8 March 2019

Report

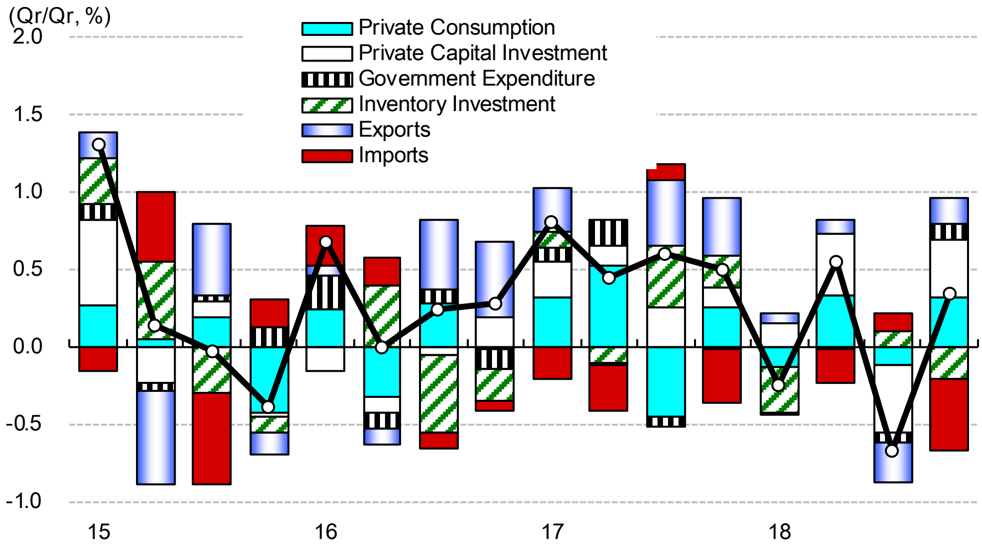
The Japanese Economy in Fiscal 2019 and Fiscal 2020

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

(1) Current State of the Economy: Despite the Return to Positive Growth, the Rate of Expansion Will Be only Marginal

The real GDP growth rate for the October–December quarter of 2018, which was announced on February 14, showed an increase of 0.3% from the previous quarter (an annualized rate of +1.4%), the first positive figure in two quarters. Reasons for the return to positive growth included the easing of temporary downward pressures caused by natural disasters and the continuing strength of domestic demand. Despite this improvement, the economic rebound lacks momentum and has not fully recovered from the decline in the previous quarter (of –0.7% quarter to quarter). The cause of this weakness in momentum was the large negative figure for the contribution of external demand, due to the steady rise in imports, reflecting the strength of domestic demand on the one hand, and the weakness of export momentum owing to the slowdown in overseas economies on the other.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

Consumer spending increased 0.6% compared to the previous quarter, the first rise in two quarters. Factors accounting for this increase included the easing of temporary downward pressures caused by natural disasters in the previous period. Other circumstances pushing consumer spending upward were the improvement in purchases of services in such areas as tourism along with good weather conditions against a background of positive employment and income conditions and continued favorable demand for durable goods such as automobiles and electrical appliances.

Housing investment rose 1.1%, the second consecutive quarter-to-quarter increase due to a temporary pickup in the April-June quarter housing starts, which is the leading indicator for residential investment. At present housing starts are fluctuating within a narrow range.

In the corporate sector, capital investment rose 2.4% from the previous quarter, the first rise in two quarters. At present, investment in nominal and real terms is at a high level, and nominal capital investment in particular is at the highest level in history. This appears to be due to the persisting need for labor-saving investment to cope with labor shortages and investments in IT to increase productivity. In addition, it appears that the overall level of investment is being boosted by demand related to the 2020 Tokyo Olympics, principally for infrastructure investment, and R&D investments. In some industries, trends to actively increase production capacity are emerging. On the other hand, the contribution of inventory investment for the quarter was –0.2% compared to the previous quarter.

In the government sector, demand for government services, mainly related to medical expenses, is rising, and the final consumption expenditure of government recorded a high 0.8% gain compared to the previous quarter. On the other hand, although there is a possibility that public investment related to recovery and reconstruction from natural disasters is emerging in some areas, this has not been sufficient to boost the overall level of public investment and it continued to decrease 1.2% for the quarter.

In this way, domestic demand is remaining firm and made a high 0.6 percentage point contribution for the quarter, but this was thought likely to be due to the diminishing impact of the negative effects of natural disasters compared with the previous quarter. In contrast, the contribution from external demand was a slight –0.3%, making it the third consecutive negative quarter. Exports increased 0.9%, the first positive figure in two quarters, but if we consider the temporary boosting effect of the resumption of exports following natural disasters, these results do not suggest a strong performance. On the other hand, reflecting the firmness of domestic demand, the contribution of imports was +2.7 percentage points, substantially stronger than exports.

The nominal GDP growth rate was 0.3% (an annualized rate of +1.1%) compared with the previous quarter, reflecting the transition from negative growth in the July-September quarter to positive growth as in the case of real GDP. The GDP deflator, a measure of overall price trends in the economy, was –0.3% year-on-year (–0.1% compared with the previous quarter), the third consecutive negative quarter. However, as the margin of increase in the import deflator diminished (which is a deduction item for GDP growth), reflecting the decline in resource prices, the margin of decline in the GDP deflator was somewhat smaller than in the previous period.

(2) Outlook for the Economy in Fiscal 2019, Fiscal 2020
―While There is Heightened Downside Risk, the Economy Continues to Recover

The economy returned to positive growth in the October-December quarter, enabling us to at least confirm that the economy will end 2018 on a recovery trend. However, even if we consider that, in addition to a tapering away of the temporary negative impact of natural disasters, the comeback in production and recovery in distribution will have a positive boosting effect, and that recovery and reconstruction from such disasters will have a positive impact, the economy will still lack recovery momentum. The cause will be the weakening momentum of exports along with the slowing of overseas economies.

At present, exports are generally fluctuating within a narrow range. This is because while exports to Europe and the United States are continuing to be firm, exports to China are weakening. Within exports, ICT-related products, mainly semiconductors, are slowing against a background of stagnant sales of smartphones overseas. In addition, exports of machine tools, such as semiconductor manufacturing equipment, are stagnant. As a result of these trends, production activities in manufacturing are virtually level and are fluctuating within a narrow range.

There is a risk that the weakness in exports will continue after the beginning of 2019. The outlook is for ICT-related demand, mainly exports for use in smartphones, to remain stagnant for the time being. Moreover, there are concerns that U.S.-China trade frictions may have an adverse impact.

As U.S.-China trade talks experience tough going, concerns over the future of the Chinese economy are intensifying, and, in China, the cautious attitude toward new capital investment is spreading. At present, concerns about the negative impact of a slump in exports from Japan because of the effects of increases in tariffs in both countries has not been a major issue. However, if trade talks continue to produce no progress, there are concerns that this will have a negative impact on the real economies of both the United States and China. For this reason, even if domestic demand remains firm, there is a possibility that economic conditions will experience a temporary leveling off.

Even so, the outlook indicates that it will be possible to avoid an economic downturn and that the recovery trend will be maintained. First, demand for infrastructure and other construction in advance of the Tokyo Olympics and Paralympics will build to a climax and increases in urban redevelopment projects in the Tokyo metropolitan area are expected to provide support for 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. Even though the trend toward expansion in corporate performance is slowing, corporations have ample cash flows and the drive to make capital investments continues to be strong. In some sectors there are increases in large-scale investments to raise production capacity.

Second, labor supply and demand balance has tightened further, and the rate of nominal wage growth is increasing gradually. What is more, continuing the trend from the summer bonuses, the growth in winter bonuses at the end of last year appears to have been high. Against the background of these improvements in employment and income conditions, the outlook is for consumer spending viewed on average to sustain its firmness.

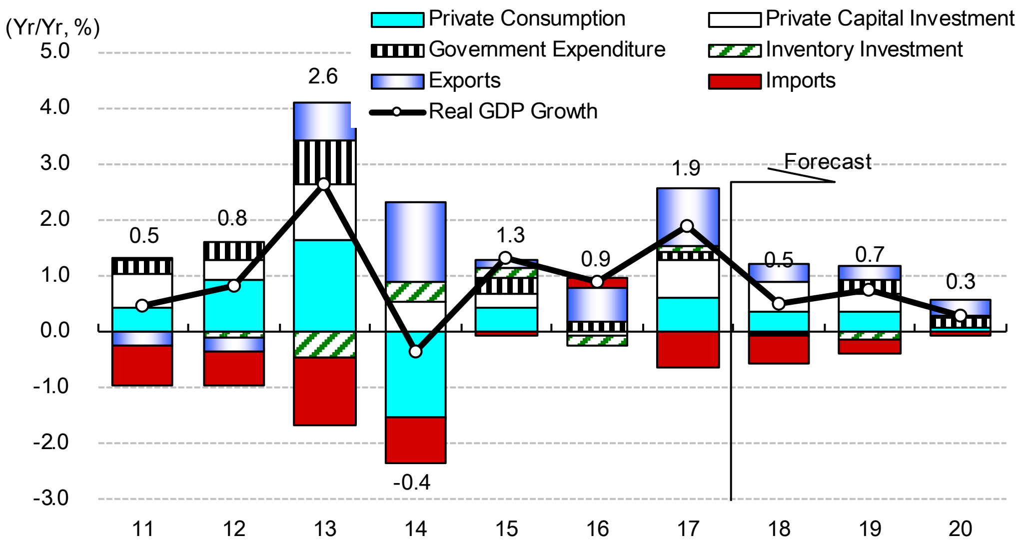
For this reason, the economy during the January-March quarter of 2019 is expected to maintain a small positive growth margin of 0.3% (an annualized rate of +1.2%) over the previous year, and the GDP for fiscal 2018 in real terms is forecast to expand at an annual rate of 0.5%. While this will be significantly slower than the 1.9% reported in fiscal 2017, the outlook is for the economy to report its fourth consecutive year of positive growth (Chart 2).

The biggest downside risk will be deterioration in the world economy and the international geopolitical situation. Among these factors, the U.S.-China trade talks are reaching a deadline for conclusion of negotiations on March 1. If no progress is made and the United States imposes further tariff increases, the conflict between the United States and China will become substantially more serious. There is concern that this may cause turmoil in financial markets, including declines in stock prices, eventually lead to deterioration in the real economies of both the United States and China, and have an impact on the world economy. In addition, other uncertainties would be the effects on the negotiations for the signing of the Japan-U.S. trade agreement (TAG) to be launched in spring 2019 and the results of the report regarding automobile and auto parts imports under the expanded Article 232 of the U.S. Commercial Code being promoted by the U.S. Department of Commerce.

Bearing mind that while it may be difficult for the United States and China to reach agreement as regards trade frictions in the short term, continuation of severe disagreements is likely to trigger deterioration in both economies. Even if the United States implements its third set of tariff sanctions against China, raising tariffs to 25%, the outlook will be for no further escalation in the conflict between the two countries. Instead, talks will just come near the point where both countries will risk collapse, but then avert any further deterioration.

Other risks that may cause deterioration in the global economy include geopolitical risks such as those in the Middle East and North Korea, political turmoil in Europe and the United States, and fluctuations in the international financial markets caused by the rise in U.S. interest rates. In addition, if the yen were to rapidly appreciate under these circumstances, corporate performance may decline mainly for export companies. If these risks were to emerge, there is a possibility that the domestic recovery cannot make up for the decline in exports, and the economy could enter a recessionary phase. Other factors that could be destabilizing include the departure of the United Kingdom from the EU and disputes between the Trump administration and the U.S. Congress regarding the construction of a wall on the Mexican border. It therefore appears that the course of the world economy will depend on political developments.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

<u>In fiscal 2019</u>, the economy is expected to escape from its temporary pause and resume recovery. The real GDP growth rate will rise 0.7% over the previous year, thereby marking five consecutive years of 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 the planned increase in the consumption tax rate will be only a marginal two percentage points, the surge in consumption and the following reactionary decline will be smaller than at the time of the previous tax increases. The deterioration in consumer confidence is expected to be temporary, since the Tokyo Olympics and Paralympics to be held in summer 2020, will be approaching and in part because of the continuing improvement in employment and income conditions. Moreover, since the tax hike will not apply to food and beverage products (excluding eating out and alcoholic beverages) and newspaper subscription charges, and 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, these measures are expected to alleviate the decline in consumption. 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.

Note that the surge in demand preceding the infrastructure construction related to the Tokyo Olympics and Paralympics is expected to run its course in the second half of fiscal 2019, and, as a countermeasure to prevent a slump in the economy, the government may

formulate economic measures, centered on public investments to make Japan stronger as a nation.

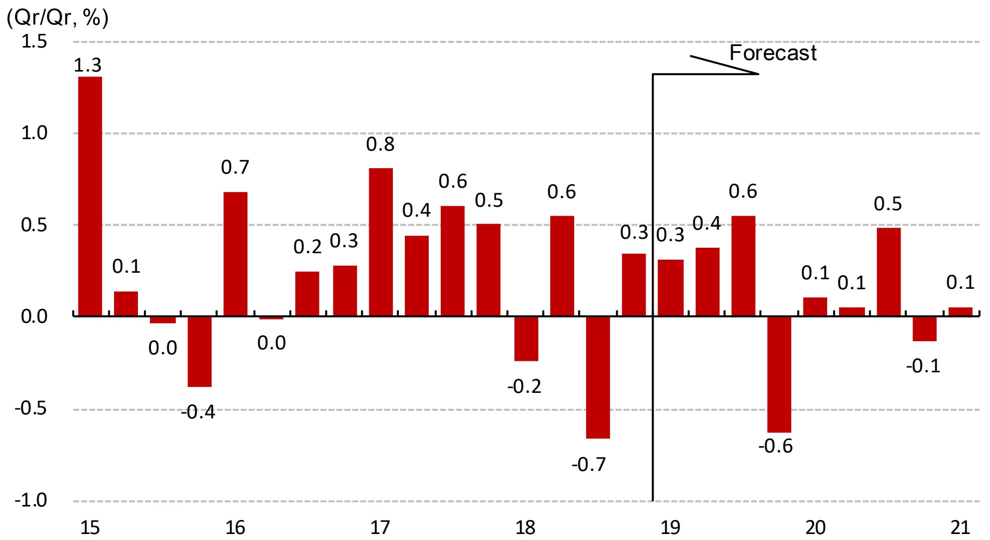
Moreover, assuming that the trade frictions between the United States and China do not become more severe, exports, such as ICT-related demand items, centered on semiconductors, are expected to give a boost to the economy in the second half of fiscal 2019. Overall demand for semiconductors will continue to be firm along with the spread of autonomous driving, rising demand for robots due to labor shortages on a global scale, and the strengthening and expansion of information and telecommunication functions. In addition, in the area of smartphones, there is a possibility that, as the current adjustment in demand runs its course, the introduction of new models with 5G functions will stimulate new demand.

In fiscal 2020, our outlook is for the real GDP growth rate to weaken and level off to 0.3% compared to the previous year. We are expecting that consumer spending demand and in-bound tourist expenditures related to the Tokyo Olympics and Paralympics, 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, there will be a risk that GDP growth will stagnate as the reactionary decline after the Tokyo Olympics sets in and infrastructure construction demand runs its course.

Looking at these trends by quarter, the real GDP growth rate for the January-March quarter of 2019 is expected to continue to be positive, but the outlook is for gradual expansion (Chart 3).

After entering fiscal 2019, the growth rate is thought likely to gradually increase ahead of the consumption tax hike. However, even if the economy pauses, this will be temporary and the outlook is for a return to a recovery trend. Due to the factors mentioned above, the real GDP growth rate in the July-September quarter of 2019, immediately before the tax increase, will be only 0.6% as compared with 0.9% over the previous quarter in the January-March quarter of 2014. The subsequent reactionary decline will also be a gentle –0.6%, compared to –1.9%, after the previous tax increase.

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

After the consumption tax rate is increased, negative growth due to a reactionary decline after the surge in demand is expected to end in one quarter. Despite this, due to the completion of infrastructure construction demand and a possible slowdown in demand in overseas economies, aside from the July-September quarter of 2020 when the Tokyo Olympic and Paralympic Games will be held, the recovery tempo of the economy is expected to be dull. For the second half of fiscal 2020 especially, the risk of economic stagnation and a downturn seems to be especially high.

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	2.0	0.3	1.2	0.7
Real GDP	1.9	0.5	0.7	0.3
Contribution of domestic demand	1.5	0.7	0.8	0.1
Private consumption	1.1	0.6	0.7	0.1
Housing investment	-0.7	-4.1	-0.8	-7.1
Private capital investment	4.6	3.3	1.9	0.2
Contribution of inventory investment	0.1	-0.0	-0.1	0.0
Government expenditure	0.6	-0.2	1.1	0.6
Government final consumption expenditure	0.4	0.8	1.0	1.0
Public investment	0.5	-3.9	1.3	-1.2
Contribution of external demand	0.4	-0.2	-0.0	0.2
Export of goods and services	6.4	1.8	1.3	1.6
Import of goods and services	4.0	2.9	1.5	0.5
GDP deflator	0.1	-0.2	0.5	0.4

【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	2.5	1.9
Real GDP (Euro zone) (CY)	2.5	1.8	1.2	1.1
Real GDP (Asia)	5.9	5.9	5.9	5.9
Real GDP (China)	6.9	6.6	6.2	6.1
Yen/U.S.Dollar	110.8	110.5	107.3	106.0
Uncollateralized call rates (O/N) (%)*	-0.049	-0.061	-0.023	0.000
TIBOR (3months)	0.061	0.065	0.063	0.094
Newly issued government bond yields (10years) (%)	0.05	0.06	0.07	0.13
WTI future price (near month contract, US dollar/barrel)	53.6	62.4	58.4	63.0
North Sea Brent Crude (US dollar/barrel)	57.9	70.2	64.4	68.1

* 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	2.0	-1.6	0.7
Ammount (Yr/Yr,%)	5.0	-0.2	-0.7	0.7
Value of imports (Yen base)	13.7	7.9	-2.6	1.7
Ammount (Yr/Yr,%)	4.4	2.3	1.2	0.1
Balance (trillion yen)	2.4	-2.1	-1.3	-2.1
Current account balance (trillion yen)	21.8	18.5	19.5	19.6
balance on goods (trillion yen)	4.6	0.3	1.0	0.2
balance on service (trillion yen)	-0.5	-0.8	-0.2	0.1
balance on income (trillion yen)	19.9	21.0	20.6	21.1

【Corporations】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Industrial production	2.9	0.9	0.7	-0.4
Inventory index	5.2	-1.3	2.2	-0.5
Sales	5.1	4.7	1.1	0.0
Ordinary Profits	6.9	7.2	0.4	-0.3

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (forecast)	FY 2019 (forecast)	FY 2020 (forecast)
Income per capita	0.6	1.3	0.7	0.6
Scheduled	0.5	1.0	0.6	0.6
Non-scheduled	0.7	0.5	0.3	-0.3
Wage increase rate (%)	2.11	2.26	2.30	2.10
Employee	1.5	1.7	0.6	0.5
Nominal compensation of employees*	1.9	3.0	1.2	1.2
Unemployment rate (%)	2.8	2.4	2.4	2.4

*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	2.0	0.5	1.3
excluding tax effects	2.8	2.0	-0.3	0.4
Consumer prices	0.7	0.7	0.1	0.8
excluding tax effects	4.7	0.8	-2.7	-1.2
excluding freshfood	0.7	0.8	0.1	0.8
excluding tax effects	0.7	0.8	-0.4	0.3
excluding food (excluding alcoholic beverages) and energy	0.2	0.3	0.2	0.7

【 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	95.8	93.1	87.3
		-2.8	1.2	-2.8	-6.3
	Owned	28.2	28.7	27.1	24.9
		-3.3	1.9	-5.7	-8.1
	Rented	41.0	39.5	39.9	37.0
		-4.0	-3.7	0.9	-7.2
	Built for Sale	24.8	26.6	25.6	24.8
		-0.3	7.1	-3.9	-3.2

Economic Outlook for calendar 2017-2020

【GDP demand】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Nominal GDP	1.7	0.6	1.2	0.7
Real GDP	1.9	0.7	0.8	0.3
Contribution of domestic demand	0.0	1.3	0.7	0.0
Private consumption	1.1	0.4	0.9	-0.0
Housing investment	2.1	-5.7	1.6	-8.4
Private capital investment	3.9	3.8	2.4	0.1
Contribution of inventory investment	-0.0	0.1	-0.1	0.0
Government expenditure	0.4	-0.0	0.6	0.9
Government final consumption expenditure	0.7	-3.0	-0.5	0.2
Public investment	0.3	0.8	0.9	1.1
Contribution of external demand	0.6	-0.0	-0.2	0.3
Export of goods and services	6.8	3.1	0.8	1.9
Import of goods and services	3.4	3.3	1.9	0.3
GDP deflator	-0.2	-0.1	0.4	0.5

【Overseas economy and market data】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Real GDP (US) (CY)	2.2	2.9	2.5	
Real GDP (Euro zone) (CY)	2.5	1.8	1.2	1.1
Real GDP (Asia)	5.9	5.9	5.9	
Real GDP (China)	6.9	6.6	6.2	
Yen/U.S.Dollar	112.2	110.4	107.8	106.3
Uncollateralized call rates (O/N) (%)*	-0.048	-0.060	-0.030	-0.005
TIBOR (3months)	0.058	0.070	0.059	0.086
Newly issued government bond yields (10years) (%)	0.05	0.07	0.04	0.13
WTI future price (near month contract, US dollar/barrel)	50.9	64.8	56.6	62.1
North Sea Brent Crude (US dollar/barrel)	54.7	71.5	63.3	67.2

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Value of exports (Yen base)	10.8	2.0	-1.6	0.7
Ammount (Yr/Yr,%)	5.0	-0.2	-0.7	0.7
Value of imports (Yen base)	13.7	7.9	-2.6	1.7
Ammount (Yr/Yr,%)	4.4	2.3	1.2	0.1
Balance (trillion yen)	2.4	-2.1	-1.3	-2.1
Current account balance (trillion yen)	22.0	19.1	19.0	19.9
balance on goods (trillion yen)	5.0	1.2	0.7	0.7
balance on service (trillion yen)	-0.7	-0.9	-0.3	0.0
balance on income (trillion yen)	19.8	20.8	20.5	21.0

【Corporations】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Industrial production	3.1	1.0	1.1	-0.6
Inventory index	4.1	1.9	1.0	0.1
Sales*	5.7	4.6	2.0	-0.1
Ordinary Profits	13.2	6.7	0.1	0.6

*Forecast starts from CY 2018.

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Income per capita	0.4	1.4	0.8	0.6
Scheduled	0.4	0.9	0.7	0.6
Non-scheduled	0.5	0.7	0.2	-0.1
Real wage indices	-0.2	0.3	0.5	-0.2
Number of mployees	1.2	2.0	0.7	0.6
Nominal compensation of employees*	1.6	3.1	1.4	1.3
Unemployment rate (%)	2.8	2.4	2.4	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Domestic corporate goods prices (Yr/Yr,%)	2.3	2.6	0.1	1.5
excluding tax effects	2.3	2.5	-0.2	0.3
Consumer prices	0.5	0.9	0.1	0.7
excluding tax effects	0.5	1.0	-0.2	0.0
excluding freshfood	0.5	0.8	0.2	0.7
excluding tax effects	0.5	0.8	-0.1	-0.1
excluding food (excluding alcoholic beverages) and energy	0.1	0.3	0.2	0.7

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
New housing starts	96.5	94.2	95.3	87.6
	-0.2	-2.4	1.1	-8.1
Owned	28.5	28.3	28.3	25.0
	-2.6	-0.5	-0.1	-11.8
Rented	42.0	39.7	40.3	37.1
	0.6	-5.6	1.5	-8.0
Built for Sale	25.5	25.5	26.0	24.9
	1.7	0.0	1.8	-4.4

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
(Qr/Qr,%)	0.7	1.1	0.3	-0.4	0.5	-0.6	0.3	0.4	0.3	0.8	-0.0	-0.2	0.2	0.5	-0.1	0.1
Nominal GDP Annualized rate	2.8	4.3	1.3	-1.8	1.9	-2.4	1.1	1.7	1.4	3.3	-0.1	-0.6	0.9	2.0	-0.3	0.5
(Yr/Yr,%)	1.5	2.3	2.4	1.7	1.4	-0.3	-0.3	0.6	1.4	-0.3	-0.3	0.6	0.7	1.9	1.6	0.8
(Qr/Qr,%)	0.4	0.6	0.5	-0.2	0.6	-0.7	0.3	0.3	0.4	0.6	-0.6	0.1	0.1	0.5	-0.1	0.1
Real GDP Annualized rate	1.8	2.5	2.0	-0.9	2.2	-2.6	1.4	1.3	1.5	2.2	-2.5	0.4	0.2	2.0	-0.5	0.2
(Yr/Yr,%)	1.8	2.1	2.4	1.3	1.5	0.1	-0.0	0.5	0.4	1.6	0.6	0.4	0.1	-0.0	0.5	0.5
Contribution of domestic demand (Qr/Qr,%)	0.8	0.1	0.5	-0.3	0.7	-0.5	0.6	0.1	0.4	0.8	-1.0	0.0	0.0	0.4	-0.1	0.1
Private consumption	0.9	-0.8	0.5	-0.2	0.6	-0.2	0.6	0.1	0.4	1.2	-2.3	0.8	0.1	0.6	-0.2	0.1
	2.1	0.7	1.3	0.3	0.1	0.6	0.8	1.1	1.0	2.3	-0.7	0.0	-0.3	-0.9	1.2	0.5
Housing investment	1.8	-1.9	-3.2	-2.0	-2.0	0.5	1.1	2.0	0.7	-1.0	-4.0	-3.6	-3.0	0.5	1.0	-0.5
	5.1	0.9	-2.9	-5.5	-8.8	-6.5	-2.3	1.5	4.5	2.9	-2.3	-7.8	-11.1	-9.8	-5.1	-2.1
Private capital investment	0.9	1.7	0.8	1.0	2.5	-2.7	2.4	0.4	0.5	2.0	-1.6	-0.1	0.1	0.2	0.2	0.3
	3.9	5.1	5.3	4.1	6.7	1.2	3.4	2.3	0.7	5.1	1.4	0.6	0.5	-1.4	0.6	0.9
Contribution of inventory investment (Qr/Qr,%)	-0.1	0.4	0.2	-0.3	0.0	0.1	-0.2	0.0	-0.0	-0.3	0.4	-0.3	0.1	0.0	-0.0	0.0
Government expenditure	0.7	-0.3	-0.0	0.0	-0.1	-0.3	0.4	-0.2	0.4	0.3	0.8	0.0	-0.0	0.1	0.1	0.1
	1.0	0.3	0.6	0.3	-0.1	-0.3	-0.0	-0.2	0.4	0.9	1.3	1.6	1.2	0.9	0.1	0.1
Government final consumption expenditure	-0.1	0.3	0.0	0.2	0.1	0.2	0.8	-0.3	0.2	0.2	0.8	0.0	0.2	0.2	0.2	0.2
	0.4	0.4	0.5	0.5	0.6	0.6	1.4	0.8	0.9	0.9	0.9	1.3	1.3	1.3	0.7	0.9
Public investment	3.2	-2.4	-0.3	-0.7	-0.6	-2.1	-1.2	0.2	1.1	0.9	0.5	0.2	-0.9	-0.6	-0.5	-0.5
	3.2	-0.4	0.4	-0.5	-3.1	-3.7	-4.8	-3.8	-1.8	0.7	2.8	2.6	0.9	-0.8	-1.8	-2.5
Contribution of external demand (Qr/Qr,%)	-0.3	0.5	0.0	0.1	-0.1	-0.1	-0.3	0.2	-0.1	-0.2	0.4	0.1	0.0	0.0	-0.1	-0.0
Export of goods and services	-0.1	2.5	2.2	0.4	0.4	-1.4	0.9	0.0	0.3	0.5	0.6	0.5	0.3	0.5	0.1	0.2
	6.9	7.0	6.6	5.1	5.6	1.6	0.3	-0.1	-0.3	2.0	1.5	2.2	2.0	2.0	1.3	1.2
Import of goods and services	1.9	-0.6	2.3	0.0	1.3	-0.7	2.7	-1.0	0.7	1.7	-1.6	-0.0	0.3	0.3	0.5	0.5
	4.4	2.7	5.3	3.7	3.0	2.8	3.6	2.3	1.6	4.0	-0.2	0.8	0.3	-1.1	1.1	1.5
GDP deflator (Yr/Yr,%)	-0.3	0.2	0.1	0.5	-0.1	-0.4	-0.3	0.1	0.2	0.3	1.0	0.4	0.6	0.7	0.1	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	3.4	2.7	2.2	2.2	2.0	2.1					
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	2.6	2.7	3.0	1.4	1.6	0.6	0.9	1.4	1.3	1.3	1.4	1.0	1.0	1.0	0.7	0.7
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	6.3	6.2	6.2	6.2					
Yen/U.S.Dollar	111.1	111.0	112.9	108.2	109.1	111.5	112.8	108.8	108.0	107.5	107.0	106.5	106.5	106.0	106.0	105.5
Uncollateralized call rates (O/N) (%)*	-0.054	-0.054	-0.043	-0.047	-0.065	-0.063	-0.066	-0.050	-0.025	-0.025	-0.020	-0.020	0.000	0.000	0.000	0.000
TIBOR (3months)	0.056	0.058	0.063	0.067	0.086	0.078	0.050	0.047	0.063	0.063	0.063	0.063	0.094	0.094	0.094	0.094
Newly issued government bond yields (10years) (%)	0.04	0.05	0.05	0.06	0.04	0.09	0.09	0.01	0.03	0.05	0.08	0.10	0.12	0.14	0.14	0.12
WTI future price (near month contract, US dollar/barrel)	48.2	48.2	55.3	62.9	67.9	69.5	58.8	53.4	55.9	58.0	59.3	60.5	61.7	62.6	63.5	64.4
North Sea Brent Crude (US dollar/barrel)	50.8	52.2	61.5	67.2	74.9	76.0	68.1	61.7	62.9	63.9	64.8	65.8	66.7	67.6	68.5	69.4

* 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	1.3	-3.4	-4.1	-1.2	-2.3	1.1	1.6	0.9	0.0	0.4
Ammount (Yr/Yr,%)	4.8	6.2	4.8	4.2	5.6	-1.1	-1.4	-3.7	-4.2	0.4	-0.1	1.0	1.0	0.8	0.6	0.6
Ammount (Qr/Qr,%)	-1.0	1.6	2.1	1.3	0.6	-4.2	0.8	-0.9	0.1	0.4	0.3	0.2	0.2	0.2	0.2	0.1
Value of imports (Yen base)	16.2	14.8	17.0	7.5	7.5	12.4	11.2	0.9	0.5	-1.7	-8.0	-0.4	1.7	0.1	2.2	2.8
Ammount (Yr/Yr,%)	5.9	2.7	5.5	3.7	1.4	2.0	4.0	1.9	2.7	3.7	-1.8	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	3.8	-2.0	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	-1.2	-1.0	-0.2	-0.4	0.1	-0.7	-0.2	-0.3	-0.4	-1.2
Current account balance (trillion yen)*	5.0	5.8	5.9	4.7	5.5	4.3	4.2	4.4	4.5	4.2	5.3	5.1	4.9	4.7	4.7	4.6
Balance on goods (trillion yen)*	0.8	1.6	1.3	0.7	1.0	-0.0	-0.2	-0.0	0.1	-0.4	0.8	0.5	0.3	-0.1	0.0	-0.1
Balance on service (trillion yen)*	-0.2	-0.3	0.1	-0.2	-0.5	-0.2	-0.0	-0.1	-0.1	-0.0	-0.1	-0.0	-0.0	0.1	-0.0	-0.0
Balance on income (trillion yen)*	4.8	5.1	5.1	4.7	5.5	5.0	4.9	5.0	5.0	5.0	5.0	5.1	5.1	5.2	5.2	5.2

*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	1.9	-0.6	0.6	1.0	-1.7	-0.1	0.1	0.1	0.0	0.2
	(Yr/Yr, %)	4.4	2.5	3.1	1.8	1.2	-0.1	1.2	1.2	0.6	3.0	-0.7	-0.2	-0.7	-1.6	0.1	0.4
Inventory index	(Qr/Qr, %)	0.1	0.1	2.0	3.0	-2.6	1.2	0.5	-0.3	0.0	-1.4	2.8	0.8	0.2	-0.9	0.0	0.1
	(Yr/Yr, %)	-1.0	-1.0	4.1	5.2	2.4	3.5	1.9	-1.3	1.4	-1.2	1.0	2.2	2.3	2.8	0.1	-0.5
Sales		6.7	4.8	5.9	3.2	5.1	6.0	4.1	3.6	2.1	2.2	0.2	0.2	-0.1	-0.7	0.3	0.6
Ordinary profits		22.6	5.5	0.9	0.2	17.9	2.2	4.8	2.1	-10.0	8.0	3.6	3.4	1.0	-2.3	0.0	-0.0

*Forecast starts from CY 2018.

【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	1.0	1.7	0.9	1.6	0.9	0.7	0.9	0.6	0.5	0.7	0.7	0.6	0.5
	Scheduled	0.5	0.4	0.4	0.8	0.9	0.8	1.2	1.0	0.7	0.7	0.6	0.5	0.6	0.7	0.6	0.5
	Non-scheduled	0.0	1.1	1.0	0.5	2.0	0.2	0.2	-0.4	-0.5	1.9	-0.3	0.0	0.4	-0.3	-0.7	-0.6
Real wage indices		-0.1	-0.6	-0.1	-0.5	0.9	-0.3	0.8	0.5	0.5	0.9	0.2	0.1	-0.4	-0.4	-0.1	-0.2
Employee		1.2	1.5	1.1	2.0	2.2	1.9	1.9	0.9	0.6	0.7	0.6	0.6	0.7	0.5	0.6	0.4
Nominal compensation of employees*		1.7	1.8	1.5	2.6	3.8	2.6	3.2	2.0	1.0	1.4	1.2	1.3	1.6	1.3	1.0	1.0
Unemployment rate (%)		2.9	2.8	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.3	2.5	2.4	2.3	2.5	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	2.3	0.3	-0.1	-0.7	1.0	1.6	1.9	2.1	0.6	0.5
	excluding tax effects	2.2	2.8	3.3	2.5	2.4	3.0	2.3	0.3	-0.1	-0.7	-0.6	0.0	0.3	0.5	0.6	0.5
Consumer prices		0.4	0.6	0.6	1.3	0.6	1.1	0.9	0.3	0.2	-0.2	0.2	0.3	0.9	1.0	0.6	0.6
	excluding tax effects	0.4	0.6	0.6	1.3	0.6	1.1	0.9	0.3	0.2	-0.2	-0.8	-0.7	-0.1	0.0	0.6	0.6
excluding freshfood		0.4	0.6	0.9	0.8	0.8	0.9	0.8	0.7	-0.1	-0.1	0.2	0.2	0.9	1.0	0.6	0.6
	excluding tax effects	0.4	0.6	0.9	0.8	0.8	0.9	0.8	0.7	-0.1	-0.1	-0.8	-0.8	-0.1	0.0	0.6	0.6
excluding food (excluding alcoholic beverages) and energy		0.0	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.0	0.0	0.4	0.4	0.8	0.8	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		98.6	95.2	94.7	89.7	96.6	95.0	95.5	96.5	101.0	94.0	89.6	87.7	88.2	87.2	87.0	86.8
		1.1	-2.4	-2.5	-8.2	-2.0	-0.2	0.6	7.6	4.6	-1.0	-6.3	-9.1	-12.6	-7.2	-2.9	-1.0
	Owned	29.0	28.0	28.0	27.9	28.2	28.1	29.1	29.8	30.7	27.1	25.5	24.8	25.1	25.3	24.6	24.5
		-0.5	-5.3	-3.9	-3.4	-2.5	0.1	4.0	6.8	9.3	-3.6	-12.3	-16.9	-18.2	-6.8	-3.6	-1.0
	Rented	42.4	41.3	40.7	39.7	40.8	40.4	37.9	39.1	42.0	41.1	38.9	37.3	37.5	36.6	36.9	37.1
		0.3	-3.6	-3.6	-9.4	-3.5	-2.0	-7.4	-1.4	3.1	1.9	2.5	-4.7	-10.6	-11.1	-5.1	-0.6
	Built for Sale	26.7	25.3	25.0	22.4	26.1	26.0	27.6	26.8	27.6	25.1	24.5	24.9	24.9	24.7	24.8	24.5
		4.7	3.7	0.8	-10.8	-1.3	2.1	10.4	19.6	5.8	-3.3	-11.4	-7.0	-9.3	-1.6	1.3	-1.7

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