

August 2009

Forecast for the Japanese Economy in Fiscal 2009 and 2010

— Even if Recovery Begins, There Will Be No Room for Optimism. —



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1. Outlook for the Japanese Economy in Fiscal 2009 and Fiscal 2010 -- Even if Recovery Begins, There Will Be No Room for Optimism.

(1) Current State of the Economy: Bottoming Out Supported by Exports and Positive Effects of Stimulus Policies

The real rate of GDP growth in the April-June period was 0.9% over the previous quarter (3.7% growth at an annualized rate), the first positive growth in five quarters. These results show the economy is in the process of moving back to the path to recovery as a result of the bottoming out of exports and the positive impact of government economic policies. On the other hand, nominal GDP declined 0.2% (minus 0.7% at an annualized rate), the fifth consecutive quarterly decline.

An examination of the contribution of domestic and external demand to real GDP growth shows that domestic demand made a negative contribution of 0.7% in the April-June period, the fifth consecutive quarter that it has acted as a drag on overall growth. External demand, however, made a positive contribution of 1.6%, a major improvement over the negative contribution of 2.2% in the previous quarter, and gave overall real GDP a major push upward.

By major component of domestic demand, personal consumption increased 0.8% over the previous quarter, a firm rate of expansion supported by the effects of various policy measures, including reductions in taxes on eco-friendly automobiles, subsidies for buying new cars, and the granting of eco-points. Private residential investment posted a major decline of 9.5%, reflecting the weakness in the housing market. Private capital investment declined 4.3%, the fifth consecutive quarterly decline, because of the weak drive to invest owing to the deterioration in corporate profits, low rates of capacity utilization, and other factors. The contribution of private inventory investment to real GDP growth was a minus 0.5%, thus pushing growth downward, but, as a result of the progress toward inventory adjustments, production is beginning to recover. Therefore, the decline in inventory investment can be viewed as a positive development for the economy. Public-sector demand overall rose 1.2% for the quarter, despite a decline of

0.3% in government final consumption expenditures, because of an increase of 8.1% in public investment along with the emergence of the positive effects of the economic policies that went into effect last year.

External demand pushed the growth rate upward substantially. This was because exports, mainly those destined for other Asian countries, rose 6.3% for the quarter, reflecting progress toward inventory adjustments overseas, the recovery of the Chinese economy, and other factors. On the other hand, imports decreased 5.1% for the quarter because of inventory adjustments in Japan and other factors.

The GDP deflator for the quarter was 0.5% higher than the level for the same quarter of the previous year. This was the third consecutive increase, reflecting major declines in prices of imports, including crude oil, but the rate of increase diminished slightly. On the other hand, the deflator for domestic demand, which excludes the effects of changes in prices of exports and imports, declined 1.7% from the same quarter of the previous year.

(2) Economic Outlook: Concerns about a Loss of Momentum May Rise

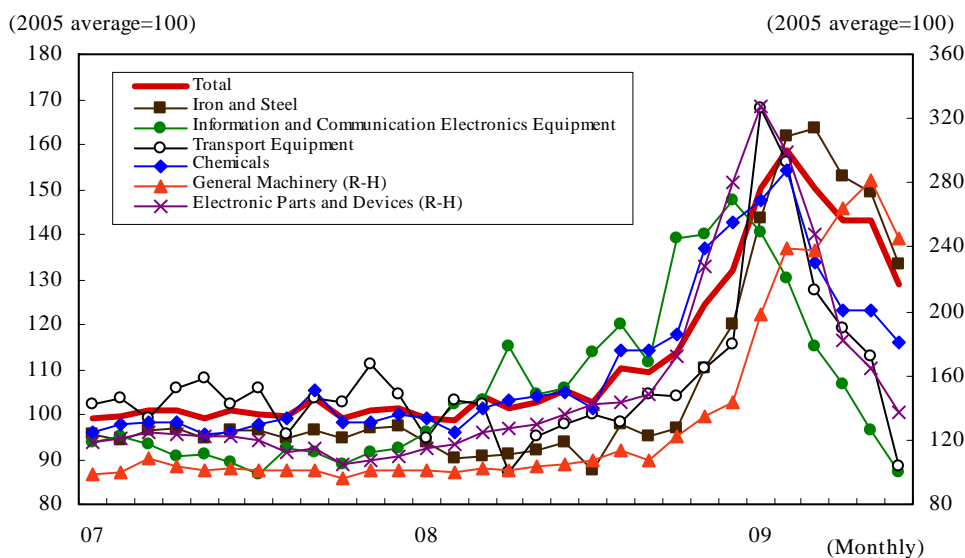
As these comments suggest, the economy reached bottom in early spring this year, then moved out of the worst phase of the downturn, and is now beginning to improve. The question is “Will this trend toward improvement continue?” To shed light on future trends in the economy, let us first look carefully at the recent positive developments and then the negative ones.

①Recent Improvements due to Reactions to Previous Declines and the Positive Impact of Government Policies

The driving forces for the economic recovery can be divided into two types. The first is various reactions to the sharp deterioration in conditions that had been experienced thus far. The second is the positive impact of the series of economic policies that have been implemented since the previous year.

One example of reactionary movements is the increase in production following the progress made toward inventory adjustments. The automobile, semiconductor and other electronic components, and certain other industries cut production suddenly to levels far below actual demand. As a result, with the exception of the steel, general machinery, and certain other industries, inventories fell sharply and are now at low levels compared to sales (Exhibit 1). For this reason, output is now increasing mainly in industries where progress has been made toward inventory adjustments, such as automobiles and electronic components and devices, and in industries where overseas demand is strong, such as the chemical industry. In addition, increases in production are spreading to the steel, electric machinery, IT/telecommunications, and certain other industries, with gains in production levels reported for four consecutive months from March through June. The forecast index for industrial production calls for an increase of 1.6% over the previous month in July and a further rise of 3.3% in August. If the forecast index proves to be accurate, the increase in the July-September quarter will continue to be firm, following the gain of 8.3% in industrial production in the April-June quarter.

Exhibit 1: Index of Inventory Ratio by Industry



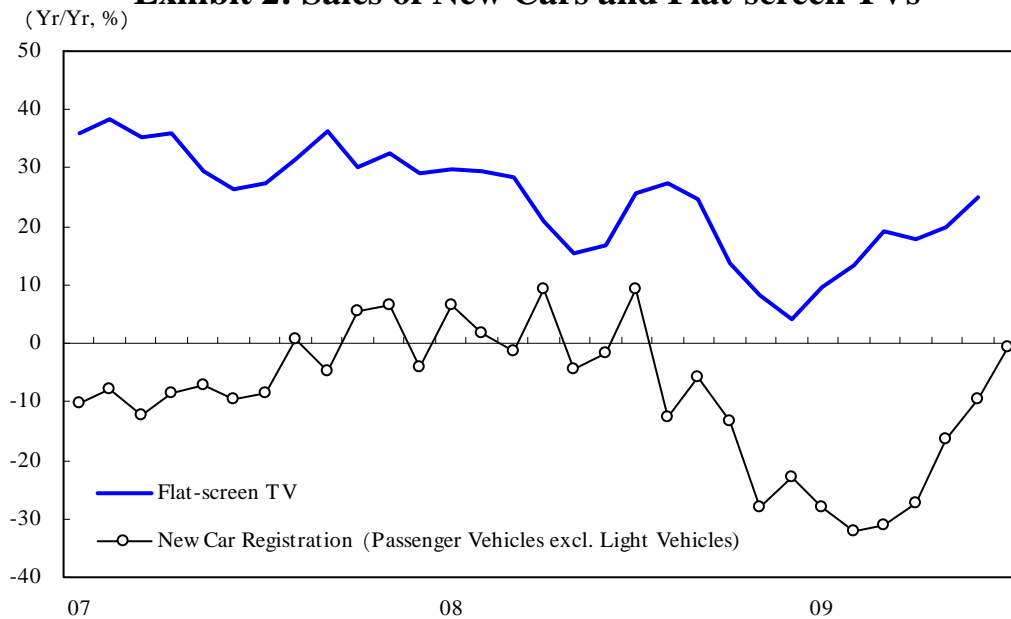
Source: Ministry of Economy, Trade and Industry "Indices of Industrial Production"

The recovery in exports—principally in the automobile, semiconductor and other electronic component, and certain other industries—also shows clear signs of being in reaction to previous declines. For certain industries, such as chemical products in China, export demand is strong, but in the automobile and electronic component and devices industries, where exports are favorable, the contribution of exports to replenish overseas inventories, which have been depleted, is a more significant factor than full-scale recovery in overseas demand. Note that exports in certain industries, such as general machinery, are still stagnant.

The area where the positive effects of economic policies are clearest is in government public works spending. Government capital spending has now risen for four consecutive quarters on a real GDP basis, and the margin of increase is rising from quarter to quarter. The positive impact of the acceleration of expenditures under the first and second supplementary budgets for fiscal 2008 and the initial budget for fiscal 2009 are beginning to emerge. Recent data on the value of public works contracts and aggregate statistics on construction (for the public sector) are now showing double-digit increases over the same period of the previous year. On a GDP basis, real public works investment in the April-June period rose a robust 8.1% over the previous quarter. The full force of the increase in spending under the major supplementary budgets for fiscal 2009 is expected to emerge from this point onward. The impact of this spending will continue into the fall and later and contribute to an increase in growth rates.

The firmness in consumer spending is largely accounted for by various policy measures, including the tax reductions and subsidies for eco-friendly automobiles and the granting of eco-points. The number of new cars sold in July (excluding light cars) had recovered to a level only 0.6% below the same month of the previous year, thus remaining virtually unchanged from a year earlier. The possibility of sales exceeding the previous year's level in August is growing stronger. In addition, sales of flat-panel TVs, large refrigerators, and other appliances are continuing to be favorable (Exhibit 2).

Exhibit 2: Sales of New Cars and Flat-screen TVs



Note: Figures for flat-screen TV is the sum of over 10-inch liquid crystal and plasma display panel television; three-month moving average.

Source: Japan Automobile Dealers Association;

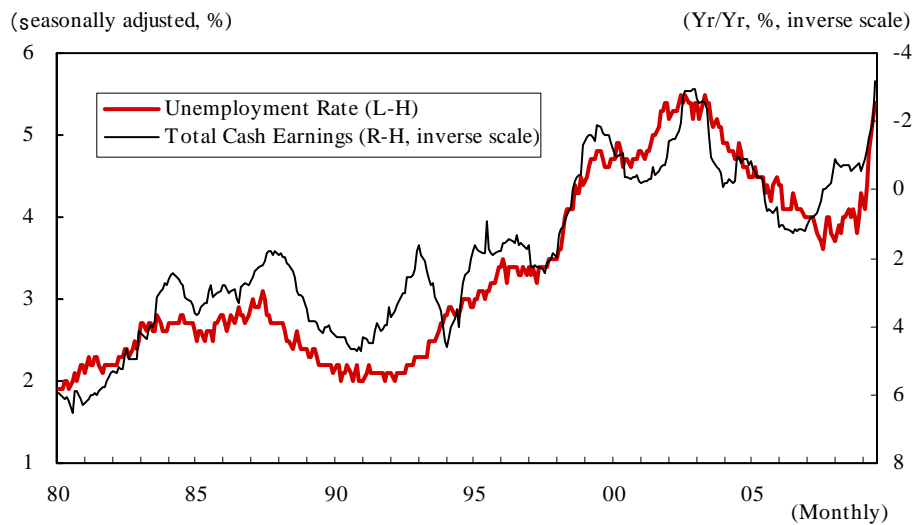
Japan Electronics and Information Technology Industries Association

② Capital Investment and Employment Income Environments Showing Record-Level Deterioration

Nevertheless, in contrast with these various movements toward improvement in the economy resulting from reactions to the previous downturn and the positive effects of economic policies, deterioration is continuing in other areas.

Of these areas, the deterioration in the employment and income environments is especially serious. The unemployment rate (adjusted for seasonal factors) in June was 5.4%, which is close to the historic high of 5.5%, and further increases in this indicator are expected to be just a matter of time (Exhibit 3). It is believed that expansion in the Employment Adjustment Support Fund is restraining increases in the number of unemployed persons, and that the employment situation is actually worse than it appears.

Exhibit 3: Unemployment Rate and Total Cash Earnings



Note: Total Cash Earnings are earnings paid by firms with thirty or more employees; twelve-month moving average.

Source: Ministry of Internal Affairs and Communications "Labour Force Survey"; Ministry of Health, Labour and Welfare "Monthly Labour Survey"

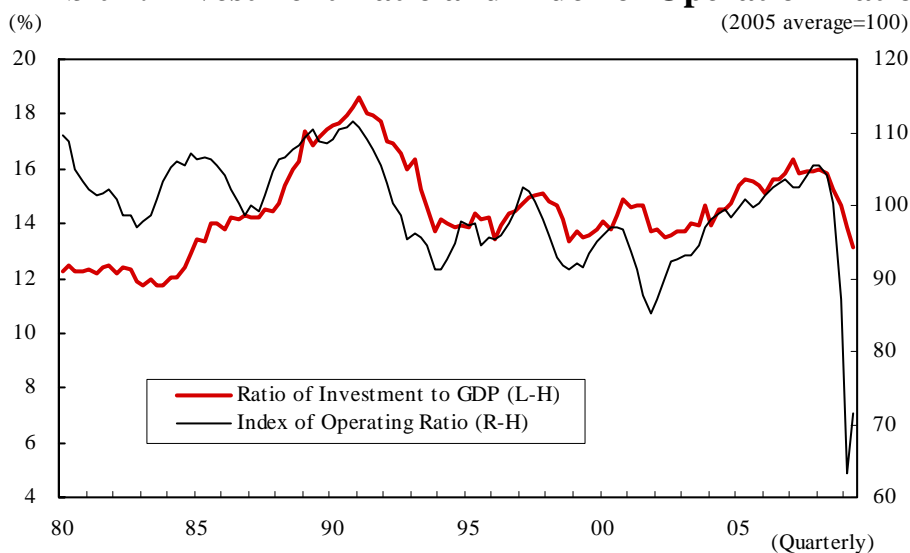
The income environment is also deteriorating. The amount of cash salary payments per capita in June (for establishments of five persons or more) was 7.0% lower than for the same month of the previous year because of the substantial decrease in summer bonuses. This is the largest year-on-year decrease in these statistics since they were first issued in 1990. (Even for previously existing salary payment data, which cover establishments of 30 persons or more and go back to 1970, the decline in June 2009 was 9.7% compared with the same month of the previous year, also the largest decline in the history of these data.) The outlook is for major reductions in winter bonuses this year, and, as a result, there is a possibility of further significant deterioration in the environment for household incomes going forward.

Moreover, based on the number of housing starts (on a seasonally adjusted basis) in the April-June quarter, the annualized rate of starts is about 700,000 units, which is comparable to the most recent low experienced in summer 2007 immediately following the revision in building codes.

The decline in capital investment is also continuing unabated. Machinery orders (excluding orders placed by the shipping and electric power

industries) in May dropped to their lowest level since these figures were first released in their current form in April 1987. Although orders made a sudden recovery in June, the outlook for the July-September quarter is for a decline of 8.6% from the previous quarter, and stagnation in this indicator is expected to continue. Although production levels are beginning to increase, the rate of capacity utilization continues to be low (Exhibit 4), and corporations still have a strong sense that they have excess capacity. For these reasons, corporations are expected to restrain capital investments for the time being.

Exhibit 4: Investment Ratio and Index of Operation Ratio



Note: Ratio of Investment = Real Investment / Real GDP * 100

Source: Ministry of Economy, Trade and Industry "Indices of Industrial Production",
Cabinet Office "Quarterly Estimates of GDP"

③The Current Momentum Will Not Continue

As we have seen thus far, although the economy is beginning to show improvement, there are still many causes for concern, including continuing deterioration in certain areas. Looking ahead, there certainly appears to be no cause for optimism.

One of the first concerns is that the reactions to previous declines and the positive impact of government policies, which are the driving forces behind the recent improvements in the economy, may gradually run their course.

Recent trends in consumption, which have been firm because of the impact of government policies, may, in effect, just reflect a moving forward of future consumption, even as incomes are continuing to decline. The items showing especially strong growth in sales are big-ticket durable goods. These are the types of goods that consumers tend to postpone purchasing in additional quantities after having bought new units. The deadline for earning eco-points will be the end of fiscal 2009, but if this deadline is not extended, there may be a surge in demand before the time limit, followed by a sudden decline in demand. In addition, the reduction in taxes on eco-friendly cars will last through the end of fiscal 2011, and, thereafter, a similarly buying pattern, of a surge followed by a decline in purchases, may be seen. The index of consumer confidence reached a low point in March this year, and subsequently has risen for four consecutive months, but an examination of the reasons given by consumers for making purchases shows a marked improvement in “judgment that this is a good time to buy consumer durables.” Purchases are not being made because of an improvement in consumer confidence based on increases in their incomes.

In the case of government public works spending also, unless additional major policies are implemented, the effects of ongoing policies will gradually diminish. There are limitations on government funds, and a certain amount of time for preparation, including designing of projects, is necessary even after funding is approved. Thus, there may also be problems related to whether the public works construction work can actually be implemented smoothly.

Among industries expanding production, the portions of the increase accounted for by the effects of government policies and the replenishment of inventories following inventory adjustments will eventually run their course. In the case of exports also, if the increase in overseas inventories is completed, the pace of production will decline to match the rate of expansion in demand. Although conditions in overseas economies are improving, it will be difficult to return to the high rates of growth experienced from 2004 through 2007 in a short period of time. If overseas demand does not rise as much as expected, there is a possibility that exports will have to be restrained to cut inventories in overseas markets

once more.

Since the fall of 2008, even if the landscape surrounding the Japanese economy has changed considerably, corporations will also be required to implement management policies that take account of these changes. If corporations have production capacity and the proper number of personnel appropriate for the previous peak in the economy, there will be no problems, provided the economy returns to previous levels in the short term. However, if it is going to take considerable time before the economy returns to those levels, there will clearly be excessive production capacity and personnel. Corporations will, therefore, be obliged to begin to restructure in order to survive. There are concerns that a scenario like this will continue to act as a drag on the economic recovery. Moreover, there will be concerns that, if, as a result of the expansion of the Employment Adjustment Support Fund and other measures, corporations harbor disguised unemployment, the employment and income environments may suffer further marked deterioration. In addition, there are risks that, if the beneficial effects of the financial support measures for corporations that were expanded as part of the economic policies are interrupted, then corporate bankruptcies may increase in number.

At present, the economy is recovering, but this does not mean that the Japanese economy has returned to its full former strength. The continuation of recovery in external demand is likely to make it possible for the economy to avoid the crisis that might occur if the economy went into another downturn; however, it is difficult to imagine that the current recovery trend will continue on its present course uninterruptedly. Events may not stop with a slowing of the pace of economic recovery, and could even give rise to concerns about a loss of momentum in the economy.

(3) Outlook for Fiscal 2009 and Fiscal 2010

In fiscal 2009, the trend toward improvement in the economy is forecast to continue. However, the causes of this improvement will be the recovery in exports and positive effects of government economic policies. Domestic

demand in the private sector will continue to be weak. When the pace of increase in exports pauses and the effects of economic policies run their course, there is a strong possibility that the pace of recovery in the economy may weaken toward the end of the current fiscal year.

Exports will continue on an upward trend supported by improvement in overseas economies and movements to replenish inventories accompanying the completion of inventory adjustments in overseas markets. However, since we cannot expect overseas economies to return to the previous rapid growth path in a short period, when the replenishment of inventories runs its course, the rate of increase in exports is expected to diminish gradually.

The economic policies enacted in fiscal 2008 and fiscal 2009 are expected to make a major contribution to boosting the rate of growth in fiscal 2009. As a result of the effects of these economic policies, consumer spending is expected to continue to be firm, supported principally by purchases of big-ticket consumer durables. Toward the end of the current fiscal year, as the deadlines for receiving eco-points and the payment of subsidies for purchasing automobiles approach, a surge in demand is anticipated. However, this will occur against a background of harsh employment and income environments, and there is concern that this surge may, to some extent, eat into household resources for future consumer spending. Government public works spending will rise significantly, as a result of policies to stimulate the economy, and thus provide a boost to the economy. Nevertheless, on a quarter-by-quarter basis, the pace of growth will diminish gradually as we approach the end of the fiscal year.

Production will continue to show improvement as exports rise, inventory adjustments end, and the positive effects of economic policies emerge; however, there is a possibility that the pace of increase may slow suddenly in the latter half of the fiscal year because of the delay in the recovery of capital investment and a weakening in growth of exports.

Corporate profitability will move out of the worst phase as sales recover and the effects of cost-cutting, including reductions in personnel expenses, take effect. Although corporate profitability will begin to rise over the

levels of the previous year toward the end of the current fiscal year, the level will remain relatively low, and, for the fiscal year as a whole, profits will show double-digit declines compared with the previous fiscal year. Capital investment will finally begin to rise, along with the recovery of corporate performance after the beginning of 2010, but, since companies will still perceive capacity levels as being excessive, trends in investment will remain sluggish. In addition, private housing investment will start to improve in the latter half of the current fiscal year, but the number of new housing starts will remain at extremely low levels because of the accumulated inventory of condominiums for sale and other factors.

Our forecast for real GDP in fiscal 2009 calls for a decline of 2.9% year on year, a somewhat smaller decrease than the 3.2% drop in fiscal 2008. However, as a result of the sharp decline in growth in the latter half of fiscal 2008, the carryover into fiscal 2009 will be a substantial minus 4.2%, and, after adjusting for this effect, the growth rate will be +1.3%, a major recovery compared with the previous fiscal year (Exhibit 5).

In fiscal 2010, the economic recovery will continue, but the positive effects of the economic policy measures will diminish, and consumer spending will stagnate because of the delay in improvement in the income and employment environments. As a result, the tempo of expansion will slow substantially. On the other hand, since the improvement in external demand will continue, we believe the economy will avoid the crisis of slipping into a second downturn, but concerns about a loss of momentum will emerge.

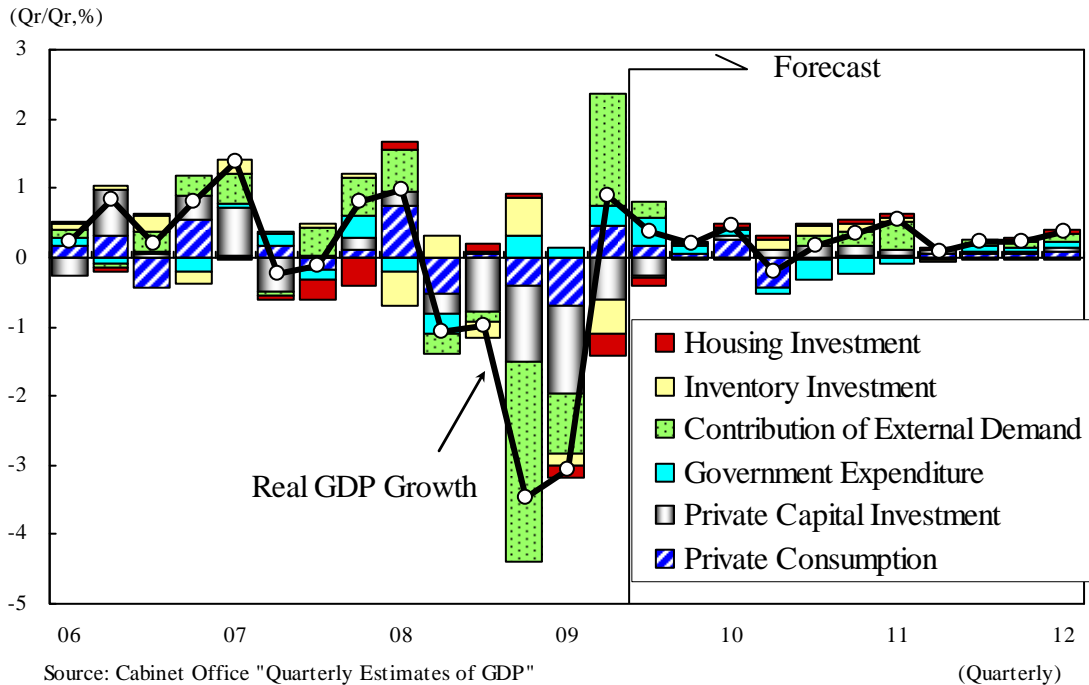
Since no additional economic policy measures are assumed for fiscal 2010, after the marked increase in government public works spending in the previous year, there will be a major decline in this spending. In addition, consumer spending will decline at the beginning of fiscal 2010 in reaction to the surge in demand at the end of fiscal 2009, and movements toward improvement are not expected, as stagnation will continue in the employment and income environments. On the other hand, in part because of the quickening in the tempo of recovery in overseas economies, the recovery trend in Japan's exports is forecast to continue, and production will remain on an improving trend.

As might be expected, corporate profitability will improve, owing to the increase in sales and the effects of cost reductions, but will remain at a relatively low level because of weakness in sales prices and other factors. For this reason, although capital investment will begin to recover, since corporations will focus on making the bare minimum of capital outlays, the increase in investment will be modest and will not be strong enough to drive the economy upward.

Our forecast for real GDP in fiscal 2010 is for growth of 0.7%. Compared with fiscal 2009, the growth rate will appear to increase, but, as a result of growth in fiscal 2009, there will be a carryover effect of +0.6%. Therefore, growth in fiscal 2010 measured during year (and thereby adjusting for this effect) will be +0.1%, or virtually zero.

In fiscal 2011, the recovery trend will continue. As overseas economies begin to experience full-scale recovery, growth in Japan's exports and improvement in production are forecast to continue. In addition, the employment and income environments will begin to improve, and consumer spending will rise. We believe capital investment will also firm up as corporate profitability increases. However, the pace of expansion in consumption and investment will be only marginal, and there will be little feeling of recovery. The level of the economy will remain relatively low in comparison with the previous peak in fiscal 2007, and production will finally return only to the levels prevailing in the latter half of 1980. Under these conditions, there is a possibility that corporations will not fully revise their views that their production capacity and personnel levels are excessive. Accordingly, real growth will remain at about 1.1%, or at about the same level as during the prolonged period of stagnation following the bursting of Japan's economic bubble.

Exhibit 5: Real GDP Growth (seasonally adjusted)



2. Forecasts of Economic Activity by Sector

(1) Corporations

- Corporations completed their disposal of negative assets left over from Japan's bubble economy, and their financial positions and profitability recovered substantially after 2000, supported by strong exports. Accordingly, the risks of a major downturn in production, capital investment, or other aspects of corporate activities had receded for a prolonged period.
- However, since fall 2008, domestic and overseas demand has dropped sharply, and companies are making major adjustments in production to reduce their inventories. As a result, production has dropped rapidly, mainly in such industries as automobiles, digital-related products (including semiconductors and LCDs), general machinery, and other items. Since the beginning of 2009, production has been bottoming out, but because of the continuation of weakness in domestic and overseas

demand for the foreseeable future, the underlying pace of recovery is gradual and industrial activity is likely to continue at a low level.

- Prior to the current downturn, recurring profits had exceeded the peak levels attained previously during Japan's bubble era and the time of the IT boom and were continuing at record levels. However, because of rapid deterioration in the world economy, recurring profits are dropping sharply along with the decline in sales in Japan and overseas. The recent improvement in the world economy and progress among corporations in reducing costs, including personnel expenses, will be positive factors for corporate profitability. Nevertheless, it is expected to take some time for profitability, which has decreased markedly, to recover to the previous levels.
- As a result of the deterioration in the domestic and overseas economies, corporate profitability is falling sharply and private capital investment is decreasing. Investments for the renewal of equipment and for increasing value-added to remain competitive are necessary, but, because of the rapid emergence of a feeling of excess capital equipment capacity following the drop in demand, there is a possibility that adjustments in private capital investments will be prolonged.

(2) Households

- The stagnation in corporate activities is adversely affecting the household sector through declines in incomes, and consumer spending is declining.
- Since autumn 2008, faced with major declines in demand, companies have reduced the number of personnel, and this has resulted in a marked deterioration in conditions in the employment environment. Although it was thought that the increase in the number of unemployed persons would be restrained to some extent by the expansion in the Employment Adjustment Support Fund, because a full-scale recovery in demand is not occurring, employment adjustments are continuing, and the unemployment rate is expected to continue to rise.
- As a result of measures that were incorporated into economic crisis policies to promote purchases of eco-friendly products, consumer spending is increasing at present. However, there is a strong possibility

of a major decline in wages, principally because of reductions in bonuses accompanying the deterioration in corporate performance, and, as a consequence, the household income environment continues to be severe. Moreover, since the positive effects of economic policies will diminish in fiscal 2010, consumer spending, in general, is expected to remain lackluster.

- In the area of residential investment, although the sons and daughters of the baby-boom generation had been purchasing their first homes, the market has unavoidably stagnated since the revision in Japan's building code in June 2007. Even after the effects of the building code revision have run their course, housing sales have remained lackluster because of expectations that home prices may decline further and uncertainty regarding future trends. In addition, the slower growth in the number of households in the medium term will have a restraining effect on residential investment.

(3) Government

- With the collapse of Japan's bubble economy early in the 1990s as a turning point, the structure of government finances deteriorated rapidly. Along with the decline in nominal income growth rates in the 1990s and major tax cuts, government tax revenues have declined. Moreover, on the expenditure side, social welfare costs have continued to rise as the population has aged demographically, and expenditures for public works increased as a result of the implementation of major government spending programs to stimulate the economy.
- After the year 2000, to implement structural reforms, the government suspended major spending programs aimed at stimulating the economy, and spending on public works projects was reduced substantially. Moreover, local governments are experiencing fiscal difficulties and have continued to reduce their spending on public works. Along with the economic recovery, tax revenues began to expand again, but the government has basically maintained its policy of making structural reforms in its finances.
- 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, policies to restrain expansion in social welfare expenditures have been shelved, and, therefore, government final consumption expenditures, principally social welfare payments, will continue to expand going forward.

- Government public works investment is continuing on a decreasing trend, reflecting the weakness in financial positions of both the national and regional governments. However, as a result of the large-scale economic policies that have been introduced as the economic downturn has become increasingly serious, public works investments are now increasing substantially. However, as government revenues, principally tax revenues, decline markedly, government expenditures are rising. Therefore, the financial position of the government is becoming significantly weaker, and it may be difficult to sustain the current expansion in public works investment.

(4) Trends in Overseas Economies

- The world economy is showing signs of improvement. Developments suggesting a braking of the economic downturn include a recovery of growth in the Chinese economy in the April-June quarter and a shrinkage in the margins of decline in the economies of Europe and the United States.
- From the latter half of fiscal 2009 into 2010, the effects of economic policies and the movements toward replenishing inventories are expected to give a boost to growth in the world economy in 2009. However, the capacity for recovery in consumer spending in the United States, which was the driving force for the world economy, is weak because of the adjustment in household liabilities and deterioration in employment conditions. For this reason, approaching 2011, the pace of the recovery in the world economy is expected to be gradual, and the outlook is for continued slow growth at rates below potential levels.
- As the effects of the worldwide recession have spread, Japan's exports have experienced major declines. Since exports had become the driving force for growth in Japan, supported by high growth in the world economy, the repercussions of the sudden slowdown in exports are

extremely large. For the time being, there are no prospects for a return to the rapid growth experienced previously in the world economy, and considerable time will likely be necessary before exports return to their previous levels.

- Since the level of exports has declined substantially, the trade balance is generally expected to remain around equilibrium, and it will be difficult for Japanese companies to generate earnings from trade. Although the income account is expected to continue to be firm, supported by income from Japan's net overseas assets, the current account surplus is expected to remain at about half the surplus reported in fiscal 2007.

3. Forecasts for Prices and Financial Markets

- The sharp declines experienced previously in prices of raw materials, especially oil and metals, have ended, and prices of these commodities are rising again but remain below the highs recorded in mid-2008. However, in the medium term, considerations of supply capacity and expansion in demand in China and other newly emerging economies suggest that inflationary pressures upstream and deflationary pressures on industrial and other final products downstream will persist.
- Among domestic corporate prices, the prices of petroleum products and other items that are influenced by international commodity market prices are beginning to rise, but prices of other materials and machinery are continuing to decline. Although the trends toward firming and increase in these prices may continue going forward, the pace of increase is expected to be moderate because of the weak recovery momentum in the domestic economy and other factors. Consumer prices are expected to continue on a declining trend during the forecast period because of the downward pressure on sales prices to final consumers.
- Regarding monetary policy, the lifting of quantitative easing in March 2006 set in motion the process of normalizing monetary policy to raise interest rates in Japan from their excessively low levels. However, as a result of the turbulence in financial markets triggered by the subprime loan crisis and the recognition of the risk of a downturn in the domestic

and overseas economies, in October 2008, interest rates were lowered as part of Japan's stance of reinforcing and cooperating with the monetary policies of the United States and the countries of Europe. Also in line with this stance, a further reduction was implemented in December 2008. The Bank of Japan is expected to continue its policy of monetary easing until the turbulence in financial markets settles down and the uncertainty regarding the domestic and overseas economies subsides.

- Since the capacity of the economy for recovery is weak and short-term interest rates are remaining stable at low levels, long-term interest rates are also expected to remain low. However, there is a possibility that the improvement in economic conditions in various countries and the deterioration in government fiscal positions around the world may place upward pressure on interest rates. In foreign exchange markets, as the turmoil in international financial markets continued in the latter half of 2008, the U.S. dollar and the yen strengthened, while the value of currencies of European and resource-producing countries declined. Recently, however, a reverse reaction has emerged. Amid this economic environment, differences in interest rates and current account imbalances among countries are diminishing. Policies adopted by various countries and their medium- to long-term economic prospects will likely rise in importance as determinants of directions in foreign currency market rates.

Exhibit 6: Outlook for Fiscal 2009-2010

	FY2007 (actual)	FY2008 (actual)	Forecast ↘			Yr/Yr, %
			FY2009 (forecast)	FY2010 (forecast)	FY2011 (forecast)	
Nominal GDP	1.0	-3.5	-4.2	-0.1	0.9	
Real GDP	1.8	-3.2	-2.9	0.7	1.1	
Contribution of domestic demand	0.6	-2.0	-2.4	0.3	0.6	
Private consumption	0.9	-0.5	-0.1	-0.3	0.3	
Housing investment	-13.5	-3.1	-13.7	4.5	5.0	
Private capital investment	2.1	-9.6	-15.8	2.2	2.1	
Contribution of inventory investment	0.1	0.0	-0.4	0.3	0.1	
Government expenditure	0.5	-0.5	3.9	-1.1	-0.4	
Public investment	-6.3	-4.4	14.9	-12.6	-7.3	
Government final consumption expenditure	2.1	0.3	1.7	1.6	1.1	
Contribution of external demand	1.3	-1.2	-0.4	0.4	0.5	
Export of goods and services	9.3	-10.2	-13.7	7.8	6.1	
Import of goods and services	1.7	-3.7	-10.6	4.5	2.2	
GDP deflator	-0.9	-0.3	-1.3	-0.8	-0.2	

	FY2007 (actual)	FY2008 (actual)	Forecast ↘			Yr/Yr, %
			FY2009 (forecast)	FY2010 (forecast)	FY2011 (forecast)	
Current account balance (trillion yen)	24.5	12.3	10.6	11.2	12.4	
balance on goods (trillion yen)	11.7	1.2	1.7	1.1	1.7	
balance on service (trillion yen)	-2.6	-2.0	-2.4	-2.0	-1.9	
balance on income (trillion yen)	16.8	14.6	12.8	13.6	13.9	
Industrial production	2.7	-12.7	-12.6	3.4	3.3	
Unemployment rate(%)	3.8	4.1	5.6	5.8	5.5	
New housing starts(annualized, ten thousand units)	103.6	103.9	82.7	91.0	95.1	
Domestic corporate goods prices	2.3	3.2	-4.9	0.8	1.1	
Consumer prices	0.2	1.2	-1.4	-0.4	0.2	
excluding freshfood	0.3	1.2	-1.5	-0.4	0.2	
Yen/U.S.Dollar	114.2	100.5	97.3	101.5	105.4	
Uncollateralized call rates (O/N) (%)*	0.505	0.363	0.100	0.100	0.500	
Newly issued government bond yields (10years) (%)	1.60	1.46	1.42	1.54	1.68	
WTI future price (near month contract, US dollar/barrel)	82.2	85.9	66.6	74.0	76.8	
Dubai crude oil prices (US dollar/barrel)	77.3	82.1	66.0	71.4	73.8	

* actual=average, forecast=end of period

Exhibit 7: Outlook for Calendar 2009-2010

	CY2007 (actual)	CY2008 (actual)	Forecast			Yr/Yr, %
			CY2009 (forecast)	CY2010 (forecast)	CY2011 (forecast)	
Nominal GDP	1.7	-1.6	-6.0	-0.2	0.7	
Real GDP	2.3	-0.7	-5.5	1.0	1.1	
Contribution of domestic demand	1.2	-0.9	-3.6	0.3	0.4	
Private consumption	0.7	0.6	-1.2	0.3	0.0	
Housing investment	-9.7	-7.6	-11.0	-0.1	5.6	
Private capital investment	5.7	-3.9	-19.6	-0.6	2.7	
Contribution of inventory investment	0.3	-0.2	-0.1	0.0	0.2	
Government expenditure	0.1	-0.6	3.1	0.7	-1.4	
Public investment	-7.3	-6.9	11.5	-4.4	-12.2	
Government final consumption expenditure	1.9	0.8	1.4	1.9	0.9	
Contribution of external demand	1.1	0.2	-1.8	0.7	0.7	
Export of goods and services	8.4	1.8	-25.0	10.3	6.5	
Import of goods and services	1.5	0.9	-14.7	4.8	1.8	
GDP deflator	-0.7	-0.9	-0.5	-1.2	-0.3	

	CY2007 (actual)	CY2008 (actual)	Forecast			Yr/Yr, %
			CY2009 (forecast)	CY2010 (forecast)	CY2011 (forecast)	
Current account balance (trillion yen)	24.8	16.4	10.2	10.5	12.1	
balance on goods (trillion yen)	12.3	4.0	1.1	0.7	1.6	
balance on service (trillion yen)	-2.5	-2.1	-2.5	-2.1	-1.9	
balance on income (trillion yen)	16.3	15.8	12.9	13.4	13.8	
Industrial production	2.8	-3.4	-23.2	6.5	2.8	
Unemployment rate (%)	3.9	4.0	5.3	5.9	5.6	
New housing starts(annualized, ten thousand units)	106.1	109.3	82.7	90.1	94.0	
Domestic corporate goods prices	1.8	4.6	-5.1	0.2	1.1	
Consumer prices	0.0	1.4	-1.2	-0.6	0.1	
excluding freshfood	0.0	1.5	-1.2	-0.7	0.1	
Yen/U.S.Dollar	117.8	103.4	96.1	100.4	104.4	
Uncollateralized call rates (O/N) (%)*	0.474	0.462	0.100	0.100	0.250	
Newly issued government bond yields (10years) (%)	1.68	1.48	1.38	1.50	1.65	
WTI future price (near month contract, US dollar/barrel)	72.3	99.6	59.7	72.9	76.3	
Dubai crude oil prices (US dollar/barrel)	68.4	93.8	59.8	70.6	73.3	

* actual=average, forecast=end of period

Exhibit 8: Outlook for 2009-2010 (Quarterly)

	Forecast												Qr/Qr, %
	FY2008				FY2009				FY2010				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	-1.4	-2.2	-1.3	-2.6	-0.2	-1.8	0.3	1.6	-0.5	-1.6	0.7	1.9	
	-0.8	-1.8	-3.6	-7.8	-5.9	-6.3	-3.9	-0.4	-0.5	-0.1	0.0	0.4	
Real GDP	-1.1	-1.0	-3.5	-3.1	0.9	0.4	0.2	0.5	-0.2	0.2	0.3	0.6	
	0.6	-0.3	-4.3	-8.7	-6.4	-5.4	-1.2	1.8	0.9	0.7	0.5	0.8	
Contribution of domestic demand (Qr/Qr,%)	-0.8	-0.8	-0.6	-2.2	-0.7	0.2	0.2	0.4	-0.2	0.0	0.1	0.2	
Private consumption	-1.0	0.1	-0.7	-1.2	0.8	0.3	0.1	0.4	-0.7	0.0	0.1	0.1	
Housing investment	0.3	0.7	-0.3	-2.8	-0.9	-0.9	0.0	1.6	0.1	-0.2	-0.3	-0.7	
Private capital investment	0.0	3.5	2.6	-5.7	-9.5	-3.9	0.8	1.6	1.4	1.3	1.9	2.1	
Contribution of inventory investment (Qr/Qr,%)	-16.5	-5.5	11.7	0.5	-10.1	-16.0	-17.1	-10.8	-0.5	5.1	6.5	7.0	
Government expenditure	-1.7	-4.9	-7.1	-8.5	-4.3	-1.9	-0.2	0.4	0.9	1.2	1.0	0.6	
Contribution of inventory investment (Qr/Qr,%)	0.4	-4.1	-11.8	-20.5	-22.8	-20.1	-14.2	-6.0	-1.0	2.3	3.5	3.6	
Government expenditure	0.3	-0.2	0.5	-0.2	-0.5	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	
Public investment	-1.4	0.1	1.5	0.6	1.2	1.7	0.4	0.4	-0.3	-1.2	-0.9	-0.3	
Government final consumption expenditure	-1.2	-0.8	-0.8	0.6	2.8	4.7	4.3	3.9	2.3	-0.6	-2.6	-3.1	
Public investment	-5.1	1.7	2.2	2.6	8.1	3.1	0.6	0.0	-3.0	-8.3	-6.1	-2.5	
Government final consumption expenditure	-8.3	-6.6	-4.6	0.3	16.8	16.9	14.9	12.0	0.5	-10.6	-16.6	-18.6	
Government final consumption expenditure	-0.7	-0.2	1.3	0.1	-0.3	1.4	0.4	0.5	0.3	0.4	0.2	0.1	
Government final consumption expenditure	0.1	0.4	0.2	0.6	0.9	2.4	1.6	2.0	2.6	1.6	1.4	0.9	
Contribution of external demand (Qr/Qr,%)	-0.3	-0.2	-2.9	-0.9	1.6	0.2	0.0	0.0	0.0	0.2	0.2	0.4	
Export of goods and services	-4.1	-0.8	-13.6	-22.5	6.3	8.3	1.4	1.6	0.7	2.3	1.5	2.9	
Import of goods and services	5.9	4.4	-12.6	-36.4	-29.3	-22.9	-9.5	18.6	12.2	6.0	6.1	7.6	
Import of goods and services	-3.1	0.2	2.5	-14.9	-5.1	5.9	1.0	1.4	0.6	1.1	0.1	0.2	
Import of goods and services	-2.0	0.0	2.9	-15.6	-17.3	-12.4	-13.7	2.9	9.1	4.2	3.3	2.0	
GDP deflator (Yr/Yr,%)	-1.5	-1.5	0.7	0.9	0.5	-0.9	-2.7	-2.1	-1.4	-0.8	-0.5	-0.4	

	Forecast												Yr/Yr, %
	FY2008				FY2009				FY2010				
	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)*	5.0	4.0	2.1	1.8	3.8	2.7	2.1	2.2	3.6	2.6	2.3	2.9	
balance on goods (trillion yen)*	1.8	0.8	-0.7	-0.5	1.4	0.3	-0.1	0.0	0.8	0.0	-0.1	0.4	
balance on service (trillion yen)*	-0.5	-0.4	-0.5	-0.6	-0.5	-0.6	-0.6	-0.5	-0.4	-0.6	-0.5	-0.4	
balance on income (trillion yen)*	4.0	4.0	3.6	3.2	3.3	3.4	3.1	3.0	3.6	3.5	3.3	3.2	
Industrial production (Qr/Qr, %)	-1.3	-3.2	-11.3	-22.1	8.3	6.5	0.4	0.6	0.3	0.4	0.4	0.7	
Industrial production (Yr/Yr, %)	0.8	-1.4	-14.5	-34.6	-27.8	-19.5	-9.5	16.0	7.8	2.3	2.0	1.7	
Unemployment rate (%)*	4.0	4.0	4.0	4.4	5.2	5.6	5.8	5.9	5.8	5.8	5.8	5.7	
New housing starts(annualized, ten thousand units)	112.0	110.2	101.0	90.4	76.2	80.5	84.7	90.4	88.9	88.7	92.2	94.3	
Domestic corporate goods prices (Yr/Yr,%)	4.9	7.3	2.6	-1.8	-5.4	-8.1	-4.5	-1.2	0.3	0.7	1.0	1.1	
Consumer prices (Yr/Yr,%)	1.4	2.2	1.1	-0.1	-1.0	-2.2	-1.4	-1.0	-0.7	-0.4	-0.3	-0.1	
excluding freshfood (Yr/Yr,%)	1.5	2.3	1.0	-0.1	-1.0	-2.3	-1.4	-1.1	-0.8	-0.4	-0.3	-0.1	
Yen/U.S.Dollar	104.5	107.6	96.1	93.6	97.3	96.0	97.5	98.5	100.0	101.0	102.0	103.0	
Uncollateralized call rates (O/N) (**)	0.507	0.501	0.333	0.110	0.110	0.100	0.100	0.100	0.100	0.100	0.100	0.100	
Newly issued government bond yields (10years) (%)	1.61	1.51	1.43	1.28	1.45	1.38	1.42	1.44	1.48	1.52	1.55	1.59	
WTI future price (near month contract, US dollar/barrel)	124.0	118.0	58.7	43.1	59.6	67.0	69.0	71.0	72.5	73.5	74.5	75.5	
Dubai crude oil prices (US dollar/barrel)	116.9	113.8	53.3	44.4	59.2	67.5	68.0	69.5	70.5	71.0	71.5	72.5	

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