June 2013

Forecast for the Japanese Economy in Fiscal 2013 and 2014

— The Trend toward Improvement Will Strengthen, but Overly Optimistic Expectations Will Fade —

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1. Outlook for the Japanese Economy in Fiscal 2013 and Fiscal 2014 -- The Trend toward Improvement Will Strengthen, but Overly Optimistic Expectations Will Fade

(1) Current State of the Economy: The Economy Is Showing Improvement

Announced on June 10, 2013, the real GDP growth rate for the January-March quarter was a high +1.0% compared with the previous quarter (+4.1% at an annualized rate). These data allow us to confirm once more that the economy bottomed out last year, and, since the beginning of this year, has been steadily improving.

The first factor that brought a wider margin of positive growth was the firmness in the household sector. Although income conditions are continuing to be severe, the depreciation of the yen and rise in stock market prices have led to improvement in consumer confidence. As a result, spending on durable goods and services is holding firm and rose 0.9% over the previous quarter for the second consecutive quarter-to-quarter gain. Moreover, private residential investment, as a reflection of the increases thus far in the number of housing starts, rose 1.9% for the fourth consecutive quarterly increase. The second factor bringing the wider margin of positive growth was the improvement in exports, which rose 3.8% in the January-March period, for the fourth consecutive quarterly rise.

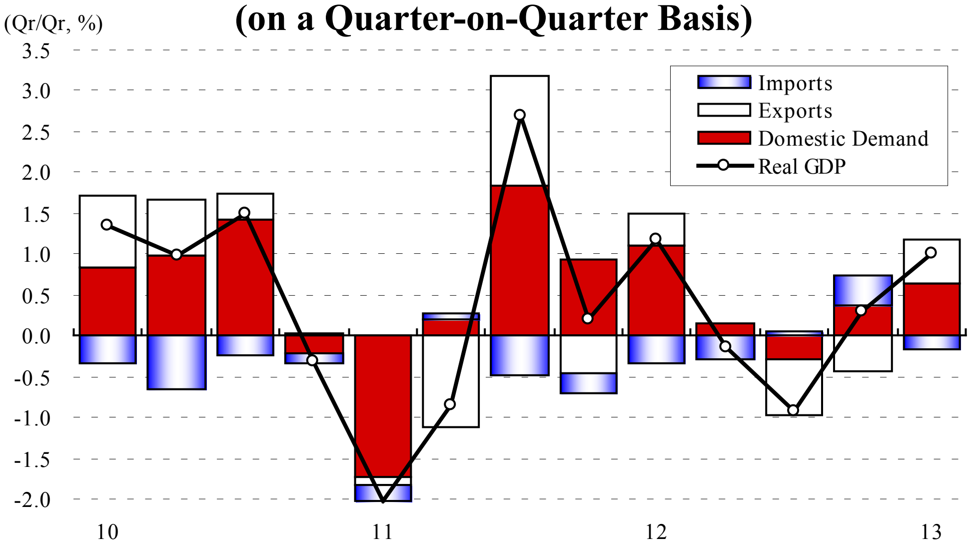
Public investment is continuing to receive a positive boost from demand for recovery in the aftermath of the March 2011 earthquake, and rose 0.4% in the January-March period, the fifth consecutive quarter-to-quarter increase. However, we are beginning to move into the relatively weak period before the effects coming from last year's economic policies emerge, and, as might be expected, the rate of growth is weakening. Government final consumption, however, rose 0.4%, boosted by expenditures for social welfare, thus maintaining a positive trend.

In contrast, corporate private capital investment is relatively weak and showed a decline of 0.3% for the January-March period, the fifth consecutive quarter-to-quarter drop. Even though corporate performance is improving, the recovery in the drive to invest is lagging. However, the margin of decline in capital investment is shrinking, and there are some signs of improvement. In addition, pressures for inventory adjustments, mainly in the basic materials industries, are continuing, and the contribution of inventory investment for the quarter was 0.0 percentage point.

Examination of the contribution to growth of domestic versus external demand shows that the contribution of domestic demand was +0.6 percentage point, the second consecutive quarter of positive contributions owing to the boost provided by the household and government sectors. On the other hand, the contribution of the external sector was +0.4 percent, the fourth consecutive quarter of positive figures, as the high rate of expansion in exports was partially offset by the growth in imports.

The rate of growth in nominal GDP for the quarter was +0.6% (+2.2% at an annualized rate), the second consecutive quarter of positive growth. In part because of the sharp rise in the import price deflator owing to the depreciation of the yen, 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 (versus –0.5% in the previous quarter), representing a larger margin of decline than in the previous quarter. However, even the deflator for domestic demand, after excluding the effects of external demand, showed a larger margin of decline, –0.8%, for the quarter.

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



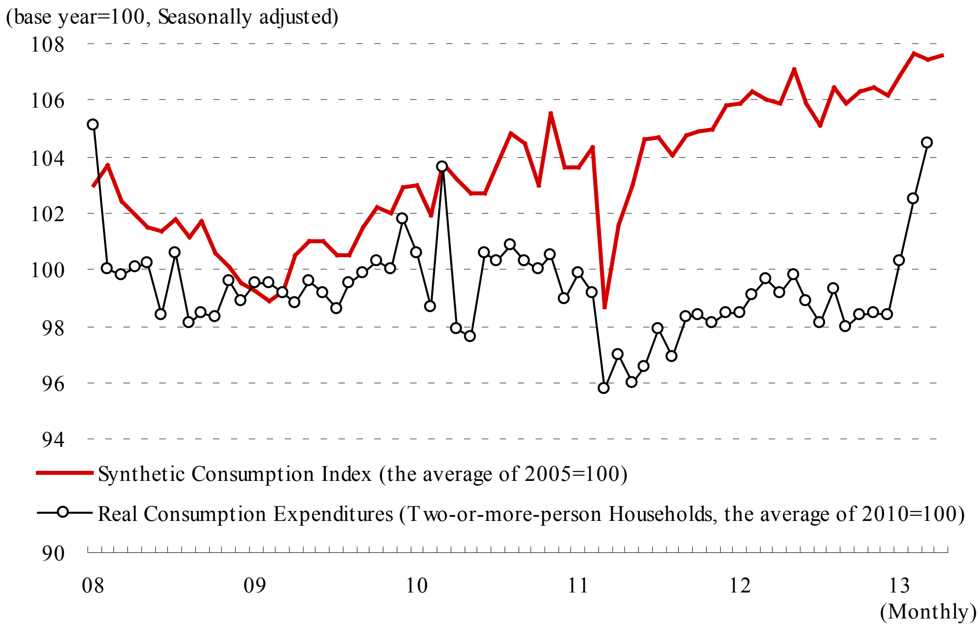
Source: Cabinet Office, "Quarterly Estimates of GDP"

(2) Will Expectations Be Fulfilled? Fading of Expectations Will Be Unavoidable

As a result of the depreciation of the yen and the rise in stock market prices since mid-November 2012, optimism has increased about the future course of the economy, and this became a driving factor for raising the rate of growth in real GDP in the January-March quarter of 2013. However, there are differences in the effects of this rising optimism on the household versus the corporate sector.

First, in the household sector, even though growth in incomes is stagnant, there are continuing trends toward higher consumption along with improvement in consumer confidence. Recent data on real consumption expenditures in the Family Income and Expenditure Survey (covering households of two or more persons), the comprehensive index of consumption published by the Cabinet Office, and other consumption-related economic indicators show steady increases. Expectations of economic recovery are actually playing the role of giving the economy a boost (Chart 2).

Chart 2: Real Consumption Expenditures and Synthetic Consumption Index

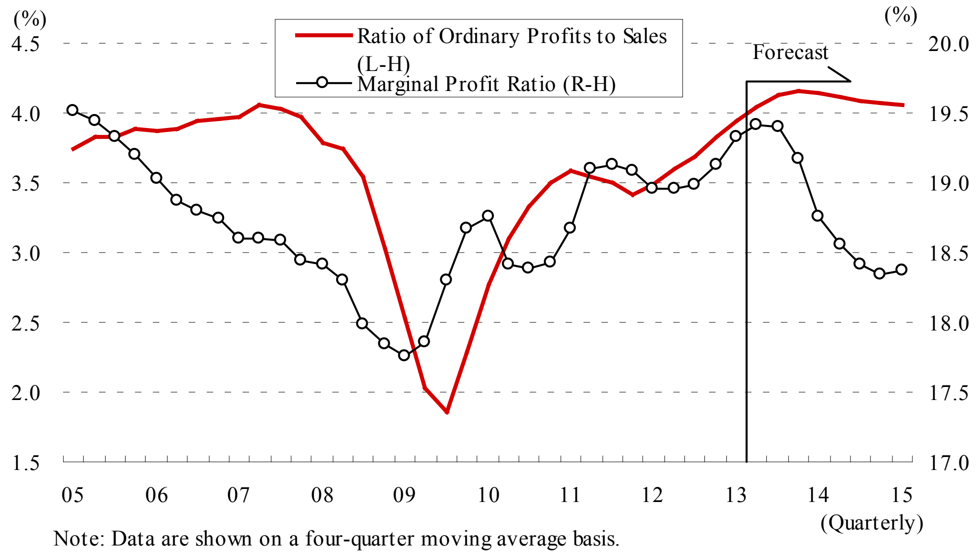


Source: Ministry of Internal Affairs and Communications, "Family Income and Expenditure Survey", Cabinet Office, "Monthly Economic Report"

The depreciation of the yen and the rise in stock prices appear to be what is behind the feelings of optimistic expectation among households. If yen depreciation brings an increase in exports, it is believed likely that domestic production will be firm, corporations will return part of the increase in their profits to pay higher wages and/or increase employment, and, as a result, the economy will steadily move upwards. Anticipating this chain of events, households are increasing their propensity to consume, and, therefore, consumption is rising. In addition, there are expectations that the rise in stock market prices will increase the desire to consume because of the positive effects on consumer behavior when household assets rise in value. Even households that do not have stocks are believed likely to have rising expectations because of their belief that higher stock prices will bring benefits to them in the future, since these higher stock prices seem to be based on expectations of recovery in corporate performance. At any rate, although there are concerns that the depreciation of the yen will bring increases in prices of raw materials, the result is that the disadvantages of lower values of the yen and higher stock prices, viewed overall, will be outweighed by the advantages of a weaker yen and higher equity valuations. In addition, since the political party in power has changed, there are vague expectations that things are going to get better.

On the other hand, corporate performance is actually improving and expectations about the economy are rising, but this has not been reflected in corporate behavior, and, as a result, the decline in private capital investment has continued. With the exception of a few industries, such as automobiles, which are experiencing rapid recovery in performance because of improvement in their exports, there is concern that the decline in the value of the yen will bring increases in costs. The grounds for this thinking seem to lie in a lack of confidence in these industries that they can pass on increases in their costs to customers. It is viewed as likely that, along with the increase in exports accompanying improvement in overseas economies and the surge in demand in advance of the increase in the consumption tax, some industries will make moves to pass on the increases in their costs to their customers, and the outlook is for a rise in sales. However, there is a strong possibility that corporations will find it difficult to pass on the full amount of the increases in their costs, marginal profits will decline, and growth in profits will be restrained. For these reasons, although corporate profits will continue to expand, there will be a limit on the increase in profit ratios (Chart 3). In addition, the impact of the planned increase in the consumption tax in April 2014 is not clear. Consequently, corporations will have to maintain a cautious stance going forward.

Chart 3: Forecast of Marginal Profit Ratio and Ratio of Ordinary Profits to Sales



Note: Data are shown on a four-quarter moving average basis.
Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry"

For exporting corporations, the depreciation of the yen has removed only one of many difficulties, which also include strict labor regulations, high corporate tax rates, strict environmental regulations, the government's delayed response to free trade agreements, and uncertainties regarding electric power supply. The depreciation of the yen is not likely to cause corporations to change their management plans, suspend plans for the development of overseas business operations, and/or bring production facilities back to Japan. There has been no change in the outlook for declines in domestic demand because of the shrinking of the population, and the outlook is for corporations to maintain a cautious stance toward investing in Japan going forward and increasing labor costs.

Thus, even though households are expecting corporations to distribute the benefits of yen depreciation, it does not appear that corporations will respond to these expectations so readily. If we consider this, although it is clear that the economy is improving at the present time, there is a possibility that expectations about future developments have risen to an excessively optimistic level. However, if these rising expectations continue to boost the economy, there should be no problem, and we may be correct in thinking that in actuality private capital investment and employment will continue to rise for the time being. Nevertheless, if, in actual behavior, corporations remain cautious about new investments, levels of employment, and raising wages, the excessively high expectations of households regarding economic recovery will probably cool. Also, as a result of the rise in stock market prices, it appears that the current stock price level may already take account of much of the recovery in corporate performance, which would mean that future price increases will be more moderate. Even if the rise in stock prices should stop and the market level off, we could not rule out some decline in household expectations.

Key points for judging whether expectations about economic recovery will be sustained will be the content and assessment of the government's growth strategy, which is scheduled to be released in June, and the conduct of economic policy after the election for the House of Councilors in July.

(3) Outlook for Fiscal 2013 and Fiscal 2014: As Optimistic Expectations Fade, a Surge in Demand Will Emerge

We prepared this outlook based on the assumption that the consumption tax will be increased, as scheduled, to 8% in April 2014. Regarding the Trans-Pacific Partnership (TPP) negotiations, we have assumed that agreements will not be reached in a short period and that these would have only a slight effect on the economy during the forecast period. We have also assumed that, going forward, serious electric power shortages will be averted by the construction of new thermal power plants, further efforts to conserve power, and increases in corporations' in-house power-generating capacity.

In fiscal 2013, the real GDP growth rate over the previous fiscal year is forecast to continue in the positive range, and the trend toward economic recovery will become more pronounced. In addition to the boost to the economy provided by increases in public investment as part of the government's economic policies and the continuation of recovery in exports along with improvement in overseas economies, domestic demand in the private sector is also expected to remain firm. However, there are concerns that the expectations of economic recovery, which have run ahead of actual conditions, will begin to fade by the middle of the fiscal year, and the pace of recovery in the economy, especially in the household sector, will weaken temporarily. If the cooling off of these expectations is rapid, this will most likely put downward pressures on the economy. Nevertheless, because of the continuation of the improvement in private capital investment in the corporate sector and, near the end of the fiscal year, the surge in demand in advance of the scheduled increase in the consumption tax, the economy is not expected to lose momentum and the trend toward recovery will continue.

Private consumption is expected to continue on an upward trend supported by an end to the slump in automobile sales and firm expenditures on services as consumer confidence improves. However, improvement in the employment and income environment will be delayed, and real incomes will be stagnant as consumer prices begin to rise gradually; as a result, growth in consumption will be marginal. Near the end of the fiscal year, the surge in demand prior to the rise in the consumption tax will emerge, and this will boost consumer spending, especially on consumer durables and other items. Private residential investment will continue on an upward trend as demand rises in anticipation of the consumption tax increase.

Corporate capital investment is forecast to return to a moderate rising trend. Although companies are expected to restrain any aggressive investments in new production capacity, reflecting the improvement in corporate performance, they will continue to make investments for sustaining competitiveness and for the maintenance and replacement of equipment. These investments will be a factor supporting the economy. Corporate performance is expected to show steady gains, with sales and ordinary profit increasing because of the rising expectations of economic recovery and expansion in the value of exports along with the depreciation of the yen. However, since costs will rise because of the decline in the value of the yen, improvement in profitability is expected to reach a ceiling and the margin of gains in profits will diminish.

Public investment will expand at the beginning of the fiscal year, and, although there is a possibility that it may slow temporarily thereafter, the full-scale usage of expenditure allocations under the fiscal 2012 supplementary budget government budget will begin and the rising trend will continue throughout the fiscal year. However, the rate of growth over the previous fiscal year will be relatively moderate because public investment expenditures are already at a high level and because of labor shortages in the construction industry.

Exports are expected to show a stronger recovery trend against a background of moderate recovery in the world economy and the decline in the value of the yen. Nevertheless, Japanese companies will continue to move their production facilities overseas, and the ratio of their overseas production will remain on an increasing trend. Amid these conditions, there is likely to be a limit on the effectiveness of the cheaper yen on expanding the unit volume of exports, thus making it difficult to write a scenario where exports become the driving force for the economy. The increase in the unit volume of exports will be confined to a limited number of products, including automobiles and automotive parts, rather than become a widespread trend across many industries.

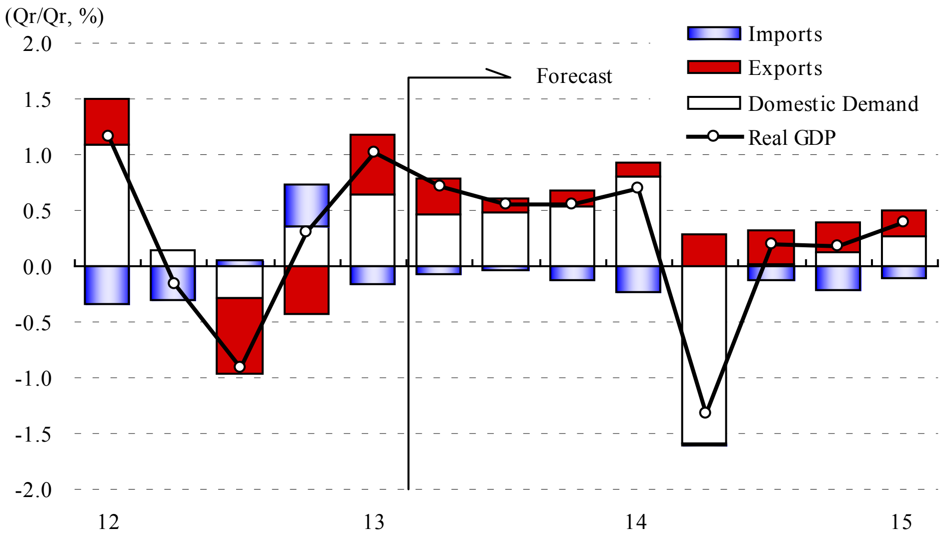
In view of these economic trends, although the index of industrial production will continue to rise, the pace of expansion is expected to be moderate. Our forecast is for the increase in production to remain at about 2.9% in fiscal 2013, compared with a decline of 3.4% in fiscal 2012. Also, while the moderate trend toward improvement in employment conditions will continue, wages are expected to continue to show weakness as companies maintain their policy of restraining increases in personnel costs.

Turning to price levels, the effects of the rise in prices of imports owing to the decline in the value of the yen will gradually work their way downstream, and the outlook is for a gradual strengthening of the upward pressures on prices. Our forecast is for an increase in domestic corporate prices of 1.3% in fiscal 2013, compared with a decline of 1.1% in fiscal 2012. However, it will be difficult for corporations to sufficiently pass on their higher costs to the prices of their products, and we are forecasting that the percentage change in the consumer price index (excluding fresh food) will be only +0.2% in fiscal 2013, compared with –0.2% in fiscal 2012. As real wages continue to stagnate, it is difficult to believe that the expected rate of inflation will lead the way. Therefore, it may be quite difficult to achieve the +2.0% rate of inflation that the Bank of Japan (BOJ) has set as the target of its monetary policy.

In fiscal 2013, the real GDP is expected to grow 2.3% over the previous year. The economy will continue on a recovery trend, and economic conditions are expected to remain relatively firm as the surge in demand near the end of the fiscal year emerges, mainly in private consumption. Growth in exports will rise as recovery in overseas economies progresses, but imports will also rise. As a result, the contribution of the external sector to GDP will be +0.4%, and overall economic growth will be led by domestic demand. After the exclusion of a carryover effect of +0.6%, the rate of growth year on year will be 1.7%, which will be a faster pace than when the economy made a comeback from the earthquake in fiscal 2011.

In addition, the nominal GDP growth rate is expected to rise to +1.8% over the previous year. However, the GDP deflator is forecast to be below the previous year, standing at –0.5%, because of a sharp rise in the import deflator due to the decline in the value of the yen. The domestic demand deflator, after excluding the effects of the external sector, will stand at –0.1% year on year and will not move into the positive range.

Chart 4: Forecast of Contribution Rates to Real GDP Growth by Demand (on a Quarter-on-Quarter Basis)



Source: Cabinet Office, "Quarterly Estimates of GDP"

In fiscal 2014, the outlook is for the rate of growth in real GDP to drop sharply to –0.1%, because of the impact on the household sector of the increase in the consumption tax rate. In addition, the positive effects of public investment, which contributed to boost the economy in fiscal 2013, will run their course, and this will probably be a factor pushing the GDP growth rate downward. Although the corporate sector will sustain its trend toward improvement, the positive effects on profitability of the decline in the value of the yen will diminish, and this is forecast to result in a lack of robustness in the upward trend. On the other hand, as overseas economies continue to expand, export growth will rise, and this will be a factor providing support for the economy. Examination of the contributions of domestic and external demand shows that domestic demand will make a contribution of –0.5%, the first negative figure in five years, while, in contrast, the contribution of external demand will rise to +0.4%.

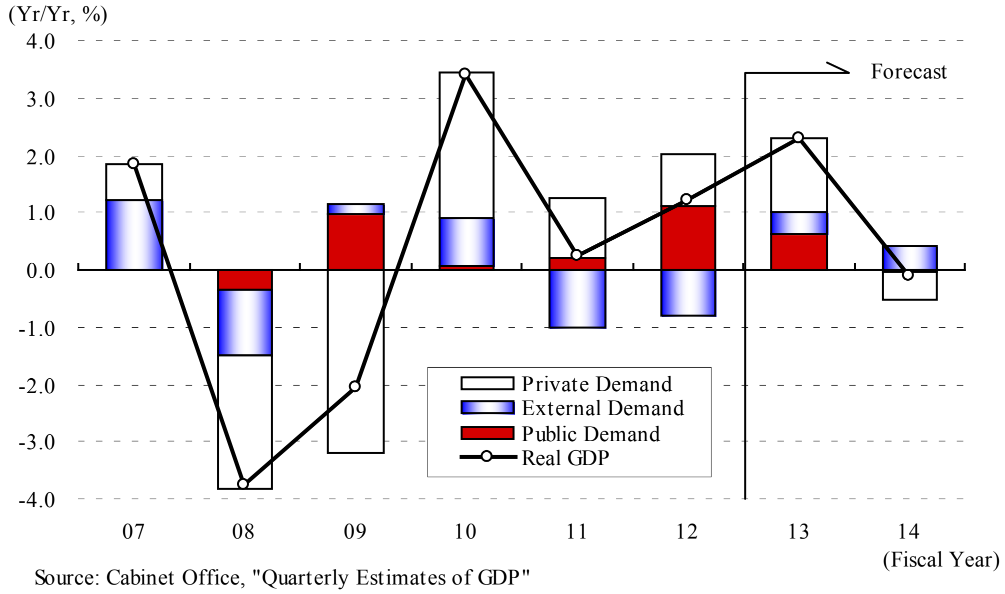
The rate of growth in GDP on a quarter-to-quarter basis is forecast to be negative only in the April-June quarter of 2014, and the economy is expected to avert slipping into a downturn that might have occurred following the increase in the consumption tax. Even so, compared with fiscal 2013, the pace of recovery will slow significantly.

The economy will sustain GDP growth in nominal terms at +1.0% over the previous year, but this will be because of the effect of the consumption tax rise, which is expected to raise the GDP deflator +1.1%.

Compared with developments in 1997, when the consumption tax was last increased, in the case of eco-friendly appliances, such as flat panel TVs, air conditioners, and refrigerators, as well as automobiles, this time much demand has already been satisfied because of previous economic policies to stimulate purchases of these items. Therefore, there is a possibility the surge in demand, followed by a reactionary decline, may not be strong this time. However, some negative impact on household consumption behavior may be unavoidable because of the effects of rising prices and stagnant wages, which have reduced real disposable incomes. As a result, in contrast with fiscal 2013 when private consumption continued to rise as consumers increased their propensity to consume, we are forecasting a 1.1% decline in consumption, the first year-to-year decline since fiscal 2008, six years ago.

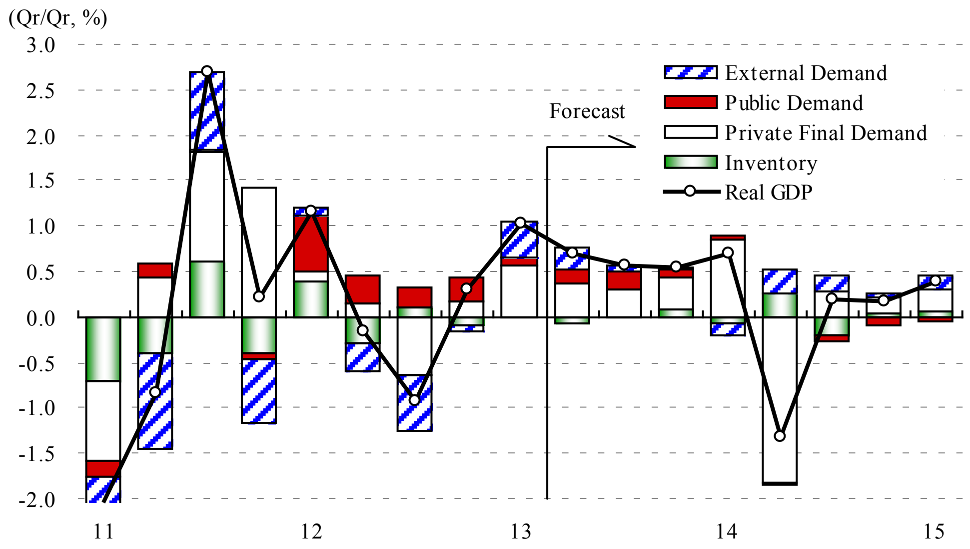
Under these conditions, it will be difficult for inflationary pressures to have an effect on the price level. The consumer price index (excluding fresh food) is forecast to rise 2.3% over the previous fiscal year, but, after excluding the effects of the consumption tax increase, the change will be only +0.3%. At that time, in fiscal 2014, the deadline for reaching the BOJ's target rate of inflation will be approaching, but it appears likely that inflationary pressures will continue to be moderate.

Chart 5: Forecast of Real GDP Growth Rates (on a Year-on-Year Basis)



Source: Cabinet Office, "Quarterly Estimates of GDP"

Chart 6: Forecast of Real GDP Growth Rates (on a Quarter-on-Quarter Basis)



Source: Cabinet Office, "Quarterly Estimates of GDP"

Chart 7: 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 %	1.6 %	0.2 %
FY2012 (actual)	1.6 %	-0.4 %	1.2 %
FY2013 (forecast)	0.6 %	1.7 %	2.3 %
FY2014 (forecast)	0.9 %	-1.0 %	-0.1 %

Source: Cabinet Office, "Quarterly Estimates of GDP"

2. Forecasts of Economic Activity by Sector

(1) Corporations

- Production turned downward after the beginning of fiscal 2012 because of a slowdown in exports accompanying the slower growth in overseas economies and the cutbacks in production by automobile manufacturers owing to the expectation of lower sales after the exhaustion of funds for eco-car subsidies. Another factor leading to restraints on production was a piling up of inventories in materials industries because of the weakness in domestic and external demand. Nevertheless, production had already hit bottom during 2012 and has begun to trend upward. Going forward, the economy is forecast to continue on an upward trend because of recovery in automobile production, the completion of inventory adjustments, improvement in exports along with recovery in overseas economies, and stronger demand for construction materials due to the effects of economic policies.
- Corporate performance, principally in manufacturing, deteriorated following the Great East Japan Earthquake and the sharp appreciation of the yen, and recurring income declined. During the first half of fiscal 2012, income stagnated along with the weakening of economic conditions, but, during the latter half, the outlook is for corporate income to turn upward because of the improvement in the domestic and overseas economies and the weakening of the yen. In fiscal 2013, income will continue to rise along with the increase in sales, but since corporations will not be able to sufficiently pass on higher costs resulting from the weaker yen to their selling prices, recovery in profit ratios will be marginal.
- Since a certain minimum level of capital investment is required to maintain and replace the existing capital stock as well as to increase efficiency, this will provide support for private capital investment. However, as the trends toward the demographic aging of the population and the decline in the birthrate remain unchanged, corporations are adopting a cautious stance toward making capital investments in Japan. This has brought a shift in corporate investment behavior toward investing in overseas production locations in the emerging and other

countries where demand is expected to increase. For this reason, although the yen has depreciated from previous high levels, a recovery of capital investment in Japan is not expected. Reflecting recovery in corporate performance, investment is forecast to trend upward in fiscal 2013, but the margin of increase will be relatively small.

(2) Households

- While labor conditions are showing moderate improvement, on the other hand, the income environment continues to be stagnant. As corporations are still continuing to hold the line on personnel costs, growth in incomes is expected to remain stagnant. When the consumption tax rate is raised, companies are not expected to raise wages to compensate for the higher taxes; so, real wages are likely to show a significant decline.
- As a result of the improvement in consumer confidence, private consumption continues to be firm. Looking ahead, although there may be some periods of temporary adjustments, after the surge in consumption prior to the increase in the consumption tax, followed by a reactionary decline in demand thereafter, the outlook is for consumption to maintain a rising trend as the economy basically continues to improve. However, as incomes will remain stagnant, the rise in consumption will only be moderate.
- With the economy continuing to show improvement, against a background of rising stock prices and extremely low interest rates (with the anticipation that interest rates may rise in the future), the number of new housing starts remains firm. Going forward, as the surge in demand set off by the upcoming increase in the consumption tax, which is already beginning to emerge, arrives in full force, this may boost the number of housing starts even further. There is also a possibility that the expansion of tax relief on housing loans and other measures to decrease the burden on households may have a diluting effect on the magnitude of the upward surge and downward reaction.

(3) Government

- Since the collapse of Lehman Brothers Holdings, the implementation of a series of economic measures designed to deal with the economic downturn combined with a major drop in tax revenues amid the deterioration of economic conditions has led to a substantial expansion of the government's fiscal deficit as well as a marked rise in the balance of government debt outstanding. Moreover, social welfare expenditures have continued to rise against the backdrop of demographic aging, but the government has been unable to secure stable funding for those welfare costs. The dual objectives of realizing fiscal soundness and making the social welfare system stable have become major concerns for the Japanese economy.
- To address these issues, a reform law was passed in August 2012 to deal with both social welfare and taxation policies comprehensively. With the condition that the economy improves, this law calls for increasing the consumption tax rate to 8% in April 2014 and then to 10% in October 2015. Plans call for using the revenues from this source to strengthen and expand social welfare programs, including those related to pensions, healthcare, nursing care, and child rearing.
- To provide for reconstruction and recovery in the aftermath of the March 2011 earthquake, the government has passed and implemented supplementary budgets for disaster recovery, and this has brought an increase in public investment, especially in the areas affected by the earthquake.
- The administration of Prime Minister Shinzo Abe has announced that one of his principal policy objectives is to enable the economy to escape from deflation, and that one of his main policies to accomplish this will be to pursue "a flexible public finance policy." In the supplementary budget for fiscal 2012, the government included a major increase in public investment for the purpose of preventing and moderating the effects of disasters. For this reason, public investment is expected to continue to rise in fiscal 2013. In 2014, the positive effects of these measures on the economy will run their course, and public investment is likely to begin to decline.

(4) Trends in Overseas Economies

- The world economy is experiencing moderate growth. The U.S. economy is continuing to expand, driven by private consumption. In China, although growth has slowed moderately, the economy is maintaining economic growth just above 7% at an annual rate. On the other hand, although the European economies have moved out of the worst phases of their downturn, negative growth is continuing because of stagnant demand in domestic markets.
- Going forward, the outlook is for moderate growth in the world economy. The U.S. economy is expected to continue a moderate recovery, driven mainly by private consumption and private capital investment. In China also, exports are expected to strengthen gradually and be a driving force for the economy. The recovery trends in the United States and China will bring the benefits of accelerating exports, and growth in the European economies will become positive again. As a result, these countries will return to a growth path, albeit moderate.
- Japan's exports (on a customs-clearance, volume basis) are forecast to move onto a rising trend going forward as the world economy shows moderate expansion. Japan's imports (on a customs-clearance, volume basis) are expected to trend upward along with the recovery in the domestic economy.
- Japan's trade balance (on an international balance of payments basis) in fiscal 2011 moved to a deficit position, and the size of the deficit is expected to increase in fiscal 2012. Looking ahead, exports and imports in yen terms are expected to rise because of the depreciation in the value of the yen, and the trade balance will continue to show a large deficit. However, since the surplus in the income account will expand, the surplus in the current account is forecast to rise.

3. Forecasts for Prices and Financial Markets

- The slowing of the Chinese economy has put the brakes on the one-way increase in raw material prices, and these prices, especially crude oil, have topped out at high levels. Against the backdrop of expansion in the demand as well as the supply capacities of China and other newly emerging economies, it is likely that upstream inflationary pressures on resources and other commodities as well as downstream deflationary pressures on the prices of industrial and other products will persist over the medium term.

- Domestic corporate prices are beginning to show signs of growing inflationary pressures following the depreciation of the yen, although the declining trend in prices of machinery and equipment remains unchanged. Consumer prices are almost certain to rise over the levels of the previous year as inflationary pressures are rising steadily along with increasing prices, mainly energy, including electric power and gasoline. However, consumers are continuing to search for low-priced bargains, and the downward pressures on prices paid by final consumers remain unchanged, thereby holding price increases to marginal levels.
- Since 2008, Japan has moved ahead with measures to ease monetary policy. In October 2010, a "comprehensive policy for monetary easing" was implemented to cope with the increasing risk of economic downturns in Japan and overseas, and, subsequently, additional measures were implemented to ease monetary policy. Then, in January 2013, a "2% inflation target" was introduced, and the Abe administration and the BOJ issued a joint communique. In April, the BOJ made the decision to implement a policy of "quantitative and qualitative monetary easing." For the foreseeable future, the BOJ is expected to continue its stance of maintaining an easy monetary policy.
- Long-term interest rates are expected to remain at low levels against a background of stable and low short-term rates. However, there is a possibility that the recovery in overseas economies and deterioration in government fiscal structures around the world may place upward pressure on long-term interest rates. In foreign exchange markets, beginning in 2010, the yen appreciated substantially against a background of financial crises in Europe and additional monetary easing in the United States. Thereafter, following the advent of the administration of Prime Minister Abe, dramatic measures to ease monetary conditions have been adopted, and there has been a rapid downward correction in the value of the yen.

Chart 14: Outlook for Fiscal 2013-2014

Forecast　Yr/Yr、%

	FY2009 (actual)	FY2010 (actual)	FY2011 (actual)	FY2012 (actual)	FY2013 (forecast)	FY2014 (forecast)
Nominal GDP	-3.2	1.3	-1.4	0.3	1.8	1.0
Real GDP	-2.0	3.4	0.2	1.2	2.3	-0.1
Contribution of domestic demand	-2.2	2.6	1.3	2.0	1.9	-0.5
Private consumption	1.2	1.7	1.5	1.6	1.3	-1.1
Housing investment	-21.0	2.2	3.7	5.3	7.4	-3.5
Private capital investment	-12.0	3.6	4.1	-1.4	2.4	0.9
Contribution of inventory investment	-1.4	1.0	-0.5	0.0	0.0	0.1
Government expenditure	4.2	0.4	0.9	4.4	2.4	-0.1
Public investment	11.5	-6.4	-2.2	15.0	6.1	-5.7
Government final consumption expenditure	2.7	2.0	1.4	2.2	1.5	1.4
Contribution of external demand	0.2	0.8	-1.0	-0.8	0.4	0.4
Export of goods and services	-9.7	17.2	-1.6	-1.3	3.6	5.6
Import of goods and services	-10.7	12.0	5.3	3.8	0.9	2.7
GDP deflator	-1.2	-2.0	-1.7	-0.9	-0.5	1.1

Forecast　Yr/Yr、%

	FY2009 (actual)	FY2010 (actual)	FY2011 (actual)	FY2012 (actual)	FY2013 (forecast)	FY2014 (forecast)
Current account balance (trillion yen)	16.3	16.7	7.6	4.3	7.0	8.4
balance on goods (trillion yen)	6.6	6.5	-3.5	-6.9	-7.0	-6.2
balance on service (trillion yen)	-1.8	-1.3	-1.8	-2.6	-2.1	-1.9
balance on income (trillion yen)	12.6	12.6	14.0	14.7	17.4	18.0
Industrial production	-8.8	9.3	-1.0	-3.3	2.9	1.0
Unemployment rate(%)	5.2	5.0	4.5	4.3	4.1	3.9
New housing starts(annualized, ten thousand units)	77.5	81.9	84.1	89.3	90.7	85.9
Domestic corporate goods prices	#REF!	0.4	1.4	-1.1	1.3	3.1
Consumer prices	-1.7	-0.4	-0.1	-0.3	0.2	2.3
excluding freshfood	-1.6	-0.8	0.0	-0.2	0.2	2.3
Yen/U.S.Dollar	92.8	85.7	79.1	83.1	99.7	102.5
Uncollateralized call rates (O/N) (%)*	0.102	0.091	0.077	0.082	0.078	0.080
Newly issued government bond yields (10years) (%)	1.36	1.15	1.05	0.78	0.85	0.97
WTI future price (near month contract, US dollar/barrel)	70.7	83.4	97.3	92.1	96.0	97.0
Dubai crude oil prices (US dollar/barrel)	69.7	84.2	110.1	107.1	101.0	98.0

* actual=average, forecast=end of period

Chart 15: Outlook for Calendar 2013-2014

Forecast

Yr/Yr、%

	CY2009 (actual)	CY2010 (actual)	CY2011 (actual)	CY2012 (actual)	CY2013 (forecast)	CY2014 (forecast)
Nominal GDP	-6.0	2.4	-2.5	1.1	1.1	1.4
Real GDP	-5.5	4.7	-0.6	1.9	1.7	0.8
Contribution of domestic demand	-4.0	2.9	0.3	2.8	1.6	0.4
Private consumption	-0.7	2.8	0.4	2.3	1.3	-0.4
Housing investment	-16.6	-4.5	5.5	3.0	8.5	-0.8
Private capital investment	-14.3	0.3	3.3	2.1	-1.1	3.0
Contribution of inventory investment	-1.5	1.0	-0.7	0.0	-0.1	0.1
Government expenditure	3.0	1.6	-0.2	4.2	2.9	0.8
Public investment	7.0	0.7	-7.5	12.5	8.5	-1.5
Government final consumption expenditure	2.3	1.9	1.4	2.4	1.6	1.4
Contribution of external demand	-1.5	1.7	-0.9	-0.9	0.2	0.3
Export of goods and services	-24.2	24.4	-0.4	-0.1	1.5	5.3
Import of goods and services	-15.7	11.1	5.9	5.4	0.3	2.8
GDP deflator	-0.5	-2.2	-1.9	-0.9	-0.6	0.6

Forecast

Yr/Yr、%

	CY2009 (actual)	CY2010 (actual)	CY2011 (actual)	CY2012 (actual)	CY2013 (forecast)	CY2014 (forecast)
Current account balance (trillion yen)	11.1	17.9	9.6	4.8	6.6	7.7
balance on goods (trillion yen)	4.6	8.0	-1.6	-5.8	-7.1	-6.8
balance on service (trillion yen)	-1.6	-1.4	-1.8	-2.5	-2.0	-2.0
balance on income (trillion yen)	8.9	12.4	14.0	14.3	16.8	17.8
Industrial production	#REF!	12.0	-2.3	-0.3	-0.3	2.4
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	88.3	90.6	87.7
Domestic corporate goods prices	#REF!	0.3	1.5	-0.9	1.1	2.5
Consumer prices	-1.4	-0.7	-0.3	0.0	-0.1	1.8
excluding freshfood	-1.3	-1.0	-0.2	-0.1	0.0	1.8
Yen/U.S.Dollar	93.5	87.8	79.8	79.8	97.7	101.8
Uncollateralized call rates (O/N) (%)*	0.104	0.094	0.078	0.083	0.079	0.080
Newly issued government bond yields (10years) (%)	1.37	1.17	1.12	0.85	0.80	0.95
WTI future price (near month contract, US dollar/barrel)	68.0	79.5	95.1	94.2	95.3	97.0
Dubai crude oil prices (US dollar/barrel)	67.6	78.0	106.2	109.1	103.1	98.5

* actual=average, forecast=end of period

Chart 16: Outlook for 2013-2014 (Quarterly)

Forecast

Qr/Qr、%
Yr/Yr、%

	FY2012				FY2013				FY2014			
	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	-0.5	-1.1	0.2	0.6	0.9	0.6	0.2	0.3	0.1	0.5	0.2	-0.1
	2.9	-0.6	-0.3	-0.6	0.5	2.2	2.2	2.2	1.3	1.2	1.0	0.5
Real GDP	-0.2	-0.9	0.3	1.0	0.7	0.6	0.5	0.7	-1.3	0.2	0.2	0.4
	3.9	0.2	0.4	0.4	1.1	2.7	2.7	2.7	0.6	0.3	-0.5	-0.8
Contribution of domestic demand (Qr/Qr,%)	0.1	-0.3	0.4	0.6	0.5	0.5	0.5	0.8	-1.6	0.0	0.1	0.3
Private consumption	0.2	-0.4	0.4	0.9	0.2	0.1	0.2	0.9	-2.2	0.3	0.2	0.2
	3.1	1.3	1.0	1.2	1.1	1.6	1.4	1.3	-1.1	-0.8	-0.8	-1.5
Housing investment	2.3	1.5	3.5	1.9	2.0	1.5	0.8	0.6	-2.1	-2.4	-1.2	-0.6
	4.7	1.5	5.8	9.4	9.2	9.3	6.3	4.9	0.8	-3.1	-5.0	-6.2
Private capital investment	-0.2	-3.3	-1.5	-0.3	1.4	1.5	1.8	2.2	-3.4	1.1	0.9	1.2
	7.1	1.5	-7.1	-5.2	-3.6	1.0	4.5	7.0	2.1	1.6	0.8	-0.3
Contribution of inventory investment (Qr/Qr,%)	-0.3	0.1	-0.1	0.0	-0.1	0.0	0.1	-0.1	0.2	-0.2	0.0	0.1
Government expenditure	1.3	0.9	1.0	0.4	0.6	0.8	0.4	0.2	0.0	-0.3	-0.4	-0.2
	3.5	4.4	5.9	3.9	2.8	2.7	2.1	2.0	1.3	0.3	-0.7	-1.1
Public investment	6.3	3.2	2.7	0.4	1.4	2.6	1.0	-0.5	-2.0	-2.7	-2.6	-2.6
	11.3	15.1	19.6	13.1	8.3	7.5	5.1	4.6	1.2	-4.0	-7.7	-9.5
Government final consumption expenditure	0.2	0.4	0.7	0.4	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.4
	2.2	2.3	2.7	1.6	1.8	1.7	1.3	1.3	1.4	1.4	1.4	1.4
Contribution of external demand (Qr/Qr,%)	-0.3	-0.6	-0.1	0.4	0.2	0.1	0.0	-0.1	0.3	0.2	0.0	0.1
Export of goods and services	0.0	-4.4	-2.9	3.8	2.3	0.8	1.0	0.7	1.8	1.8	1.5	1.4
	9.2	-4.8	-5.0	-3.5	-1.3	3.8	7.4	4.9	5.1	6.1	5.0	6.0
Import of goods and services	1.8	-0.3	-2.2	1.0	0.5	0.3	0.8	1.3	0.1	0.7	1.1	0.6
	9.1	5.2	1.1	0.3	-0.6	-1.0	2.5	2.8	2.5	2.5	3.2	2.5
GDP deflator (Yr/Yr,%)	-1.0	-0.8	-0.7	-1.1	-0.5	-0.4	-0.5	-0.5	0.7	0.9	1.5	1.3

Forecast

Yr/Yr、%

	FY2012				FY2013				FY2014			
	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)*	1.5	1.0	1.1	0.7	1.6	1.6	1.9	1.8	2.1	2.0	2.0	2.3
balance on goods (trillion yen)*	-1.1	-1.7	-1.6	-2.5	-2.0	-1.7	-1.5	-1.8	-1.5	-1.6	-1.7	-1.4
balance on service (trillion yen)*	-0.7	-0.8	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
balance on income (trillion yen)*	3.6	3.7	3.6	3.9	4.5	4.2	4.3	4.4	4.4	4.4	4.5	4.6
Industrial production (Qr/Qr、%)	-2.0	-4.2	-1.9	2.2	1.6	0.8	1.5	2.0	-2.0	0.3	0.5	0.6
(Yr/Yr、%)	5.3	-4.6	-5.9	-7.7	-2.4	2.5	6.6	4.9	2.3	1.7	1.0	-1.1
Unemployment rate (%)*	4.4	4.3	4.2	4.2	4.2	4.1	4.1	4.1	4.0	4.0	3.9	3.9
New housing starts(annualized, ten thousand units)	87.6	87.6	91.8	90.4	89.8	90.7	91.5	91.1	88.7	86.3	84.7	84.2
Domestic corporate goods prices (Yr/Yr,%)	-1.1	-2.0	-0.9	-0.3	0.8	2.0	1.8	0.6	2.9	3.1	3.1	3.2
Consumer prices (Yr/Yr,%)	0.2	-0.4	-0.2	-0.6	-0.1	0.2	0.2	0.3	2.4	2.4	2.3	2.2
excluding freshfood (Yr/Yr,%)	-0.1	-0.3	-0.1	-0.3	0.1	0.2	0.2	0.2	2.4	2.3	2.2	2.1
Yen/U.S.Dollar	80.2	78.6	81.2	92.4	99.1	99.2	100.0	100.7	101.4	102.1	102.8	103.5
Uncollateralized call rates (O/N) (%)**	0.078	0.085	0.084	0.082	0.073	0.080	0.080	0.080	0.080	0.080	0.080	0.080
Newly issued government bond yields (10years) (%)	0.88	0.79	0.75	0.70	0.74	0.87	0.89	0.92	0.94	0.96	0.98	1.01
WTI future price (near month contract, US dollar/barrel)	93.5	92.2	88.2	94.4	94.2	96.0	96.6	97.0	97.0	97.0	97.0	97.0
Dubai crude oil prices (US dollar/barrel)	106.5	106.1	107.4	108.3	101.2	102.1	100.9	99.7	98.8	97.9	97.6	97.5

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