

June 2011

**Forecast for the Japanese
Economy in Fiscal 2011 and 2012**
— The Japanese Economy Takes Strong Steps toward Recovery —



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1. Outlook for the Japanese Economy in Fiscal 2011 and Fiscal 2012 **-- The Japanese Economy Takes Strong Steps toward Recovery.**

(1) Current State of the Economy: Real GDP Growth Negative for Two Consecutive Quarters

Announced on June 9, real GDP growth for the January-to-March quarter of 2011 was -0.9% (-3.5% at an annualized rate). This was the second consecutive quarter of negative real growth and reflected the effects of the Great East Japan Earthquake.

Examining the contribution to real GDP of the domestic and external sectors, the contribution of the domestic sector was -0.7% point, while the contribution of the external sector (net exports = exports–imports) was -0.2% point. The large decline in domestic economic activity was a result of the substantial drop in industrial production and the deterioration in confidence in the corporate and household sectors, both of which were results of the earthquake.

By component of domestic demand, personal consumption decreased 0.6% from the previous quarter, the second consecutive quarterly drop. Along with the scaling down of the eco-point system for home appliances, the decline in consumer confidence following the disaster, and the sudden decrease in automobile sales owing to shortages of parts and supplies, the consumption of durable goods fell markedly, and consumption as a whole was pushed downward. Private residential investment rose 0.7% from the previous quarter, as the moderate trend toward improvement in the number of new housing starts continued.

Private capital investment was on a recovery trend prior to the earthquake, but as a result of a steep decline in production activity and concern about future trends in the economy, it posted its first decrease in six consecutive quarters and fell 1.3% , the same margin of decline as in the real GDP as a whole. Also, reflecting the effects of the depletion of inventories that accompanied the decrease in production levels, the contribution of private inventory investment to real GDP was -0.4% point, thus acting as a

significant drag on economic growth.

Among public-sector demand components, government consumption expenditures rose 0.9% from the previous quarter, thus continuing their upward trend. Some of these expenditures were believed to have been made in connection with the earthquake. On the other hand, public investment declined 1.4% from the previous quarter, the fifth consecutive quarter of decline, in part because of cuts in budgeted expenditures for public works projects. However, the margin of decline decreased owing partially to the positive effects of the supplementary budget that went into effect in November 2010. As a result, public-sector demand as a whole rose 0.6% over the prior quarter, the first rise in three quarters, and provided support for the economy.

Exports have increased steadily since the beginning of 2011 and provided the driving force for moving the economy out of its temporary lull. However, because of the shortage of goods following the earthquake, the margin of increase over the previous quarter was a relatively small 0.7%. On the other hand, imports rose 1.9% quarter to quarter because of the need to make up for shortages following the earthquake. As a result, the contribution of the external sector to real GDP was -0.2% point, thus acting as a drag on the economy for the third consecutive quarter.

The margin of decline year on year in the GDP deflator expanded to 1.9%, because of higher import prices, reflecting trends in international commodity prices. However, since the effects of the rise in commodity prices are gradually beginning to have an impact on domestic prices, the domestic demand deflator for the quarter stood at -1.0% compared with the same period of the previous year, about the same margin of decline as in the previous quarter. (After seasonal adjustment, the domestic demand deflator was up 0.2% from the previous quarter.)

Although the rate of growth in the GDP in real terms was negative for the January-to-March quarter, monthly data show clearly the magnitude of the effects of the earthquake. The index of industrial production in March fell a steep 15.5% from the previous month, which was a greater decline than the

drop during the economic downturn after the collapse of Lehman Brothers Holdings. Similarly, the index of tertiary-sector activity in March posted a drop of 5.9% from the previous month, which was the steepest drop since the consumption-tax hike in April 1997. Most of the January-to-March quarter coincided with a time when the economy was showing improvement led by exports. Actual conditions during the quarter were substantially worse than the data would indicate.

During the April-to-June quarter, the economy will be supported by the growing trend toward replenishing inventories, increases in public investment for reconstruction in the aftermath of the earthquake, and government expenditures to respond to other aftereffects of the disaster. On the other hand, corporate production activities are still at a relatively low level, and, because consumer spending will continue to be weak because of the mood of restraint and supply constraints, real GDP growth is forecast to be negative for the third consecutive quarter during the April-to-June period.

Notwithstanding this, monthly data appear to suggest that the economy has escaped from the worst phase of the post-earthquake downturn. Work to repair the damage caused by the earthquake is proceeding at a feverish pace and disrupted supply chains are being restored. It also appears that electric power shortages will not be as serious a problem as was initially thought. The movements toward recovery in demand in the stricken area, centering around government public works investment, and the restocking of inventories, combined with robust external demand and the recovery of supply capacity, will most likely lead to a stronger trend toward improvement in economic conditions in April and thereafter.

On the other hand, it is quite clear that there are many reasons for uncertainty about future trends. Electric power supplies are expected to be tight in the regions served by the Tokyo Electric and Tohoku Electric power companies. The government is requesting companies and households to reduce their power consumption by 15% during the peak months from July through September. In addition, the electric power problem is increasingly become a nationwide issue as the nuclear power plant in Hamaoka (of

Chubu Electric Power) has been shut down, and setting the schedules for restarting other certain nuclear power facilities that are now temporarily out of service will be difficult. It appears that, as a result of the efforts of corporations, the movement to conserve electric power will not result in a major decline in production, but, despite this, it is clear that power conservation will have some degree of depressing effect on industrial activity. In addition, the nuclear issues at the Fukushima power plants have not been fully addressed, and, if further unexpected events occur, this may have a major adverse impact on the Japanese economy. Moreover, although the world economy, especially the emerging economies, is on a firm upward trend, the increase in commodity prices and emergence of inflationary trends are causes for concern. If it appears that the world economy may experience a major deceleration and exports move into a downturn, this will act as a major drag on the Japanese economy as it works toward recovery.

(2) Outlook for Fiscal 2011 and Fiscal 2012: Recovery Trend to Emerge Beginning during the Summer

The following paragraphs outline our forecasts by fiscal year. Please note that, in these forecasts, we have assumed that a second supplementary budget of about ¥10 trillion will be passed by the government during 2011. However, because the direction that certain policy proposals that have been discussed may take is uncertain, these have not been included in our assumptions. These policies include a tax increase to pay for the recovery efforts, reductions in the compensation of government workers, the elimination of child allowances, and the payment of compensation to those affected by the nuclear accidents. In addition, we have assumed that Japan will be able to overcome the electricity shortages this coming summer through power conservation efforts and that there will be no major further deterioration in conditions at the nuclear power plants.

Fiscal 2011 will be a year when Japan will aim for revitalization following the serious blows dealt by the Great East Japan Earthquake. Key points determining economic trends in the short term will be the size of demand

for recovery from the disaster, the speed of restoring supply chains, and the effectiveness of measures taken to deal with the electricity shortages.

In addition to the immediate and direct damage to the Japanese economy caused by the earthquake and tsunami, supply capacity has fallen below demand because of the scheduled power outages and the disruption of supply chains. However, along with progress in work to repair damage, supply capacity is gradually recovering. Supply chains are becoming operative once again, and there is a strong possibility that, after the beginning of the current fiscal year, that the economy has passed through the worst post-earthquake phases.

Also, in the first half of the fiscal year, demand related to recovery efforts is expected to give a boost to the economy. First, through the summer months, public works investment will increase as a result of the passage of the first supplementary budget. In addition, the movement to replenish depleted inventories and the drive to further expand them, in advance of the production constraints due to the power shortages that are expected during the summer, will lead to an increase in corporate inventory investment and give a further boost to the economy.

Consumer spending is expected to remain stagnant because the mood of restraint following the disaster—although beginning to wear off—nevertheless remains, and there are still supply constraints on automobiles and other products. In addition, there will be increases in consumer expenditures to respond to the power shortages and the need to conserve electricity as well as higher demand in certain areas for purchasing furniture and home repairs. However, this is not expected to offset the decline in expenditures on services, such as entertainment and dining out. In addition, in part because of the termination of the eco-point system, there is a possibility that weakness in demand for flat panel display (FPD) TVs and other home appliances may persist. Nevertheless, during the latter half of the fiscal year, the mood of restraint will likely wear off, the automobile production systems will be operative again, and companies will be able to provide sufficient supplies to meet demand. This, in turn, may impart additional momentum to consumer spending.

The effects of the disaster are likely to put the brakes on the improving trends in the employment and income environments. This will be a negative factor for personal consumption, but, because it will be temporary, there appears to be little reason for concern that this will result in a cooling off of consumption. Please note that, although we have not taken certain proposals that have been discussed into account in our forecast, if the burden on households is increased, including measures to raise income taxes, this will have restraining impact on consumption.

In the corporate sector, production activity will move toward returning to normal as damaged equipment is repaired, progress is made toward putting the infrastructure, including logistics and distribution facilities, back in working order, and disrupted supply chains are repaired and go back into operation. Even at present, domestic supply capacity is lower than the level of domestic and overseas demand. This means that supply capacity is setting the levels of production and demand. For this reason, we believe that the pace of recovery in corporate production systems will determine the pace of recovery in the economy. As the production systems of the automobile and other industries return to full working order toward the end of the current fiscal year, it is possible that the economy will stage a V-shaped recovery.

On the other hand, the key factor determining corporate performance will be the slump in sales, and companies will be confronted with declining sales and income. For this reason, there is a strong possibility that corporations will adopt a cautious stance about future economic trends and refrain from making capital investments and other future-oriented expenditures. Thus, a drop in capital investments may occur in the early part of the current fiscal year. However, this decrease will be only temporary, and, as production facilities return to normal operations, a return to a moderate rising trend in capital investment is forecast. Moreover, investments for repairs and improvements, investments for coping with the power shortages, and investments in western Japan to provide alternative production capacity will give a boost to overall private capital investment throughout the fiscal year.

Domestic economic activities are in the midst of gradually gathering recovery momentum following the major drop after the earthquake. Overseas economies, however, have maintained an expansionary trend since prior to the disaster, and increases in exports are continuing to contribute as a factor providing support for the domestic economy. At the beginning of the fiscal year, exports were also restrained because of supply constraints, and exporters could not respond sufficiently to strong overseas demand, resulting in stagnation in exports. However, as supply capacity recovers, exports will begin to rise. In the midst of limitations on supply capacity, necessary materials were used to meet domestic demand on a priority basis, but, as the shortages in the domestic economy are relieved, the percentage allocated to exports will also rise. In addition, even in overseas markets, inventories of many kinds of products have been depleted as a result of the stoppage of the supply of products from Japan. Since exports for replenishing inventories will also increase, exports are believed likely to expand more than the increase in overseas demand.

On the other hand, since thermal power generation will rise to make up for the diminished supply of power generated by nuclear plants, imports of LNG and other energy resources will rise. Moreover, since the overseas production of a portion of goods formerly produced in Japan will rise, imports will also show firm increases.

If we examine the likely scenario on a quarter-by-quarter basis, economic activity fell sharply immediately after the earthquake, and, even though the worst phase has passed and economic activity is increasing, it has begun the year from a relatively low level in fiscal 2011. For this reason, data on real GDP growth in the April-to-June quarter is expected to continue to show a substantial decline. However, as production systems move back on track in the domestic market, the pace of recovery will accelerate beginning in the July-to-September quarter, and the economy is likely to show a V-shaped recovery.

As a countermeasure for coping with the shortages of electricity in the summer months, corporations have been asked to cut power consumption by 15%, and their production activities are expected to be constrained by

this reduction in electricity usage. However, the possibility that the actual impact on production may be relatively small is increasing because companies are stepping up their efforts to conserve electricity, making a transition to rolling work shifts, and rescheduling operations to holidays and the late night shift. Since public-sector demand—namely, public works investment and government consumption—will continue to boost the economy, recovery-related demand will move into full swing, and exports will begin to rise, there is a possibility that the growth rate may rise suddenly in the July-to-September quarter. As the mood of restraint lifts, consumer spending will begin to rise, and capital investments that corporations put off temporarily will most likely start up again.

During the latter half of fiscal 2011, since the supply chains that have been disrupted will become operational again and systems for supply will be in substantially improved working order, the recovery trend in the economy will become stronger. Not only will the robust rise in exports continue to be a factor boosting the economy, but also the outlook for consumer spending is expected to become brighter. Accompanying the passage of the second supplementary budget, public works investment will continue to expand. In the corporate sector also, the trend toward improvement in performance should be in sight, and capital investment will remain on a rising trend.

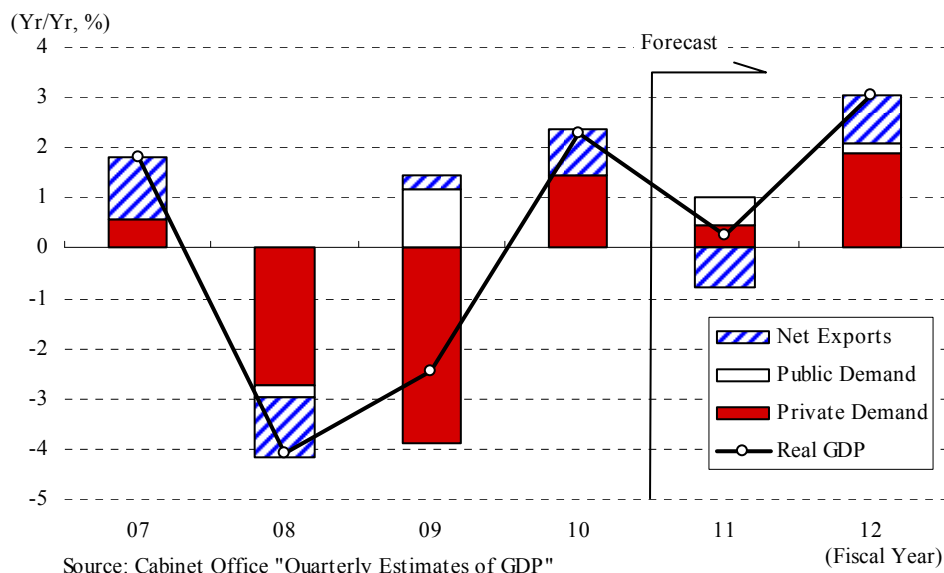
Real growth in fiscal 2011 is forecast to be +0.3%. This will represent a sudden drop from the +2.3% recorded in fiscal 2010, but the fiscal 2011 growth figure includes a negative carryover effect (of -0.6%) due to the impact of the earthquake, which occurred near the end of the previous fiscal year. If the carryover effect is eliminated and growth is calculated during the fiscal year, the rate of expansion will be +0.9%, a significant recovery from fiscal 2010 when the real GDP was -0.1% from the previous fiscal year.

Examining the contribution of domestic demand versus external demand, the contribution of external demand is forecast to be a substantial -0.8%, but domestic demand will contribute +1.0%, thus acting as the driving force for the economy (Chart 1). Among components of domestic demand, private-sector demand will contribute +0.4% point and public-sector

demand will contribute +0.6% point. These figures indicate that growth will be supported by demand for recovery from the disaster, particularly by public works investment. In fiscal 2008, when Lehman Brothers Holdings collapsed, major economic measures were implemented, and they supported the economy, but such large measures have not been carried out subsequently. In addition, among the components of private-sector demand, the contribution of inventory investment will be +0.4% point, implying that much of the improvement can be explained by the restocking of inventories.

Please note that, as a result of the recovery in the economy and the rise in international commodity prices, deflationary pressures will gradually diminish. The rate of growth in the nominal GDP in fiscal 2011 will be -0.6%, the second year of negative growth, but the margin of decline in the GDP deflator will shrink to -0.8%. On a quarter-to-quarter basis, the rate of change year on year in the deflator will show improvement, and it will converge to approximately zero by the end of fiscal 2011.

Chart 1: Growth Rate of Real GDP and Growth Contribution Rate by Demand (on Fiscal Year Basis)



In fiscal 2012, the increased demand related to recovery from the earthquake, coming mainly from the public sector, will be joined by robust increases in private-sector demand and external demand, resulting in a continuation of the recovery trend in the economy.

Entering fiscal 2012, as might be expected, the outlook is for the positive effects of demand for recovery from the disaster, including public works investments, to run their course. However, since economic conditions in overseas economies will continue to be strong, export growth will be sustained at a relatively high level and is expected to provide a driving force for the economic recovery. Moreover, since employment and income conditions will improve, consumer spending is expected to remain firm. Also, improvement in corporate performance is likely to continue, and private capital investment will sustain a rising trend. As a result, private-sector demand is forecast to be firm.

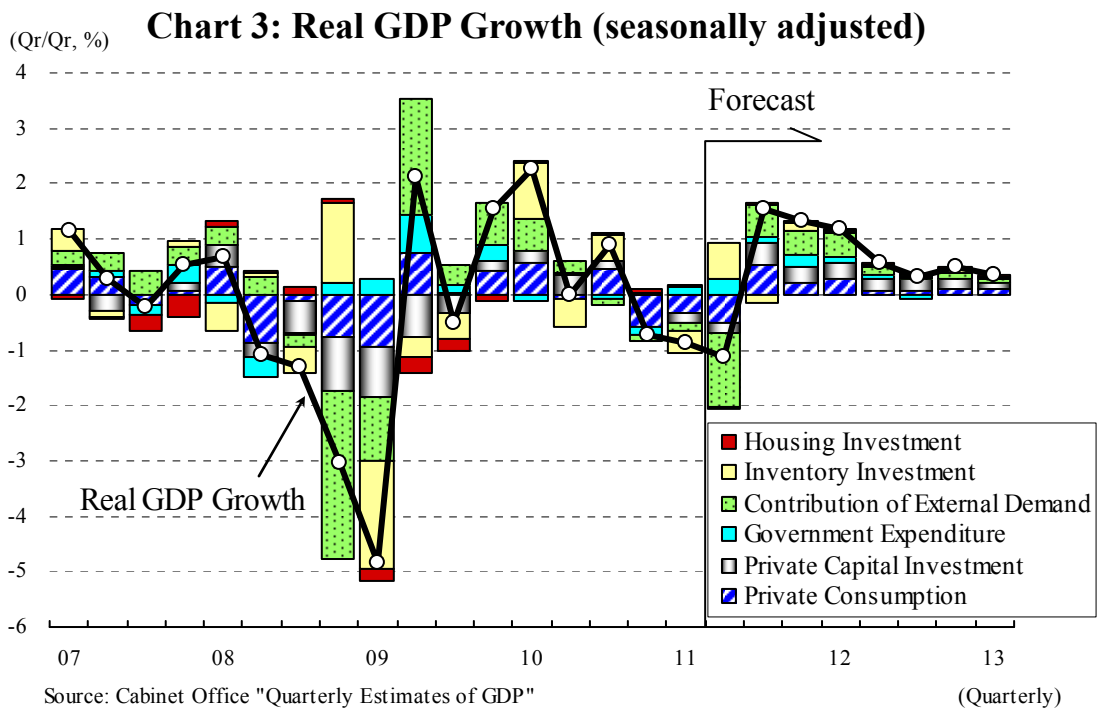
Real growth in fiscal 2012 is forecast to be +3.0%, a sharp rise over growth in the previous fiscal year. However, this figure will be pushed upward by a substantial carryover effect of +2.0%. After the elimination of this effect, the growth rate, calculated during the fiscal year, will be +1.0%, implying that the outlook during fiscal 2012 is for continued recovery at about the same pace as in fiscal 2011. The nominal GDP is forecast to rise 3.2% over the previous fiscal year, and the outlook is for the GDP deflator to rise 0.1% year on year. Although this rise will be small, the change in the deflator will move into the positive range, thus possibly signaling the end of deflation for the first time in 15 years, since 1997.

Although imports will rise, along with the recovery in the economy, the rate of growth in exports will be large, and the contribution of the external sector will rise to +1.0% point. On the other hand, the contribution of domestic demand will increase to +2.1 percentage points, and most of this will be accounted for by a contribution of +1.9 percentage points from private-sector demand. The contribution of the public sector will be only +0.2% point.

Chart 2: Real GDP Growth (Fiscal Year)

	Carry-over from the previous year (A)	Growth rate during the year (B)	Real GDP growth rate (A)+(B)
FY2009 (actual)	-5.3 %	2.9 %	-2.4 %
FY2010 (actual)	2.4 %	-0.1 %	2.3 %
FY2011 (forecast)	-0.6 %	0.9 %	0.3 %
FY2012 (forecast)	2.0 %	1.0 %	3.0 %

Source: Cabinet Office "Quarterly Estimates of GDP"



2. Forecasts of Economic Activity by Sector

(1) Corporations

- As they entered the 21st century, corporations had completed their disposal of negative assets left over from Japan's bubble economy, and their financial positions and profitability recovered substantially, supported by strong exports. Accordingly, the risk of a major downturn in production, capital investment, or other aspects of corporate activities had receded for the time being.
- However, as a result of the collapse of Lehman Brothers Holdings in autumn 2008, economic conditions changed substantially, domestic and overseas aggregate demand dropped sharply, and companies made major adjustments in production to reduce their inventories. As a result, corporate profitability dropped sharply, mainly in the automobile and other manufacturing industries. Corporations were confronted with deterioration in their cash flow and rates of capacity utilization, and adopted a stronger posture of refraining from capital investment.
- After the beginning of fiscal 2009, industrial production began to bottom out, as a result of the recovery in the world economy and the positive effects of government policy measures. Owing to recovery in production activities and the positive effect of reductions in personnel and other costs, corporate profitability began to show rapid improvement. Although the economy moved into a temporary lull, as a result of the slowdown in exports and other factors, production in the corporate sector remained generally on a rising trend. During this period, the recovery in private capital investment was moderate as companies moved into overseas markets and growth in the domestic market was weak.
- The Great East Japan Earthquake dealt a serious blow to corporate activities. The aftereffects of the earthquake constrained production over a wide range of industries as the capital stock in the affected region was seriously damaged, supply chains were disrupted, and shortages of electric power occurred. However, following the temporary confusion immediately after the earthquake, corporations have already begun to work toward reconstruction and recovery. The

outlook is for generally strong economic trends to continue in the world economy and for the emergence of a recovery trend in corporate activities in Japan at an early date.

(2) Households

- There are concerns about the future direction of employment conditions, which had been on an improving trend prior to the earthquake. Household income conditions, which had finally begun to move toward improvement, have begun to stagnate again. However, since the deterioration in the domestic economy is expected to be temporary, the employment environment is expected to begin to show moderate improvement as production recovers, and wages also should begin to improve along with the rise in corporate profitability.
- Rising concerns about the employment environment and constraints caused by the disruption of supply chains are expected to exert downward pressure on consumer spending. However, since it is believed likely that improvement will emerge in a relatively short period of time, consumption is basically expected to remain on a moderate rising trend.
- Housing starts, which reached bottom in autumn 2009, are now viewed as being on an improving trend, but the level of activity remains low. Although the outlook is basically for a rising trend in housing starts going forward, the rate of increase in the number of housing starts will remain moderate because of the extremely large decline experienced during the downturn and the structural restraining factor of continued slowing in the rate of growth in the number of households.

(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 the nominal income growth rate 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 investment have increased because of the implementation of major government spending programs to stimulate the economy.

- After the year 2000, to implement structural reforms, the government stopped 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 improvement in the economy, tax revenues began to expand again, but the government has basically maintained its policy of making structural reforms in its finances.
- However, from autumn 2008, as the economic downturn became increasingly serious, a number of economic policies and other measures were enacted, resulting in a rise in government expenditures. In fiscal 2009, government public works investment increased substantially. Since the increase in expenditures accompanying the implementation of these policies was funded through the issuance of government bonds and because tax revenues fell sharply along with the deterioration in the economy, the government's fiscal position has deteriorated further.
- In the midst of this deterioration in public finances, the government adopted its "Fiscal Management Strategy" in June 2010, which is intended to restore fiscal soundness. From fiscal 2011 through fiscal 2013, the government has indicated it will follow a policy of restraining its expenditures, after the exclusion of government bond expenses and certain other items, to ¥71 trillion, which was the level in the initial fiscal 2010 budget. Thus, the growth in government expenditures will move toward greater restraint.
- Looking ahead, the Great East Japan Earthquake, which occurred on March 11, 2011, will likely push government expenditures for reconstruction and recovery upward. The first supplementary budget of fiscal 2011 (totaling approximately ¥4 trillion) includes about ¥1.2 trillion for government project expenses related to reconstruction activities. This is expected to result in a continuation of increases in public works investment.
- Funding for this first supplementary budget of fiscal 2011 was squeezed

from the existing budget after a review of allocations. The government has indicated that, going forward, it will prepare a second supplementary budget for full-scale reconstruction. The issue of how this will be funded is still to be addressed.

(4) Trends in Overseas Economies

- The world economy is continuing to recover. In the United States, the recovery in personal consumption is quite clear, and that country has entered a phase of self-sustaining recovery. In Europe also, full-scale economic recovery is in progress led by exports, and the emerging countries, including China, are reporting robust economic expansion.
- The outlook is for recovery in the world economy to continue. Self-sustaining expansion is expected to continue in the United States and Europe, and the fiscal deficit in the United States and fiscal crises in Europe are expected to have only limited impact. Although the emerging countries, including China, will continue to increase interest rates owing to concerns about inflation, the impact on their economies will be marginal, and they are expected to show continued high growth rates propelled by a balance of domestic and external demand.
- Japan's exports have decreased substantially because of the supply constraints caused by the earthquake. However, as domestic production systems become operational again, exports are expected to rise, as recovery continues in the world economy. In addition, Japan's imports are likely to rise, mainly because of the increase in requirements for energy-related materials following the nuclear power plant accidents.
- On an annual basis, since exports will be stagnant in fiscal 2011, and imports will rise, Japan's trade surplus is expected to show a sharp decrease. On the other hand, the surplus generated in the income account by Japan's net overseas assets is basically expected to hold steady.

3. Forecasts for Prices and Financial Markets

- The prices of raw materials, especially crude oil and metals, have moved above the levels of the previous year, and are bringing increases in some prices. 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 products downstream will persist.
- Among domestic corporate prices, the prices of petroleum products and nonferrous metals, which are influenced by international commodity market prices, as well as the prices of steel and certain other basic materials are clearly rising. However, the pace of increase is expected to be moderate because supply capacity in Japan is likely to continue to exceed demand and since yen appreciation will be a factor pushing prices downward. The outlook for consumer prices is for slight increases because of the strong downward pressure on sales prices to final consumers.
- Regarding monetary policy, in autumn 2008 and onward, measures were implemented to ease monetary policy in the United States and Europe, mainly to deal with the turmoil in financial markets and the risk of an economic downtrend. Thereafter, along with the return of stability to financial markets, although a portion of quantitative easing policies were lifted with set time limits, in view of continuing deflation, stronger policies were adopted to ease monetary policy again in December 2009. In addition, to cope with the increasing risk of economic downturns in Japan and overseas, in October 2010, a comprehensive policy for monetary easing was prepared. Even stronger monetary easing policies were implemented following the earthquake in March 2011. For the time being, the Bank of Japan is expected to continue its stance of easing monetary policy.
- Although the economy is expected to recover following its steep drop in the wake of the earthquake, long-term interest rates are expected to remain low against a background of stable short-term rates. However, there is a possibility that the sustained recovery in overseas economies and the deterioration in government fiscal positions around the world may place upward pressure on long-term interest rates. In foreign

exchange markets, during 2010, the yen appreciated because of the weakness in the euro, due to government fiscal problems in some EU countries, and as a result of a decline in the value of the U.S. dollar in reaction to that country's policy of quantitative easing. However, looking ahead, since the Bank of Japan will continue its policy of monetary easing, there appears to be little room for the further appreciation of the yen.

Chart 4: Outlook for Fiscal 2011-2012

	FY2008 (actual)	FY2009 (actual)	FY2010 (actual)	Forecast	
				FY2011 (forecast)	FY2012 (forecast)
Nominal GDP	-4.6	-3.7	0.4	-0.6	3.2
Real GDP	-4.1	-2.4	2.3	0.3	3.0
Contribution of domestic demand	-3.0	-2.7	1.5	1.0	2.1
Private consumption	-2.2	0.0	0.8	-0.6	1.1
Housing investment	-3.6	-18.2	-0.2	3.4	4.9
Private capital investment	-6.9	-13.6	4.3	1.7	6.5
Contribution of inventory investment	-0.3	-1.1	0.4	0.4	0.1
Government expenditure	-1.1	5.2	0.0	2.4	0.8
Public investment	-6.8	14.2	-10.0	5.1	4.1
Government final consumption expenditure	0.2	3.5	2.3	1.9	0.1
Contribution of external demand	-1.2	0.3	0.9	-0.8	1.0
Export of goods and services	-10.4	-9.6	17.0	0.6	10.3
Import of goods and services	-4.2	-11.0	11.0	5.9	4.0
GDP deflator	-0.5	-1.3	-1.9	-0.8	0.1

	FY2008 (actual)	FY2009 (actual)	FY2010 (actual)	Forecast	
				FY2011 (forecast)	FY2012 (forecast)
Current account balance (trillion yen)	12.3	15.8	15.9	10.8	15.9
balance on goods (trillion yen)	1.2	6.6	6.5	0.1	4.7
balance on service (trillion yen)	-2.0	-1.8	-1.3	-1.6	-1.4
balance on income (trillion yen)	14.6	12.1	11.8	13.4	13.7
Industrial production	-12.7	-8.8	9.1	1.0	7.3
Unemployment rate(%)	4.1	5.2	5.0	4.9	4.8
New housing starts(annualized, ten thousand units)	103.9	77.5	81.9	84.2	88.4
Domestic corporate goods prices	3.1	-5.2	0.7	1.5	0.4
Consumer prices	1.2	-1.7	-0.4	0.0	0.2
excluding freshfood	1.2	-1.6	-0.8	0.4	0.2
Yen/U.S.Dollar	100.5	92.8	85.7	81.3	83.0
Uncollateralized call rates (O/N) (%)*	0.363	0.102	0.095	0.070	0.070
Newly issued government bond yields (10years) (%)	1.46	1.36	1.15	1.24	1.38
WTI future price (near month contract, US dollar/barrel)	85.9	70.7	83.4	93.8	90.5
Dubai crude oil prices (US dollar/barrel)	82.1	69.7	84.2	96.4	89.6

* actual=average, forecast=end of period

Chart 5: Outlook for Calendar 2011-2012

	CY2008 (actual)	CY2009 (actual)	CY2010 (actual)	Forecast	
				CY2011 (forecast)	CY2012 (forecast)
	Yr/Yr, %				
Nominal GDP	-2.2	-6.6	1.7	-2.0	3.4
Real GDP	-1.2	-6.3	4.0	-0.7	3.4
Contribution of domestic demand	-1.4	-4.8	2.1	0.1	2.5
Private consumption	-0.7	-1.9	1.8	-1.1	1.2
Housing investment	-8.0	-14.0	-6.3	4.0	4.3
Private capital investment	-1.4	-16.7	2.1	0.8	6.6
Contribution of inventory investment	-0.2	-1.1	0.7	0.3	0.4
Government expenditure	-1.1	4.1	1.2	1.4	1.7
Public investment	-8.6	10.4	-3.4	-3.1	8.7
Government final consumption expenditure	0.5	3.0	2.2	2.4	0.3
Contribution of external demand	0.2	-1.5	1.8	-0.8	0.9
Export of goods and services	1.6	-23.9	23.9	0.8	9.9
Import of goods and services	0.4	-15.3	9.8	6.8	4.1
GDP deflator	-1.0	-0.4	-2.1	-1.3	0.0

	CY2008 (actual)	CY2009 (actual)	CY2010 (actual)	Forecast	
				CY2011 (forecast)	CY2012 (forecast)
	Yr/Yr, %				
Current account balance (trillion yen)	16.4	13.3	17.2	10.0	15.1
balance on goods (trillion yen)	4.0	4.0	8.0	-0.2	4.2
balance on service (trillion yen)	-2.1	-1.9	-1.4	-1.6	-1.5
balance on income (trillion yen)	15.8	12.3	11.7	12.8	13.6
Industrial production	-3.4	-21.9	16.4	-1.3	8.0
Unemployment rate (%)	4.0	5.0	5.1	4.8	4.8
New housing starts(annualized, ten thousand units)	109.3	78.8	81.3	83.5	87.8
Domestic corporate goods prices	4.6	-5.2	-0.2	1.9	0.2
Consumer prices	1.4	-1.4	-0.7	0.0	0.1
excluding freshfood	1.5	-1.3	-1.0	0.2	0.2
Yen/U.S.Dollar	103.4	93.5	87.8	81.4	82.7
Uncollateralized call rates (O/N) (%)*	0.462	0.105	0.093	0.078	0.070
Newly issued government bond yields (10years) (%)	1.48	1.34	1.17	1.22	1.34
WTI future price (near month contract, US dollar/barrel)	99.6	61.8	79.5	95.4	89.5
Dubai crude oil prices (US dollar/barrel)	93.8	61.8	78.0	99.4	89.3

* actual=average, forecast=end of period

Chart 6: Outlook for 2011-2012 (Quarterly)

	Forecast												Qr/Qr, % Yr/Yr, %
	FY2010				FY2011				FY2012				
	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	-1.0	0.6	-0.9	-1.3	-1.4	1.2	1.7	1.1	0.6	0.0	0.9	0.4	
	1.1	2.8	0.5	-2.9	-2.9	-2.4	0.1	3.0	4.5	3.5	2.6	2.1	
Real GDP	0.0	0.9	-0.7	-0.9	-1.1	1.5	1.3	1.2	0.6	0.3	0.5	0.3	
	3.1	5.0	2.2	-1.0	-1.7	-1.2	0.9	3.1	4.5	3.5	2.5	1.8	
Contribution of domestic demand (Qr/Qr,%)	-0.2	1.1	-0.6	-0.7	0.2	0.9	0.9	0.7	0.4	0.3	0.4	0.3	
Private consumption	-0.2	0.8	-1.0	-0.6	-0.9	0.9	0.4	0.5	0.1	0.1	0.2	0.2	
	1.3	2.5	0.6	-1.0	-1.6	-1.6	-0.1	0.9	1.9	1.1	0.9	0.6	
Housing investment	-0.6	1.9	3.2	0.7	-1.2	1.3	1.5	1.2	1.0	0.9	1.7	1.8	
	-10.5	-1.3	6.2	5.3	4.6	3.9	2.4	2.8	5.0	4.5	4.8	5.4	
Private capital investment	2.6	1.0	0.0	-1.3	-1.4	2.9	2.0	2.0	1.4	1.4	1.2	0.8	
	3.1	6.7	5.5	2.2	-1.6	0.2	2.2	5.3	8.5	6.9	6.2	4.9	
Contribution of inventory investment (Qr/Qr,%)	-0.5	0.5	0.0	-0.4	0.6	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Government expenditure	0.1	-0.3	-0.6	0.6	1.2	0.5	0.9	0.5	0.2	-0.3	0.0	-0.1	
	1.9	0.8	-1.8	-0.6	1.1	1.7	3.5	3.3	1.8	1.3	0.4	-0.2	
Public investment	-4.5	-2.5	-6.0	-1.4	2.5	3.8	5.1	2.7	1.0	-1.2	-0.8	-0.7	
	-4.4	-4.9	-13.4	-14.1	-7.3	-1.5	10.3	14.9	13.1	7.7	1.7	-1.7	
Government final consumption expenditure	1.2	0.3	0.4	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
	2.8	2.0	1.5	2.8	2.5	2.3	1.9	0.9	0.1	0.1	0.1	0.1	
Contribution of external demand (Qr/Qr,%)	0.2	-0.1	-0.1	-0.2	-1.3	0.6	0.4	0.4	0.2	0.1	0.1	0.1	
Export of goods and services	5.2	1.6	-0.8	0.7	-6.2	5.4	3.4	3.3	2.2	1.6	1.6	1.5	
	30.2	21.1	13.2	6.4	-4.8	-1.3	2.9	5.5	15.0	10.8	8.9	7.0	
Import of goods and services	4.1	2.9	-0.3	1.9	2.3	1.4	0.6	0.6	1.2	1.3	1.0	1.2	
	14.4	11.5	9.8	8.7	7.0	5.4	6.3	4.9	3.7	3.6	4.0	4.7	
GDP deflator (Yr/Yr,%)	-2.0	-2.1	-1.6	-1.9	-1.2	-1.2	-0.8	-0.1	0.0	0.1	0.1	0.3	

	Forecast												Yr/Yr, %
	FY2010				FY2011				FY2012				
	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	4.4	4.3	3.1	1.1	2.4	3.1	3.7	3.3	3.7	3.9	4.5	
balance on goods (trillion yen)*	1.8	2.0	1.8	0.9	-1.2	-0.3	0.4	1.2	0.8	1.0	1.2	1.8	
balance on service (trillion yen)*	-0.3	-0.3	-0.4	-0.3	-0.5	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.3	
balance on income (trillion yen)*	2.7	3.0	3.2	2.9	3.1	3.4	3.4	3.3	3.2	3.4	3.4	3.4	
Industrial production (Qr/Qr, %)	0.7	-1.0	-0.1	-2.0	-3.0	4.9	3.6	1.8	1.3	1.0	0.9	0.9	
(Yr/Yr, %)	21.3	14.0	5.9	-2.5	-5.8	-0.1	2.8	7.3	12.3	8.1	4.9	4.2	
Unemployment rate (%)*	5.1	5.0	5.0	4.7	4.8	5.0	4.9	4.9	4.8	4.8	4.8	4.7	
New housing starts(annualized, ten thousand units)	77.6	81.5	84.3	84.2	81.2	82.3	86.2	87.2	88.3	86.8	88.7	90.1	
Domestic corporate goods prices (Yr/Yr,%)	0.2	-0.2	1.0	1.7	2.5	2.2	1.4	0.3	-0.8	0.4	0.8	1.0	
Consumer prices (Yr/Yr,%)	-0.9	-0.8	0.1	0.0	0.1	0.0	-0.2	-0.2	0.1	0.2	0.3	0.4	
excluding freshfood (Yr/Yr,%)	-1.2	-1.0	-0.5	-0.2	0.5	0.4	0.3	0.1	0.1	0.2	0.3	0.4	
Yen/U.S.Dollar	92.0	85.9	82.6	82.3	81.7	80.5	81.2	81.8	82.4	83.0	83.4	83.2	
Uncollateralized call rates (O/N) (%)**	0.093	0.094	0.089	0.103	0.070	0.070	0.070	0.070	0.070	0.070	0.070	0.070	
Newly issued government bond yields (10years) (%)	1.27	1.05	1.04	1.25	1.19	1.21	1.25	1.29	1.33	1.36	1.40	1.44	
WTI future price (near month contract, US dollar/barrel)	78.0	76.2	85.2	94.1	103.3	95.0	89.0	88.0	89.0	90.0	91.0	92.0	
Dubai crude oil prices (US dollar/barrel)	77.6	74.2	84.3	100.5	109.2	98.0	90.0	88.5	89.0	89.5	90.0	90.0	

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

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