11 March 2020

Report

The Japanese Economy in Fiscal 2020 and Fiscal 2021

─The economy will recover from the negative effects of the consumption tax hike, but the spread of coronavirus (COVID-19) may delay the recovery

(1) Current State of the Economy

─Significant negative impact of the consumption tax hike

The real GDP growth rate for the October-December quarter of 2019, which was announced on February 17, 2020, showed a decline of -1.6% from the previous quarter (-6.3% at an annualized rate), the first negative figure in five quarters. Although the scale of the decline due to the tax hike was small compared to the previous hike in 2014 (which was -1.9% compared to the previous quarter), the rush demand was small and the negative impact of the 2019 consumption tax hike was surprisingly large.

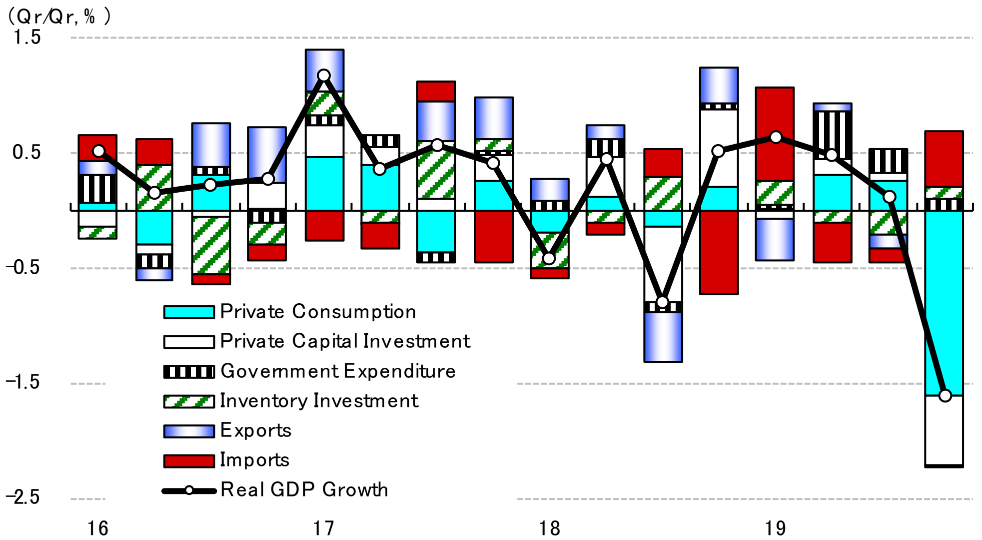
Looking at movements for each demand item, personal consumption decreased sharply by -2.9% from the previous quarter. Durable consumer goods such as automobiles and home appliances fell sharply due to the reactionary decline following the rush demand. In addition, the large typhoon in October caused severe damage, especially in eastern Japan, and the sluggish demand for seasonal products such as winter clothing and heating equipment in the warm winter also contributed to the downturn. Nevertheless, the scale of decline was held to a small amount compared to the -4.8% reactionary decline in the April-June quarter of 2014 due to factors, which included improvements in the environment surrounding consumer spending such as employment and income, the stabilization of prices and government measures such as reduced tax rates and point rewards for cashless settlement at small and medium-sized stores.

Housing investment fell -2.7% compared with the previous quarter, as the number of new housing starts for owner-occupied houses declined along with weakness in the housing starts for rental housing.

In the corporate sector, private capital investment decreased -3.7%, the first decline in three quarters. In addition to labor-saving investment to address labor shortages, there is a strong need for investment in information technology and investment to enhance productivity, and this trend is expected to remain unchanged. However, against the background of the worsening business performance, it is possible that new investment by corporations may be cautious. On the other hand, inventory investment contributed to +0.1% increase over the previous quarter, the first positive figure in three quarters.

In the government sector, government final consumption expenditure rose +0.2% for the third consecutive quarter along with the increase in expenditure to make early childhood education free of charge. In addition, public investment rose +1.1%, a fourth consecutive positive quarter, due to investment in “national resilience (from natural disasters)” and the boost from recovery demand from the disaster last fall.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

As a result, the contribution to quarter-to-quarter percent change of domestic demand was -2.1%. In contrast, the contribution from external demand reversed three quarters of contraction to grow +0.5%. A breakdown shows that exports were weak for goods and demand from inbound tourism remained sluggish, but the decline had eased and exports declined only by -0.1% compared to the previous quarter. On the other hand, imports fell -2.6% compared to the previous quarter, mainly for goods, reflecting weak domestic demand after the consumption tax hike.

The nominal GDP growth rate was -1.2% compared to the previous quarter (an annualized rate of -4.9%). The GDP deflator, a measure of comprehensive price trends in the economy as a whole, rose +1.3% year on year (+0.4% compared to the previous quarter). The GDP deflator rose because of a rise in the domestic demand deflator due to the hike in the consumption tax and the margin of decline in the import deflator, which is a deduction item for GDP growth rate, expanded, reflecting the decline in resource prices.

(2) Outlook for the Economy in Fiscal 2020, Fiscal 2021

— The economy will recover from the negative effects of the consumption tax hike, but the spread of coronavirus (COVID-19) may delay the recovery

The real GDP growth rate for the October-December quarter of 2019, experienced a dramatic decline mainly due to one-off factors such as the reactionary decline following the rush demand from the hike in the consumption tax and unseasonable weather and therefore this economic decline is not a reason for concern, despite the scale of the drop. The question is whether the economy will be able to pivot soundly back to growth in the January to March quarter, 2020. The key is the degree to which the economy will be impacted by the consumption tax hike and the magnitude of the negative effect of COVID-19.

The negative impact of the previous consumption tax hike was prolonged, and in the July-September period of 2014, the growth was -0.4% compared to the previous quarter and extended to two consecutive quarters of negative growth (however, this was later revised upward to +0.1% compared to the previous period). However, this time, the environment surrounding personal consumption showed marked improvement compared to 2014 in the areas outlined below, and thus the effect of tax hike is not expected to be as serious.

The first is because of government policy support to ameliorate the effect of the tax, such as point rewards for cashless settlement at small and medium-sized stores along with the introduction of premium gift certificates, and to alleviate the pecuniary burden on households by making early-stage childhood education free of charge. The second, is the continued improvement in employment conditions, with the unemployment rate at low levels, and employee compensation at a record high in both nominal and real terms. The third, is that households are unlikely to feel the burden of increased tax because prices are stable, and a reduced tax rate applies to food.

For these reasons, consumer spending should pick up after the beginning of the year, and the economy will avoid damage caused by the consumption tax hike. In fact, some durable consumer goods, such as flat-screen TVs, have been selling well after the consumption tax hike. The unseasonable weather that restrained consumer spending in the October-December period may be a positive factor for consumer spending, such as promoting sales of spring clothing, in the January-March period.

Other demand items are also expected to be firm. Firstly, capital investment, which was negative in the October-December quarter over the previous quarter, is maintaining a growth trend. In the Tokyo metropolitan area, although demand related to the Tokyo Olympics and Paralympics has run its course, demand should continue to be strong for infrastructure such as railways, airports, port and harbor facilities, accommodation, logistics, and telecommunications facilities. The economy should also be underpinned by an increase in urban redevelopment projects. Furthermore, investments to increase operating efficiency, to make wider use of IT, and to cope with the labor shortage, as well as investments in R&D to promote the use of AI and IoT are also expected to rise. While it is true that corporate earnings are experiencing difficulties, these investments are less dependent on performance. Since companies have ample cash flows, the corporate drive to make capital investments continues to be strong and they are not likely to suddenly constrict their appetite for capital investment.

In addition, public investment should support the economy for some time due to the promotion of the national resilience plan (from natural disasters) and due to the demand for recovery and reconstruction from the damage caused by Typhoon Faxai (Typhoon 15) and Typhoon Hagibis (Typhoon 19) in 2019. Notably, the effects of economic measures through public investment introduced in December to boost economy is expected to produce results mainly in fiscal 2020, due to supply constraints.

In this way, domestic demand is expected to recover from the temporary decline and should gradually recover after the new year. We also expect exports pick up. ICT-related demand, mainly for semiconductors, has recently begun to pick up and should continue to be a factor boosting exports.

Demand for semiconductors should increase as demand for robots rise along with strengthening and expanding information and communication functions, the electrification of automobiles, and the worldwide labor shortage. Smartphones, which have been undergoing demand adjustment, are bottoming out with the launch of new models compatible with 5G, and demand may strengthen further in the future.

In tandem with this, the effects of China's economic measures will begin to take effect, and the Chinese economy should gradually recover. In addition, the US economy, which remains strong, is expected to maintain its resilience due to the cumulative effects of monetary easing and the expansion of fiscal spending. Improvements in employment conditions should boost consumer spending, and recent stock prices, which have been high, may boost consumer spending through the wealth effect.

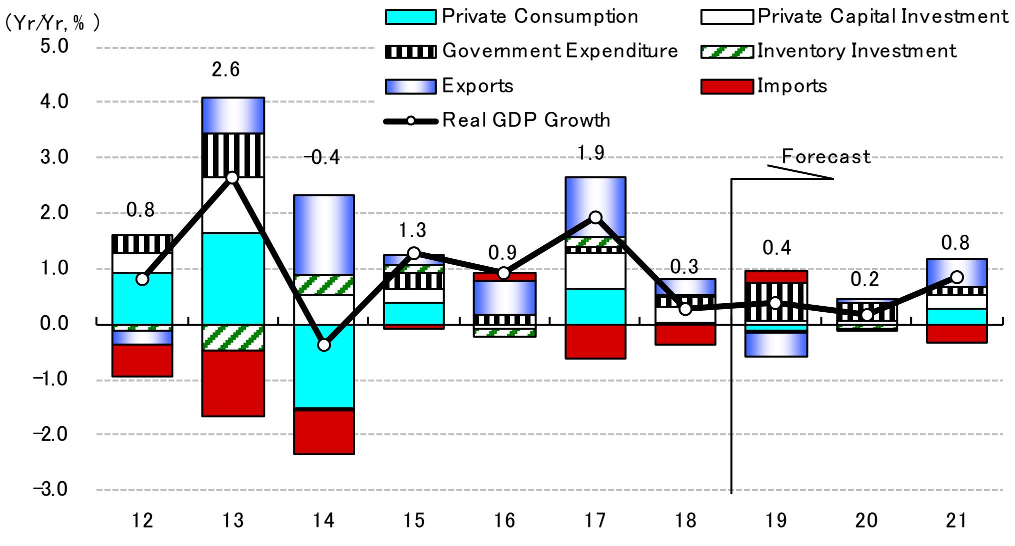
In this way, after a temporary decline caused by the impact of the consumption tax hike, the Japanese economy enters 2020 with the seeds of a recovery. However, the spread of COVID-19 in China has increased the risk of the slump in the economy continuing after the new year.

The continued spread of COVID-19 makes it very difficult to predict the extent to which the negative impact will have on the domestic economy. The following assumptions are contained in this outlook.

1. Assumption (main scenario)
   The spread of COVID-19 will continue for a while, but will peak and a move toward normality by the end of this fiscal year, and although the effect will remain until early spring, normality will return around the time of the Tokyo Olympics and Paralympics.
2. As already observed, a negative impact in the January-March quarter is unavoidable due to a decrease in demand from inbound tourism and a decrease in exports due to the halt in production and postponement of resumption of production in China and this is expected to drag down real GDP growth rate in the January-March quarter by about 0.2% mainly in external demand (there is a risk that exports will fall further).
3. In addition, there are concerns that growth could turn negative in the January-March quarter due to precautions in relation to COVID-19 infections, causing consumer spending to drop significantly due to worsening consumer sentiment, declining leisure-related demand due to the cancellation of events, and the movements of people becoming constrained through self-imposed restrictions on travel and eating out.
4. Due to the slowdown of the Chinese and the global economies, a slow recovery in exports and demand from inbound tourism is expected, and negative effects will remain in the April-June quarter, mainly in external demand.
5. The disruption to the global supply chain along with the slowdown in production in China could affect production and consumer spending in Japan in the April-June quarter, but this impact on the Japanese economy is expected to be minimal.
6. As the situation begins to normalize, the pent-up demand may suddenly take off in the April-June quarter, but it is not factored into the figures.

7. Delays in the normalization of this situation could lead to worsening corporate performance, causing serious adjustments in employment, wages, and capital investment, as well the spread of infections in Japan could cause plant shutdowns, closures of commercial facilities, and paralysis of logistics. It is not envisaged that such a situation will eventuate.
8. The Tokyo Olympics and Paralympics will be held as planned, and the negative impact will be limited.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

Ultimately, the future of the Japanese economy will depend on the spread of COVID-19 and there is a risk of a deepening downturn.

As described above, assuming that the effects of COVID-19 are relatively small, the real GDP growth rate in fiscal 2019 is expected to increase by +0.4% compared to the previous year for the fifth consecutive year of growth, but as with the increase of +0.3% in fiscal 2018 the growth rate is very low (Chart 2). Dividing these growth rates into three categories: private-sector demand, public-sector demand, and external-sector demand, the growth is -0.1%, +0.7%, and -0.2%, respectively. This makes it clear that the increase in demand in such areas as public works and medical expenses due to aging made up for the decline in the private-sector and external-sector.

Continuing into fiscal 2020, although the effects of COVID-19 will remain at the beginning of the fiscal year, it is expected that the event effect focusing on consumer spending will increase as the Tokyo Olympics and Paralympics in the July-September period approaches to contribute to a boost in the economy. However, negative effects on the economy can also be expected during the Games, such as restrictions on logistics, temporary restrictions on production and sales activities, a decrease in foreign tourists, and cancellation of events outside the Tokyo metropolitan area making it possible that the boost may not meet expectations.

In the second half of the fiscal year, the economy may temporarily stagnate due to the end of the boost provided by the Tokyo Olympics and Paralympics, and an end to the effect of government policy support to ameliorate the effect of the consumption tax, such as point rewards for cashless settlement. Nevertheless, demand for private construction is strong and public works projects is expected to increase mainly in the second half of the fiscal year due to promotion of the national resilience plan (from natural disasters) through the economic measures for fiscal 2019, and a worsening of the economy can be avoided. However, growth is expected to be low along with a technical factor due to stagnation in the latter half of the previous year lowering growth to -0.6%, the real GDP growth rate in 2020 is expected to be +0.2% compared to the previous year, and thus maintain slim positive growth for the sixth consecutive year.

After that, the economy is expected to gradually recover, and the real GDP growth rate in 2021 is expected to recover to +0.8% compared to the previous year. While the risk of supply constraints is increasing due to a further decline in the working-age population, growth will be boosted by the full-fledged penetration of 5G and the surge in demand from inbound tourism triggered by the Tokyo Olympics and Paralympics.

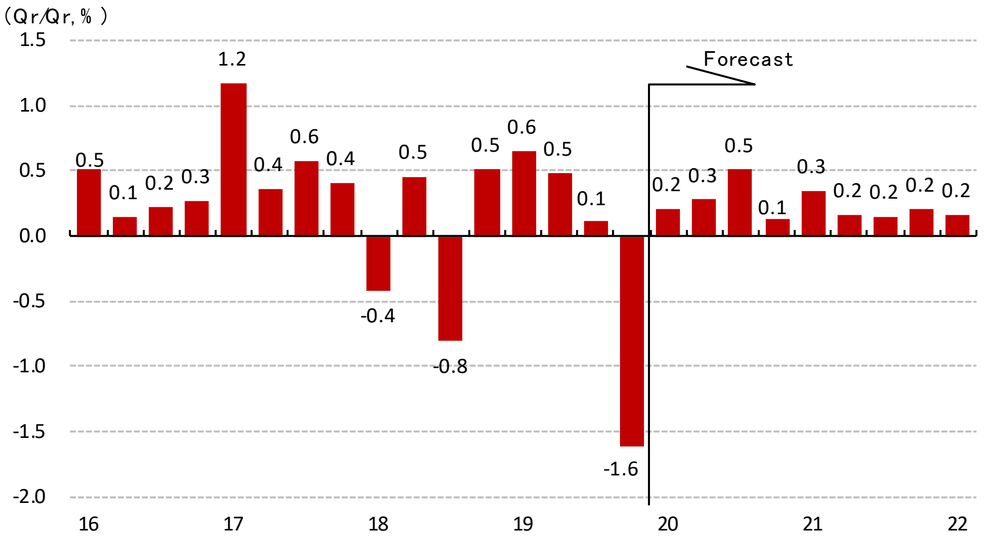
Absent the impact of the COVID-19, the downside risk of the economy continues in overseas economies, especially as the U.S.-China trade friction reignites. Recently, expectations have been raised that the conflict has been avoided and that bilateral relations have improved. However, if the situation arises where the conflict re-emerges over phase two of the agreement and the remainder of the fourth round of China tariff sanctions are triggered, there is a possibility that the global economy will deteriorate, stock prices will fall globally, and the yen will strengthen due to risk aversion.

In addition, there is concern that increased risk aversion and turmoil in the global economy will worsen triggered by: geopolitical risks in regions such as the Middle East and North Korea; the conflict between President Trump and Congress; the negotiations after Brexit; and the course of the US presidential election. In this way, the future of the world economy is likely to continue to be largely influenced by international politics, especially by the United States.

Even if the conflict in the U.S. and China were to subside, companies, in the assumption that the conflict will be prolonged, will take measures such as curbing investment, relocating production bases outside China, and reviewing their global supply chains. In particular, the spread of COVID-19 will accelerate this trend. In such a case, the cost burden of restructuring the supply chain and deteriorating productivity could weigh on the recovery of the global economy.

Against this background, in terms of quarterly real GDP growth rates, we anticipate a modest return to positive growth of +0.2% compared to the previous quarter in the January-March quarter of 2020 (Chart 3). Although the contribution to external demand will be negative due to a sharp drop in demand from inbound tourism and a decrease in exports to China, consumer spending and capital investment, which sharply declined in the October-December quarter of 2019, will begin to increase and public investment will continue to rise. There are concerns that growth could turn negative in the January-March quarter due to precautions in relation to COVID-19 infections in Japan and in turn causing consumer spending to drop significantly due to a decline in leisure-related demand along with the cancellation of events, and by the movements of people becoming restricted through self-imposed restrictions on travel and eating out. However, since the January-March quarter is already halfway through, it is unlikely that the economy will fall into the negative territory unless the Japanese economy contracts with considerable momentum toward the end of the fiscal year.

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

If the spread of infections peaks and the situation normalizes in line with assumptions, the pace of the recovery will gradually become faster in fiscal 2020, and with the Tokyo Olympics and Paralympics held in the July-September 2020 period, the growth rate should increase. In the second half of the fiscal year, there is a risk that the economy may temporarily stagnate due to the end of the event effect. Nevertheless, the strong demand for private construction and additional public works projects along with economic measures for fiscal 2019 should mean that a dramatic worsening of the economy can be avoided and the trend for positive growth over the previous year can continue.

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	0.1	1.1	0.9	1.1
Real GDP	0.3	0.4	0.2	0.8
Contribution of domestic demand	0.4	0.6	0.1	0.7
Private consumption	0.1	-0.2	0.0	0.5
Housing investment	-4.9	0.2	-6.5	0.6
Private capital investment	1.7	0.4	0.4	1.7
Contribution of inventory investment	0.0	-0.0	-0.1	0.0
Government expenditure	0.8	2.7	1.2	0.4
Government final consumption expenditure	0.9	2.4	1.0	0.8
Public investment	0.6	4.1	1.8	-0.9
Contribution of external demand	-0.1	-0.2	0.1	0.1
Export of goods and services	1.6	-2.3	0.5	2.8
Import of goods and services	2.2	-1.2	0.0	2.0
GDP deflator	-0.2	0.7	0.7	0.2

【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	2.3	2.0	2.1
Real GDP (Euro zone) (CY)	1.9	1.2	1.1	1.4
Real GDP (Asia)	5.9			
Real GDP (China)	6.8	6.1	5.7	5.9
Yen/U.S.Dollar	110.9	108.8	106.6	105.1
Uncollateralized call rates (O/N) (%)*	-0.062	-0.050	-0.039	0.000
TIBOR (3months)	0.062	0.028	0.029	0.094
Newly issued government bond yields (10years) (%)	0.05	-0.11	0.04	0.13
WTI future price (near month contract, US dollar/barrel)	62.8	56.8	52.8	55.1
North Sea Brent Crude (US dollar/barrel)	70.7	62.9	57.8	60.1

* 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	-6.2	-2.2	1.5
Ammount (Yr/Yr,%)	-0.5	-4.2	-1.1	2.4
Value of imports (Yen base)	7.2	-5.3	-4.6	0.6
Ammount (Yr/Yr,%)	1.4	-1.1	-1.7	1.4
Balance (trillion yen)	-1.6	-2.2	-0.3	0.4
Current account balance (trillion yen)	19.2	19.3	22.2	24.3
balance on goods (trillion yen)	0.7	-0.3	1.6	2.3
balance on service (trillion yen)	-0.7	0.3	0.5	1.1
balance on income (trillion yen)	21.0	20.7	21.3	22.1

【Corporations】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Industrial production	0.3	-3.0	0.0	0.8
Inventory index	0.2	0.3	-0.4	0.3
Sales	4.4	-2.6	0.2	1.0
Ordinary Profits	6.2	-7.7	0.2	1.8

【Income and employment】

forecast

Yr/Yr、%

	FY 2018 (actual)	FY 2019 (forecast)	FY 2020 (forecast)	FY 2021 (forecast)
Income per capita	0.9	0.1	0.4	0.5
Scheduled	0.5	0.3	0.4	0.6
Non-scheduled	0.4	-0.6	-0.6	-0.8
Real wage indices	0.1	-0.5	0.0	0.0
Number of employees	1.8	1.1	0.9	0.3
Nominal compensation of employees*	3.0	1.8	1.2	0.9
Unemployment rate (%)	2.4	2.3	2.3	2.2

*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	0.1	0.3
excluding tax effects	2.2	-0.7	-0.6	0.3
Consumer prices	0.7	0.5	0.3	0.4
excluding tax effects		0.0	-0.2	0.4
excluding freshfood	0.8	0.6	0.3	0.4
excluding tax effects		0.1	-0.2	0.4
excluding food (excluding alcoholic beverages) and energy	0.3	0.7	0.5	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	88.3	85.4	86.6
	0.7	-7.4	-3.2	1.4
Owned	28.8	28.1	26.4	26.6
	2.0	-2.3	-6.1	0.9
Rented	39.0	33.3	32.5	33.1
	-4.9	-14.7	-2.4	1.8
Built for Sale	26.7	26.2	25.8	26.1
	7.5	-1.9	-1.7	1.4

Economic Outlook for calendar 2018-2021

【GDP demand】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
Nominal GDP	0.2	1.3	0.4	1.4
Real GDP	0.3	0.7	-0.3	1.0
Contribution of domestic demand	1.6	0.3	0.9	-0.3
Private consumption	-0.0	0.1	-0.5	0.6
Housing investment	-6.7	1.9	-7.5	-0.3
Private capital investment	2.1	0.9	-0.2	1.6
Contribution of inventory investment	-0.0	0.1	-0.2	0.0
Government expenditure	0.8	2.1	1.7	0.7
Government final consumption expenditure	0.9	1.9	1.4	0.9
Public investment	0.3	3.1	2.9	-0.1
Contribution of external demand	0.0	-0.2	-0.0	0.2
Export of goods and services	3.4	-1.8	-1.7	3.7
Import of goods and services	3.4	-0.8	-1.6	2.5
GDP deflator	-0.1	0.6	0.7	0.3

【Overseas economy and market data】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
Real GDP (US) (CY)	2.9	2.3	2.0	2.1
Real GDP (Euro zone) (CY)	1.9	1.2	1.1	1.4
Real GDP (China)	6.8	6.1	5.7	5.9
Yen/U.S.Dollar	110.4	109.0	107.5	105.3
Uncollateralized call rates (O/N) (%)*	-0.060	-0.052	-0.048	-0.002
TIBOR (3months)	0.070	0.031	0.021	0.083
Newly issued government bond yields (10years) (%)	0.07	-0.10	0.01	0.11
WTI future price (near month contract, US dollar/barrel)	64.8	57.0	52.8	54.5
North Sea Brent Crude (US dollar/barrel)	71.5	64.2	57.8	59.5

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
Value of exports (Yen base)	4.1	-5.6	-4.3	2.0
Ammount (Yr/Yr,%)	1.7	-4.3	-3.0	3.1
Value of imports (Yen base)	9.7	-5.0	-4.6	-0.8
Ammount (Yr/Yr,%)	2.8	-1.1	-2.6	1.5
Balance (trillion yen)	-1.2	-1.6	-1.4	0.7
Current account balance (trillion yen)	19.2	20.1	20.5	24.4
balance on goods (trillion yen)	1.2	0.6	0.6	2.6
balance on service (trillion yen)	-0.8	0.2	0.3	1.0
balance on income (trillion yen)	20.9	20.7	20.8	22.0

【Corporations】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
Industrial production	1.1	-2.8	-1.0	1.0
Inventory index	1.7	1.3	-0.6	0.2
Sales*	4.5	-0.9	-1.3	1.3
Ordinary Profits	3.7	-2.4	-3.8	2.2

*Forecast starts from CY 2019.

【Income and employment】

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
Income per capita	1.3	-0.3	0.5	0.4
Scheduled	0.8	-0.1	0.5	0.5
Non-scheduled	0.7	-0.8	-0.7	-0.7
Real wage indices	0.2	-0.9	0.0	0.1
Number of employees	2.0	1.2	1.0	0.4
Nominal compensation of employees*	3.2	1.9	1.3	0.9
Unemployment rate (%)	2.4	2.3	2.3	2.3

*GDP base

【Goods prices】

forecast

Yr/Yr、%

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

【New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	CY 2018 (actual)	CY 2019 (actual)	CY 2020 (forecast)	CY 2021 (forecast)
New housing starts	94.2	91.3	85.1	86.2
	-2.1	-3.1	-6.8	1.3
Owned	28.3	29.1	26.4	26.5
	-0.4	2.7	-9.2	0.5
Rented	39.6	34.6	32.3	33.0
	-5.4	-12.7	-6.7	2.1
Built for Sale	25.5	27.0	25.7	26.0
	0.5	5.8	-4.7	1.1

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	-0.6	0.1	1.2	0.5	0.5	-1.2	-0.1	0.6	1.1	-0.1	0.3	0.3	0.4	0.3	0.3
Annualized rate	0.9	-2.5	0.6	4.8	2.1	1.9	-4.9	-0.2	2.6	4.4	-0.6	1.2	1.2	1.5	1.1	1.2
(Yr/Yr,%)	1.2	-0.6	-0.9	0.9	1.3	2.3	0.9	-0.2	-0.1	0.4	1.3	1.8	1.7	1.1	0.9	0.7
Real GDP (Qr/Qr,%)	0.5	-0.8	0.5	0.6	0.5	0.1	-1.6	0.2	0.3	0.5	0.1	0.3	0.2	0.2	0.2	0.2
Annualized rate	1.8	-3.2	2.1	2.6	1.9	0.5	-6.3	0.8	1.1	2.0	0.5	1.4	0.6	0.6	0.8	0.6
(Yr/Yr,%)	1.0	-0.3	-0.3	0.8	0.9	1.7	-0.4	-0.7	-0.9	-0.6	1.0	1.2	1.3	0.9	0.7	0.5
Contribution of domestic demand (Qr/Qr,%)	0.4	-0.6	1.0	0.2	0.8	0.4	-2.1	0.4	0.4	0.5	-0.1	0.3	0.2	0.1	0.2	0.1
Private consumption	0.2	-0.2	0.4	0.0	0.6	0.5	-2.9	0.6	0.5	0.6	-0.2	0.1	0.2	0.1	0.2	0.1
	-0.3	0.2	-0.0	0.3	0.7	1.4	-1.9	-1.1	-1.3	-1.1	1.5	1.0	0.7	0.2	0.5	0.5
Housing investment	-2.4	0.2	1.7	1.5	-0.2	1.2	-2.7	-4.5	-3.0	1.0	0.5	-0.5	-0.5	0.5	1.0	0.3
	-9.8	-7.4	-2.9	0.7	3.0	4.3	-0.2	-6.2	-8.8	-8.9	-5.9	-2.1	0.5	0.0	0.5	1.3
Private capital investment	2.1	-4.2	4.3	-0.5	0.8	0.5	-3.7	2.0	0.2	0.2	0.3	0.6	0.4	0.4	0.5	0.4
	4.5	-0.6	2.0	1.4	0.4	5.4	-3.3	-0.7	-1.1	-1.3	2.5	1.3	1.6	1.8	1.9	1.7
Contribution of inventory investment (Qr/Qr,%)	-0.1	0.3	0.0	0.2	-0.1	-0.2	0.1	-0.1	0.0	-0.0	-0.0	0.1	-0.0	-0.0	0.0	0.0
Government expenditure	0.6	-0.3	0.3	0.1	1.7	0.8	0.4	0.2	0.3	0.3	0.2	0.2	0.1	0.1	-0.0	-0.0
	0.9	0.9	0.8	0.6	1.8	2.9	3.1	3.1	1.8	1.2	0.9	1.0	0.8	0.6	0.3	0.1
Government final consumption expenditure	0.1	0.2	0.7	-0.4	1.6	0.7	0.2	0.1	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.2
	0.8	0.9	1.3	0.5	2.1	2.7	2.2	2.6	1.4	0.9	0.8	1.0	0.9	0.8	0.8	0.7
Public investment	2.7	-2.2	-1.3	2.1	1.8	1.2	1.1	0.5	0.3	0.3	0.2	0.1	-0.3	-0.4	-0.7	-0.6
	1.6	1.0	-1.0	1.0	1.0	3.9	6.3	4.7	3.6	2.3	1.2	0.8	0.4	-0.4	-1.3	-2.0
Contribution of external demand (Qr/Qr,%)	0.0	-0.2	-0.4	0.5	-0.3	-0.3	0.5	-0.2	-0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Export of goods and services	0.7	-2.3	1.6	-1.9	0.4	-0.7	-0.1	-3.8	0.6	2.1	2.5	0.5	0.3	0.3	0.3	0.3
	5.9	1.7	1.1	-2.1	-2.2	-0.5	-2.2	-4.3	-3.0	-0.9	1.2	4.7	5.5	3.0	1.6	1.3
Import of goods and services	0.7	-1.4	4.3	-4.3	2.0	0.7	-2.6	-2.8	1.1	1.9	1.4	0.3	0.3	0.2	0.2	0.2
	2.9	2.9	4.2	-1.2	0.2	2.6	-4.3	-2.9	-2.9	-2.0	1.4	3.6	2.9	1.4	2.0	1.8
GDP deflator (Yr/Yr,%)	0.1	-0.3	-0.6	0.1	0.4	0.6	1.3	0.5	0.8	1.0	0.3	0.6	0.4	0.2	0.2	0.2

【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	2.0	2.1	2.1									
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	1.4	0.8	1.4	1.8	0.6	1.1	0.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Real GDP (China) (Yr/Yr,%)	6.9	6.7	6.5	6.4	6.2	6.0	6.0									
Yen/U.S.Dollar	109.1	111.5	112.8	110.2	109.8	107.3	108.7	109.2	108.0	106.8	106.1	105.5	105.3	105.3	105.0	105.0
Uncollateralized call rates (O/N) (%)*	-0.065	-0.063	-0.066	-0.055	-0.062	-0.059	-0.034	-0.044	-0.050	-0.050	-0.050	-0.007	0.000	0.000	0.000	0.000
TIBOR (3months)	0.086	0.078	0.050	0.034	0.045	0.031	0.015	0.020	0.020	0.020	0.022	0.052	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	-0.09	-0.04	0.00	0.02	0.05	0.08	0.10	0.12	0.14	0.16
WTI future price (near month contract, US dollar/barrel)	67.9	69.5	58.8	54.9	59.8	56.5	57.0	53.8	52.0	52.4	53.0	53.6	54.2	54.8	55.4	56.0
North Sea Brent Crude (US dollar/barrel)	74.9	76.0	68.1	63.9	68.3	62.0	62.5	58.9	57.0	57.4	58.0	58.6	59.2	59.8	60.4	61.0

* 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	-5.0	-7.8	-6.4	-6.0	-3.9	-0.9	2.0	3.2	2.3	0.5	0.2
Ammount (Yr/Yr,%)	5.6	-1.1	-1.4	-5.0	-6.2	-2.2	-3.8	-4.5	-4.9	-2.7	-0.1	3.6	4.6	3.1	1.2	0.9
Ammount (Qr/Qr,%)	0.9	-3.8	0.7	-2.3	-0.1	-0.7	-0.7	-3.1	-0.6	1.6	2.1	0.4	0.4	0.2	0.1	0.1
Value of imports (Yen base)	7.5	12.4	11.2	-2.0	-0.1	-4.9	-11.9	-3.2	-6.9	-5.1	-3.0	-3.6	-1.2	0.2	1.5	1.8
Ammount (Yr/Yr,%)	1.3	2.0	4.0	-1.8	-0.1	2.3	-4.5	-2.1	-4.0	-4.0	-0.2	1.3	1.8	1.3	1.4	1.2
Ammount (Qr/Qr,%)	0.2	-0.5	2.9	-3.5	1.8	0.8	-3.6	-1.0	-0.2	0.8	0.2	0.5	0.3	0.3	0.3	0.3
Balance (trillion yen)	0.8	-0.6	-1.3	-0.6	-0.3	-0.5	-0.2	-1.2	-0.1	-0.3	0.2	-0.1	0.7	0.1	-0.0	-0.4
Current account balance (trillion yen)*	5.4	4.7	4.3	4.7	4.9	4.8	5.2	4.2	4.8	5.3	6.0	6.1	6.2	6.1	6.0	5.9
Balance on goods (trillion yen)*	0.9	-0.1	-0.1	0.1	-0.4	0.0	0.6	-0.4	-0.0	0.2	0.7	0.7	0.7	0.6	0.5	0.4
Balance on service (trillion yen)*	-0.4	-0.2	-0.1	-0.1	0.1	-0.2	0.3	0.0	0.0	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Balance on income (trillion yen)*	5.5	5.4	4.9	5.0	5.5	5.5	4.7	5.0	5.1	5.3	5.4	5.4	5.5	5.5	5.5	5.5

*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	0.6	-0.5	-4.1	1.5	0.6	0.3	0.3	0.2	0.2	0.2	0.2	0.2
(Yr/Yr, %)	1.3	0.1	1.3	-1.7	-2.3	-0.8	-6.3	-2.1	-2.5	-1.8	2.8	1.4	0.9	0.9	0.8	0.8
Inventory index (Qr/Qr, %)	-1.9	0.4	0.9	0.9	0.9	-1.7	1.3	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.1	0.1	0.1
(Yr/Yr, %)	2.5	3.5	1.7	0.2	3.0	0.9	1.3	0.3	-0.8	1.3	-0.6	-0.4	-0.3	0.1	0.2	0.3
Sales	5.1	6.0	3.7	3.0	0.4	-2.6	-4.1	-3.8	-2.6	-0.4	1.5	2.0	1.6	0.8	0.9	0.9
Ordinary profits	17.9	2.2	-7.0	10.3	-12.0	-5.3	0.3	-11.7	-3.9	-0.4	2.1	3.6	2.3	1.2	1.6	1.9

*Forecast starts from 2019 10-12.

【Income and employment】

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	-0.1	-0.3	0.0	1.0	0.4	0.4	0.2	0.6	0.4	0.5	0.4	0.6
Scheduled	0.8	0.7	1.0	-0.4	-0.3	0.2	0.2	1.0	0.4	0.4	0.2	0.6	0.5	0.6	0.5	0.7
Non-scheduled	2.0	0.3	0.1	-0.9	-0.7	0.0	-1.6	-0.2	0.6	-2.7	-0.5	0.0	-0.9	-0.5	-1.2	-0.4
Real wage indices	0.9	-0.3	0.6	-1.2	-1.0	-0.8	-0.7	0.4	-0.0	-0.3	0.1	0.3	-0.0	0.1	-0.1	0.1
Number of employees	2.2	1.9	1.9	1.3	1.1	1.1	1.1	1.1	1.3	1.1	0.7	0.6	0.4	0.3	0.4	0.3
Nominal compensation of employees*	4.0	2.9	3.3	1.7	2.3	1.6	1.7	1.3	1.4	1.3	1.1	0.9	0.8	0.9	0.9	1.0
Unemployment rate (%)	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.4	2.3	2.3	2.3	2.2	2.2

※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	-0.9	0.2	0.6	0.3	0.6	-0.3	0.0	0.1	0.3	0.3	0.4
excluding tax effects	2.6	3.2	2.3	0.9	0.6	-1.0	-1.4	-1.0	-1.3	-1.0	-0.2	0.0	0.1	0.3	0.2	0.3
Consumer prices	0.6	1.1	0.9	0.3	0.8	0.3	0.5	0.5	0.3	0.6	0.2	0.2	0.3	0.4	0.4	0.5
excluding tax effects	0.6	1.1	0.9	0.3	0.8	0.3	-0.5	-0.5	-0.7	-0.4	0.2	0.2	0.3	0.4	0.4	0.5
excluding freshfood	0.8	0.9	0.8	0.8	0.8	0.5	0.6	0.6	0.3	0.6	0.1	0.2	0.3	0.4	0.4	0.5
excluding tax effects	0.8	0.9	0.8	0.8	0.8	0.5	-0.4	-0.4	-0.7	-0.4	0.1	0.2	0.3	0.4	0.4	0.5
excluding food (excluding alcoholic beverages) and energy	0.3	0.3	0.3	0.4	0.6	0.6	0.7	0.8	0.5	0.7	0.4	0.4	0.5	0.5	0.4	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	95.5	95.0	95.1	95.6	92.5	90.6	86.5	84.6	85.2	85.3	85.4	85.7	86.1	86.4	86.8	87.2
	-2.0	-0.2	0.6	5.2	-4.7	-5.4	-9.4	-10.4	-7.7	-5.3	-0.5	1.5	0.8	1.3	1.8	1.9
Owned	27.8	28.3	29.3	30.0	30.7	28.3	27.3	26.3	26.5	26.6	26.2	26.3	26.4	26.6	26.7	26.8
	-2.5	0.1	4.0	7.4	9.6	-0.6	-7.2	-11.7	-13.7	-5.4	-3.4	0.1	-0.1	-0.0	2.1	2.1
Rented	40.4	40.4	38.2	36.6	35.2	34.0	32.7	32.0	32.2	32.3	32.6	32.8	32.9	33.0	33.2	33.3
	-3.5	-2.0	-7.4	-7.2	-14.9	-16.5	-15.0	-11.6	-8.4	-4.0	1.0	2.7	2.0	2.2	1.7	1.5
Built for Sale	26.3	25.6	26.8	28.2	25.8	27.9	26.1	25.6	25.8	25.6	25.8	25.8	25.9	26.1	26.2	26.3
	-1.3	2.1	10.4	21.5	-3.8	8.2	-3.1	-8.2	0.1	-7.3	-0.1	0.9	0.1	1.8	1.7	2.1