

December 2004

***Revised Forecast for the Japanese Economy
In Fiscal 2004 and 2005***



Economic Research Department

1. State of the Economy and Changes from the Previous Forecast

(1) Current State of the Economy (July–September GDP)

The Japanese economy is slowing, and there is a possibility it may have already entered a recession. During the July–September period, real GDP rose 0.1% over the previous quarter (an annualized growth rate of 0.2%). This was virtually equivalent with the first preliminary estimate of 0.1% (an annualized growth rate of 0.3%). However, the quarter-to-quarter growth rate for the April–June quarter were revised downward to –0.1%. While this decline for the April–June period was marginal, it was the first negative growth figure in five quarters and implies that the economy was experiencing nearly zero growth during the first half of fiscal 2004, the year ending March 31, 2005.

By major component of demand, in the household sector, private final consumption showed positive growth of 0.2% over the previous quarter during the July–September period, the fifth consecutive quarter of positive expansion, but growth has remained relatively low since the April–June quarter. Moreover, as a result of the change in methods for estimating private consumption, both nominal and real growth figures were revised downward from first preliminary estimates. Private housing investment in the July–September quarter rose 0.7%, the third quarterly rise, supported by firm starts of built-for-rental and built-for-sale homes.

In the corporate sector, private capital investment was revised upward from the first preliminary estimate and rose 1.1% over the previous quarter during the July–September period, the second consecutive quarterly increase. However, growth was slower than during the previous quarter. In addition, the contribution of private inventory investment to growth was negative for the second consecutive quarter. In the public sector, government public investment remains on a downward trend and fell 2.2% from the previous quarter, but the margin of decline was smaller than during the April–June period (when it slipped 16.8%). On the other hand, government final consumption continues on a rising trend and increased 0.4% over the previous quarter.

Turning to the external sector, exports were up 0.6% for the July–September quarter, lower than the 3%-to-5% range growth rates reported over the past year, reflecting the deceleration of overseas economies. Imports also are showing somewhat lower growth and rose 1.7% for the quarter. However, the rate of expansion in imports was higher than that of exports, resulting in a negative contribution of the external sector of 0.1 percentage point.

Nominal GDP was virtually level with the previous quarter, showing a change of –0.0%, the second consecutive quarter-to-quarter decline, but the margin of decline was lower than for the previous quarter. The GDP deflator was 1.3% below the same period of the previous year, reflecting mainly the shrinkage in the margin of decline in prices of government final consumption goods and services. In particular, the margin of decline in the deflator for domestic private demand has been on a gradual downtrend since reaching a low point in the January–March quarter of 2002.

(2) Changes since the Previous Forecast (Announced on November 17)

(a) Introduction of the Chain Weight Method

The chain weight method has been employed in computing deflators beginning with the second preliminary GDP estimate for the July–September quarter. Since deflators computed using this method were revised upward compared with previous estimates, real growth rates have been adjusted downward retroactively by a substantial margin. For example, the real growth rate for fiscal 2003 was 3.2% in the first preliminary estimate but was a substantially lower 1.9% in the second preliminary estimate. There were a number of other changes in the methods for estimating the GDP, but it appears the largest portion of the downward adjustment in real GDP was due to the introduction of the chain weight method.

Since economic growth rates have been adjusted downward by this magnitude, we might be prone to take a negative view of economic conditions. However, nominal growth rates have not been adjusted so significantly. The introduction of the chain weight method is a technical issue affecting the computation of deflators, and we should view this as an adjustment that brings real growth rates, which had received an excessively positive appraisal, closer to appropriate levels. In addition, although growth rates for the past few years have been adjusted downward, the general direction of the economy—with a slowdown in the first half of fiscal 2004 following relatively high growth in the latter half of fiscal 2003—remains the same.

(b) Weak Economic Indicators

Since we issued our previous forecast, a number of economic indicators have been released suggesting the domestic economy is slowing, and concern is growing about the future direction of the economy.

First, according to October data, growth in exports on a unit volume basis is declining. By region, exports to the United States, the EU, and Asia are all decelerating. By product, exports of electronic components and capital goods as well as exports of automobiles to China are showing weaker expansion. In addition, industrial production in October declined, due principally to lower production of electronic components and devices, including semiconductors and LCDs, as well as declines in IT and telecommunications equipment, including portable phones and PCs. The buildup of inventories, mainly in digital-related products, is causing adjustments in production, and production in the October–December quarter may show a second consecutive drop from the previous quarter.

According to GDP statistics, private consumption is continuing to post marginal increases and is holding firm. However, recently, there have been signs of weakness in indicators of consumption. According to the survey of households of the Ministry of Internal Affairs and Communications, real consumer spending by all households was below the levels for the same

months of the previous year for two consecutive months in September and October. During the latter half of fiscal 2003, although incomes showed relatively little growth, consumption was unexpectedly firm, buoyed in part by improvement in consumer confidence accompanying the recovery in the economy. However, as adjustments in the economy have become more apparent, the improvement in consumer confidence has paused and consumer spending appears to be slowing.

Examination of economic indicators released recently indicates that some data are showing unexpected weakness. However, we believe these trends—rather than being evidence of an unforeseen deterioration in the economy—are in line with our previous forecast, which calls for economic adjustments in the second half of fiscal 2004.

(c) Trends in Foreign Exchange Rates and Oil Prices

The appreciation of the yen and marked increases in the price of crude oil have been cited as factors that are creating uncertainty about the future course of the economy. However, these two factors have not changed significantly from the time of our previous forecast.

Looking at foreign exchange rates first, concern about the twin deficits in the U.S. economy is continuing, and downward pressure on the dollar is increasing. When our previous forecast was being prepared, the dollar had already declined to the ¥105 range but subsequently dropped further in value against the yen, to close to ¥100. For this reason, since the time of our previous forecast, the short-term outlook for the yen/dollar rate has shifted somewhat more toward a stronger yen and a weaker dollar. Nevertheless, our view expressed in our last forecast remains unchanged: “Although the U.S. current account deficit and slowdown in the U.S. economy will be factors weakening the dollar, in fiscal 2005, concerns will arise about the weakness of the Japanese economy, and we expect the yen to become somewhat weaker.”

Crude oil prices (WTI futures prices) had already exceeded \$55 a barrel

when the previous forecast was being prepared and were setting new records. Subsequently, however, oil prices have eased, as expected. If oil prices continue around current levels, the average oil price for the October–December quarter may be somewhat below the level forecast. We have not revised our outlook as stated in the previous forecast. We believe the positive effects of oil development investments made thus far will emerge gradually, and supply capacity will expand. On the other hand, since the world economy is expected to decelerate as we move into the first half of 2005, crude oil prices will show a declining trend. However, a major drop in oil prices is not anticipated because the adjustment in the world economy is expected to be relatively mild and a decrease in prices is very likely to cause OPEC to cut production. Moreover, in the latter half of 2005, the world economy will again move toward recovery, bringing increases in crude oil prices.

2.Outlook for the Economy in Fiscal 2004 and Fiscal 2005

Fiscal 2004: Third consecutive year of positive real growth, but with a movement into an adjustment phase in the second half.

We are forecasting 1.8% real GDP growth for fiscal 2004, the third consecutive year of positive growth. We are also looking for GDP expansion in nominal terms of 0.6%, the second consecutive year of positive growth. However, the economy is gradually decelerating, and we are forecasting that signs of adjustment will become increasingly evident in the latter half of the fiscal year.

To date, exports and private capital investment have been the drivers of economic recovery. However, exports are already weakening and private capital investment may begin to decline as we enter 2005 because of the slowdown in exports and production combined with a leveling off of profits. Trends in orders for machinery and equipment, which are leading indicators for capital investment, also suggest a decline in investment going forward.

In addition, although private consumption is holding firm, weak growth in

wages is expected to continue, and this is likely to result in a more gradual pace of expansion in consumer spending. Private housing investment remains relatively strong, supported mainly by starts of built-for-rental and built-for-sale homes. Although housing investment is likely to slow in the latter half of fiscal 2004, the number of new housing starts for the fiscal year as a whole will be above the number in the previous year. Government consumption expenditures will continue on a rising trend because of expansion in health care and nursing costs, but public works investment will continue to decline.

Downward pressures on price levels are easing. Domestic corporate goods prices are now above the previous year's levels, reflecting higher costs of raw materials. Approaching the end of the fiscal year, however, the rate of increase in domestic corporate goods prices is expected to slow, as a result of the peaking out of crude oil and other international commodity prices. Moreover, consumer prices remain slightly below the levels of the previous year but appear to have bottomed out following the increases in upstream prices and improvement in the supply/demand balance. Therefore, the CPI is expected to remain virtually level compared with the previous fiscal year.

Fiscal 2005: Recovery to resume in the second half of 2005, the fourth consecutive year of positive real growth

The economic adjustments begun in the previous fiscal year are expected to continue in fiscal 2005, but we are forecasting a bottoming out and improvement in the second half of 2005. We are looking for real GDP growth of 0.6%, marking the fourth consecutive year of positive real growth. However, nominal GDP is forecast to decline 0.4%, the first negative growth in three years.

Exports and private capital investment will continue to determine the overall shape of economic trends in fiscal 2005. At the start of the fiscal year, the economy will still be in an adjustment phase because of declines in exports and private capital investment. However, the world economy is expected to show improvement from midyear, thus bringing a resumption

of expansion in exports. In addition, the recovery in exports will bring recovery in production, and private capital investment is expected to rise along with the improvement in corporate profitability in the latter half of fiscal 2005.

Consumer spending is not likely to show a major increase because improvement in the employment and income environments will lag recovery in the economy as a whole. However, consumption is expected to hold firm, in part because the adjustment in the economy will be mild. Private residential investment will slow as starts of built-for-rental and built-for-sale homes, which were strong in fiscal 2004, lose momentum, but will make a comeback in the latter half of the fiscal year boosted by resumption of the economic recovery. Growth in government consumption expenditures will continue along with the expansion in health care and nursing costs. Government public works investment will remain on a downward trend, but the pace of decline will slow.

The margin of decrease in both domestic corporate prices and consumer prices will increase because of the slowdown in the economy that began in the latter half of fiscal 2004.

3. Perspective on Future Developments: Three Factors that Will Influence the Course of the Economy

In our previous forecast, we cited three key points that should be given thought when considering prospects for the Japanese economy. These were (1) “cyclical factors restraining growth,” including the weakening of demand for digital appliances and related items as well as the slowdown in overseas economies, (2) “structural factors boosting growth,” including the improvement in the financial positions and profitability of corporations, and (3) “potential sources of uncertainty,” including the restraining effect on consumption of the likelihood that improvement in corporate earnings will not lead directly to improvement in household incomes.

In the previous forecast, we summarized our outlook for the Japanese

economy as follows:

“Taking all three of the above-mentioned factors into account, the Japanese economy (1) may experience declines in exports, production, and capital investment as cyclical factors restrain growth and this leads to an economic slowdown; however, (2) since the structural factors boosting growth will come into play, the adjustment in corporate activities, including the adjustment in capital investment, will not be very serious. For this reason, by the second half of 2005, we believe the Japanese economy will accelerate again along with improvement in the global economy. In the interim, private consumption may gradually increase. Nevertheless, (3) consumption and other household activities will not enter a period of robust recovery because of potential sources of uncertainty. However, there is a feeling that the Japanese economy has moved out of the most difficult period and that consumption will remain firm for the time being.”

We have not changed our basic outlook in this updated forecast. However, as we mentioned previously, indicators of personal consumption are showing signs of weakness. This means that there is a possibility that the risks of point three, “potential sources of uncertainty,” as they relate to consumption, have increased.

Note: The opinions, forecasts, and other statements in this report are judgments based on data available at the time of preparation and may change without notice.

Exhibit 1: Real GDP Growth (seasonally adjusted)

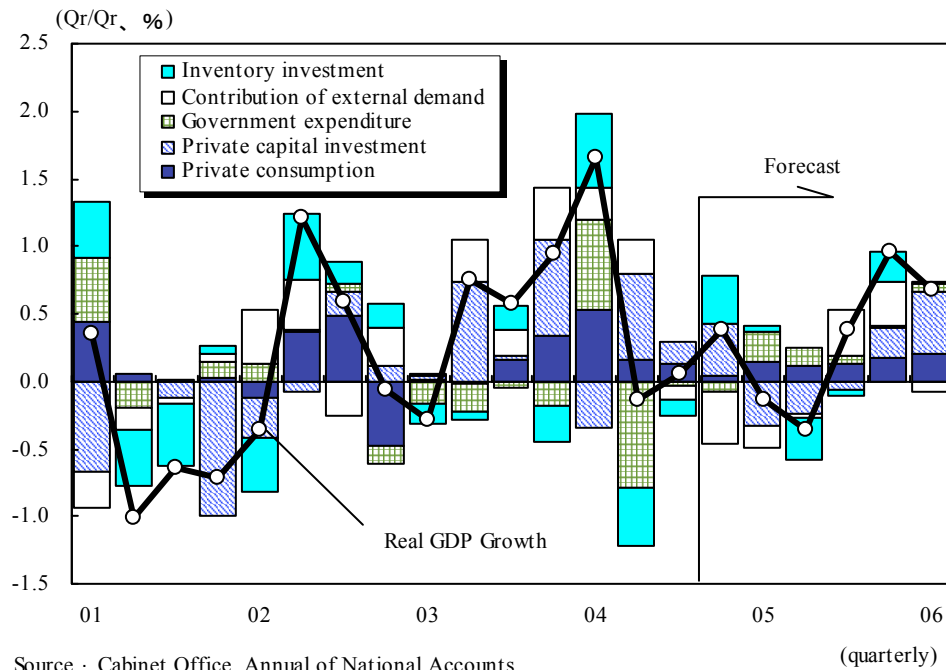
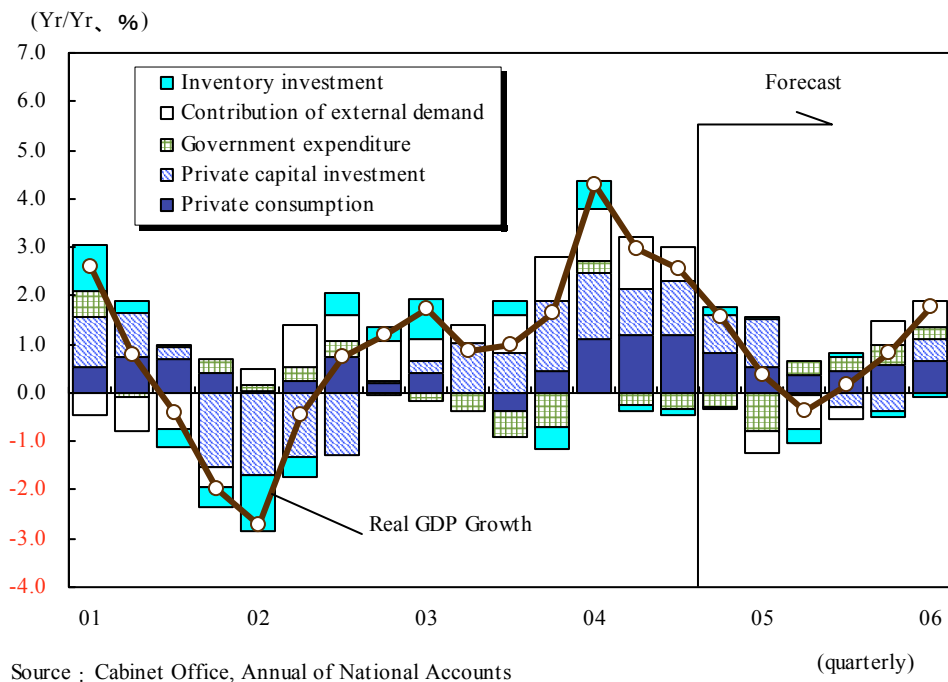


Exhibit 2: Real GDP Growth



Economic Outlook for fiscal 2004-2005

	Forecast						half/half, % Yr/Yr, %		
	FY2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Nominal G D P	0.5 0.0	1.2 1.6	-0.0 1.2	0.1 -0.0	-1.2 -1.2	1.5 0.2	0.8	0.6	-0.4
Real G D P	0.9 0.9	2.1 2.9	0.7 2.8	0.3 1.0	-0.2 -0.1	1.5 1.3	1.9	1.8	0.6
Contribution of domestic demand(Qr/Qr, %)	0.5	1.5	0.4	0.9	-0.3	1.0	1.1	1.5	0.6
Private consumption	0.1 -0.3	1.2 1.4	0.9 2.1	0.3 1.2	0.5 0.7	0.6 1.1	0.5	1.6	0.9
Housing investment	0.3 -1.4	0.3 0.6	1.5 1.8	1.1 2.7	-2.2 -1.1	-0.2 -2.4	-0.5	2.2	-1.8
Private capital investment	5.2 6.6	3.7 9.6	3.6 7.2	1.9 5.9	-2.8 -1.1	2.7 0.1	8.2	6.5	-0.5
Contribution of Inventory investment	-0.0	0.1	-0.2	0.3	-0.3	0.2	0.1	-0.0	-0.1
Government expenditure	-1.3 -1.9	0.5 -1.1	-2.1 -1.2	0.1 -2.3	1.2 1.3	0.3 1.5	-1.5	-1.8	1.4
Public investment	-6.2 -11.3	-1.1 -7.5	-14.3 -15.7	-1.8 -15.8	-1.5 -3.5	-1.9 -3.3	-9.2	-15.8	-3.4
Government final consumption expenditure	0.2 0.8	1.2 1.5	1.5 2.7	0.6 2.1	1.9 2.4	0.9 2.8	1.1	2.4	2.6
Contribution of external demand	0.4	0.6	0.3	-0.5	0.1	0.5	0.8	0.3	0.0
Export of goods and services	2.8 7.0	9.5 12.6	6.1 16.1	-2.1 3.9	-1.6 -3.7	6.5 4.7	9.9	9.7	0.5
Import of goods and services	-0.8 2.2	5.4 4.5	4.3 9.9	2.3 6.7	-2.4 -0.2	3.2 0.8	3.4	8.3	0.3
G D P deflator (Yr/Yr, %)	-0.9	-1.3	-1.5	-1.0	-1.1	-1.0	-1.1	-1.2	-1.0

	Forecast						Yr/Yr, %		
	FY2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)	8.3	9.0	9.4	7.4	8.0	9.5	17.3	16.8	17.5
balance on goods (trillion yen)	6.0	7.3	7.4	6.7	6.7	8.4	13.3	14.0	15.1
balance on service (trillion yen)	-1.7	-2.0	-2.2	-2.6	-2.3	-2.7	-3.7	-4.8	-5.0
balance on income (trillion yen)	4.3	4.2	4.6	3.8	4.0	4.3	8.5	8.4	8.3
Industrial production	(0.2) 1.6	(4.7) 5.4	(2.5) 6.9	(-1.5) 1.3	(-1.1) -2.9	(2.8) 1.8	3.5	4.0	-0.5
Corporate goods prices	-0.9	-1.3	1.2	2.4	-0.4	-0.4	-1.0	1.8	-0.4
Domestic corporate goods prices	-0.9	-0.2	1.3	1.5	-0.3	-0.7	-0.5	1.4	-0.4
Consumer prices	-0.3	-0.2	-0.2	0.2	-0.1	-0.4	-0.2	0.0	-0.3
excluding freshfood	-0.3	0.0	-0.2	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1
Yen/U.S.Dollar	118.0	108.1	109.8	106.0	107.3	109.8	113.0	107.9	108.5
Newly issued government bond yields (10years)	0.9	1.3	1.6	1.4	1.6	2.0	1.1	1.5	1.8
Dubai crude oil prices (US dollar/barrel)	25.5	28.5	34.7	36.0	34.5	36.5	27.0	35.4	35.5
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.2	5.8	4.0	3.5	2.7	3.1	3.0	4.4	3.0
Spring wage increases *	—	—	—	—	—	—	1.63	1.67	1.67

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)

【Exports and Imports】

	FY2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Exports (yen basis)	4.9	7.7	12.9	5.0	-4.4	4.8	6.3	8.8	0.2
Volume	2.5	10.1	12.7	2.4	-2.4	2.5	6.3	7.4	0.0
Imports (yen basis)	6.5	1.9	11.0	11.1	-0.6	1.8	4.1	11.1	0.6
Volume	6.6	8.0	6.6	3.3	-0.5	0.4	7.4	4.9	0.0
Exports surplus (trillion yen)	5.0	6.2	6.1	5.1	4.9	6.2	11.2	11.2	11.1

【Income and Employment】

	FY2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Cash earnings of employees (per capita)	-0.5	-1.5	-0.7	-0.4	-0.8	-0.8	-1.0	-0.5	-0.8
Regular compensation*	-0.6	-0.8	-0.8	-0.6	-0.8	-1.0	-0.7	-0.7	-0.9
Overtime compensation	1.8	4.6	5.5	1.5	-1.8	1.2	3.3	3.4	-0.2
Number of employees	0.1	0.3	0.5	0.5	-0.2	-0.4	0.2	0.5	-0.3
Compensation of employees*	-0.1	-1.8	-0.1	0.2	-0.6	-1.0	-1.0	0.0	-0.8
Unemployment rate	5.3	5.0	4.7	4.8	5.0	4.9	5.1	4.7	4.9

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		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
New housing starts (change from the previous year)	115.9	119.1	119.0	119.1	116.9	117.3	117.4	119.0	117.0
Owner-built housing	38.5	35.9	38.5	36.2	35.7	35.9	37.3	37.4	35.8
Rental housing	44.9	47.3	45.4	46.0	46.3	45.2	45.9	45.6	45.7
Built-for-sale housing	32.0	34.8	34.7	35.6	34.7	35.0	33.4	35.1	34.8
Seasonally adjusted annual rate	1.6	9.6	8.5	2.2	-0.2	-1.8	5.6	5.2	-1.0

* Seasonally adjusted annual rate

Economic Outlook for calendar 2004-2005

	Forecast						half/half, % Yr/Yr, %		
	CY2003		CY2004		CY2005		CY2003 (actual)	CY2004 (forecast)	CY2005 (forecast)
	First half	Second half	First half	Second half	First half	Second half			
Nominal G D P	-0.7 -0.3	0.9 0.1	1.1 2.2	-0.2 0.9	-0.7 -0.9	0.1 -0.6	-0.1	1.5	-0.8
Real G D P	0.0 1.3	1.4 1.3	2.1 3.6	0.2 2.0	-0.1 -0.0	0.7 0.5	1.3	2.8	0.3
Contribution of domestic demand	-0.3	0.9	1.5	0.4	0.2	0.2	0.7	2.1	0.5
Private consumption	-0.4 0.4	0.6 0.1	1.4 2.0	0.4 1.7	0.4 0.8	0.5 0.9	0.2	1.9	0.8
Housing investment	-1.5 -2.7	1.5 0.1	0.4 1.8	2.0 2.5	-1.3 0.6	-1.6 -2.7	-1.2	2.2	-1.1
Private capital investment	3.1 4.2	5.1 8.2	2.1 7.7	4.4 6.6	-1.7 3.2	-0.5 -2.3	6.2	7.2	0.4
Contriburion of Inventory investment	-0.1	0.0	0.2	-0.1	0.1	-0.1	0.2	0.1	-0.0
Government expenditure	0.1 -1.1	0.8 -2.7	1.6 -0.0	0.7 -1.4	1.4 -1.2	1.4 1.7	-1.9	-0.7	0.3
Public investment	-6.0 -9.0	-6.3 -12.2	-2.3 -7.8	-11.7 -13.8	-0.2 -13.4	-2.3 -2.6	-10.7	-10.8	-8.1
Government final consumption expenditure	0.1 1.4	0.8 0.9	1.6 2.5	0.7 2.4	1.4 2.1	1.4 2.8	1.1	2.4	2.5
Contribution of external demand	0.3	0.5	0.5	-0.2	-0.4	0.5	0.6	0.7	-0.2
Export of goods and services	3.1 8.5	6.4 9.6	9.2 16.2	1.4 10.6	-3.1 -1.8	3.1 -0.1	9.1	13.3	-0.9
Import of goods and services	0.3 5.3	2.3 2.6	5.5 7.8	3.4 9.2	-0.4 3.1	-0.9 -1.3	3.9	8.5	0.8
GDP deflator	-1.4	-1.1	-0.9	-1.1	-0.9	-0.9	-1.4	-1.3	-1.0

	Forecast						Yr/Yr, %		
	CY2003		CY2004		CY2005		CY2003 (actual)	CY2004 (forecast)	CY2005 (forecast)
	First half	Second half	First half	Second half	First half	Second half			
Current account balance (trillion yen)	7.3	8.5	9.6	7.8	7.2	7.6	15.8	17.4	14.7
balance on goods (trillion yen)	5.3	6.9	7.3	6.9	5.9	7.0	12.3	14.2	12.8
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.7	-2.2	-2.7	-3.9	-4.6	-5.0
balance on income (trillion yen)	4.2	4.1	4.7	4.0	3.9	3.8	8.3	8.6	7.7
Industrial production	0.2 3.9	2.7 2.5	3.8 7.1	0.3 3.9	-1.9 -1.3	1.0 -1.1	3.2	5.5	-1.2
Corporate goods prices	-1.5	-1.1	-0.1	2.2	0.9	-0.8	-1.3	1.1	0.0
Domestic corporate goods prices	-1.0	-0.6	0.5	1.8	0.7	-0.9	-0.8	1.2	-0.1
Consumer prices	-0.3	-0.3	-0.2	0.2	0.0	-0.4	-0.3	-0.0	-0.2
excluding freshfood	-0.6	-0.1	-0.1	-0.2	0.0	-0.2	-0.3	-0.1	-0.1
Yen/U.S.Dollar	118.6	113.2	108.5	107.7	103.5	107.8	115.9	108.1	105.6
Newly issued government bond yields (10years)	0.7	1.3	1.4	1.5	1.4	1.8	1.0	1.5	1.6
Dubai crude oil prices (US dollar/barrel)	26.5	27.1	31.3	35.6	31.0	33.0	26.8	33.5	32.0
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.2	5.8	4.0	3.5	2.7	3.1	3.0	4.4	3.0
Spring wage increases *	—	—	—	—	—	—	1.63	1.67	1.67

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)

【Exports and Imports】

		Forecast						Yr/Yr, %		
		CY2003		CY2004		CY2005		CY2003	CY2004	CY2005
		First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Exports (yen basis)		3.8	5.5	12.5	10.5	-1.4	-0.9	4.7	11.5	-1.1
	Volume	5.0	4.9	13.5	7.8	-1.1	-0.6	4.9	10.6	-0.9
Imports (yen basis)		7.4	2.9	6.6	14.1	4.1	-1.9	5.1	10.4	1.0
	Volume	8.3	6.1	7.8	6.0	0.8	-1.3	7.1	6.9	-0.3
Exports surplus (trillion yen)		4.3	5.8	6.2	5.7	4.8	5.9	10.2	11.8	10.7

【Income and Employment】

		Forecast						Yr/Yr, %		
		CY2003		CY2004		CY2005		CY2003	CY2004	CY2005
		First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Cash earnings of employees (per capita)		-0.2	-1.5	-1.4	-0.3	-0.6	-0.9	-0.9	-0.8	-0.8
	Regular compensation*	-0.6	-0.8	-0.7	-0.7	-0.8	-1.0	-0.7	-0.7	-0.9
	Overtime compensation	1.8	3.2	5.6	3.7	-0.7	-0.5	2.5	4.6	-0.6
Number of employees		0.1	0.0	0.5	0.5	0.1	-0.3	0.1	0.5	-0.1
Compensation of employees*		0.5	-0.3	-1.6	0.0	-0.3	-0.9	-0.5	-0.7	-0.6
Unemployment rate		5.4	5.1	4.8	4.7	4.9	5.0	5.2	4.7	4.9

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) Yr/Yr, %		
		CY2003		CY2004		CY2005		CY2003	CY2004	CY2005
		First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Number of new housing starts		117.2	114.7	118.1	120.9	118.1	116.8	116.0	119.5	117.4
(change from the previous year)		-0.1	1.4	0.8	5.3	-0.1	-3.4	0.8	2.9	-1.8
	Owner-built housing	37.5	36.8	36.5	38.3	36.0	35.7	37.3	37.4	35.8
		0.5	1.8	-2.9	4.0	-1.4	-6.7	1.3	0.4	-4.4
	Rental housing	46.9	43.6	47.0	45.8	46.4	45.5	45.2	46.2	45.9
		3.1	-2.0	0.3	5.1	-1.3	-0.7	0.3	2.4	-0.8
	Built-for-sale housing	32.0	33.3	34.0	35.9	35.1	34.8	32.7	34.9	34.9
		-4.7	6.3	6.2	7.7	3.3	-3.2	0.8	6.9	-0.1

* Seasonally adjusted annual rate

Economic Outlook (Quarterly)

	Forecast								Qr/Qr, % Yr/Yr, %			
	FY2003				FY2004				FY2005			
	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 G D P	0.8	0.2	0.5	1.1	-0.6	-0.0	0.2	-0.3	-1.2	0.2	1.1	0.5
	-0.0	0.0	0.2	3.2	1.2	1.3	0.5	-0.6	-1.3	-1.0	-0.2	0.7
Real G D P	0.8	0.6	0.9	1.7	-0.1	0.1	0.4	-0.1	-0.4	0.4	1.0	0.7
	0.9	1.0	1.6	4.3	3.0	2.6	1.6	0.4	-0.4	0.2	0.8	1.8
Contribution of domestic demand(Qr/Qr, %)	0.4	0.4	0.6	1.4	-0.4	0.2	0.8	0.0	-0.3	0.0	0.6	0.8
Private consumption	-0.0	0.3	0.6	0.9	0.3	0.2	0.1	0.3	0.2	0.2	0.3	0.4
	-0.0	-0.7	0.8	1.9	2.1	2.1	1.4	0.9	0.7	0.7	1.0	1.2
Housing investment	-0.2	2.1	-1.0	0.4	0.9	0.7	1.6	-1.7	-0.7	-1.3	0.1	0.6
	-3.3	0.3	-0.1	1.3	2.3	1.3	3.8	1.5	-0.2	-1.9	-3.5	-1.3
Private capital investment	5.1	0.2	4.8	-2.3	4.3	1.1	2.4	-2.1	-1.6	-0.5	1.4	3.0
	7.8	5.6	11.0	8.3	7.0	7.4	5.8	6.0	-0.2	-2.0	-2.6	2.5
Contribution of Inventory investment	-0.1	0.2	-0.3	0.6	-0.4	-0.1	0.4	0.0	-0.3	-0.0	0.2	0.0
Government expenditure	-0.9	-0.2	-0.8	2.9	-3.4	-0.1	-0.3	1.0	0.6	0.3	0.1	0.2
	-1.6	-2.2	-3.1	0.9	-1.0	-1.4	-1.3	-3.3	1.2	1.5	2.0	1.0
Public investment	-2.9	-3.2	-3.6	8.6	-16.8	-2.2	-1.3	1.3	-1.5	-1.2	-0.7	-1.1
	-10.7	-11.8	-12.6	-2.0	-16.2	-15.2	-12.7	-18.8	-4.0	-3.0	-2.2	-4.6
Government final consumption expenditure	-0.3	0.9	0.1	1.2	0.8	0.4	-0.0	0.8	1.1	0.7	0.3	0.4
	0.7	0.9	0.9	2.1	2.9	2.5	2.3	2.0	2.2	2.6	3.0	2.6
Contribution of external demand	0.3	0.2	0.4	0.2	0.3	-0.1	-0.4	-0.2	-0.0	0.3	0.3	-0.1
Export of goods and services	0.6	3.3	5.3	4.6	3.4	0.6	-1.7	-1.4	-1.8	1.8	4.4	2.2
	5.5	8.5	10.7	14.6	17.8	14.5	7.0	0.8	-4.2	-3.1	2.9	6.7
Import of goods and services	-2.3	2.1	2.7	3.3	1.7	1.8	1.5	-0.2	-1.7	-1.1	2.1	3.3
	2.5	1.9	3.3	5.8	9.8	10.0	8.5	4.9	1.3	-1.6	-0.9	2.5
G D P deflator (Yr/Yr, %)	-0.9	-1.0	-1.4	-1.1	-1.7	-1.3	-1.0	-0.9	-0.9	-1.2	-1.0	-1.0

	Forecast											
	FY2003				FY2004				FY2005			
	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)	3.8	4.5	3.9	5.1	4.5	4.8	3.4	4.1	3.9	4.1	4.3	5.2
balance on goods (trillion yen)	2.8	3.2	3.7	3.6	3.7	3.6	3.4	3.3	3.3	3.5	4.3	4.1
balance on service (trillion yen)	-0.7	-0.9	-1.2	-0.8	-1.1	-1.1	-1.6	-1.0	-1.1	-1.2	-1.6	-1.1
balance on income (trillion yen)	1.9	2.4	1.7	2.6	2.1	2.5	1.8	2.0	2.0	2.0	1.8	2.5
Industrial production	-0.4	1.0	3.9	0.5	2.6	-0.7	-0.6	-1.2	-0.9	0.7	1.5	1.9
	2.2	1.0	4.1	6.8	7.4	6.3	1.5	1.0	-3.7	-2.0	-0.1	3.7
Corporate goods prices	-1.4	-0.3	-1.9	-0.8	0.7	1.8	2.8	1.9	0.3	-1.0	-0.7	0.0
Domestic corporate goods prices	-1.0	-0.7	-0.4	0.1	0.9	1.7	1.9	1.2	0.3	-0.8	-0.9	-0.5
Consumer prices	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1	0.4	0.0	0.0	-0.2	-0.5	-0.3
excluding freshfood	-0.4	-0.1	0.0	0.0	-0.2	-0.2	-0.1	0.0	0.0	-0.1	-0.2	-0.2
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	109.7	109.9	106.5	105.5	106.5	108.0	109.5	110.0
Newly issued government bond yields (10years)	0.59	1.20	1.38	1.31	1.59	1.65	1.45	1.30	1.50	1.70	1.90	2.10
Dubai crude oil price(US dollar/barrel)	24.5	26.6	27.6	29.4	33.2	36.3	37.0	35.0	34.0	35.0	36.0	37.0

【Exports and Imports】

		FY2003				FY2004				FY2005				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	
Exports (yen basis)		2.7	7.1	4.0	11.7	13.4	12.5	8.6	1.5	-4.1	-4.7	2.9	6.9	
	Volume	2.6	2.3	7.3	13.1	13.9	11.6	4.4	0.4	-2.7	-2.2	0.9	4.3	
Imports (yen basis)		6.4	6.6	-0.5	4.3	9.0	13.0	15.1	7.2	1.3	-2.5	-1.3	4.9	
	Volume	8.4	5.0	7.1	9.0	6.7	6.6	5.4	1.3	0.4	-1.3	-1.3	2.3	
Exports surplus (trillion yen)		2.4	2.7	3.2	3.0	3.2	2.9	2.7	2.4	2.4	2.5	3.3	2.8	

【Income and Employment】

		FY2003				FY2004				FY2005				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	
Cash earnings of employees (per capita)		0.6	-1.7	-1.3	-1.7	-1.1	-0.2	-0.3	-0.5	-0.7	-0.8	-1.0	-0.7	
	Regular compensation*	-0.5	-0.6	-1.0	-0.6	-0.8	-0.8	-0.6	-0.7	-0.8	-0.9	-1.0	-0.9	
	Overtime compensation	1.1	2.7	3.6	5.6	5.5	5.6	2.0	1.0	-2.5	-1.0	0.0	2.5	
Number of employees		0.3	-0.2	0.3	0.4	0.7	0.4	0.6	0.4	-0.1	-0.2	-0.5	-0.3	
Compensation of employees*		1.0	-1.3	-0.4	-3.6	0.2	-0.4	0.3	0.0	-0.6	-0.7	-1.1	-0.8	
Unemployment rate		5.4	5.1	5.1	4.9	4.6	4.8	4.6	4.9	4.9	5.0	5.0	4.9	

【New Housing Starts】

		FY2003				FY2004				FY2005				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	
New housing starts(*)		119.8	112.0	117.5	120.8	115.5	122.5	119.2	118.9	117.2	116.6	116.9	117.6	
(change from the previous year)		2.2	-0.6	3.2	5.4	-3.7	9.4	1.5	-1.5	1.4	-4.8	-2.0	-1.1	
	Owner-built housing	39.2	37.9	35.7	36.1	36.8	40.1	36.4	36.1	35.8	35.7	35.7	36.1	
	Rental housing	47.7	42.2	45.0	49.5	44.6	46.2	45.5	46.5	46.4	46.2	44.9	45.6	
	Built-for-sale housing	32.5	31.4	35.3	34.3	33.6	35.9	36.0	35.2	34.9	34.4	35.1	34.8	
		0.8	2.5	9.8	9.4	3.1	14.1	1.9	2.6	3.9	-4.0	-2.4	-1.1	

* Seasonally adjusted annual rate