

August 2005

**Forecast for the Japanese Economy
In Fiscal 2005 and 2006**



Economic Research Department

1. Current State of the Japanese Economy

After recording real growth of 1.3% in the January–March quarter of 2005, the Japanese economy expanded 0.3% in the April–June quarter, the third consecutive quarter of growth. Expansion was relatively slow in the April–June quarter because of the decline in inventory investments, but exports began to rise again, and the two mainstay components of domestic demand, private consumption and private capital investment, showed their second consecutive quarter of firm expansion.

2. Outlook for Fiscal 2005 and Fiscal 2006

Since the inventory adjustments in digital-related products should be completed and growth in overseas economies is expected to accelerate, Japan's exports are forecast to continue on an upward trend in the second half of 2005, and industrial production will begin to pick up. Moreover, since the employment and income environments will improve, consumption is expected to remain firm, and the economy will remain on an upward trend.

However, some developments will restrain the recovery. Increases in raw material prices, including crude oil, will bring deterioration in corporate profitability, and capital investment will slow. In addition, recovery in the employment and income environments will continue to be gradual, and consumption will lack the momentum to lead the economic recovery.

Nevertheless, the financial positions and basic earnings power of corporations have improved, and recovery will continue into fiscal 2006. Along with the recovery in exports and production, corporate profitability will begin to improve, and capital investment will resume an increasing trend. Moreover, consumption will rise gradually and provide support for the recovery.

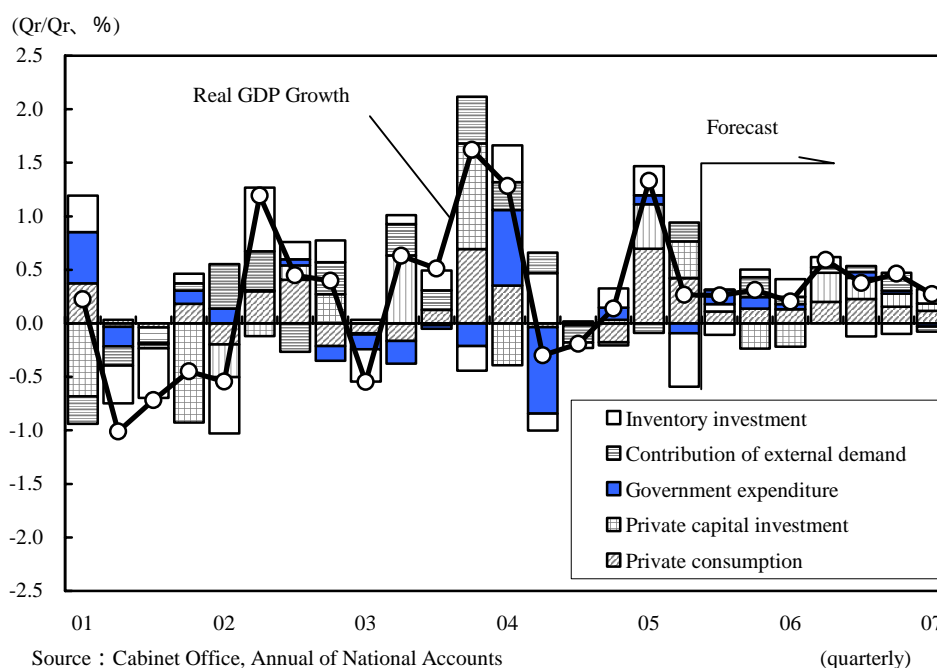
3. Key Points of the Outlook

The inventory adjustments in digital-related products will be completed, growth in overseas economies will strengthen, and the economic recovery will continue.

The decline in downstream product prices and the increase in prices of raw materials upstream will put pressure on corporate profits, thus restraining capital investment.

The employment and income environments will show gradual improvement, and expansion in consumption will provide support for the economy.

Exhibit 1 : Real GDP Growth (seasonally adjusted)



1. Private Consumption

Current Conditions

There are signs of improvement in the employment and income environments surrounding households. Along with the gains in corporate performance, scheduled wages have risen over the same periods of the previous year, albeit by a small margin, and special compensation (mainly bonuses) is increasing. Thus, per capita wages have stopped declining. In addition, beginning this fiscal year, the number of employed persons has begun to rise, and the total compensation of employees is also increasing. Private final consumption in real terms, after rising a high 1.2% over the previous quarter in the January–March period, expanded 0.7% over the prior quarter during the April–June quarter.

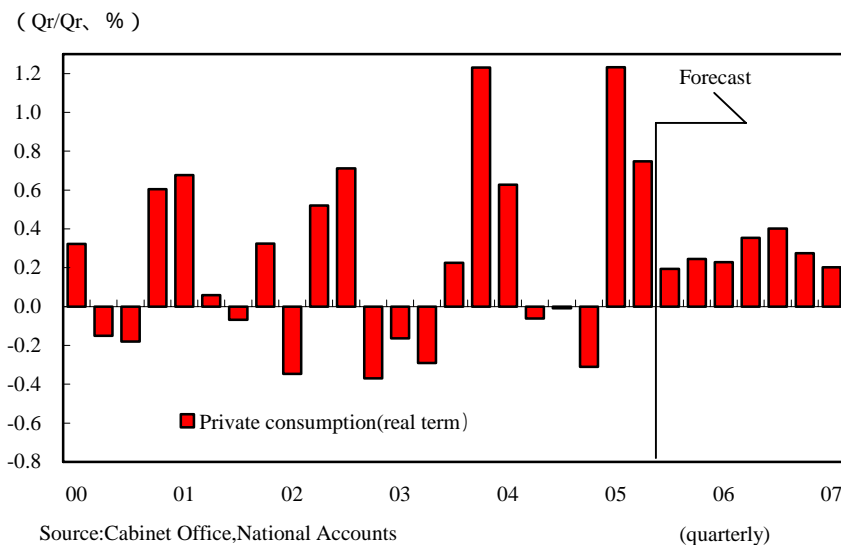
Outlook for Fiscal 2005

Strong corporate performances in the previous fiscal year resulted in an improvement in the employment environment this fiscal year, and wages are no longer declining. Certain factors, however, will increase the burden on households and may act as a drag on consumption. These factors are (a) the reduction in the special deduction for dependents in computing inhabitants' taxes, which was implemented in June 2005; (b) the increase in employment and pension insurance premiums, which is scheduled for October 2005; and (c) a reduction in the margin of rate reductions for national income taxes, which will be implemented in January 2006 (in June 2006 for inhabitants' taxes).

Outlook for Fiscal 2006

Amid concern about shortages of personnel in the years to come, owing to the retirement of the baby boom generation and other factors, companies have shifted away from their stance of placing strict restraints on hiring toward expanding their work forces by taking account of their overall corporate performance and the degree of need for additional staff. Incomes are not expected to show major increases, but will remain firm. The previously mentioned increases in the burden of various payments on households and the movement from a deflationary to an inflationary economic scenario are expected to have a restraining impact on consumption in real terms. However, economic recovery will continue, and consumer confidence is expected to remain relatively strong. Therefore, we anticipate that private consumption will continue to be firm.

Exhibit 2: Real Private Consumption



2. Private Housing Investment

Current Conditions

Private housing investment in real terms declined 2.3% from the prior quarter during the April–June period, thus continuing the declining trend in the January–March quarter, but with a larger margin of decline. Although the number of new housing starts has recently picked up, the level during the period from February through April was low, thus bringing a decline in private housing investment. In addition, the number of relatively smaller rented houses is rising, thereby bringing a lower level of housing investment, compared with the number of housing starts.

Outlook for Fiscal 2005

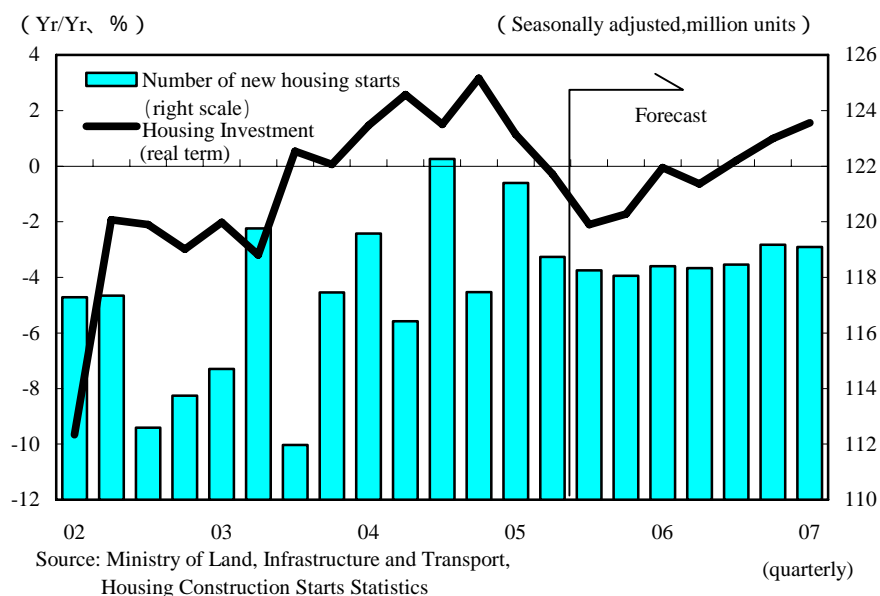
The number of new housing starts is forecast to remain virtually level, although the number of new condominium starts, which tend to fluctuate widely, may influence the overall level of housing starts. The level of housing starts will be supported in part by first-time home purchases by second-generation baby boomers, who are now entering their 30s. We are forecasting total new housing starts of 1.195 million in fiscal 2005, compared with 1.193 million in the previous fiscal year.

Outlook for Fiscal 2006

Along with the improvement in the income environment accompanying economic recovery, we are looking for firmness in private housing

investment sustained mainly by owner-built and built-for-sale housing. In fiscal 2006, we are forecasting new housing starts of 1.198 million, slightly higher than in fiscal 2005.

Exhibit 3: Outlook for Housing Starts



3. Private Capital Investment

Current Conditions

In the April–June quarter, private capital investment in real terms posted another firm gain of 2.2%, the fifth consecutive quarterly increase. Corporations have not lost their drive to invest as the economy is still recovering and excess production capacity has been eliminated. Orders for machinery and equipment (excluding orders from the shipping and electric power industries), which are a leading indicator for capital investment, have now shown positive growth for three consecutive quarters beginning in the October–December period of 2004. The outlook for the July–September quarter is for another increase. In addition, construction investment is also continuing to be firm.

Outlook for Fiscal 2005

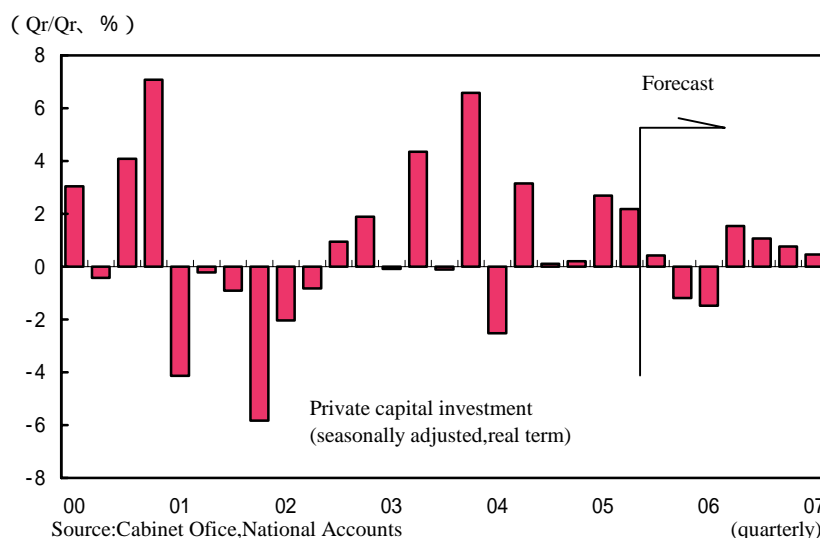
As a result of various cost increases, including rising crude oil prices and higher personnel expenses, corporations are expected to report higher sales with lower net income in the latter half of fiscal 2005. For this reason, there

is a possibility that the expansion in capital investment may pause. However, we expect the slowdown in capital investment to be temporary. This is because (a) the decline in corporate performances will be relatively small because of the support provided by the pickup in exports, (b) the diminishing sentiment among corporations that there is excess capacity, and (c) the strong need for capital investments to increase competitiveness.

Outlook for Fiscal 2006

The rises in crude oil and other costs will have a restraining effect on recurring profits, but the margin of decline will be small because of the positive impact of rising exports and production. Moreover, since corporate financial positions are improving and the current level of profits will be relatively high even after the decline, the drive to invest among corporations is not likely to show any significant cooling down. Therefore, we are forecasting that capital investment will remain on an upward trend.

Exhibit 4: Private Capital Investment



4. Production and Inventory Investment

Current Conditions

After increasing 1.7% over the previous quarter in the January–March period, production began to decline again, falling 0.4% in the April–June quarter. Since the beginning of fiscal 2004, production levels have not changed substantially, but have remained virtually flat. However, overall

inventory levels are declining because of firm shipments of transportation equipment and general machinery. In addition, although there was concern about inventory adjustments in the digital-related product sector, companies are virtually within sight of completing these adjustments.

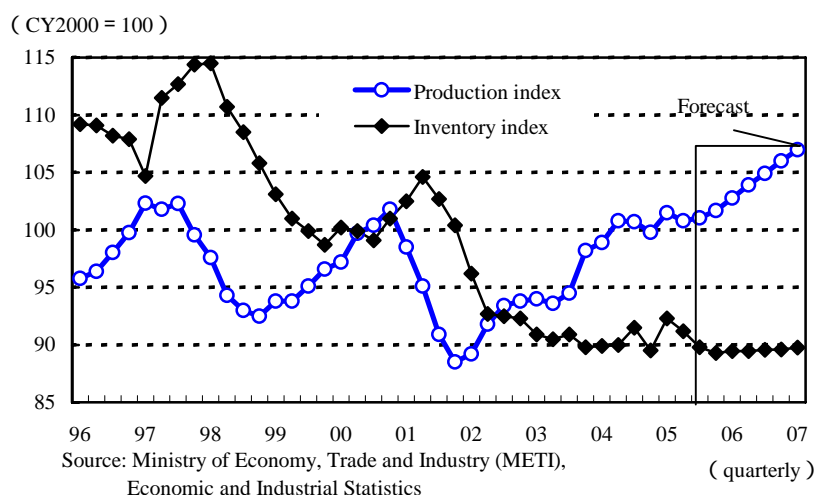
Outlook for Fiscal 2005

By the latter half of calendar 2005, production is expected to show a rising trend as exports pick up and inventory adjustments in the digital-related sector are completed. However, the rate of increase may be gradual because of the possibility that the increase in capital investment may pause and, even though inventory adjustments have been completed, companies may be cautious about investing in inventories.

Outlook for Fiscal 2006

We forecast a smooth rising trend in production throughout fiscal 2006, sustained by robust growth in exports and recovery in capital investment. On the other hand, the level of inventories appropriate for given levels of demand is lower than in the past; therefore, inventories may show only marginal increases along with expansion in demand.

Exhibit 5: Outlook for Production and Inventory



5. Government Sector Expenditures

Current Conditions

Government public works spending in real terms in the April–June period dropped 1.3% from the previous quarter, the fifth consecutive quarterly

decrease, and the margin of decline was greater than in the January–March quarter. Government consumption expenditures slipped 0.2% during the April–June quarter, the first decline in eight quarters. As a result, total public-sector demand, including public inventories, declined 0.4% in the April–June period, for the first time in three quarters.

Outlook for Fiscal 2005

The initial budget for public investment calls for 3.6% lower expenditures than for the previous fiscal year. These expenditures may rise temporarily over the previous quarter in the July–September period, owing to the carryover of substantial budgetary allocations from the previous fiscal year and the use of public investment allocations included in the supplementary budget for fiscal 2004 related to disaster recovery work. However, public investment is expected to remain on a downward trend, in line with the government's policy of reforming the public-sector fiscal structure. In addition, although regional governments are expected to maintain fiscal stringency, the margin of decline in their public investment is likely to be somewhat smaller than before.

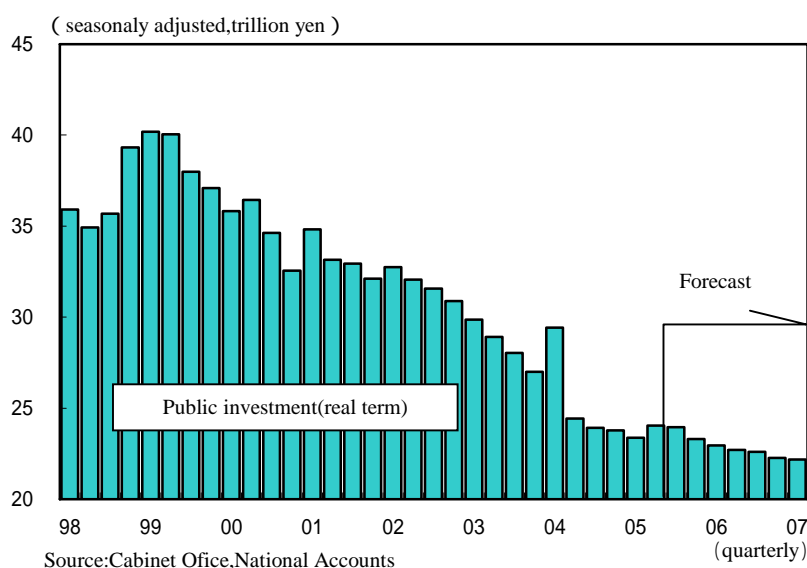
No major changes are foreseen in the medical care and nursing systems, and expenditures in kind will remain on an upward trend. Therefore, the decline in government consumption expenditures during the April–June quarter is expected to be temporary, and we anticipate that these expenditures will continue basically on an upward trend.

Outlook for Fiscal 2006

We are assuming that the initial budget for public investment will be 3.0% lower in fiscal 2006 than in the previous fiscal year. The margin of decline in public investment by regional governments is believed likely to shrink, and the overall drop in public investment is expected to be relatively small.

Government consumption is forecast to continue on an upward trend, boosted mainly by the value of welfare goods and services provided in kind.

Exhibit 6: Outlook for Public-works Investment

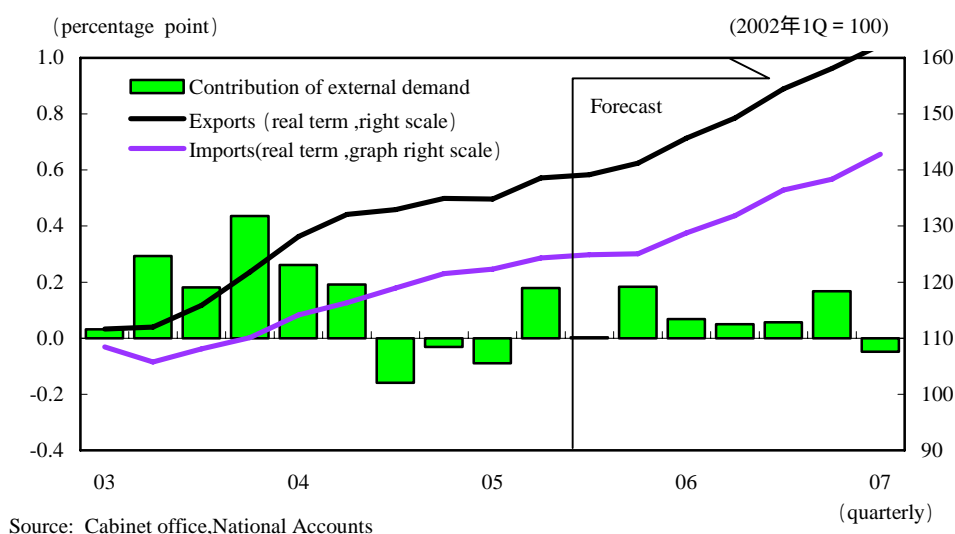


other hand, accompanying the recovery in production activities, growth in imports will gradually rise. The contribution of external demand will continue to be positive.

Outlook for Fiscal 2006

We expect the rising trend in exports to continue in fiscal 2006 as recovery continues in Europe, the United States, principal countries of Asia, the emerging economies, and elsewhere. At the same time, along with the recovery in domestic final demand and production activities, imports, especially from Asia, are forecast to increase. Therefore, in fiscal 2006, growth in both exports and imports is expected to be high, supported by a virtuous circle of economic conditions in Japan and overseas. Note, however, that as a result of the substantial rise in oil prices, the value of imports will be boosted, and Japan's balance of payments surplus will not expand markedly.

Exhibit 7: Outlook for External Demand



7. Prices

Current Conditions

Domestic corporate prices are rising, especially for raw and intermediate materials, along with the increase in commodity prices, including oil. On the other hand, consumer prices (overall, excluding fresh foods) have moved approximately even with or a little below the same periods of the

previous year, suggesting the continuation of mildly deflationary conditions. This reflects cost cutting in the corporate sector, reductions in public utility charges accompanying further deregulation, and other factors.

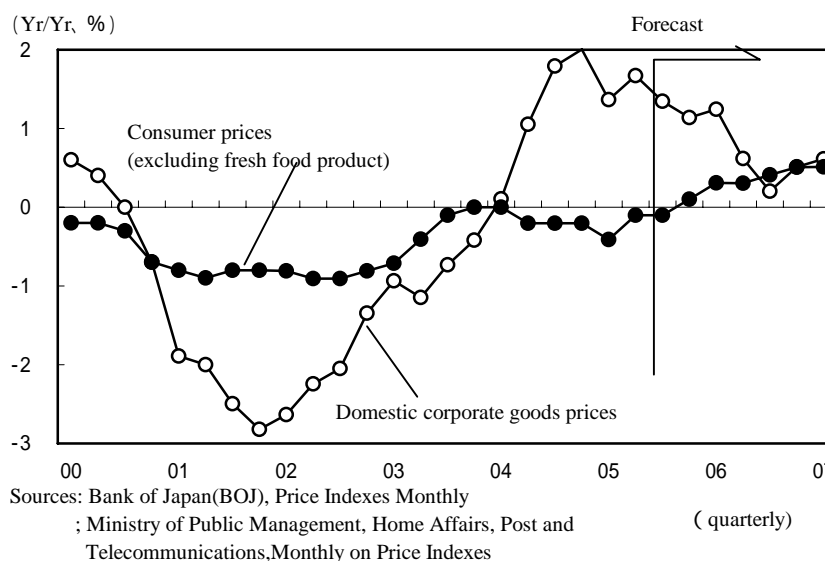
Outlook for Fiscal 2005

Amid these strong global economic conditions, prices of oil and other commodities are expected to remain high. Though efforts to pass on the increases in prices of primary products to the prices of intermediate and final products, are likely to be subdued, domestic corporate prices are forecast to remain above the levels of the same period of the previous year. Consumer prices are expected to rise slightly above the previous year toward the end of fiscal 2005. Principal reasons for this will be the rise in domestic corporate prices above prior year levels, emergence of a slight increase in wages, and the passing on of higher crude oil and other commodities to public utility charges.

Outlook for Fiscal 2006

Domestic corporate prices are forecast to rise to higher levels above the previous year in the latter half of fiscal 2006, reflecting the tightening of the supply/demand balance along with the acceleration of the economy. Consumer prices are expected to remain above previous year levels owing to such factors as continued increases in prices of goods, continuing effects of hikes in public utility charges, and somewhat more rapid increases in prices in the service industries as moderate rises in wages continue.

Exhibit 8: Outlook for Prices

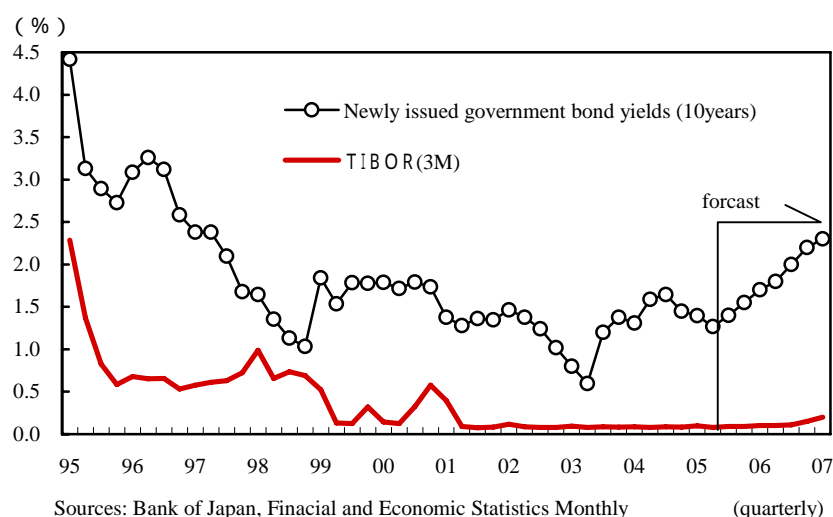


8. Interest and Foreign Exchange Rates

Interest Rates

As expectations of economic recovery have risen, long-term interest rates have come under upward pressure. Going forward, since the recovery will continue, long-term interest rates are forecast to rise, but in view of the low level of short-term interest rates, further increases in fiscal 2005 will be gradual. Moving into fiscal 2006, consumer price indexes will rise above previous year levels and the economy will show steady expansion. This will lead to a higher possibility that the Bank of Japan will end its quantitative easing policy. The emergence of such expectations is likely to place further upward pressures on long-term interest rates.

Exhibit 9: Outlook for Interest Rates



Foreign Exchange Rates

In the first half of calendar 2005, the U.S. economy showed stronger performance than the economies of Japan and the EU, and various other factors, including the issues surrounding the ratification of the European Constitution, led to a strengthening of the dollar. Recently, the dollar has weakened slightly as expectations of recovery in the EU have risen. However, in the latter half of fiscal 2005, we are looking for a stronger dollar and weaker yen, based on differences in economic performance and interest rate differentials. In fiscal 2006, as recovery trends in Japan gain

momentum and expectations rise for an end to the Bank of Japan's quantitative easing policy, we are looking for a stronger yen, but we believe that major fluctuations in the yen's value are unlikely.

Exhibit 10: Outlook for Yen-Dollar Exchange Rate

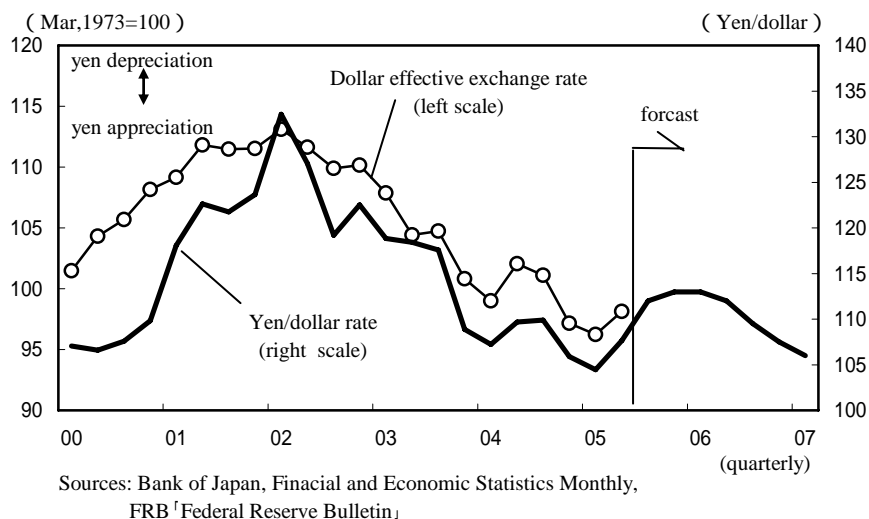


Exhibit 11: Outlook for fiscal 2005-2006 (1)

Economic Outlook for fiscal 2004-2005

	Forecast								half/half, % Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Nominal GDP	0.3	1.4	-0.2	0.5	0.4	0.0	0.6	0.8	0.8	0.8	0.6	1.0
	0.0	1.6	1.3	0.3	0.8	0.4	0.6	1.3				
Real GDP	0.6	2.5	0.2	0.7	1.1	0.5	0.9	0.8	2.0	1.9	1.6	1.6
	1.0	3.1	2.9	1.0	1.7	1.6	1.5	1.6				
Contribution of domestic demand (Qr/Qr,%)	0.2	1.9	0.0	0.9	0.9	0.3	0.9	0.3	1.2	1.4	1.4	1.3
Private Consumption	-0.3	1.7	0.2	0.3	1.5	0.5	0.7	0.6	0.5	1.2	1.8	1.2
	-0.3	1.3	2.0	0.5	1.8	1.9	1.2	1.2				
Housing investment	0.6	0.1	2.0	0.2	-2.2	2.2	-1.1	2.5	-0.3	2.1	-1.0	0.8
	-1.3	0.7	2.0	2.2	-1.9	-0.1	0.3	1.3				
Private capital investment	4.3	5.2	1.9	1.6	3.8	-2.0	1.7	1.6	8.3	5.2	3.4	1.6
	6.7	9.8	7.2	3.5	5.5	1.4	-0.3	3.4				
Contribution of inventory investment (Qr/Qr,%)	0.0	0.0	-0.0	0.3	-0.4	0.1	0.1	-0.1	0.1	0.2	-0.3	0.1
Government expenditure	-1.3	0.6	-2.1	0.7	0.1	0.9	0.2	0.2	-1.4	-1.4	0.9	0.7
	-1.8	-1.0	-1.2	-1.6	0.7	1.0	1.2	0.3				
Public investment	-6.4	-0.7	-14.6	-1.3	-1.3	-0.3	-3.5	-2.4	-9.0	-15.1	-1.9	-4.9
	-11.1	-7.4	-15.5	-14.8	-2.8	-1.2	-4.1	-5.5				
Government final consumption expenditure	0.3	1.2	1.6	1.1	0.5	1.2	1.2	0.7	1.2	2.7	1.6	2.2
	0.9	1.6	2.7	2.7	1.5	1.7	2.4	2.0				
Contribution of external demand (Qr/Yr,%)	0.4	0.7	0.2	-0.2	0.1	0.2	0.1	0.2	0.8	0.5	0.2	0.3
Export of goods and services	2.7	9.7	6.0	1.8	3.0	3.3	5.9	5.5	10.0	11.9	5.6	10.5
	7.1	12.7	16.3	8.0	4.8	6.3	9.4	11.7				
Import of goods and services	-0.8	4.9	4.9	3.6	2.2	1.9	5.7	4.8	3.1	9.3	5.0	9.2
	2.2	4.0	9.9	8.8	6.0	4.1	7.6	10.8				
GDP deflator (Yr/Yr,%)	-1.0	-1.4	-1.6	-0.7	-0.8	-1.2	-0.9	-0.3	-1.2	-1.1	-1.0	-0.6

	Forecast								Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Current account balance (trillion yen)*	8.2	8.9	9.4	9.1	8.5	8.0	8.3	8.5	17.3	18.2	16.3	16.6
balance on goods (trillion yen)*	5.7	7.1	7.0	6.3	4.9	4.8	4.5	4.7	13.0	13.2	9.2	8.9
balance on service (trillion yen)*	-1.5	-1.9	-2.0	-1.6	-1.7	-1.4	-1.6	-1.4	-3.4	-3.6	-3.1	-3.0
balance on income (trillion yen)*	4.3	4.2	4.7	5.0	5.8	5.4	6.3	5.8	8.5	9.6	11.0	11.5
Industrial production (Qr/Qr, %)	0.2	4.8	2.2	-0.1	0.7	1.2	1.9	1.9	3.6	4.1	1.2	3.4
(Yr/Yr, %)	1.6	5.5	6.8	1.6	0.6	1.7	3.1	3.7				
Corporate goods prices(Yr/Yr,%)	-0.9	-1.3	1.3	2.4	2.9	3.6	1.0	-0.2	-1.0	1.8	3.3	0.4
Domestic corporate goods prices(Yr/Yr,%)	-0.9	-0.2	1.4	1.7	1.5	1.2	0.4	0.6	-0.5	1.5	1.3	0.5
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.2	0.2	-0.1	-0.1	0.4	0.5	-0.2	0.0	-0.1	0.4
excluding freshfood(Yr/Yr,%)	-0.3	0.0	-0.2	-0.3	-0.1	0.2	0.4	0.5	-0.2	-0.2	0.0	0.5
Yen / U.S.Dollar	118.0	108.1	109.8	105.2	109.8	113.0	110.8	106.8	113.0	107.5	111.4	108.8
Newly issued government bond yields(10years, US dollar/barrel)	0.90	1.34	1.62	1.42	1.33	1.63	1.90	2.25	1.12	1.52	1.48	2.08
WTI future price(near month contract)	29.6	33.2	41.1	49.2	56.6	58.0	60.5	62.5	31.4	45.1	57.3	61.5
Dubai crude oil prices (US dollar/barrel)	25.5	28.5	34.7	38.5	51.5	53.5	57.5	59.5	27.0	36.6	52.5	58.5
Spring wage increases *	-	-	-	-	-	-	-	-	1.63	1.67	1.67	1.70

Notes:

* Figures are spring wage increases compiled from data on the 290 companies listed on the First sections of the Tokyo and Osaka stock exchanges that have a labor union and capital of 2billion yen or more as well as 1,000 or more employees.
(Compiled by the Ministry of Health, Labour and Welfare)

Exhibit 12: Outlook for fiscal 2005-2006 (2)

Economic Outlook for fiscal 2004-2005

【Exports and Imports】

	Forecast										Yr/Yr, %	
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Exports (yen basis)	4.9	7.7	12.9	7.5	5.2	9.5	8.8	7.7	6.3	10.1	7.3	8.2
Volume	2.5	10.1	12.9	1.1	-0.9	3.2	6.7	8.7	6.3	6.8	1.1	7.7
Imports (yen basis)	6.5	2.0	11.1	13.5	15.7	20.8	12.2	8.5	4.2	12.3	18.3	10.2
Volume	6.6	8.0	6.6	4.3	2.7	2.8	6.5	10.4	7.3	5.4	2.7	8.5
Exports surplus (trillion yen)	5.0	6.2	6.1	5.3	3.8	2.9	3.1	2.9	11.2	11.4	6.7	6.0

【Income and Employment】

	Forecast										Yr/Yr, %	
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Cash earnings of employees* (per capita)	-0.5	-1.5	-0.7	0.0	0.7	0.4	0.6	1.0	-1.0	-0.4	0.6	0.8
Regular compensation	-0.6	-0.9	-0.9	-0.5	0.4	0.3	0.5	0.6	-0.7	-0.7	0.4	0.5
Overtime compensation	2.6	6.1	6.2	1.0	1.6	0.0	1.7	2.3	4.4	3.5	0.8	2.0
Number of employees	0.1	0.3	0.5	0.0	0.9	1.0	0.5	0.8	0.2	0.3	0.9	0.7
Compensation of employees*	-0.1	-1.8	-0.2	0.1	1.5	0.9	0.6	1.4	-1.0	-0.1	1.2	1.0
Unemployment rate	5.3	5.0	4.7	4.6	4.3	4.2	4.1	4.1	5.1	4.6	4.2	4.1

【New Housing Starts】

	Forecast										ten thousand units(annualized)	
	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
New housing starts (＊)	115.9	118.5	119.3	119.4	119.5	119.7	119.3	120.6	117.4	119.3	119.5	119.8
(change from the previous year)	0.9	4.2	2.6	0.7	0.1	0.2	-0.2	0.8	2.5	1.7	0.2	0.3
Owner-built housing	38.5	35.9	38.1	35.2	35.6	35.8	35.7	36.1	37.3	36.7	35.6	35.8
Rental housing	4.2	-0.5	-0.3	-3.1	-6.4	1.5	0.3	0.7	2.1	-1.6	-3.0	0.5
Built-for-sale housing	44.9	47.3	45.5	48.2	47.3	47.9	46.9	48.0	45.9	46.7	47.5	47.3
housing	-2.2	4.4	1.1	2.7	3.9	-0.8	-0.8	0.2	0.9	1.9	1.6	-0.3
housing	32.0	34.8	35.0	34.8	36.1	35.0	36.2	35.5	33.4	34.9	35.6	35.9
housing	1.6	9.6	8.5	0.9	3.2	0.8	0.1	1.5	5.6	4.6	2.0	0.8

* Seasonally adjusted annual rate

Exhibit 13: Outlook for calendar 2005-2006 (1)

Economic Outlook for calendar 2004-2005

	Forecast								half/half, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Nominal G D P	-0.7	1.0	1.1	-0.3	0.7	0.1	0.2	0.9	-0.1	1.5	0.6	0.7
	-0.3	0.1	2.3	0.7	0.5	0.8	0.3	1.1				
Real G D P	-0.0	1.6	1.9	-0.3	1.5	0.6	0.7	0.9	1.4	2.7	1.6	1.4
	1.3	1.4	3.8	1.6	1.4	1.9	1.3	1.5				
Contribution of domestic demand	-0.4	1.1	1.4	-0.2	1.6	0.4	0.2	0.9	0.7	1.9	1.6	1.1
Private consumption	-0.5	0.7	1.2	-0.2	1.5	0.7	0.5	0.7	0.2	1.5	1.7	1.2
	0.4	0.1	2.0	0.9	1.3	2.1	1.2	1.2				
Housing investment	-1.3	1.5	0.6	1.6	-2.2	1.1	0.5	-0.1	-1.1	2.2	-0.9	0.6
	-2.6	0.3	2.0	2.3	-0.6	-1.1	0.8	0.4				
Private capital investment	3.0	5.4	2.2	1.8	3.9	0.8	-1.3	2.5	6.3	6.0	5.2	0.3
	4.3	8.3	8.2	3.8	5.8	4.6	-0.5	1.1				
Contriburion of Inventory investment	-0.2	0.1	0.1	-0.0	0.1	-0.3	0.5	0.3	0.2	0.2	-0.1	0.2
Government expenditure	0.2	0.7	1.8	0.9	0.9	0.9	1.1	1.1	-1.8	-0.4	-0.1	1.0
	-1.1	-2.6	0.1	-0.9	-1.2	1.0	1.2	0.7				
Public investment	-6.1	-6.1	-2.5	-11.1	-1.2	-0.4	-1.7	-3.3	-10.6	-10.5	-7.3	-3.4
	-8.9	-12.1	-7.6	-13.2	-12.7	-1.7	-1.6	-5.0				
Government final consumption expenditure	0.2	0.7	1.8	0.9	0.9	0.9	1.1	1.1	1.2	2.7	1.8	2.1
	1.5	0.9	2.6	2.8	1.8	1.8	2.0	2.2				
Contribution of external demand	0.3	0.5	0.6	-0.1	-0.0	0.2	2.1	2.6	0.6	0.8	0.0	0.4
Export of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.3	9.1	14.4	4.9	9.7
	-6.0	7.3	9.1	14.4	4.9	9.7	0.0	0.0				
Import of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.8	3.8	8.9	5.4	7.9
	-0.7	1.3	3.8	8.9	5.4	7.9	0.0	0.0				
GDP deflator	-1.5	-0.8	-0.9	-1.1	-1.0	-0.5	-0.1	0.1	-1.4	-1.2	-1.0	-0.7

	Forecast								Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)	7.3	8.5	9.6	9.0	8.8	7.6	8.3	8.1	5.8	5.4	5.4	6.3
balance on goods (trillion yen)	5.2	6.8	7.1	6.8	5.4	4.5	4.3	4.7	8.4	7.9	7.9	8.2
balance on service (trillion yen)	-1.6	-2.0	-1.8	-2.0	-1.4	-1.8	-1.4	-1.7	5.0	4.3	4.3	4.6
balance on income (trillion yen)	4.2	4.1	4.7	4.6	5.4	5.3	5.8	5.6	-1.7	-1.5	-1.5	-1.6
Industrial production	0.2	2.7	3.6	0.4	1.0	0.7	1.6	2.0	0.6	1.7	1.7	3.1
	3.9	2.5	7.0	4.1	0.9	1.7	1.9	3.6				
Corporate goods prices	-1.5	0.0	0.0	0.0	0.0	0.0	-2.1	-1.7	2.9	3.6	3.6	1.0
Domestic corporate goods prices	-1.0	0.0	0.0	0.0	0.0	0.0	-2.4	-1.7	1.5	1.2	1.2	0.4
Consumer prices	-0.3	0.0	0.0	0.0	0.0	0.0	-1.2	-0.7	-0.1	-0.1	-0.1	0.4
excluding freshfood	-0.6	0.0	0.0	0.0	0.0	0.0	-0.9	-0.9	-0.1	0.2	0.2	0.4
Yen/U.S.Dollar	118.6	113.2	108.5	107.9	106.1	112.5	112.5	108.5	115.9	108.2	109.3	110.5
Newly issued government bond yields (10years)	0.7	1.3	1.4	1.5	1.3	1.5	1.8	2.1	1.0	1.5	1.4	1.9
Dubai crude oil prices (US dollar/barrel)	26.5	27.1	31.3	35.9	44.7	54.0	55.5	58.5	26.8	33.6	49.3	57.0
WTI future price(near month contract)	31.4	30.7	36.8	46.1	51.6	59.0	59.0	61.5	31.0	41.4	55.3	60.3
U.S. Real GDP (CY)												
(seasonally-adjusted annual rate)	2.2	5.8	4.1	3.6	2.9	3.4	3.8	3.7	3.0	4.4	3.2	3.7

Exhibit 14: Outlook for calendar 2005-2006 (2)

【Exports and Imports】

	Forecast								Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Exports (yen basis)	3.8	5.5	12.5	11.8	4.1	6.8	10.3	8.1	4.7	12.1	5.5	9.2
Volume	5.0	4.9	13.5	7.9	-1.5	0.3	5.4	8.4	4.9	10.6	-0.6	6.9
Imports (yen basis)	7.4	2.9	6.8	15.1	12.1	18.8	18.1	8.6	5.1	10.9	15.6	13.0
Volume	8.3	6.1	7.8	6.2	3.0	1.8	4.6	8.8	7.1	7.0	2.4	6.7
Exports surplus (trillion yen)	4.3	5.8	6.2	5.8	4.5	3.1	2.9	3.2	10.2	12.0	7.6	6.1

【Income and Employment】

	Forecast								Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Cash earnings of employees (per capita)	-0.2	-1.5	-1.3	-0.2	0.5	0.4	0.6	0.9	-0.9	-0.7	0.4	0.7
Regular compensation*	-0.6	-0.9	-0.8	-0.8	0.1	0.3	0.5	0.6	-0.7	-0.8	0.2	0.5
Overtime compensation	1.8	4.7	7.0	3.8	0.8	-0.7	2.1	2.0	3.2	5.4	0.1	2.1
Number of employees	0.1	0.0	0.5	0.2	0.3	1.0	0.8	0.7	0.1	0.4	0.7	0.7
Compensation of employees*	0.0	-0.8	-1.7	0.1	0.8	1.0	0.8	1.1	-0.5	-0.8	0.9	1.0
Unemployment rate	5.4	5.1	4.8	4.7	4.4	4.2	4.2	4.1	5.2	4.7	4.3	4.1

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfare, Monthly Labour Statistics.

【New Housing Starts】

	Forecast								ten thousand units(annualized) Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Number of new housing starts	117.2	114.7	118.0	119.9	120.1	119.2	119.7	119.8	116.0	118.9	119.6	119.7
(change from the previous year)	-0.1	1.4	0.7	4.5	1.8	-0.6	-0.3	0.6	0.8	2.5	0.5	0.1
Owner-built housing	37.5	36.8	36.5	37.2	35.1	36.0	35.3	36.4	37.3	37.0	35.5	35.8
Rental housing	1.1	0.8	-2.8	1.1	-3.9	-3.1	0.7	1.0	1.3	-0.8	-3.9	0.7
Built-for-sale housing	46.9	43.6	47.1	46.5	48.9	46.4	48.6	46.2	45.2	46.5	47.5	47.3
housing	5.3	-3.8	0.5	6.6	3.7	-0.2	-0.6	-0.4	0.3	3.0	2.2	-0.5
Built-for-sale housing	32.0	33.3	34.3	34.9	35.7	35.7	35.4	36.2	32.7	34.6	35.7	35.8
housing	-5.1	7.0	7.3	4.7	4.0	2.2	-0.7	1.5	0.8	5.8	3.3	0.4

* Seasonally adjusted annual rate

Exhibit 15: Outlook for 2005-2006 (Quarterly) (1)

Economic Outlook (Quarterly)

	Forecast																Qr/Qr, % Yr/Yr, %	
	FY2003				FY2004				FY2005				FY2006					
	4-6	7-9	10-12	1-3	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	0.7	0.2	0.8	1.0	-0.6	-0.1	0.2	0.6	0.0	0.1	-0.1	0.1	0.3	0.5	0.5	0.1		
	-0.0	0.0	0.2	3.2	1.3	1.3	0.3	0.3	0.6	1.0	0.6	0.2	0.4	0.9	1.3	1.4		
Real GDP	0.6	0.5	1.6	1.3	-0.3	-0.2	0.1	1.3	0.3	0.3	0.3	0.2	0.6	0.4	0.5	0.3		
	0.9	1.1	1.7	4.5	3.2	2.6	0.6	1.3	1.4	1.9	1.9	1.2	1.4	1.5	1.5	1.8		
Contribution of domestic demand(Qr/Qr,%)	0.3	0.3	1.2	1.0	-0.5	-0.0	0.2	1.4	0.1	0.3	0.1	0.1	0.5	0.3	0.3	0.3		
Private Consumption	-0.3	0.2	1.2	0.6	-0.1	-0.0	-0.3	1.2	0.7	0.2	0.2	0.2	0.4	0.4	0.3	0.2		
	0.0	-0.6	0.8	1.9	2.1	1.8	0.1	0.9	1.8	1.8	2.4	1.3	1.1	1.3	1.2	1.3		
Housing investment	0.0	2.2	-1.3	0.6	1.3	0.7	0.6	-1.3	-2.3	1.6	1.3	0.3	-0.8	-1.0	2.6	0.8		
	-3.2	0.5	0.1	1.4	2.6	1.5	3.1	1.2	-2.4	-1.4	-0.8	0.8	0.9	-0.2	1.0	1.6		
Private capital investment	4.4	-0.1	6.6	-2.5	3.2	0.1	0.2	2.7	2.2	0.4	-1.5	-1.4	1.7	1.3	0.8	0.4		
	7.8	5.7	11.0	8.8	7.5	6.9	0.7	5.9	5.6	5.4	3.8	-0.4	-0.6	0.0	2.4	4.2		
Contributory of Inventory investment(Qr/Qr,%)	0.1	0.2	-0.2	0.3	-0.2	-0.1	0.2	0.3	-0.5	-0.1	0.1	0.2	0.1	-0.1	-0.1	0.1		
Government expenditure	-0.9	-0.2	-0.9	3.1	-3.5	-0.1	0.5	0.4	-0.4	0.6	0.5	0.2	0.0	0.2	0.1	-0.1		
	-1.5	-2.2	-3.0	1.0	-0.9	-1.4	-0.5	-2.7	0.4	1.1	1.0	1.1	1.4	1.0	0.4	0.2		
Public investment	-3.3	-2.8	-3.4	8.6	-17.2	-1.8	-0.2	-0.4	-1.3	0.5	-0.5	-0.2	-2.6	-1.6	-0.7	-1.7		
	-10.5	-11.6	-12.4	-1.8	-16.0	-15.1	-11.7	-17.8	-4.1	-1.7	-1.7	-0.7	-3.1	-4.9	-5.0	-6.1		
Government final consumption expenditure	-0.2	0.8	0.1	1.4	0.7	0.3	0.6	0.6	-0.2	0.7	0.6	0.4	0.7	0.6	0.3	0.3		
	0.8	0.9	0.9	2.2	3.0	2.5	3.1	2.3	1.3	1.8	1.8	1.5	2.4	2.4	2.0	1.9		
Contribution of external demand(Qr/Qr,%)	0.3	0.2	0.4	0.3	0.2	-0.2	-0.0	-0.1	0.2	0.0	0.2	0.1	0.1	0.1	0.2	-0.0		
Export of goods and services	0.3	3.4	5.2	5.2	3.0	0.6	1.5	-0.1	2.8	0.4	1.5	3.2	2.5	3.5	2.4	2.6		
	5.5	8.7	10.7	14.7	18.0	14.7	10.8	5.2	5.0	4.7	4.6	8.0	7.7	11.0	12.0	11.4		
Import of goods and services	-2.5	2.2	1.8	3.7	1.9	2.3	2.1	0.7	1.6	0.5	0.1	3.0	2.4	3.4	1.4	3.2		
	2.5	1.9	2.8	5.3	9.7	10.2	10.4	7.2	6.9	5.0	2.9	5.3	6.1	9.2	10.6	10.9		
GDP deflator(Yr/Yr,%)	-0.9	-1.0	-1.5	-1.2	-1.8	-1.3	-0.4	-1.0	-0.8	-0.8	-1.3	-1.0	-1.0	-0.7	-0.3	-0.3		

	Forecast																Yr/Yr, %	
	FY2003				FY2004				FY2005				FY2006					
	4-6	7-9	10-12	1-3	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)*	3.9	4.3	4.3	4.6	4.7	4.7	4.6	4.5	4.3	4.2	3.6	4.4	3.9	4.4	4.0	4.5		
balance on goods (trillion yen)*	2.7	3.0	3.5	3.6	3.6	3.4	3.2	3.2	2.5	2.4	2.0	2.8	2.3	2.2	2.1	2.7		
balance on service (trillion yen)*	-0.7	-0.9	-1.0	-0.9	-1.1	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7	-0.8	-0.8	-0.8	-0.6	-0.7		
balance on income (trillion yen)*	2.0	2.3	2.0	2.1	2.3	2.4	2.5	2.5	2.8	3.0	2.6	2.8	3.2	3.0	2.9	2.9		
Industrial production (Qr/Qr, %)	-0.4	1.0	3.9	0.7	1.9	-0.1	-0.9	1.7	-0.4	0.6	0.5	0.8	0.9	1.1	0.9	0.9		
(Yr/Yr, %)	2.2	1.0	4.1	6.9	7.2	6.4	1.8	1.4	0.3	0.9	2.5	0.9	2.9	3.4	3.8	3.5		
Corporate goods prices(Yr/Yr,%)	-1.4	-0.3	-1.9	-0.8	0.7	1.9	3.0	1.9	2.7	3.2	3.7	3.6	1.9	0.1	-0.2	-0.3		
Domestic corporate goods prices(Yr/Yr,%)	-1.1	-0.7	-0.4	0.1	1.1	1.8	2.0	1.4	1.7	1.3	1.1	1.2	0.6	0.2	0.5	0.6		
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1	0.5	-0.2	-0.1	-0.1	-0.3	0.1	0.3	0.4	0.5	0.5		
excluding freshfood(Yr/Yr,%)	-0.4	-0.1	0.0	0.0	-0.2	-0.2	-0.2	-0.4	-0.1	-0.1	0.1	0.3	0.3	0.4	0.5	0.5		
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	109.7	109.9	105.9	104.5	107.6	112.0	113.0	113.0	112.0	109.5	107.5	106.0		
Newly issued government bond yields (10years)	0.59	1.20	1.38	1.31	1.59	1.65	1.45	1.40	1.27	1.40	1.55	1.70	1.80	2.00	2.20	2.30		
WTI future price(near month contract)	28.9	30.2	31.2	35.3	38.3	43.9	48.3	50.0	53.2	60.0	58.0	58.0	60.0	61.0	62.0	63.0		
Dubai crude oil prices (US dollar/barrel)	24.5	26.6	27.6	29.4	33.2	36.3	35.6	41.4	47.9	55.0	53.0	54.0	57.0	58.0	59.0	60.0		

*seasonally adjusted

Exhibit 16: Outlook for 2005-2006 (Quarterly) (2)

Economic Outlook (Quarterly)

【Exports and Imports】

	FY2003				FY2004				FY2005				FY2006				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	4-6	7-9	10-12	1-3	
Exports (yen basis)	2.7	7.1	4.0	11.7	13.4	12.3	11.2	3.8	4.3	6.0	7.6	11.5	9.3	8.3	7.9	7.5	
Volume	2.6	2.3	7.3	13.1	13.9	12.0	4.1	-1.9	-1.1	-0.8	1.4	5.2	5.5	7.9	8.8	8.6	
Imports (yen basis)	6.4	6.6	-0.5	4.5	9.0	13.1	17.0	10.0	14.1	17.3	20.3	21.3	15.1	9.4	7.9	9.0	
Volume	8.4	5.0	7.1	9.0	6.6	6.6	5.8	2.7	3.2	2.3	1.4	4.2	5.1	7.8	9.7	11.2	
Exports surplus (trillion yen)	2.4	2.7	3.2	3.0	3.2	2.9	2.9	2.4	2.1	1.7	1.4	1.4	1.5	1.6	1.6	1.3	

【Income and Employment】

	FY2003				FY2004				FY2005				FY2006				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	4-6	7-9	10-12	1-3	
Cash earnings of employees* (per capita)	0.6	-1.7	-1.3	-1.7	-1.0	-0.4	0.0	0.0	0.8	0.6	0.3	0.6	0.6	0.6	1.1	0.8	
Regular compensation	-0.5	-0.7	-1.0	-0.7	-0.9	-0.8	-0.7	-0.2	0.4	0.3	0.3	0.4	0.5	0.5	0.6	0.6	
Overtime compensation	1.1	4.2	5.2	7.1	7.0	5.5	2.3	-0.2	1.9	1.4	-2.7	2.8	1.5	2.0	2.0	2.5	
Number of employees	0.3	-0.2	0.3	0.4	0.7	0.4	0.1	0.0	0.7	1.1	0.9	1.0	0.5	0.6	0.8	0.7	
Compensation of employees*	1.0	-1.3	-0.4	-3.6	-0.1	-0.3	0.4	-0.4	1.8	1.2	0.8	1.0	0.6	0.7	1.5	1.3	
Unemployment rate	5.4	5.1	5.1	4.9	4.6	4.8	4.6	4.6	4.3	4.2	4.2	4.2	4.2	4.1	4.1	4.0	

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfare, Monthly Labour Statistics.

【New Housing Starts】

	FY2003				FY2004				FY2005				FY2006				ten thousand units(annualized) 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	4-6	7-9	10-12	1-3	
New housing starts (*) (change from the previous year)	119.8	112.0	117.5	119.6	116.4	122.3	117.5	121.4	118.9	120.2	118.2	121.2	118.2	120.4	119.2	121.9	
Owner-built housing	2.2	-0.6	3.2	5.4	-3.7	9.4	-0.1	1.5	2.0	-1.7	0.6	-0.2	-0.6	0.2	0.9	0.6	
Rental housing	39.2	37.9	35.7	36.1	36.9	39.3	35.1	35.3	34.9	36.4	35.7	35.9	34.7	36.8	36.1	36.1	
Built-for-sale housing	3.6	4.9	-1.3	0.5	-6.0	5.9	-2.8	-3.3	-5.5	-7.3	1.5	1.5	-0.4	1.0	1.0	0.4	
Owner-built housing	47.7	42.2	45.0	49.5	44.8	46.3	46.7	49.7	48.0	46.5	46.3	49.5	47.7	46.1	46.3	49.7	
Rental housing	2.0	-6.5	2.0	7.4	-6.4	9.4	3.0	2.3	7.4	0.5	-1.0	-0.5	-0.8	-0.8	0.0	0.4	
Built-for-sale housing	32.5	31.4	35.3	34.3	34.2	35.7	34.1	35.5	35.8	36.5	34.8	35.2	35.6	36.8	35.6	35.5	
Owner-built housing	0.8	2.5	9.8	9.4	3.1	14.1	-2.1	4.2	4.4	2.1	2.4	-0.7	-0.7	0.8	2.2	0.8	

* Seasonally adjusted annual rate