16 June 2022

Report

The Japanese Economy in Fiscal 2022 and Fiscal 2023

―Gradual recovery trend continues amid growing downside risks

(1) Current State of the Economy

―GDP reverts to contraction in the January–March quarter

Rise in Omicron infections hinders personal consumption growth

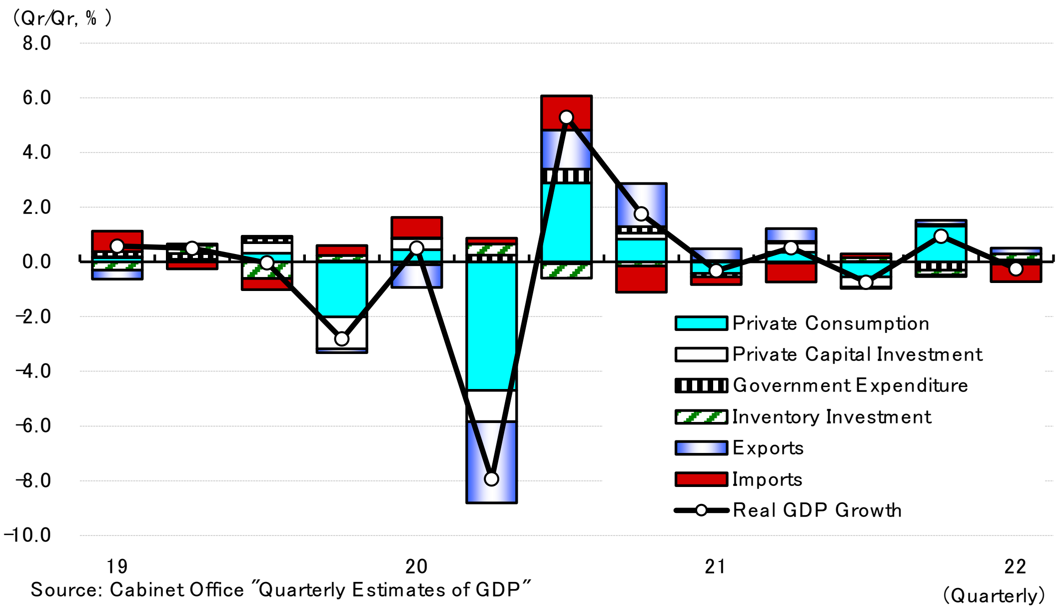
Real GDP growth rate turned negative in the January–March quarter of 2022, falling -0.2% from the previous quarter (for an annualized rate of -1.0%), marking the first contraction in two quarters. The cause was slower growth in consumer spending accompanying the rising number of Omicron infections since the start of the subject year.

Looking at the movements by demand category, real personal consumption in the household sector was essentially flat at -0.03% from the previous quarter. After the turn of the year, the rapid spread of the Omicron infections led to a drop in demand, particularly for in-person services, due to the application of priority measures to prevent the spread of the disease in many regions, and production constraints caused a slump in automobile sales, which suppressed consumer spending. Demand broadly started picking up again near the end of March as Omicron infections decreased, but the uptick was not enough to offset the declines. Real housing investment remained negative at -1.1% from the previous quarter as the recovery momentum of demand was still weak, although the number of housing starts is showing signs of bottoming out.

In the corporate sector, capital investment in real terms continued to grow, but increased only by a marginal +0.5% from the previous quarter. Although the improved business earnings are supporting strong corporate investment appetite, investment activity was not sufficient since the spread of Omicron restrained corporate activity. The contribution of inventory investment in real terms to the real GDP growth rate was a positive +0.2%, partially due to a rebound from the inventory decline in the previous quarter.

In the government sector, government final consumption in real terms increased by +0.6% compared to the previous quarter, supported by progress with the program to administer a third round of COVID-19 vaccinations. Public investment in real terms was -3.6%, for a fifth consecutive quarter of contraction, as the public works spending outlined in the large-scale economic policy summarized in November 2021 has not yet fully materialized. As a result, the overall contribution from domestic demand was +0.2% compared to the previous quarter.

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



Source: Cabinet Office "Quarterly Estimates of GDP"

The contribution to GDP from external demand was negative at -0.4% from the previous quarter, the first contraction in three quarters. Despite rises in both real exports and real imports, the increase of vaccine imports caused the import growth to outpace the export growth, and ultimately led to a moderately larger negative contribution.

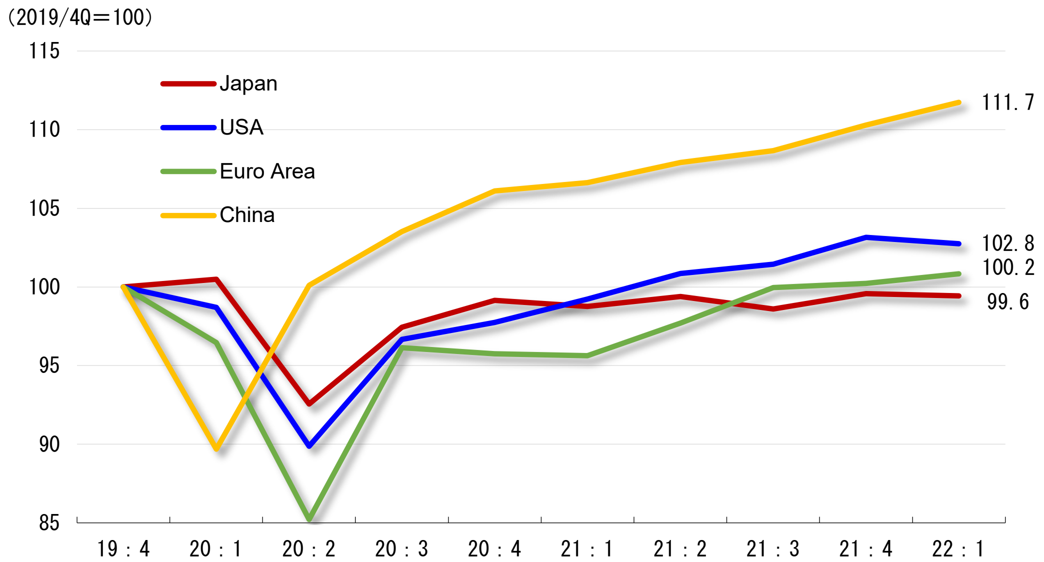
The nominal GDP growth rate, which gives a better sense of the situation on the ground, turned positive with a +0.1% increase from the previous quarter (annualized rate of +0.4%). Personal consumption increased by a significant +0.9% from the previous quarter due to the boosting effect of rising prices, which is an indication that the burden on household budgets is increasing. The GDP deflator, a measure of comprehensive price trends in the economy as a whole, remained negative at -0.4% year on year. The decrease reflects the steep rise in import prices, which was caused by the higher resource prices (because imports are a deductible item for the GDP growth rate, higher import prices have a negative impact on the GDP deflator). However, the negative margin narrowed from -1.3% in the October-December quarter of 2021 and grew by +0.4% compared to the previous quarter, marking the first positive increase in seven quarters, which suggests that the high import prices are gradually working their way into domestic prices.

Slow recovery from the pandemic compared to other major economies

For the whole of fiscal 2021, the Japanese economy grew +2.1% from the previous fiscal year, for the first increase in three years. However, the -4.5% contraction in fiscal 2020 has still not been recovered. Considering that the fiscal 2021 growth rate excluding the base-level effect (+1.8%) would be just +0.3%, the pace of the growth has been extremely slow.

Chart 2 plots real GDP of major countries and regions from the January-March 2020 quarter, calibrated to 100 using the October–December 2019 quarter of the pre-pandemic period as the base year. The chart shows that while Japan is still below the recovery line, GDP in China and the United States is already well above the pre-pandemic levels, and Eurozone GDP rose above the 2019 level in the October–December 2021 quarter. Japan's GDP has been alternating between positive and negative quarterly growth since the start of 2021. The economies of the United States, Europe and China have already recovered to pre-pandemic levels, but the Japanese economy has yet to gain significant traction. We attribute the weakness of Japan's recovery to its relatively slow roll-out of vaccination programs compared to other countries, as well as to the structural factor of the country's GDP being highly reliant on the automobiles industry that was heavily impacted by production restraints causing the substantial impact on the GDP The United States and Eurozone have also likely progressed to switching their policy focus from containing the virus to stimulating economic and social activity prior to Japan.

Chart 2. Real GDP by Major Economies



Note: Real, Seasonally Adjusted
Sources: Cabinet Office, U.S. Bureau of Economic Analysis、Eurostat, National Bureau of Statistics of China

(2) Outlook for the Economy in Fiscal 2022 and Fiscal 2023
— Gradual recovery trend continues amid growing downside risks

Domestic business conditions have been gradually improving since the start of fiscal 2022

The Japanese economy is gradually recovering as the wave of Omicron infections decrease and priority measures to prevent the infection spread are rolled back. However, there are concerns that the intensifying situation in Ukraine and rising resource prices could cause a downturn.

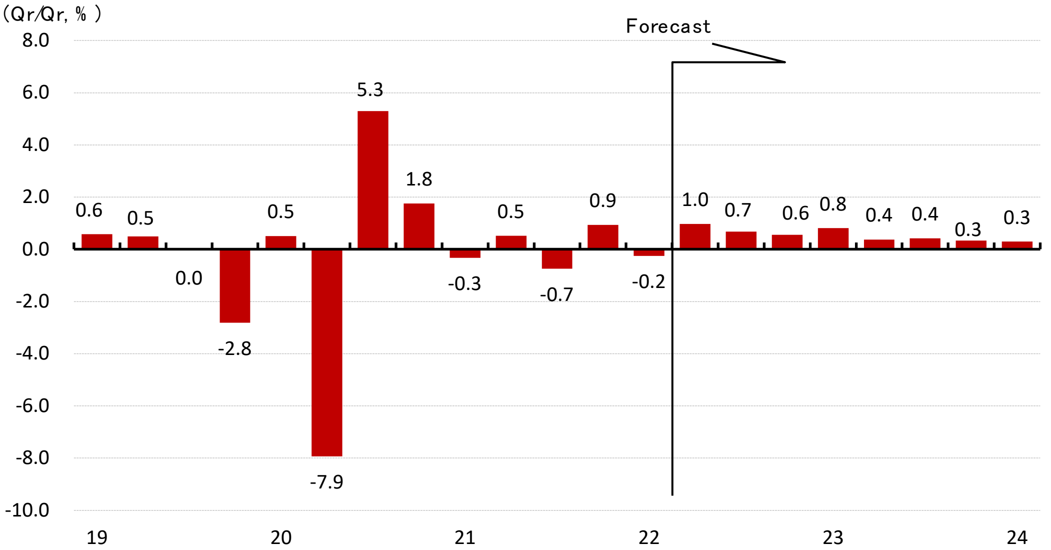
In external demand, the demand from inbound tourists to Japan remains low. In addition, the impact from the lockdowns in Shanghai, China raise the possibility of a temporary drop in exports of goods.

In domestic demand, personal consumption quickly started recovering in March after the number of Omicron infections started falling, and the trend has continued into the new fiscal year against the backdrop of employment gradually improving and wages edging upward. In addition, the media reported a significant amount of activity throughout the country during the Golden Week holidays at the end of April and start of May. With Omicron infections declining, personal consumption likely is benefiting from pent up demand and generating particularly strong demand for eating out/accommodation. A further positive factor is the gradual rescinding of the restrained automobile production, which should lead to a recovery in automobile sales.

In the corporate sector, business sentiment deteriorated when priority measures were adopted to prevent the virus spread and when resource prices started to surge, but the improving corporate earnings led to gradually increasing capital investment, which provided a firm foundation for business activity. The strong corporate appetite for capital investment, particularly in the manufacturing industry, should have an underlying stabilizing effect on the economy.

Based on these trends, we expect a solid acceleration in the real GDP growth rate at +1.0% in the April–June quarter compared to the previous quarter (for an annualized rate of +4.0%) (Chart 3).

Chart 3. Real GDP growth rate (Quarterly)



Source: Cabinet Office "Quarterly Estimates of GDP"

Risk of an economic downturn may grow

However, if the following downside risk factors were to intensify, the economic growth could be restrained in summer or beyond.

The first risk is a negative impact from rising prices. While the supply activity was disrupted during the spread of COVID-19, demand activity quickly returned when infection numbers settled back down. The supply and demand imbalance for goods and services that caused prices to rise (inflation). Also behind the price increase is the increasingly steep hike in the price of crude oil and other resources since the start of 2021, which led to sharp increases in commodity prices in all countries. Higher prices raise corporate costs, which in turn erode business earnings. Passing the costs onto product prices lifts the consumer price index, which then reduces household purchasing power. The rise in consumer prices has been slow and steady in Japan compared to other countries; however, the overall consumer price index was up +2.5% in April from a year earlier. The increases in food and energy prices have been particularly steep. Consumers could react to higher prices for everyday items like these by restraining their spending, which could put a damper on "revenge consumption" after the Omicron infections are contained.

The next potential downside risk factor is the repercussions from higher interest rates. Facing concern about inflation, leading governments around the world are switching their policy stances from emergency monetary easing to monetary tightening, which is putting upward pressure on interest rates. Higher interest rates could weaken the global economy's ability to recover. Some also see the risk that a tighter monetary policy in the United States could trigger currency and stock market depreciation in emerging countries, raising the risk of turbulence in the international financial markets. Debt balances have also been growing substantially in all countries during the pandemic, and higher interest rates would add to the debt burden.

Another risk factor is that although COVID-19 has been contained for a decent amount of time, the next outbreak will always be a threat. A resurgence of the virus would not only be likely to trigger a drop in demand, but a major outbreak overseas could lead to more supply disruptions. There is still a risk of prolonged and serious supply chain stagnation due to global logistics disruptions, such as delays in container ship transport. In addition, it would also further delay the timing of the elimination of automobile production constraints. The status of China's zero-COVID policy and the resulting stagnation of economic activity also warrant attention because of the potential of wide-ranging repercussions across many regions and industries. The current lockdown in Shanghai has led to a slowdown in trade with China, and some products and parts are already becoming difficult to procure. If the repercussions continue widening, there is risk of supply problems occurring in numerous industries. Concerns about the spread of infection and the possibility of the emergence of a new virus strain will continue to be a factor of uncertainty at least until the end of 2022.

Downside risk from the situation in Ukraine

The downside risks that emerged and have persisted since the last year are now being exacerbated by the situation in Ukraine. The impact of the Ukraine situation on the Japanese economy goes beyond the decline in exports caused by the deteriorating economic conditions overseas (particularly in Europe). The situation also accelerates the rise in resource prices, which will create downside risk factors for the domestic economy in the form of weaker real household purchasing power from the higher prices of goods, and lower corporate earnings due to higher costs.

More companies are beginning to pass on the higher costs to product prices. However, passing on all of the costs is difficult, and the narrowing of marginal profit rates could have a measurable negative impact on corporate performance. If that transpires, companies could face increasing pressure to restructure, and the real economy could be negatively impacted if capital investment, employment, and wages were to actually decline. That being said, corporate earnings steadily recovered by fiscal 2021, and companies have ample cash flows and have had abundant retained earnings for some time. As such, they would be unlikely to be in a rush to reduce or postpone capital investments. Given the strong sense of a labor shortage, moves to reduce employment or wages would also be unlikely. Deteriorating earnings would likely increase pressure to reduce costs, but the overall conditions are not conducive for full-scale restructuring.

Households will also incur some of the burden from higher prices. Prior to the pandemic, when food and energy costs increased, households would manage their overall spending by reducing spending on other items, which then led to a decline in real personal consumption. During the pandemic, however, the lack of spending opportunities has allowed savings to swell, so there is no particular need to reduce spending on other items. In addition, the funds for the revenge consumption of travel, eating out, leisure, and other items expected to occur after the pandemic ends will likely be primarily drawn from the accumulated savings. Therefore, an increase in spending on food and energy does not mean an equivalent decrease will occur on other spending. At the same time, inflation would negatively affect consumer sentiment, which could weaken the enthusiasm for revenge consumption. Either way, personal consumption will likely continue to be strongly influenced by the status of the pandemic.

The tightening situation in Ukraine therefore presents significant downside risk for the economy because of the potential that it could trigger rising prices and increasing costs. However, the impact is not likely strong enough to suddenly push the Japanese economy into a recessionary phase.

Weak yen to negatively impact the economy in the short-term

Nevertheless, the concerns about the rising prices and costs cannot be swept away because of the potential impact of a prolonged situation in Ukraine and also because of the rapid weakening of the Japanese yen.

At the start of 2022 the Japanese yen was near ¥115 per U.S. dollar and in early May had fallen as far as ¥131 per U.S. dollar. The backdrop has been the observation of the widening disparity of interest rates between the United States and Japan. For this reason, the depreciation of the yen coupled with the higher resource prices has fueled the surge in import prices and the expanding trade deficit, that is, the amount of income flowing out overseas is rapidly expanding.

The weak yen should allow some of the income outflow to be recovered when converting the income from foreign currency-denominated exports. Japanese exporters also could use the extra profit flow from the weak yen to lower their product prices in overseas markets, which could both increase their competitiveness and boost their export volume. Increasing exports is not easy, however, first because raising export volume takes time and second because there are obstacles to overcome, such as the restrained production in the automobile industry. Furthermore, even if a company wanted to reap the benefits of the weak yen, many have already relocated production bases overseas. That not only reduces the amount of export activity that they could use to take advantage of a weak yen, but also means the higher import penetration rate in industrial products, which conversely puts them at a bigger disadvantage when the yen is weak. The structure of Japanese industries has changed to such a degree that it is now difficult for companies to take advantage of a weaker yen.

A weak yen normally would also attract tourists to Japan from overseas, but that mechanism is not in play because of the restricted number of visitors currently being allowed into the country during the pandemic. The opportunity a weak yen provides to boost demand from inbound tourists is therefore being missed.

The situation is such that the Japanese economy is not benefiting from the weak yen, and import prices are rising. We expect import prices to continue to increase for the time being and therefore anticipate the trade deficit to grow to a record high in fiscal 2022. Given the circumstances, we expect the weak yen to be a negative factor for the economy at least through fiscal 2022.

Needed policy decisions

To prevent another downturn in the economy, we believe the government must conduct thorough pandemic prevention measures, such as securing vaccines and medications, and steadfastly continue with its current measures to bolster the medical care structure to prevent its overload and collapse. At the same time, ways must be devised to balance activities to prevent the virus from spreading and stimulate economic and social activities and to review a system that allows greater movement of people across national borders. The focus of the pandemic countermeasures should be gradually shifted from controlling the flow of people to finding a balance between preventing the virus from spreading and stimulating economic activity.

Economic measures (to overcome the pandemic and for the development of the post-pandemic era) are also needed and must be steadily implemented while keeping a close watch on the pandemic status. The government must also methodically and properly proceed with measures designed to stimulate demand, such as the Go To Travel campaign, and create a system for allowing foreign tourists into the country.

In addition, if it becomes necessary to halt unrelenting price inflation and yen depreciation, the government should consider discussing with the Bank of Japan about reconsidering its low interest rate policy, which is a contributing factor to the price and currency trends.

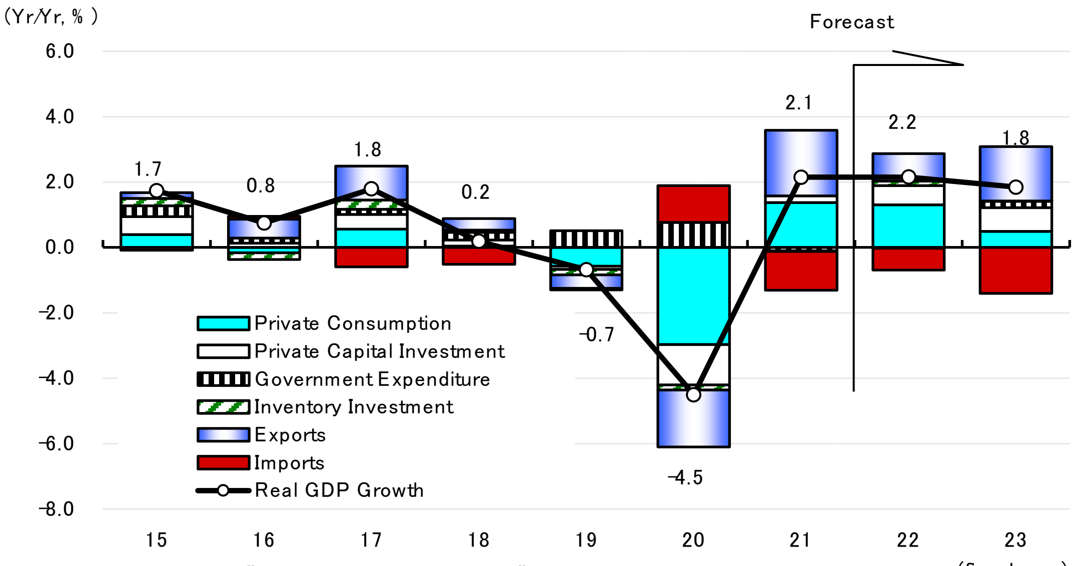
Economic recovery pace to remain slow in fiscal 2022

The year 2022 could be positioned as the year that society learned how to live with the coronavirus in its presence. For this reason, great care will be needed to balance measures to prevent the virus from spreading and stimulating economic and social activities and it will act as a limiting factor on demand recovery.

The ongoing vaccination program, steps to fortify the medical care structure, securing of medications, and other pandemic measures should be able to contain any temporary rise in infections from getting out of hand, which should make it possible to avoid new states of emergency or priority preventive measures. While these conditions prevail, efforts to return economic activity to pre-pandemic levels should serve as a powerful driving force for boosting the economy. We would expect personal consumption to be a core factor helping to put the economy back on the recovery track while, depending on the status of infections, the reinstatement of the Go To Travel campaign and other measures to stimulate demand could also help get the economy moving. Government policy could also provide a boost in various areas, including last year's supplementary budget, anti-inflation measures, and allowing foreign tourists into the country.

Based on this scenario, we expect real GDP growth to gradually slow down from the high pace recorded in the April–June quarter but to remain positive through fiscal 2022. As a result, we expect the real GDP growth rate for fiscal 2022 to be +2.2% year on year (or +2.0% excluding the base-level effect) (Chart 4). One caveat is that, depending on the situation in Ukraine and the trend of the exchange rate, there is a risk that resource prices will rise further and the economy will decline due to staying high for a long period of time.

Chart 4. Real GDP growth rate by demand (Fiscal year)



Source: Cabinet Office "Quarterly Estimates of GDP"

Lessons learned during the pandemic will also be useful

In fiscal 2023, the COVID-19 pandemic is expected to be essentially over and move to a post-pandemic era in which most of the restrictions on economic and social activities due to the spread of infection will be largely lifted. Pandemic-related restrictions on cross-border movement will also likely be eliminated by the end of fiscal 2023.

Based on that outlook, we expect ongoing gradual economic recovery in fiscal 2023 with a real GDP growth rate for fiscal 2023 of +1.8% year on year (or +0.80% excluding the base-level effect). We expect real GDP growth to reach a record high in the April-June quarter, surpassing the previous high reached in the July-September quarter of 2019 just before the hike in the consumption tax.

As the economy picks up, the labor supply and demand will gradually tighten. As a result of the significant effects of various efforts in the COVID-19 pandemic, including the promotion of telework and remote operations, combined with the development of infrastructure such as the communications environment, the spread of new technologies, like AI, and the promotion of work style reforms, it is expected that this will lead to an increase in the labor force, the creation of leisure time, and the expansion of second and concurrent jobs, which will improve labor productivity and raise the level of potential growth.

Economic Outlook for fiscal 2020-2023

【GDP demand】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Nominal GDP	-3.9	1.1	2.3	3.1
Real GDP	-4.5	2.1	2.2	1.8
Contribution of domestic demand	-3.9	1.4	1.9	1.6
Private consumption	-5.4	2.6	2.4	0.9
Housing investment	-7.8	-1.6	-1.6	4.5
Private capital investment	-7.5	1.3	3.6	4.3
Contribution of inventory investment	-0.2	-0.0	0.1	0.0
Government expenditure	3.0	-0.4	-0.1	0.7
Government final consumption expenditure	2.5	2.0	0.9	0.7
Public investment	5.1	-9.3	-4.2	1.1
Contribution of external demand	-0.6	0.8	0.2	0.3
Export of goods and services	-10.2	12.5	4.4	7.7
Import of goods and services	-6.5	7.2	3.2	5.8
GDP deflator	0.6	-1.0	0.2	1.2

【Overseas economy and market data】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Real GDP (US) (CY)	-3.4	5.7	2.3	2.1
Real GDP (Euro zone) (CY)	-6.5	5.4	2.1	1.5
Real GDP (Asia)				
Real GDP (China)	2.2	8.1	4.6	5.5
Yen/U.S.Dollar	106.0	112.3	128.0	124.5
Uncollateralized call rates (O/N) (%)*	-0.031	-0.024	-0.019	0.033
TIBOR (3months)	-0.051	-0.063	-0.050	0.056
Newly issued government bond yields (10years) (%)	0.03	0.09	0.25	0.25
WTI future price (near month contract, US dollar/barrel)	42.3	77.0	106.6	100.1
North Sea Brent Crude (US dollar/barrel)	45.8	79.9	110.6	104.1

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Value of exports (Yen base)	-8.4	23.6	18.5	5.4
Ammount (Yr/Yr,%)	-9.4	10.5	3.2	5.3
Value of imports (Yen base)	-11.3	33.3	31.0	0.1
Ammount (Yr/Yr,%)	-3.5	3.9	2.7	3.7
Balance (trillion yen)	1.0	-5.4	-17.8	-12.4
Current account balance (trillion yen)	16.3	12.6	3.9	12.1
balance on goods (trillion yen)	3.9	-1.6	-13.0	-7.5
balance on service (trillion yen)	-3.7	-4.8	-3.9	-2.2
balance on income (trillion yen)	18.8	21.6	23.1	24.0

【Corporations】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Industrial production	-9.6	5.9	5.5	2.6
Inventory index	-10.0	6.8	1.2	1.1
Sales	-9.2	6.6	6.9	2.6
Ordinary Profits	-15.6	30.3	-1.0	6.1

*Forecast starts from FY 2021.

【Income and employment】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Income per capita	-1.4	0.6	1.1	0.8
Scheduled	0.2	0.4	0.6	0.6
Non-scheduled	-13.3	6.9	5.6	2.1
Real wage indices	-1.0	0.5	-1.7	0.5
Number of employees	-0.8	0.2	0.5	0.5
Nominal compensation of employees*	-1.5	1.7	1.4	1.6
Unemployment rate (%)	2.9	2.8	2.5	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
Domestic corporate goods prices	-1.3	7.3	7.8	-0.3
excluding tax effects	-2.1	7.3	7.7	-0.2
Consumer prices	-0.3	0.1	2.3	0.3
excluding tax effects	-0.8	0.1	2.3	0.3
excluding freshfood	-0.5	0.1	2.0	0.2
excluding tax effects	-1.0	0.1	2.0	0.2
excluding food (excluding alcoholic beverages) and energy	0.0	-0.7	0.5	0.3

【New housing starts】

annualized, ten thousand units

forecast

Yr/Yr、%

	FY 2020 (actual)	FY 2021 (actual)	FY 2022 (forecast)	FY 2023 (forecast)
New housing starts	81.2	86.6	86.7	89.0
	-8.1	6.6	0.1	2.7
Owned	26.3	28.1	26.8	27.3
	-7.1	6.9	-4.7	1.8
Rented	30.3	33.1	33.2	34.5
	-9.4	9.2	0.5	4.0
Built for Sale	23.9	24.8	26.1	26.7
	-7.9	3.9	5.2	2.2

Economic Outlook for calendar 2020-2023

【GDP demand】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Nominal GDP	-3.7	0.7	1.2	3.6
Real GDP	-4.5	1.7	1.3	2.3
Contribution of domestic demand	0.2	-3.7	0.6	1.5
Private consumption	-5.2	1.3	2.5	1.1
Housing investment	-7.9	-1.9	-2.9	4.4
Private capital investment	-6.5	-0.7	2.2	5.0
Contribution of inventory investment	-0.1	-0.1	3.5	0.0
Government expenditure	2.7	0.9	-0.8	0.8
Government final consumption expenditure	2.3	2.1	1.3	0.6
Public investment	3.9	-3.7	-9.1	1.7
Contribution of external demand	-0.8	1.0	-0.2	0.4
Export of goods and services	-11.7	11.8	3.5	8.6
Import of goods and services	-6.9	5.1	4.3	5.6
GDP deflator	0.9	-0.9	-0.1	1.2

【Overseas economy and market data】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Real GDP (US) (CY)	-3.4	5.7	2.3	2.1
Real GDP (Euro zone) (CY)	-6.5	5.4	2.1	1.5
Real GDP (Asia)				
Real GDP (China)	2.2	8.1	4.6	5.5
Yen/U.S.Dollar	106.8	109.8	125.7	124.8
Uncollateralized call rates (O/N) (%)*	-0.035	-0.024	-0.018	0.015
TIBOR (3months)	-0.033	-0.064	-0.050	0.025
Newly issued government bond yields (10years) (%)	0.00	0.06	0.23	0.25
WTI future price (near month contract, US dollar/barrel)	39.4	67.9	105.0	100.2
North Sea Brent Crude (US dollar/barrel)	43.2	70.8	108.8	104.2

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Value of exports (Yen base)	-11.1	21.5	17.9	8.6
Ammount (Yr/Yr,%)	-11.7	12.2	1.3	6.3
Value of imports (Yen base)	-13.5	24.6	35.6	4.0
Ammount (Yr/Yr,%)	-6.4	5.0	1.8	4.6
Balance (trillion yen)	0.4	-1.7	-17.0	-13.2
Current account balance (trillion yen)	15.7	15.5	4.0	10.9
balance on goods (trillion yen)	3.0	1.8	-12.1	-8.2
balance on service (trillion yen)	-3.7	-4.3	-4.7	-2.4
balance on income (trillion yen)	19.1	20.5	23.3	23.7

【Corporations】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Industrial production	-10.4	5.6	3.7	3.9
Inventory index	-8.4	4.9	3.9	1.9
Sales*	-10.3	4.1	7.1	3.6
Ordinary Profits	-27.3	41.8	-4.4	6.3

【Income and employment】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Income per capita	-1.2	0.3	1.1	0.8
Scheduled	0.2	0.3	0.7	0.5
Non-scheduled	-12.1	3.9	4.7	3.7
Real wage indices	-1.1	0.5	-1.5	-0.0
Number of employees	-0.4	0.2	0.2	0.6
Nominal compensation of employees*	-1.2	1.7	1.2	1.7
Unemployment rate (%)	2.8	2.8	2.6	2.4

*GDP base

【Goods prices】

forecast

Yr/Yr、%

	CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
Domestic corporate goods prices (Yr/Yr,%)	-1.2	4.8	9.1	1.0
excluding tax effects	-2.4	4.9	9.1	1.0
Consumer prices	-0.0	-0.2	2.1	0.8
excluding tax effects	-0.8	-0.2	2.1	0.8
excluding freshfood	-0.2	-0.2	1.7	0.7
excluding tax effects	-0.9	-0.2	1.7	0.7
excluding food (excluding alcoholic beverages) and energy	0.2	-0.5	0.2	0.4

【New housing starts】

annualized, ten thousand units

forecast Yr/Yr、%

		CY 2020 (actual)	CY 2021 (actual)	CY 2022 (forecast)	CY 2023 (forecast)
New housing starts		81.7	85.5	86.4	88.6
		-9.9	4.7	1.0	2.6
	Owned	26.1	28.5	26.5	27.4
		-9.6	9.1	-6.9	3.1
	Rented	30.8	32.1	33.4	34.3
		-10.4	4.1	4.2	2.5
	Built for Sale	24.0	24.4	26.0	26.6
		-10.3	1.5	6.7	2.2

Economic Outlook (Quarterly)

forecast

Qr/Qr,%
Yr/Yr,%

	FY 2020				FY 2021				FY 2022				FY 2023			
	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,%)	-7.4	5.2	1.4	-0.6	0.3	-1.0	0.3	0.1	1.2	0.3	1.2	1.3	1.0	0.1	0.7	0.2
Nominal GDP Annualized rate	-26.4	22.5	5.6	-2.4	1.3	-3.9	1.2	0.4	4.7	1.1	5.0	5.2	3.9	0.4	2.7	0.8
Nominal GDP (Yr/Yr,%)	-8.9	-4.3	-0.6	-1.8	6.1	0.0	-0.9	-0.2	0.6	2.1	2.5	4.2	3.9	3.5	2.8	2.1
Real GDP (Qr/Qr,%)	-7.9	5.3	1.8	-0.3	0.5	-0.7	0.9	-0.2	1.0	0.7	0.6	0.8	0.4	0.4	0.3	0.3
Real GDP Annualized rate	-28.2	22.9	7.2	-1.3	2.1	-2.9	3.8	-1.0	4.0	2.7	2.3	3.3	1.5	1.7	1.3	1.2
Real GDP (Yr/Yr,%)	-10.2	-5.4	-0.8	-1.7	7.3	1.2	0.4	0.2	1.1	2.2	1.9	3.4	2.3	2.0	1.6	1.5
Contribution of domestic demand (Qr/Qr,%)	-5.2	2.6	1.1	-0.5	0.8	-0.8	0.8	0.2	0.7	0.6	0.5	0.5	0.3	0.4	0.3	0.3
Private consumption	-8.6	5.3	1.5	-0.8	0.7	-1.0	2.5	-0.0	1.1	0.4	0.2	0.2	0.2	0.2	0.2	0.2
	-10.6	-6.7	-1.5	-3.0	6.7	0.3	1.6	1.9	2.4	3.9	1.7	1.8	1.0	0.8	0.9	0.8
Housing investment	-0.1	-4.8	-0.1	1.0	1.0	-1.7	-1.2	-1.1	-1.5	0.5	2.0	1.5	1.0	1.2	0.5	0.3
	-5.8	-11.3	-9.6	-4.0	-2.8	0.1	-0.9	-3.0	-5.2	-3.3	-0.2	2.5	5.1	5.8	4.3	3.0
Private capital investment	-6.9	-0.4	1.5	0.0	2.2	-2.4	0.4	0.5	1.5	1.0	1.5	1.6	0.9	0.8	0.8	0.7
	-9.1	-11.6	-3.7	-5.8	3.4	1.2	-0.2	1.0	0.0	3.3	4.4	5.9	5.1	4.9	4.1	3.3
Contribution of inventory investment (Qr/Qr,%)	0.4	-0.5	-0.1	0.0	0.1	0.1	-0.2	0.2	-0.1	0.1	0.0	0.0	-0.0	0.0	-0.0	0.0
Government expenditure	1.0	1.8	0.9	-0.5	-0.2	0.0	-1.1	-0.2	-0.1	0.5	0.2	0.3	0.1	0.2	0.2	0.1
	1.9	3.1	4.0	3.1	2.1	0.3	-1.9	-1.8	-1.0	-0.9	0.5	0.9	1.0	0.7	0.7	0.5
Government final consumption expenditure	0.4	2.1	0.8	-0.7	0.8	1.1	-0.3	0.6	0.0	0.2	0.0	0.2	0.1	0.2	0.2	0.1
	1.3	2.7	3.5	2.6	3.0	2.0	0.9	2.2	1.4	0.6	1.0	0.6	0.6	0.6	0.8	0.6
Public investment	3.4	0.4	1.7	-0.1	-3.7	-3.8	-4.7	-3.6	-0.5	1.6	1.0	0.4	0.0	0.0	0.1	0.0
	4.9	4.6	5.9	5.0	-1.9	-5.6	-11.6	-15.2	-12.1	-7.0	-1.5	2.3	3.0	1.5	0.5	0.0
Contribution of external demand (Qr/Qr,%)	-2.7	2.7	0.6	0.2	-0.2	0.1	0.1	-0.4	0.3	0.1	0.0	0.3	0.1	0.1	0.0	0.0
Export of goods and services	-17.7	9.5	10.1	2.6	2.8	-0.3	0.9	1.1	-3.2	5.3	3.3	2.2	1.4	1.2	1.1	1.0
	-21.9	-14.8	-5.4	1.7	27.2	15.8	6.0	4.4	-1.3	3.8	7.1	7.7	12.4	8.1	6.3	4.6
Import of goods and services	-1.3	-6.8	5.8	1.8	4.3	-0.8	0.3	3.4	-4.5	4.7	3.0	0.8	0.9	0.9	0.9	0.9
	-4.5	-13.6	-6.9	-0.8	5.2	11.4	5.3	7.3	-1.6	4.4	7.3	2.8	8.9	6.0	5.1	3.5
GDP deflator (Yr/Yr,%)	1.4	1.1	0.2	-0.1	-1.1	-1.2	-1.3	-0.4	-0.5	-0.1	0.6	0.8	1.6	1.5	1.2	0.6

【Overseas economy and market data】

forecast

	FY 2020				FY 2021				FY 2022				FY 2023			
	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,%)																
Real GDP (Euro zone) (Annualized Qr/Qr rate,%)	-39.0	61.0	-1.3	-0.4	9.1	9.3	1.2	0.7	-0.0	0.2	0.5	2.1	2.1	2.2	2.2	1.5
Real GDP (Asia) (Yr/Yr,%)																
Real GDP (China) (Yr/Yr,%)																
Yen/U.S.Dollar	107.6	106.1	104.5	105.9	109.4	110.1	113.7	116.2	129.4	130.0	127.3	125.3	125.0	125.0	124.0	124.0
Uncollateralized call rates (O/N) (%)*	-0.043	-0.039	-0.026	-0.016	-0.020	-0.031	-0.031	-0.015	-0.017	-0.020	-0.020	-0.020	-0.020	0.050	0.050	0.050
TIBOR (3months)	-0.030	-0.065	-0.055	-0.055	-0.065	-0.072	-0.065	-0.049	-0.050	-0.050	-0.050	-0.050	0.000	0.075	0.075	0.075
Newly issued government bond yields (10years) (%)	0.00	0.02	0.02	0.07	0.07	0.03	0.07	0.18	0.24	0.25	0.25	0.25	0.25	0.25	0.25	0.25
WTI future price (near month contract, US dollar/barrel)	27.8	40.9	42.7	57.8	66.1	70.6	77.2	94.3	104.9	113.0	108.0	100.7	100.0	100.0	100.0	100.4
North Sea Brent Crude (US dollar/barrel)	33.3	43.4	45.2	61.1	69.0	73.2	79.8	97.4	108.6	117.0	112.0	104.7	104.0	104.0	104.0	104.4

* actual=average, forecast=end of period

【External demand (export and import)】

forecast

Yr/Yr、%

	FY 2020				FY 2021				FY 2022				FY 2023			
	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)	-25.3	-13.0	-0.8	6.0	45.0	24.9	15.7	14.5	13.8	21.6	21.0	17.4	11.6	4.8	2.6	3.1
Ammount (Yr/Yr,%)	-25.0	-14.9	-1.6	4.7	34.5	13.6	1.3	-0.9	-4.7	4.6	6.0	6.9	10.5	4.8	3.3	3.0
Ammount (Qr/Qr,%)	-20.7	14.7	12.6	2.8	1.4	-3.3	0.9	0.1	-2.4	6.1	2.2	1.0	0.8	0.7	0.7	0.7
Value of imports (Yen base)	-15.6	-19.6	-11.4	2.5	23.9	36.9	37.4	34.6	35.8	40.1	32.0	18.3	5.1	-2.1	-2.3	0.1
Ammount (Yr/Yr,%)	-4.6	-11.1	-3.2	5.8	5.2	7.8	1.4	1.4	-4.5	3.2	7.0	4.8	9.2	3.3	1.6	1.4
Ammount (Qr/Qr,%)	3.2	-4.6	4.6	2.9	2.3	-1.8	-1.6	2.6	-3.7	6.1	2.0	0.6	0.4	0.4	0.3	0.3
Balance (trillion yen)	-2.1	0.8	1.9	0.4	0.4	-0.9	-1.6	-3.3	-4.0	-5.1	-4.6	-4.1	-2.7	-3.2	-3.2	-3.3
Current account balance (trillion yen)*	1.7	3.6	5.9	4.6	4.7	3.0	2.8	2.3	0.6	0.3	0.9	2.2	3.0	3.1	3.2	3.4
Balance on goods (trillion yen)*	-1.5	1.2	2.4	1.4	1.0	-0.2	-0.5	-1.7	-3.6	-3.9	-3.4	-2.7	-1.9	-2.0	-1.9	-2.0
Balance on service (trillion yen)*	-1.0	-1.0	-0.8	-0.9	-1.2	-1.2	-1.1	-1.5	-1.2	-1.1	-1.0	-0.6	-0.6	-0.6	-0.5	-0.4
Balance on income (trillion yen)*	4.7	4.4	5.0	4.7	5.5	4.8	5.4	6.2	5.9	5.9	6.0	6.0	6.1	6.2	6.2	6.3

*seasonally adjusted

【Corporations】

forecast

Yr/Yr, %

		FY 2020				FY 2021				FY 2022				FY 2023			
		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, %)	-16.8	9.0	5.7	2.6	0.2	-1.9	0.2	0.8	3.0	1.8	1.6	0.6	0.3	0.4	0.4	0.4
	(Yr/Yr, %)	-20.3	-13.0	-3.5	-1.2	19.8	5.4	0.9	-0.6	2.7	5.3	7.3	7.2	4.6	2.7	1.6	1.5
Inventory index	(Qr/Qr, %)	-4.1	-3.2	-1.6	-1.6	1.3	2.3	2.0	1.0	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
	(Yr/Yr, %)	-3.3	-5.7	-8.4	-10.0	-5.1	0.4	4.9	6.8	7.3	5.4	3.9	1.2	1.6	1.7	1.9	1.1
Sales		-17.7	-11.5	-4.5	-3.0	10.4	4.6	5.7	6.1	7.6	9.6	5.4	5.4	3.9	2.7	2.2	1.8
Ordinary profits		-46.6	-28.4	-0.7	26.0	93.9	35.1	24.7	-6.9	0.1	1.4	-11.0	7.9	1.5	9.7	7.6	7.0

*Forecast starts from 2022 1-3.

【Income and employment】

forecast

Yr/Yr, %

		FY 2020				FY 2021				FY 2022				FY 2023			
		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	-1.3	-2.1	-0.4	0.9	0.5	0.1	1.2	0.9	1.1	1.3	1.0	0.9	0.7	0.7	0.8
	Scheduled	0.1	0.0	0.1	0.5	0.6	0.1	0.0	0.7	0.5	0.7	0.7	0.5	0.6	0.5	0.5	0.7
	Non-scheduled	-21.2	-14.3	-10.5	-6.9	13.8	7.4	3.5	3.9	2.3	5.3	7.3	7.3	4.3	2.3	1.3	0.8
Real wage indices		-1.9	-1.3	-1.0	0.3	1.9	0.7	-0.6	0.1	-2.1	-1.7	-1.8	-1.3	-0.1	0.4	0.8	1.0
Number of employees		-1.0	-1.1	-0.5	-0.5	0.8	0.7	-0.3	-0.2	0.2	0.2	0.7	0.7	0.6	0.6	0.5	0.4
Nominal compensation of employees*		-2.2	-1.8	-2.1	0.5	2.9	2.3	1.0	0.7	0.9	1.3	1.7	1.8	1.8	1.6	1.5	1.4
Unemployment rate (%)		2.7	3.0	3.0	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.3	2.3

※GDP base

【Goods prices】

forecast

Yr/Yr, %

	FY 2020				FY 2021				FY 2022				FY 2023			
	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	-2.3	-0.8	-2.1	-0.3	4.7	6.1	8.7	9.6	10.2	9.6	7.3	4.5	1.0	-0.8	-0.9	-0.3
excluding tax effects	-3.8	-2.4	-2.1	-0.3	4.8	6.1	8.8	9.5	10.1	9.6	7.3	4.5	1.1	-0.8	-0.8	-0.4
Consumer prices	0.1	0.0	-0.9	-0.5	-0.7	-0.2	0.5	0.9	2.5	2.4	2.6	1.9	0.9	0.3	0.0	-0.2
excluding tax effects	-0.9	-1.0	-0.9	-0.5	-0.7	-0.2	0.5	0.9	2.5	2.4	2.6	1.9	0.9	0.3	0.0	-0.2
excluding freshfood	-0.1	-0.3	-0.9	-0.5	-0.6	0.0	0.4	0.6	2.1	2.1	2.3	1.8	0.9	0.3	-0.1	-0.2
excluding tax effects	-1.1	-1.3	-0.9	-0.5	-0.6	0.0	0.4	0.6	2.1	2.1	2.3	1.8	0.9	0.3	-0.1	-0.2
excluding food (excluding alcoholic beverages) and energy	0.4	0.0	-0.3	0.0	-0.8	-0.5	-0.7	-0.9	0.4	0.4	0.7	0.6	0.4	0.4	0.3	0.2

【New housing starts】

forecast

annualized, ten thousand units

Yr/Yr, %

		FY 2020				FY 2021				FY 2022				FY 2023			
		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		79.9	80.6	80.5	83.5	86.5	86.7	85.5	87.3	84.6	86.3	87.3	88.0	88.5	88.9	89.1	89.2
		-12.4	-10.1	-7.0	-1.6	8.1	7.2	6.1	4.9	-2.2	-0.5	2.1	1.0	4.6	2.9	2.0	1.5
	Owned	25.1	25.5	26.7	27.9	28.1	29.5	28.6	26.0	26.3	26.8	27.1	27.3	27.4	27.4	27.3	27.2
		-18.2	-9.9	-0.9	3.4	11.7	14.7	7.2	-6.9	-6.8	-9.5	-5.0	4.8	4.1	2.1	1.0	-0.2
	Rented	30.1	30.4	29.6	30.9	33.0	32.6	31.7	34.9	32.1	33.1	33.6	33.9	34.2	34.4	34.6	34.7
		-11.9	-9.7	-10.4	-5.1	10.0	7.2	6.4	13.5	-2.5	1.3	5.6	-2.6	6.5	4.0	2.8	2.5
	Built for Sale	24.1	24.1	23.1	24.2	24.7	24.0	24.7	26.0	25.8	26.1	26.2	26.4	26.5	26.7	26.8	26.8
		-6.0	-11.7	-11.4	-1.9	2.1	-0.3	6.4	7.6	4.3	8.4	6.3	1.8	2.7	2.3	1.9	1.8