6 June 2018

Report

The Japanese Economy in Fiscal 2018 and Fiscal 2019

―The Economy Is Continuing to Recover, but Overseas Factors May Present Downside Risks.

(1) Current State of the Economy: Recovery Is Continuing.

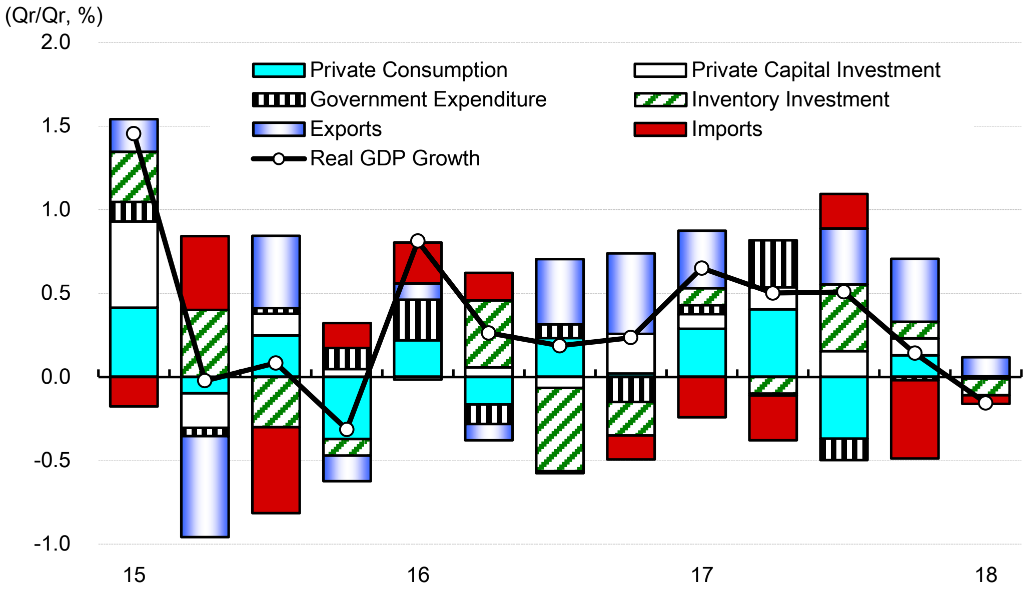
The real GDP growth rate for the January–March quarter of 2018, which was announced on May 16, was –0.2% from the previous quarter (–0.6% at an annualized rate), the first negative figure in nine quarters, since the October–December period of 2015. The contribution of the external sector became positive, but the contribution of the public sector remained unchanged. Moreover, the contribution of personal consumption and private capital investment both decreased slightly, and private residential investment continued to decline. Nevertheless, the negative growth in the January–March quarter is a temporary phenomenon in the midst of continuing economic recovery. It does not suggest that the economy may be entering a downturn.

Consumer spending showed a slight decrease of –0.0% from the previous quarter. As a result of unseasonable weather, prices of fresh vegetables rose sharply, thus restraining expenditures in real terms. Another reason for the decline was restraint in making other expenditures. Over the end of the fiscal year, prices of fresh vegetables began to decrease, and, because of high temperatures and other factors, the environment for consumer spending took a turn for the better but appears not to have been enough to make up for weakness up to that time.

Private residential investment declined, by 2.1%, for the third consecutive quarter. This reflected the peeking out of the number of new housing starts, principally for rental housing.

In the corporate sector, private capital investment decreased –0.1%, the first decline in six quarters. Along with investments to deal with the shortage of labor and to increase productivity, there is a possibility that corporations may be looking to the future and making investments to increase production capacity. However, although the drive to invest may not have weakened, in view of the rapid pace of investment so far, a trend may have emerged to adjust the pace of capital investments. Capital investment in real terms is at the second highest level in history. Also, the contribution of inventory investments to the real GDP growth rate was –0.1%, the first negative figure in three quarters.

Chart 1. Real GDP growth rate by demand (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

In the government sector, although demand for government services is on a rising trend, mainly for medical and other expenditures, government final consumption continued to be virtually level, rising only a slight +0.0% from the previous quarter. Public investment was continuing to decline, as the boosting effects of government allocations in the fiscal 2016 supplementary budget diminished, but this trend, too, has run its course, and public investment has bottomed out, rising +0.0% for the quarter.

As these data suggest, public-sector demand has been unable to offset the weakness in private-sector demand, and the contribution of overall domestic demand was –0.2%. On the other hand, the contribution of the external sector was +0.1%. The rate of expansion in exports slowed to +0.6% over the previous period, owing to the slump in smartphone-related products, while imports also showed only a marginal increase of 0.3%, reflecting the weak growth in domestic demand.

During the January–March quarter of 2018, the corporate sector, which had been driving the economy thus far, showed weaker recovery momentum because of the pause in exports moderating in the pace of increase in production and other factors. There is a possibility that this led to weakness in the real GDP. In addition, corporate performance is coming under pressure because of increases in costs, including higher raw material prices, wage increases, and other factors. In the Bank of Japan (BOJ)'s Tankan Survey for March, sentiment regarding economic conditions deteriorated among both large manufacturing and large non-manufacturing enterprises. However, the possibilities of a further weakening of trends in the corporate sector and deterioration in the economy seem unlikely.

Reasons we can give for this include, first, the favorable environment for consumer spending. Since the beginning of this year, the supply and demand balance for labor has tightened, and the unemployment rate has dropped into the middle of the range above 2%. The rate of increase in nominal wages is gradually rising, and, reflecting the fact that base wages in the spring labor offensive have risen for the fifth consecutive year, it is viewed as likely that wages will continue to rise going forward. Nominal worker compensation in the January–March quarter expanded at +3.2% over the previous year, the highest rate since the April–June quarter of 1997 and stood at the second highest figure in history, after the previous peak, which was recorded in the July–September period of 1997. Furthermore, prices of fresh vegetables are stable, and concerns about prices restraining household purchasing power are receding. Moreover, factors that resulted in lackluster consumption in the January–March quarter, such as a large number of days with high temperatures, have run their course.

The second reason is that corporate capital investment is on a firm trend and can be expected to provide underlying support for the economy. Corporations have ample cash flows, and they are sustaining their drive to make investments. In fact, orders for machinery and equipment (excluding shipping and electric power, private-sector demand), which are a leading indicator for capital investment, have risen for three consecutive quarters up to the January–March quarter of 2018, and a further increase is viewed as likely in the April–June quarter. Moreover, in 2018, as demand for infrastructure construction in advance of the 2020 Tokyo Olympics and Paralympics is expected to show an upwelling, construction investments are likely to increase.

Furthermore, exports are expected to be on an upward trend against a background of recovery in the world economy. Going forward also, production and exports are expected to be firm, especially in industries where demand is rising worldwide, such as the semiconductor-related sector and in general machinery.

(2) Outlook for the Economy in Fiscal 2018 and Fiscal 2019

─Driven by the Corporate Sector, the Economy Will Continue to Recover.

In fiscal 2018 also, the economy will remain on a recovery trend. Data for December is expected to show that the Japanese economy has now tied with its previous longest period of expansion after World War II (the 73 months from February 2002 to February 2008) and will likely go on to set new records. Real GDP growth in fiscal 2018 is forecast to be +0.9%, thus marking the fourth consecutive year of positive growth (Chart 2).

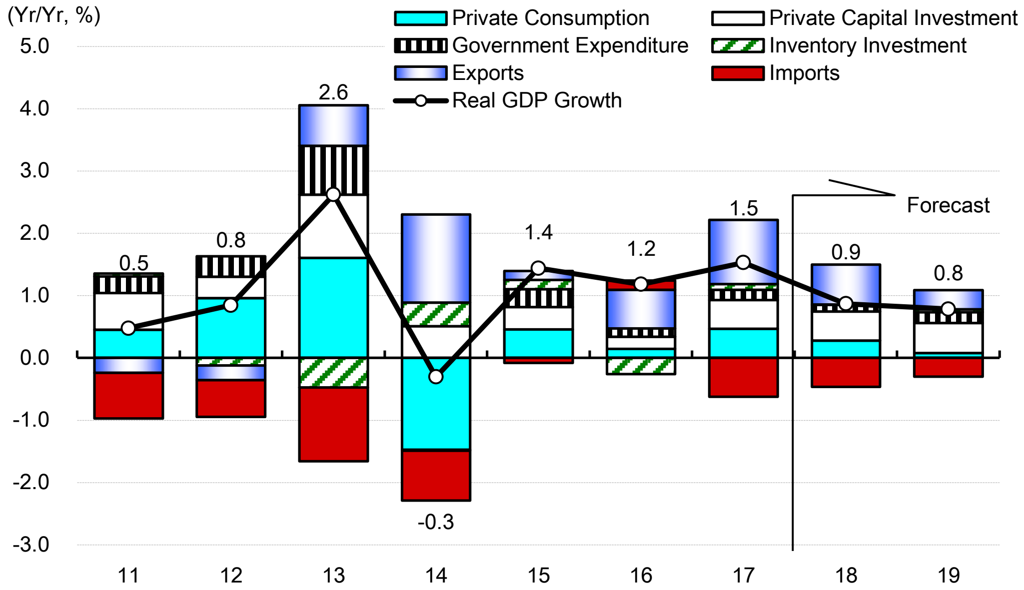
First, demand for infrastructure and other construction in advance of the Tokyo Olympics and Paralympics will mount to a climax, and urban redevelopment projects in the Tokyo metropolitan area will give a further boost to the economy. Moreover, investments to increase operating efficiency, make wider use of IT, and cope with labor shortages as well as investments in R&D to promote the use of AI and IoT will also rise.

The pace of growth in corporate performance is forecast to slow, but corporate cash flows will be ample, as corporate performance continues to improve, and it is likely that investments will not be cut to the minimum level necessary. In some sectors, it is expected that the drive to invest may become stronger and come to include capital investment to increase production capacity.

Next, exports will continue to rise as recovery in the world economy proceeds, and this is expected to give a boost to the domestic economy. Particularly, as the labor shortage spreads worldwide, this is expected to bring an upward trend in investment activity and maintain the strength of demand for general machinery. Along with the trends toward the usage of electric-powered automobiles, rising demand for robots, and strengthening as well as expansion of information and telecommunications functions, the demand for electronic components and devices will likely remain firm. Since many companies have shifted their production facilities outside of Japan and have restrained their capital investments in Japan, domestic production capacity will approach a limit, and, even though corporations may not increase the pace of production in Japan suddenly, demand will continue to be firm.

On the other hand, in the household sector, improvement in labor conditions is expected to continue, and the rate of increase in wages will rise somewhat, thus bringing continued firmness in consumer spending. However, since prices will continue to rise moderately, real wages may be stagnant, and this will be a factor restraining consumption and prevent it from becoming strong enough to be a driving force for the economy as a whole.

Chart 2. Real GDP growth rate by demand (Fiscal year)



Source: Cabinet Office "Quarterly Estimates of GDP"

In the public sector, government final consumption expenditure will continue to rise gradually along with the demographic aging of the population. In addition, public investment will maintain a moderate rising trend in fiscal 2018 because of the boost provided by economic policies adopted in fiscal 2017 and demand related to the Tokyo Olympics.

Examining developments by quarter, the outlook going forward is for moderate but positive growth in real GDP (Chart 3).

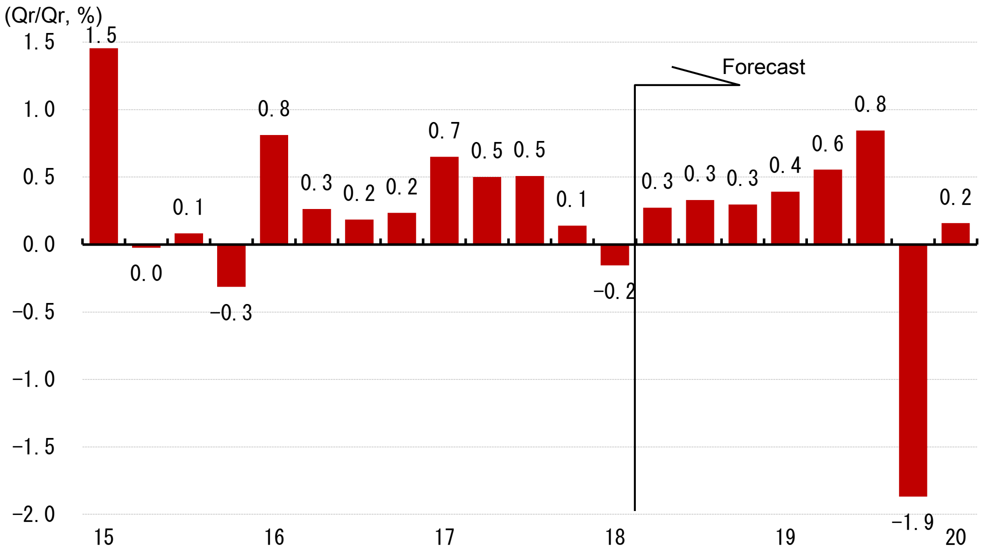
Next, exports will continue to rise as recovery in the world economy proceeds, and this is expected to give a boost to the domestic economy. Amid these developments, a worldwide shortage of labor may emerge, and this is expected to bring an upward trend in investment activity and maintain the strength of demand for general machinery. Along with the trends toward the usage of electric-powered automobiles, rising demand for robots, and strengthening as well as expansion of information and telecommunications functions, the demand for electronic components and devices will likely remain firm. Moreover, since many companies have shifted their production facilities outside of Japan and have restrained their capital investments in Japan, domestic production capacity will approach a limit, and, even though corporations may not want to increase the pace of production in the domestic market suddenly, demand will continue to be firm.

On the other hand, in the household sector, improvement in labor conditions is expected to continue, and the rate of increase in wages will rise somewhat, thus bringing continued firmness in consumer spending. However, since the price level will continue to rise moderately, real wages may be stagnant, and this will be a factor restraining consumption and prevent it from becoming strong enough to be a driving force for the economy as a whole.

In the public sector, government consumption expenditure will continue to rise gradually along with the demographic aging of the population. Public investment will maintain a moderate rising trend in fiscal 2018 because of the boost provided by economic policies adopted in fiscal 2017 and demand related to the 2020 Tokyo Olympics.

Examining developments by quarter, after a continued increase in the January–March quarter, the forecast is for further moderate real GDP growth during fiscal 2018 (Chart 3).

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

On the other hand, risks of a downturn will include trends in overseas economies and geopolitical factors. If the rise in crude oil prices continues, owing to rising geopolitical risks related to the Middle East and North Korea, the burden on resource-importing countries will rise, and may have a negative impact on the world economy. Moreover, the intensification of U.S.-China trade frictions may bring risks of economic turmoil, and, if the brunt of U.S. trade policy is aimed at Japan, this may have an effect on Japan's exports and lead to sudden appreciation of the yen. Similarly, it has been pointed out that turmoil and policy impasses, caused by the Trump administration, along with increases in U.S. interest rates, may bring turmoil in international financial markets and present the risk of deceleration in the world economy.

Also, even though employment conditions in Japan may continue to improve, consumer spending may stagnate due to decreases in real wages. Moreover, recently, as a result of the increasingly serious labor shortages in Japan, some domestic industries are facing supply constraints; if such shortages become more widespread, this could create an obstacle to economic expansion.

In fiscal 2019, real GDP growth will continue, rising +0.8% over the previous year. A surge in demand is expected in the first half caused by the planned hike in the consumption tax rate, and this will be followed by the spread of a reactionary decline in household sector spending in the second half. Notwithstanding this, since (1) the planned increase in the consumption tax rate will be only a marginal two percentage points, (2) it will not apply to food products (excluding eating out and alcoholic beverages) and newspaper subscription charges, and (3) there is a possibility that measures will be adopted to reduce the disruptive effect of the tax increase, including increasing tax relief related to housing loans, the surge in consumption and the following reactionary decline are expected to be smaller than at the time of the previous consumption tax increases. In addition, existing plans call for a portion of the increase in tax revenues from the planned consumption tax hike to be used from fiscal 2020 onward to make early childhood education free of charge and cover other household costs. To further reduce the financial burden of the tax increase on households, this relief measure will be partially implemented in fiscal 2019. Also, since the Tokyo Olympic Games will be held in 2020 and employment and income conditions are expected to show continued improvement, the decline in consumer confidence after the planned consumption tax hike is expected to be temporary.

Note that the surge in demand preceding the Tokyo Olympics will run its course in the second half of fiscal 2019, and, as a countermeasure, the government may formulate economic measures, centered on public investment, to soften the impact of the expected economic slump.

Economic Outlook for fiscal 2016-2019

【GDP demand】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Nominal GDP	1.0	1.6	0.8	1.6
Real GDP	1.2	1.5	0.9	0.8
Contribution of domestic demand	0.4	1.1	0.7	0.8
Private consumption	0.3	0.8	0.5	0.1
Housing investment	6.2	-0.3	-5.2	-0.1
Private capital investment	1.2	3.0	3.0	2.9
Contribution of inventory investment	-0.3	0.1	0.0	0.0
Government expenditure	0.5	0.7	0.4	0.7
Government final consumption expenditure	0.5	0.4	0.6	0.8
Public investment	0.9	1.5	-0.1	0.6
Contribution of external demand	0.8	0.4	0.2	0.0
Export of goods and services	3.6	6.2	3.6	1.7
Import of goods and services	-0.8	4.0	2.7	1.7
GDP deflator	-0.2	0.1	-0.1	0.8

【Overseas economy and market data】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Real GDP (US) (CY)	1.5	2.3	2.8	2.5
Real GDP (Euro zone) (CY)	1.8	2.5	2.1	1.8
Real GDP (Asia)	6.0	5.9	5.9	5.9
Real GDP (China)	6.7	6.9	6.5	6.2
Yen/U.S.Dollar	108.8	110.8	107.5	104.5
Uncollateralized call rates (O/N) (%)*	-0.047	-0.048	-0.039	0.000
TIBOR (3months)	0.057	0.062	0.100	0.113
Newly issued government bond yields (10years) (%)	-0.04	0.05	0.11	0.14
WTI future price (near month contract, US dollar/barrel)	47.9	53.6	72.9	75.0
North Sea Brent Crude (US dollar/barrel)	49.9	57.9	78.0	80.0

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Value of exports (Yen base)	-3.5	10.8	4.4	1.4
Ammount (Yr/Yr,%)	2.4	4.5	2.2	1.2
Value of imports (Yen base)	-10.2	13.7	8.7	2.0
Ammount (Yr/Yr,%)	0.5	3.3	1.6	1.3
Balance (trillion yen)	4.0	2.5	-0.7	-1.3
Current account balance (trillion yen)	21.0	21.7	18.8	18.5
balance on goods (trillion yen)	5.8	4.6	1.5	1.0
balance on service (trillion yen)	-1.4	-0.6	-0.6	-0.5
balance on income (trillion yen)	18.7	19.9	19.9	20.0

【Corporations】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Industrial production	1.0	4.1	1.5	0.9
Inventory index	-4.0	3.9	-3.7	1.9
Sales	0.7	5.1	2.5	1.4
Ordinary Profits	10.0	6.8	0.5	1.6

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Income per capita	0.4	0.7	1.0	0.9
Scheduled	0.2	0.6	0.8	0.9
Non-scheduled	-0.6	0.6	0.2	0.2
Wage increase rate (%)	2.14	2.11	2.25	2.20
Employee	1.4	1.5	1.4	0.3
Nominal compensation of employees*	2.4	2.3	2.7	1.3
Unemployment rate (%)	3.0	2.7	2.4	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
Domestic corporate goods prices	-2.4	2.7	2.1	1.3
excluding tax effects		2.7	2.2	0.5
Consumer prices	-0.1	0.7	0.8	1.1
excluding tax effects		4.8	0.9	0.0
excluding freshfood	-0.3	0.7	0.8	1.1
excluding tax effects		0.7	0.8	0.6
excluding food (excluding alcoholic beverages) and energy	0.3	0.2	0.4	0.9

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	FY 2016 (actual)	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)
New housing starts	97.4	94.6	90.3	89.6
	5.8	-2.8	-4.6	-0.8
Owned	29.2	28.2	28.0	26.9
	2.6	-3.3	-0.7	-4.2
Rented	42.7	41.0	38.3	39.2
	11.4	-4.0	-6.8	2.5
Built for Sale	24.9	24.8	23.5	23.0
	1.1	-0.3	-5.5	-1.9

Economic Outlook for calendar 2016-2019

【GDP demand】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Nominal GDP	1.2	1.4	0.8	1.6
Real GDP	1.0	1.7	0.7	1.2
Contribution of domestic demand	1.0	0.4	1.1	0.6
Private consumption	0.1	1.0	0.4	0.6
Housing investment	5.7	2.7	-6.4	1.7
Private capital investment	0.6	2.9	2.6	3.7
Contribution of inventory investment	-0.2	-0.0	0.2	0.0
Government expenditure	1.0	0.4	0.3	0.8
Government final consumption expenditure	-0.1	1.2	0.1	0.7
Public investment	1.3	0.2	0.4	0.8
Contribution of external demand	0.6	0.6	0.2	0.0
Export of goods and services	1.7	6.7	4.1	1.9
Import of goods and services	-1.6	3.4	3.2	1.9
GDP deflator	0.3	-0.2	0.1	0.4

【Overseas economy and market data】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Real GDP (US) (CY)	1.5	2.3	2.8	2.5
Real GDP (Euro zone) (CY)	1.8	2.5	2.1	1.8
Real GDP (Asia)	6.0	5.9	5.9	5.9
Real GDP (China)	6.7	6.9	6.5	6.2
Yen/U.S.Dollar	108.6	111.9	107.9	104.8
Uncollateralized call rates (O/N) (%)*	-0.036	-0.047	-0.044	-0.007
TIBOR (3months)	0.068	0.059	0.089	0.115
Newly issued government bond yields (10years) (%)	-0.06	0.05	0.08	0.14
WTI future price (near month contract, US dollar/barrel)	43.4	50.9	70.1	74.7
North Sea Brent Crude (US dollar/barrel)	45.1	54.7	74.9	79.7

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Value of exports (Yen base)	-3.5	10.8	4.4	1.4
Ammount (Yr/Yr,%)	2.4	4.5	2.2	1.2
Value of imports (Yen base)	-10.2	13.7	8.7	2.0
Ammount (Yr/Yr,%)	0.5	3.3	1.6	1.3
Balance (trillion yen)	4.0	2.5	-0.7	-1.3
Current account balance (trillion yen)	21.1	22.0	19.4	18.0
balance on goods (trillion yen)	5.5	5.0	2.5	0.6
balance on service (trillion yen)	-1.1	-0.7	-0.7	-0.5
balance on income (trillion yen)	18.8	19.8	19.8	20.0

【Corporations】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Industrial production	-0.1	4.4	1.6	1.4
Inventory index	-5.3	1.9	-0.7	1.1
Sales	-1.6	5.7	2.7	1.8
Ordinary Profits	1.5	13.2	-0.2	2.1

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Income per capita	0.5	0.4	1.1	0.9
Scheduled	0.3	0.4	0.9	0.8
Non-scheduled	-0.5	0.4	0.4	0.4
Real wage indices	0.6	-0.2	-0.0	-0.2
Number of mployees	1.5	1.2	1.8	0.4
Nominal compensation of employees*	2.7	1.9	3.0	1.4
Unemployment rate (%)	3.1	2.8	2.4	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
Domestic corporate goods prices (Yr/Yr,%)	-3.5	2.3	2.4	1.1
excluding tax effects		2.3	2.3	0.8
Consumer prices	-0.1	0.5	0.9	0.9
excluding tax effects		0.5	0.9	0.7
excluding freshfood	-0.3	0.5	0.8	0.9
excluding tax effects		0.5	0.7	0.7
excluding food (excluding alcoholic beverages) and energy	0.6	0.1	0.4	0.7

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	CY 2016 (actual)	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)
New housing starts	96.7	96.5	89.2	92.0
	6.4	-0.2	-7.6	3.1
Owned	29.2	28.5	27.7	28.0
	3.1	-2.6	-2.8	1.3
Rented	41.8	42.0	38.2	40.1
	10.4	0.6	-9.1	4.8
Built for Sale	25.1	25.5	23.0	23.4
	4.1	1.7	-10.0	1.7

Economic Outlook (Quarterly)

forecast (from FY 2018)

Qr/Qr,%
Yr/Yr,%

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Nominal GDP (Qr/Qr,%)	0.2	-0.0	0.2	0.1	0.9	0.8	0.1	-0.4	0.4	0.2	0.3	0.5	0.6	1.1	-1.0	0.3
Nominal GDP Annualized rate	0.7	-0.1	1.0	0.6	3.6	3.1	0.5	-1.5	1.5	0.6	1.4	2.0	2.6	4.3	-3.9	1.3
Nominal GDP (Yr/Yr,%)	1.2	0.8	1.4	0.6	1.2	2.0	1.9	1.4	1.0	0.3	0.5	1.3	1.0	0.3	0.5	1.3
Real GDP (Qr/Qr,%)	0.3	0.2	0.2	0.7	0.5	0.5	0.1	-0.2	0.3	0.3	0.3	0.4	0.6	0.8	-1.9	0.2
Real GDP Annualized rate	1.1	0.7	0.9	2.6	2.0	2.0	0.6	-0.6	1.1	1.3	1.2	1.6	2.2	3.4	-7.3	0.6
Real GDP (Yr/Yr,%)	0.8	0.9	1.5	1.4	1.5	1.9	1.8	0.9	0.8	0.6	0.7	1.4	1.5	2.1	-0.2	-0.3
Contribution of domestic demand (Qr/Qr,%)	0.2	-0.2	-0.1	0.6	0.8	-0.0	0.2	-0.2	0.3	0.3	0.3	0.4	0.6	1.0	-2.2	0.1
Private consumption	-0.3	0.4	0.0	0.5	0.7	-0.7	0.2	-0.0	0.2	0.3	0.1	0.1	0.3	1.8	-3.7	0.8
	-0.2	-0.1	0.5	0.7	1.8	0.6	0.8	0.2	-0.1	0.8	0.6	0.7	0.8	2.3	-1.6	-0.9
Housing investment	2.2	2.5	0.8	1.2	0.9	-1.6	-2.7	-2.1	-2.0	-1.2	1.1	1.9	2.5	-0.7	-5.4	-3.9
	5.1	6.3	6.8	6.5	5.7	1.4	-2.4	-5.7	-8.1	-7.7	-4.2	-0.4	4.4	4.9	-1.9	-7.5
Private capital investment	0.4	-0.4	1.5	0.6	0.8	1.0	0.6	-0.1	1.0	0.8	1.0	0.9	1.1	2.3	-2.2	-0.1
	1.5	-0.2	1.6	1.9	2.7	3.8	3.2	2.4	2.7	2.4	2.9	3.7	3.9	5.3	2.0	1.0
Contribution of inventory investment (Qr/Qr,%)	0.4	-0.5	-0.2	0.1	-0.1	0.4	0.1	-0.1	-0.0	-0.0	-0.0	0.0	0.1	-0.3	0.4	-0.3
Government expenditure	-0.5	0.3	-0.6	0.2	1.1	-0.5	-0.1	0.0	0.3	0.1	0.2	0.2	0.2	0.1	0.2	0.2
	1.3	1.5	0.1	-0.6	1.2	0.3	0.7	0.5	-0.2	0.4	0.6	0.8	0.8	0.7	0.7	0.7
Government final consumption expenditure	-1.2	0.4	-0.2	0.2	0.2	0.0	-0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
	1.2	1.3	0.2	-0.6	0.6	0.3	0.5	0.3	0.2	0.4	0.7	0.8	0.8	0.8	0.7	0.7
Public investment	2.4	0.2	-1.9	-0.0	4.7	-2.6	-0.4	0.0	0.6	-0.2	0.1	0.3	0.4	-0.4	0.3	0.1
	1.8	2.2	0.0	-0.0	3.7	0.4	1.2	1.3	-2.0	0.2	0.4	0.7	0.9	0.6	0.6	0.4
Contribution of external demand (Qr/Qr,%)	0.1	0.4	0.3	0.1	-0.3	0.5	-0.1	0.1	0.0	0.0	0.0	0.0	-0.1	-0.2	0.3	0.1
Export of goods and services	-0.6	2.2	2.7	2.1	-0.1	2.0	2.2	0.6	0.7	0.6	0.6	0.4	0.3	0.2	0.6	0.6
	1.2	1.3	5.4	6.6	6.8	6.9	6.5	4.8	5.5	4.1	2.3	2.6	1.9	1.6	1.5	1.8
Import of goods and services	-0.9	0.1	0.8	1.6	1.8	-1.3	3.1	0.3	0.6	0.5	0.5	0.3	0.6	1.3	-1.2	0.2
	-0.5	-3.1	-1.2	1.5	4.3	2.7	5.3	3.7	2.7	4.4	2.0	1.8	1.9	2.7	1.2	1.0
GDP deflator (Yr/Yr,%)	0.4	-0.1	-0.1	-0.8	-0.3	0.1	0.1	0.5	0.2	-0.3	-0.2	-0.1	0.1	0.3	1.4	1.4

【Overseas economy and market data】

forecast (from FY 2018)

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Real GDP (US) (Annualized Qr/Qr rate,%)	2.2	2.8	1.8	1.2	3.1	3.2	2.9	2.3	3.1	2.7	2.8	2.3	2.3	2.3	2.3	2.2
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	1.4	1.7	2.6	2.6	2.9	2.8	2.7	1.4	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.4
Real GDP (Asia) (Yr/Yr,%)	6.0	5.9	6.0	5.9	5.9	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Real GDP (China) (Yr/Yr,%)	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.6	6.5	6.5	6.5	6.4	6.3	6.2	6.0	6.0
Yen/U.S.Dollar	105.8	103.0	114.5	111.8	111.2	112.0	112.7	107.3	109.1	108.0	107.0	106.0	105.0	104.0	104.0	105.0
Uncollateralized call rates (O/N) (%)*	-0.052	-0.044	-0.046	-0.045	-0.054	-0.048	-0.043	-0.048	-0.048	-0.040	-0.040	-0.027	0.000	0.000	0.000	0.000
TIBOR (3months)	0.059	0.057	0.056	0.056	0.056	0.059	0.063	0.068	0.096	0.097	0.097	0.108	0.125	0.125	0.100	0.100
Newly issued government bond yields (10years) (%)	-0.17	-0.06	0.03	0.06	0.06	0.04	0.05	0.06	0.07	0.09	0.12	0.15	0.15	0.15	0.13	0.12
WTI future price (near month contract, US dollar/barrel)	45.6	44.9	49.3	51.8	48.2	48.2	55.3	62.9	69.8	73.7	74.0	74.3	74.5	74.8	75.1	75.4
North Sea Brent Crude (US dollar/barrel)	47.0	47.0	51.1	54.6	50.8	52.2	61.5	67.2	74.9	78.7	79.0	79.3	79.5	79.8	80.1	80.4

* actual=average, forecast=end of period

【External demand (export and import)】

forecast (from FY 2018)

Yr/Yr, %

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Value of exports (Yen base)	-9.5	-10.2	-1.9	8.5	10.5	15.1	13.0	4.9	8.2	6.0	2.4	1.6	1.0	1.0	1.6	2.0
Ammount (Yr/Yr,%)	-1.3	1.0	4.7	5.1	5.1	5.8	4.6	2.6	3.4	2.8	1.4	1.4	1.2	1.2	1.2	1.1
Ammount (Qr/Qr,%)	0.6	0.5	2.6	2.5	-0.4	0.9	1.7	0.2	0.5	0.3	0.3	0.2	0.3	0.3	0.3	0.2
Value of imports (Yen base)	-18.7	-19.3	-9.3	8.8	16.2	14.8	17.0	7.4	8.9	12.2	7.3	6.8	4.9	4.0	-0.1	-0.2
Ammount (Yr/Yr,%)	-1.3	-0.7	1.6	2.2	4.9	1.8	3.9	2.6	1.3	2.5	0.9	1.6	1.7	2.7	0.6	0.2
Ammount (Qr/Qr,%)	-0.7	1.0	1.6	-0.3	2.3	-0.7	2.0	-0.2	0.2	0.5	0.4	0.5	0.3	1.5	-1.7	0.1
Balance (trillion yen)	1.5	1.0	1.3	0.3	0.7	1.2	0.7	-0.2	0.6	0.1	-0.2	-1.2	-0.1	-0.5	0.1	-0.7
Current account balance (trillion yen)*	5.2	4.9	5.3	5.4	5.0	5.8	5.9	4.6	4.9	4.7	4.6	4.5	4.3	4.0	5.0	4.9
Balance on goods (trillion yen)*	1.2	1.4	1.7	1.3	0.8	1.6	1.3	0.7	0.6	0.4	0.3	0.2	-0.1	-0.3	0.6	0.5
Balance on service (trillion yen)*	-0.4	-0.3	-0.3	-0.4	-0.2	-0.3	0.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Balance on income (trillion yen)*	4.9	4.4	4.4	4.9	4.8	5.1	5.1	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

*seasonally adjusted

【Corporations】

forecast

Yr/Yr, %

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Industrial production (Qr/Qr, %)	0.3	1.6	1.8	0.2	1.8	0.5	1.6	-1.3	1.4	0.1	0.3	0.3	0.6	1.4	-2.3	-0.1
(Yr/Yr, %)	-1.8	0.4	2.1	3.5	5.6	4.0	4.6	2.4	2.1	1.7	0.4	2.0	1.3	2.6	-0.1	-0.4
Inventory index (Qr/Qr, %)	-1.6	-2.2	-2.4	1.8	-0.3	-1.4	2.2	3.4	-2.0	-1.5	-0.3	0.1	0.3	-1.8	2.8	0.7
(Yr/Yr, %)	-0.5	-2.7	-5.3	-4.0	-2.8	-2.5	1.9	3.9	2.3	1.9	-0.7	-3.7	-1.4	-1.8	1.1	1.9
Sales	-3.5	-1.5	2.0	5.6	6.7	4.8	5.9	3.1	3.3	3.2	1.4	2.0	1.8	2.9	0.6	0.3
Ordinary profits	-10.0	11.5	16.9	26.6	22.6	5.5	0.9	-0.3	-3.0	0.8	2.2	2.2	2.0	4.4	0.4	0.1

【Income and emploiment】

forecast

Yr/Yr, %

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Income per capita	0.6	0.5	0.4	0.2	0.5	0.2	0.7	1.4	1.2	0.8	1.1	0.8	0.9	0.9	0.9	0.8
Scheduled	-0.1	0.3	0.3	0.2	0.5	0.4	0.4	1.0	0.8	0.8	0.9	0.8	0.8	0.9	0.9	0.9
Non-scheduled	0.5	-1.6	-1.2	-0.1	-0.0	0.9	0.8	0.8	0.5	0.1	0.1	0.3	0.4	1.3	-0.2	-0.5
Real wage indices	1.1	1.2	0.1	-0.1	-0.1	-0.6	-0.1	-0.2	0.1	-0.2	0.2	-0.1	0.1	0.1	-1.0	-1.1
Employee	1.6	1.5	1.6	1.0	1.2	1.5	1.1	2.0	2.0	1.6	1.7	0.5	0.4	0.5	0.2	0.3
Nominal compensation of employees*	2.5	2.8	2.7	1.4	2.2	2.2	1.9	3.2	3.3	2.7	2.8	1.9	1.3	1.4	1.2	1.2
Unemployment rate (%)	3.1	3.0	3.1	2.9	2.9	2.8	2.7	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.5	2.4

※GDP base

【Goods prices】

forecast

Yr/Yr, %

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Domestic corporate goods prices	-4.5	-3.8	-2.1	0.9	2.1	2.8	3.3	2.5	2.4	2.6	2.0	1.5	0.9	0.4	1.9	1.9
excluding tax effects					2.1	2.8	3.3	2.5	2.4	2.6	2.0	1.5	0.9	0.4	0.3	0.3
Consumer prices	-0.4	-0.5	0.3	0.3	0.4	0.6	0.6	1.3	0.9	0.8	0.8	0.7	0.6	0.6	1.6	1.6
excluding tax effects					0.4	0.6	0.6	1.3	0.9	0.8	0.8	0.7	0.6	0.6	0.6	0.6
excluding freshfood	-0.4	-0.5	-0.3	0.2	0.4	0.6	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.6	1.6	1.6
excluding tax effects					0.4	0.6	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6
excluding food (excluding alcoholic beverages) and energy	0.7	0.4	0.2	0.1	0.0	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1.4	1.3

【 New housing starts】

forecast

annualized, ten thousand units
Yr/Yr, %

	FY 2016				FY 2017				FY 2018				FY 2019			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
New housing starts	97.9	97.8	96.8	97.2	98.7	95.5	94.8	89.2	89.0	88.3	90.4	94.2	96.7	90.5	86.5	84.4
	4.9	7.1	7.9	3.2	1.1	-2.4	-2.5	-8.2	-9.9	-7.5	-4.6	5.6	8.7	2.6	-4.3	-10.5
Owned	29.3	29.6	29.0	28.7	29.2	28.0	27.9	27.7	27.2	27.5	28.3	29.4	30.6	27.0	25.1	24.6
	2.1	3.9	4.6	-0.8	-0.5	-5.3	-3.9	-3.4	-6.7	-1.8	1.0	6.1	12.5	-1.8	-11.4	-16.4
Rented	42.4	43.4	41.8	43.4	42.5	41.8	40.4	39.4	38.0	37.4	38.1	39.9	41.3	40.5	38.5	36.4
	11.0	11.2	13.0	10.0	0.3	-3.6	-3.6	-9.4	-10.7	-10.3	-5.8	1.2	8.9	8.4	0.8	-8.9
Built for Sale	25.7	24.3	24.9	24.9	26.7	25.3	25.1	22.2	23.3	22.9	23.4	24.3	24.1	22.6	22.4	22.9
	-0.5	3.6	3.8	-2.0	4.7	3.7	0.8	-10.8	-12.6	-9.7	-6.7	9.3	4.0	-1.7	-4.2	-6.0