

August 2012

# **Forecast for the Japanese Economy in Fiscal 2012 and 2013**

**— Following a Mild Adjustment Phase, the Economy  
Will Resume Its Recovery —**



**Mitsubishi UFJ Research and Consulting**

**Economic Research Department**

# **1. Outlook for the Japanese Economy in Fiscal 2012 and Fiscal 2013**

## **-- Following a Mild Adjustment Phase, the Economy Will Resume Its Recovery**

### **(1) Current State of the Economy: Domestic Demand in Particular Remains Firm**

Announced on August 13, 2012, the real GDP growth rate for the April-June quarter was +0.3% compared with the previous quarter (+1.4% at an annualized rate). Although this was lower than the +1.3% (+5.5% at an annualized rate) reported for the January-March quarter, it was the fourth consecutive quarter of positive growth, and pointed to the result that economy is on an improving trend.

Examining the contribution to real GDP of domestic and external demand, the contribution of domestic demand was +0.4 percentage point, while the contribution of external demand (net exports = exports – imports) was –0.1 percentage point. This was the fifth consecutive quarter for domestic demand to make a positive contribution, indicating that the recovery trend in the economy following the Great East Japan Earthquake has been maintained by domestic demand. On the other hand, external demand made only a slight negative contribution, of –0.1 percentage point, reflecting the delay in the recovery of exports.

By component of domestic demand, although private consumption rose +0.1% over the previous quarter for the fifth consecutive quarterly increase, its rate of expansion has slowed markedly. Although the increase in purchases of durable goods, due to the positive effects on automobile sales of the government's eco-car subsidies, is continuing, growth in overall consumption has slowed. This is because of the completion of the round of increases in consumer service purchases, a reactionary decline following the rise in consumption due to leap year, and the beginning of a decline in nondurable consumption. Private residential investment for the quarter turned upward by 0.8%, the first increase in two quarters, reflecting a surge in the number of new housing starts in regions outside the area affected by the earthquake because of upcoming termination of the government's

eco-point system for housing.

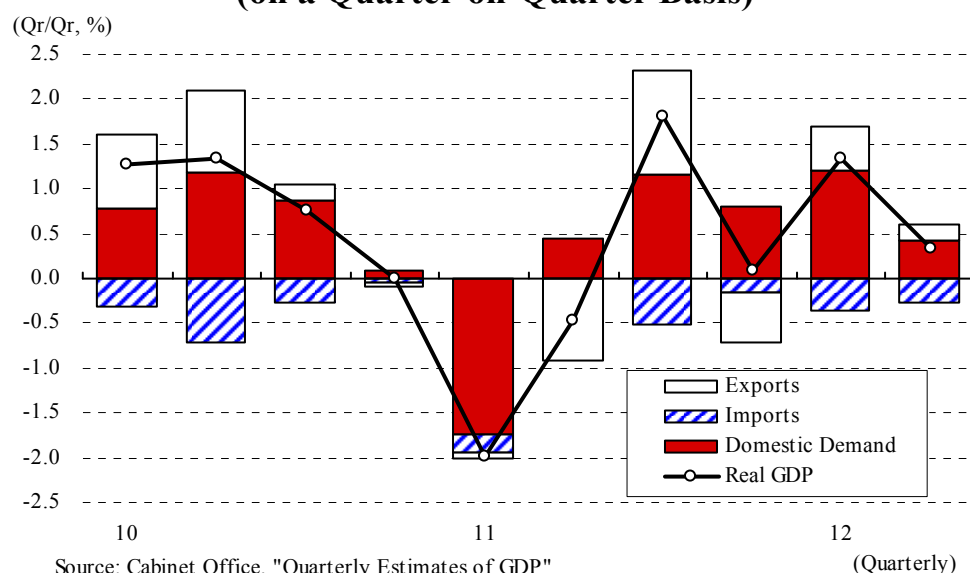
Private capital investment turned upward, rising 1.5% for the quarter because of an improving trend, particularly replacement investments, investments for recovery after the earthquake, and other factors, including a reaction to the decline in the previous quarter. Private inventory investments, from an overall perspective, are in a period of adjustment, as pressures for reducing inventories have increased in certain manufacturing industries. As a consequence, the contribution of private inventory investment to the GDP growth rate turned to a small negative figure. Within public-sector demand, government final consumption expenditure rose 0.3% for the quarter, maintaining its upward trend, in part owing to the effects of expenditures related to the earthquake disaster. In addition, public investment continued to increase at a robust pace of 1.7% for the quarter because of the continued usage of budgetary allocations for reconstruction and recovery in the regions stricken by the earthquake. As a consequence, public-sector demand as a whole expanded 0.6% for the quarter and provided support for the economy.

Looking next at external demand, exports rose 1.2% for the quarter, continuing on their upward trend, driven principally by shipments of automobiles to the United States, but because of the effects of the slowing of the world economy, the rate of expansion in exports declined. Imports expanded 1.6% over the previous quarter because of the growth in demand for energy fuels for power generation. As a result, the contribution of external demand to real GDP growth was -0.1 percentage point and was, therefore, a factor placing slight downward pressure on the growth rate.

The GDP deflator, which reflects overall price trends in the economy as a whole, was 1.1% below the same quarter of the previous year, indicating that the downtrend in the margin of decline is continuing. However, the downturn in the import deflator had a substantial effect, and, as a consequence, the domestic demand deflator was down 0.7% from the same quarter of the previous year, representing a widening in the margin of decline. Compared with the previous quarter, the deflator in the January-March quarter turned upward for the first time in 13 quarters, but

then turned downward to a –0.5% in the April-June quarter.

**Chart 1: Contribution Rates to Real GDP Growth by Demand  
(on a Quarter-on-Quarter Basis)**



## **(2) The Key Points Regarding Economic Trends Going Forward: Consumption Trends in Areas Other than the Crucial Automobile Industry**

Even though the rate of growth over the previous quarter of real GDP slowed in the April-June quarter, this followed a major increase in the January-March quarter, and the conclusion is that the economy is still on a firm footing. However, the outlook is for the positive momentum of all components of demand that are driving the economy to be spent eventually.

In the case of private consumption, the forecast is for budgetary allocations for eco-car subsidies to be fully used up in August or September, and there is a strong possibility that automobile sales will decline temporarily. The environment for consumption is certainly not very favorable because the summer bonuses are believed likely to have fallen below the levels of the previous year as well as other factors, including a slowing of the pace of spending on services. For these reasons, it will probably be difficult for private consumption to sustain a high rate of growth year on year. In

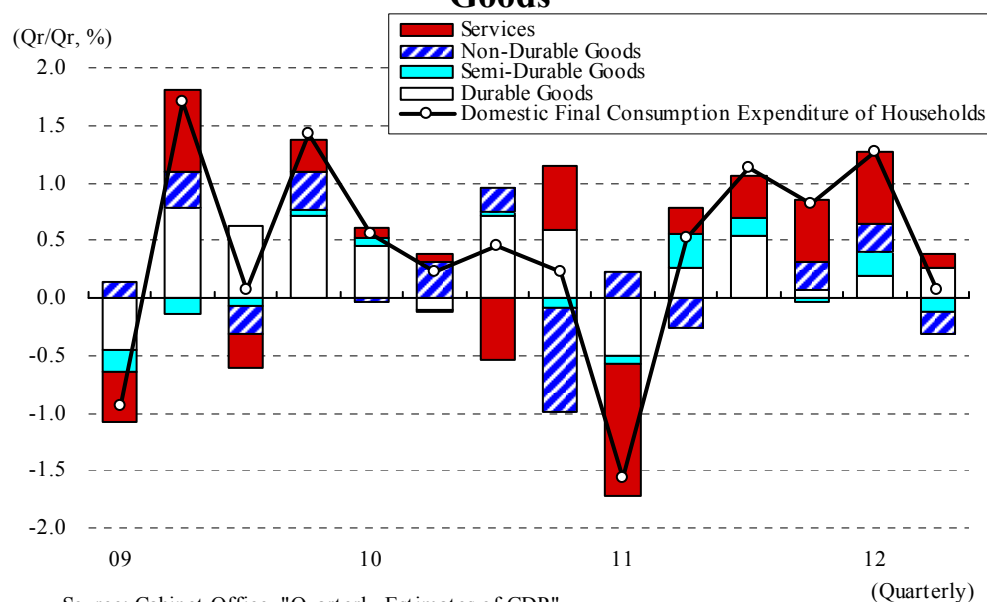
addition, the recovery plans for the areas stricken by the earthquake are in the implementation stages, and the spending of supplementary budget allocations for public investment and government final consumption expenditure is likely to continue at a high level, but there will be limitations on the boost that these can give the economy year on year.

Therefore, if we move into a phase where the growth in domestic demand weakens and recovery in exports is delayed, there may be a pause in the economic recovery. In actuality, the environment for exports is severe. First, the risk of a prolongation of the stagnation in European economies has increased, and the recovery in the world economy is lagging because of the continuation of a weakening in growth of the Chinese economy. In addition, the high values of the yen against other currencies are also a minus factor.

As these comments suggest, economic prospects give no reason for optimism. There is a strong possibility that growth in real GDP in the July-September and subsequent quarters will be marginal. The key points that will influence economic trends will continue to be private consumption and external demand. In particular, with regard to consumption, since the predicted slump in automobile sales will be unavoidable, it will be important how much consumption on goods and services other than automobiles will be able to support the weak economy.

An examination of the composition of private consumption by item in the April-June quarter of 2012 shows, first, that overall consumption rose 0.1% over the previous quarter, a significantly lower rate of growth than in the previous quarter, but the contribution of spending on consumer durables continued to be a major contributor (Chart 2). In addition, consumer spending on services maintained its firmness, rising for the fifth consecutive quarter.

**Chart 2: Domestic Final Consumption Expenditure of Households by Goods**



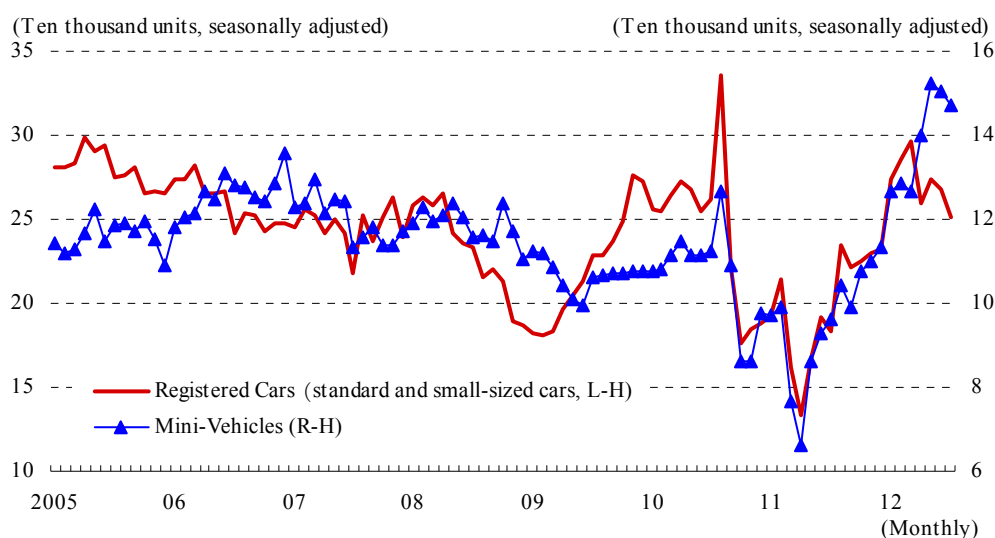
Moreover, automobile purchases were not necessarily the only factors driving spending on durable goods. This is because sales of household appliances were favorable, and, at the same time, an examination of automobile sales by month suggests the possibility that car sales had already peaked out in early spring (Chart 3).

The outlook, at one time, was for full usage of budgetary allocations for eco-car subsidies during July, but, even when the allocations remaining fell, there were no signs of a pronounced surge in demand and the timing of the exhaustion of subsidy funds has slipped into later months. This may be because of the lessons car dealers learned when these subsidies were offered before, and they experienced a surge in demand. Their tactics now may be to try to capture and prolong the surge by offering discounts equivalent to the subsidies.

If the surge in demand is relatively small, then the reactionary decline in demand following the surge may also be small. It may not be possible to avoid a slump in automobile sales after the subsidy allocations are used up, but there is a possibility that the decline in subsidies can be held to a moderate level in part through the effects of offering dealer discounts. Even

so, if we look just at automobile sales, following the negative figure in the July-September quarter, it is likely that it will be followed by a negative figure in the October-December quarter, but there is a possibility that the negative figure may not be very large. Note that, even if the full amount of subsidies paid were used for consumption completely during fiscal 2012, this would increase private consumption less than 0.1%.

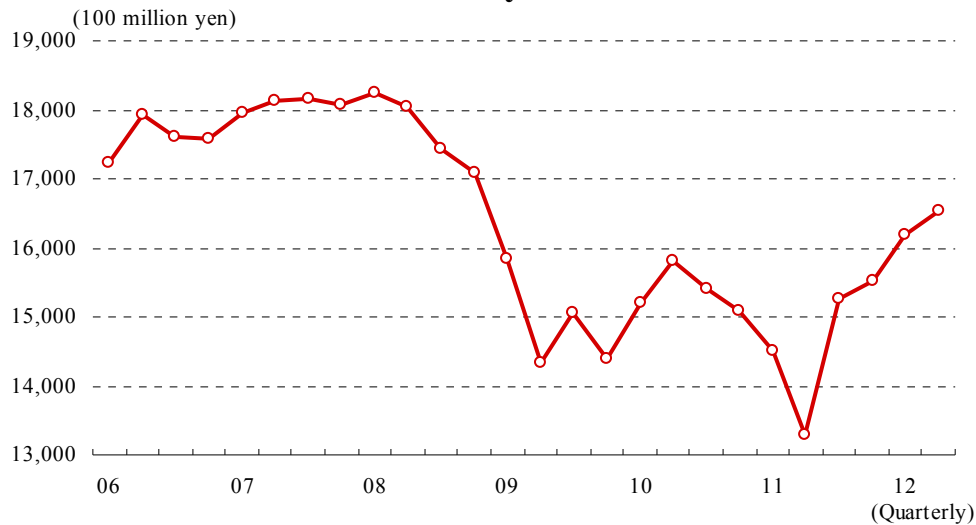
**Chart 3: Car Sales**



Source: Japan Automobile Dealers Association, Japan Mini Vehicles Association

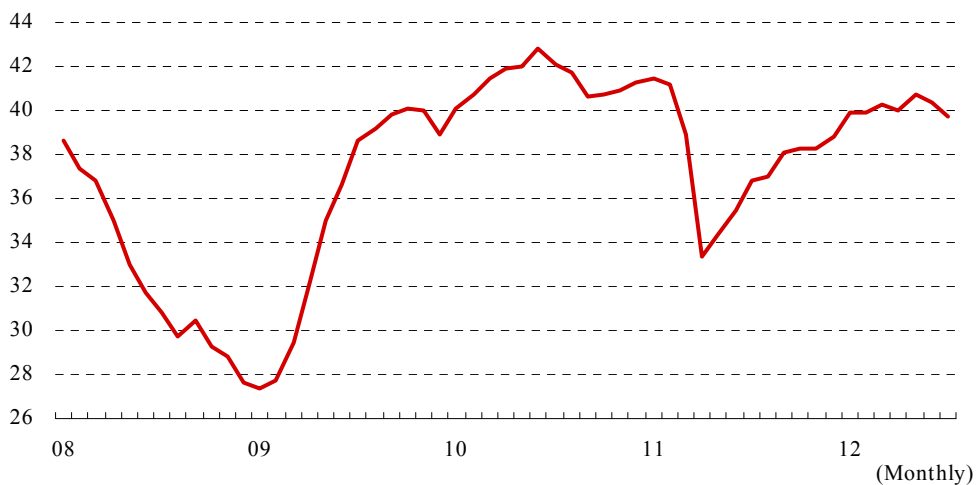
Even if automobiles do not sell, there is a possibility that private consumption of other goods and services may sustain the firmness of overall consumption. As we have already pointed out, consumers are sustaining a favorable level of spending on services, and there are signs of increases in travel expenditures (Chart 4). This probably cannot be attributed to a reaction to the mood of restraint that followed the Great East Japan Earthquake, because more than a year has passed since then. Instead, it is believe likely that this spending is supported by a trend toward recovery in consumer confidence (Chart 5).

**Chart 4: Outlays for Travel**



Source: Japan Tourism Agency, "Outlays for Travel dealt by Major Travel Agencies"

**Chart 5: Consumer Confidence Index (excl. One-Person Households, seasonally adjusted)**



Source: Cabinet Office, "Monthly Consumer Confidence Survey covering all of Japan"

Turning next to trends in household incomes going forward, corporations have not relaxed their cautious stance regarding costs, and this suggests we cannot look for a high rate of growth in incomes. In addition, there is a strong possibility that the summer bonuses this year were less than those of the previous year. However, the outlook is for continued moderate improvement in the employment and income environments, and this will



provide support for private consumption on goods and services other than automobiles. Toward the end of this year, although there is a possibility that real GDP growth may weaken further, this is not expected to have an impact that would result in a serious loss of momentum in the economy.

### **(3) Outlook for Fiscal 2012 and Fiscal 2013: Limitations on Growth in Domestic Demand, Entry into a Mild Adjustment Phase**

In preparing this outlook, we have the following assumptions. First, the consumption tax will be increased from the current 5% to 8% in April 2014. Also, we believe that serious electric power shortages will be averted because of the construction of new thermal power plants, the efforts to conserve electric power similar to those during the summer last year, and increases in in-house power generating capacity in corporations.

In fiscal 2012, the possibility has increased that the economy will enter a mild adjustment phase beginning in the autumn and extending through the end of the year. The reasons for this will be that the growth in domestic demand that had driven the economy after the Great East Japan Earthquake will weaken and the recovery of external demand will be delayed, thus giving rise to a pause in the recovery.

Among domestic demand components, there is a possibility that private consumption may turn downward and fall below the level of the previous quarter during the July-September period. This will be because of a slump in automobile sales, which have boosted private consumption thus far, after the exhaustion of government budgetary allocations for eco-car subsidies during August or September. However, in contrast with the last time these subsidies were paid, the surge in demand prior to the cutoff of subsidies this time is believed likely to be small, and the reactionary decline following the surge will be marginal. In addition, the private consumption of services and goods other than automobiles is holding firm, and the effects of the slump are likely to be temporary. Consumer confidence is continuing to improve, and the outlook is for private consumption to turn upward and exceed the level of the previous quarter during the

October-December period.

Public investment, which is another major support of domestic demand, appears likely to remain on an upward trend during the remainder of the year as full-scale demand for reconstruction and recovery work continues. However, delays in plans for recovery and supply-side shortages of labor in the areas stricken by the earthquake will impose limitations on progress toward reconstruction and recovery. It will be difficult to maintain increases in public investment on a quarter-to-quarter basis. After the beginning of 2013, public investment is forecast to remain at a high level but begin to decline on a quarter-to-quarter basis and, therefore, lose its effectiveness in boosting the economy.

Private capital investment is increasing at a moderate pace, and the outlook is for a firm trend to continue along with improvement in corporate performance. Nevertheless, the environment for exports is severe and, because of concerns regarding shrinkage in domestic demand going forward, large capital investments for increasing production capacity are unlikely. Corporations are believed likely to maintain their cautious stance toward new investments in Japan and restrain their capital investments within the limits of depreciation. Private capital investment cannot be expected to have the strength to be a driving force for the economy.

Under current circumstances, where a significant increase in growth in domestic demand is not expected going forward, the key issue will be external demand. However, during the current fiscal year, exports are expected to move within a narrow, virtually level, range, and external demand cannot be relied on to give the economy a boost. The U.S. economy is expected to show a recovery trend, albeit moderate, and Japan's exports to the United States are likely to continue to increase. In addition, Japan's exports to ASEAN countries, where domestic demand is strong, and other countries in Asia aside from China are basically expected to continue to rise. However, recovery in exports to China, where there is growing sense of economic slowdown, will likely be delayed. There is also a strong possibility that trends in exports to Europe, which is experiencing economic stagnation, will remain weak at least during the remainder of the

current fiscal year. On the other hand, the increase in imports of resources and energy will run its course, and the rate of increase in imports is forecast to be moderate. Therefore, the contribution of the external sector on a quarter-to-quarter basis will continue to be approximately zero.

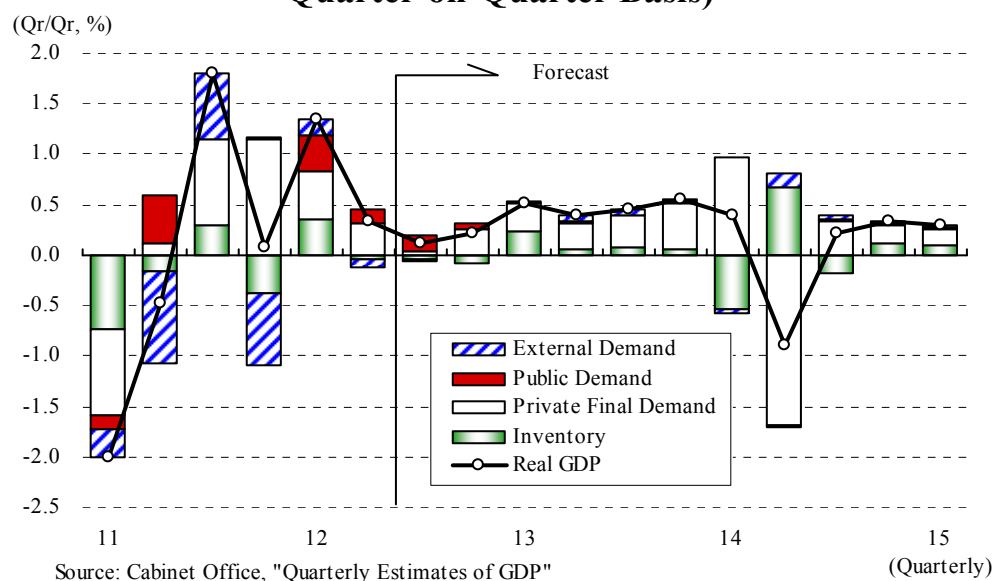
In view of these trends in Japan and overseas, industrial production is forecast to increase at only a moderate pace. The boost from automobile sales will diminish, exports will remain virtually level, and the rise in inventories in the basic industries, such as chemicals and steel, will all act to restrain production.

We are forecasting that real growth in fiscal 2012 will increase to +2.2% over the previous fiscal year, compared with +0.0% in fiscal 2011. However, this forecast growth rate includes a relatively large carryover effect of +1.5%, but after the elimination of this effect, the growth rate calculated during the fiscal year will be only +0.7%.

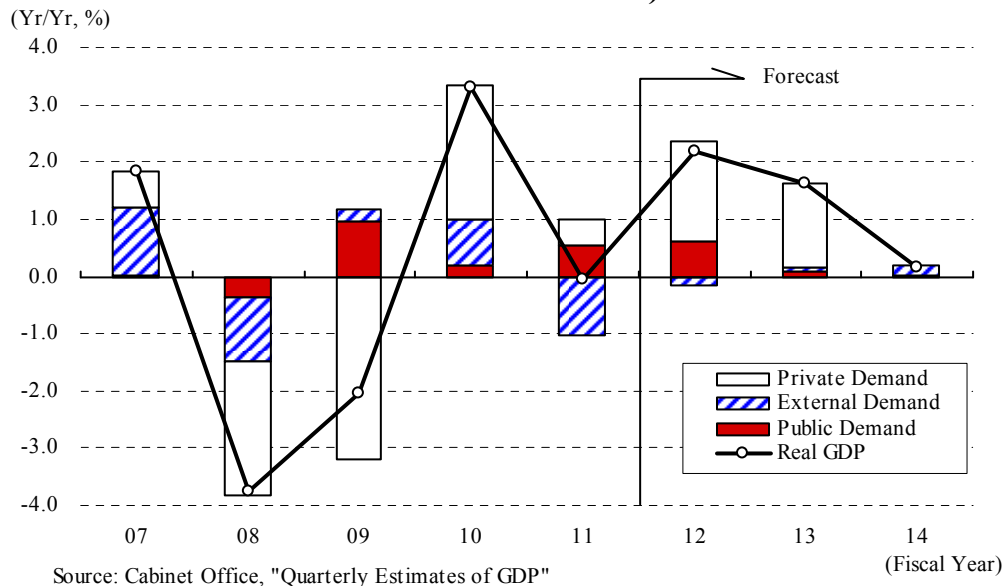
The nominal GDP growth rate in fiscal 2012 is forecast to rise to +1.6% over the previous fiscal year and move into the positive range, compared with a decline of -1.9% in fiscal 2011. As a result of the improvement in the economy, the gap between supply and demand will diminish, and the margin of decline in the GDP deflator in fiscal 2012 is forecast to be -0.6%, a smaller decline than the -1.9% in fiscal 2011, but does not imply an end to deflationary trends.

Reflecting the delay in recovery of exports, the contribution of the external sector for the fiscal year is viewed as likely to be -0.2%. On the other hand, the contribution of domestic demand will increase to +2.3 percentage points, with private-sector demand contributing +1.7 percentage points and public-sector demand accounting for +0.6 percentage point.

**Chart 6: Contribution Rates to Real GDP Growth by Demand (on a Quarter-on-Quarter Basis)**



**Chart 7: Contribution Rates to Real GDP Growth by Demand (on a Year-on-Year Basis)**



In fiscal 2013, the trend toward recovery is forecast to resume and strengthen. The contribution of public investment in fiscal 2013 will become negative, but exports will improve and private-sector demand will remain firm.

Private consumption is also forecast to continue to be firm, reflecting moderate improvement in employment and income conditions. Toward the end of the fiscal year, a surge in demand is expected prior to the increase in the consumption tax, and a solid increase in consumer spending is anticipated, mainly in sales of durable goods and other items. There is a possibility that growth in private residential investment may also rise prior the increase in the consumption tax.

Private capital investment is forecast to sustain a moderate increasing trend. Although aggressive investments will be restrained, reflecting the improvement in corporate performance, capital investments for maintaining competitiveness and those for the maintenance and replacement of equipment will continue and provide support for the economy.

Since demand for reconstruction and recovery from the earthquake will peak out during fiscal 2012, public investment is likely to turn downward. However, since a certain level of public investment will be implemented drawing on the government's ample budgetary allocations for reconstruction and recovery, the quarter-to-quarter drop is expected to occur at a moderate pace.

Exports are expected to finally begin to recover. In the United States, economic recovery will continue. In China also, as a result of the positive effects of the relaxation of monetary policy and other measures, the recovery trend will become clear. Moreover, the outlook is for European economies to begin to bottom out as a result of expansion in exports to the United States and China. Along with the recovery in the world economy, the excessive appreciation of the yen is likely to be corrected and the export environment will gradually improve.

Real growth in fiscal 2013 is forecast to continue at a relatively firm pace of +1.6% year on year, as demand, mainly private consumption, surges toward the end of the fiscal year. Since recovery will proceed in overseas economies, growth in exports will rise, and the contribution of external demand will turn upward to +0.1%. After the exclusion of a carryover effect of +0.5%, the rate of real growth calculated during the fiscal year

will be +1.1%, a higher rate of expansion than in fiscal 2012. In addition, the nominal GDP growth rate is forecast to rise to +1.3% over the previous year, but the GDP deflator is forecast to continue to show a decline of -0.4% year on year.

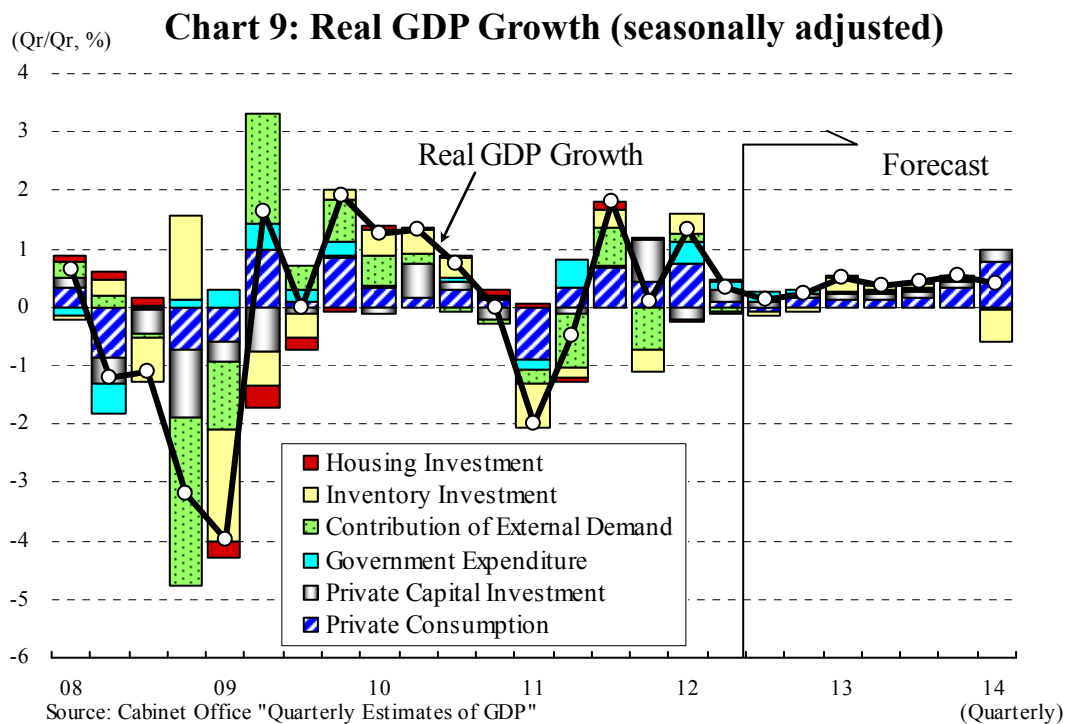
In fiscal 2014, since the effects of the increase in the consumption tax will become apparent in the household sector, real GDP growth is forecast to slow to +0.2%. The outlook is for +0.8% nominal GDP growth and an increase in the GDP deflator of +0.7%.

Compared with 1997, the time of the previous increase in the consumption tax, the surge in demand prior to the tax hike and the reactionary decline thereafter are expected to be smaller in magnitude. The likelihood of the tax rise resulting in a period of downturn in the economy is small. However, coming at a time when wages are not rising, rising prices will lower real disposable income, and it will not be possible to avoid some effects on household consumption behavior. Private consumption in fiscal 2014 is forecast to decline 0.5% year on year, for the first negative growth in six years, since fiscal 2008.

**Chart 8: Real GDP Growth (Fiscal Year)**

	Carry-over from the previous year (A)	Growth rate during the year (B)	Real GDP growth rate (A)+(B)
FY2011 (actual)	-1.3 %	1.3 %	0.0 %
FY2012 (forecast)	1.5 %	0.7 %	2.2 %
FY2013 (forecast)	0.5 %	1.1 %	1.6 %
FY2014 (forecast)	0.7 %	-0.5 %	0.2 %

Source: Cabinet Office, "Quarterly Estimates of GDP"



## 2. Forecasts of Economic Activity by Sector

### (1) Corporations

- When they entered the 21st century, Japanese 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 major downturns 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 markedly, domestic and overseas aggregate demand dropped sharply, and companies made adjustments in production to reduce their inventories. As a result, corporate profitability dropped substantially, mainly in the automobile and other manufacturing industries. Corporations were confronted with deterioration in their cash flows and rates of capacity utilization, and they 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 production facilities in the affected region were seriously damaged, supply chains were disrupted, and electric power service was interrupted. However, following the temporary confusion immediately after the earthquake, corporate activities have been generally improving, but, to maintain the recovery trend going forward, a necessary condition will be stable growth in the world economy.

## **(2) Households**

- Recent data show improvement in employment conditions. The number of job seekers is increasing, the ratio of job openings to job applications is rising, and the unemployment ratio is decreasing. On the other hand, recovery in wages is lagging and has only just begun to show indications of bottoming out. Going forward, corporations are viewed as likely to maintain their stance of restraining employment and personnel costs. Therefore, the pace of improvement in employment and income conditions will most likely be only moderate.
- Consumer spending, especially on durables and services, is continuing to be firm. Looking ahead, there is a possibility that consumer spending may weaken temporarily as various government policy measures to stimulate consumption run their course and bonuses decline. In addition, before and after the increase in the consumption tax, a surge in demand



followed by a reactionary decline is viewed as likely. However, the trend toward improvement will likely continue in tandem with the movement toward recovery in the domestic economy.

- Recently, a chronic shortage of labor has emerged in the construction industry, especially in the areas affected by the earthquake. As a result, the pace of increase in housing investment, as measured by progress toward construction completions, is relatively weak compared with the number of housing starts. Regarding the effect of the increase in the consumption tax, a surge in consumption is expected at an earlier stage than for consumption overall. Therefore, there is a possibility that there will be an upwelling of owner-built housing starts during the first half of fiscal 2013.

### **(3) Government**

- Since the collapse of Lehman Brothers Holdings, the implementation of a series of economic measures to deal with the downturn in the economy combined with a major drop in tax revenues, owing to the deterioration in the economy, led to substantial expansion in the government's fiscal deficit. Moreover, social welfare expenditures are continuing to rise accompanying the aging of the population. Since it had previously not been possible to secure stable funding for these welfare costs, the stability of the social welfare system and fiscal soundness have become serious issues for the Japanese economy.
- To deal with these issues, a reform law was passed in August 2012 to address both social welfare and taxation policies comprehensively. Although conditional on the improvement of the economy, under this law, the outlook is for the consumption tax to be increased to 8% in April 2014, and then to 10% in October 2015. Plans call for using the revenues from this source to fund social welfare expenses, including pensions, healthcare, nursing care, and childrearing.
- Under these difficult fiscal conditions, public investment, which had been on a long-term downtrend, has been on an increasing trend since the beginning of 2012, principally because of expenditures for reconstruction and recovery following the Great East Japan Earthquake, which occurred in March 2011. Government outlays for reconstruction

and recovery during the five-year period through 2015 are expected to be around ¥19 trillion. The third supplementary budget for fiscal 2011, which aimed for full-scale recovery, included an earthquake recovery budget of about ¥9.2 trillion (excluding the portion borrowed temporarily from the national pension fund that must be returned). This supplementary budget, in turn, included ¥1.5 trillion in allocations for public works investment and Great East Japan Earthquake grants (of ¥1.5 billion) for support for building communities in the areas stricken by the earthquake. The full-scale spending of these budgetary allocations has begun, and public investment is expected to be on a rising trend through the end of fiscal 2012.

- Total government expenditures, which comprise government final consumption expenditures and public investment, are expected to continue to rise in fiscal 2012, centering around demand for reconstruction. In fiscal 2013 and thereafter, although government consumption will continue to rise, public investment will begin to decline as demand for recovery work runs its course, and public investment begins to decline. As a result, the pace of increase in overall government expenditures will become more moderate.

#### **(4) Trends in Overseas Economies**

- The pace of recovery in the world economy is slowing. In the United States, the recovery rate is weak, and signs of stagnation are spreading among European economies because of the fiscal and monetary crises. In China also, despite the relaxation of monetary policy, a trend toward deceleration is persisting.
- However, the recovery trend in the world economy is continuing. Although the risk of a downturn remains because of the substantial increase in the seriousness of fiscal crises in Europe, in the United States, the outlook is for the continuation of a moderate recovery. The forecasts for China call for recovery of the economic growth rate to 8% or slightly more in the latter half of this year.
- Japan's exports (on a customs-clearance, volume basis) are expected to level off in the latter half of 2012 because of the deceleration in the Chinese economy and other factors. In 2013 and beyond, however,

exports will rise, as the rate of recovery in the world economy picks up. Japan's imports (on a customs-clearance, volume basis) will be approximately level in the latter half of 2012, reflecting trends in domestic demand, but, after that, are expected to rise again as the domestic economy improves.

- Japan's trade balance in fiscal 2011 moved to a deficit position because of the stagnation in exports and the rise in imports accompanying the increase in oil prices. In fiscal 2012 and thereafter, although exports will show improvement, the trade deficit is expected to continue. The surplus in the income account will continue to rise moderately because of increases in earnings from overseas direct investments. The current account surplus is expected to remain generally level during the period covered by this forecast.

### **3. Forecasts for Prices and Financial Markets**

- Prices of raw materials, including crude oil and metals, are expected to remain at high levels. The increases in grain prices, owing to unseasonable weather conditions around the world, and other factors are pushing some prices upward. 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.
- Since the world economy is decelerating, international commodity prices are expected to weaken for the time being, but they are likely to remain on an upward trend in the medium-to-long term, and, along with this, domestic corporate prices are expected to continue to rise. However, the pace of increase is expected to be moderate because supply capacity in Japan is likely to continue to exceed demand, and domestic producers will be exposed to competition from cheaper imported products. Prices charged to final consumers are expected to move generally within a narrow range because of strong downward pressures.
- Following the collapse of Lehman Brothers Holdings in fall 2008, measures were implemented in Japan to ease monetary policy. In

December 2009, stronger measures were adopted to ease monetary policy because of concerns about the risks of a downturn and continuing deflation. In October 2010, a “comprehensive policy for monetary easing” was implemented to cope with the increasing risk of economic downturns in Japan and overseas. Subsequently, a series of five additional “monetary easing policies” have been implemented. For the time being, the Bank of Japan is expected to continue its stance of maintaining an easy monetary policy.

- 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, since 2010, the yen has appreciated sharply because of the weakness of the euro, due to government fiscal crises in EU countries, and because of the decline in the value of the U.S. dollar, reflecting speculation about additional quantitative monetary easing. Going forward, movements are expected toward the correction of the high value of the yen, but there are many uncertainties surrounding the situation in Europe, and it will be difficult to take unilateral measures.

### Chart 10: Outlook for Fiscal 2012-2013

	FY2009 (actual)	FY2010 (actual)	FY2011 (actual)	Forecast		Yr/Yr, %
				FY2012 (forecast)	FY2013 (forecast)	FY2014 (forecast)
Nominal GDP	-3.2	1.2	-2.0	1.6	1.3	0.8
Real GDP	-2.1	3.3	0.0	2.2	1.6	0.2
Contribution of domestic demand	-2.2	2.5	1.0	2.3	1.5	0.0
Private consumption	1.2	1.6	1.2	1.8	1.3	-0.5
Housing investment	-21.0	2.6	3.8	1.5	2.9	-5.0
Private capital investment	-12.0	3.9	1.1	4.2	3.6	1.2
Contribution of inventory investment	-1.4	0.8	-0.5	0.1	0.1	0.2
Government expenditure	4.2	0.7	2.2	2.4	0.4	0.1
Public investment	11.5	-6.0	2.9	6.0	-1.5	-4.6
Government final consumption expenditure	2.7	2.5	1.9	1.5	0.8	1.2
Contribution of external demand	0.2	0.8	-1.0	-0.2	0.1	0.2
Export of goods and services	-9.8	17.4	-1.4	4.0	3.8	4.6
Import of goods and services	-10.7	12.2	5.6	4.8	3.0	3.2
GDP deflator	-1.2	-2.1	-1.9	-0.6	-0.4	0.7

	FY2009 (actual)	FY2010 (actual)	FY2011 (actual)	Forecast		Yr/Yr, %
				FY2012 (forecast)	FY2013 (forecast)	FY2014 (forecast)
Current account balance (trillion yen)	16.3	16.7	7.6	7.6	8.0	7.8
balance on goods (trillion yen)	6.6	6.5	-3.5	-3.2	-3.2	-4.2
balance on service (trillion yen)	-1.8	-1.3	-1.8	-2.1	-2.0	-1.9
balance on income (trillion yen)	12.6	12.6	14.0	14.1	14.5	15.1
Industrial production	-8.8	9.3	-1.0	1.6	2.9	1.0
Unemployment rate(%)	5.2	5.0	4.5	4.3	4.2	3.9
New housing starts(annualized, ten thousand units)	77.5	81.9	84.1	87.8	89.8	84.2
Domestic corporate goods prices	-5.1	0.4	1.4	-1.1	-0.3	3.0
Consumer prices	-1.7	-0.4	-0.1	-0.2	0.0	2.3
excluding fresh food	-1.6	-0.8	0.0	-0.2	0.1	2.2
Yen/U.S.Dollar	92.8	85.7	79.1	79.0	79.9	81.5
Uncollateralized call rates (O/N) (%)	0.102	0.091	0.077	0.080	0.080	0.080
Newly issued government bond yields (10years) (%)	1.36	1.15	1.05	0.86	1.10	1.20
WTI future price (near month contract, US dollar/barrel)	70.7	83.4	97.3	91.0	94.3	97.3
Dubai crude oil prices (US dollar/barrel)	69.7	84.2	110.1	102.7	98.0	98.0

\* actual=average, forecast=end of period

# Chart 11: Outlook for Calendar 2012-2013

				Forecast		Yr/Yr, %
	CY2009 (actual)	CY2010 (actual)	CY2011 (actual)	CY2012 (forecast)	CY2013 (forecast)	CY2014 (forecast)
Nominal GDP	-6.0	2.3	-2.8	1.8	1.1	1.0
Real GDP	-5.5	4.5	-0.8	2.6	1.5	0.7
Contribution of domestic demand	-4.0	2.8	0.1	2.9	1.5	0.5
Private consumption	-0.7	2.6	0.1	2.6	0.8	0.5
Housing investment	-16.6	-4.2	5.7	0.9	3.1	-2.9
Private capital investment	-14.3	0.8	1.3	4.0	3.5	2.2
Contribution of inventory investment	-1.5	0.8	-0.5	0.1	0.2	0.0
Government expenditure	3.0	1.9	1.0	3.0	0.7	0.1
Public investment	7.0	0.9	-3.5	7.3	0.6	-4.0
Government final consumption expenditure	2.3	2.2	2.0	1.9	0.7	1.1
Contribution of external demand	-1.5	1.7	-0.9	-0.4	0.0	0.2
Export of goods and services	-24.2	24.3	-0.1	3.8	3.1	4.6
Import of goods and services	-15.7	11.2	6.3	5.9	2.6	3.4
GDP deflator	-0.5	-2.2	-2.1	-0.8	-0.4	0.4

				Forecast		Yr/Yr, %
	CY2009 (actual)	CY2010 (actual)	CY2011 (actual)	CY2012 (forecast)	CY2013 (forecast)	CY2014 (forecast)
Current account balance (trillion yen)	13.7	17.9	9.6	6.9	8.3	7.8
balance on goods (trillion yen)	4.0	8.0	-1.6	-3.7	-2.9	-3.9
balance on service (trillion yen)	-1.9	-1.4	-1.8	-2.0	-2.0	-2.0
balance on income (trillion yen)	12.8	12.4	14.0	13.8	14.3	14.9
Industrial production	-21.9	16.4	-2.3	2.7	2.0	1.9
Unemployment rate (%)	4.2	5.1	4.6	4.4	4.2	4.0
New housing starts(annualized, ten thousand units)	78.8	81.3	83.4	87.4	89.6	85.8
Domestic corporate goods prices	-5.3	-0.1	1.5	-0.7	-0.7	2.3
Consumer prices	-1.4	-0.7	-0.3	0.0	-0.2	1.8
excluding freshfood	-1.3	-1.0	-0.2	-0.1	-0.1	1.7
Yen/U.S.Dollar	93.5	87.8	79.8	79.1	79.5	81.1
Uncollateralized call rates (O/N) (%)*	0.105	0.094	0.078	0.080	0.080	0.080
Newly issued government bond yields (10years) (%)	1.34	1.17	1.12	0.87	1.04	1.20
WTI future price (near month contract, US dollar/barrel)	61.8	79.5	95.1	94.2	92.8	96.8
Dubai crude oil prices (US dollar/barrel)	61.8	78.0	106.2	106.7	98.5	98.0

\* actual=average, forecast=end of period

# Chart 12: Outlook for 2012-2013 (Quarterly)

	FY2011				FY2012				FY2013			
	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	1.6	-0.3	1.4	-0.1	0.5	0.1	0.2	0.6	0.4	0.2	0.1
	-4.1	-2.7	-2.4	1.5	2.4	1.5	1.8	0.7	1.3	1.3	1.2	1.3
Real GDP	-0.5	1.8	0.1	1.3	0.3	0.1	0.2	0.5	0.4	0.4	0.5	0.4
	-1.8	-0.6	-0.7	2.9	3.5	1.9	2.1	1.3	1.3	1.6	1.8	1.8
Contribution of domestic demand (Qr/Qr,%)	0.4	1.2	0.8	1.2	0.4	0.1	0.2	0.5	0.3	0.4	0.5	0.4
Private consumption	0.6	1.1	0.7	1.2	0.1	-0.1	0.3	0.2	0.2	0.3	0.6	1.3
	-0.3	0.5	0.9	3.7	3.2	2.0	1.5	0.5	0.6	0.9	1.2	2.3
Housing investment	-3.0	4.8	0.1	-1.6	0.8	0.3	0.7	0.8	1.0	1.2	0.3	-0.8
	3.6	8.3	3.4	0.0	4.3	-0.4	0.1	2.5	2.9	3.8	3.3	1.7
Private capital investment	-0.9	0.3	5.5	-1.6	1.5	0.8	0.5	1.0	0.8	1.0	0.8	1.6
	-1.4	-2.3	4.8	3.0	5.9	6.2	1.2	3.7	3.1	3.3	3.6	4.2
Contribution of inventory investment (Qr/Qr,%)	-0.2	0.3	-0.4	0.4	0.0	-0.1	-0.1	0.2	0.1	0.1	0.1	-0.5
Government expenditure	2.0	0.0	0.1	1.5	0.6	0.6	0.2	0.0	0.1	0.1	0.0	0.0
	1.9	1.6	1.3	3.7	2.3	2.8	3.0	1.5	0.9	0.4	0.1	0.1
Public investment	7.4	-1.1	-1.0	3.6	1.7	2.5	0.6	-0.5	-0.7	-0.7	-0.7	-0.8
	2.1	-0.1	-0.2	8.8	3.9	7.3	8.3	4.3	2.2	-1.2	-2.8	-2.9
Government final consumption expenditure	0.7	0.2	0.4	1.0	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
	1.8	1.7	1.6	2.3	2.0	1.9	1.6	0.7	0.7	0.8	0.8	0.9
Contribution of external demand (Qr/Qr,%)	-0.9	0.7	-0.7	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export of goods and services	-5.8	7.9	-3.6	3.4	1.2	0.0	0.0	0.6	1.6	1.2	1.2	0.8
	-5.2	1.0	-2.5	1.0	8.8	1.3	4.4	1.9	2.3	3.5	4.6	4.7
Import of goods and services	0.0	3.4	1.0	2.2	1.6	0.2	0.0	0.5	1.1	0.8	0.9	1.0
	4.1	5.6	5.9	6.7	8.4	5.1	3.6	2.3	1.8	2.6	3.6	3.9
GDP deflator (Yr/Yr,%)	-2.4	-2.1	-1.8	-1.3	-1.1	-0.4	-0.3	-0.6	0.0	-0.3	-0.6	-0.5

	FY2011				FY2012				FY2013			
	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)*	1.9	2.5	1.7	1.5	1.3	2.0	2.1	2.3	2.0	2.1	2.0	2.1
balance on goods (trillion yen)*	-1.1	-0.2	-1.2	-1.1	-1.2	-0.7	-0.7	-0.5	-0.8	-0.7	-0.9	-0.8
balance on service (trillion yen)*	-0.4	-0.5	-0.6	-0.4	-0.7	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
balance on income (trillion yen)*	3.6	3.5	3.7	3.3	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.7
Industrial production (Qr/Qr, %)	-4.2	5.4	0.4	1.2	-2.2	1.4	0.4	0.5	0.6	0.8	0.8	1.2
(Yr/Yr, %)	-5.8	-0.9	-1.6	4.7	5.1	0.9	0.8	0.0	2.9	2.2	2.7	3.5
Unemployment rate (%)*	4.7	4.4	4.5	4.5	4.4	4.3	4.3	4.3	4.3	4.2	4.1	4.1
New housing starts(annualized, ten thousand units)	82.4	88.3	79.6	86.2	87.8	87.6	87.8	88.4	89.3	90.4	90.5	89.1
Domestic corporate goods prices (Yr/Yr,%)	1.8	2.2	1.1	0.3	-0.8	-1.2	-1.0	-1.4	-1.3	-0.5	0.2	0.5
Consumer prices (Yr/Yr,%)	-0.5	0.1	-0.3	0.3	0.2	-0.2	-0.2	-0.7	-0.4	0.0	0.3	0.3
excluding freshfood (Yr/Yr,%)	-0.2	0.2	-0.1	0.1	-0.1	-0.2	-0.2	-0.3	-0.2	0.0	0.3	0.3
Yen/U.S.Dollar	81.7	77.8	77.4	79.3	80.2	78.5	78.5	78.9	79.3	79.7	80.1	80.5
Uncollateralized call rates (O/N) (%)**	0.067	0.078	0.079	0.083	0.078	0.080	0.080	0.080	0.080	0.080	0.080	0.080
Newly issued government bond yields (10years) (%)	1.18	1.05	1.00	0.98	0.88	0.78	0.85	0.93	1.00	1.08	1.15	1.19
WTI future price (near month contract, US dollar/barrel)	102.6	89.8	94.1	102.9	93.5	90.3	90.0	90.0	92.0	94.0	95.0	96.0
Dubai crude oil prices (US dollar/barrel)	110.6	107.0	106.7	116.2	106.5	102.1	102.0	100.0	98.0	98.0	98.0	98.0

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

- This report is based on information believed to be reliable, but we do not guarantee its accuracy.
- This report is intended only for information and should not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment.
- Use of this report is limited to "reproduction for personal use" or "quotation" as stipulated in the Copyright Law. For such use, please explicitly cite this report as the source of the information or quotation.
- Any use that exceeds the scope of "reproduction for personal use" or "quotation" requires explicit permission for such use from us prior to its use.