12 December 2018

Report

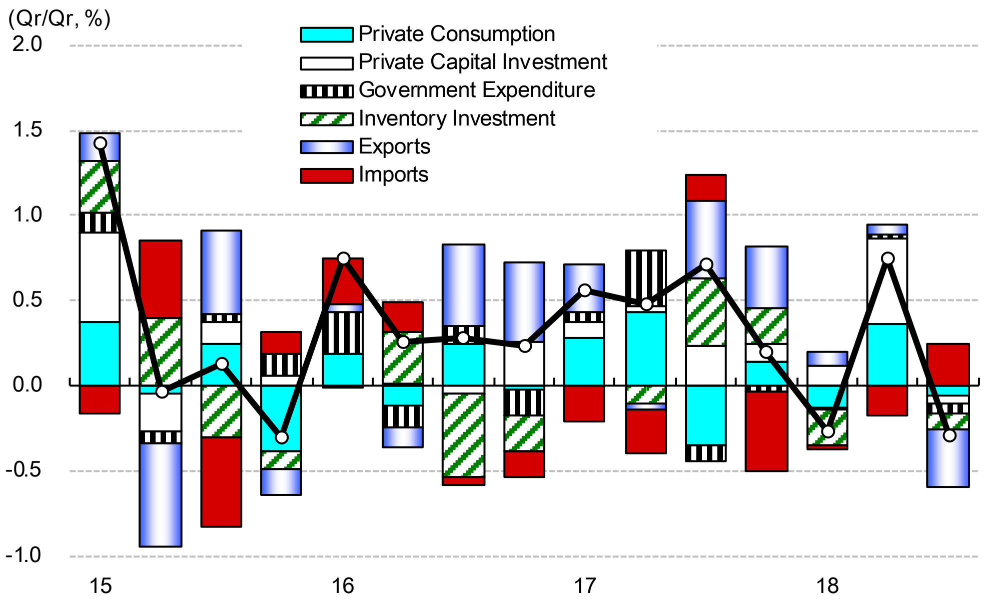
The Japanese Economy in Fiscal 2018 and Fiscal 2019

―While There is Heightened Downside Risk, the Economy Continues to Recover―

(1) Current State of the Economy: Despite a Temporary Shift to Negative Growth the Recovery Continues

The real GDP growth rate for the July–September quarter of 2018, which was announced on November 14, showed a decline of 0.3% from the previous quarter (-1.2% at an annualized rate), the first negative figure in two quarters. Additional factors weighing on the solid growth of the previous quarter included temporary downward pressures such as unseasonable weather and natural disasters and the contribution by both domestic and external demand were negative. However, as this is only a temporary decline, the general trend of the economic recovery is continuing.

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



Source: Cabinet Office "Quarterly Estimates of GDP" (Quarterly)

Consumer spending decreased 0.1% compared to the previous quarter. In contrast to the strong increase of the April-June quarter, impacting negatively were weather conditions and natural disasters such as the torrential rain in western Japan and countrywide severe heat in July, the damage caused by Typhoon Jebi (Typhoon 21) in September, and the Hokkaido Eastern Iburi Earthquake. In addition, real consumption dropped caused by the rise in gasoline prices due to an increase in international commodity prices and soaring prices of fresh foods due to the unseasonable weather (The personal consumption deflator rose 0.4% compared with the previous quarter). On the other hand, the decrease was only marginal because the boosting effect of hot weather seen in such areas as strong sales of air conditioners contributed positively, underpinned by favorable employment and income conditions.

Housing investment turned positive for the first time in five quarters, rising 0.6% compared with the previous quarter due to a temporary pickup in housing starts since April, which is a leading indicator for residential investment.

In the corporate sector, capital investment declined 0.2% from the previous quarter, for the first time in eight quarters. Despite persistent needs for labor-saving investment to cope with labor shortage, and a rise from the Olympic-related demand and R&D investment, there was also a reactionary drop from the sharp increase in the April-June quarter, which turned negative compared to the previous quarter. However, high levels have been maintained in both nominal and real terms, and the nominal value has been updated to the highest level ever. On the other hand, inventory investment contributed to 0.1% decline over the previous quarter.

In the government sector, demand for government services, manly related to medical expenses, is increasing, and the final consumption expenditure of government is on upward trend, rising 0.2% compared to the previous quarter. Public investment continued to decrease 1.9%, due to constraints on the annual budget.

In this way, contribution of domestic demand fell 0.2%, compared to the previous quarter, mainly due to temporary downward pressure on private-sector demand. The contribution from external demand also declined slight 0.1%, making it the second consecutive negative quarter. Exports declined 1.8% from the previous quarter due to weak inbound consumption and delays in logistics caused by the effect of unseasonable weather and natural disasters. Imports also experienced a downturn of 1.4%, the first time in four quarters, reflecting the weakness of domestic demand.

The nominal GDP growth rate was -0.3% (an annualized rate of -1.1%) compared with the previous quarter, and the GDP deflator, a measure of overall price trends in the economy as a whole, was -0.3% (+0.0% compared with the previous year), a second consecutive negative quarter. Personal consumption deflators and other items rose (+0.6% year-on-year) due to the rise in fresh food prices. Moreover, the large scale of the increase in the import deflator, which is a deduction item for GDP growth rate, had a significant impact (+ 7.6% over the previous year).

(2) Outlook for the Economy in Fiscal 2018, Fiscal 2019, and into fiscal 2020
─ While There is Heightened Downside Risk, the Economy Continues to Recover

Although the economy faced negative growth in the July-September quarter, this is temporary and the economic recovery continues, and positive growth is expected to return in the October-December quarter. The temporary factors contributing to the economic downturn, including unseasonable weather and natural disasters, will diminish. The economy will receive a boost contributed by a pick-up in domestic demand due to an upward effect from restoration in manufacturing and logistics along with demand associated with recovery and reconstruction from natural disaster.

However, there is concern that the recovery in exports will be delayed. Basically, a large decline in exports will be avoided due to the worldwide spread of the labor shortage providing a boost to demand for capital investment, and a significant rise in demand for electronic components and devices will continue to increase along with a shift to electric automobiles, a rise in demand for robots, and an improvement and expansion of information and communication functions. However, concerns over the future of the Chinese economy are intensifying as trade friction between the U.S. and China escalates, and in China the cautious attitude to new capital investment is spreading. To this point, noticeable negative effects, such as a deterioration in the economy along with the tariff raising battle between the two countries, and thereby export decline from Japan, have been absent, but there is a concern that the influence will gradually spread in the New Year and onward. If, as expected, the weakening of exports does deepen due to weak external demand, there will be a risk that the economy will experience a temporary leveling off.

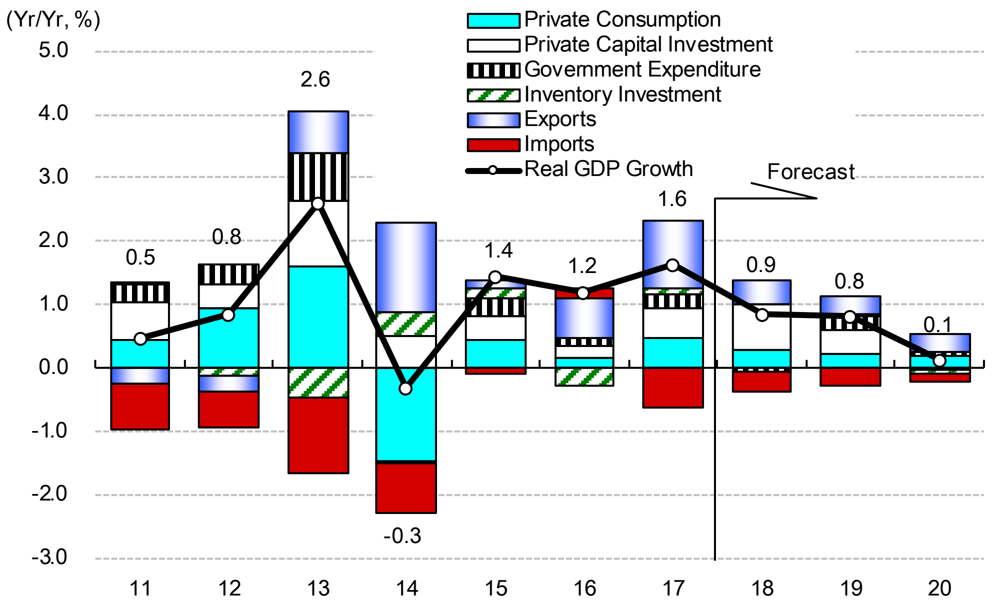
It will be possible to avoid the economic downturn. First, demand for infrastructure and other construction in advance of the Tokyo Olympics and Paralympics will build to a climax and increasing urban redevelopment projects in the Tokyo metropolitan area will give a further boost to the economy. Moreover, 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 drive to make capital investments continues to be strong backed by the steady growth in business performance and in some sectors there are increases in large-scale investments to raise production capacity.

Second, labor supply and demand has tightened further, and the rate of nominal wage growth is increasing gradually. Summer bonus payments grew strongly, and solid growth is expected in winter bonuses as well. Against the background of these improvement in employment and income conditions, the outlook for consumer spending viewed on average is expected to sustain its firmness.

For this reason, even though the momentum may become somewhat subdued, the economic recovery is expected to continue during fiscal 2018. Data for December 2018 will 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 is likely to go on to setting new records. Real GDP growth in fiscal 2018 is forecast to be +0.9% over the previous year, a slowdown in growth from +1.6% in fiscal 2017, thus marking the fourth consecutive year of positive growth (Chart 2).

The biggest downside risk for the economy is the worsening trade impasse between the Trump administration and a number of countries, which could trigger the global economy to deteriorate. The most important area of trade friction is that between the United States and China. There is a possibility that negotiations for the signing of the Japan-U.S. trade agreement (TAG) to be launched in 2019 could become embroiled in this situation. Other risks that may cause global economic slowdown include geopolitical risks such as the situation in the Middle East and North Korea, political turmoil in Europe and the United States, and fluctuations in the international financial markets due to the rise in U.S. interest rates. In addition, if the yen were to rapidly appreciate under these circumstances, corporate performance will decline mainly for export companies. If these risks were to occur, we could not make up for the decline in exports with a domestic recovery, and the economy would enter a recessionary phase.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

In fiscal 2019, the recovery in the economy is expected to be maintained, and real GDP growth will rise 0.8% over the previous year, thereby achieving five years of consecutive growth. 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 compared with the previous consumption tax hike, (2) it will not apply to food and beverage 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, a revision in the automobile tax system, and the introduction of a premium gift certificate, 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 to make early-stage childhood education free of charge and cover other household costs, with the aim of further reducing the financial burden of the tax increase on households. Also, since the Tokyo Olympic and Paralympic 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 infrastructure construction related to the Tokyo Olympics/Paralympics is expected to run its course in the second half of fiscal 2019, and, as a countermeasure to the consumption tax increase, the government may formulate economic measures, centered on public investment, to soften the impact of the expected economic slump.

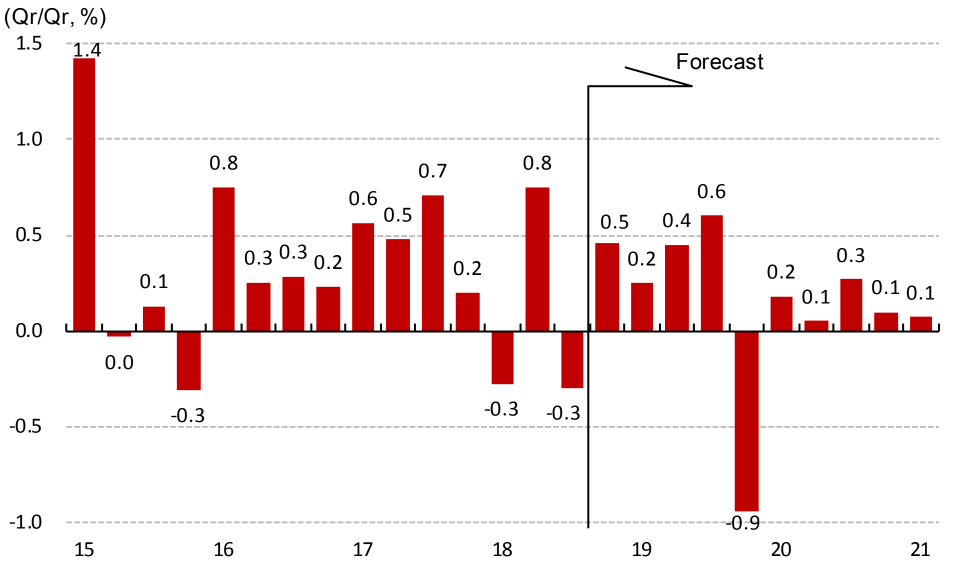
While it is difficult to see the trade friction between the United States and China settled soon, the likelihood that it could trigger a rapid deterioration of both economies means that we do not expect the situation to escalate any further for the time being. For this reason, the recovery trend in the world economy will continue and exports will increase moderately.

In fiscal 2020, our outlook is for the real GDP growth rate to weaken and level off to +0.1% compared to the previous year. We are expecting that consumer spending demand and in-bound tourist expenditures related to the Olympics, which will be held from July to September, will rise to a climax from the beginning of fiscal 2020 and provide a temporary boost for the economy. However, as the reactionary decline after the Olympics sets in and infrastructure construction demand runs its course, there will be a risk that GDP growth will stagnate owing to the slowdown of the world economy.

Looking at these trends by quarter, the real GDP growth rate for the October-December quarter 2018 is expected to return to positive growth and remain positive (Chart 3). Growth is expected to slow somewhat in the January-March quarter of 2019, because it is assumed that export growth will remain moderate. If Japan's export will decline because of the influence of the U.S.-China trade friction and a slowdown in overseas economic growth, then the likelihood that the economy will level off is heightened.

After entering fiscal 2019, the growth rate will gradually increase ahead of the consumption tax hike, but due to the factors mentioned above, the real GDP growth rate in the July-September quarter for 2019, immediately before the tax increase will be only +0.6% as compared with +0.9% over the previous quarter in the April-June quarter of 2014, The subsequent reactionary decline will also be a gentle decline of 0.9%, compared to -1.8%, in the previous tax increase.

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

After raising the consumption tax rate, negative growth due to a reactionary decline after the surge in demand has run its course is expected to end in a quarter. Despite this, due to the completion of infrastructure construction demand, a possible slowdown in demand in overseas economies, aside from the July-September quarter 2020 when the Tokyo Olympic and Paralympic Games will be held, the recovery tempo of the economy is expected to be dull. An especially heightened risk of an economic slowdown exists for the second half of 2020.

Economic Outlook for fiscal 2017-2020

【GDP demand】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Nominal GDP	1.7	0.8	1.6	0.8
Real GDP	1.6	0.9	0.8	0.1
Contribution of domestic demand	1.2	0.8	0.8	-0.0
Private consumption	0.8	0.5	0.4	0.3
Housing investment	-0.3	-4.3	-1.2	-6.0
Private capital investment	3.1	4.4	2.3	-0.3
Contribution of inventory investment	0.1	0.0	0.0	-0.0
Government expenditure	0.9	-0.2	0.9	0.3
Government final consumption expenditure	0.7	0.6	0.9	0.8
Public investment	1.5	-3.0	0.9	-1.4
Contribution of external demand	0.4	0.0	0.0	0.1
Export of goods and services	6.3	2.0	1.7	1.4
Import of goods and services	4.1	2.0	1.6	0.7
GDP deflator	0.1	-0.1	0.8	0.7

【Overseas economy and market data】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Real GDP (US) (CY)	2.2	2.9	2.6	1.7
Real GDP (Euro zone) (CY)	2.5	1.9	1.4	1.1
Real GDP (Asia)	5.9	5.9	5.9	5.9
Real GDP (China)	6.9	6.6	6.4	6.2
Yen/U.S.Dollar	111.1	111.4	109.5	107.5
Uncollateralized call rates (O/N) (%)*	-0.048	-0.055	-0.025	0.000
TIBOR (3months)	0.061	0.069	0.078	0.086
Newly issued government bond yields (10years) (%)	0.05	0.10	0.14	0.18
WTI future price (near month contract, US dollar/barrel)	53.6	66.0	64.6	66.6
North Sea Brent Crude (US dollar/barrel)	57.9	74.1	70.4	71.6

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Value of exports (Yen base)	10.8	3.9	0.3	-0.1
Ammount (Yr/Yr,%)	5.0	1.0	0.7	0.6
Value of imports (Yen base)	13.7	7.7	-0.1	-0.4
Ammount (Yr/Yr,%)	4.4	1.3	1.5	0.1
Balance (trillion yen)	2.4	-0.4	-0.0	0.2
Current account balance (trillion yen)	21.8	19.3	20.1	21.0
balance on goods (trillion yen)	4.6	1.9	2.4	2.6
balance on service (trillion yen)	-0.5	-1.3	-1.2	-0.9
balance on income (trillion yen)	19.9	20.9	21.1	21.4

【Corporations】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Industrial production	2.8	0.3	0.7	-0.5
Inventory index	5.2	-2.6	2.4	-0.5
Sales	5.1	3.5	1.3	0.1
Ordinary Profits	6.9	6.9	0.1	-0.3

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Income per capita	0.7	1.4	0.6	0.6
Scheduled	0.6	1.0	0.6	0.6
Non-scheduled	0.7	0.7	0.1	0.0
Wage increase rate (%)	2.11	2.26	2.40	2.10
Employee	1.5	1.6	0.4	0.3
Nominal compensation of employees*	2.1	2.9	1.2	1.0
Unemployment rate (%)	2.7	2.4	2.3	2.3

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Domestic corporate goods prices	2.7	2.5	1.1	1.3
excluding tax effects	2.8	2.5	0.2	0.5
Consumer prices	0.7	0.8	1.0	1.0
excluding tax effects	4.7	2.2	-0.8	-0.7
excluding freshfood	0.7	0.9	0.9	1.0
excluding tax effects	0.7	0.9	0.4	0.5
excluding food (excluding alcoholic beverages) and energy	0.2	0.3	0.9	1.0

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
New housing starts	94.6	95.6	90.8	85.8
	-2.8	1.0	-5.0	-5.5
Owned	28.2	28.6	26.6	24.7
	-3.3	1.3	-6.8	-7.2
Rented	41.0	40.6	39.9	36.8
	-4.0	-1.0	-1.8	-7.8
Built for Sale	24.8	25.5	23.5	23.5
	-0.3	2.7	-7.9	0.0

Economic Outlook for calendar 2017-2020

【GDP demand】

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Nominal GDP	1.5	0.9	1.5	1.0
Real GDP	1.7	0.8	1.0	0.1
Contribution of domestic demand	0.4	1.2	0.7	0.0
Private consumption	1.0	0.3	0.7	0.1
Housing investment	2.7	-5.8	1.3	-8.4
Private capital investment	2.8	4.3	2.8	0.1
Contribution of inventory investment	-0.0	0.2	0.0	-0.0
Government expenditure	0.6	-0.1	0.6	0.6
Government final consumption expenditure	1.2	-2.0	-0.2	-0.3
Public investment	0.4	0.5	0.8	0.9
Contribution of external demand	0.6	0.1	-0.0	0.2
Export of goods and services	6.7	3.2	1.5	1.5
Import of goods and services	3.5	2.7	1.6	0.6
GDP deflator	-0.2	0.0	0.5	0.9

【Overseas economy and market data】

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Real GDP (US) (CY)	2.2	2.9	2.6	
Real GDP (Euro zone) (CY)	2.5	1.9	1.4	1.1
Real GDP (Asia)	5.9	5.9	5.9	
Real GDP (China)	6.9	6.6	6.4	
Yen/U.S.Dollar	112.0	110.5	110.5	107.8
Uncollateralized call rates (O/N) (%)*	-0.045	-0.055	-0.033	-0.005
TIBOR (3months)	0.059	0.070	0.078	0.078
Newly issued government bond yields (10years) (%)	0.05	0.08	0.14	0.16
WTI future price (near month contract, US dollar/barrel)	50.9	66.3	63.6	66.3
North Sea Brent Crude (US dollar/barrel)	54.7	73.2	70.4	71.4

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Value of exports (Yen base)	10.8	3.9	0.3	-0.1
Ammount (Yr/Yr,%)	5.0	1.0	0.7	0.6
Value of imports (Yen base)	13.7	7.7	-0.1	-0.4
Ammount (Yr/Yr,%)	4.4	1.3	1.5	0.1
Balance (trillion yen)	2.4	-0.4	-0.0	0.2
Current account balance (trillion yen)	22.0	19.6	19.6	21.1
balance on goods (trillion yen)	5.0	2.4	2.1	2.8
balance on service (trillion yen)	-0.7	-1.2	-1.2	-1.0
balance on income (trillion yen)	19.8	20.5	20.9	21.3

【Corporations】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Industrial production	3.1	0.6	0.9	-0.7
Inventory index	4.1	0.3	1.5	0.1
Sales	5.7	3.8	1.8	-0.1
Ordinary Profits	13.2	6.5	-0.2	0.1

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Income per capita	0.4	1.6	0.7	0.6
Scheduled	0.4	1.0	0.7	0.6
Non-scheduled	0.4	1.1	0.0	0.0
Real wage indices	-0.2	0.4	-0.3	-0.9
Number of mployees	1.2	2.0	0.5	0.4
Nominal compensation of employees*	1.9	3.1	1.4	1.1
Unemployment rate (%)	2.8	2.4	2.3	2.3

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
Domestic corporate goods prices (Yr/Yr,%)	2.3	2.7	1.0	1.6
excluding tax effects	2.3	2.6	0.7	0.3
Consumer prices	0.5	1.0	0.7	1.2
excluding tax effects	0.5	1.0	0.5	0.4
excluding freshfood	0.5	0.9	0.8	1.2
excluding tax effects	0.5	0.8	0.6	0.4
excluding food (excluding alcoholic beverages) and energy	0.1	0.4	0.6	1.2

【 New housing starts】

annualized, ten thousand units

forecast Yr/Yr、%

		CY 2017 (actual)	CY 2018 (forecast)	CY 2019 (forecast)	CY 2020 (forecast)
New housing starts		96.5	93.8	93.6	85.3
		-0.2	-2.8	-0.2	-8.8
	Owned	28.5	28.2	27.9	24.5
		-2.6	-1.0	-0.9	-12.4
	Rented	42.0	40.3	40.8	36.8
		0.6	-4.0	1.3	-9.9
	Built for Sale	25.5	24.8	24.1	23.4
		1.7	-3.0	-2.8	-2.9

Economic Outlook (Quarterly)

forecast

Qr/Qr,%
Yr/Yr,%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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,%)	0.7	1.1	0.2	-0.5	0.6	-0.3	0.9	-0.0	0.5	0.9	0.2	-0.2	0.1	0.5	0.5	-0.2
Nominal GDP Annualized rate	2.7	4.3	0.9	-1.8	2.2	-1.1	3.5	-0.1	2.2	3.5	0.8	-1.0	0.3	2.1	2.1	-0.9
Nominal GDP (Yr/Yr,%)	1.2	2.1	2.0	1.5	1.4	0.0	0.6	1.2	1.4	0.0	0.6	1.2	1.1	2.2	1.5	1.6
Real GDP (Qr/Qr,%)	0.5	0.7	0.2	-0.3	0.8	-0.3	0.5	0.2	0.4	0.6	-0.9	0.2	0.1	0.3	0.1	0.1
Real GDP Annualized rate	1.9	2.9	0.8	-1.1	3.0	-1.2	1.8	1.0	1.8	2.4	-3.7	0.7	0.2	1.1	0.4	0.3
Real GDP (Yr/Yr,%)	1.5	2.0	1.9	1.1	1.4	0.3	0.6	1.2	0.9	1.7	0.3	0.3	-0.1	-0.5	0.6	0.5
Contribution of domestic demand (Qr/Qr,%)	0.8	0.1	0.3	-0.3	0.9	-0.2	0.3	0.3	0.5	0.8	-1.2	0.1	0.0	0.2	0.2	0.1
Private consumption	0.8	-0.6	0.3	-0.2	0.7	-0.1	0.3	0.1	0.3	1.0	-2.0	0.7	0.2	0.4	0.0	0.2
	1.7	0.6	0.9	0.1	0.1	0.5	0.6	0.9	0.6	1.7	-0.6	-0.0	-0.1	-0.7	1.3	0.8
Housing investment	1.6	-1.8	-3.2	-2.1	-1.9	0.6	0.8	1.5	2.0	-1.3	-5.5	-4.2	-1.0	1.0	0.5	0.8
	5.7	1.4	-2.4	-5.6	-8.7	-6.4	-2.6	0.9	5.0	3.0	-3.4	-8.9	-11.5	-9.5	-3.7	1.3
Private capital investment	0.2	1.5	0.7	0.7	3.1	-0.2	0.2	0.5	1.0	2.5	-1.9	-0.1	0.1	0.0	0.1	0.0
	2.6	3.8	3.1	3.0	6.5	4.1	3.9	3.5	1.6	4.1	2.1	1.4	0.7	-1.9	0.1	0.2
Contribution of inventory investment (Qr/Qr,%)	-0.1	0.4	0.2	-0.2	0.0	-0.1	0.0	0.0	0.1	-0.3	0.3	-0.2	-0.0	-0.0	0.1	-0.1
Government expenditure	1.3	-0.4	-0.1	-0.1	0.1	-0.2	0.1	0.2	0.2	0.3	0.4	0.2	-0.1	-0.0	0.0	0.1
	1.4	0.6	1.0	0.7	-0.3	-0.4	-0.2	0.1	0.4	0.8	1.1	1.1	0.9	0.5	0.1	-0.0
Government final consumption expenditure	0.4	0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.1	0.2	0.2	0.2	0.2
	0.9	0.6	0.8	0.5	0.4	0.5	0.6	0.7	0.7	0.8	1.0	1.0	1.0	0.9	0.6	0.7
Public investment	5.0	-2.2	-0.8	-0.5	-0.3	-1.9	-0.2	0.2	0.6	0.5	0.2	0.3	-0.9	-0.8	-0.6	-0.3
	3.7	0.4	1.2	1.2	-3.1	-3.6	-3.0	-2.3	-0.9	1.1	1.5	1.7	0.3	-1.1	-1.9	-2.6
Contribution of external demand (Qr/Qr,%)	-0.3	0.6	-0.1	0.1	-0.1	-0.1	0.2	-0.0	-0.1	-0.2	0.2	0.1	0.0	0.1	-0.1	-0.0
Export of goods and services	-0.2	2.7	2.1	0.5	0.3	-1.8	2.0	0.3	0.4	0.4	0.3	0.4	0.3	0.5	0.1	0.3
	6.8	6.9	6.6	5.1	5.7	1.1	0.8	0.7	0.9	3.1	1.3	1.5	1.5	1.6	1.4	1.3
Import of goods and services	1.7	-1.0	3.1	0.1	1.0	-1.4	1.1	0.3	0.7	1.3	-1.1	0.1	0.3	0.3	0.4	0.4
	4.4	2.7	5.4	3.9	3.3	2.8	0.9	1.0	0.7	3.5	1.3	1.0	0.7	-0.3	1.1	1.3
GDP deflator (Yr/Yr,%)	-0.3	0.1	0.1	0.5	-0.0	-0.3	0.0	0.0	0.1	0.4	1.2	1.3	1.2	1.1	0.2	0.2

【Overseas economy and market data】

forecast

	FY 2017				FY 2018				FY 2019				FY 2020			
	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,%)	3.0	2.8	2.3	2.2	4.2	3.5	2.7	2.4	2.0	2.0	1.9					
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	2.8	2.7	2.7	1.6	1.8	0.8	1.7	1.4	1.4	1.4	1.4	1.0	1.0	1.0	1.0	5.1
Real GDP (Asia) (Yr/Yr,%)	5.9	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9					
Real GDP (China) (Yr/Yr,%)	6.9	6.8	6.8	6.8	6.7	6.5	6.4	6.4	6.4	6.4	6.3					
Yen/U.S.Dollar	111.9	111.2	112.9	108.3	109.1	111.5	113.1	112.0	111.0	110.0	109.0	108.0	108.0	108.0	107.0	107.0
Uncollateralized call rates (O/N) (%)*	-0.050	-0.050	-0.040	-0.050	-0.060	-0.060	-0.050	-0.050	-0.030	-0.030	-0.020	-0.020	0.000	0.000	0.000	0.000
TIBOR (3months)	0.056	0.059	0.063	0.067	0.086	0.078	0.050	0.063	0.094	0.094	0.063	0.063	0.063	0.094	0.094	0.094
Newly issued government bond yields (10years) (%)	0.06	0.04	0.05	0.06	0.04	0.09	0.13	0.14	0.15	0.15	0.12	0.12	0.15	0.18	0.18	0.20
WTI future price (near month contract, US dollar/barrel)	48.2	48.2	55.3	62.9	67.9	69.5	64.8	61.8	62.8	64.4	65.4	65.9	66.2	66.5	66.8	67.1
North Sea Brent Crude (US dollar/barrel)	50.8	52.2	61.5	67.2	74.9	76.0	74.7	70.7	70.0	70.3	70.6	70.9	71.2	71.5	71.8	72.1

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr､%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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)	10.5	15.1	13.0	4.9	7.5	2.9	3.0	2.2	1.1	2.1	-1.1	-0.6	-0.2	0.1	-0.4	-0.1
Ammount (Yr/Yr,%)	4.8	6.2	4.8	4.2	5.6	-1.0	0.5	-1.0	-1.4	3.1	0.4	0.8	0.7	0.7	0.5	0.5
Ammount (Qr/Qr,%)	-1.0	1.6	2.1	1.3	0.6	-4.2	3.0	-0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Value of imports (Yen base)	16.2	14.8	17.0	7.5	7.5	12.4	6.5	4.8	4.4	0.4	-2.6	-2.2	-1.7	-1.7	0.6	1.0
Ammount (Yr/Yr,%)	5.9	2.7	5.5	3.7	1.4	2.0	0.4	1.3	2.1	3.1	0.5	0.3	0.0	-1.3	0.7	1.0
Ammount (Qr/Qr,%)	2.9	-0.3	2.4	-0.6	-0.4	0.6	0.8	0.3	0.4	1.5	-1.7	0.1	0.1	0.2	0.3	0.4
Balance (trillion yen)	0.7	1.2	0.7	-0.2	0.8	-0.6	0.1	-0.7	0.1	-0.2	0.4	-0.3	0.4	0.2	0.2	-0.6
Current account balance (trillion yen)*	5.0	5.8	5.9	4.7	5.5	4.2	4.8	4.8	4.9	4.7	5.3	5.2	5.3	5.3	5.2	5.1
Balance on goods (trillion yen)*	0.8	1.6	1.3	0.7	1.0	0.0	0.6	0.5	0.5	0.3	0.9	0.7	0.8	0.7	0.6	0.5
Balance on service (trillion yen)*	-0.2	-0.3	0.1	-0.2	-0.5	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3	-0.2
Balance on income (trillion yen)*	4.8	5.1	5.1	4.7	5.5	5.0	5.1	5.1	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.4

*seasonally adjusted

【Corporations】

forecast

Yr/Yr､%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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, %)	1.9	0.0	1.2	-1.1	1.2	-1.3	0.6	0.3	0.6	1.1	-1.9	-0.1	0.1	0.1	0.0	0.2
Industrial production (Yr/Yr, %)	4.4	2.5	3.1	1.8	1.2	-0.1	-0.6	0.7	0.1	2.6	0.2	-0.2	-0.8	-1.8	0.1	0.4
Inventory index (Qr/Qr, %)	0.1	0.1	2.0	3.0	-2.6	1.2	-1.2	0.0	0.2	-1.4	2.8	0.8	0.2	-0.9	0.0	0.2
Inventory index (Yr/Yr, %)	-1.0	-1.0	4.1	5.2	2.4	3.5	0.3	-2.6	0.2	-2.4	1.5	2.4	2.4	2.8	0.1	-0.5
Sales	6.7	4.8	5.9	3.2	5.1	4.2	2.7	2.3	1.4	2.6	1.0	0.3	-0.3	-1.1	0.5	1.1
Ordinary profits	22.6	5.5	0.9	0.2	17.9	2.4	3.8	1.7	-10.5	7.9	3.9	2.7	0.4	-2.6	-0.0	0.6

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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	0.5	0.2	0.7	1.4	2.2	1.2	1.5	0.7	0.7	0.8	0.6	0.5	0.6	0.7	0.6	0.5
Scheduled	0.5	0.4	0.4	1.0	1.1	1.1	1.0	0.8	0.7	0.7	0.6	0.5	0.6	0.7	0.6	0.5
Non-scheduled	-0.0	0.9	0.8	0.9	2.4	1.1	-0.1	-0.4	-0.5	1.4	-0.3	0.0	0.4	-0.3	0.0	-0.1
Real wage indices	-0.1	-0.6	-0.1	-0.2	1.4	0.0	0.4	0.1	-0.1	0.1	-1.2	-1.2	-1.3	-1.1	-0.1	-0.2
Employee	1.2	1.5	1.1	2.0	2.2	1.9	1.8	0.7	0.4	0.5	0.4	0.5	0.4	0.3	0.4	0.2
Nominal compensation of employees*	2.2	2.0	1.8	2.7	3.4	2.5	3.6	1.8	1.3	1.6	1.0	1.1	1.2	1.1	1.0	0.9
Unemployment rate (%)	2.9	2.8	2.7	2.5	2.4	2.4	2.4	2.3	2.3	2.2	2.4	2.3	2.2	2.3	2.4	2.4

※GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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	2.2	2.8	3.3	2.5	2.4	3.0	2.7	1.8	0.8	0.1	1.6	1.7	2.0	2.1	0.6	0.7
excluding tax effects	2.2	2.8	3.3	2.5	2.4	3.0	2.7	1.8	0.8	0.1	0.0	0.1	0.4	0.5	0.6	0.7
Consumer prices	0.4	0.6	0.6	1.3	0.6	1.1	1.1	0.4	0.7	0.4	1.3	1.4	1.4	1.5	0.5	0.5
excluding tax effects	0.4	0.6	0.6	1.3	0.6	1.1	1.1	0.4	0.7	0.4	0.3	0.4	0.4	0.5	0.5	0.5
excluding freshfood	0.4	0.6	0.9	0.8	0.8	0.9	0.9	0.8	0.5	0.4	1.4	1.4	1.4	1.5	0.5	0.6
excluding tax effects	0.4	0.6	0.9	0.8	0.8	0.9	0.9	0.8	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6
excluding food (excluding alcoholic beverages) and energy	0.0	0.2	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4	1.4	1.4	1.4	1.4	0.5	0.5

【 New housing starts】

forecast

annualized, ten thousand units

Yr/Yr、%

	FY 2017				FY 2018				FY 2019				FY 2020			
	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	98.7	95.5	94.8	89.2	96.8	95.3	93.9	96.5	98.3	92.1	87.4	84.9	85.1	85.3	85.9	87.0
	1.1	-2.4	-2.5	-8.2	-2.0	-0.2	-0.8	8.1	1.6	-3.3	-6.9	-11.9	-13.5	-7.3	-1.7	2.4
Owned	29.2	28.0	27.9	27.7	28.5	28.0	28.6	29.6	30.5	26.8	24.9	24.2	24.4	24.5	24.8	25.3
	-0.5	-5.3	-3.9	-3.4	-2.5	0.1	2.1	6.6	7.0	-4.3	-12.8	-18.2	-19.8	-8.4	-0.6	4.6
Rented	42.5	41.8	40.4	39.4	41.0	40.9	40.1	40.9	42.1	41.2	39.2	37.0	36.7	36.7	36.8	37.2
	0.3	-3.6	-3.6	-9.4	-3.5	-2.0	-1.1	3.6	2.8	0.9	-2.3	-9.4	-12.9	-11.1	-6.0	0.5
Built for Sale	26.7	25.3	25.1	22.2	26.3	25.9	24.5	25.3	25.0	23.3	22.6	23.1	23.3	23.5	23.6	23.8
	4.7	3.7	0.8	-10.8	-1.3	2.1	-2.3	13.7	-4.9	-10.1	-7.9	-8.8	-6.8	0.6	4.4	3.0