5 September 2019

Report

The Japanese Economy in Fiscal 2019 and Fiscal 2020

―A Rise in Consumption Tax and a Slowdown in Overseas Economies Increase Downside Risk

(1) Current State of the Economy: Positive sentiment along with entering Japan's new Reiwa era averts crisis conditions

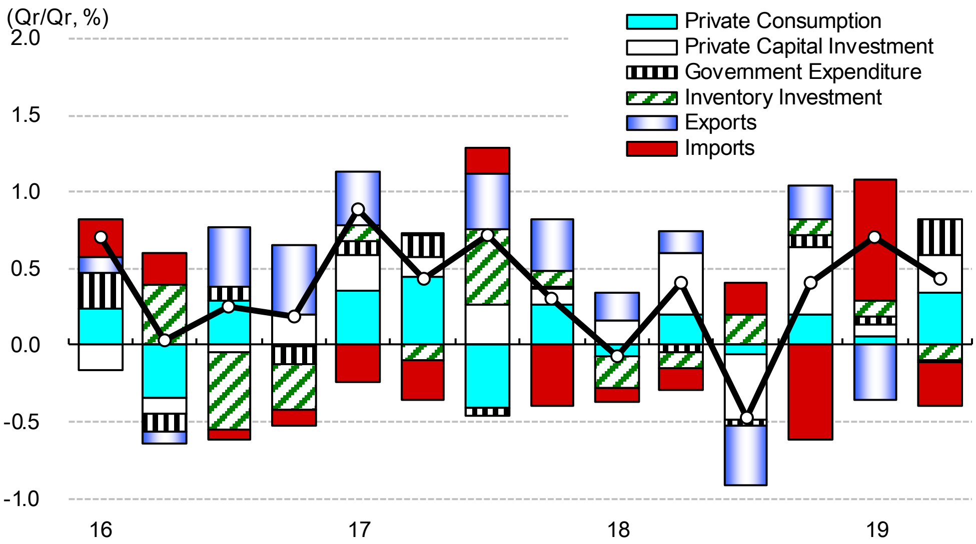
The real GDP growth rate for the April–June quarter of 2019, which was announced on August 9, rose +0.4% from the previous quarter (+1.8% at an annualized rate), extending the positive growth to three quarters. The contribution of the external sector was a negative figure again since exports declined slightly for the second consecutive quarter and imports increased. On the other hand, domestic demand was firm, that is, consumer spending significantly increased and capital investment continued to increase steadily, boosting the overall economy. Since the beginning of the year, concerns about the deterioration in the economy have rapidly increased, but from this result it seems that the economy has averted any crises for the time being.

In particular, consumer spending was strong, with a high growth rate of +0.6% compared to the previous quarter. The 10-day long Golden Week holidays at start of the new Reiwa Era led to a boost in consumer spending due to an increase in leisure-related spending such as travel and entertainment, and also led to strong sales of automobiles and white goods.

Capital investment rose steadily, 1.5% from the previous quarter. In addition to investments in labor-saving equipment to deal with the shortage of labor, investment related to construction and for the wider use of IT is steadily increasing, and the corporate investment appetite persisted.

In the government sector, the final consumption expenditure of government turned positive from negative territory in the previous quarter to record a 0.9% gain, boosting overall expenditure. In addition, public investment recorded an increase of 1.0% for the second consecutive quarter influenced by the gradual implementation of government allocations in fiscal 2018 supplementary budget.
Demand centered on the two pillars of consumer spending and capital investment was strong and the contribution of domestic demand was +0.7 percentage point over the previous quarter indicating that the domestic demand-led economy is expanding. In contrast, exports declined for the second consecutive quarter, at a slight -0.1%. Although there are signs of recovery in IT-related goods such as semiconductors, exports of general machinery continue to be weak reflecting the slowdown in overseas economies such as China. In addition to this, imports increased by 1.6% as a reactionary increase from the previous quarter, and thus the contribution of the external sector turned negative to -0.3%.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

(2) Outlook for the Economy in Fiscal 2019, Fiscal 2020
– A Rise in Consumption Tax and a Slowdown in Overseas Economies Increase Downside Risk

The results for the April-June quarter were relatively high largely due to temporary factors such as a boost in personal consumption due to positive sentiment along with entering Japan's new Reiwa era and high growth in government consumption, and therefore it is not necessarily a true indication of strength in the economy.

Nevertheless, positive growth is expected to continue in the July-September quarter. This is because personal consumption is anticipated to increase steadily due to rush in demand ahead of the consumption tax hike. Since the rate of increase in consumption tax is small at 2%, and a reduced rate for the tax will apply to such items as foodstuffs, it is anticipated that the rush in demand and the following reactionary decline will be smaller than in 2014. However, a surge in demand is expected focusing on some durable consumer goods and this will deliver a temporary boost to the economy. Exports are likely to continue to struggle, but since the adverse effects of both the US-China trade friction and the global economic slowdown are subject to a time lag, it is anticipated that rapid deterioration will be avoided.

The economy in the second half of fiscal 2019 is expected to slump back into negative growth in the October-December quarter, but it will return to positive growth again in the next January-March quarter. In other words, any economic deterioration is expected to be temporary.
First of all, consumer spending is expected to see a reactionary decline following a rush in demand, but the decline is anticipated to be relatively small and is expected to be over in a short period of time due to the effects of measures to alleviate the decline in consumption such as making early-stage childhood education free of charge, point rewards for cashless payments at small and medium-sized stores, and the introduction of premium gift certificates. There are favorable conditions for household budgets due to

the low unemployment tightening the current labor market and to nominal and actual wages are near historical highs. The deterioration in consumer confidence is forecast to be temporary, due to the approach of Tokyo Olympics and Paralympics to be held in summer 2020.

Capital investment is anticipated to remain on an upward trend. In the Tokyo metropolitan area, demand related to the Tokyo Olympics and Paralympics is expected to run its course. However, strong demand for infrastructure construction such as transportation, accommodation facilities, and communication infrastructure will continue, and an increase in urban redevelopment projects is anticipated to support 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. The corporate drive to make capital investments continues to be strong and it is difficult to imagine this drive to evaporate suddenly.

The outlook for exports is bright. First, in the second half of 2019, the recovery of ICT-related demand centering on semiconductors is expected to be a factor that boosts exports. Overall demand for semiconductors will continue to be firm along with the progress of vehicle electrification, 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, though the current adjustment in demand continues, the introduction of new models with 5G functions will stimulate new demand.

Moreover, if China's wide-ranging economic policies produce effects, then the Chinese economy should gradually start regaining momentum. In addition, the US economy, which on a solid footing, is expected to remain firm due to the impact of additional monetary easing and an expansion of fiscal spending. Negotiations between Japan and the United States aimed at concluding a Trade Agreement on Goods (TAG) are progressing and the decision to raise tariffs on automobiles and the parts has been postponed until November but is progressing steadily. Therefore, the uncertainty has receded gradually.

However, a new source of uncertainty has arisen: the possibility of the implementation of a fourth round of tariff increases on China by the United States (The imposition of a 10% tariff on the remaining $300 billion of imports from China). Regarding the future of trade friction between the United States and China, we assume that there will be no further tariff increases even if the US-China negotiations fail to reach an agreement since the impact on the US economy as an importer would be extensive given that there are many consumer goods in the fourth round. In other words, (1) The tariff increase is expected to be limited to the additional third round of increases (which was already raised from 10% to 25% in June), so the negative impact on the Japanese and global economies is relatively minor in the short term. (2) Despite this, it is inevitable that negotiations will be prolonged, and, it is believed that while these negotiations are underway, they will act as a drag on both economies.

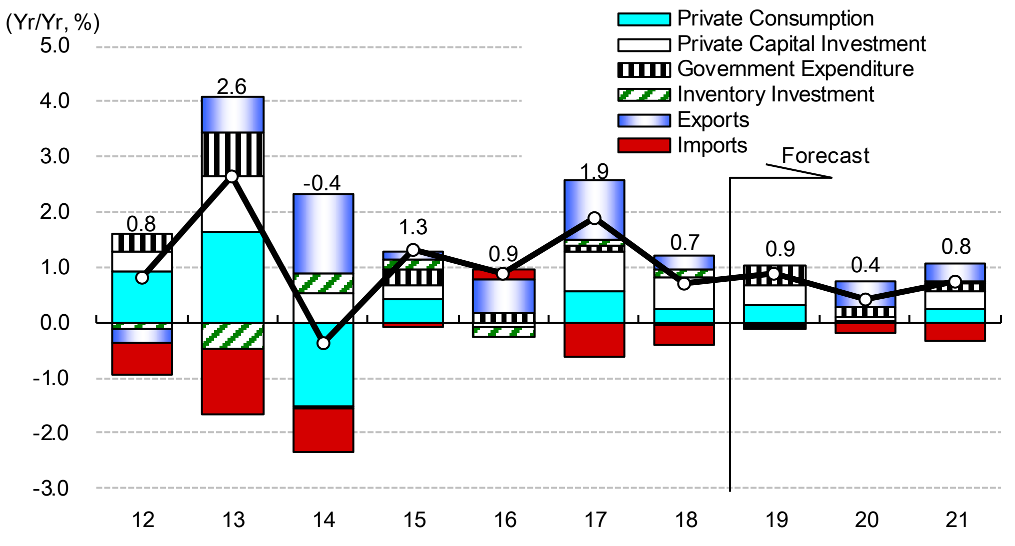
At the moment, the conflict between the two countries is intensifying, and this has included the United States designating China as a currency manipulator, which could make a fourth round of tariff increases inevitable. Even if the activation of the tariffs on September 1 are postponed, it is thought that companies in each country will take measures such as to curb investment, relocate production bases outside China, review supply chains, on the premise that this economic sanctions and conflict will be prolonged, and the negative impact on the global economy will steadily spread. And heightened concern could well cause global stock markets to soften and the yen to rapidly appreciate as investors move to avoid risk.

If the environment surrounding overseas economies and exports deteriorates, there is a concern that it will spread to domestic demand. The consumer spending trend is not strong except for positive consumer sentiment along with the start of Japan's new Reiwa era and rush demand ahead of the consumption tax hike. For this reason, if uncertainty in the future of the economy increases, together with the recent worsening in consumer confidence, growing concerns about the future and further increasing the intention for spending cutbacks following the tax increase, it is possible that consumer spending will fall more than the reactionary decline. In addition, if corporate performance slows due to the appreciation of the yen and rise in labor costs, the attitude toward capital investment will become more cautious, and there will be a risk of investment schedules being pushed back and the scale reduced for unnecessary and non-urgent investment and investment aimed at increased production. For large companies, investment will not be cut back suddenly in the middle of the fiscal year, but for small to medium sized enterprises this is not the case.

Meanwhile, geopolitical risk in the Middle East and North Korea, a face-off between the Trump administration and the U.S. Congress, political repercussions in Europe about Brexit and the broadening scale of the demonstrations in Hong Kong 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 these possibilities 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.

The GDP growth rate fiscal 2019 in real terms achieved an annual rate of 0.9%, exceeding the growth in fiscal 2018, to report its fifth consecutive year of positive growth (Chart 2). However, such a high rate is related just to the high growth rate in the first half of the fiscal year, (forecast to expand +0.9% over the previous period) on the other hand, the growth rate will slow down in the second half (-0.4% over the previous period). If the negative impact of the fourth round of tariff increases on China by the United States spills over into domestic and external demand, the economy in the second half of the fiscal year will face extremely severe conditions, and there is a risk that it will actually fall into recession.

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



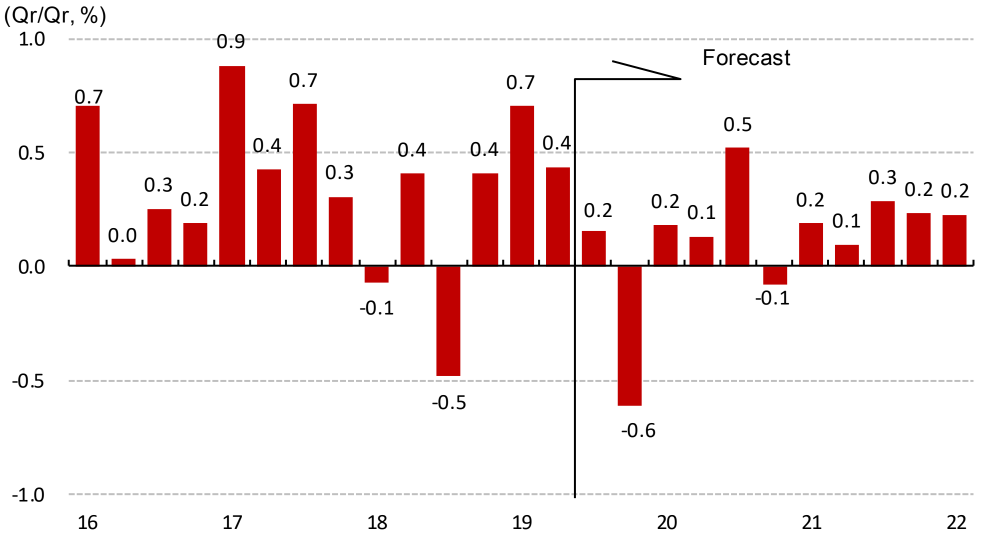
Source: Cabinet Office "Quarterly Estimates of GDP"

In fiscal 2020, we forecast growth in real GDP to slow to +0.4% 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 from the beginning of the fiscal year. However, the rate will be lower for a number of reasons. Weakness in the economy in the second half of 2019 will lower the launching pad of GDP in 2020. In addition, we see some risk that the economy could stagnate in the second half of 2020 after economic activity demand for infrastructure and other construction in advance of the Tokyo Olympics and Paralympics settles back down and runs its course. A fall in the effects of tax measures to alleviate the decline in consumption is also one of the reasons that the rate in 2020 will be lower. Following this, we expect a gradual recovery trend and the GDP growth rate in 2021 in real terms is forecast to expand at an annual rate of 0.8%.

On a quarterly basis, we anticipate real GDP growth to continue to grow at 0.2% focused on a rush in demand in July-September quarter of 2019 ahead of the consumption tax rate hike. However, as mentioned above, the momentum of the rush in demand is small compared to 2014, which was +1.0% in the January-March period of 2014, and the reactionary decline thereafter will remain at a moderate decline of -0.6% compared to -1.9% in 2014.

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. If the negative impact of the fourth round of tariff increases on China by the United States spills over into domestic and external demand, the economy could face a significant decline, and there is a risk that the timing of the recovery will be delayed. Despite this, any economic downturn may be limited thanks to a recovery in ICT demand, China’s wide-ranging economic policies producing momentum and the firmness of the US economy against the backdrop of policies such as monetary easing, Entering fiscal 2020, the economy will gradually recover, and will regain strength from the July-September quarter of 2020 when the Tokyo Olympic and Paralympic Games will be held. However, the pace of recovery of the economy is expected to slow due to the demand for infrastructure construction having run its course, and the economy will stagnate in the second half of the fiscal year, and there will be a risk that the economy would enter a recessionary phase again.

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

Economic Outlook for fiscal 2018-2021

【GDP demand】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Nominal GDP	0.5	1.6	1.0	0.9
Real GDP	0.7	0.9	0.4	0.8
Contribution of domestic demand	0.8	0.9	0.1	0.7
Private consumption	0.5	0.6	0.1	0.4
Housing investment	-4.4	-2.2	-4.5	0.1
Private capital investment	3.5	2.1	0.4	2.0
Contribution of inventory investment	0.1	-0.0	-0.0	0.0
Government expenditure	-0.1	1.5	0.7	0.5
Government final consumption expenditure	0.9	1.3	0.9	0.9
Public investment	-4.0	2.4	-0.2	-1.1
Contribution of external demand	-0.1	-0.1	0.3	0.0
Export of goods and services	1.5	-0.2	2.6	1.9
Import of goods and services	2.1	0.2	1.0	1.9
GDP deflator	-0.2	0.7	0.5	0.1

【Overseas economy and market data】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Real GDP (US) (CY)	2.9	2.2	2.0	2.0
Real GDP (Euro zone) (CY)	1.9	1.2	1.2	1.4
Real GDP (China) (CY)	6.6	6.2	6.0	6.0
Yen/U.S.Dollar	110.9	107.7	106.1	105.0
Uncollateralized call rates (O/N) (%)*	-0.062	-0.061	-0.045	0.000
TIBOR (3months)	0.062	0.048	0.053	0.094
Newly issued government bond yields (10years) (%)	0.05	-0.13	0.03	0.14
WTI future price (near month contract, US dollar/barrel)	62.8	56.8	56.8	59.1
North Sea Brent Crude (US dollar/barrel)	70.7	63.0	61.8	64.1

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Value of exports (Yen base)	1.9	-3.7	0.3	-0.2
Ammount (Yr/Yr,%)	-0.5	-1.9	1.7	1.2
Value of imports (Yen base)	7.2	-3.9	-1.2	1.8
Ammount (Yr/Yr,%)	1.4	0.3	0.4	1.7
Balance (trillion yen)	-1.6	-1.4	-0.2	-1.7
Current account balance (trillion yen)	19.2	21.2	23.5	22.9
balance on goods (trillion yen)	0.7	0.9	2.1	0.6
balance on service (trillion yen)	-0.7	0.1	0.5	0.7
balance on income (trillion yen)	21.0	21.5	22.1	22.8

【Corporations】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Industrial production	0.3	-1.7	-0.3	0.7
Inventory index	0.2	2.8	-0.6	0.3
Sales	4.4	0.2	0.1	0.8
Ordinary Profits	6.2	-3.8	0.0	1.9

【Income and emploiment】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Income per capita	0.9	0.1	0.6	0.6
Scheduled	0.5	-0.0	0.7	0.6
Non-scheduled	0.3	0.3	0.2	-0.3
Wage increase rate (%)	2.26	2.18	2.00	2.10
Employee	1.8	0.9	0.8	0.5
Nominal compensation of employees*	2.8	1.8	1.6	1.3
Unemployment rate (%)	2.4	2.5	2.4	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Domestic corporate goods prices	2.2	0.5	0.6	0.3
excluding tax effects	2.3	-0.3	-0.2	0.2
Consumer prices	0.7	0.8	0.5	0.6
excluding tax effects	0.8	-3.2	-1.6	-1.7
excluding freshfood	0.8	0.8	0.5	0.6
excluding tax effects	0.8	0.3	-0.0	0.6
excluding food (excluding alcoholic beverages) and energy	0.3	0.6	0.4	0.5

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
New housing starts	95.3	88.6	86.7	86.9
	0.7	-7.0	-2.1	0.3
Owned	28.8	28.2	26.7	27.1
	2.0	-2.1	-5.2	1.5
Rented	39.0	34.7	34.4	34.0
	-4.9	-11.1	-0.9	-1.0
Built for Sale	26.7	24.8	24.7	24.9
	7.5	-7.1	-0.3	0.6

Economic Outlook for calendar 2018-2021

【GDP demand】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Nominal GDP	0.7	1.7	1.0	0.8
Real GDP	0.8	1.1	0.3	0.8
Contribution of domestic demand	1.3	0.7	1.2	-0.1
Private consumption	0.3	0.8	-0.1	0.4
Housing investment	-5.8	-0.2	-6.2	-0.1
Private capital investment	3.9	2.8	0.1	1.8
Contribution of inventory investment	0.1	0.1	-0.1	0.1
Government expenditure	-0.1	1.1	1.0	0.5
Government final consumption expenditure	-3.3	0.7	1.0	-1.2
Public investment	0.8	1.2	1.0	0.9
Contribution of external demand	0.0	-0.2	0.3	0.0
Export of goods and services	3.4	-1.3	2.6	2.2
Import of goods and services	3.4	-0.4	0.6	2.0
GDP deflator	-0.1	0.6	0.7	0.1

【Overseas economy and market data】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Real GDP (US)	2.9	2.2	2.0	2.0
Real GDP (Euro zone)	1.9	1.2	1.2	1.4
Real GDP (China)	6.6	6.2	6.0	6.0
Yen/U.S.Dollar	110.4	108.6	106.4	105.3
Uncollateralized call rates (O/N) (%)*	-0.060	-0.060	-0.060	0.000
TIBOR (3months)	0.070	0.044	0.050	0.086
Newly issued government bond yields (10years) (%)	0.07	-0.11	-0.03	0.12
WTI future price (near month contract, US dollar/barrel)	64.8	56.5	56.3	58.5
North Sea Brent Crude (US dollar/barrel)	71.5	63.8	61.4	63.5

* actual=average，forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Value of exports (Yen base)	1.9	-3.7	0.3	-0.2
Ammount (Yr/Yr,%)	-0.5	-1.9	1.7	1.2
Value of imports (Yen base)	7.2	-3.9	-1.2	1.8
Ammount (Yr/Yr,%)	1.4	0.3	0.4	1.7
Balance (trillion yen)	-1.6	-1.4	-0.2	-1.7
Current account balance (trillion yen)	19.2	20.3	23.5	23.1
balance on goods (trillion yen)	1.2	0.5	2.5	1.0
balance on service (trillion yen)	-0.8	-0.1	0.3	0.7
balance on income (trillion yen)	20.9	21.0	21.9	22.7

【Corporations】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Industrial production	1.1	-2.0	-0.5	0.6
Inventory index	1.7	3.5	-0.4	0.2
Sales*	4.5	1.1	-0.3	0.7
Ordinary Profits	3.7	0.8	-3.0	2.2

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Income per capita	1.3	-0.3	0.7	0.6
Scheduled	0.8	-0.4	0.7	0.6
Non-scheduled	0.7	0.1	0.2	-0.2
Real wage indices	0.2	-1.1	-0.0	-0.0
Number of mployees	2.0	1.0	0.8	0.5
Nominal compensation of employees*	3.0	1.7	1.7	1.3
Unemployment rate (%)	2.4	2.5	2.5	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Domestic corporate goods prices (Yr/Yr,%)	2.6	0.4	0.9	0.2
excluding tax effects	2.6	0.0	-0.3	0.2
Consumer prices	1.0	0.7	0.6	0.5
excluding tax effects	1.0	0.4	-0.1	0.5
excluding freshfood	0.8	0.8	0.6	0.5
excluding tax effects	0.8	0.5	-0.1	0.5
excluding food (excluding alcoholic beverages) and energy	0.3	0.6	0.5	0.4

【 New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
New housing starts	94.2	90.5	86.7	86.7
	-2.4	-3.9	-4.1	-0.1
Owned	28.3	29.0	26.6	26.9
	-0.5	2.4	-8.1	1.1
Rented	39.7	35.3	34.5	34.1
	-5.6	-11.1	-2.3	-1.0
Built for Sale	25.5	25.4	24.8	24.8
	0.0	-0.4	-2.4	-0.0

Economic Outlook (Quarterly)

forecast

Qr/Qr,%
Yr/Yr,%

	FY 2018				FY 2019				FY 2020				FY 2021			
	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	-0.4	0.4	1.0	0.4	0.2	0.4	0.1	0.3	0.6	-0.2	0.2	0.4	0.3	0.2	0.1
Nominal GDP Annualized rate	0.6	-1.7	1.7	4.2	1.7	0.7	1.4	0.5	1.3	2.5	-0.7	0.6	1.5	1.1	0.8	0.4
Nominal GDP (Yr/Yr,%)	1.4	-0.3	-0.0	1.1	1.4	-0.3	-0.0	1.1	1.6	1.9	2.1	1.0	1.0	1.3	0.7	0.9
Real GDP (Qr/Qr,%)	0.4	-0.5	0.4	0.7	0.4	0.2	-0.6	0.2	0.1	0.5	-0.1	0.2	0.1	0.3	0.2	0.2
Real GDP Annualized rate	1.6	-1.9	1.6	2.8	1.8	0.6	-2.4	0.7	0.5	2.1	-0.3	0.8	0.4	1.2	0.9	0.9
Real GDP (Yr/Yr,%)	1.5	0.1	0.3	1.0	1.2	1.6	0.6	0.1	0.1	0.0	0.7	0.8	0.9	0.6	0.8	0.8
Contribution of domestic demand (Qr/Qr,%)	0.4	-0.3	0.8	0.3	0.7	0.2	-1.0	0.0	0.1	0.5	-0.1	0.2	0.1	0.3	0.2	0.2
Private consumption	0.4	-0.1	0.4	0.1	0.6	0.9	-2.2	0.7	0.1	0.6	-0.2	0.1	0.2	0.1	0.2	0.1
	0.1	0.6	0.5	0.7	1.0	2.0	-0.6	-0.0	-0.5	-0.9	1.1	0.5	0.6	0.1	0.5	0.5
Housing investment	-1.9	0.8	1.3	0.6	0.2	-1.5	-4.0	-2.3	-1.0	0.5	0.4	0.0	-1.0	0.2	1.0	0.5
	-9.0	-6.6	-2.3	0.7	2.9	0.7	-4.7	-7.4	-8.5	-6.7	-2.4	-0.1	-0.1	-0.4	0.2	0.7
Private capital investment	2.5	-2.6	2.7	0.4	1.5	0.3	-1.1	-0.0	0.3	0.4	0.5	0.4	0.5	0.6	0.5	0.7
	6.6	1.1	3.9	2.8	2.4	4.8	1.2	0.4	-0.5	-0.6	1.2	1.4	1.8	1.9	2.0	2.3
Contribution of inventory investment (Qr/Qr,%)	-0.0	0.2	0.1	0.1	-0.1	-0.2	0.3	-0.3	0.1	0.1	-0.0	0.1	-0.1	0.1	-0.0	0.0
Government expenditure	-0.2	-0.2	0.3	0.2	0.9	-0.2	0.8	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	-0.1	-0.3	-0.3	0.1	1.5	1.2	1.7	1.6	0.8	1.1	0.4	0.4	0.5	0.5	0.5	0.5
Government final consumption expenditure	0.1	0.2	0.7	-0.1	0.9	-0.5	0.7	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	0.7	0.7	1.3	0.9	1.9	1.1	1.1	1.2	0.5	1.3	0.8	0.9	0.9	0.9	0.9	0.9
Public investment	-1.2	-1.8	-1.3	1.4	1.0	0.8	1.2	0.1	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
	-3.2	-3.7	-5.7	-3.0	-0.2	1.9	4.1	3.0	2.0	0.5	-1.2	-1.4	-1.1	-1.1	-1.2	-1.1
Contribution of external demand (Qr/Qr,%)	0.0	-0.2	-0.4	0.4	-0.3	-0.1	0.4	0.2	-0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0
Export of goods and services	0.8	-2.1	1.2	-2.0	-0.1	1.0	0.5	0.7	0.7	0.7	0.6	0.5	0.5	0.5	0.4	0.4
	5.9	1.7	1.1	-2.2	-2.9	0.4	-0.4	2.0	3.4	2.4	2.4	2.2	2.3	2.3	1.8	1.4
Import of goods and services	0.8	-1.2	3.6	-4.3	1.6	1.5	-1.8	-0.3	0.8	0.7	0.7	0.6	0.5	0.4	0.4	0.4
	2.9	2.8	4.1	-1.3	-0.4	2.7	-2.4	1.0	-0.1	-0.0	1.7	2.2	1.8	1.9	2.0	1.8
GDP deflator (Yr/Yr,%)	-0.1	-0.4	-0.3	0.1	0.4	0.3	1.5	0.8	0.9	1.2	-0.0	0.0	0.1	0.1	0.1	0.1

【Overseas economy and market data】

forecast

	FY 2018				FY 2019				FY 2020				FY 2021			
	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,%)	3.5	2.9	1.1	3.1	2.1	0.8	2.0	2.5	2.6	1.8	1.8	2.1	2.0	2.0	1.9	1.9
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	1.5	0.7	1.0	1.8	0.9	1.0	1.0	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Real GDP (China) (Yr/Yr,%)	6.7	6.5	6.4	6.4	6.2	6.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Yen/U.S.Dollar	109.1	111.5	112.8	110.2	109.8	107.4	107.0	106.8	106.5	106.3	106.0	105.5	105.5	105.0	105.0	104.5
Uncollateralized call rates (O/N) (%)*	-0.065	-0.063	-0.066	-0.055	-0.062	-0.064	-0.060	-0.060	-0.060	-0.060	-0.060	0.000	0.000	0.000	0.000	0.000
TIBOR (3months)	0.086	0.078	0.050	0.034	0.045	0.048	0.050	0.050	0.050	0.050	0.050	0.063	0.094	0.094	0.094	0.094
Newly issued government bond yields (10years) (%)	0.04	0.09	0.09	-0.02	-0.08	-0.18	-0.15	-0.10	-0.05	0.00	0.05	0.10	0.12	0.13	0.14	0.15
WTI future price (near month contract, US dollar/barrel)	67.9	69.5	58.8	54.9	59.8	55.9	55.4	55.9	56.0	56.4	57.0	57.6	58.2	58.8	59.4	60.0
North Sea Brent Crude (US dollar/barrel)	74.9	76.0	68.1	63.9	68.3	62.0	60.8	61.0	61.0	61.4	62.0	62.6	63.2	63.8	64.4	65.0

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2018				FY 2019				FY 2020				FY 2021			
	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)	7.5	2.9	1.3	-3.9	-5.6	-3.6	-5.2	-0.4	1.5	0.5	-0.1	-0.6	-0.1	-0.1	-0.2	-0.3
Ammount (Yr/Yr,%)	5.6	-1.1	-1.4	-5.0	-6.2	-1.1	-1.4	1.3	2.6	1.5	1.4	1.3	1.3	1.2	1.1	1.0
Ammount (Qr/Qr,%)	0.9	-3.8	0.7	-2.3	-0.1	0.7	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Value of imports (Yen base)	7.5	12.4	11.2	-2.0	-0.1	-2.0	-10.1	-2.6	-3.5	-3.9	0.8	1.7	1.5	1.9	2.0	1.8
Ammount (Yr/Yr,%)	1.3	2.0	4.0	-1.8	-0.1	2.2	-2.1	1.5	-0.1	-0.9	1.0	1.4	1.7	1.8	1.7	1.5
Ammount (Qr/Qr,%)	0.2	-0.5	2.9	-3.5	1.8	1.1	-1.5	0.1	0.2	0.3	0.4	0.5	0.5	0.4	0.3	0.3
Balance (trillion yen)	0.8	-0.6	-1.3	-0.6	-0.3	-0.9	-0.1	-0.1	0.6	0.0	-0.2	-0.6	0.4	-0.4	-0.7	-1.0
Current account balance (trillion yen)*	5.4	4.7	4.3	4.7	4.8	4.3	6.1	6.0	6.0	5.9	6.0	6.1	6.0	6.0	5.9	5.8
Balance on goods (trillion yen)*	0.9	-0.1	-0.1	0.1	-0.4	-0.4	1.1	0.9	0.7	0.7	0.6	0.6	0.5	0.4	0.3	0.2
Balance on service (trillion yen)*	-0.4	-0.2	-0.1	-0.1	0.1	-0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Balance on income (trillion yen)*	5.5	5.4	4.9	5.0	5.4	5.2	5.3	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.7	5.7

*seasonally adjusted

【Corporations】

forecast

Yr/Yr、%

		FY 2018				FY 2019				FY 2020				FY 2021			
		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, %)	0.8	-0.7	1.4	-2.5	0.5	-0.6	-1.0	0.2	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
	(Yr/Yr, %)	1.3	0.1	1.3	-1.7	-2.4	-0.9	-3.2	-0.3	-1.4	-0.7	0.4	0.4	0.6	0.7	0.9	0.8
Inventory index	(Qr/Qr, %)	-1.9	0.4	0.9	0.9	0.8	-0.3	2.1	0.2	0.0	-0.4	-0.2	0.0	0.0	0.1	0.1	0.1
	(Yr/Yr, %)	2.5	3.5	1.7	0.2	2.9	2.6	3.5	2.8	1.9	2.0	-0.4	-0.6	-0.6	0.0	0.2	0.3
Sales		5.1	6.0	3.7	3.0	1.3	1.0	-0.8	-0.6	-0.5	-0.5	0.6	0.8	0.8	0.5	0.9	0.9
Ordinary profits		17.9	2.2	-7.0	10.3	-9.6	2.6	3.6	-8.7	-3.4	-1.3	2.2	3.0	2.3	1.3	1.9	1.8

*Forecast starts from 2019 4-6.

【Income and emploiment】

forecast

Yr/Yr、%

		FY 2018				FY 2019				FY 2020				FY 2021			
		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		1.7	0.9	1.5	-0.9	-0.2	-0.1	-0.1	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.7	0.6
	Scheduled	0.8	0.8	1.0	-0.4	-0.3	-0.3	-0.4	0.8	0.7	0.6	0.6	0.7	0.6	0.6	0.7	0.7
	Non-scheduled	2.0	0.3	0.1	-0.9	-0.4	1.5	0.1	0.1	0.8	0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3
Real wage indices		0.9	-0.3	0.6	-1.2	-1.0	-0.9	-1.4	-0.1	0.0	-0.4	0.3	0.2	-0.1	-0.2	-0.0	-0.1
Employee		2.2	1.9	1.9	1.3	1.1	0.9	0.8	0.7	0.9	0.9	0.7	0.7	0.5	0.5	0.5	0.5
Nominal compensation of employees*		3.8	2.6	3.1	1.3	2.0	1.8	1.5	1.7	1.7	1.7	1.6	1.5	1.2	1.2	1.4	1.3
Unemployment rate (%)		2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.4	2.5	2.5	2.4	2.4	2.4	2.3	2.3

※GDP base

【Goods prices】

forecast

Yr/Yr、%

		FY 2018				FY 2019				FY 2020				FY 2021			
		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		2.6	3.1	2.3	0.9	0.6	-0.8	0.9	1.1	0.9	1.5	0.0	0.1	0.2	0.2	0.3	0.3
	excluding tax effects	2.6	3.1	2.3	0.9	0.6	-0.8	-0.7	-0.5	-0.7	-0.1	0.0	0.1	0.2	0.2	0.3	0.3
Consumer prices		0.6	1.1	0.9	0.3	0.8	0.6	1.0	0.8	0.6	0.8	0.3	0.4	0.6	0.6	0.6	0.6
	excluding tax effects	0.6	1.1	0.9	0.3	0.8	0.6	0.0	-0.2	-0.4	-0.2	0.3	0.4	0.6	0.6	0.6	0.6
excluding freshfood		0.8	0.9	0.8	0.8	0.7	0.6	1.1	0.8	0.5	0.8	0.3	0.3	0.6	0.6	0.6	0.6
	excluding tax effects	0.8	0.9	0.8	0.8	0.7	0.6	0.1	-0.2	-0.5	-0.2	0.3	0.3	0.6	0.6	0.6	0.6
excluding food (excluding alcoholic beverages) and energy		0.3	0.3	0.3	0.4	0.6	0.5	0.8	0.7	0.5	0.6	0.2	0.3	0.4	0.5	0.5	0.5

【 New housing starts】

forecast

annualized, ten thousand units

Yr/Yr、%

		FY 2018				FY 2019				FY 2020				FY 2021			
		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		96.6	95.0	95.5	94.2	91.8	89.1	86.8	86.6	87.1	86.7	86.6	86.3	86.7	86.7	87.1	87.1
		-2.0	-0.2	0.6	5.2	-4.7	-6.2	-9.3	-8.1	-4.9	-2.7	-0.2	-0.3	-0.4	0.0	0.5	1.0
	Owned	28.2	28.1	29.1	30.0	30.8	28.3	26.9	26.4	26.8	26.9	26.5	26.6	26.9	27.0	27.2	27.3
		-2.5	0.1	4.0	7.4	9.6	0.8	-7.6	-11.9	-13.0	-5.0	-1.6	1.0	0.5	0.5	2.5	2.5
	Rented	40.8	40.4	37.9	36.8	34.6	35.0	34.6	34.5	34.6	34.3	34.5	34.1	34.3	33.9	34.1	33.8
		-3.5	-2.0	-7.4	-7.2	-14.9	-13.3	-8.6	-6.4	0.1	-1.9	-0.6	-1.0	-1.0	-1.0	-1.0	-1.0
	Built for Sale	26.1	26.0	27.6	27.2	25.1	25.0	24.4	24.9	24.9	24.6	24.9	24.7	24.7	24.9	25.0	25.2
		-1.3	2.1	10.4	21.5	-3.8	-4.1	-11.8	-8.7	-0.9	-1.3	1.9	-0.8	-0.9	1.0	0.6	2.0