August 2013

Forecast for the Japanese Economy in Fiscal 2013 and 2014

— Continued Trend toward Improvement, but Temporary Slackening of Growth —

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1. Outlook for the Japanese Economy in Fiscal 2013 and Fiscal 2014 -- Continued Trend toward Improvement, but Temporary Slackening of Growth--

(1) Current State of the Economy: The Economy Is Continuing to Show Improvement

Announced on August 12, 2013, the real GDP growth rate for the April–June quarter was +0.6% compared with the previous quarter (+2.6% at an annualized rate), the third consecutive quarter of growth. Although the rate of growth has slackened since the January–March quarter (+1.0% compared with the previous quarter, subsequently adjusted downward to +0.9%), these data allow us to confirm once more that the economy bottomed out last year and has been steadily improving since the beginning of this year.

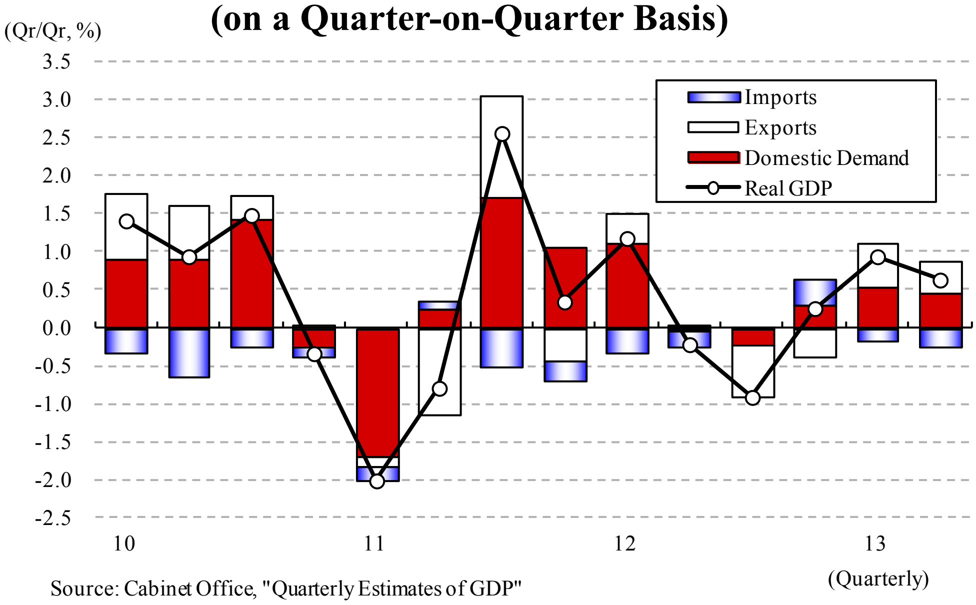
The first factor that sustained growth is the strength of private consumption. Owing to such factors as a rise in employee compensation (+0.4% from the previous quarter in real terms) primarily due to a rise in the number of employees, improving consumer confidence, and extremely hot weather in June, private consumption showed a robust 0.8% rise from the previous quarter, pushing up the overall rate of increase in GDP (the contribution to quarter-on-quarter growth was +0.5 percentage point). Looking at individual consumption goods categories, one finds that spending on durable goods and services has continued to rise robustly since the January–March period. The second factor, reflecting the benefits of economic countermeasures and other factors, is the steady rise in public-sector demand as seen in the continued growth of public investment, up 1.8% from the previous quarter, and the high rate of growth in government final consumption, up 0.8% (the contributions of public investment and government final consumption for the quarter were +0.1 and +0.2 percentage points, respectively, and public-sector demand as a whole had a contribution of +0.3 percentage point). The third factor is the robust growth in exports, which were up 3.0% from the previous quarter, reflecting the recovery of overseas economies.

In contrast, corporate capital investment was down 0.1% from the previous quarter, the sixth consecutive quarter of decline. However, the margin of decline was small—comparable to the 0.2% decline in the January–March period—and it can be said that the trend of decline may have run its course, as the rate of change is now approaching zero. In addition, housing investment was down 0.2% from the previous quarter—a small decrease and the first such decrease in five quarters—but, based on the current increase seen in housing construction starts, there appears to be a high probability that the rate of quarter-on-quarter change will return to positive figures again. Furthermore, the contribution of inventory investment for the quarter was –0.3 percentage point, a rather large negative figure.

Examination of the contribution to growth of domestic versus external demand shows that the contribution of domestic demand was +0.5 percentage point, the third consecutive quarter of positive contributions. This reflected the contribution of private-sector demand, which was restrained to +0.2 percentage point, and the contribution of public-sector demand, which has risen smoothly and reached +0.3 percentage point. On the other hand, the contribution of the external sector was +0.2 percentage point, the second consecutive quarter of positive figures, as the high rate of expansion in exports exceeded the rate of growth in imports (up 1.5%).

The rate of growth in nominal GDP for the quarter was +0.7% (+2.9% at an annualized rate), the third consecutive quarter of positive growth. In addition, the GDP deflator, which reflects overall price trends in the economy as a whole, was 0.3% below the same quarter of the previous year (up 0.1% compared to the previous quarter), representing a decrease in the margin of decline.

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



Source: Cabinet Office, "Quarterly Estimates of GDP"

(2) Temporary Slackening of Growth Prior to Pre-Tax-Hike Demand Surge

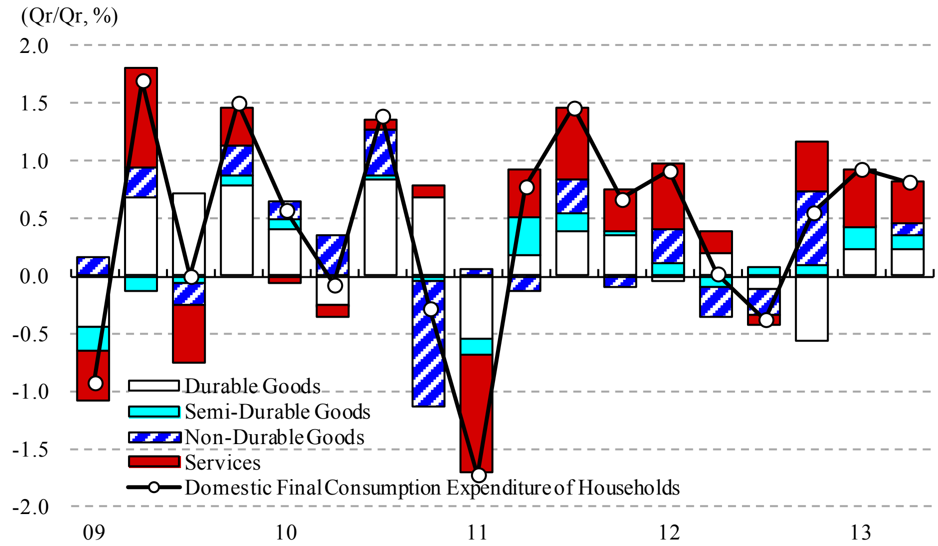
Going forward from the July–September 2013 period, there fundamentally appears to be a high possibility of maintaining period-on-period increases in real GDP. This is because of such factors as: (1) the period-on-period increase in public investment accompanying the continued implementation of economic countermeasures introduced last fiscal year; (2) expectations that the trend of period-on-period increases in exports will be sustained against the backdrop of recovery in overseas economies; (3) projections that, although capital investment is not currently strong, period-on-period increases in capital investment can be expected against the backdrop of improvement in corporate performance; and (4) the rise in housing construction starts is highly likely to bring a shift to period-on-period increases in housing investment.

Moreover, after factoring in expectations of a surge in demand toward the end of the current fiscal year in advance of the increase in the consumption tax, it is expected that the rate of growth in real GDP will be still higher. Prior to the demand surge, however, there appears to be a possibility of a temporary slackening of growth.

This is mainly owing to private consumption. Currently, private consumption is rising robustly, particularly with respect to services and durable goods (Chart 2), and an additional surge of pre-tax-hike demand is anticipated toward the end of the fiscal year. The improvement in the income environment has been restrained, however, and a protraction of this current trend will present challenges. If the benefits from improvement in consumer confidence peter out, it would not be surprising to see the emergence of movements toward adjustment.

Looking at general trends in consumption propensities as seen in the Family Income and Expenditure Survey (workers' households), one finds that consumption propensities are at considerably higher levels than in the past, and this explains the persistence of a situation in which consumption increases are greater than income increases (Chart 3). It is thought that a sharp improvement in the income environment is unlikely going forward, and it is therefore projected that the momentum of private consumption will slacken.

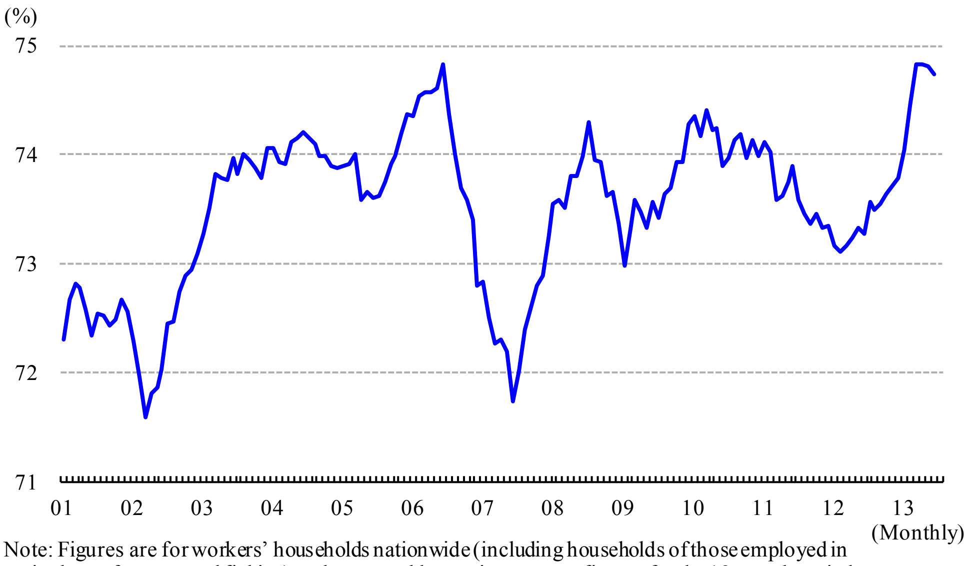
Chart 2: Domestic Final Consumption Expenditure of Households by Goods



Source: Cabinet Office, "Quarterly Estimates of GDP"

Background factors contributing to the rise in consumption propensities are believed to include improvement in consumer confidence and the wealth effect stemming from rising stock prices. Since consumer confidence is progressively weakening following a sharp improvement, however, the trend of stock price increases is peaking out, and there is a possibility that these trends will restrain consumption behavior going forward.

Chart 3: Propensity to Consume (Workers' Households)



Note: Figures are for workers' households nationwide (including households of those employed in agriculture, forestry, and fishing) and are monthly moving-average figures for the 12-month period through the month attributed to the figures.
Source: Ministry of Internal Affairs and Communications, "*Family Income and Expenditure Survey*"

If, amid these situations, Japan's consumption tax rate is increased in April 2014, the reactionary decline in demand following the pre-tax-hike surge in demand will inevitably cause a sudden and large adjustment in private consumption. Income trends will play a large role in determining the degree of subsequent recovery from that slump, but a rise in wages commensurate with the rise in taxes cannot be expected, so real wages are likely to be considerably reduced. In view of this, it appears likely that the rise in private consumption during fiscal 2014 will be restrained to a gradual rate.

In addition, the latest real GDP growth rate figure will be among the factors determining the final decision on whether to increase the consumption tax rate from April 2014. Although the growth rate has slackened since the January–March period, the latest quarter-on-quarter growth rate corresponds to an annualized growth rate of 2.6%, indicating that Japan's economic recovery is continuing, and it is believed that this situation will not present an obstacle to a decision to raise the tax rate. A postponement of the tax increase despite such positive conditions would lead many observers to conclude that the government is not seriously addressing the task of fiscal reconstruction, and there is a risk that such an opinion trend could cause turmoil in financial markets.

In light of all these considerations, we prepared this outlook based on the assumption that the consumption tax rate will be increased, as scheduled, to

8% in April 2014. In addition, in line with the Abe administration's declared goal of making at least some small degree of progress toward targets for improving the primary balances of the central and regional governments during fiscal 2015, we have assumed that the consumption tax rate will be elevated to 10% in October 2015.

(3) Outlook for Fiscal 2013 and Fiscal 2014: Raising the Consumption Tax Rate

We prepared this outlook based on the assumption that the consumption tax rate will be increased, as scheduled, to 8% in April 2014, and that, so long as the economy is continuing to recover, the consumption tax rate will be raised to 10% in October 2015. In addition, while there is a possibility that additional economic countermeasures will be implemented at the time of the consumption tax rate increases, we are at this point not factoring in such prospective additional economic countermeasures. We have also assumed that any agreements reached in the Trans-Pacific Partnership (TPP) negotiations would have only a slight effect on the economy during the forecast period and that serious electric power shortages will continue to be averted going forward.

In fiscal 2013, the quarter-on-quarter real GDP growth rate is expected to continue to be positive, and the trend toward economic recovery is expected to persist. 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, private sector domestic demand is 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, 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 a shift to improvement in private capital investment in the corporate sector and a surge in demand near the end of the fiscal year in advance of the scheduled increase in the consumption tax,

the economy is not expected to lose momentum, and it is anticipated that the trend toward recovery will continue.
There is a possibility that private consumption, partially as a reaction to high rates of growth seen to date, will show a temporary shift to decline, but a surge in demand prior to the rise in the consumption tax is expected to emerge near the end of the fiscal year, and it is anticipated that this will boost consumer spending, especially on consumer durables and other items.
Private residential investment is projected to 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 continue restraining any aggressive investments in new production capacity, reflecting improvement in corporate performance, they are projected to continue making investments for sustaining competitiveness and for the maintenance and replacement of equipment. It is anticipated that these investments will be a factor supporting the economy. Corporate performance is expected to improve smoothly, with rising expectations of economic recovery boosting sales and ordinary profit and the depreciation of the yen supporting growth in the value of exports. The margin of improvement in the profitability of manufacturing companies is projected to be particularly large. However, since costs will rise because of the decline in the value of the yen, improvement in profitability is expected to reach a ceiling.
Regarding public investment, the full-scale use of expenditure allocations under the fiscal 2012 supplementary government budget is projected to support a continued trend of increase throughout the fiscal year. However, the rate of growth over the previous fiscal year is expected to be relatively moderate because of such factors as the already high level of public investment expenditures and problems stemming from labor shortages in the construction industry. It is anticipated that the upward push to the economy from public investment will progressively diminish toward the end of the fiscal year.
Exports are expected to continue a trend of recovery 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, so export growth is expected to be restrained to a relatively gradual rate. It is anticipated that the increase in export volume may be confined to a limited number of products, including automobiles and automotive parts, rather than becoming 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 be restrained to about 1.5% in fiscal 2013, compared with a decline of 3.0% 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 are expected to 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.

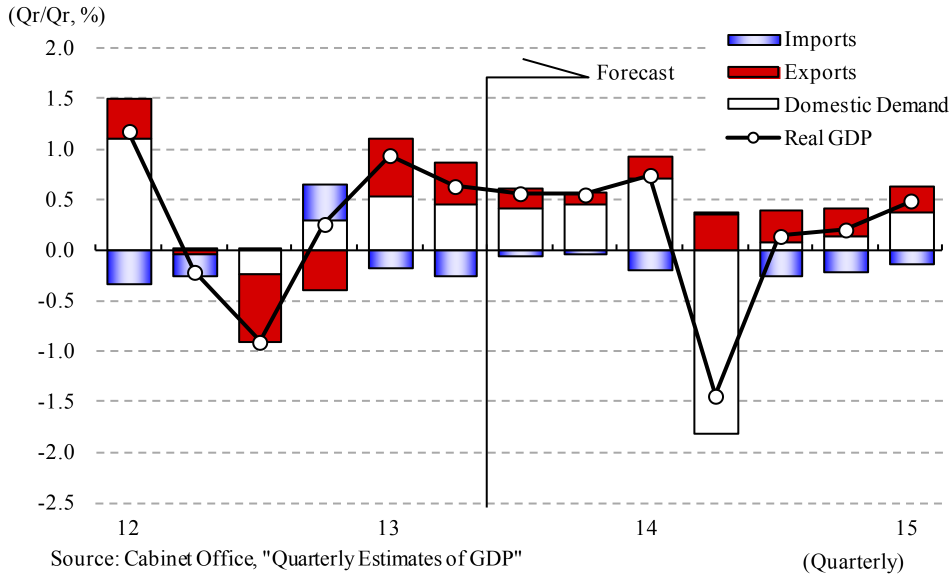
In view of the household sector's deeply rooted preference for lower-priced products, however, it will be difficult for corporations to sufficiently pass on their higher costs to the prices of their products, and we are forecasting that the percentage change in the consumer price index (excluding fresh food) will be only +0.2% in fiscal 2013, compared with –0.2% in fiscal 2012. Because it is difficult to anticipate a rise in the expected rate of inflation despite the continued stagnation of real wages, 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 2.2% 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. Although growth in exports will be gradual, it is expected to surpass the rate of increase in imports, causing the contribution of the external sector to GDP to increase to +0.5%. After the exclusion of a carryover effect of

+0.6%, the rate of growth year on year will be 1.6%, 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 +1.9% over the previous year. Although the GDP deflator is forecast to be below the previous year, at –0.3%, the domestic demand deflator, after excluding the effects of the external sector, is projected to be roughly unchanged or to increase from the previous year, and this and other factors are expected to gradually reduce deflationary pressures.

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"

<u>**In fiscal 2014**</u>, the outlook is for the rate of year-on-year growth in real GDP to become negative, at -0.2%, 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, while the burden of rising costs increases, and this is forecast to result in a lack of robustness in the upward trend. On the other hand, as overseas economies continue to

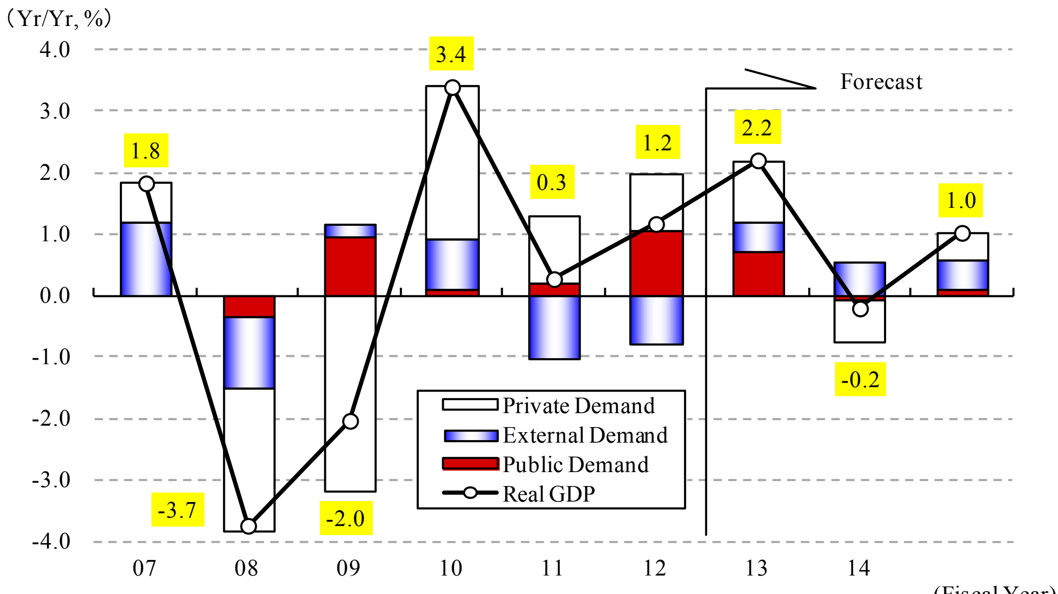
recover, export growth will continue, and this will be a factor providing support for the economy. Examination of the contributions of domestic and external demand shows that domestic demand will make a contribution of –0.7%, the first negative figure in five years, while, in contrast, the contribution of external demand will rise to +0.6%. Although there is a possibility that additional economic countermeasures will be implemented, because it is difficult to determine the nature or budget of such measures at this point, the prospective implementation of such measures has not been factored in to this outlook.

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. However, it appears inevitable that the pace of recovery will slow significantly compared with fiscal 2013, and there will be a risk of entering into a recession if the weakness of private consumption is protracted.

The economy will sustain GDP growth in nominal terms at +0.8% 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 +1.0%.

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, and it is possible that the stimulation of demand owing to extremely hot summer weather will ultimately prove to simply have expedited the emergence of prospective demand. Therefore, there is a possibility that the magnitude of the upcoming surge in demand and subsequent reactionary decline may not be as large 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 0.8% decline in consumption, the first year-to-year decline in six years, since fiscal 2008.

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



Source: Cabinet Office, "Quarterly Estimates of GDP"

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 2.2% over the previous fiscal year, but, after excluding the effects of the consumption tax increase, the change will be only +0.2%. 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 6: Real GDP Growth (Fiscal Year)

	Carry-over from the previous year (A)	Growth rate during the year (B)	Real GDP growth rate (A)+(B)
FY2012 (actual)	1.7 %	-0.5 %	1.2 %
FY2013 (forecast)	0.6 %	1.6 %	2.2 %
FY2014 (forecast)	0.9 %	-1.1 %	-0.2 %
FY2015 (forecast)	0.4 %	0.6 %	1.0 %

Source: Cabinet Office, "Quarterly Estimates of GDP"

2. Forecasts of Economic Activity by Sector

(1) Corporations

- Production bottomed out in autumn 2012 and began recovering against the backdrop of improvement in domestic and overseas demand. Because of the strengthening of exports against the backdrop of gradual recovery in overseas economies, a rise in demand for construction materials owing to the government's economic countermeasures, along other factors, production is forecast to continue its trend of increase going forward. In the latter half of fiscal 2013, it is projected that the upward pressure on production will be supplemented by a demand surge prior to the raising of the consumption tax rate. Although it is expected that the demand surge will be followed by a reactionary demand slump, it is forecast that the continued robustness of exports will prevent a sharp drop in production.
- Corporate performance was weak during the first half of fiscal 2012 owing to the impact of the deterioration of economic conditions. Improving conditions in Japan and overseas and progressive yen depreciation supported a rapid improvement in corporate performance during the latter half of fiscal 2012, however, and there was a shift to rising profitability for the fiscal year as a whole, particularly among manufacturing companies. In fiscal 2013, the recovery of economic conditions and the surge of demand prior to the consumption tax rate increase are sustaining the trend of rising corporate profitability. During fiscal 2014, however, the impact of the consumption tax rate increase is projected to cause a temporary decrease in sales, and, because the subsequent recovery in demand is expected to be sluggish, it is forecast that the margin of increase in corporate profitability will be greatly reduced.
- 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 projected. Reflecting recovery in corporate performance, capital investment is forecast to trend upward in both fiscal 2013 and fiscal 2014, but the margin of increase will be relatively small.

(2) Households

- Labor conditions are continuing to show improvement, and deterioration of the income environment has been halted. As corporations are sustaining their efforts to restrain personnel costs, the pace of improvement in the employment and income environments is expected to continue to be gradual. 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.
- Supported by improvement in consumer confidence, private consumption continues to be strong, but, partially as a reaction to the high rate of growth so far, there is a possibility of a temporary decline in private consumption. It is expected that a surge in consumption prior to the consumption tax rate increase will be followed by a reactionary decline in demand following the consumption tax rate increase. Subsequently, amid a projected decline in real income, growth in consumption is likely to be restrained to a gradual pace.
- Amid improving economic conditions and against the backdrop of such factors as the start of a full-scale demand surge in advance of the consumption tax rate increase, housing construction starts are rising rapidly and are expected to continue to be robust throughout 2013. After the consumption tax rate increase, the reaction to the increase is expected to cause a decrease in construction starts, but it is forecast that the expansion of tax relief on housing loans and other measures will lighten the burden on households will prevent a sharp drop.

(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. This autumn, Prime Minister Abe will make the final decision on whether the consumption tax rate will be increased on schedule in April 2014.
- 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 directly impacted by the earthquake. In addition, the administration of Prime Minister Shinzo Abe has announced that one of his principal policy objectives is to eliminate deflation and revive the economy, and that one of his three 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 gradually, the economy is maintaining economic growth just above 7% at an annual rate. At the same time, the European economies are showing signs of recovery.
- 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, despite concerns regarding the downward pressure on economic conditions stemming from pressures to make structural adjustments, the expansion of exports and investments is expected to help sustain a growth rate above 7%. It is anticipated that the benefits of economic conditions in the United States and China will accelerate growth in exports, and the European economy appears likely to return to a path of growth, albeit moderate growth.
- Japan’s exports (on a customs-clearance, volume basis) are forecast to maintain a trend of increase 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, despite the possibility of a temporary downturn accompanying the increase of the consumption tax rate.
- Japan’s trade balance (on an international balance of payments basis) moved to a deficit position in fiscal 2011, 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, because the rate of export growth is projected to exceed the rate of import growth, a trend of decline in the trade deficit is anticipated. Moreover, since the surplus in the income account is expected to 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. While demand in emerging economies is increasing gradually, the shale gasrevolution and other developments are expected to increase resource supplies, and resource prices are expected to remain in a generally stable range.

- Domestic corporate prices are beginning to show signs of growing inflationary pressures owing to the progressively spreading effects of yen depreciation, although there has been a hiatus in the trend of increase in international product markets. Consumer prices have already begun rising over the levels of the previous year, as steadily rising inflationary pressures are boosting prices of products centered on such energy-related products as 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 low, stable 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 downward correction in the value of the yen.

Chart 7: Outlook for Fiscal 2013-2014

Forecast → Yr/Yr、%

	FY2010 (actual)	FY2011 (actual)	FY2012 (actual)	FY2013 (forecast)	FY2014 (forecast)	FY2015 (forecast)
Nominal GDP	1.3	-1.4	0.3	1.9	0.8	0.9
Real GDP	3.4	0.3	1.2	2.2	-0.2	1.0
Contribution of domestic demand	2.6	1.3	2.0	1.7	-0.8	0.5
Private consumption	1.7	1.6	1.6	1.7	-1.4	0.2
Housing investment	2.2	3.7	5.3	5.1	-5.0	-1.3
Private capital investment	3.6	4.1	-1.4	0.6	1.3	2.6
Contribution of inventory investment	0.9	-0.4	-0.1	-0.2	0.1	0.0
Government expenditure	0.4	0.9	4.3	2.8	-0.2	0.3
Public investment	-6.4	-2.2	15.0	7.3	-6.5	-4.8
Government final consumption expenditure	2.0	1.4	2.1	1.8	1.4	1.6
Contribution of external demand	0.8	-1.0	-0.8	0.5	0.6	0.5
Export of goods and services	17.2	-1.6	-1.2	5.2	6.7	5.9
Import of goods and services	12.0	5.3	3.8	1.8	3.0	2.7
GDP deflator	-2.0	-1.7	-0.9	-0.3	1.0	-0.1

Forecast → Yr/Yr、%

	FY2010 (actual)	FY2011 (actual)	FY2012 (actual)	FY2013 (forecast)	FY2014 (forecast)	FY2015 (forecast)
Current account balance (trillion yen)	16.7	7.6	4.4	8.1	9.6	10.8
balance on goods (trillion yen)	6.5	-3.5	-6.9	-6.2	-5.0	-4.4
balance on service (trillion yen)	-1.3	-1.8	-2.5	-1.7	-1.6	-1.4
balance on income (trillion yen)	12.6	14.0	14.7	17.3	17.6	18.0
Industrial production	15.4	-0.6	-3.1	1.6	1.1	3.0
Unemployment rate(%)	5.0	4.5	4.3	4.0	3.9	3.9
New housing starts(annualized, ten thousand units)	77.5	81.9	89.3	96.9	84.4	83.3
Domestic corporate goods prices	0.4	1.4	-1.1	1.3	3.1	1.3
Consumer prices	-0.4	-0.1	-0.3	0.2	2.3	0.8
excluding freshfood	-0.8	0.0	-0.2	0.2	2.2	0.8
Yen/U.S.Dollar	85.7	79.1	83.1	99.2	100.2	101.9
Uncollateralized call rates (O/N) (%)*	0.091	0.077	0.082	0.071	0.070	0.070
Newly issued government bond yields (10years) (%)	1.15	1.05	0.78	0.74	0.91	1.13
WTI future price (near month contract, US dollar/barrel)	83.4	97.3	92.1	100.6	100.0	100.0
Dubai crude oil prices (US dollar/barrel)	84.2	110.1	107.1	103.3	100.9	99.6

* actual=average, forecast=end of period

Chart 8: Outlook for Calendar 2013-2014

Forecast

Yr/Yr、%

	CY2010 (actual)	CY2011 (actual)	CY2012 (actual)	CY2013 (forecast)	CY2014 (forecast)	CY2015 (forecast)
Nominal GDP	2.4	-2.5	1.1	1.1	1.4	0.8
Real GDP	4.7	-0.6	2.0	1.6	0.6	0.7
Contribution of domestic demand	2.9	0.3	2.9	1.4	0.1	0.2
Private consumption	2.8	0.4	2.3	1.6	-0.6	0.0
Housing investment	-4.5	5.5	3.0	7.1	-3.3	-2.1
Private capital investment	0.3	3.3	2.0	-2.2	2.5	2.3
Contribution of inventory investment	1.0	-0.7	0.0	-0.3	0.1	0.1
Government expenditure	1.6	-0.2	4.2	3.1	0.8	-0.2
Public investment	0.7	-7.5	12.5	9.7	-2.0	-7.3
Government final consumption expenditure	1.9	1.4	2.4	1.6	1.5	1.6
Contribution of external demand	1.7	-0.9	-0.9	0.2	0.5	0.5
Export of goods and services	24.4	-0.4	-0.1	2.6	6.6	6.3
Import of goods and services	11.1	5.9	5.4	1.1	3.1	2.9
GDP deflator	-2.2	-1.9	-0.9	-0.5	0.8	0.1

Forecast

Yr/Yr、%

	CY2010 (actual)	CY2011 (actual)	CY2012 (actual)	CY2013 (forecast)	CY2014 (forecast)	CY2015 (forecast)
Current account balance (trillion yen)	17.9	9.6	4.8	7.1	9.0	10.5
balance on goods (trillion yen)	8.0	-1.6	-5.8	-6.9	-5.5	-4.6
balance on service (trillion yen)	-1.4	-1.8	-2.5	-1.7	-1.6	-1.5
balance on income (trillion yen)	12.4	14.0	14.3	16.7	17.5	17.9
Industrial production	15.6	-2.8	0.6	-1.6	2.1	2.7
Unemployment rate (%)	5.1	4.6	4.4	4.1	3.9	3.9
New housing starts(annualized, ten thousand units)	81.3	83.4	88.3	96.8	85.9	84.1
Domestic corporate goods prices	-0.1	1.5	-0.9	1.0	2.6	1.5
Consumer prices	-0.7	-0.3	0.0	-0.1	1.8	1.0
excluding freshfood	-1.0	-0.2	-0.1	0.0	1.8	0.9
Yen/U.S.Dollar	87.8	79.8	79.8	97.6	99.7	101.5
Uncollateralized call rates (O/N) (%)*	0.093	0.078	0.083	0.074	0.070	0.070
Newly issued government bond yields (10years) (%)	1.17	1.12	0.85	0.73	0.84	1.09
WTI future price (near month contract, US dollar/barrel)	79.5	95.1	94.2	99.2	100.0	100.0
Dubai crude oil prices (US dollar/barrel)	78.0	106.2	109.1	104.7	101.5	99.9

* actual=average, forecast=end of period

Chart 9: 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	-0.8	-0.9	0.1	0.6	0.7	0.7	0.3	0.8	-0.7	0.5	0.1	0.5
	2.8	-0.5	-0.3	-0.8	0.5	2.2	2.3	2.7	1.3	1.0	0.6	0.2
Real GDP	-0.2	-0.9	0.3	0.9	0.6	0.6	0.5	0.7	-1.4	0.1	0.2	0.5
	3.8	0.3	0.4	0.3	0.9	2.5	2.8	2.7	0.2	0.0	-0.4	-0.6
Contribution of domestic demand (Qr/Qr,%)	0.0	-0.2	0.3	0.5	0.5	0.4	0.5	0.7	-1.8	0.1	0.1	0.4
Private consumption	0.1	-0.4	0.5	0.8	0.8	-0.2	0.1	0.9	-2.4	0.3	0.2	0.1
	3.1	1.3	1.0	1.1	1.8	1.9	1.5	1.5	-1.7	-1.1	-1.0	-1.8
Housing investment	2.1	1.6	3.6	1.9	-0.2	1.6	1.8	-1.6	-3.1	-2.0	-1.2	0.6
	4.7	1.5	5.8	9.3	7.1	7.0	5.0	1.4	-1.3	-4.8	-7.7	-5.7
Private capital investment	-0.3	-3.2	-1.4	-0.2	-0.1	1.1	1.7	1.9	-3.0	1.4	1.0	1.1
	7.0	1.5	-7.2	-5.1	-4.7	-0.7	2.6	4.7	1.7	1.9	1.3	0.5
Contribution of inventory investment (Qr/Qr,%)	-0.2	0.1	-0.2	-0.1	-0.3	0.2	0.0	-0.1	0.2	-0.2	0.0	0.1
Government expenditure	0.9	1.0	1.0	0.3	1.0	0.8	0.4	0.2	-0.2	-0.3	-0.3	-0.1
	3.5	4.4	5.9	3.5	3.3	3.2	2.5	2.5	1.3	0.1	-0.9	-1.3
Public investment	5.1	3.5	3.0	1.1	1.8	2.5	1.1	-0.4	-2.7	-3.2	-2.5	-2.2
	11.3	15.1	19.6	13.1	10.7	9.0	6.2	4.9	0.8	-5.0	-8.7	-10.2
Government final consumption expenditure	0.0	0.4	0.6	0.1	0.8	0.3	0.3	0.4	0.4	0.4	0.3	0.4
	2.2	2.3	2.7	1.1	1.9	1.8	1.5	1.8	1.3	1.4	1.5	1.5
Contribution of external demand (Qr/Qr,%)	-0.2	-0.7	-0.1	0.4	0.2	0.1	0.1	0.0	0.4	0.1	0.1	0.1
Export of goods and services	-0.2	-4.5	-2.7	4.0	3.0	1.3	0.9	1.3	2.2	1.9	1.6	1.5
	9.2	-4.8	-5.0	-3.3	-0.3	5.6	9.0	6.9	5.9	6.4	7.0	7.5
Import of goods and services	1.3	0.0	-2.0	1.0	1.5	0.3	0.2	1.1	0.0	1.4	1.2	0.7
	9.1	5.2	1.1	0.3	0.8	0.6	2.6	3.2	3.1	2.6	3.3	2.8
GDP deflator (Yr/Yr,%)	-1.0	-0.8	-0.7	-1.1	-0.3	-0.3	-0.4	0.1	1.1	1.0	1.1	0.9

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	0.8	2.1	2.0	2.1	2.2	2.2	2.4	2.4	2.6
balance on goods (trillion yen)*	-1.1	-1.7	-1.6	-2.5	-1.8	-1.3	-1.3	-1.4	-1.4	-1.2	-1.3	-1.2
balance on service (trillion yen)*	-0.7	-0.8	-0.6	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
balance on income (trillion yen)*	3.6	3.7	3.6	3.9	4.6	4.1	4.2	4.4	4.4	4.4	4.4	4.5
Industrial production (Qr/Qr、%)	-2.2	-3.2	-1.9	0.6	1.5	0.6	1.2	1.5	-2.0	1.0	0.8	1.0
Industrial production (Yr/Yr、%)	6.8	-3.9	-5.9	-7.9	-3.1	0.7	4.2	4.1	1.3	1.6	1.4	0.4
Unemployment rate (%)*	4.4	4.3	4.2	4.2	4.0	4.1	4.0	3.9	4.0	4.0	3.9	3.9
New housing starts(annualized, ten thousand units)	87.6	87.6	91.8	90.4	98.1	99.1	99.7	90.5	84.4	84.2	84.5	84.9
Domestic corporate goods prices (Yr/Yr,%)	-1.1	-2.0	-0.9	-0.3	0.6	1.8	1.9	0.9	3.3	3.1	2.9	3.0
Consumer prices (Yr/Yr,%)	0.2	-0.4	-0.2	-0.6	-0.2	0.3	0.3	0.4	2.3	2.3	2.2	2.2
excluding freshfood (Yr/Yr,%)	-0.1	-0.3	-0.1	-0.3	0.0	0.2	0.2	0.3	2.4	2.2	2.2	2.1
Yen/U.S.Dollar	80.2	78.6	81.2	92.4	100.6	98.9	98.5	98.9	99.5	99.9	100.3	100.9
Uncollateralized call rates (O/N) (%)**	0.078	0.085	0.084	0.082	0.073	0.070	0.070	0.070	0.070	0.070	0.070	0.070
Newly issued government bond yields (10years) (%)	0.88	0.79	0.75	0.70	0.73	0.77	0.72	0.73	0.80	0.88	0.95	1.03
WTI future price (near month contract, US dollar/barrel)	93.5	92.2	88.2	94.4	94.2	105.2	103.0	100.0	100.0	100.0	100.0	100.0
Dubai crude oil prices (US dollar/barrel)	106.5	106.1	107.4	108.3	100.8	105.0	104.5	103.0	101.0	101.1	101.0	100.5

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