

February 2005

**Forecast for the Japanese Economy
In Fiscal 2005 and 2006**



Economic Research Department

1. Current State of the Japanese Economy

Real GDP growth in the October–December period of 2004 was negative for the third consecutive quarter. The Japanese economy is clearly slowing, and there is a possibility it may enter a downturn. Exports and private capital investment, which have led the recovery in the economy, are continuing to rise but are losing momentum. In addition, private final consumption, which had provided support for the economy, has begun to decline, reflecting the deterioration in the income environment.

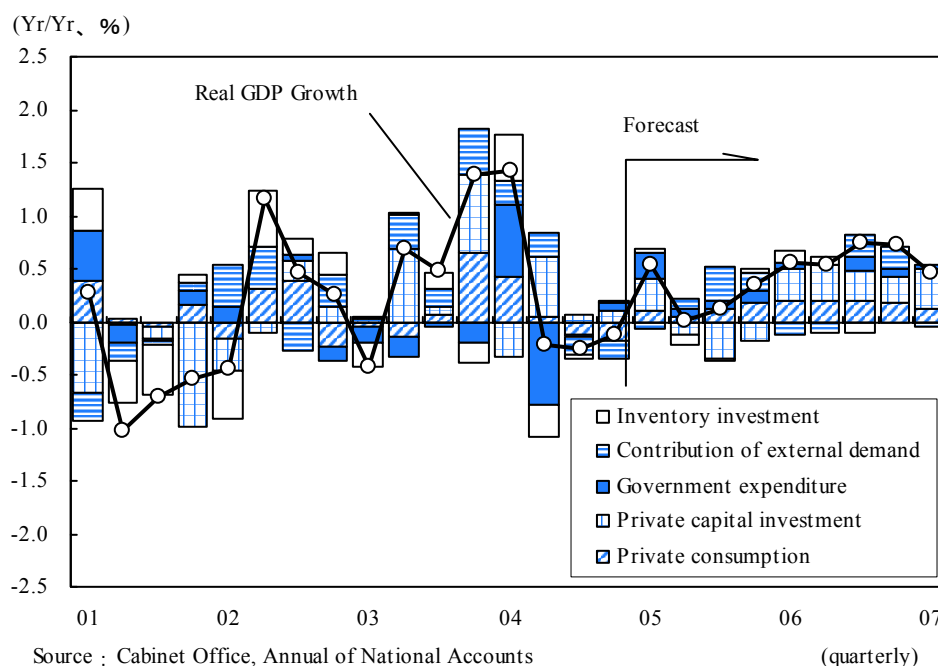
2. Outlook for Fiscal 2005 and Fiscal 2006

The slowdown in the economy will continue through the beginning of fiscal 2005, and the growth rate for the fiscal year will not be high. Corporate profitability will deteriorate because of several factors. These will include (1) adjustments in demand for and declines in prices of digital-related goods, including semiconductors and mobile phones, and (2) increases in raw material prices. As a result, private capital investment will decline in the April–June quarter.

However, the financial positions and profitability of corporations have improved, and the slowdown in the economy will not be severe. Inventory adjustments, principally in digital-related industries, will be completed by mid-year. Entering the latter half of fiscal 2005, exports will expand along with faster growth in the world economy, and conditions in the Japanese economy will begin to improve.

In fiscal 2006, economic recovery will continue, and the growth rate for the fiscal year will be rather high. Along with the recovery in exports and industrial production, corporate profitability will improve, and, thus, private capital investment will begin to increase again. In addition, the income environment for households will show gradual improvement, leading to greater firmness in private consumption.

Exhibit 1 : Real GDP Growth (seasonally adjusted)



3. Private Consumption

① Current Conditions

The income environment for households has become somewhat harsher. As negative growth in per capita wages continues, the improvement in employment, which reached a peak in the April–June quarter of 2004, has run its course. Therefore, recovery momentum in employee compensation is weak. Moreover, as signs of adjustment in the economy have become more pronounced, the improvement in consumer confidence has paused. During the October–December quarter of 2004, private final consumption in real terms declined 0.3% from the previous quarter, the second consecutive quarterly decline. Signs of deceleration in consumer spending are becoming more pronounced.

② Outlook for Fiscal 2005

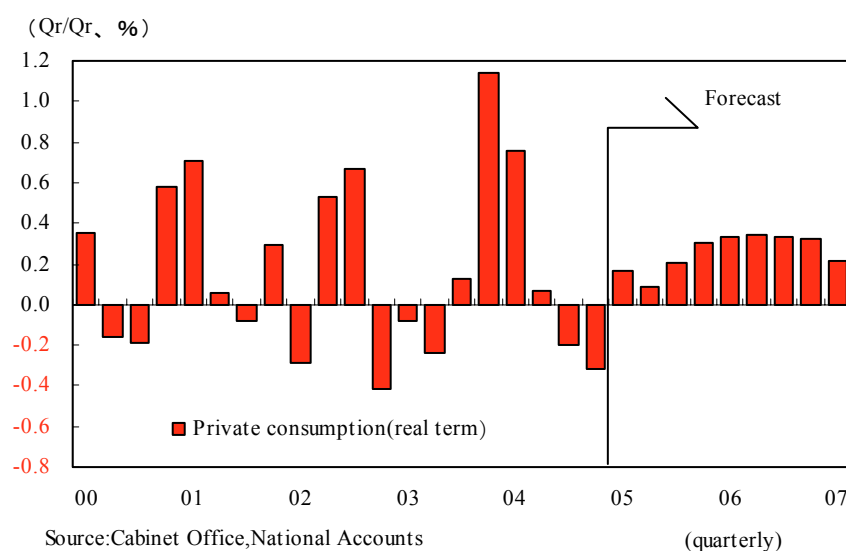
Stagnant employment and income conditions are expected to continue during the first half of the fiscal year. As a result, quarter-to-quarter growth in consumer spending is expected to be marginal. The upcoming increases in the burden on households, including higher employment and pension insurance costs that will be implemented beginning in April 2005, will also restrain consumer spending. However, during the latter half of the fiscal

year, the employment and income environments will begin to improve, and consumer confidence is also expected to rise. As a consequence, the momentum of recovery in private consumption will accelerate.

③ Outlook for Fiscal 2006

The recovery trend in private consumption that began in the latter half of fiscal 2005 is expected to continue into fiscal 2006. However, companies are likely to maintain restraints on personnel costs, and increases in wages will be marginal. Accordingly, a major expansion in consumer spending is not expected.

Exhibit 2: Real Private Consumption



4. Private Housing Investment

① Current Conditions

Private housing investment rose 0.9% above the previous quarter during the October–December period, the fourth consecutive quarterly gain. Factors supporting this increase have included the surge in the number of housing starts during the July–September quarter in advance of the scaling back of housing loan tax relief measures. Recently, however, growth in housing starts over the previous year's level has slowed, owing to the reactionary decline in starts following the surge during the previous quarter, and the slowdown in the economy.

② Outlook for Fiscal 2005

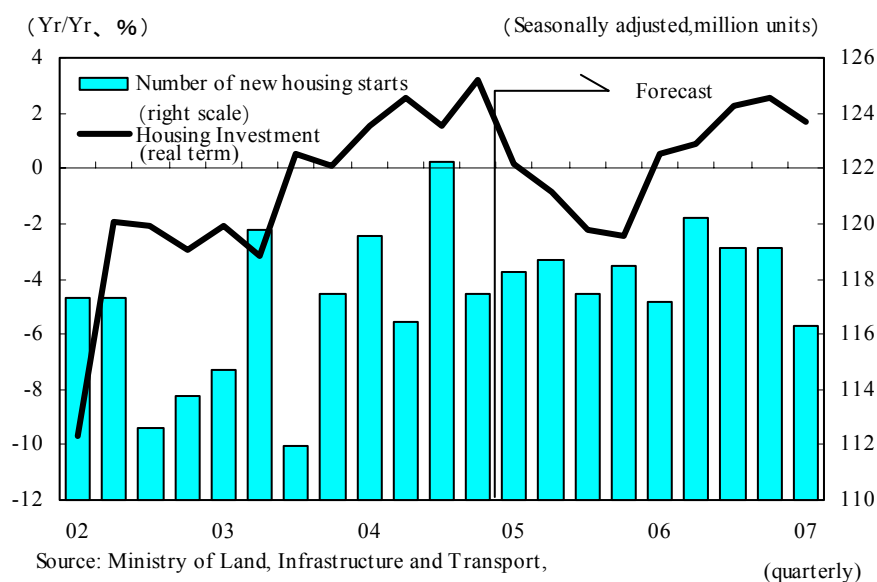
Housing starts are losing momentum according to recent data, and slower

growth is forecast moving into 2005. New housing starts in fiscal 2005 are forecast to be 1.180 million, somewhat below the 1.187 million expected for fiscal 2004. Nevertheless, housing starts are forecast to remain firm due to a number of factors. These will include the movement of the population back to urban areas, the purchase of first homes by the children of the second-generation baby boomers, and the redevelopment of land formerly occupied by warehouses and factories.

③ Outlook for Fiscal 2006

In fiscal 2006, private housing investment is expected to rise again, along with the recovery in the economy. The forecast is for housing starts to rise to 1.189 million in fiscal 2006.

Exhibit 3: Outlook for Housing Starts



5. Private Capital Investment

① Current Conditions

Private capital investment, which has been supported by strong corporate performance, is showing somewhat less momentum. Investment in real terms rose 0.4% over the previous quarter in the July–September period, while growth remained at a relatively low 0.7% in the October–December quarter. However, private-sector orders for machinery and equipment (excluding orders from the shipping and electric power industries), which are a leading indicator for capital investment, rose above the previous quarter during the October–December period, and forecasts call for a

further increase in the January–March quarter of 2005, suggesting the upward trend in capital investment may continue through the end of fiscal 2004.

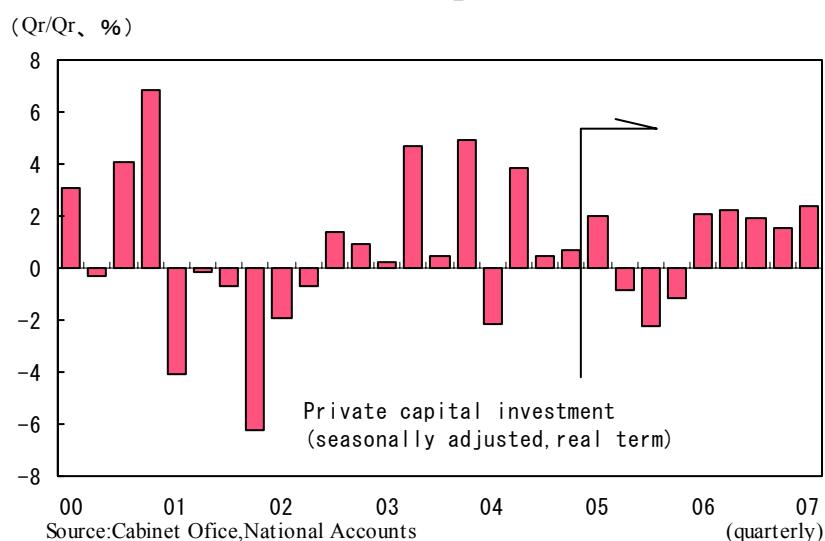
② Outlook for Fiscal 2005

Corporate profits are continuing to rise, supported by increases in sales and cost cuts accompanying restructuring activities. Nevertheless, the slower growth in exports and the rise in costs accompanying the escalation of oil and other international commodity prices are expected to bring lower sales and profits during the first half of fiscal 2005. As the improvement in corporate profitability pauses, private capital investment is expected to continue to decline during 2005. In particular, the slump in demand for digital-related items, which has remained robust thus far, is likely to have a restraining effect overall. However, corporations appear to have little excess capacity, and their financial positions are improving. Therefore, it seems unlikely that capital investment will show a sudden drop and is likelier to bottom out toward the end of fiscal 2005 as corporate performance recovers.

③ Outlook for Fiscal 2006

Capital investment is expected to show steady expansion in fiscal 2006, owing to improvement in corporate performance, supported by firmness in exports and production. Since demand for funds in the corporate sector will rise, the balance of loans outstanding to companies, which has been on a declining trend, is expected to begin to bottom out during the fiscal year.

Exhibit 4: Private Capital Investment



6. Inventories

① Current Conditions

Industrial production has begun to decline and showed negative growth for two consecutive quarters in the July–September and October–December periods. This was because of the slowing of growth in exports and the accumulation of inventories in certain sectors, such as IT-related goods, owing to a pause in demand growth. However, the accumulation of inventories is confined to certain sectors. The overall level of inventories is relatively low, and the adjustment in production across all industries is expected to be minor. Moreover, some industries, including steel, are running at full capacity. Accordingly, production, in general, is expected to remain virtually level during the fiscal 2004.

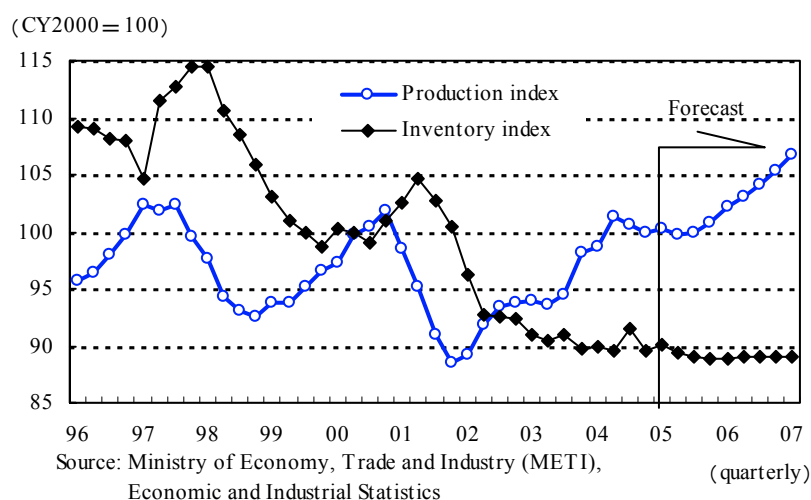
② Outlook for Fiscal 2005

Sluggishness in industrial production is expected to continue in the first half of fiscal 2005 as inventory adjustments continue, especially in IT-related goods, and exports lack momentum. The decline in capital investment will also be a factor restraining production. Even after inventory adjustments are completed, corporations are not expected to begin to accumulate inventories. However, during the latter half of fiscal 2005, growth in exports is expected to accelerate, and expansion in industrial production will gain momentum.

③ Outlook for Fiscal 2006

Steady expansion in industrial production is expected in fiscal 2006, supported by firm growth in exports and recovery in private capital investment. However, only a marginal increase in inventories is likely because corporations are expected to hold inventories at levels necessary to meet existing demand.

Exhibit 5: Outlook for Production and Inventory



7. Government Expenditures

① Current Conditions

Government public works spending has declined significantly below the initial budget. Although there is a possibility of a temporary surge in orders for public investment toward the end of fiscal 2004, public works expenditures by regional governments are continuing to decline. As a result, a double-digit decline in total public investment is forecast for the current fiscal year.

Government consumption expenditures, however, are remaining firm because of expansion in social benefits in kind, including medical costs and nursing expenditures for senior citizens. These costs are pushing the rate of expansion in government expenditures upward.

② Outlook for Fiscal 2005

The initial budget for public investment in fiscal 2005 is 3.6% lower than for the previous fiscal year. However, the margin of decline from the previous year is expected to shrink significantly compared with that of the prior year for a number of reasons. These include large carryovers of unused allocations from the previous year and the usage of public investment allocations passed in the supplementary budget for fiscal 2004 to pay for disaster recovery and repairs. On the other hand, regional governments are expected to maintain fiscal stringency. However, the margin of decline in public investments by regional governments is likely to be somewhat less than during the previous fiscal year.

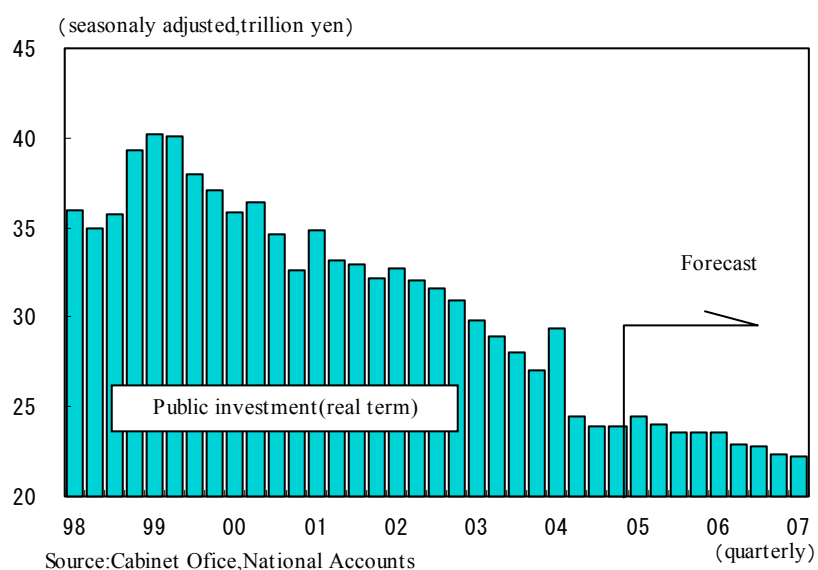
No major changes are foreseen in the medical care and nursing systems, and expenditures in kind will remain on an upward trend. In addition, payment of public-sector employee compensation, which had a negative effect through fiscal 2004, is expected to bottom out. As a consequence, government consumption expenditures are forecast to show steady expansion.

③ Outlook for Fiscal 2006

We are assuming that the initial budget for public investment will be 3.0% lower in fiscal 2006 than in the previous year. The margin of decline in public investment, even by regional governments, however, is expected to diminish, and the overall decrease in public investment is expected to be relatively small, as during the previous fiscal year.

Government consumption is likely to continue on an upward trend, boosted mainly by the value of welfare goods and services provided in kind.

Exhibit 6: Outlook for Public-works Investment



8. External Demand

① Current Conditions

The rate of growth in exports is currently slower than it was through the first half of the previous year. In contrast, imports are continuing to expand at about the same rate as they have thus far. As a result, the contribution of external demand (which equals exports minus imports) in the

October–December period was negative for the second consecutive quarter. Major factors accounting for the slowdown in exports include the postponement of imports of key components by other Asian countries, including China, Taiwan, and Korea, owing to the worldwide adjustment in demand for digital-related goods. Another factor is restraint in investment activities that would lead to imports of capital goods into these countries.

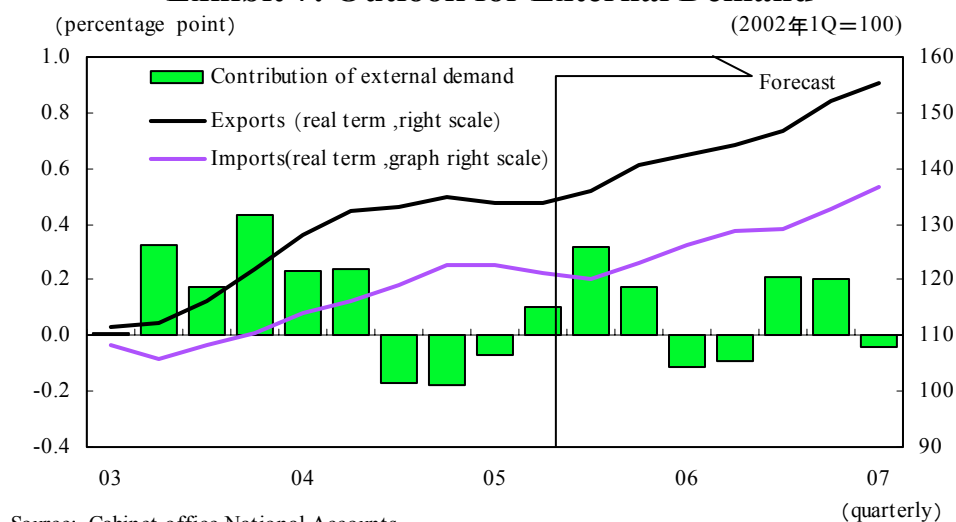
② Outlook for Fiscal 2005

There is a possibility that Japan's exports will decline temporarily toward the middle of 2005 as overseas economies decelerate and adjustments in digital-related sector continue. On the other hand, imports may also decrease as the momentum of production activities in Japan weakens. The contribution of the external sector will become positive because of a larger margin of decline in imports than exports. Moreover, by the middle of 2005 and later, overseas economies are expected to bottom out, and the adjustment in digital-related sectors will have been completed, leading to a recovery of momentum in exports.

③ Outlook for Fiscal 2006

Exports are likely to continue to rise in fiscal 2006, accompanying the economic recoveries in Europe, the United States, Asia, and elsewhere. On the other hand, imports are also expected to rise along with stronger momentum in domestic production and private consumption. Both exports and imports are forecast to expand in fiscal 2006 along with the mutually reinforcing economic trends in Japan and overseas.

Exhibit 7: Outlook for External Demand



9. Prices

① Current Conditions

Domestic corporate prices have risen above the levels of the previous year, boosted by the shrinkage in the gap between supply and demand as well as rising commodity prices. However, the rate of increase in prices has weakened recently as commodity prices have peaked out and the yen has strengthened. On the other hand, consumer prices (overall, excluding fresh foods) are down slightly compared with the previous year because of the positive impact of cost reduction efforts in the corporate sector and reductions in public utility charges accompanying deregulation. In general, prices are still on a gradual deflationary trend.

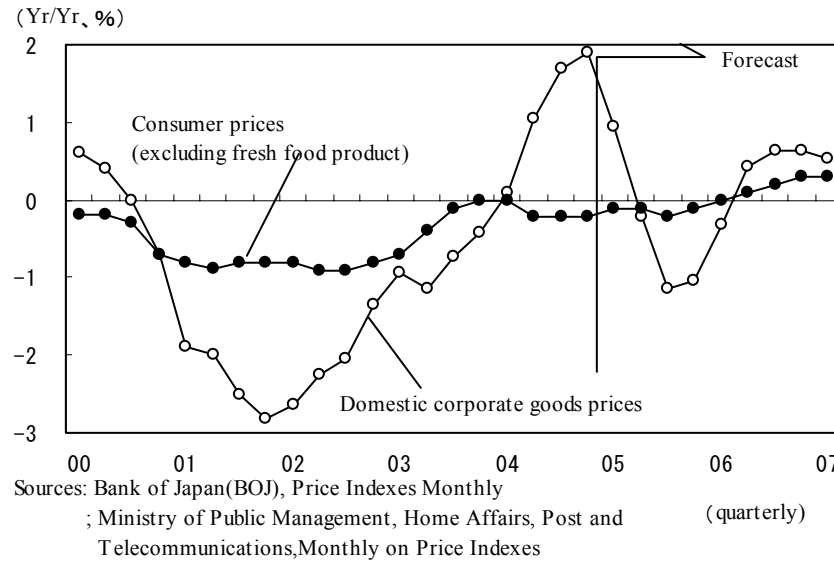
② Outlook for Fiscal 2005

The rate of increase in domestic corporate prices compared with the previous year is expected to fall, due to the downward pressure exerted by the relaxation of the supply and demand balance along with deceleration of the economy. In the latter half of fiscal 2005, corporate prices are expected to fall below their levels of the previous year. Consumer prices are forecast to continue slightly below the previous year. Supply and demand conditions may begin to deteriorate as a result of the economic slowdown, and this, together with a smaller rate of increase in corporate prices and other factors, may place downward pressures on price levels.

③ Outlook for Fiscal 2006

Domestic corporate prices are expected to rise above the levels of the previous year as a result of the shrinkage in the gap between supply and demand along with the bottoming out of the economy and higher commodity prices. Consumer prices are also expected to move above the previous year's levels because of the tightening of supply and demand conditions accompanying the improvement in the economy, the increase in domestic corporate prices, and other factors.

Exhibit 8: Outlook for Prices

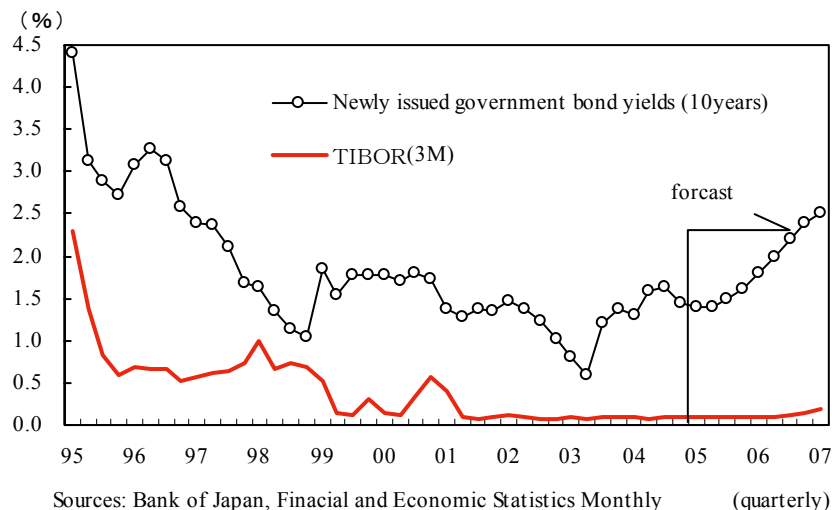


10. Interest and Foreign Exchange Rates

① Interest Rates

Long-term interest rates remain at low levels, reflecting the deceleration in the economy, but these rates are expected to rise in the latter half of fiscal 2005 as the economic recovery gains momentum. In fiscal 2006, the consumer price index will rise above the levels of the previous year, and the possibility of a termination of the Bank of Japan's quantitative easing policy will rise as the economy continues to expand steadily. As a consequence, long-term interest rates will come under further upward pressure. Rising demand for funds in the corporate sector will also be a factor resulting in higher interest rates.

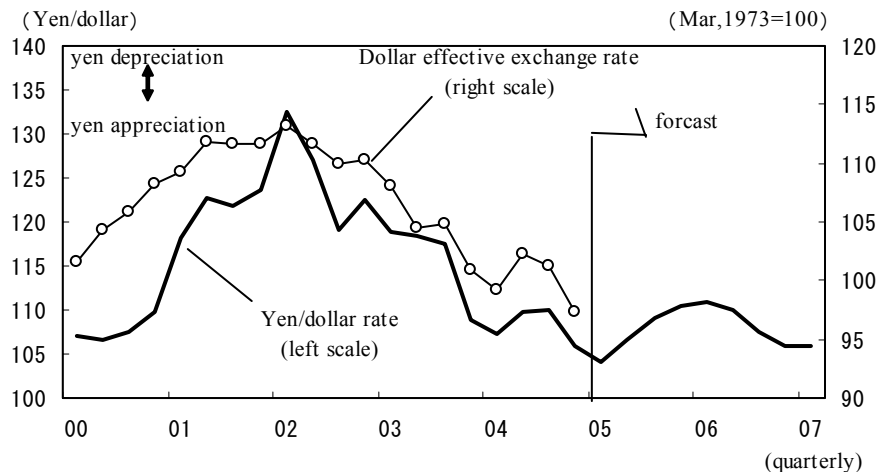
Exhibit 9: Outlook for Interest Rates



② Foreign Exchange Rates

The U.S. dollar weakened in the latter half of 2004 because of concern about the twin (fiscal and balance of payments) deficits. However, beginning in 2005, hopes for reduction in the U.S. fiscal deficit and expectations of increases in interest rates led to increased purchases of U.S. dollars. In fiscal 2005, uncertainty about trends in the Japanese economy and the possibility of further increases in dollar interest rates are forecast to bring a weaker yen. In fiscal 2006, the yen may appreciate somewhat as the recovery in Japan gains strength, but no major fluctuations in the value of the yen seem likely.

Exhibit 10: Outlook for Yen-Dollar Exchange Rate



Sources: Bank of Japan, Financial and Economic Statistics Monthly,
FRB「Federal Reserve Bulletin」

Exhibit 11: Outlook for fiscal 2005-2006 (1)

	Forecast								half/half, % Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)	FY2006 (forecast)
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Nominal GDP	0.4 0.0	1.3 1.6	-0.1 1.2	0.0 -0.1	-0.7 -0.7	0.6 -0.1	0.9 1.5	1.4 2.3	0.8	0.5	-0.4	1.9
Real GDP	0.7 1.0	2.4 3.0	0.4 2.8	0.0 0.4	0.3 0.2	0.7 0.9	1.2 1.9	1.3 2.5	2.0	1.6	0.6	2.2
Contribution of domestic demand (Qr/Qr,%)	0.3	1.7	0.1	0.3	0.1	0.4	0.1	0.4	1.2	1.2	0.3	2.0
Private Consumption	-0.2 -0.3	1.6 1.3	0.3 2.0	-0.3 -0.0	0.3 -0.0	0.6 0.9	0.7 1.3	0.6 1.3	0.5	1.0	0.4	1.3
Housing investment	0.5 -1.3	0.2 0.8	1.8 2.0	-0.1 1.7	-1.5 -1.6	0.6 -1.0	1.0 1.6	1.1 2.1	-0.3	1.9	-1.3	1.9
Private capital investment	5.1 6.7	4.0 9.6	2.9 6.8	1.9 5.3	-1.0 0.8	-1.2 -2.1	4.3 3.0	3.7 8.2	8.2	6.0	-0.7	5.7
Contribution of Inventory investment (Qr/Qr,%)	-0.0	0.1	-0.1	0.0	-0.1	0.1	0.1	-0.1	0.1	-0.1	-0.1	0.1
Government expenditure	-1.3 -1.8	0.5 -1.0	-2.0 -1.1	0.8 -1.7	1.0 1.8	0.9 1.8	0.3 1.3	0.7 0.9	-1.4	-1.4	1.8	1.1
Public investment	-6.2 -11.1	-1.0 -7.4	-14.3 -15.5	-0.0 -14.2	-1.6 -1.9	-1.1 -2.6	-2.9 -4.1	-2.4 -5.2	-9.0	-14.7	-2.3	-4.7
Government final consumption expenditure	0.2 0.9	1.3 1.6	1.5 2.7	1.0 2.5	1.7 2.7	1.4 3.1	1.1 2.5	1.4 2.6	1.2	2.6	2.9	2.5
Contribution of external demand (Qr/Qr,%)	0.4	0.6	0.3	-0.3	0.2	0.3	0.2	0.3	0.8	0.4	0.2	0.2
Export of goods and services	2.9 7.1	9.5 12.7	6.2 16.3	1.2 7.6	0.3 1.5	4.9 5.2	2.8 7.8	5.7 8.7	10.0	11.7	3.4	8.3
Import of goods and services	-0.8 2.2	4.9 4.0	4.9 10.0	4.2 9.4	-1.6 2.5	3.3 1.6	3.5 7.0	4.3 8.0	3.1	9.7	2.0	7.5
GDP deflator (Yr/Yr,%)	-1.0	-1.4	-1.6	-0.5	-0.9	-1.0	-0.4	-0.2	-1.2	-1.0	-1.0	-0.3

	Forecast								Yr/Yr, %			
	FY2003		FY2004		FY2005		FY2006		FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)	FY2006 (forecast)
	First half	Second half	First half	Second half	First half	Second half	First half	Second half				
Current account balance (trillion yen)*	8.2	9.2	9.3	9.1	8.6	9.4	9.4	10.5	17.3	18.3	17.8	19.7
balance on goods (trillion yen)*	6.0	7.2	7.4	6.7	6.2	7.0	6.6	7.7	13.3	13.9	13.1	14.2
balance on service (trillion yen)*	-1.5	-2.3	-2.2	-2.0	-2.3	-2.1	-2.3	-2.3	-3.7	-4.2	-4.4	-4.7
balance on income (trillion yen)*	4.3	4.3	4.6	4.9	5.3	5.0	5.9	5.5	8.5	9.4	10.0	11.0
Industrial production (Qr/Qr, %)	0.2	4.7	2.5	-0.8	-0.2	1.6	2.1	2.4	3.5	4.4	0.2	4.2
(Yr/Yr, %)	1.6	5.4	6.9	2.0	-1.3	1.6	3.6	4.6				
Corporate goods prices(Yr/Yr,%)	-0.9	-1.3	1.2	2.4	-0.3	0.1	0.8	0.2	-1.0	1.8	-0.1	0.5
Domestic corporate goods prices(Yr/Yr,%)	-0.9	-0.2	1.3	1.4	-0.7	0.5	0.6	0.6	-0.5	1.4	-0.7	0.6
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.2	0.3	-0.2	-0.4	0.1	0.3	-0.2	0.0	-0.3	0.2
excluding freshfood(Yr/Yr,%)	-0.3	0.0	-0.2	-0.2	-0.2	-0.1	0.2	0.3	-0.2	-0.1	-0.1	0.2
Yen / U.S Dollar	118.0	108.1	109.8	105.0	107.8	110.8	108.8	106.0	113.0	107.4	109.3	107.4
Newly issued government bond yields(10years, US dollar/barrel)	0.90	1.34	1.62	1.42	1.45	1.70	2.10	2.45	1.12	1.52	1.58	2.28
WTI future price(near month contract)	29.6	33.2	41.1	47.6	43.0	43.5	45.5	46.5	31.4	44.4	43.3	46.0
Dubai crude oil prices (US dollar/barrel)	25.5	28.5	34.7	36.3	35.0	35.5	37.5	37.5	27.0	35.5	35.3	37.5
Spring wage increases *	--	--	--	--	--	--	--	--	1.63	1.67	1.67	1.70

Notes:

* Figures are spring wage increases compiled from data on the 290 companies listed on the First sections of the Tokyo and Osaka stock exchanges that have a labor union and capital of 2billion yen or more as well as 1,000 or more employees.
(Compiled by the Ministry of Health, Labour and Welfare)

Exhibit 12: Outlook for fiscal 2005-2006 (2)

【Exports and Imports】

	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Exports (yen basis)	4.9	7.7	12.9	8.4	0.3	5.1	8.9	8.6	6.3	10.6	2.7	8.8
Volume	2.5	10.1	12.7	2.7	-1.5	3.1	7.6	8.6	6.3	7.5	0.8	8.1
Imports (yen basis)	6.5	1.9	11.0	14.1	3.7	5.9	9.8	7.9	4.1	12.6	4.8	8.8
Volume	6.6	8.0	6.6	5.0	2.0	2.3	7.0	9.2	7.4	5.8	2.2	8.1
Exports surplus (trillion yen)	5.0	6.2	6.1	5.4	5.3	5.5	5.5	6.2	11.2	11.5	10.8	11.7

【Income and Employment】

	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
Cash earnings of employees* (per capita)	-0.5	-1.5	-0.7	-0.2	-0.5	-0.7	-0.2	0.4	-1.0	-0.5	-0.6	0.1
Regular compensation	-0.6	-0.8	-0.8	-0.5	-0.5	-0.7	-0.4	-0.2	-0.7	-0.7	-0.6	-0.3
Overtime compensation	1.8	4.6	5.5	1.7	-1.8	0.5	2.5	3.8	3.3	3.5	-0.6	3.1
Number of employees	0.1	0.3	0.5	0.0	-0.4	-0.3	0.2	0.5	0.2	0.3	-0.4	0.3
Compensation of employees*	-0.1	-1.8	-0.3	0.3	-0.5	-0.7	0.0	0.0	-1.0	0.0	-0.6	-74.9
Unemployment rate	5.3	5.0	4.7	4.5	4.6	4.5	4.3	4.1	5.1	4.6	4.5	4.5

【New Housing Starts】

	FY2003		FY2004		FY2005		FY2006		FY2003	FY2004	FY2005	FY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)	(forecast)
New housing starts (＊) (change from the previous year)	115.9	118.5	119.3	117.9	118.1	117.8	119.6	117.7	117.4	118.7	118.0	118.8
Owner-built housing	0.9	4.2	2.6	-0.3	-1.3	0.1	1.2	0.0	2.5	1.2	-0.6	0.6
Rental housing	38.5	35.9	38.1	35.8	35.8	36.2	36.5	36.1	37.3	37.1	36.1	36.4
Built-for-sale housing	4.2	-0.5	-0.3	-1.0	-5.5	1.0	2.0	-0.5	2.1	-0.6	-2.6	0.9
housing	44.9	47.3	45.5	46.9	46.5	46.5	46.8	46.3	45.9	46.0	46.2	46.2
Built-for-sale housing	-2.2	4.4	1.1	-0.6	2.0	-1.0	0.5	-0.4	0.9	0.2	0.5	0.1
Built-for-sale housing	32.0	34.8	35.0	34.8	35.1	35.0	35.6	35.2	33.4	34.8	35.0	35.3
housing	1.6	9.6	8.5	0.5	-0.2	0.9	1.3	0.9	5.6	4.3	0.4	1.1

＊ Seasonally adjusted annual rate

Exhibit 13: Outlook for calendar 2005-2006 (1)

	Forecast								half/half, % Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Nominal G D P	-0.6	0.8	1.2	-0.5	-0.2	-0.2	0.8	1.3	-0.1	1.4	-0.6	1.3
	-0.3	0.1	2.2	0.7	-0.7	-0.4	0.6	2.1				
Real G D P	0.0	1.5	2.0	-0.4	0.5	0.3	1.0	1.4	1.4	2.6	0.3	1.8
	1.3	1.4	3.7	1.6	0.0	0.7	1.3	2.3				
Contribution of domestic demand	-0.3	1.0	1.5	-0.3	0.6	-0.2	1.0	1.2	0.7	1.9	0.3	1.6
Private consumption	-0.4	0.6	1.4	-0.3	0.1	0.4	0.7	0.7	0.2	1.5	0.1	1.2
	0.4	0.1	2.0	1.0	-0.2	0.5	1.1	1.3				
Housing investment	-1.4	1.7	0.4	1.8	-2.1	-0.3	1.0	1.4	-1.1	2.2	-1.4	1.6
	-2.6	0.3	2.0	2.3	-0.4	-2.3	0.7	2.4				
Private capital investment	3.1	5.3	2.1	2.7	1.9	-3.2	2.6	3.8	6.3	6.3	1.9	2.7
	4.3	8.3	7.8	4.8	5.1	-1.4	-0.8	6.5				
Contribuyion of Inventory investment	-0.1	0.1	0.2	-0.2	0.0	-0.0	0.5	0.7	0.2	0.1	-0.0	0.2
Government expenditure	0.1	0.9	1.6	0.9	1.5	1.6	1.1	1.4	-1.8	-0.5	0.7	1.3
	-1.1	-2.6	0.1	-1.0	-0.6	2.1	1.4	1.1				
Public investment	-6.0	-6.2	-2.4	-11.1	1.3	-2.7	-1.5	-2.8	-10.5	-10.4	-6.5	-4.3
	-8.9	-12.1	-7.6	-13.1	-11.4	-1.5	-4.2	-4.4				
Government final consumption expenditure	0.1	0.9	1.6	0.9	1.5	1.6	1.1	1.4	1.2	2.6	2.8	2.7
	1.5	0.9	2.6	2.6	2.4	3.1	2.8	2.6				
Contribution of external demand	0.3	0.6	0.6	-0.1	-0.1	0.5	-0.2	3.2	0.6	0.8	0.0	0.3
Export of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.2	9.1	14.3	3.0	7.6
	-6.0	7.3	9.1	14.3	3.0	7.6	0.0	0.0				
Import of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.7	3.8	9.2	3.1	6.2
	-0.7	1.3	3.8	9.2	3.1	6.2	0.0	0.0				
GDP deflator	-1.5	-0.8	-0.7	-1.1	-0.7	-0.2	-0.5	-0.1	-1.4	-1.2	-0.9	-0.5

	Forecast								Yr/Yr, %			
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)	7.3	8.5	9.6	9.0	8.7	8.9	9.3	9.9	5.3	5.0	5.0	5.9
balance on goods (trillion yen)	5.3	6.9	7.3	7.0	6.2	7.0	6.3	7.5	8.6	9.2	9.2	9.5
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.2	-2.0	-2.4	-2.1	-2.5	6.4	6.7	6.7	6.8
balance on income (trillion yen)	4.2	4.1	4.7	4.6	4.9	4.8	5.5	5.3	-2.2	-2.2	-2.2	-2.3
Industrial production	0.2	2.7	3.8	0.3	-0.3	0.4	2.2	2.0	-1.3	1.6	1.6	3.6
	3.9	2.5	7.1	4.0	0.3	0.0	2.8	4.3				
Corporate goods prices	-1.5	0.0	0.0	0.0	0.0	0.0	-2.1	-1.7	-0.3	0.1	0.1	0.8
Domestic corporate goods prices	-1.0	0.0	0.0	0.0	0.0	0.0	-2.4	-1.7	-0.7	-0.7	-0.7	0.5
Consumer prices	-0.3	0.0	0.0	0.0	0.0	0.0	-1.2	-0.7	-0.2	-0.4	-0.4	0.1
excluding freshfood	-0.6	0.0	0.0	0.0	0.0	0.0	-0.9	-0.9	-0.2	-0.1	-0.1	0.2
Yen/U.S.Dollar	118.6	113.2	108.5	107.9	105.3	109.8	110.5	106.8	115.9	108.2	107.5	108.6
Newly issued government bond yields (10years)	0.7	1.3	1.4	1.5	1.4	1.6	1.9	2.3	1.0	1.5	1.5	2.1
Dubai crude oil prices (US dollar/barrel)	26.5	27.1	31.3	35.9	36.5	34.5	36.5	38.0	26.8	33.6	35.5	37.3
WTI future price(near month contract)	31.4	30.7	36.8	46.1	45.5	42.5	44.5	46.5	31.0	41.4	44.0	45.5
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.2	5.8	4.1	3.6	2.9	3.4	3.8	3.7	3.0	4.4	3.2	3.7

Exhibit 13: Outlook for calendar 2005-2006 (2)

【Exports and Imports】

	Forecast										Yr/Yr, %	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Exports (yen basis)	3.8	5.5	12.5	11.8	3.1	1.8	7.6	9.0	4.7	12.2	2.4	8.3
Volume	5.0	4.9	13.5	7.9	-0.4	0.2	5.8	8.5	4.9	10.6	-0.1	7.2
Imports (yen basis)	7.4	2.9	6.6	15.0	8.8	2.2	9.1	9.3	5.1	10.9	5.3	9.2
Volume	8.3	6.1	7.8	6.2	3.5	1.3	4.6	8.3	7.1	7.0	2.4	6.5
Exports surplus (trillion yen)	4.3	5.8	6.2	5.8	5.0	5.8	5.0	6.3	10.2	12.0	10.9	11.3

【Income and Employment】

	Forecast										Yr/Yr, %	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Cash earnings of employees (per capita)	-0.2	-1.5	-1.4	-0.2	-0.3	-0.7	-0.5	0.3	-0.9	-0.8	-0.5	-0.1
Regular compensation*	-0.6	-0.8	-0.7	-0.7	-0.5	-0.7	-0.5	-0.2	-0.7	-0.7	-0.6	-0.4
Overtime compensation	1.8	3.2	5.6	3.9	-0.7	-0.5	1.5	3.3	2.5	4.7	-0.6	2.4
Number of employees	0.1	0.0	0.5	0.2	-0.2	-0.4	-0.1	0.4	0.1	0.4	-0.3	0.2
Compensation of employees*	0.0	-0.8	-1.7	0.0	-0.2	-0.8	-0.3	0.8	-0.5	-0.8	-0.5	0.3
Unemployment rate	5.4	5.1	4.8	4.7	4.5	4.6	4.4	4.2	5.2	4.7	4.6	4.3

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfare, Monthly Labour Statistics.

【New Housing Starts】

	Forecast										ten thousand units(annualized)	
	CY2003		CY2004		CY2005		CY2006		CY2003	CY2004	CY2005	CY2006
	First half	Second half	First half	Second half	First half	Second half	First half	Second half	(actual)	(actual)	(forecast)	(forecast)
Number of new housing starts	117.2	114.7	118.0	119.9	118.5	118.0	118.7	119.1	116.0	118.9	118.2	119.0
(change from the previous year)	-0.1	1.4	0.7	4.5	0.4	-1.6	0.2	1.0	0.8	2.5	-0.6	0.6
Owner-built housing	37.5	36.8	36.5	37.2	36.1	35.9	36.5	36.2	37.3	37.0	36.1	36.5
Rental housing	46.9	43.6	47.1	46.5	46.8	46.4	46.6	46.7	45.2	46.5	46.3	46.3
Built-for-sale housing	32.0	33.3	34.3	34.9	35.7	34.5	35.9	35.0	32.7	34.6	35.0	35.4
	-5.1	7.0	7.3	4.7	4.2	-1.1	0.4	1.5	0.8	5.8	1.4	0.9

* Seasonally adjusted annual rate

Exhibit 13: Outlook for 2005-2006 (Quarterly) (1)

	Forecast																Qr/Qr, %		Yr/Yr, %	
	FY2003				FY2004				FY2005				FY2006							
	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	0.7	0.2	0.6	1.2	-0.6	-0.2	0.0	0.2	-0.8	-0.0	0.3	0.6	0.1	0.8	0.8	0.5				
	-0.0	0.0	0.2	3.2	1.2	1.2	0.3	-0.5	-0.9	-0.6	-0.3	0.1	1.1	2.0	2.2	2.5				
Real GDP	0.7	0.5	1.4	1.4	-0.2	-0.3	-0.1	0.5	0.0	0.1	0.3	0.6	0.5	0.7	0.7	0.5				
	0.9	1.1	1.7	4.4	3.1	2.6	0.6	0.2	-0.2	0.5	0.8	1.0	1.6	2.2	2.4	2.7				
Contribution of domestic demand(Qr/Qr,%)	0.4	0.3	1.0	1.2	-0.4	-0.1	0.1	0.6	-0.1	-0.2	0.2	0.7	0.6	0.5	0.5	0.5				
Private Consumption	-0.2	0.1	1.1	0.8	0.1	-0.2	-0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.2				
	-0.0	-0.6	0.8	1.9	2.1	1.8	0.2	-0.2	-0.2	0.2	0.8	1.0	1.2	1.3	1.3	1.2				
Housing investment	-0.0	2.2	-1.0	0.4	1.1	0.8	0.9	-2.6	0.2	-0.8	0.8	0.3	0.6	0.5	1.1	-0.5				
	-3.2	0.5	0.1	1.5	2.6	1.5	3.2	0.1	-0.8	-2.2	-2.4	0.5	0.9	2.3	2.5	1.7				
Private capital investment	4.7	0.4	4.9	-2.2	3.8	0.4	0.7	2.0	-0.8	-2.2	-1.1	2.0	2.2	1.9	1.5	2.4				
	7.9	5.7	11.1	8.4	7.1	6.5	2.9	7.3	2.4	-0.6	-2.1	-2.1	0.9	5.0	8.0	8.4				
Contributoryion of Inventory investment(Qr/Qr,%)	0.0	0.2	-0.2	0.4	-0.3	-0.0	0.0	0.1	-0.1	-0.0	0.0	0.1	0.1	-0.1	-0.0	-0.0				
Government expenditure	-0.9	-0.2	-0.8	3.0	-3.4	-0.1	0.3	1.1	0.3	0.4	0.5	0.3	-0.1	0.5	0.4	0.1				
	-1.5	-2.1	-3.0	1.0	-0.9	-1.3	-0.7	-2.6	1.6	2.0	2.2	1.4	1.4	1.3	0.9	0.8				
Public investment	-3.1	-3.0	-3.6	8.7	-16.9	-1.8	-0.3	2.5	-2.0	-1.6	-0.2	-0.2	-2.4	-0.9	-1.5	-0.8				
	-10.5	-11.6	-12.4	-1.9	-16.1	-15.1	-11.4	-16.8	-2.0	-1.8	-1.2	-4.0	-4.5	-3.8	-4.9	-5.6				
Government final consumption expenditure	-0.3	0.8	0.3	1.1	0.8	0.3	0.4	0.8	0.9	0.8	0.7	0.5	0.5	0.8	0.8	0.4				
	0.8	0.9	0.9	2.2	3.0	2.5	2.6	2.4	2.4	3.0	3.2	3.0	2.5	2.5	2.6	2.6				
Contribution of external demand(Qr/Qr,%)	0.3	0.2	0.4	0.2	0.2	-0.2	-0.2	-0.1	0.1	0.3	0.2	-0.1	-0.1	0.2	0.2	-0.0				
Export of goods and services	0.6	3.4	5.2	4.7	3.5	0.6	1.3	-0.7	-0.1	1.5	3.5	1.3	1.2	1.8	3.7	2.2				
	5.5	8.7	10.7	14.7	18.0	14.7	10.5	4.7	1.1	1.9	4.2	6.3	7.7	8.0	8.2	9.1				
Import of goods and services	-2.4	2.3	2.0	3.4	2.0	2.4	3.1	-0.3	-1.0	-1.1	2.6	2.5	2.1	0.3	2.6	2.9				
	2.5	1.9	2.8	5.3	9.7	10.2	11.3	7.4	4.3	0.8	0.2	3.0	6.2	7.7	7.8	8.2				
GDP deflator(Yr/Yr,%)	-0.9	-1.0	-1.5	-1.2	-1.8	-1.3	-0.3	-0.7	-0.7	-1.1	-1.1	-1.0	-0.5	-0.3	-0.2	-0.2				

	Forecast																Yr/Yr, %	
	FY2003				FY2004				FY2005				FY2006					
	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		
Current account balance (trillion yen)*	4.0	4.3	4.3	4.9	4.7	4.6	4.5	4.6	4.1	4.5	4.6	4.8	4.5	4.9	5.1	5.4		
balance on goods (trillion yen)*	2.9	3.1	3.6	3.7	3.9	3.5	3.2	3.5	2.9	3.3	3.5	3.6	3.3	3.3	3.7	4.0		
balance on service (trillion yen)*	-0.7	-0.8	-1.3	-1.0	-1.2	-1.0	-1.0	-1.0	-1.2	-1.1	-1.0	-1.1	-1.2	-1.2	-1.1	-1.2		
balance on income (trillion yen)*	2.0	2.3	2.0	2.3	2.3	2.3	2.5	2.4	2.7	2.6	2.4	2.6	3.1	2.9	2.7	2.8		
Industrial production (Qr/Qr, %)	-0.4	1.0	3.9	0.5	2.6	-0.7	-0.6	0.2	-0.4	0.2	0.8	1.3	1.0	0.9	1.2	1.4		
(Yr/Yr, %)	2.2	1.0	4.1	6.8	7.4	6.3	1.7	2.4	-1.9	-0.7	0.8	2.3	3.2	4.1	4.5	4.8		
Corporate goods prices(Yr/Yr,%)	-1.4	-0.3	-1.9	-0.8	0.7	1.8	3.0	1.9	0.3	-0.8	-0.4	0.5	0.8	0.8	0.4	0.0		
Domestic corporate goods prices(Yr/Yr,%)	-1.0	-0.7	-0.4	0.1	0.9	1.7	1.9	0.9	-0.2	-1.1	-1.0	-0.3	0.4	0.6	0.6	0.5		
Consumer prices(Yr/Yr,%)	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1	0.5	0.0	-0.1	-0.2	-0.6	-0.2	0.0	0.1	0.3	0.3		
excluding freshfood(Yr/Yr,%)	-0.4	-0.1	0.0	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	0.0	0.1	0.2	0.3	0.3		
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	109.7	109.9	105.9	104.1	106.5	109.0	110.5	111.0	110.0	107.5	106.0	106.0		
Newly issued government bond yields(10years)	0.59	1.20	1.38	1.31	1.59	1.65	1.45	1.40	1.40	1.50	1.60	1.80	2.00	2.20	2.40	2.50		
WTI future price(near month contract)	28.9	30.2	31.2	35.3	38.3	43.9	48.3	47.0	44.0	42.0	43.0	44.0	45.0	46.0	47.0	46.0		
Dubai crude oil prices (US dollar/barrel)	24.5	26.6	27.6	29.4	33.2	36.3	35.6	37.0	36.0	34.0	35.0	36.0	37.0	38.0	38.0	37.0		

*seasonally adjusted

Exhibit 14: Outlook for 2005-2006 (Quarterly) (2)

【Exports and Imports】

	FY2003				FY2004				FY2005				FY2006				Yr/Yr, %
	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	
Exports (yen basis)	2.7	7.1	4.0	11.7	13.4	12.5	11.2	5.6	0.7	-0.2	3.7	6.6	8.5	9.3	8.8	8.5	
Volume	2.6	2.3	7.3	13.1	13.9	11.6	4.4	1.0	-1.8	-1.2	1.6	4.6	7.0	8.3	8.8	8.5	
Imports (yen basis)	6.4	6.6	-0.5	4.3	9.0	13.0	17.0	11.3	6.4	1.1	3.3	8.6	9.6	9.9	8.6	7.2	
Volume	8.4	5.0	7.1	9.0	6.7	6.6	5.8	4.2	2.9	1.2	1.4	3.1	6.0	7.9	8.7	9.6	
Exports surplus (trillion yen)	2.4	2.7	3.2	3.0	3.2	2.9	2.9	2.5	2.5	2.8	3.0	2.5	2.6	3.0	3.3	2.9	

【Income and Employment】

	FY2003				FY2004				FY2005				FY2006				Yr/Yr, %
	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	
Cash earnings of employees* (per capita)	0.6	-1.7	-1.3	-1.7	-1.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.8	-0.5	-0.4	0.0	0.5	0.3	
Regular compensation	-0.5	-0.6	-1.0	-0.6	-0.8	-0.8	-0.6	-0.4	-0.5	-0.6	-0.7	-0.6	-0.4	-0.3	-0.2	-0.1	
Overtime compensation	1.1	2.7	3.6	5.6	5.5	5.6	2.4	1.0	-2.5	-1.0	0.0	1.0	2.0	3.0	3.5	4.0	
Number of employees	0.3	-0.2	0.3	0.4	0.7	0.4	0.1	0.0	-0.3	-0.5	-0.4	-0.2	0.1	0.4	0.4	0.5	
Compensation of employees*	1.0	-1.3	-0.4	-3.6	-0.1	-0.5	0.4	0.1	-0.4	-0.7	-0.9	-0.5	-0.1	0.5	1.1	0.7	
Unemployment rate	5.4	5.1	5.1	4.9	4.6	4.8	4.6	4.5	4.6	4.6	4.5	4.4	4.4	4.2	4.1	4.1	

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfare, Monthly Labour Statistics.

【New Housing Starts】

	FY2003				FY2004				FY2005				FY2006				ten thousand units(annualized) Yr/Yr, %
	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 (*)	119.8	112.0	117.5	119.6	116.4	122.3	117.5	118.3	118.7	117.4	118.5	117.2	120.2	119.1	119.2	116.3	
(change from the previous year)	2.2	-0.6	3.2	5.4	-3.7	9.4	-0.1	-0.6	1.4	-3.8	0.8	-0.7	1.0	1.5	0.6	-0.6	
Owner-built housing	39.2	37.9	35.7	36.1	36.9	39.3	35.1	36.4	35.9	35.8	36.0	36.4	36.6	36.3	36.1	36.1	
Rental housing	3.6	4.9	-1.3	0.5	-6.0	5.9	-2.8	1.0	-3.0	-8.0	2.0	0.0	2.0	2.0	0.0	-1.0	
Built-for-sale housing	47.7	42.2	45.0	49.5	44.8	46.3	46.7	47.0	46.6	46.3	46.4	46.5	46.7	46.8	46.5	46.0	
	2.0	-6.5	2.0	7.4	-6.4	9.4	3.0	-5.0	4.0	0.0	-1.0	-1.0	0.0	1.0	0.0	-1.0	
	32.5	31.4	35.3	34.3	34.2	35.7	34.1	35.5	36.0	34.2	34.8	35.2	36.6	34.7	35.3	35.1	
	0.8	2.5	9.8	9.4	3.1	14.1	-2.1	3.4	3.9	-4.0	2.7	-0.9	1.1	1.5	1.9	-0.1	

* Seasonally adjusted annual rate