4 December 2019

Report

The Japanese Economy in Fiscal 2019 and Fiscal 2020

─Minimal Impact from the Consumption Tax Hike; Recovery Expectations Growing with the Approach of the Tokyo Olympics

(1) Current State of the Economy

─Slim economic growth from weak rush demand ahead of the tax hike

The real GDP growth rate for the July-September quarter of 2019, announced on November 14, rose +0.1% from the previous quarter (+0.2% at an annualized rate), extending the positive growth to four quarters. However, the growth was marginal and lacked strength when considering that the quarter included rush demand ahead of the consumption tax increase.

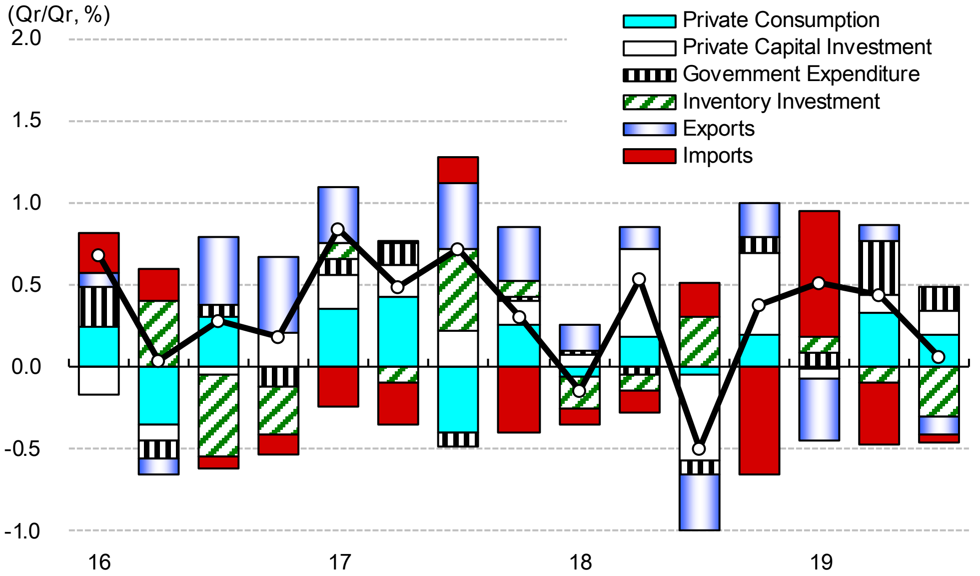
By demand category, consumer spending grew 0.4% from the previous quarter and has increased for two straight terms. The impact from inclement weather, a diminishing of the boost from the change in the Japanese imperial era, and governmental policies launched to level out demand combined to produce a meager increase before the tax hike. Although rush demand did occur for large household appliances and daily sundries with durable good purchases rising 3.2% and semi-durable good purchases increasing 1.7% from the previous quarter, the upswing in purchases just prior to the tax hike was short-lived, and the quarterly growth was ultimately minimal. (In the January-March quarter before the previous consumption tax hike in 2014, private consumption jumped 2.0% from the prior quarter with purchases of durable goods surging 12.0% and semi-durable goods rising 4.7%.)

Housing investment rose 1.4% from the previous quarter, marking a fifth straight quarterly rise. The volume of housing starts has already peaked out, but the boost from construction triggered by the rush demand ahead of the tax hike helped housing investment continue to rise.

In the corporate sector, capital investment remained strong, growing 0.9% from the previous quarter. Corporate investment appetite remains brisk, presumably supported by steady increase in investment in laborsaving equipment to counter the labor shortage and for deeper use of IT. The contribution from inventory investment over the previous quarter, caused partly by inventory unwinding to meet the rush demand ahead of the tax hike, was a significant negative factor and subtracted 0.3% from the total growth.

In the government sector, government final consumption expenditure was up +0.5% from the previous quarter and has now grown for two straight quarters. In addition, the gradual implementation of government allocations in fiscal 2018 supplementary budget helped lift public investment by 0.8%, for a third consecutive quarterly rise.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

As a result, the contribution of domestic demand increased by +0.2% from the previous quarter. Conversely, the contribution from external demand was weak, down -0.2% from the previous quarter, which effectively offset the contribution from domestic demand. External demand included a 0.7% decline in exports from the previous quarter. Exports of goods were up 0.3%, which included signs of a recovery for IT-related goods. However, exports of services fell a sharp 4.4%. The main factors are likely slump in consumption by inbound tourists caused by impacts from a deterioration in relations between Japan and South Korea and inclement weather. Imports received a minimal boost from the rush demand before the tax hike and grew only 0.2%.

The nominal GDP growth rate was +0.3% versus the previous quarter (annualized rate of +1.2%). The GDP deflator, a measure of overall price trends in the economy, was +0.6% year on year (+0.2% versus the previous quarter). The GDP deflator is gradually building its positive growth margin amid increasing the rate of decline in the import deflator, which is a deduction item for GDP deflator, along with decline in resource prices.

(2) Outlook for the Economy in Fiscal 2019, Fiscal 2020
─Minimal Impact from the Consumption Tax Hike; Recovery Expectations Growing with the Approach of the Tokyo Olympics

Private consumption is expected to fall sharply in the October-December quarter from a reactionary decline after the rush in demand ahead of the consumption tax hike. This will inevitably lead to a contraction in overall real GDP growth. However, given the relatively small amount of pre-tax hike rush demand, the reactionary decline in private consumption could be relatively minor. When also considering the potential effects of point rewards for cashless payments at small and medium-sized stores, the introduction of premium gift certificates, and the alleviation of the pecuniary burden on households by making early-stage childhood education free of charge, the decline in consumer spending is expected to be relatively small and short-lived. In addition, the improving labor market with the ongoing low unemployment rate and the historical high levels of nominal and actual wages are also helping create favorable conditions for household budgets. Also, the rise in the Ku-area of Tokyo consumer price index (all items, less fresh food) for October, which is released ahead of the national CPI, accelerated from 0.4% year-on-year in September to 0.5% in October, suggesting that the tax hike did not overly reduce household budgets. With the approach of the Tokyo 2020 Olympic and Paralympic Games in summer, the heretofore stagnant consumer confidence is expected to gradually improve.

Capital investment is anticipated to remain on an upward trend. In the Tokyo metropolitan area, demand related to the Tokyo 2020 Olympic and Paralympic Games is expected to run its course. However, strong demand for infrastructure construction such as for 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. Although companies are certainly facing growing challenges to generate earnings, these investments are not likely to be influenced by the immediate results. Continuing strong investment appetite against a backdrop of ample cash flows makes it difficult to imagine that the corporate drive to invest will suddenly evaporate. Public investment is also expected to support the economy for some time due to the demand for recovery and reconstruction from disasters caused by a large typhoon in autumn as the national resilience plan is promoted.

While domestic demand is recovering, external demand will affect the direction of the economy, but exports are showing promising movement. ICT-related demand centering on semiconductors was declining but has been leveling off since start of the current fiscal year and is now turning upward and is expected to be a factor boosting exports in the second half of fiscal 2019. Progress in vehicle electrification, rising demand for robots due to labor shortages around the world, and the strengthening and expansion of information and telecommunication functions should provide a firm foundation for overall semiconductor demand. Smartphone demand continues to adjust, but signs of a bottoming are appearing with new models with 5G functions readying to hit the market, suggesting that demand could rise a notch in the future.

Overseas, we expect the Chinese economy to gradually start regaining momentum as China's wide-ranging economic policies gain traction. In addition, the currently solid US economy is expected to remain firm with support from additional monetary easing and expanded fiscal spending. In particular, the new highs being reached by the stock markets may create a wealth effect that could provide a boost to the year-end shopping season.

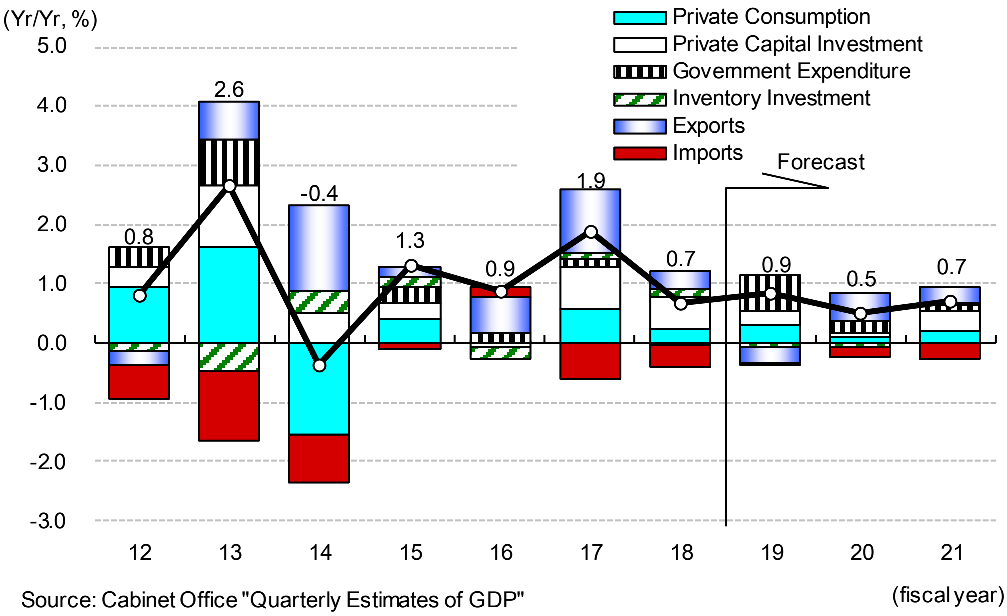
Against this backdrop, we think a short period of negative growth is inevitable in Japan from the impact from the consumption tax hike in the second half of fiscal 2019, but expect the adjustment to run its course relatively quickly and expect the economy to avoid being derailed by the tax hike.

As a result, we forecast real GDP to grow for a fifth straight year and surpass the 0.7% year-on-year growth in fiscal 2018 with growth of 0.9% in fiscal 2019 (Chart 2). This will largely be due to strong growth in the first half of the year (+0.7% over the previous period) as we forecast a negative growth rate in the second half (-0.3% from the previous period).

Following this, in fiscal 2020, we expect consumer spending and demand from inbound tourism related to the Tokyo 2020 Olympic and Paralympic Games from July to September to contribute to a gradually expanding economy from the beginning of the fiscal year. Since we also expect a minus impact on the economy from reduced deliveries and temporary reductions in manufacturing and business activities while the Olympics are under way, we think the positive effects from the Olympics may fall short of expectations.

We forecast real GDP growth to slow to +0.5% year on year in fiscal 2020. We expect slower growth from the possibility of a temporary economic stagnation in the second half as demand generated by the Tokyo 2020 Olympic and Paralympic Games settles back down and demand for infrastructure construction runs its course. We also anticipate effects from measures to offset the impact of the consumption tax hike will peel off. In addition, we expect a lingering impact from the economic weakness in the second half of fiscal 2019, which we estimate will slow GDP growth by negative 0.2% in fiscal 2020.
We then expect a gradual recovery trend and the GDP growth rate in real terms to return to 0.7% year on year growth in fiscal 2021. While the shrinking working age population is increasing the risk of insufficient labor supply, the full arrival of 5G technology and the boost to demand from inbound tourists since the Tokyo 2020 Olympic and Paralympic Games should help drive the economic growth.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

The main downside risk for the economy continues to be the developments in the world economy, including a flare up in trade friction between the United States and China. Trade tensions rose on September 1 when the United States partially applied a fourth round of tariff increases on virtually all imports from China. However, rising tensions were temporarily quelled when China committed to increasing imports of U.S. agricultural products at a meeting of top officials on both sides in October and U.S. President Trump announced that the tariffs set on October 15 (a fourth round of sanctions in addition to round one through three) would be suspended. Hopes of an improving relationship between the countries were further fueled by the expectations of a partial deal on agricultural and financial goods at a meeting between the two countries' leaders in November. However, the deal was postponed, leaving open the possibility that tariffs will be enforced on the remaining items in phase four, which is scheduled to be enforced on December 15. If this occurs, it would impact the economies of both countries and would resonate in the global economy, which could trigger the stock markets to fall on concern of a deteriorating global economy and the yen to appreciate sharply as investors seek to avoid risk.

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 in relation to Brexit, and broader demonstrations in Hong Kong could fuel concern of a worsening global economy and push investors into risk aversion. International politics, including how the situation plays out between the United States and China, is likely to continue strongly influencing the direction of the global economy.

Also, even if the remaining fourth round of tariff increases are postponed and the immediate conflict stops, it is thought that companies worldwide will be likely to take steps to curb investment, relocate production bases outside China, and review supply chains in anticipation of a prolonging of the economic sanctions and conflict. As such, the negative impact on the global economy would steadily spread. Reflecting concern about a deteriorating global economy, stock markets could soften and the yen could rapidly appreciate as investors seek to avoid risk.

If the environment surrounding overseas economies and exports deteriorates, there is a concern that the repercussions will spread to domestic demand. The consumer spending trend lacks strength other than the positive consumer sentiment that came with the start of Japan's new Reiwa imperial era and the rush demand ahead of the consumption tax hike. For this reason, no matter how favorable the employment and income conditions are, a sense of increasing uncertainty about the future of the economy could erode consumer confidence and strengthen the desire to cut back on spending after the tax increase. If this scenario materializes, the fall in consumer spending could be deeper than just a post-tax hike reactionary decline.

In addition, if yen appreciation and rising labor costs dampen corporate performance, companies could become more cautious about capital investment. This would bring risk of investment schedules being pushed back and investment plans being downscaled for investment deemed unnecessary or non-urgent and investment aimed at increasing production. At the same time, companies would likely step up efforts to control labor costs in order to cut costs. In fact, a counter-trend is appearing in the Ministry of Health, Labour and Welfare's Monthly Labour Survey, which shows that summer bonus payments fell 1.4% year on year for the first decline in four years and the job openings-to-applicants ratio has peaked. This suggests that the tightness from the labor shortage has slackened a little, which is a reversal of the trend to date. It will be important to monitor how companies handle this year's winter bonus amounts and whether the trend will affect the degree of pay increases in the annual spring wage negotiations in 2020.

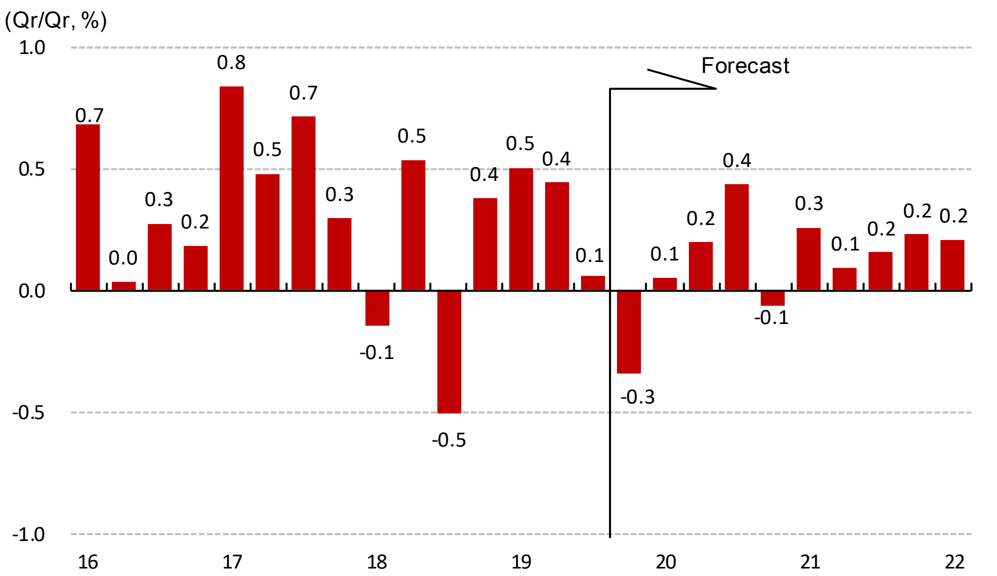
On a quarterly basis, we expect real GDP growth to decline 0.3% quarter on quarter in the October-December 2019 term (annualized rate of -1.4%). We forecast that a sharp reactionary decline in private consumption after the increase in the consumption tax will make a drop into negative growth unavoidable. (Chart 3)

Nevertheless, we expect the decline in post-tax hike demand to be substantially less than the -1.9% quarter on quarter fallback in April-June 2014 (annualized rate of -7.3%). We think the favorable environment for private consumption and the effects of government policies will limit the quarter-on-quarter declines in the real GDP growth rate and real private consumption to a single quarter; and the economy will gradually recover toward the end of the fiscal year supported by recovering ICT-related demand, a recovering Chinese economy helped by economic policies, and a solid economy in the United States backed by monetary easing and other policies.

However, a flare up in the trade friction between the United States and China would be detrimental to the economies of both countries, and if the repercussions impact both internal and external demand, this would raise the risk of a deeper decline in post-tax hike consumption and push back the economic recovery. If this scenario materializes, real GDP could show negative growth for a second consecutive term in January-March 2020.

The economy is set to start gradually recovering after the start of fiscal 2020 and should regain strength in the July-September quarter of 2020 when the Tokyo 2020 Olympic and Paralympic Games will be held. However, the pace of economic recovery will likely be slowed by factors, such as waning demand for infrastructure construction, and there is risk that the economy could temporarily stagnate in the second half of the fiscal year.

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	0.9	0.8
Real GDP	0.7	0.9	0.5	0.7
Contribution of domestic demand	0.8	1.1	0.2	0.7
Private consumption	0.4	0.6	0.2	0.4
Housing investment	-4.3	1.5	-3.3	0.1
Private capital investment	3.5	1.3	0.4	1.9
Contribution of inventory investment	0.1	-0.1	-0.1	0.0
Government expenditure	-0.1	2.5	0.8	0.5
Government final consumption expenditure	0.9	2.3	0.9	0.9
Public investment	-4.0	3.5	0.3	-1.1
Contribution of external demand	-0.1	-0.3	0.3	0.0
Export of goods and services	1.6	-1.5	2.8	1.7
Import of goods and services	2.2	0.1	1.0	1.5
GDP deflator	-0.2	0.7	0.4	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	1.8	2.0
Real GDP (Euro zone) (CY)	1.9	1.2	1.2	1.4
Real GDP (Asia)	5.9	5.9	5.9	5.9
Real GDP (China)	6.6	6.1	5.9	5.9
Yen/U.S.Dollar	110.9	108.4	106.0	105.1
Uncollateralized call rates (O/N) (%)*	-0.062	-0.061	-0.045	0.000
TIBOR (3months)	0.062	0.038	0.053	0.094
Newly issued government bond yields (10years) (%)	0.05	-0.14	-0.03	0.13
WTI future price (near month contract, US dollar/barrel)	62.8	57.3	57.8	60.1
North Sea Brent Crude (US dollar/barrel)	70.7	63.4	62.8	65.1

* 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	-5.4	0.1	-0.1
Ammount (Yr/Yr,%)	-0.5	-3.5	1.2	1.0
Value of imports (Yen base)	7.2	-5.2	-1.7	1.4
Ammount (Yr/Yr,%)	1.4	0.7	0.8	1.3
Balance (trillion yen)	-1.6	-1.6	-0.2	-1.4
Current account balance (trillion yen)	19.2	20.6	22.9	22.6
balance on goods (trillion yen)	0.7	0.2	1.5	0.4
balance on service (trillion yen)	-0.7	0.0	0.3	0.6
balance on income (trillion yen)	21.0	21.8	22.2	22.8

【Corporations】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Industrial production	0.3	-1.5	-0.3	0.8
Inventory index	0.2	1.2	-0.4	0.3
Sales	4.4	-0.4	0.1	0.8
Ordinary Profits	6.2	-4.8	0.0	1.8

【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	0.5	0.6
Scheduled	0.5	0.0	0.5	0.6
Non-scheduled	0.4	-0.1	0.2	-0.3
Wage increase rate (%)	2.26	2.18	2.00	2.10
Employee	0.5	-1.2	0.8	0.5
Nominal compensation of employees*	2.8	1.5	1.5	1.4
Unemployment rate (%)	2.4	2.3	2.4	2.3

*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	0.2	0.5	0.3
excluding tax effects	2.2	-0.6	-0.3	0.3
Consumer prices	0.7	0.5	0.5	0.6
excluding tax effects	0.8	-4.4	-2.9	-1.5
excluding freshfood	0.8	0.6	0.5	0.6
excluding tax effects	0.8	0.1	-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

Yr/Yr、%

forecast

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
New housing starts	95.3	87.9	85.6	86.8
	0.7	-7.8	-2.6	1.4
Owned	28.8	28.0	26.7	27.1
	2.0	-2.5	-4.9	1.5
Rented	39.0	33.5	33.3	34.0
	-4.9	-14.2	-0.4	1.9
Built for Sale	26.7	25.7	24.8	25.0
	7.5	-3.8	-3.3	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	1.5	1.0	0.8
Real GDP	0.8	1.0	0.5	0.7
Contribution of domestic demand	1.3	0.8	1.2	0.2
Private consumption	0.4	0.6	0.2	0.4
Housing investment	-5.8	2.4	-3.8	-0.4
Private capital investment	3.9	1.9	0.2	1.7
Contribution of inventory investment	0.1	0.1	-0.1	0.0
Government expenditure	-0.1	1.9	1.4	0.5
Government final consumption expenditure	0.8	1.9	1.3	0.8
Public investment	-3.3	1.6	1.5	-0.9
Contribution of external demand	0.0	-0.3	0.2	0.1
Export of goods and services	3.4	-1.9	1.9	2.1
Import of goods and services	3.4	-0.3	0.5	1.7
GDP deflator	-0.1	0.6	0.5	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) (CY)	2.9	2.2		
Real GDP (Euro zone) (CY)	1.9	1.2	1.2	1.4
Real GDP (Asia)	5.9	5.9		
Real GDP (China)	6.6	6.1		
Yen/U.S.Dollar	110.4	109.0	106.6	105.3
Uncollateralized call rates (O/N) (%)*	-0.060	-0.060	-0.060	0.000
TIBOR (3months)	0.070	0.034	0.050	0.086
Newly issued government bond yields (10years) (%)	0.07	-0.11	-0.09	0.11
WTI future price (near month contract, US dollar/barrel)	64.8	56.8	57.4	59.5
North Sea Brent Crude (US dollar/barrel)	71.5	63.9	62.4	64.5

* 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	-5.4	0.1	-0.1
Ammount (Yr/Yr,%)	-0.5	-3.5	1.2	1.0
Value of imports (Yen base)	7.2	-5.2	-1.7	1.4
Ammount (Yr/Yr,%)	1.4	0.7	0.8	1.3
Balance (trillion yen)	-1.6	-1.6	-0.2	-1.4
Current account balance (trillion yen)	19.2	20.1	22.6	22.8
balance on goods (trillion yen)	1.2	0.4	1.6	0.8
balance on service (trillion yen)	-0.8	-0.2	0.2	0.6
balance on income (trillion yen)	20.9	21.3	22.0	22.7

【Corporations】

forecast →

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Industrial production	1.1	-1.8	-0.5	0.7
Inventory index	1.7	1.9	-0.3	0.2
Sales*	4.5	0.6	-0.4	0.8
Ordinary Profits	3.7	-0.6	-2.2	1.6

【Income and emploiment】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
Income per capita	1.3	-0.5	0.6	0.5
Scheduled	0.8	-0.3	0.6	0.6
Non-scheduled	0.7	-0.4	0.2	-0.2
Real wage indices	0.2	-1.1	0.0	-0.1
Number of mployees	2.0	1.1	0.9	0.5
Nominal compensation of employees*	3.0	1.4	1.6	1.3
Unemployment rate (%)	2.4	2.4	2.4	2.3

*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	0.2	0.6	0.3
excluding tax effects	2.6	-0.2	-0.6	0.3
Consumer prices	1.0	0.4	0.5	0.5
excluding tax effects	1.0	0.2	-0.2	0.5
excluding freshfood	0.8	0.6	0.5	0.5
excluding tax effects	0.8	0.4	-0.2	0.5
excluding food (excluding alcoholic beverages) and energy	0.3	0.5	0.5	0.4

【 New housing starts】

forecast

annualized, ten thousand units

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (forecast)	CY 2020 (forecast)	CY 2021 (forecast)
New housing starts	94.2	90.2	85.3	86.3
	-2.4	-4.2	-5.5	1.3
Owned	28.3	28.9	26.6	26.9
	-0.5	2.0	-7.8	1.1
Rented	39.7	34.5	33.1	33.8
	-5.6	-13.0	-4.1	2.3
Built for Sale	25.5	26.3	24.9	24.9
	0.0	3.2	-5.5	0.1

Economic Outlook (Quarterly)

forecast → (FY 2019 10-12 onward)

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	0.9	0.4	0.3	0.1	0.4	0.2	0.4	-0.1	0.3	0.3	0.1	0.4	0.2
	Annualized rate	0.8	-1.8	1.5	3.7	1.5	1.2	0.5	1.5	1.0	1.5	-0.5	1.0	1.3	0.4	1.4	0.7
	(Yr/Yr,%)	1.4	-0.3	-0.0	1.1	1.3	1.9	1.8	1.2	1.2	1.1	0.6	0.7	0.9	0.7	0.9	0.9
Real GDP	(Qr/Qr,%)	0.5	-0.5	0.4	0.5	0.4	0.1	-0.3	0.1	0.2	0.4	-0.1	0.3	0.1	0.2	0.2	0.2
	Annualized rate	2.2	-2.0	1.5	2.0	1.8	0.2	-1.4	0.2	0.8	1.8	-0.2	1.0	0.4	0.6	0.9	0.8
	(Yr/Yr,%)	1.5	0.1	0.3	0.9	0.9	1.3	0.7	0.5	0.4	0.3	0.6	0.6	0.8	0.6	0.8	0.7
Contribution of domestic demand	(Qr/Qr,%)	0.5	-0.4	0.8	0.1	0.7	0.2	-0.4	-0.0	0.1	0.3	-0.1	0.3	0.1	0.2	0.2	0.2
Private consumption		0.3	-0.1	0.3	-0.0	0.6	0.4	-1.1	0.3	0.2	0.4	-0.2	0.1	0.2	0.1	0.2	0.1
		0.1	0.6	0.5	0.5	0.8	1.3	-0.2	0.4	-0.2	-0.2	0.7	0.3	0.5	0.1	0.5	0.5
Housing investment		-1.5	0.4	1.1	1.1	0.5	1.4	-1.5	-3.0	-1.5	1.4	-0.1	-0.5	-1.0	0.8	1.0	0.5
		-9.0	-6.6	-2.2	1.0	3.0	4.1	1.5	-2.7	-4.6	-4.6	-3.2	-0.7	-0.2	-0.8	0.3	1.3
Private capital investment		3.3	-3.2	3.2	-0.4	0.7	0.9	-1.0	0.0	0.1	0.2	0.4	0.5	0.5	0.4	0.6	0.4
		6.6	1.2	3.9	2.7	0.4	4.2	0.3	0.5	0.1	-0.7	0.8	1.2	1.7	1.8	2.1	2.0
Contribution of inventory investment	(Qr/Qr,%)	-0.1	0.3	0.0	0.1	-0.1	-0.3	0.3	-0.2	-0.1	0.0	-0.0	0.1	-0.1	-0.0	0.0	0.1
Government expenditure		-0.2	-0.4	0.4	0.3	1.4	0.6	0.5	0.2	0.2	0.0	0.1	0.1	0.2	0.1	0.1	0.1
		-0.1	-0.3	-0.3	0.1	1.9	2.8	2.8	2.6	1.5	0.9	0.5	0.4	0.5	0.5	0.4	0.4
Government final consumption expenditure		0.0	0.2	0.7	-0.0	1.2	0.5	0.5	0.1	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2
		0.7	0.7	1.3	0.9	2.1	2.5	2.2	2.4	1.4	0.9	0.6	0.7	0.7	0.9	0.9	0.9
Public investment		-1.1	-2.5	-1.0	1.8	2.1	0.8	0.5	0.2	0.1	-0.2	-0.2	-0.3	-0.2	-0.3	-0.4	-0.5
		-3.2	-3.7	-5.7	-3.0	0.9	4.0	5.1	3.6	1.9	0.7	-0.2	-0.6	-0.7	-0.9	-1.2	-1.4
Contribution of external demand	(Qr/Qr,%)	0.0	-0.1	-0.4	0.4	-0.3	-0.2	0.0	0.1	0.1	0.1	0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Export of goods and services		0.7	-1.8	1.1	-2.0	0.5	-0.7	-0.6	0.4	1.0	1.1	0.7	0.5	0.4	0.4	0.4	0.4
		5.9	1.6	1.1	-2.1	-2.2	-1.2	-2.0	-0.6	2.0	2.8	3.5	2.9	2.3	1.8	1.5	1.2
Import of goods and services		0.8	-1.2	3.8	-4.1	2.1	0.2	-0.9	0.1	0.2	0.5	0.6	0.7	0.5	0.4	0.4	0.4
		3.0	2.8	4.1	-1.2	0.3	2.0	-2.2	0.6	-0.9	0.7	1.7	2.3	1.8	1.4	1.5	1.4
GDP deflator	(Yr/Yr,%)	-0.1	-0.4	-0.3	0.1	0.4	0.6	1.1	0.7	0.7	0.7	-0.0	0.1	0.1	0.1	0.1	0.2

【Overseas economy and market data】

forecast → (FY 2019 10-12 onward)

		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	2.0	1.9	1.2									
Real GDP (Euro zone)	(Annualized Qr/Qr rate,%)	1.5	0.8	1.4	1.7	0.8	1.0	0.9	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Real GDP (Asia)	(Yr/Yr,%)	5.9	5.9	5.9	5.9	5.9	5.9	5.9									
Real GDP (China)	(Yr/Yr,%)	6.7	6.5	6.4	6.4	6.2	6.0	5.9									
Yen/U.S.Dollar		109.1	111.5	112.8	110.2	109.8	107.3	108.5	108.0	107.0	106.0	105.5	105.5	105.5	105.0	105.0	105.0
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	0.031	0.026	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	-0.20	-0.12	-0.15	-0.10	-0.10	0.00	0.08	0.10	0.12	0.14	0.15
WTI future price (near month contract, US dollar/barrel)		67.9	69.5	58.8	54.9	59.8	56.5	56.0	57.0	57.0	57.4	58.0	58.6	59.2	59.8	60.4	61.0
North Sea Brent Crude (US dollar/barrel)		74.9	76.0	68.1	63.9	68.3	62.0	61.2	62.0	62.0	62.4	63.0	63.6	64.2	64.8	65.4	66.0

* actual=average, forecast=end of period

【External demand (export and import)】

forecast → (FY 2019 10-12 onward)

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	-5.0	-7.7	-3.1	-1.0	-0.2	0.8	0.6	0.3	-0.3	-0.1	-0.3
Ammount (Yr/Yr,%)	5.6	-1.1	-1.4	-5.0	-6.2	-2.2	-3.9	-1.5	0.0	0.5	2.1	2.1	1.6	1.0	0.8	0.6
Ammount (Qr/Qr,%)	0.9	-3.8	0.7	-2.3	-0.1	-0.7	-0.9	0.2	0.6	0.8	0.4	0.3	0.2	0.2	0.2	0.1
Value of imports (Yen base)	7.5	12.4	11.2	-2.0	-0.1	-5.0	-11.3	-3.7	-4.9	-2.6	-0.2	0.8	0.9	1.4	1.7	1.7
Ammount (Yr/Yr,%)	1.3	2.0	4.0	-1.8	-0.1	2.3	-1.4	2.2	0.6	0.1	1.0	1.3	1.4	1.4	1.3	1.2
Ammount (Qr/Qr,%)	0.2	-0.5	2.9	-3.5	1.8	0.8	-0.5	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Balance (trillion yen)	0.8	-0.6	-1.3	-0.6	-0.3	-0.5	-0.3	-0.4	0.4	-0.0	-0.2	-0.5	0.3	-0.4	-0.5	-0.9
Current account balance (trillion yen)*	5.4	4.7	4.3	4.7	4.9	4.9	5.6	5.5	5.7	5.5	5.9	5.8	5.7	5.6	5.5	5.6
Balance on goods (trillion yen)*	0.9	-0.1	-0.1	0.1	-0.4	0.0	0.5	0.3	0.4	0.3	0.5	0.4	0.2	0.1	-0.1	-0.0
Balance on service (trillion yen)*	-0.4	-0.2	-0.1	-0.1	0.1	-0.2	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.2
Balance on income (trillion yen)*	5.5	5.4	4.9	5.0	5.5	5.4	5.4	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.7	5.7

*seasonally adjusted

【Corporations】

forecast (from FY 2019 10-12)

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	0.6	-0.5	-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	-2.3	-0.8	-2.4	-0.4	-1.3	-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	0.9	-1.7	1.9	0.2	0.0	-0.3	-0.2	0.0	0.0	0.1	0.1	0.1
	(Yr/Yr, %)	2.5	3.5	1.7	0.2	3.0	0.9	1.9	1.2	0.3	2.2	-0.3	-0.4	-0.5	0.0	0.2	0.3
Sales		5.1	6.0	3.7	3.0	0.4	0.6	-1.5	-0.9	-0.7	-0.8	0.7	0.9	0.8	0.7	0.9	0.9
Ordinary profits		17.9	2.2	-7.0	10.3	-12.0	0.1	2.9	-7.0	-1.4	-0.6	1.0	1.4	1.4	1.4	2.1	2.2

*Forecasts of Sales and Ordinary profits start from 2019 7-9.

【Income and employment】

forecast (from FY 2019 10-12)

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

※GDP base

【Goods prices】

forecast (from FY 2019 10-12)

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	-0.9	0.3	0.7	0.6	0.9	0.0	0.3	0.2	0.4	0.4	0.4
	excluding tax effects	2.6	3.1	2.4	0.9	0.6	-0.9	-1.3	-0.9	-1.0	-0.7	0.0	0.3	0.2	0.4	0.4	0.4
Consumer prices		0.6	1.1	0.9	0.3	0.8	0.3	0.3	0.5	0.4	0.7	0.4	0.4	0.6	0.6	0.6	0.6
	excluding tax effects	0.6	1.1	0.9	0.3	0.8	0.3	-0.7	-0.5	-0.6	-0.3	0.4	0.4	0.6	0.6	0.6	0.6
excluding freshfood		0.8	0.9	0.8	0.8	0.8	0.5	0.5	0.6	0.4	0.7	0.4	0.4	0.6	0.6	0.6	0.6
	excluding tax effects	0.8	0.9	0.8	0.8	0.8	0.5	-0.5	-0.4	-0.6	-0.3	0.4	0.4	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	0.6	0.6	0.6	0.5	0.6	0.3	0.3	0.5	0.5	0.4	0.5

【 New housing starts】

forecast (from FY 2019 10-12)

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	89.9	84.9	84.5	85.4	85.5	85.6	85.7	86.1	86.5	87.0	87.4
		-2.0	-0.2	0.6	5.2	-4.7	-5.4	-11.2	-10.2	-6.8	-5.0	0.7	1.4	0.8	1.3	1.6	2.0
	Owned	28.2	28.1	29.1	30.0	30.8	27.9	26.8	26.4	26.7	26.9	26.5	26.6	26.9	27.0	27.2	27.3
		-2.5	0.1	4.0	7.4	9.6	-0.6	-7.9	-11.8	-13.1	-3.8	-1.4	0.7	0.5	0.5	2.6	2.6
	Rented	40.8	40.4	37.9	36.8	34.6	33.7	32.8	32.7	33.0	33.2	33.5	33.7	33.8	33.9	34.0	34.1
		-3.5	-2.0	-7.4	-7.2	-14.9	-16.5	-13.4	-11.2	-4.7	-1.5	1.9	3.0	2.4	2.1	1.6	1.4
	Built for Sale	26.1	26.0	27.6	27.2	25.1	28.1	24.8	24.8	25.0	24.7	24.9	24.8	24.7	25.0	25.1	25.3
		-1.3	2.1	10.4	21.5	-3.8	8.2	-10.2	-8.9	-0.4	-12.2	0.4	-0.3	-1.2	1.0	0.6	2.0