

May 2008

**Forecast for the Japanese
Economy in Fiscal 2008 and 2009**
— Spreading Inflationary Pressures Will Test the Sustainability of the
Recovery —



Mitsubishi UFJ Research and Consulting

Economic Research Department

1. Outlook for the Japanese Economy in Fiscal 2008 and Fiscal 2009

-- Spreading Inflationary Pressures Will Test the Sustainability of the Recovery

(1) Current State of the Economy

Concern about future trends in the Japanese economy and the world economy as a whole remain strong, but in the latter half of fiscal 2007, the Japanese economy maintained a relatively high pace of economic growth. The gross domestic product (GDP) figures released on May 16 for the January-March quarter of 2008 showed growth in real terms of 0.8% over the previous quarter (3.3% growth at an annualized rate) and 0.4% growth in nominal terms (at an annualized rate of 1.5%), thus showing expansion in both real and nominal terms. This marked the third consecutive quarter of positive real growth, and, despite many causes for concern, including the subprime loan issue and rising prices of crude oil and other basic materials, these data make it possible to infer that the recovery trend in the economy is continuing. The rate of growth for fiscal 2007 as a whole, ended March 31, 2008, was lower than in the previous fiscal year, standing at 1.5% in real terms and 0.6% in nominal terms. These figures marked the sixth consecutive annual increase in real terms and the fifth consecutive year of increases in nominal terms.

The principal driving force for economic recovery continues to be external demand. Examining domestic and external demand separately, the contribution of external demand to the increase in GDP over the previous quarter was 0.5 percentage point (in real terms, here and hereinafter) reflecting the external sector's continuing contribution to growth. Although exports to the United States were lackluster, because of the economic slowdown in that country, exports to China and other emerging economies, as well as to the Middle East, Russia, and other resource-producing countries, were robust. Overall, exports rose a high 4.5% for the quarter.

On the other hand, domestic demand contributed 0.3 percentage point to the increase in GDP, thus continuing its contribution to growth, as in the previous quarter. Thus, at first glance it appears that the contributions of

domestic and external demand are in balance. However, domestic demand was boosted by special factors. First, personal consumption recorded a 0.8% increase over the previous quarter, thus adding 0.5 percentage point to the economic growth rate, but since 2008 is a leap year, there was one more day in the quarter than in the previous fiscal year, implying that there is a possibility consumption was pushed upward, mainly by purchases of non-durable goods. In reaction to this, there is a possibility that growth in personal consumption in the April-June quarter will be pushed downward.

In addition, private residential investment rose 4.6% over the previous quarter, the first increase in five quarters. This seems to have been a reaction to the substantial drop in residential investment that followed the revision of Japan's building code in June 2007, now that the adverse effects of this revision are subsiding. Although the reactionary rise in residential investment is viewed as likely to continue in the April-June and later quarters, the effect of this special factor will gradually run its course.

While personal consumption and residential investment were boosted by temporary factors, private capital investment fell 0.9% from the previous quarter. The deceleration of the U.S. economy and the sharp run-up in oil and other raw material prices are placing downward pressures on corporate profits. This, together with uncertainty about future trends in the world economy, has caused corporations to adopt a more-cautious stance toward capital investment. Especially, for small companies, shifting higher costs of inputs to final sales prices is difficult, and there is a possibility that deterioration in conditions influencing profitability may cause companies to restrain their capital investment even more.

Note that in the government sector, public works investment rose 1.5% over the previous quarter, the second consecutive quarterly increase, but government final consumption expenditures fell a significant 0.8% in reaction to a marked increase in the previous quarter. Public-sector demand overall was virtually neutral, making a negative contribution of 0.1 percentage point to GDP growth.

The margin of decline in the GDP deflator, compared with the same quarter

of the previous year, was 1.4%, due to the increase in import prices (which are an item deducted in calculating the GDP deflator), owing to the rise in crude oil prices. However, the domestic demand deflator, after excluding export and import prices, was up 0.5 percentage point, more than in the previous quarter and the second consecutive quarterly increase. As increases in upstream raw material prices continue, movements to pass on these price increases, even in the domestic market, are growing widespread, suggesting that the price environment is undergoing a major shift from a deflationary mode to an inflationary scenario.

(2) Outlook for Fiscal 2008 and Fiscal 2009

In fiscal 2008, concern about economic trends, such as the effects of the subprime loan issue and the rising price of crude oil, will persist, but the Japanese economy is likely to continue to recover gradually. We are forecasting real growth of 1.8%, the seventh consecutive year of expansion, and nominal growth of 1.6%, the sixth consecutive year of positive growth.

Relatively low growth is forecast in 2008 for the U.S. economy, which has decelerated mainly because of a marked drop in residential investment, but trends in personal consumption and private capital investment will continue to be relatively firm. As the pace of decline in residential investment becomes moderate toward the end of 2008, the overall growth rate is expected to accelerate, and, while the rate of growth in 2008 will be lower than the 2.2% reported in 2007, the U.S. economy is forecast to post real growth of 1.5% in 2008. The rate of expansion in European economies and in Asia outside Japan, including China, will slow in 2008, thus bringing lower growth in the world economy as a whole. However, the basic upward trend in the global economy will continue, and, as Japan's exports continue to expand, production levels in Japan are expected to increase gradually, following a temporary pause.

On the other hand, although economic growth will continue, the environment for corporate profits will remain challenging because of the impact of continuing high oil prices, and this will be a factor restraining capital investment. However, the ratio of capital expenditures to cash flow

is still relatively low. Therefore, we are not forecasting that capital investment will undergo a major adjustment, such as moving into a downward trend.

Reflecting the tightening of the supply of labor relative to the demand, we anticipate that wages will show a gradual increase and that personal consumption will expand. However, since real incomes may decline along with increases in prices, the rate of growth in consumption will continue to be low, as in fiscal 2007. Also, since the turmoil created by the revision of the building code, which resulted in a major drop in residential investment in 2007, will have subsided, we are anticipating a reactionary increase. However, increases in housing prices will tend to dampen consumers' desire to purchase homes, and the increase in residential investment in fiscal 2008 will be rather small, considering the huge drop in fiscal 2007.

In fiscal 2009, the factors hindering growth in the previous year, including the subprime loan issue overseas and the impact of the revision of Japan's building code, will subside. On the other hand, the inflationary pressures created by increases in raw material prices upstream will spread downstream to the consumer level and have a restraining effect on the economy recovery, mainly on personal consumption. Although there should be no major change in the growth potential of the Japanese economy, we are forecasting that real growth will be somewhat low at 1.6% in fiscal 2009.

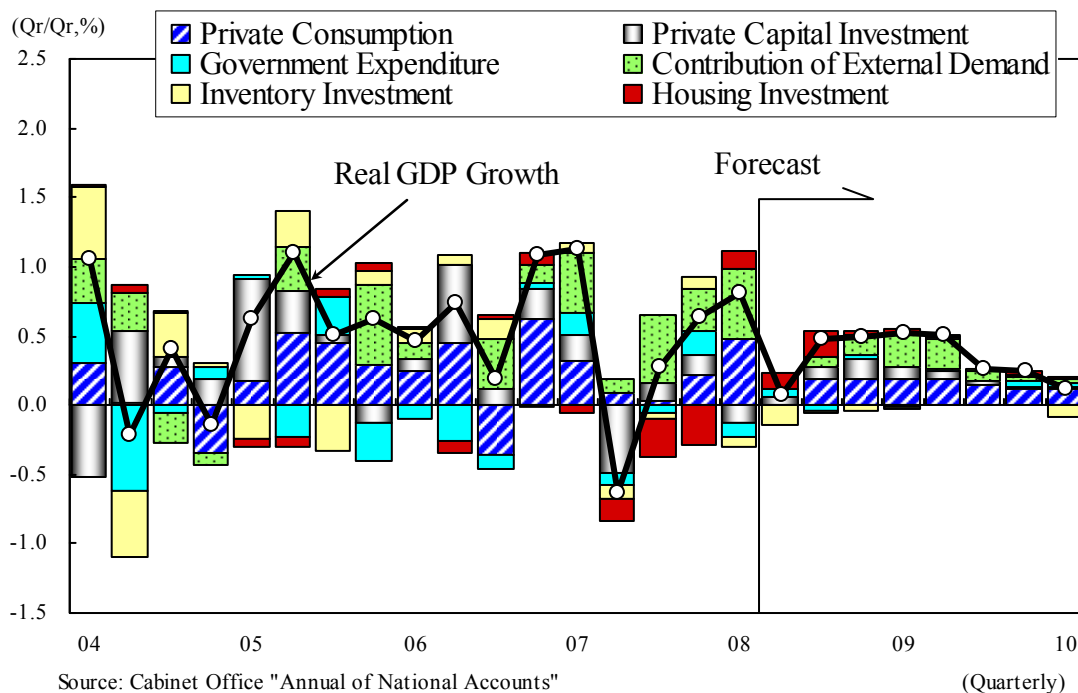
The GDP deflator is expected to begin to rise above the level of the previous year as the major increases in import prices begin to subside. As a result, the nominal economic growth rate, which had been restrained to a low level because of increases in nominal imports, is forecast to increase a relatively high 2.3%.

However, although the rapid increase in prices of raw materials may pause, prices of these materials will remain at a high level, and the possibility remains that these prices may begin to rise again as demand, principally in emerging countries, expands. As inflationary pressures continue on a worldwide scale, growth in the world economy may decelerate again in the

latter half of fiscal 2009, and this will have an impact on exports from Japan. In addition, the environment for corporate profits will be challenging, and, with concerns about future trends lingering, the rate of increase in capital investment will be gradual.

Small increases in consumer prices will continue, and the rate of expansion on consumer spending will weaken. In labor and management wage negotiations, the rise in consumer prices will be one argument in favor of wage increases, but raising wages in real terms will probably be difficult. However, the supply of labor will continue to be relatively short in comparison with demand, and incomes in nominal terms are expected to continue to increase gradually. Therefore, consumer spending is expected to remain relatively firm and provide an underlying support for the economy.

Exhibit 1: Real GDP Growth (seasonally adjusted)



(3) Spreading Inflationary Pressures Will Test the Sustainability of the Recovery

The economy recorded high growth in the January-March quarter of this year, but concerns remain regarding its future course. The economic recovery, which has been led by external factors that have been supported by world economic growth, principally in the emerging economies and resource-producing countries, is accelerating temporarily as a result of the expansion in consumer spending linked to additional leap year demand and the bottoming out of residential investment following the subsiding of the turmoil that followed the revision of Japan's building code. However, certain factors are leading to deterioration in the environment for corporate profitability, including the deceleration of the U.S. economy and the rise in raw material prices. In addition, the environment for households is growing more difficult because of the decline in real incomes along with rising prices.

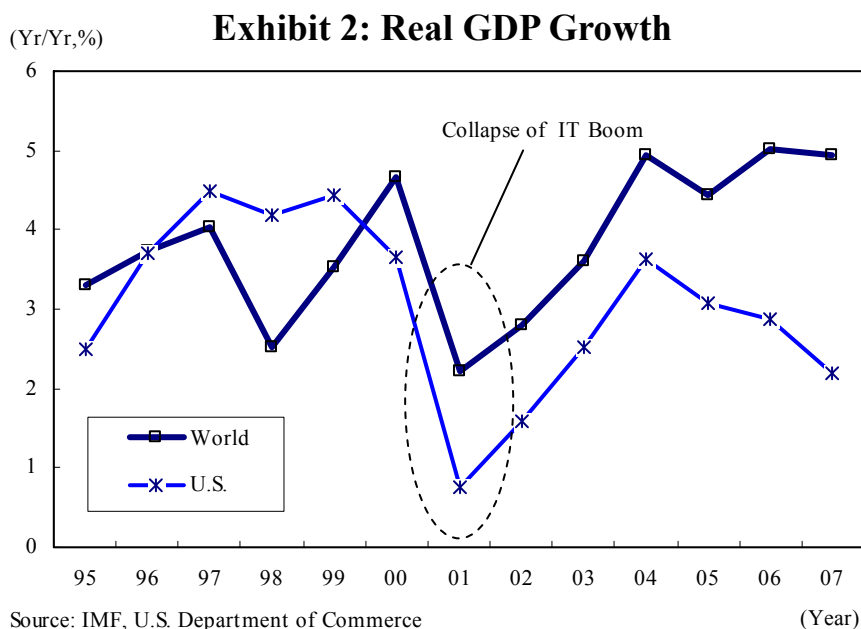
The Japanese economy is confronting two major problems; namely, the slowing of the world economy caused by stagnation in the U.S. economy and the spread of inflation around the world stemming from the run-up in raw material prices. When economies stagnate and experience inflationary pressures at the same time, this is known as "stagflation," which is a condition that is difficult to correct. Therefore, the Japanese economy is entering a difficult period for its policy makers.

(a) Slowdown in the World Economy

The world economy is moving into a period of slower growth than it had experienced through 2007. In particular, the U.S. economy has decelerated significantly, and exports from Japan to the U.S. market are also declining. The weakness in the U.S. economy is expected to continue for the time being, but views are emerging that the turmoil in financial markets created by the subprime loan issue has passed its peak, and concerns about a further deterioration in the U.S. economy are beginning to subside. In 2001, when the IT boom collapsed, leading to recession in the U.S. economy, growth in the world economy declined to the 2.0% to 2.5% range. This

time, however, we have assumed that the world economy will not decelerate so sharply (Exhibit 2).

In contrast with 2001, the emerging economies, such as China, and resource-producing nations are experiencing rapid economic growth. The “decoupling theory”—which holds that, even if the U.S. economy slows, other countries will continue to expand—has acquired a bad reputation. Nevertheless, we believe that today’s world economy, which has shifted from heavy dependence on the U.S. economy to a more multi-polar structure, has developed the strengths to cushion against a slowdown in the U.S. economy while still being mutually dependent on the United States.



(b) Deterioration in Japan’s Terms of Trade

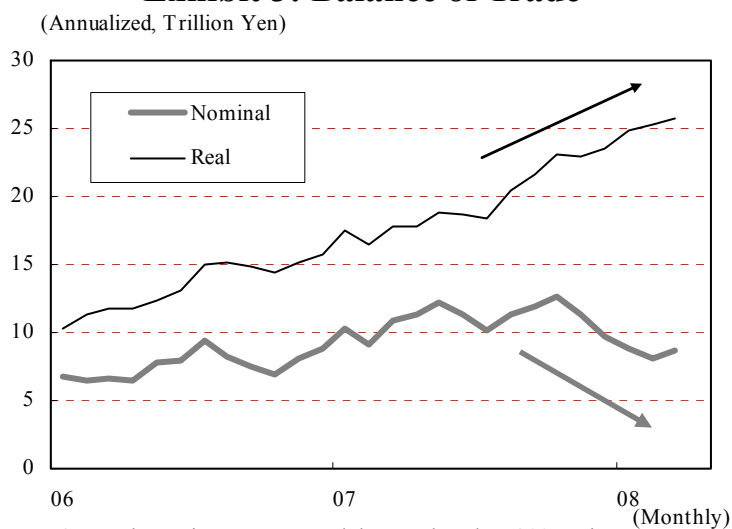
If the slowdown in the world economy is moderate, the impact on Japan’s exports will be marginal. However, the rapid growth of the emerging economies, which is supporting world economic growth, is bringing the sharpest rise in raw material prices in 25 years. As a result, because of Japan’s dependence on imports of such materials, its terms of trade (export price index/import price index) are deteriorating, and income is being transferred to resource-exporting countries. The burden of this outflow of

income will be borne by corporations, which are experiencing pressure on their profits, and this, in turn, is causing them to restrain capital investment because of the deterioration in their profitability.

At the time of the second oil crisis, around 1980, oil-producing countries raised their prices without regard for demand and supply conditions, and this was a factor leading to recession in the world economy. As a result of declining demand, oil prices then declined and remained at a relatively low level from the middle of the 1980s. However, although speculative funds flows have, in part, been responsible for the more recent sharp rise in oil prices, basically, the expansion in demand for oil, especially in the emerging economies, has been the main factor leading to higher oil prices. As a result, until supply capacity expands, it is likely that oil prices will remain at a high level for the time being.

When Japan's terms of trade deteriorate, it must purchase higher-priced imports from overseas and sell its exports at relatively lower prices. Even if the world economy expands and Japan is able to sell more to foreigners, it becomes more difficult to secure profits when the terms of trade have deteriorated. Japan's economic growth is driven by external demand, but this is in real terms. Recently, external demand in nominal terms has been a factor acting to reduce Japan's economic growth, because of expansion in imports in nominal terms stemming from higher resource prices (Exhibit 3).

Exhibit 3: Balance of Trade



Note: 3-month moving average, Real data are based on 2005 price.

Source: Ministry of Finance "Trade Statistics",

Bank of Japan "Financial and Economic Statistics Monthly"

The way for Japan to alleviate the effects of (a) the transfer of income due to deterioration in the terms of trade and (b) inflationary pressures from upstream, will most likely be to make continued concentrated efforts to conserve resources and energy. From an environmental perspective as well, the conservation of resources and conservation of energy are issues that the Japanese economy should address. However, addressing this issue will take time. In the interim, upstream inflationary pressures are spreading downstream and will have an adverse impact on the economy as a whole.

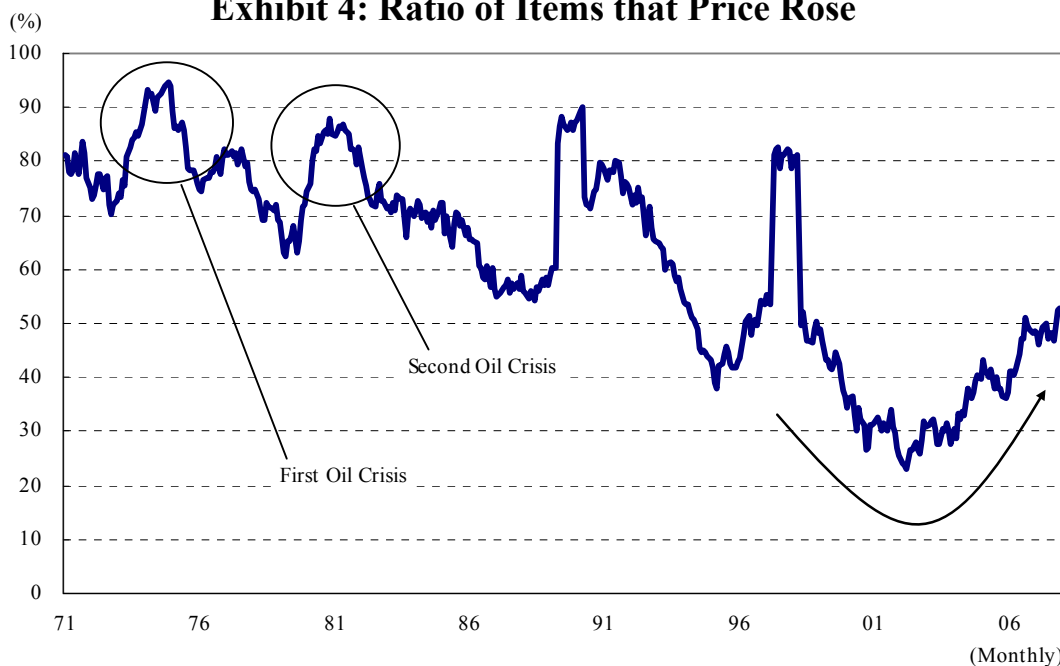
(c) Spreading Inflation

The increase in upstream raw material prices is resulting in a rise in Japan's import prices, and the prices of fuel and other materials necessary for economic activities are increasing significantly. In parallel with these developments, corporations are shifting their higher raw material and energy costs to the prices of intermediate and final goods, and domestic corporate goods prices are showing some of the highest rates of increase since the second oil crisis. Most companies are confronting increases in input costs and are dealing with the problem of how to pass their cost increases on to their sales prices. However, the closer companies are to the final consumer, the more difficulty they are experiencing in passing on their cost increases, and their profits are coming under pressure.

Nevertheless, even though passing on higher costs is difficult, the deterioration in the profit environment is going to result in reduced household incomes in real terms as companies work to reduce their personnel costs and raise the prices of their goods sold to consumers. This decline in real incomes, which will be accompanied by deterioration in consumer confidence, will restrain consumer spending. Compared with the first and second oil crises, however, consumer prices are relatively stable. However, in an operating environment where growth in income is moderate, there is concern that even slight increases in prices may have a braking effect on consumer spending. Among the items surveyed in consumer price research, more than 50% are already showing increases over the same period of the previous year (Exhibit 4). When prices of everyday items, such as gasoline and food products, are raised substantially—as has

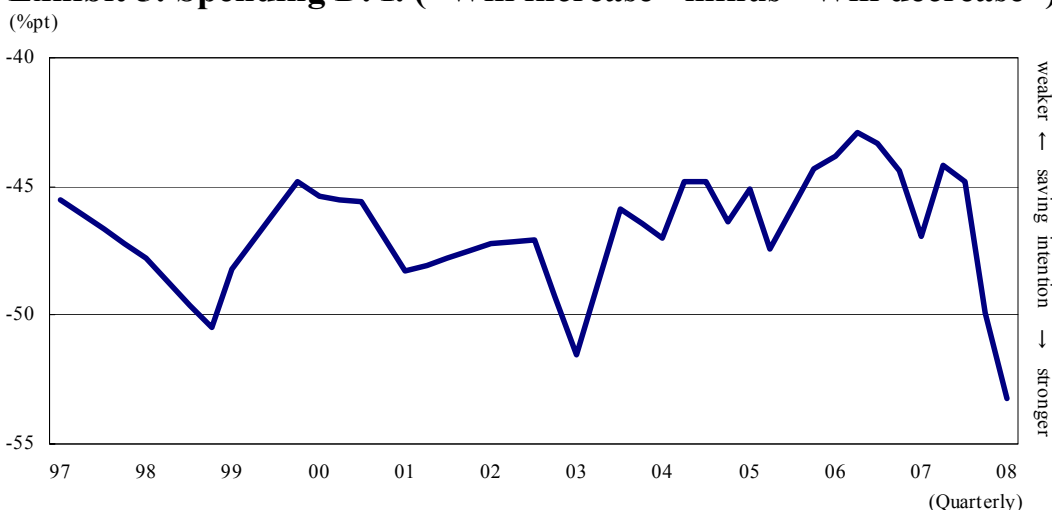
happened recently—even when the margin of increases in prices overall is small, caution is necessary because consumers tend to cut back on spending, and this restrains overall consumption (Exhibit 5).

Exhibit 4: Ratio of Items that Price Rose



Note 1: This figure is ratio of items comprising Consumer Price Index that price increased over the previous year.
 Note 2: Surging rate in 1989 and 1997 is due to the impact of introduced consumption tax and increase in consumption tax.
 Source: Statistics Bureau "Monthly Report on the Consumer Price Index"

Exhibit 5: Spending D. I. ("Will increase" minus "Will decrease")

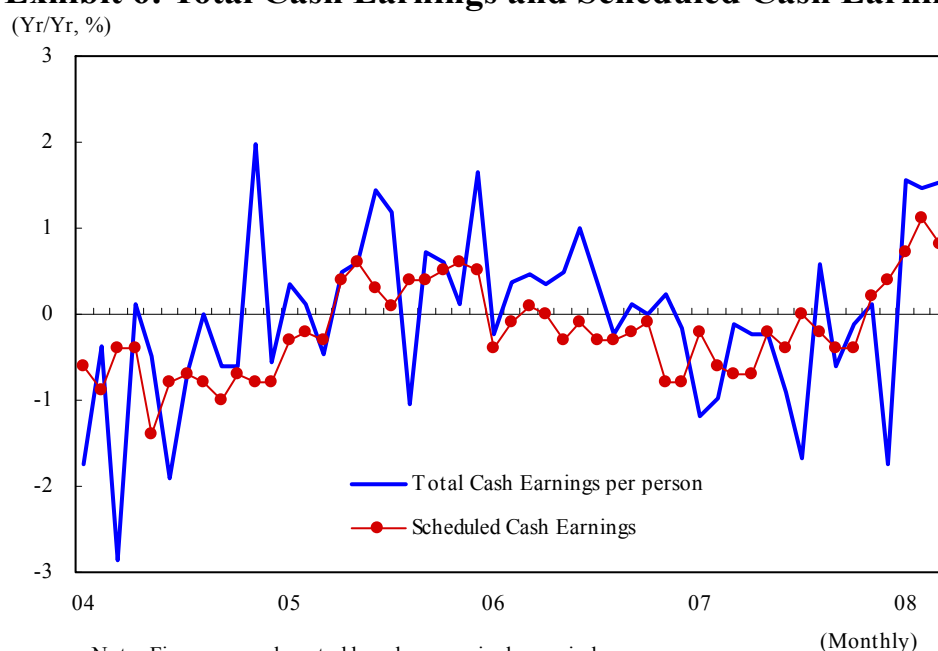


Note1: Spending D.I. is calculated as the proportion of respondents who answered that their spending level one year from now compared with the present "will increase" minus the proportion of those who answered that they "will decrease".
 Note2: Due to change in survey methods, there are statistical gaps before and after the June 2006 survey, but those gaps are adjusted on the graph above.
 Source: Bank of Japan "Opinion Survey on the General Public's Views and Behavior"

(d) Increase in Employee Compensation

While it appears that increases in consumer prices are already a factor restraining consumer spending, there are also some positive developments in the environment surrounding consumers. Employee compensation (in nominal terms) in the January-March quarter rose 1.4% over the same quarter of the previous year, which is a high rate of increase by recent standards. Regularly scheduled wage payments, which are the core element in employee compensation, have risen for five consecutive months since November 2007. Although bonus payments are continuing to decline, per capita wages (total cash payments), including bonuses and overtime payments, have been on the rise for three consecutive months (Exhibit 6).

Exhibit 6: Total Cash Earnings and Scheduled Cash Earnings



Note: Figures are calculated based on nominal wage indexes.

Source: Ministry of Health, Labour and Welfare "Monthly Labour Survey"

The reasons for the rise in wages include (a) the peaking out of the increase in the percentage of part-time employees as a result of the effects of extension of the work arrangements for members of the baby-boom generation after their formal retirement and (b) the shifting of part-time employees to regular employee status in anticipation of revisions in the labor laws regulating part-time workers. However, even if these special

factors are excluded, the supply of labor is short relative to demand because of the decline in the working-age population, particularly younger people. This factor is likely to gradually bring pressures for increasing wages.

The margin of increase in wages is small, and, taking account of the recent rise in consumer prices, real incomes have not risen very much. However, increases in nominal wages and employee compensation, albeit gradual ones, will support consumer spending and provide firm support for the economy.

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 substantially. The risks of a major 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 (semiconductors and LCDs), and other items as well as expansion in domestic demand, principally private capital investment. Along with expansion in shipments, inventory levels are also rising, but companies are adopting a cautious stance toward increasing inventories, and the pace of expansion is moderate.
- If slowdowns in overseas economies and inventory adjustments in the digital-related goods industries bring a temporary leveling off of industrial production, the resulting sluggish growth in corporate profitability may restrain expansion in capital investment. There have been recent signs of the emergence of such adjustments, but, in the medium term, the increasing trend in production is expected to continue, 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.

- 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 Japan's bubble economy and the IT boom, and has been continuing to set new records. 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 rising depreciation charges, companies have still been able to report increases in profit because of gains in sales in Japan and overseas, including expanding exports. However, as the rise in raw material costs becomes increasingly severe and trends toward deceleration in the world economy become more widespread, corporations are finding it more difficult to maintain an upward trend in profitability.

(2) Households

- Household incomes are continuing to rise, but the pace of increase is gradual. On the other hand, prices are rising and the sense of burden on households is increasing. 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 employment environment has improved at the same time as the recovery in the economy, the retirement of members of the baby-boom generation, and the decline in the number of younger workers, but since the middle of fiscal 2007, further improvement has not been evident. Going forward, the population of labor force age individuals will reach a ceiling, and growth in the number of persons employed will slow. A major improvement in the employment environment is not viewed as likely.
- Although wages had been stagnant, some marginal increase is now in evidence, reflecting the increase in the number of regular employees, the tightening of the supply of labor relative to demand, and larger margins of increase in consumer prices. Along with the increase in

incomes, individual consumption is also expected to show moderate expansion.

- In the area of residential investment, although the sons and daughters of the baby-boom generation are now purchasing their first homes, a number of factors are expected to restrain growth in housing investment in the years ahead. These include the continued slowing of growth in the number of households in the medium term, the delays in the number of housing starts caused by the implementation of revisions to Japan's building code in June 2007, and higher prices of homes because of increasing land prices in urban areas.

(3) Government

- Following the bursting of Japan's economic bubble, the public sector has continued to issue a large volume of government bonds. Along with the decline in nominal economic growth rates, the government made major reductions in taxes that have 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 economy in the 1990s, expenditures for public works increased.
- After the year 2000, because of the government's goal of making structural reforms in its finances, spending on public works was reduced, and no major spending programs to stimulate the economy were implemented. Moreover, local governments have also continued to reduce their spending on public works because of their own financial difficulties. Along with the economic recovery, tax revenues are expanding again, but the government has basically continued policies for making structural reforms in its finances. Accordingly, on an annual basis, further cuts in public-works spending are expected to continue at the national and local levels.
- To reduce its fiscal deficit, the government is working to restrain its expenditures through systemic reforms to control government final consumption expenditures, including social welfare expenses. However, even if these reforms are implemented, they will probably only succeed in lowering the pace of expansion in these expenditures. In addition, the

administration of Prime Minister Yasuo Fukuda appears to be moving backward on some reforms. We anticipate that the government's 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 has declined substantially. For this reason, concern is mounting that Japan may not be able to sustain necessary social capital if cuts in public-works investments continue. 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. Although the economies of Europe and the United States are experiencing a temporary slowdown, growth in the emerging economies is pushing world growth rates upward. However, the risks seem remote for a re-emergence of concerns about the management of financial institutions in Europe and the United States or a downturn in the world economy as a whole because of a "hard landing" involving a collapse in the value of the U.S. dollar. However, reasons for concern exist, including the overheating of the economies of China and other emerging economies and further increases in oil prices. There is also a possibility that rising consumer prices around the world could dampen economic performance.
- Even if a temporary slowdown occurs, the world economy is expected to continue to expand, and the rising trend in Japan's exports will continue. The expansion in the overseas production of Japanese companies will be one factor restraining exports, but we are forecasting that demand for exports from Japan will expand because of growth in worldwide demand for automobiles, high rates of growth in the emerging economies and resource-producing nations, and expanding demand for electronic parts, principally in the rest of Asia.
- Japan's imports of finished products and parts, mainly from the rest of

Asia, will continue to increase. Although growth in Japan's domestic demand will be moderate, production capacity in China and other emerging economies will expand rapidly, and Japanese companies will proceed with their strategies of the international division of production, and this, too, will be a factor promoting Japan's imports. In addition, plateauing of the prices of primary products at high levels will push the value of imports upward.

- We are looking for continued growth in both Japan's exports and imports, as the trade dependence of the Japanese economy continues to increase. Net exports will continue to make a positive contribution to Japan's economic growth. Moreover, reflecting the overseas expansion of Japanese companies, dividends and other income from their overseas subsidiaries are expanding, and income from monetary assets held overseas is also increasing. As a result, Japan's surplus in the income accounts of its balance of payments has already exceeded the levels of the country's trade surplus.

3. Forecasts for Prices and Financial Markets

- Prices of crude oil and other raw materials, including metals, remain at relatively high levels by standards of past years. On the other hand, the supply capacity of China and other emerging economies is expanding, and, because of this and other factors, prices of industrial products are being held in check, with inflationary pressures upstream and deflationary pressures downstream continuing.
- Rising prices of raw materials are also having an impact on Japan's domestic prices. There is evidence that basic materials industries, in particular, are working to shift the rise in their costs to their final product prices, and domestic corporate goods prices are increasing at a faster pace. There are also signs that higher costs are being passed on to consumers, principally in the fields of energy and food products, and, as a consequence, consumer prices are trending upward.
- 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. However, as a result of the turbulence in financial markets created by the subprime loan issue, policy interest rates have been left unchanged. When the current turbulence subsides, we believe further slight increases in interest rates will resume.

- Long-term interest rates are expected to rise moderately along with the economic recovery and the resumption of increases in policy interest rates. Stock prices appear to be relatively undervalued, but when financial markets regain stability, we expect they will rise. In foreign exchange markets, beginning in the latter half of 2007, the U.S. dollar has lost value against the yen because of substantial reductions in U.S. interest rates and market uncertainty. However, despite the rise in Japan's current account surplus, yen appreciation has not gained momentum when viewed from a longer time span. In addition, the currencies of emerging economies and resource-producing countries are continuing to appreciate gradually against the yen and the U.S. dollar. Economic conditions in the three major economic centers of Japan, the United States, and Europe tend to be linked, and we are basically looking for stability among the currencies of these three regions.

Exhibit 7: Outlook for Fiscal 2008-2009

	FY2005 (actual)	FY2006 (actual)	FY2007 (actual)	Forecast ↘	
				FY2008 (forecast)	FY2009 (forecast)
	Yr/Yr, %				
Nominal GDP	1.1	1.7	0.6	1.6	2.3
Real GDP	2.4	2.5	1.5	1.8	1.6
Contribution of domestic demand	1.9	1.7	0.3	1.0	1.1
Private consumption	1.9	1.8	1.4	1.4	1.2
Housing investment	-1.2	0.2	-13.3	4.9	3.5
Private capital investment	6.7	5.7	-0.5	1.5	1.5
Contribution of inventory investment	0.0	0.2	0.0	-0.2	0.0
Government expenditure	-0.6	-1.8	0.2	0.1	0.2
Public investment	-5.6	-9.1	-1.7	-4.1	-3.1
Government final consumption expenditure	0.8	0.1	0.6	1.1	1.0
Contribution of external demand	0.5	0.8	1.2	0.8	0.6
Export of goods and services	9.0	8.4	9.7	7.8	6.4
Import of goods and services	5.9	3.1	2.3	3.4	3.6
GDP deflator	-1.3	-0.8	-1.0	-0.2	0.6

	FY2005 (actual)	FY2006 (actual)	FY2007 (actual)	Forecast ↘	
				FY2008 (forecast)	FY2009 (forecast)
	Yr/Yr, %				
Current account balance (trillion yen)	19.1	21.2	24.6	25.2	28.9
balance on goods (trillion yen)	9.6	10.5	11.7	9.8	12.1
balance on service (trillion yen)	-2.2	-2.3	-2.6	-2.4	-2.5
balance on income (trillion yen)	12.6	14.2	16.8	19.0	20.5
Industrial production	1.6	4.6	2.6	0.5	2.1
Unemployment rate(%)	4.4	4.1	3.8	3.8	3.8
New housing starts(annualized, ten thousand units)	124.9	128.5	103.6	111.8	114.4
Domestic corporate goods prices	1.8	2.0	2.2	3.5	1.7
Consumer prices	-0.3	0.3	0.2	1.4	0.8
excluding freshfood	-0.1	0.1	0.3	1.4	0.8
Yen/U.S.Dollar	113.3	116.9	114.2	105.2	109.1
Uncollateralized call rates (O/N) (%)*	0.001	0.209	0.502	0.500	1.000
Newly issued government bond yields (10years) (%)	1.43	1.77	1.60	1.71	1.77
WTI future price (near month contract, US dollar/barrel)	60.0	64.9	82.2	118.6	125.5
Dubai crude oil prices (US dollar/barrel)	53.7	60.9	77.3	113.0	121.5

* actual=average, forecast=end of period

Exhibit 8: Outlook for Calendar 2008-2009

	CY2005 (actual)	CY2006 (actual)	CY2007 (actual)	Forecast	
				CY2008 (forecast)	CY2009 (forecast)
	Yr/Yr, %				
Nominal GDP	0.7	1.4	1.3	0.8	2.6
Real GDP	1.9	2.4	2.1	1.7	1.7
Contribution of domestic demand	1.7	1.6	1.0	0.6	1.2
Private consumption	1.3	2.0	1.5	1.5	1.2
Housing investment	-1.5	0.9	-9.5	-2.2	5.8
Private capital investment	9.2	4.3	2.2	0.1	1.9
Contribution of inventory investment	-0.1	0.2	0.1	-0.2	-0.1
Government expenditure	-0.9	-2.0	0.1	0.1	0.1
Public investment	-10.1	-8.1	-2.5	-2.7	-4.7
Government final consumption expenditure	1.6	-0.4	0.8	0.7	1.2
Contribution of external demand	0.3	0.8	1.1	1.1	0.6
Export of goods and services	7.0	9.7	8.6	9.5	6.4
Import of goods and services	5.8	4.2	1.8	3.7	3.5
GDP deflator	-1.2	-1.0	-0.8	-0.8	0.8

	CY2005 (actual)	CY2006 (actual)	CY2007 (actual)	Forecast	
				CY2008 (forecast)	CY2009 (forecast)
	Yr/Yr, %				
Current account balance (trillion yen)	18.3	19.8	24.8	24.1	28.6
balance on goods (trillion yen)	10.3	9.5	12.3	9.5	12.2
balance on service (trillion yen)	-2.6	-2.1	-2.5	-2.5	-2.3
balance on income (trillion yen)	11.4	13.7	16.3	18.5	20.0
Industrial production	1.3	4.5	2.8	0.7	2.3
Unemployment rate (%)	4.4	4.1	3.9	3.8	3.8
New housing starts(annualized, ten thousand units)	123.6	129.0	106.1	111.5	114.1
Domestic corporate goods prices	1.7	2.2	1.7	3.8	2.0
Consumer prices	-0.3	0.2	0.0	1.3	0.9
excluding freshfood	-0.1	0.1	0.0	1.4	0.9
Yen/U.S.Dollar	110.2	116.3	117.8	104.7	108.3
Uncollateralized call rates (O/N) (%)*	0.001	0.113	0.472	0.500	1.000
Newly issued government bond yields (10years) (%)	1.38	1.74	1.68	1.61	1.81
WTI future price (near month contract, US dollar/barrel)	56.6	66.2	72.3	113.6	123.5
Dubai crude oil prices (US dollar/barrel)	49.5	61.6	68.4	107.4	119.4

* actual=average, forecast=end of period

Exhibit 9: Outlook for 2008-2009 (Quarterly)

	Forecast												Qr/Qr, %
	FY2007				FY2008				FY2009				Yr/Yr, %
	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	-0.8	0.1	-0.1	0.4	-0.1	1.0	1.0	0.8	0.4	0.5	0.4	0.2	
	1.3	1.1	0.3	-0.4	0.2	1.2	2.2	2.7	3.1	2.6	1.9	1.4	
Real GDP	-0.6	0.3	0.6	0.8	0.1	0.5	0.5	0.5	0.5	0.3	0.2	0.1	
	1.8	1.7	1.7	1.0	1.8	2.0	1.9	1.6	2.0	1.8	1.5	1.1	
Contribution of domestic demand (Qr/Qr,%)	-0.7	-0.2	0.3	0.3	0.1	0.4	0.4	0.3	0.3	0.2	0.2	0.1	
Private consumption	0.2	0.0	0.4	0.8	0.0	0.3	0.3	0.3	0.3	0.3	0.2	0.2	
	1.3	1.7	1.2	1.5	1.3	1.6	1.6	1.0	1.3	1.2	1.1	1.0	
Housing investment	-4.5	-8.0	-9.2	4.6	3.5	5.9	1.0	0.8	0.4	0.2	0.8	0.2	
	-2.9	-11.5	-21.7	-16.6	-9.4	4.1	15.7	11.6	8.3	2.4	2.1	1.6	
Private capital investment	-3.1	0.9	0.9	-0.9	0.4	0.5	0.9	0.6	0.3	0.2	0.1	0.1	
	0.2	0.4	0.2	-2.4	1.3	1.0	1.1	2.3	2.3	2.0	1.2	0.6	
Contribution of inventory investment (Qr/Qr,%)	-0.1	-0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	
Government expenditure	-0.4	-0.2	0.8	-0.4	0.3	-0.2	0.1	-0.1	0.1	0.0	0.2	0.1	
	0.0	0.1	0.8	-0.1	0.4	0.4	-0.4	-0.1	0.2	0.2	0.1	0.3	
Public investment	-3.7	-1.4	0.6	1.5	-1.9	-2.3	-1.8	-1.3	-0.7	-0.2	-0.2	-0.4	
	-2.8	-0.5	-1.8	-1.8	-1.3	-2.7	-4.6	-6.5	-6.0	-4.2	-2.4	-1.1	
Government final consumption expenditure	0.1	0.2	0.8	-0.8	0.6	0.4	0.5	0.3	0.2	0.2	0.2	0.3	
	0.5	0.4	1.4	0.2	0.8	1.0	0.7	1.7	1.3	1.1	0.8	0.7	
Contribution of external demand (Qr/Qr,%)	0.1	0.5	0.3	0.5	0.0	0.1	0.1	0.2	0.2	0.1	0.0	0.0	
Export of goods and services	1.2	2.9	2.6	4.5	0.4	0.9	1.2	2.4	2.1	1.4	0.8	0.6	
	7.8	8.7	10.4	11.7	10.8	8.6	7.2	5.0	6.7	7.2	6.8	4.8	
Import of goods and services	0.7	0.0	1.0	2.0	0.5	0.5	0.5	1.2	1.1	1.1	0.7	0.4	
	1.4	1.5	2.3	3.8	3.5	4.1	3.5	2.7	3.3	3.9	4.1	3.2	
GDP deflator (Yr/Yr,%)	-0.5	-0.6	-1.3	-1.4	-1.6	-0.8	0.3	1.1	1.1	0.8	0.4	0.3	

	Forecast												Yr/Yr, %
	FY2007				FY2008				FY2009				
	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)*	6.4	6.3	6.2	5.6	5.4	5.9	7.1	6.6	7.2	7.0	7.7	6.9	
balance on goods (trillion yen)*	3.1	3.3	3.0	2.4	1.5	2.3	2.6	3.5	2.6	2.9	3.0	2.8	
balance on service (trillion yen)*	-0.6	-0.6	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.4	-0.6	-0.7	-0.8	
balance on income (trillion yen)*	4.3	4.0	4.2	4.3	5.1	4.9	4.7	4.9	5.6	5.3	5.0	5.3	
Industrial production (Qr/Qr, %)	0.6	1.7	0.9	-0.7	-1.1	0.7	1.0	0.8	0.6	0.4	0.1	-0.5	
(Yr/Yr, %)	2.3	2.6	3.3	2.3	0.7	-0.4	0.2	1.3	3.1	2.8	2.1	0.6	
Unemployment rate (%)*	3.8	3.8	3.8	3.8	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8	
New housing starts(annualized, ten thousand units)	125.4	80.9	95.5	114.2	109.3	112.3	111.3	115.6	112.9	115.1	113.7	116.8	
Domestic corporate goods prices (Yr/Yr,%)	1.7	1.6	2.3	3.5	3.9	4.1	3.3	2.9	2.7	1.3	1.3	1.2	
Consumer prices (Yr/Yr,%)	-0.1	-0.2	0.5	0.9	1.5	1.6	1.3	1.1	0.9	0.8	0.8	0.8	
excluding freshfood (Yr/Yr,%)	-0.1	-0.1	0.5	1.0	1.6	1.6	1.3	1.1	0.9	0.8	0.8	0.8	
Yen/U.S.Dollar	120.7	117.8	113.1	105.2	103.5	104.5	105.8	107.0	107.8	108.8	109.8	110.0	
Uncollateralized call rates (O/N) (%)**	0.514	0.497	0.493	0.506	0.500	0.500	0.500	0.500	0.750	0.750	1.000	1.000	
Newly issued government bond yields (10years) (%)	1.74	1.72	1.56	1.39	1.59	1.72	1.75	1.80	1.83	1.85	1.75	1.65	
WTI future price (near month contract, US dollar/barrel)	65.0	75.4	90.7	97.9	121.5	121.0	114.0	118.0	122.0	126.0	128.0	126.0	
Dubai crude oil prices (US dollar/barrel)	64.8	70.0	83.3	91.2	114.5	115.0	109.0	113.5	118.0	122.0	124.0	122.0	

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