expected to accelerate again. First, the slowdown in the U.S. economy has run its course. The slow pace of growth in the United States since the April–June quarter of 2006 is continuing, but during the April–June quarter of this year, the annual rate of growth was 3.4%, marking a return to the underlying growth potential of the U.S. economy (about 3%). The firm pace of expansion in the world economy, including the United States, is a positive factor for Japan’s exports. In addition, it appears that manufacturers of digital-related products, including semiconductors and LCDs, will be within sight of completing their inventory adjustments in the first half of 2007. Although production statistics show that inventories of electronic components are still at relatively high levels, production and shipments are forecast to increase along with expansion in demand in the latter half of the year. Since acceleration in exports and production will improve corporate profitability, the pace of private capital investment is likely to pick up in the latter half of the fiscal year.

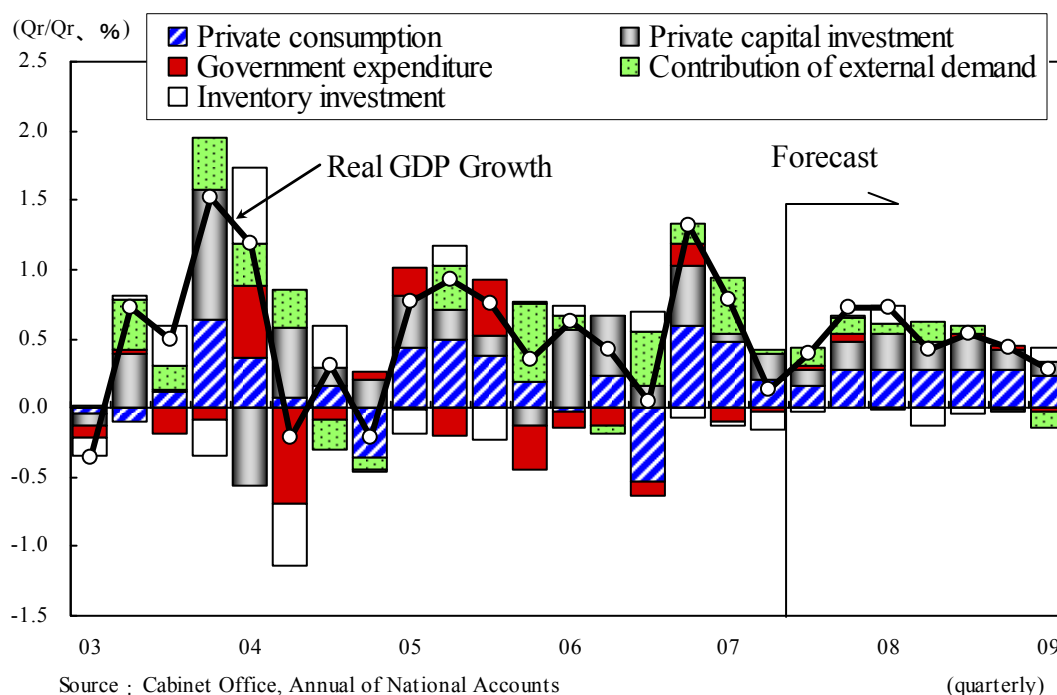
On the other hand, the number of employed persons is continuing to increase, and the employment and income environments are showing gradual improvement. Although recent data show wages are still declining, they are likely to begin to increase gradually, reflecting the tightening of the supply and demand balance for labor. The rate of growth in real terms

in fiscal 2007 is forecast to be 2.2%, the sixth consecutive year of positive growth, as the economy remains on a moderate growth trend with continued support from gradual expansion in personal consumption and added impetus from the expected pickup in exports and private capital investment. Growth in nominal terms is forecast to be 2.1%, the fifth consecutive year of positive growth, with the GDP deflator declining 0.1% for the fiscal year, a slower rate of decline compared with recent years, and moving toward zero.

In fiscal 2008, the domestic economy is expected to remain on a moderate growth trend. Growth in the global economy and favorable external conditions will continue, leading to expansion in Japan's exports and production as well as improvement in corporate profitability, which will bring growth in private capital investment. The trend toward improvement in the employment and income environments will continue, although recovery will not match that of the corporate sector, and personal consumption will show gradual increases, providing a base for overall economic growth. Although government investment and private housing investment are expected to decline, real growth in fiscal 2008 is forecast to be 2.1%, the seventh consecutive year of expansion. Nominal GDP is forecast to rise 2.3%, above the real rate of growth and the sixth consecutive year of growth. As a result, the GDP deflator will rise 0.2% over the previous fiscal year, the first increase in 11 years in this indicator since 1997, when the domestic consumption tax was increased.

In our previous forecast, issued in May, we assumed that the consumption tax would be increased in April 2009 (from 5% to 7%) and that this would bring a surge in consumer demand in the latter half of fiscal 2008, prior to the tax hike. However, in view of the major defeat of the ruling party in the lower house elections this July, we now believe that the increase in the consumption tax may be delayed until fiscal 2010 or later. This will rule out the possibility of a surge in demand in the latter half of fiscal 2008, and we have lowered our forecasts for fiscal 2008 to reflect this.

Exhibit 1: Real GDP Growth (seasonally adjusted)



(3) Risk Factors for Sustained Economic Recovery

① Four Principal Concerns Recede in Importance

In our previous economic outlook, we cited four principal concerns regarding a prolonged slowdown that we believed required attention: namely, the slowdown in the U.S. economy, the slowdown in private capital investment in Japan, the lack of robustness in domestic consumer spending, and declines in domestic consumer prices. However, our forecast was that the slowdown in the Japanese economy would be temporary and that gradual recovery would continue. Economic indicators reported since then have supported our forecast scenario, and we have not changed our basic outlook in our current forecast.

First, as previously mentioned, the slowdown in the U.S. economy that began in the latter part of 2006 has run its course. In the April–June quarter of 2007, the pace of growth in the U.S. economy has returned to its potential level for the first time in five quarters, led by exports and private capital investment. Going forward, the margin of decline in private housing

investment is expected to shrink, and expansion in consumer spending will continue, resulting in growth of about 3% in the U.S. economy. Accordingly, exports from Japan, which had decelerated, principally because of slower shipments to the United States, are expected to accelerate in the latter half of 2007.

Private capital investment this fiscal year has also shown slower expansion than in the previous year. In fiscal 2006, capital investment received a boost from large projects that required the construction of new factory buildings and from demand for the replacement of older equipment among small and medium-sized enterprises, but these factors now appear to have run their course. Although plans for capital investment in fiscal 2007 (for all industries and all sizes of companies) are not as extensive as those in fiscal 2006, continued expansion is still expected. At present, orders for the construction of factory buildings are increasing again, and orders for industrial equipment are holding firm. Along with the pickup in exports and production, we anticipate that the pace of expansion in capital investment in the latter half of the fiscal year will increase.

Consumer spending, which experienced a major decline in the July–September quarter of last year, has subsequently shown stable gains. Although growth in wages continues to be weak, the number of employed persons is rising. Also, the margin of decline in regular wages, which has been the major reason for weakness in overall wages, is shrinking, and we anticipate that as the supply and demand balance for labor tightens, wages will gradually bottom out. The rise in incomes, resulting from the combination of rising employment and wages, will make a gradual rise in consumer spending possible.

Consumer prices are still not showing signs of increasing, but, on the other hand, they are not experiencing any major decreases. The margin of decline compared with the previous year is shrinking, and there appears to be little possibility of falling into a deflationary spiral that would have a detrimental effect on the economy. Provided the economy continues to recover gradually, having consumer prices hovering in the vicinity of a 0% change from the previous year appears unlikely to create any significant problems.

We are forecasting that consumer prices will begin to rise above the previous year during the latter half of the current fiscal year.

② Impact of the Sub-Prime Loan Issue

The sub-prime loan issue (involving mortgage loans to individuals with lower credit standing) in the United States has destabilized stock markets around the world, and there is concern that it may have an impact on the performance of the Japanese economy.

Before sub-prime loans became an issue earlier this year, the housing construction boom in the United States had already come to an end, private housing investment was on a sharp downward trend, and the U.S. economy was slowing. Although there was concern initially that the decline in housing prices would have a negative wealth effect and lead to a slowdown in consumer spending, the problems were confined to the housing sector.

As the major decline in housing investment in the United States acted to restrain increases in the price of housing, the rising number of sub-prime loans that were falling past due emerged as an issue, and certain hedge funds investing in these loans became insolvent. As a result, risk premiums began to increase and fears mounted about a credit crunch that would make it difficult for corporations to raise funds. Around the same time, the prices of securitized investment products invested in sub-prime loans began to drop, and concerns increased that investors holding these securitized products might incur losses. These various concerns were then realized to be “the sub-prime loan problem” and are now acting as a factor destabilizing the world’s stock markets.

However, it appears that these concerns may be running ahead of actuality, largely because of the difficulty of grasping the actual magnitude of the sub-prime loan issue. Regarding the possibility of a credit crunch, recent conditions seem unlikely to generate concerns about the stability of the financial system, such as those Japan experienced in 1998. Even if there are underlying risks, the central banks of Japan, the United States, and Europe are already supplying ample liquidity to financial markets, and we believe

market turmoil will gradually subside. The possible detrimental effects of the sub-prime loan issue on the world economy and the economy of Japan appear to be avoidable.

Note that the actions of central banks to supply liquidity to financial markets and avert systemic instability are fundamentally different from their various monetary policies to achieve price stability and stable economic growth. The supply of funds to the markets and the lowering of the discount rate to deal with the sub-prime loan issue are being viewed speculatively by some as a policy for lowering the Fed funds rate. In fact, the possibility of reductions in Fed funds rate cannot be denied, but it seems to be somewhat exaggerated.

The same can be said of the impact of the sub-prime loan issue on the monetary policy of the Bank of Japan. Provided gradual economic recovery continues, accompanied by price stability, the policy of the Bank of Japan will be to gradually increase policy interest rates. We cannot deny that unstable movements in stock markets may have an impact on the timing of increases in interest rates. However, while confirming that turmoil in the world's financial markets is subsiding, the Bank of Japan's Monetary Policy Meeting seems likely to increase rates about 25 basis points by the end of this year.

③ Factors that May Bring a Slowdown after Deflation Ends

Discussion regarding the escape from deflation is continuing, and frequently asked questions are “When will the economy escape from deflationary trends?” and “Will the government issue a proclamation that deflation has ended?” However, with prices hovering around the levels of the previous year, and the economy continuing in its longest period of recovery since the end of World War II, we might view ourselves as being blessed with the best of circumstances. Why? Because the recovery in the economy has eliminated the deflationary gap, there are no concerns about falling into a deflationary spiral, and, at the same time, there is no need for concern about inflation, which would become an obstacle for economic recovery.

Price stability is likely to continue for the time being as the economy remains on a sustained recovery trend. Contrary to government policy intentions to find ways to escape from deflation, it appears that concerns about inflation are growing. According to surveys by the Cabinet Office and the Bank of Japan, prices are already beginning to rise, and many people are forecasting increases in prices. Declines in certain price statistics may actually accompany increases in quality. Prices of consumer durables, for example, are continuing on a downward trend, but, since the quality of these goods is rising, the purchase prices actually paid by consumers are not declining very much. On the other hand, prices of goods that consumers purchase more frequently, such as gasoline and food products, are rising, reflecting the increases in primary products. Accordingly, it is unlikely that many consumers now have the impression the economy is experiencing deflation.

If consumers sense that prices are rising, this may have a negative impact on their psychology, which will lead to the risk of more cautious consumer behavior. If the economy escapes from deflation and prices rise, it is not realistic to think this will bring an increase in nominal growth of that magnitude. To the contrary, there is a possibility that the real growth rate will be restrained. Thus, it is not necessarily appropriate to think, “If we escape from deflation, the Japanese economy will become substantially stronger.”

2. Forecasts of Economic Activity by Sector

(1) Corporations

- Corporations have completed their disposal of negative assets left over from Japan’s 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 ahead with the further development of their activities, including the expansion of production capacity.

- Production is expanded, supported by growth in exports of automobiles, digital-related products (including semiconductors and LCDs), 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. Although certain factors are causing a deterioration in the corporate profit environment, including the run-up in raw material prices, increases in personnel costs and depreciation charges, and higher interest payments accompanying higher overall interest rates, companies are still able to report increases in profits because of gains in sales in Japan and overseas, including rising exports.
- If industrial production levels off temporarily as a result of a slowdown in overseas economies and inventory adjustments in the digital-related industries, growth in corporate profitability may become sluggish and restrain expansion in capital investment. However, the upward trend in production is expected to continue in the medium term, and investments for the replacement of older equipment and for increasing the value added of products to improve competitiveness will be necessary. For these reasons, the deceleration in capital investment is expected to be marginal, and capital outlays are likely to continue on an upward trend.

(2) Households

- Household incomes are continuing to recover, but the pace of improvement is gradual, and the positive benefits of economic expansion have still not fully spread from the corporate sector to the household sector. Personal consumption is still on a rising trend and is providing support for the economy but is 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. As the baby boom generation of workers begins to retire in 2007, and the number of younger workers declines, concerns about labor shortages are emerging, and companies have shown growing interest in expanding their workforces. Since profitability is good, the employment and income environments are expected to continue their moderate trend toward improvement.
- However, the restraint that corporations are exercising regarding increases in personnel costs is one of the factors supporting profitability, and, therefore, corporations remain cautious about raising wages. In addition, the increases in taxes and the welfare burden, which the current workforce will be principally expected to bear going forward, will put downward pressure on disposable incomes. Increases in consumer spending will, therefore, continue to be moderate.
- Private housing investment will receive a positive impetus as the sons and daughters of the baby boom generation purchase their first homes, but, in the medium term, growth in the number of households will slow. In addition, under revised construction standards that went into effect in June, some housing starts may be delayed, and housing investment may be restrained by rising prices of real estate in urban areas.

(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 made major reductions in taxes that resulted in 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 domestic economy in the 1990s, expenditures for public works increased.
- The administration of former Prime Minister Junichiro Koizumi did not undertake any major spending programs to stimulate the economy because his goal was to make 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 local levels.

- The basic policy of the Japanese government is also to reduce its deficits by restraining government final consumption expenditure. 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.
- Reductions in public-sector capital formation, at both the national and local levels, are continuing, and the ratio of these public investments to GDP is declining. For this reason, some observers have expressed the opinion that Japan may not be able to sustain necessary social capital. The financial positions of national and local governments remain weak, and the decline in public-sector investment spending is expected to continue, but there is a possibility that the pace of decline may be more moderate going forward.

(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 impact of the sub-prime loan issue in the United States on both the U.S. economy and the world economy, overheating in the Chinese economy, and rising oil prices. However, at present, we believe that 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 the overseas production of Japanese companies will be one factor restraining exports. However, we are forecasting that exports from Japan will continue to rise because worldwide demand for automobiles is expanding rapidly, high rates of growth will continue in the emerging countries and resource-producing nations, and demand for electronic parts, principally in the rest of Asia, is growing.

- Turning to imports, as China and other emerging industrializing countries rapidly expand their production capacity and Japanese companies continue to locate portions of their production capacity overseas to achieve 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 continuing high primary product prices, imports of raw materials in value terms are expected to remain at a high level.
- We are looking for continued 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 currencies 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 country's trade surplus.

3. Forecasts for Prices and Financial Markets

- Prices of raw materials, including crude oil, remain at relatively high levels by standards of past years. On the other hand, the supply capacity of China and other emerging industrializing 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,

consumer prices—while bottoming out—show no broadly based upward trend.

- Regarding monetary policy, following the lifting of the quantitative policy of monetary easing in March 2006 and the ending of the zero interest rate policy in July, a further increase in interest rates was implemented 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 confirm the subsidence of the turmoil in the world's financial markets and the sustained recovery of the economy and price stability.
- A gradual upward trend in long-term interest rates is expected to continue as the economic recovery proceeds and the monetary policy interest rate is increased. Stock prices are expected to continue to rise, reflecting the improvement in profitability of Japanese companies not only in Japan but also in overseas markets. In foreign exchange markets, the yen remains rather stable except for the rapid appreciation caused by “the sub-prime loan problem” and has not appreciated significantly, despite the expansion in Japan's current account surplus. Funds tend to 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)	FY2006 (actual)	Forecast ↘	
				FY2007 (forecast)	FY2008 (forecast)
	Yr/Yr, %				
Nominal GDP	0.9	1.0	1.4	2.1	2.3
Real GDP	2.0	2.4	2.1	2.2	2.1
Contribution of domestic demand	1.4	1.9	1.3	1.6	1.8
Private consumption	1.3	1.9	0.7	1.9	1.9
Housing investment	1.7	-1.0	0.4	-2.6	-1.4
Private capital investment	6.3	5.8	8.0	4.7	4.9
Contribution of inventory investment	0.1	-0.1	0.0	-0.1	0.0
Government expenditure	-1.5	0.4	-1.3	-0.0	0.3
Public investment	-12.7	-1.4	-9.6	-4.4	-3.8
Government final consumption expenditure	1.7	0.9	0.9	1.1	1.3
Contribution of external demand	0.5	0.5	0.8	0.7	0.3
Export of goods and services	11.4	9.0	8.2	7.6	8.4
Import of goods and services	8.4	6.0	3.3	3.7	7.5
GDP deflator	-1.0	-1.3	-0.7	-0.1	0.2

	FY2004 (actual)	FY2005 (actual)	FY2006 (actual)	Forecast ↘	
				FY2007 (forecast)	FY2008 (forecast)
	Yr/Yr, %				
Current account balance (trillion yen)	18.2	19.1	21.2	24.3	23.8
balance on goods (trillion yen)	13.2	9.6	10.5	11.5	11.8
balance on service (trillion yen)	-3.6	-2.2	-2.3	-2.8	-2.6
balance on income (trillion yen)	9.6	12.6	14.2	16.7	15.8
Industrial production	4.0	1.6	4.8	3.1	2.5
Unemployment rate(%)	4.6	4.4	4.1	3.7	3.6
Corporate goods prices	1.8	4.1	4.4	4.3	1.1
Domestic corporate goods prices	1.5	2.1	2.8	2.4	0.9
Consumer prices	0.0	-0.3	0.3	0.1	0.5
excluding freshfood	-0.1	-0.1	0.1	0.1	0.5
Yen/U.S.Dollar	107.5	113.3	116.9	121.6	118.4
Uncollateralized call rates (O/N) (%)*	0.001	0.001	0.220	1.000	1.500
Newly issued government bond yields (10years) (%)	1.52	1.43	1.77	1.82	2.06
WTI future price (near month contract, US dollar/barrel)	45.1	60.0	64.9	72.1	75.8
Dubai crude oil prices (US dollar/barrel)	36.6	53.7	60.9	67.9	71.8

* actual=average, forecast=end of period

Exhibit 3: Outlook for calendar 2007-2008

	CY2004 (actual)	CY2005 (actual)	CY2006 (actual)	Forecast		Yr/Yr, %
				CY2007 (forecast)	CY2008 (forecast)	
Nominal GDP	1.6	0.6	1.3	2.1	2.2	
Real GDP	2.7	1.9	2.2	2.4	2.2	
Contribution of domestic demand	1.9	1.7	1.4	1.6	1.9	
Private consumption	1.6	1.6	0.8	1.8	1.8	
Housing investment	1.9	-1.3	1.0	-2.2	-1.4	
Private capital investment	5.6	6.6	7.5	5.4	5.1	
Contribution of inventory investment	0.3	-0.1	0.1	-0.1	0.0	
Government expenditure	-0.6	0.1	-1.3	-0.3	0.3	
Public investment	-9.0	-6.2	-7.4	-5.2	-4.5	
Government final consumption expenditure	1.9	1.7	0.4	1.0	1.4	
Contribution of external demand	0.8	0.3	0.8	0.8	0.3	
Export of goods and services	13.9	7.0	9.6	7.4	9.1	
Import of goods and services	8.1	5.8	4.5	2.5	7.8	
GDP deflator	-1.1	-1.3	-0.9	-0.2	0.0	

	CY2004 (actual)	CY2005 (actual)	CY2006 (actual)	Forecast		Yr/Yr, %
				CY2007 (forecast)	CY2008 (forecast)	
Current account balance (trillion yen)	18.6	18.3	19.8	24.2	23.6	
balance on goods (trillion yen)	13.9	10.3	9.5	11.8	11.5	
balance on service (trillion yen)	-3.7	-2.6	-2.1	-2.6	-2.7	
balance on income (trillion yen)	9.3	11.4	13.7	16.4	16.0	
Industrial production	5.5	1.1	4.8	2.8	3.2	
Unemployment rate (%)	4.7	4.4	4.1	3.8	3.7	
Corporate goods prices	1.2	3.1	5.0	3.8	2.5	
Domestic corporate goods prices	1.2	1.7	3.0	2.1	1.5	
Consumer prices	0.0	-0.3	0.2	0.0	0.5	
excluding freshfood	-0.1	-0.1	0.1	0.0	0.5	
Yen/U.S.Dollar	108.2	110.2	116.3	120.8	119.5	
Uncollateralized call rates (O/N) (%)*	0.001	0.001	0.125	0.750	1.250	
Newly issued government bond yields (10years) (%)	1.50	1.38	1.74	1.78	2.00	
WTI future price (near month contract, US dollar/barrel)	41.4	56.6	66.2	67.7	76.3	
Dubai crude oil prices (US dollar/barrel)	33.6	49.5	61.6	64.0	72.0	

* actual=average, forecast=end of period

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	1.4	0.4	0.3	0.4	0.8	0.3	0.6	0.7	0.7	0.5
	1.0	0.7	1.7	2.2	2.0	2.6	1.8	2.0	2.2	2.5	2.2	2.5
Real GDP	0.4	0.1	1.3	0.8	0.1	0.4	0.7	0.7	0.4	0.5	0.4	0.3
	2.1	1.4	2.2	2.5	2.3	2.7	2.0	2.1	2.3	2.5	2.0	1.7
Contribution of domestic demand (Qr/Qr,%)	0.5	-0.3	1.2	0.4	0.1	0.3	0.6	0.6	0.3	0.5	0.5	0.4
Private consumption	0.4	-0.9	1.1	0.8	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.4
Housing investment	1.4	-0.4	0.4	1.4	1.4	2.6	2.0	1.6	1.8	2.0	2.0	1.9
Private capital investment	2.9	1.1	2.8	0.3	1.2	0.7	1.2	1.6	1.2	1.4	0.8	0.6
Contribution of inventory investment (Qr/Qr,%)	7.2	6.9	10.9	7.2	5.6	5.0	3.5	4.8	4.9	5.5	5.1	4.1
Government expenditure	0.0	0.1	-0.1	-0.0	-0.1	0.0	0.0	0.1	-0.1	0.0	0.0	0.1
Public investment	-0.6	-0.5	0.8	-0.5	-0.1	0.2	0.3	-0.1	0.0	0.1	0.1	-0.1
Government final consumption expenditure	-0.6	-2.7	-1.1	-1.0	-0.2	0.4	-0.3	0.1	0.6	0.5	0.1	0.1
Public investment	-5.9	-4.9	3.7	-1.3	-2.1	-1.3	-0.8	-1.5	-1.0	-0.8	-0.4	-0.9
Government final consumption expenditure	-6.5	-14.8	-8.9	-8.0	-5.2	-1.4	-5.2	-5.5	-4.8	-4.2	-3.6	-3.0
Government final consumption expenditure	0.8	0.5	0.1	-0.2	0.3	0.5	0.5	0.3	0.2	0.3	0.2	0.1
Government final consumption expenditure	0.6	0.4	1.3	1.2	0.7	0.8	1.1	1.7	1.6	1.5	1.1	0.9
Contribution of external demand (Qr/Qr,%)	-0.1	0.4	0.1	0.4	0.0	0.1	0.1	0.1	0.1	0.1	0.0	-0.1
Export of goods and services	0.7	2.2	0.9	3.4	0.9	1.2	2.7	3.0	2.3	2.0	0.9	0.3
Export of goods and services	10.1	9.4	6.5	7.3	7.5	6.5	8.4	8.0	9.5	10.3	8.4	5.5
Import of goods and services	1.3	-0.4	-0.1	0.9	0.8	0.6	2.3	2.9	1.7	1.8	1.1	1.1
Import of goods and services	6.6	2.5	2.6	1.8	1.2	2.2	4.6	6.7	7.7	9.0	7.7	5.8
GDP deflator (Yr/Yr,%)	-1.1	-0.7	-0.5	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	0.0	0.2	0.8

	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)*	4.6	4.8	5.7	5.6	6.6	6.0	5.8	6.1	6.0	5.9	5.6	6.2
balance on goods (trillion yen)*	2.1	2.1	2.9	3.0	3.0	2.4	2.5	3.5	2.8	2.4	2.4	3.2
balance on service (trillion yen)*	-0.7	-0.7	-0.3	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6	-0.7
balance on income (trillion yen)*	3.4	3.5	3.6	3.6	4.5	4.6	3.9	4.2	4.9	4.5	3.5	4.0
Industrial production (Qr/Qr, %)	1.3	1.3	2.2	-1.3	0.2	2.8	0.4	0.6	0.6	0.7	0.2	0.1
Industrial production (Yr/Yr, %)	4.7	5.6	6.0	3.1	2.4	3.7	2.4	3.8	4.5	2.2	2.2	1.4
Unemployment rate (%)*	4.1	4.1	4.0	4.0	3.8	3.7	3.7	3.7	3.7	3.6	3.6	3.6
Corporate goods prices (Yr/Yr,%)	5.0	5.7	3.7	3.2	4.1	3.5	4.5	5.2	3.1	1.4	0.3	-0.3
Domestic corporate goods prices (Yr/Yr,%)	3.1	3.6	2.6	1.9	2.3	1.9	2.5	2.9	1.5	0.9	0.8	0.6
Consumer prices (Yr/Yr,%)	0.2	0.6	0.3	-0.1	-0.1	-0.1	0.3	0.4	0.5	0.5	0.5	0.5
excluding freshfood (Yr/Yr,%)	0.0	0.3	0.1	-0.1	-0.1	0.0	0.3	0.4	0.5	0.5	0.5	0.5
Yen/U.S.Dollar	114.4	116.2	117.8	119.4	120.7	120.5	122.5	122.5	120.0	118.0	117.5	118.0
Uncollateralized call rates (O/N) (**)	0.020	0.223	0.255	0.382	0.514	0.750	0.750	1.000	1.000	1.250	1.250	1.500
Newly issued government bond yields (10years) (%)	1.89	1.79	1.69	1.71	1.74	1.85	1.80	1.90	1.95	2.05	2.10	2.15
WTI future price (near month contract, US dollar/barrel)	70.7	70.5	60.2	58.2	65.0	72.5	75.0	76.0	77.0	77.0	75.0	74.0
Dubai crude oil prices (US dollar/barrel)	64.8	66.0	57.4	55.3	64.8	66.5	69.5	71.0	72.5	73.0	71.5	70.0

*seasonally adjusted ** actual=average, forecast=end of period