11 June 2019

Report

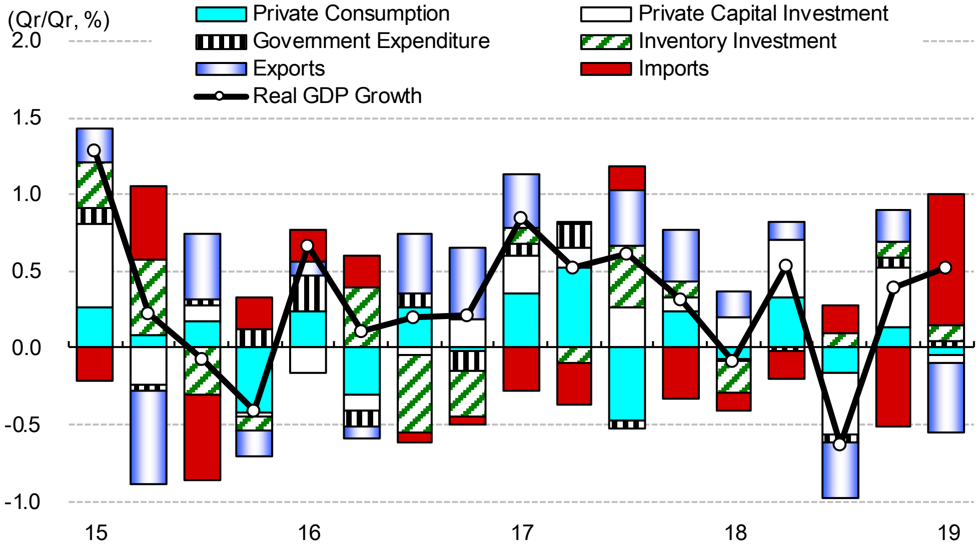
The Japanese Economy in Fiscal 2019 and Fiscal 2020

—A Gradually Improving Economy Amid Lingering Downside Risk

(1) Current State of the Economy: Weak Economic Conditions

The real GDP growth rate for the January-March quarter of 2019, announced on May 20, increased 0.5% from the previous quarter (annualized rate of +2.1%), extending the positive growth to two quarters. The contribution from external demand recorded its first positive growth in three quarters and fueled overall growth despite a lack of strength in domestic demand with its two core components–consumer spending and capital investment–both down from the previous quarter. While slower economic growth in China and other countries caused exports to decline, weak domestic demand caused a much larger drop in imports, and these combined to set the stage for a sharp increase in the contribution from external demand. In other words, the economic conditions are not as strong as the figures appear to show, and in fact can be considered weak.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

Consumer spending contracted 0.1% from the previous quarter, the first decline in two quarters. Employment and income conditions remained favorable and fair weather supported solid spending at restaurants and for other services. However, overall consumer spending declined as the relatively warm winter weather slowed spending on winter clothing and other seasonal items and automobile sales dropped back from the solid growth in the previous quarter.

Housing investment rose 1.1% for a third straight quarter, on a quarter-on-quarter basis, supported by the emergence of a certain degree of rush demand, notably among homeowners, ahead of the planned consumption tax hike and by improving momentum in housing starts.

In the corporate sector, capital investment fell 0.3% from the previous quarter to record its first decline in two quarters. Corporate sector investment continues to increase overall underpinned by a persisting need for investment in laborsaving to cope with labor shortages and a growing investment appetite fueled by demand related to the 2020 Tokyo Olympics and for R&D. The quarter-on-quarter dip in January-March is largely attributable to a fallback from the strong rise in the previous quarter. The contribution of inventory investment was up +0.1% from the previous quarter.

Government final consumption expenditure declined 0.2% from the previous quarter. The decline is largely attributable to a fallback from the relatively strong growth in the previous quarter. Demand for government services, particularly related to medical expenses, is rising and remains high. Public investment rose 1.5% as the effect of the gradual implementation of the supplementary budget for fiscal 2018 turned the investment upward for the first time in seven quarters.

The contractions in both personal consumption and capital investment, which make up a large portion of domestic demand, limited the growth in domestic demand to just 0.1% over the previous quarter. In contrast, the contribution from external demand reversed three quarters of contraction to grow 0.4%. Slowing economic growth in China and other overseas economies led exports to decline 2.4%. Exports were particularly weak for general machinery and electronic components and devices. Meanwhile weak domestic demand caused imports to fall 4.6%, even steeper than the export decline.

The nominal GDP growth rate was +0.8% versus the previous quarter (annualized rate of +3.3%). The GDP deflator, a measure of overall price trends in the economy, was +0.2% year on year (+0.3% versus the previous quarter), for the first positive result in four quarters. Although the positive margin for the domestic demand deflator narrowed, the GDP deflator rose because the import deflator, which is a deduction item for GDP growth rate, fell into negative territory year on year, reflecting the decline in resource prices.

Nominal GDP for fiscal 2018 was +0.6% from the previous fiscal year, marking the fourth straight year of growth although the pace of growth slowed from the 1.9% year-on-year expansion in fiscal 2017. Part of the slowdown is attributable to the sharply slower growth in exports (from +6.4% in fiscal 2017 to +1.3% in fiscal 2018). Also, although capital investment remained strong (+4.5% to +3.2%), growth in personal consumption slowed markedly (+1.1% to +0.4%) due in part to natural disasters during the summer, and public investment contracted (+0.5% to -3.8%) as the effects of economic stimulus measures run their course.

(2) Outlook for the Economy in Fiscal 2019, Fiscal 2020
–A Gradually Improving Economy Amid Lingering Downside Risk

The real GDP growth rate was positive for a second straight quarter in January-March of 2019, although increased inventory investment and a sharp drop in imports amid weak domestic demand were the primary factors in the growth. Economic indicators including the industrial production index, the economic diffusion index, and the Bank of Japan “Tankan” survey DI describe a weak economy at the end of the previous fiscal year. For this reason, considering that the real GDP growth figures may be elevated, we cannot rule out the possibility that the economy has already entered a contraction phase and the record-long period of postwar expansion has finally come to an end. The coincident index paints a similar picture. With the decline in the coincident index in the March Indexes of Business Conditions, the government's assessment of the index of coincident economic indicators was changed from the describing "a turning point towards a downgrade" to the most severe status of "worsening," which carries a strong possibility that the economy is in recession.

The economy is heading for a moment of truth when it will either continue deteriorating or somehow rally and turn back toward recovery. Exports will be the key factor, which means the vital elements will be economic trends overseas and the direction of the US-China trade friction.

Regarding the trade friction between the United States and China, if the confrontation between the two countries is limited to the current third round of additional hikes and there are no further negative repercussions, we think any further negative impacts on the Japanese or global economies will likely be relatively minimal. That being said, if the Trump administration raises the stakes a fourth time as it is presently considering, taking into account that the main targets would likely be consumer goods, then the biggest impact would likely be on Japan's primary import source–the United States.

In our outlook, the United States and China may not be able to find common ground for trade terms any time soon, but because a further escalation would likely trigger worsening economic conditions for both countries, we think both sides will prolong talks or postpone final mandates to avoid exacerbating the situation. However, the direction that future negotiations take could determine the level of concern about whether deterioration in the US or China economies could impact the world economy. And heightened concern could well cause global stock markets to soften and the yen to appreciate as investors move to avoid risk.

It is difficult to envision a scenario of deteriorating global economic conditions having as much of an impact as the Lehman Shock. However, we do think that as long as uncertainty lingers about the global economy's future direction, the view will persist that the impact from the consumption tax hike alone could hit the Japanese economy as hard as the Lehman Shock. With this as the backdrop, we expect a postponement of the consumption tax hike and simultaneous election of both the House of Representatives and the House of Councilors, timed to coincide with the bearish economic outlook turning stronger, and to serve as a referendum on the consumption tax hike. The timing of the June 28-29 G20 Osaka Summit warrants attention. U.S. and Chinese leaders are due to sit down together right around that time and if they fail to reach an agreement all eyes may turn to the Summit host nation looking for Japan to initiate a policy response to the economic conditions.

Meanwhile, geopolitical risk in the Middle East and North Korea, a face-off between the Trump administration and the U.S. Congress, and political repercussions in Europe and the United States from Brexit could push investors into a risk-off mode amid rising concern of a worsening global economy. In addition, a rapid appreciation of the yen caused by developments like these would lead to deteriorating corporate earnings in Japan, particularly at export-oriented companies. International politics is likely to continue dictating the direction of the global economy for some time.

Japan would likely see an economic downturn if these risks for overseas economies materialize because its internal demand would not be strong enough to make up for the decline in exports. The outcome of the upcoming negotiations between the U.S. and Japan for a trade agreement on goods (TAG) and the looming expiration of the 180-day postponement for higher tariffs on automobiles and automotive parts will certainly impact the Japanese economy, but the degree is still uncertain.

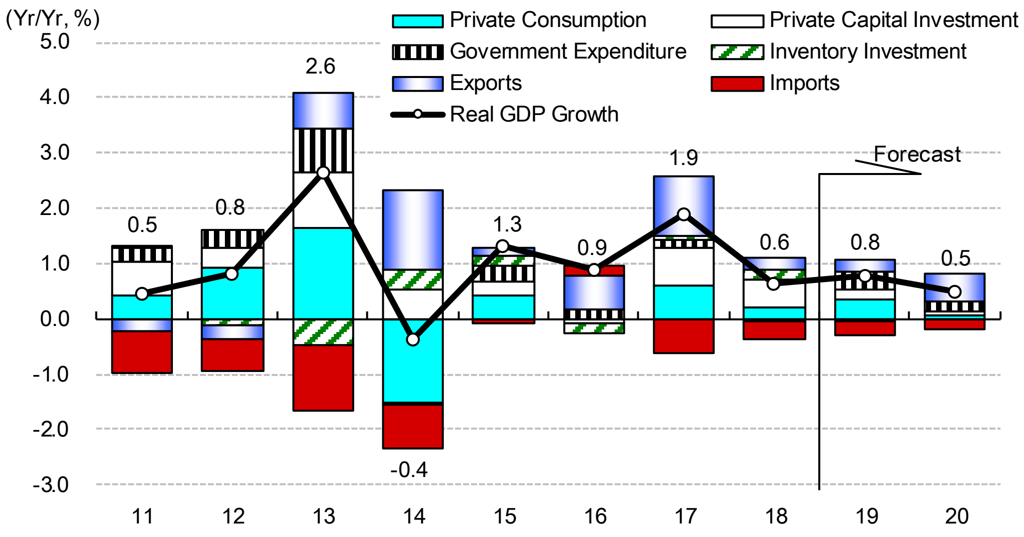
Conversely, if these potentially damaging external factors do not materialize, we think the Japanese economy will gradually recover for two main reasons.

The first is because the low unemployment has tightened the current labor market and because nominal and actual wages are near historical highs. These favorable conditions for household budgets should underpin personal consumption. The annual wage negotiations in spring 2019 are expected to lead to pay scale increase (albeit smaller than in recent years) for the sixth straight year and summer bonuses are also expected to be larger this year. Personal consumption could pick up significantly in the first half of the fiscal year on the combination of strong spending on travel, leisure, and other services during the celebratory mood and extra-long holidays at start of the new Reiwa Era. In addition, rush demand for durable goods ahead of the scheduled consumption tax hike should also start emerging.

The second reason we think the Japanese economy could recover is because corporate capital investment is strong and can support the economy with input from the ongoing demand for infrastructure construction associated with the Tokyo Olympics and Paralympics and a growing number of redevelopment projects in central Tokyo. In addition, we expect increasing corporate investment to improve operating efficiency, make wider use of IT, and cope with labor shortages. We also anticipate increasing R&D spending to advance the use of AI and IoT. Despite the slowing growth in earnings, companies have ample cash flow and are not likely to suddenly constrict their appetite for capital investment.

If these factors enable the economy to pivot back to growth in the near term, then the real GDP growth rate in fiscal 2019 could reach +0.8%, which would outpace fiscal 2018 and extend the expansion to five straight years (Chart 2).

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



Source: Cabinet Office "Quarterly Estimates of GDP"

We expect the consumption tax increase to be implemented as planned. We anticipate rush demand ahead of the tax hike in the first half of the fiscal year. Although households will likely cut back on spending in the second half, we expect a limited pre-hike demand and post-hike contraction in demand will be smaller than the previous tax hike because the rate increase is a relatively small 2%. Considering the potential boost from the 2020 Tokyo Olympic and Paralympic Games, and the continuing improvement in employment and income conditions, we think any decline in consumer sentiment after the tax hike will be temporary. We also expect any dip in consumption to be mitigated by the tax increase not applying to food and beverages (other than restaurants and alcohol) or newspaper subscription fees, as well as by government measures to lessen the impact of the tax hike, such as increasing home loan tax breaks, revising automobile taxes, and introducing “premium gift certificates.” The plan to use a portion of the increased revenue from the tax hike to make early-stage childhood education free of charge should also reduce the financial burden for some households.

Note that, with demand for Olympic-related infrastructure construction expected to run its course in the second half of fiscal 2019, the government could also step up public investment in “national resilience (from natural disasters)” to help allay any deterioration in the economy.

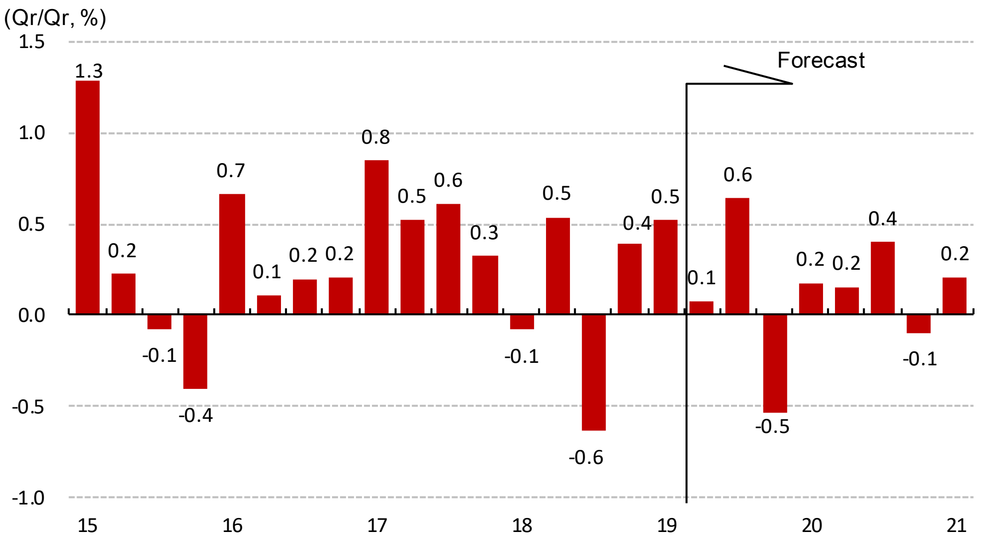
Assuming that the US-China trade friction does not escalate further and the negative impact on overseas economies is limited, exports are also primed to receive a boost from a recovery in ICT demand, particularly for semiconductors, in the second half of fiscal 2019. The electrification of automobiles, growing demand for robotics as labor shortages become more common around the world, and adding more powerful and expanded functions to information and communication equipment should fuel strong demand across the board for semiconductors. On top of that, the demand adjustment for smartphones should come to an end and demand could be stimulated by investment in new devices with 5G technology. Additionally, if China’s wide-ranging economic policies produce effects, then the Chinese economy should gradually start regaining momentum.

In fiscal 2020, we forecast growth in real GDP to slow to +0.5% year on year. We expect rising private consumption and demand from inbound tourism related to the Tokyo Olympics and Paralympics in July to September to boost the economy in the first part of the fiscal year. We see some risk that the economy could stagnate after that as economic activity settles back down and infrastructure construction demand runs its course.

On a quarterly basis, we anticipate real GDP growth to slow sharply in April-June 2019. While the positive consumer sentiment at the start of Japan's new Reiwa era should provide some contribution, we expect lower imports to push the contribution from external demand back into the negative (Chart 3). We then expect rush demand ahead of the consumption tax hike to boost the real GDP growth rate in July-September. As stated earlier, we expect a more moderate impact from the 2019 tax hike compared to the previous hike in 2014. During the previous tax hike, real GDP growth rose to +0.9% in January-March 2014 then fell to -1.8% after the hike. This year, we expect real GDP growth of +0.6% before the hike in July-September and a mild -0.5% contraction after.

After the consumption tax hike, we expect the negative growth due to a subsequent reactionary decline to end within one quarter. However, other than the July-September quarter when the Olympics and Paralympics will take place, we think the likelihood of fading demand for infrastructure construction and slowing economic growth overseas will lead to a reduced pace of economic recovery for Japan. We think economic stagnation in the second half of fiscal 2020 will present a particular risk of the country slipping into economic recession.

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

Economic Outlook for fiscal 2017-2020

【GDP demand】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Nominal GDP	2.0	0.5	1.1	0.9
Real GDP	1.9	0.6	0.8	0.5
Contribution of domestic demand	1.5	0.7	0.8	0.1
Private consumption	1.1	0.4	0.6	0.1
Housing investment	-0.7	-4.2	0.4	-4.8
Private capital investment	4.5	3.2	1.2	0.4
Contribution of inventory investment	0.1	0.2	-0.1	-0.0
Government expenditure	0.5	-0.1	1.3	0.7
Government final consumption expenditure	0.4	0.8	1.1	1.0
Public investment	0.5	-3.8	2.0	-0.6
Contribution of external demand	0.4	-0.1	-0.0	0.3
Export of goods and services	6.4	1.3	1.2	2.8
Import of goods and services	4.1	2.0	1.3	1.0
GDP deflator	0.1	-0.2	0.4	0.4

【Overseas economy and market data】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Real GDP (US) (CY)	2.2	2.9	2.4	1.9
Real GDP (Euro zone) (CY)	2.5	1.8	1.2	1.3
Real GDP (Asia) (CY)	5.9	5.9	5.9	5.9
Real GDP (China) (CY)	6.8	6.6	6.2	6.1
Yen/U.S.Dollar	110.8	110.9	108.7	106.0
Uncollateralized call rates (O/N) (%)*	-0.049	-0.062	-0.052	0.000
TIBOR (3months)	0.061	0.062	0.060	0.094
Newly issued government bond yields (10years) (%)	0.05	0.05	-0.01	0.10
WTI future price (near month contract, US dollar/barrel)	53.6	62.8	62.9	66.2
North Sea Brent Crude (US dollar/barrel)	57.9	70.7	70.2	71.6

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Value of exports (Yen base)	10.8	1.9	-0.9	0.3
Ammount (Yr/Yr,%)	5.0	-0.5	-0.5	1.7
Value of imports (Yen base)	13.7	7.1	-0.4	0.4
Ammount (Yr/Yr,%)	4.4	1.4	0.7	0.7
Balance (trillion yen)	2.4	-1.6	-2.0	-2.0
Current account balance (trillion yen)	22.2	19.4	19.2	20.1
balance on goods (trillion yen)	4.5	0.7	-0.1	-0.2
balance on service (trillion yen)	-0.5	-0.6	0.2	0.5
balance on income (trillion yen)	20.3	21.1	21.0	21.5

【Corporations】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Industrial production	2.9	0.3	-1.2	-0.2
Inventory index	5.1	0.2	1.7	-0.5
Sales*	5.1	4.4	0.9	0.1
Ordinary Profits	6.9	2.1	-4.5	0.3

*Forecast starts from FY 2018.

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Income per capita	0.6	0.8	-0.0	0.7
Scheduled	0.6	0.5	-0.2	0.7
Non-scheduled	0.6	0.2	-0.0	0.2
Wage increase rate (%)	2.11	2.26	2.20	2.00
Employee	1.5	1.8	0.9	0.7
Nominal compensation of employees*	1.9	2.7	1.4	1.5
Unemployment rate (%)	2.7	2.4	2.4	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
Domestic corporate goods prices	2.7	2.2	0.9	1.0
excluding tax effects	2.7	2.3	0.1	0.2
Consumer prices	0.7	0.7	0.6	0.5
excluding tax effects	4.7	0.8	-1.0	-2.1
excluding freshfood	0.7	0.8	0.5	0.5
excluding tax effects	0.7	0.8	0.0	-0.0
excluding food (excluding alcoholic beverages) and energy	0.2	0.3	0.3	0.3

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	FY 2017 (actual)	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)
New housing starts	94.6 -2.8	95.3 0.7	90.2 -5.3	87.1 -3.5
Owned	28.2 -3.3	28.8 2.0	28.2 -1.9	26.7 -5.3
Rented	41.0 -4.0	39.0 -4.9	36.2 -7.2	35.1 -3.2
Built for Sale	24.8 -0.3	26.7 7.5	25.1 -5.9	24.6 -2.0

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	0.7	1.2	0.9
Real GDP	1.9	0.8	0.9	0.4
Contribution of domestic demand	0.0	1.3	0.7	0.0
Private consumption	1.1	0.4	0.6	0.1
Housing investment	2.1	-5.8	2.0	-5.8
Private capital investment	3.9	3.9	1.5	0.2
Contribution of inventory investment	-0.0	0.1	0.1	-0.1
Government expenditure	0.4	-0.1	0.9	1.0
Government final consumption expenditure	0.7	-3.3	0.7	0.3
Public investment	0.3	0.7	0.9	1.1
Contribution of external demand	0.6	0.0	-0.1	0.4
Export of goods and services	6.8	3.3	-0.6	3.3
Import of goods and services	3.5	3.4	0.2	0.9
GDP deflator	-0.2	-0.1	0.3	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	2.4	
Real GDP (Euro zone) (CY)	2.5	1.8	1.2	1.3
Real GDP (Asia)	5.9	5.9	5.9	
Real GDP (China)	6.8	6.6	6.2	
Yen/U.S.Dollar	112.2	110.4	109.4	106.5
Uncollateralized call rates (O/N) (%)*	-0.048	-0.060	-0.053	-0.013
TIBOR (3months)	0.058	0.070	0.053	0.086
Newly issued government bond yields (10years) (%)	0.05	0.07	-0.02	0.08
WTI future price (near month contract, US dollar/barrel)	50.9	64.8	60.7	65.3
North Sea Brent Crude (US dollar/barrel)	54.7	71.5	68.6	71.0

* 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	1.9	-0.9	0.3
Ammount (Yr/Yr,%)	5.0	-0.5	-0.5	1.7
Value of imports (Yen base)	13.7	7.1	-0.4	0.4
Ammount (Yr/Yr,%)	4.4	1.4	0.7	0.7
Balance (trillion yen)	2.4	-1.6	-2.0	-2.0
Current account balance (trillion yen)	22.6	19.2	19.3	20.2
balance on goods (trillion yen)	4.9	1.2	0.1	0.2
balance on service (trillion yen)	-0.7	-0.8	0.1	0.4
balance on income (trillion yen)	20.5	20.9	20.7	21.3

【Corporations】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Industrial production	3.1	1.1	-1.5	-0.3
Inventory index	4.1	1.7	2.2	-0.1
Sales	5.7	4.5	1.4	0.1
Ordinary Profits	13.2	3.7	-6.5	0.9

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2017 (actual)	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)
Income per capita	0.5	1.3	-0.4	0.7
Scheduled	0.5	0.8	-0.5	0.7
Non-scheduled	0.5	0.7	-0.4	0.2
Real wage indices	-0.2	0.2	-1.1	-0.0
Number of mployees	1.2	2.0	1.1	0.7
Nominal compensation of employees*	1.6	3.0	1.3	1.6
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	0.6	1.5
excluding tax effects	2.3	2.6	0.2	0.2
Consumer prices	0.5	0.9	0.5	0.6
excluding tax effects	0.5	1.0	0.2	-0.1
excluding freshfood	0.5	0.8	0.6	0.6
excluding tax effects	0.5	0.8	0.3	-0.2
excluding food (excluding alcoholic beverages) and energy	0.1	0.3	0.3	0.4

【 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	92.0	87.2
	-0.2	-2.4	-2.3	-5.2
Owned	28.5	28.3	29.1	26.7
	-2.6	-0.5	2.6	-8.2
Rented	42.0	39.7	36.6	35.1
	0.6	-5.6	-7.7	-4.0
Built for Sale	25.5	25.5	25.7	24.7
	1.7	0.0	0.8	-4.1

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	1.0	0.3	-0.2	0.3	-0.6	0.5	0.8	-0.4	0.7	0.5	0.1	-0.1	0.5	0.1	0.2
Annualized rate	2.9	4.1	1.0	-0.8	1.2	-2.5	1.9	3.3	-1.4	2.7	2.0	0.2	-0.4	2.1	0.4	1.0
(Yr/Yr,%)	1.4	2.3	2.4	1.8	1.4	-0.4	-0.1	0.9	0.6	1.6	1.7	0.8	1.1	1.2	0.6	0.7
Real GDP (Qr/Qr,%)	0.5	0.6	0.3	-0.1	0.5	-0.6	0.4	0.5	0.1	0.6	-0.5	0.2	0.2	0.4	-0.1	0.2
Annualized rate	2.1	2.5	1.3	-0.3	2.2	-2.5	1.6	2.1	0.3	2.6	-2.1	0.7	0.6	1.6	-0.4	0.8
(Yr/Yr,%)	1.7	2.1	2.4	1.3	1.5	0.1	0.2	0.8	0.5	1.6	0.7	0.4	0.5	0.2	0.6	0.7
Contribution of domestic demand (Qr/Qr,%)	0.8	0.1	0.3	-0.1	0.6	-0.4	0.7	0.1	0.5	0.8	-1.1	-0.0	0.2	0.4	-0.1	0.2
Private consumption	1.0	-0.8	0.4	-0.1	0.6	-0.3	0.2	-0.1	0.7	1.1	-2.2	0.7	0.1	0.6	-0.2	0.1
	2.1	0.7	1.3	0.2	0.1	0.6	0.4	0.4	0.6	2.0	-0.5	0.3	-0.3	-0.8	1.1	0.5
Housing investment	1.7	-1.8	-3.0	-2.4	-2.1	0.8	1.4	1.1	2.0	-1.0	-4.0	-2.0	-1.0	-0.5	0.5	0.0
	5.1	0.9	-3.0	-5.6	-8.9	-6.5	-2.2	1.2	5.5	3.6	-2.0	-5.0	-7.8	-7.3	-3.0	-1.0
Private capital investment	0.8	1.7	0.6	1.2	2.4	-2.5	2.5	-0.3	0.2	1.8	-1.4	0.0	0.1	0.2	0.4	0.6
	3.9	5.1	5.2	4.0	6.7	1.1	4.0	1.6	0.1	4.0	0.4	0.4	0.6	-1.1	0.9	1.3
Contribution of inventory investment (Qr/Qr,%)	-0.1	0.4	0.1	-0.2	-0.0	0.1	0.1	0.1	-0.1	-0.2	0.3	-0.3	0.1	0.0	-0.0	0.0
Government expenditure	0.6	-0.2	0.0	-0.1	-0.1	-0.2	0.3	0.2	0.4	0.4	0.7	0.0	0.1	0.1	0.1	0.2
	1.0	0.3	0.6	0.3	-0.1	-0.3	-0.3	0.2	0.7	1.2	1.6	1.5	1.2	0.9	0.3	0.4
Government final consumption expenditure	-0.1	0.3	0.0	0.3	0.1	0.2	0.7	-0.2	0.2	0.3	0.7	0.1	0.2	0.2	0.2	0.2
	0.4	0.4	0.5	0.5	0.6	0.6	1.3	0.8	0.9	1.0	1.1	1.3	1.3	1.2	0.7	0.9
Public investment	3.1	-2.2	0.0	-1.3	-0.7	-1.9	-1.4	1.5	1.1	0.6	0.5	-0.1	-0.4	-0.3	-0.3	-0.2
	3.2	-0.4	0.3	-0.6	-3.2	-3.7	-5.7	-2.4	-0.3	1.8	3.6	2.2	0.9	-0.3	-1.4	-1.3
Contribution of external demand (Qr/Qr,%)	-0.3	0.5	0.0	0.1	-0.1	-0.2	-0.3	0.4	-0.4	-0.1	0.6	0.2	-0.0	-0.0	-0.0	-0.0
Export of goods and services	0.1	2.2	2.0	1.0	0.7	-2.0	1.2	-2.4	1.6	0.9	0.7	0.8	0.8	0.6	0.4	0.6
	6.9	7.1	6.7	5.2	5.8	1.6	1.0	-2.7	-1.6	1.2	0.9	4.2	3.3	3.0	2.6	2.5
Import of goods and services	1.8	-0.9	2.2	0.7	1.0	-1.0	3.0	-4.6	3.8	1.6	-2.3	-0.2	0.9	0.7	0.6	0.8
	4.5	2.7	5.3	3.7	3.0	2.9	4.1	-1.9	0.9	3.6	-1.6	2.7	-0.1	-1.0	2.0	3.0
GDP deflator (Yr/Yr,%)	-0.3	0.2	0.1	0.5	-0.1	-0.4	-0.3	0.2	0.1	-0.0	1.0	0.4	0.6	1.0	-0.0	0.0

【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	2.2	3.2	1.7	1.0	1.4					
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	2.7	2.7	2.8	1.5	1.7	0.6	0.9	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.4
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,%)	6.8	6.7	6.7	6.8	6.7	6.5	6.4	6.4	6.2	6.2	6.3					
Yen/U.S.Dollar	111.1	111.0	112.9	108.2	109.1	111.5	112.8	110.2	110.3	108.8	108.2	107.3	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	-0.055	-0.059	-0.050	-0.050	-0.050	0.000	0.000	0.000	0.000
TIBOR (3months)	0.056	0.058	0.063	0.067	0.086	0.078	0.050	0.034	0.054	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	-0.02	-0.05	-0.03	0.00	0.05	0.08	0.10	0.10	0.10
WTI future price (near month contract, US dollar/barrel)	48.2	48.2	55.3	62.9	67.9	69.5	58.8	54.9	62.6	62.3	63.0	63.8	64.9	65.8	66.7	67.5
North Sea Brent Crude (US dollar/barrel)	50.8	52.2	61.5	67.2	74.9	76.0	68.1	63.9	70.5	70.0	70.0	70.2	70.7	71.3	71.9	72.5

* actual=average, forecast=end of period

【External demand (export and import)】

forecast (FY 2019–FY 2020)

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	-3.9	-2.4	-1.6	-2.0	2.9	0.6	0.8	-0.2	0.0
Ammount (Yr/Yr,%)	4.8	6.2	4.8	4.1	5.6	-1.1	-1.4	-5.0	-4.5	-0.1	0.1	2.9	2.2	1.9	1.3	1.3
Ammount (Qr/Qr,%)	-0.7	2.0	2.0	0.6	0.9	-3.8	0.7	-2.3	0.9	0.7	0.9	0.4	0.3	0.3	0.4	0.3
Value of imports (Yen base)	16.2	14.8	17.0	7.7	7.5	12.4	11.2	-2.0	1.9	-0.3	-5.2	2.7	-0.2	-1.3	1.0	2.0
Ammount (Yr/Yr,%)	5.9	2.7	5.5	3.7	1.3	2.0	4.0	-1.8	0.3	2.6	-1.8	1.9	0.6	-0.8	1.2	1.7
Ammount (Qr/Qr,%)	3.8	-1.3	1.7	0.6	0.2	-0.5	2.9	-3.5	1.5	1.8	-1.5	0.1	0.2	0.4	0.5	0.6
Balance (trillion yen)	0.7	1.2	0.7	-0.2	0.8	-0.6	-1.3	-0.6	-0.1	-0.8	-0.5	-0.5	0.1	-0.4	-0.8	-0.9
Current account balance (trillion yen)*	5.1	6.3	5.8	5.0	5.4	4.7	4.3	4.9	4.8	3.9	5.3	5.1	5.0	4.9	5.1	4.8
Balance on goods (trillion yen)*	0.7	1.5	1.3	0.8	0.9	-0.1	-0.1	0.1	-0.1	-0.9	0.4	0.2	0.1	-0.2	-0.1	-0.3
Balance on service (trillion yen)*	-0.1	-0.2	0.1	-0.2	-0.4	-0.2	-0.1	-0.0	0.1	-0.0	0.1	0.0	0.0	0.2	0.1	0.1
Balance on income (trillion yen)*	5.0	5.6	4.9	4.9	5.5	5.4	4.9	5.0	5.2	5.2	5.3	5.2	5.3	5.3	5.4	5.4

*seasonally adjusted

【Corporations】

forecast (FY 2019–FY 2020)

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	-0.9	0.8	-0.7	1.4	-2.5	0.2	1.0	-1.3	0.0	0.0	0.1	0.1	0.2
	(Yr/Yr, %)	4.4	2.5	3.1	1.7	1.3	0.1	1.3	-1.7	-1.7	0.0	-2.6	-0.1	-0.3	-1.2	0.2	0.4
Inventory index	(Qr/Qr, %)	0.1	0.1	2.0	2.5	-1.9	0.4	0.9	0.9	-0.4	-1.0	2.7	0.4	0.0	-0.3	-0.2	0.0
	(Yr/Yr, %)	-1.0	-1.0	4.1	5.1	2.5	3.5	1.7	0.2	1.7	0.7	2.2	1.7	2.1	2.9	-0.1	-0.5
Sales*		6.7	4.8	5.9	3.2	5.1	6.0	3.7	2.8	1.3	1.9	-0.2	0.6	0.1	-0.7	0.4	0.6
Ordinary profits		22.6	5.5	0.9	0.2	17.9	2.2	-7.0	-6.0	-16.8	-1.1	1.8	3.1	1.1	-1.6	0.7	0.9

*Forecast starts from FY 2018 1-3.

【Income and emploiment】

forecast (FY 2019–FY 2020)

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	1.1	1.7	0.9	1.5	-1.1	-0.4	-0.1	-0.1	0.7	0.7	0.7	0.6	0.7
Scheduled	0.6	0.4	0.4	0.8	0.8	0.8	1.0	-0.5	-0.6	-0.4	-0.5	0.8	0.7	0.7	0.6	0.8
Non-scheduled	-0.0	1.1	1.0	0.5	2.0	0.3	0.1	-1.5	-1.7	1.5	0.1	0.1	0.8	0.1	-0.1	-0.1
Real wage indices	-0.1	-0.6	-0.1	-0.5	0.9	-0.3	0.6	-1.4	-1.3	-0.4	-1.2	-0.0	0.1	-0.4	0.2	0.3
Employee	1.2	1.5	1.1	2.0	2.2	1.9	1.9	1.3	1.1	1.0	0.9	0.8	0.8	0.7	0.6	0.5
Nominal compensation of employees*	1.7	1.8	1.5	2.6	3.8	2.6	3.1	1.1	1.2	1.4	1.3	1.7	1.7	1.6	1.5	1.3
Unemployment rate (%)	2.9	2.8	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.5	2.4	2.4

※GDP base

【Goods prices】

forecast (FY 2019–FY 2020)

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	2.1	2.8	3.3	2.5	2.6	3.1	2.3	0.9	0.3	-0.3	1.6	1.9	1.7	1.9	0.2	0.2
excluding tax effects	2.1	2.8	3.3	2.5	2.6	3.1	2.3	0.9	0.3	-0.3	0.0	0.3	0.1	0.3	0.2	0.2
Consumer prices	0.4	0.6	0.6	1.3	0.6	1.1	0.9	0.3	0.8	0.2	0.7	0.6	0.5	0.9	0.3	0.3
excluding tax effects	0.4	0.6	0.6	1.3	0.6	1.1	0.9	0.3	0.8	0.2	-0.3	-0.4	-0.5	-0.1	0.3	0.3
excluding freshfood	0.4	0.6	0.9	0.8	0.8	0.9	0.8	0.8	0.6	0.2	0.8	0.6	0.5	0.9	0.3	0.3
excluding tax effects	0.4	0.6	0.9	0.8	0.8	0.9	0.8	0.8	0.6	0.2	-0.2	-0.4	-0.5	-0.1	0.3	0.3
excluding food (excluding alcoholic beverages) and energy	0.0	0.2	0.3	0.4	0.3	0.3	0.3	0.4	0.3	0.1	0.4	0.3	0.3	0.6	0.2	0.2

【 New housing starts】

forecast (FY 2019–FY 2020)

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	94.2	96.0	90.5	87.4	87.1	87.6	87.1	87.1	86.8
	1.1	-2.4	-2.5	-8.2	-2.0	-0.2	0.6	5.2	-0.5	-4.8	-8.5	-7.6	-8.7	-3.7	-0.4	-0.3
Owned	29.0	28.0	28.0	27.9	28.2	28.1	29.1	30.0	31.0	28.4	27.0	26.4	26.8	26.9	26.5	26.7
	-0.5	-5.3	-3.9	-3.4	-2.5	0.1	4.0	7.4	10.2	0.9	-7.5	-11.8	-13.5	-5.0	-1.6	1.0
Rented	42.4	41.3	40.7	39.7	40.8	40.4	37.9	36.8	37.7	36.4	35.5	35.1	35.3	35.0	35.1	34.8
	0.3	-3.6	-3.6	-9.4	-3.5	-2.0	-7.4	-7.2	-7.3	-9.8	-6.4	-4.5	-6.3	-3.9	-1.1	-1.0
Built for Sale	26.7	25.3	25.0	22.4	26.1	26.0	27.6	27.2	26.5	25.0	24.3	24.8	24.8	24.5	24.7	24.6
	4.7	3.7	0.8	-10.8	-1.3	2.1	10.4	21.5	1.9	-4.0	-12.3	-9.2	-6.4	-1.9	1.9	-0.8