

*November 2004*

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



***Economic Research Department***

## **1. Current State of Japan's Economy and Summary of the Outlook**

### **(1) Current State of the Japanese Economy**

During the July–September quarter of 2004, Japan's real GDP was virtually level with the April–June period, rising 0.1% from the previous quarter (an annualized growth rate of 0.3%). The July–September period therefore just barely qualified as the sixth consecutive quarter of expansion. However, signs of a slowdown are emerging in the external and corporate sectors, which have been the driving forces for the economy, and GDP growth has weakened after reaching a peak of 1.9% quarter-to-quarter growth during the October–December period of 2003.

By major component of demand, private final consumption remained firm, rising 0.9% from the previous quarter, despite a relatively gradual rise of only 0.1% in workforce compensation. Private housing investment also remained firm, increasing 0.2% above the previous quarter, supported by starts of built-for-rental and built-for-sale homes.

On the other hand, in the corporate sector, private capital investment has begun to decline, falling 0.2% from the previous quarter, and private inventory investment also made a negative contribution to GDP growth. Government public investment continues on a downward trend, slipping 4.2% from the previous quarter. Even combined with increasing government final consumption, public-sector demand as a whole continues to make a negative contribution.

Turning to the external sector, exports were up 0.4% for the quarter, lower than the 3% to 5% growth rates recorded over the past year, while growth in imports is continuing at about the same pace, expanding 2.7% over the previous quarter. As a result, the contribution of the external sector was minus 0.2 percentage point, the first negative figure in eight quarters.

Nominal GDP was virtually level with the previous quarter, showing a change of only +0.0%, but this represented an improvement compared with the April–June quarter of 2004, when nominal GDP was down 0.4%. In addition, the margin of decline in the GDP deflator, which reflects price trends, is showing a shrinking trend, falling 2.1% from the same period of

the previous year, mainly as a result of trends in prices of goods and services included in government consumption and private capital investment. The margin of decline in the deflator for domestic demand in particular has shown a shrinking trend now for two consecutive quarters and was down 1.6% for the July–September quarter, suggesting that deflationary pressures may be receding.

## **(2) Key Features of the Economic Outlook**

The economy is slowing, but does this mean it will move into recession? Or will it pause temporarily and continue to recover later? Opinions are divided on this issue. When considering prospects for the economy, three closely related issues should be considered. Depending on one's views regarding these three issues, views of future prospects will vary.

### **(a) Cyclical Factors Restraining Growth**

The recent slowdown in the economy has been influenced by the restraining impact of the cyclical slowdown in demand for digital appliances and related items. Thus far, expansion in demand for DVD recorders, flat-screen TVs, and other digital appliances, along with demand for related parts, including semiconductors and LCDs, has propelled expansion in exports, production, investment, and private consumption, thus providing positive impetus for the recovery. However, signs of slower growth in demand for digital appliances are emerging and interest is rising in how much demand will slow and how long the slowdown will last. If the deceleration and adjustment periods are as prolonged as developments following the collapse of the IT bubble in 2000, the economy may move into recession.

For the purposes of our forecast, we have assumed that the adjustment in the digital appliance field will continue through mid-2005, but that it will not be as serious as events following the IT bubble. Manufacturers have benefited from the lessons of the days of the IT bubble, when speculative demand far in excess of actual demand left them with large inventories. This is because we believe that manufacturers are currently avoiding the buildup of inventories.

Slowdown in the world economy involving demand for digital appliance and related items will have a negative impact on the Japanese economy. The recovery in the global economy is largely responsible for strong conditions in the basic materials industries, including steel and chemicals, as well as automobile exports. Exports to the rest of Asia, especially to China, are expanding rapidly. However, in the United States the economy may slow, as the positive effects of the major tax cut and historically low interest rates run their course. In addition, growth in China may also slow as a result of policies implemented to reign in the economy.

In preparing our outlook, we have forecast that the slowdown in the world economy will be a factor restraining Japan's exports, domestic production, corporate earnings and private capital investment. There is also a risk that the slowdown in the world economy may be more serious than expected. For example, one possible scenario is that the Chinese economy may experience a hard landing. In that case, there is a strong possibility that the Japanese economy will slip into recession.

### **(b) Structural Factors Boosting Growth**

While there are cyclical factors restraining the economy, there are also structural elements that are tending to boost growth. These are the improvement in the financial positions and profitability of corporations. The majority of corporations are near to achieving the objectives they set after the collapse of the bubble economy, namely to improve their balance sheets by lowering their personnel expenses and reducing excess capacity and liabilities. As a result, even if shipments and production decline, these corporations are positioned to maintain higher profitability than before. In addition, because corporations have made progress toward eliminating excess capacity, even if capital investment declines, the drop will probably not be as sharp as it has been in the past.

Even if the digital appliance and related fields experience a slowdown, provided other sectors hold firm, the economy should be able to show some growth. In that case, the slowdown in the economy will not be so steep. In preparing our forecasts, we believe that although the cyclical factors will

have a decelerating effect on the economy, the structural factors, namely the improvement in corporation financial and operating positions, will take hold and prevent a serious deceleration in the economy.

### **(c) Potential Sources of Uncertainty**

Since positive structural factors will come into play, previous concerns about a steep downturn in the economy appear to be receding. As a matter of fact, the income environment is not so favorable, but because of the salubrious effect of the general perception that the Japanese economy has moved out of the worst phases, private consumption and residential investment are remaining firm and providing support for the economy. However, even though corporate earnings power has improved and is also helping to boost the economy, unlike periods in the past, improvement in corporate earnings is not expected to lead directly to improvement in household incomes. This is because of the strong restraints most corporations have placed on their personnel costs.

The lackluster performance of individual incomes is a potential source of uncertainty. Depending on one's point of view, the improvement in corporate financial and operating positions that is tending to boost the economy may be a potential factor contributing to slow growth in individual incomes. If the slow growth in incomes continues, there is concern regarding how long can we expect private consumption to expand. Even if economic recovery continues, it may be difficult for the economy to move onto a path of robust recovery.

In our forecast, we are looking for consumption to continue to be firm going forward. At present, the propensity to consume is rising as the number of dissaving elderly population increases and other segments of the population use some of their savings to maintain their standards of living. However, the economic slowdown and deterioration in employment conditions may cause a decline in consumer confidence, thus restraining personal consumption.

Taking all three of the above-mentioned factors into account, the

Japanese economy (1) may experience a decline in exports, production, and capital investment as cyclical factors restrain growth and this leads to a 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 the improvement in the global economy. In the interim, private consumption may gradually increase. Nevertheless, consumption and other household activities (3) 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 worst period and that consumption will remain firm for the time being.

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

### **(1) Assumptions Underlying the Forecast**

We have made the following assumptions in preparing this forecast.

#### **(a) World Economy**

The U.S. economy is continuing to grow, but the pace of expansion is declining. Growth of more than 4% continued through the January–March quarter of 2004, but the rate of expansion moved into the 3% to 4% range in the April–June and July–September quarters. Going forward, through mid-2005, the U.S. economy is expected to move into a period of adjustment as the positive effects of the tax cut run their course, higher oil prices exert a negative influence, and the low interest rate policy comes to an end. However, as a result of the improvement in the employment and income environments, private consumption is expected to remain firm. In addition, since current inventory levels are relatively low, the chances of a major adjustment in production appear to be small. Therefore adjustment pressures will be mild, and, after a mini-adjustment, the U.S. economy is expected to resume recovery after mid-2005.

The eurozone has continued to show recovery led by the external sector

since the July–September quarter of 2003. Exports to the United States, China, and Eastern Europe are strong and production in the manufacturing sector is continuing to expand. However, improvement in the employment environment is lagging and little progress has been made toward increasing consumer confidence. As a result, private consumption remains lackluster and domestic demand stagnant. Looking forward, if the contribution of the external sector weakens as the economies of the United States and China slow, the eurozone is viewed as likely to move into an adjustment period before domestic demand attains full-scale recovery. From the latter half of 2005 onward, along with the recovery in the world economy, led mainly by the United States and China, the economies of the eurozone are expected to begin to expand again.

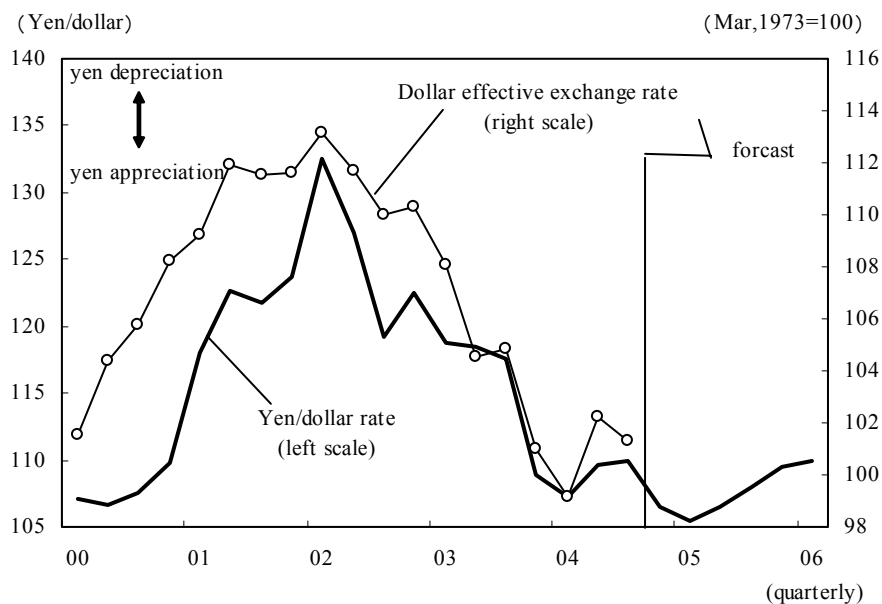
In Asia, fast-paced economic expansion is continuing, especially in China, but a slowdown is anticipated. In China, among local companies and regional governments the drive to invest remains strong. Measures to restrain investment, mainly government guidance, are likely to be strengthened. As a result, the moderate slowdown in the economy is expected to continue through the first half of 2005; however, beginning in the latter half, a recovery of the drive to invest fueled by expectations regarding the upcoming next five-year plan, along with recovery in the world economy are expected to combine to bring an acceleration in the Chinese economy. In Korea, Taiwan, Thailand, and other Asian countries, there are already signs of a slowdown due to the deceleration of exports and the effects of high oil prices. Through mid-2005, this slowdown is expected to become more pronounced, but in the latter half these economies are expected to experience an upturn as exports gain momentum along with the recovery in the world economy.

### **(b) Exchange Rates**

From April 2004, the yen/U.S. dollar exchange rate was fluctuating around ¥110 to the dollar; from October, however, the dollar began to weaken, and the exchange rate has been fluctuating around ¥105 to the dollar. Although the U.S. current account deficit and the slowdown in the economy will tend to weaken the dollar, there is concern among market

participants that Japan's monetary authorities may intervene if the yen remains strong. Since a slowdown in the Japanese economy will be a factor likely to weaken the yen, we expect the yen/U.S. dollar exchange rate to remain virtually level. In 2005, because concerns will arise about the weakness of the Japanese economy, we expect the yen will become somewhat weaker, but major movements in the yen's value are unlikely.

### Exhibit 1: Outlook for Yen-Dollar Exchange Rate



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

### (c) Crude Oil Prices

WTI futures prices are on a rising trend due to recovery in the world economy, rapid growth in the Chinese economy, and uncertainties regarding supplies from oil producing countries, including Middle Eastern nations. Moreover, because of the effects of hurricanes in the latter part of October, crude oil production in the United States declined, leading to concerns about oil supplies for heating during the winter months. As a consequence, futures prices leapt to more than \$55 a barrel, the highest level in history. At present, however, inventories in the United States are recovering and the view has emerged that demand growth will slow as a result of the tightening of monetary policy in the United States and China. This has led to a drop in prices to under \$50, and it seems likely that the

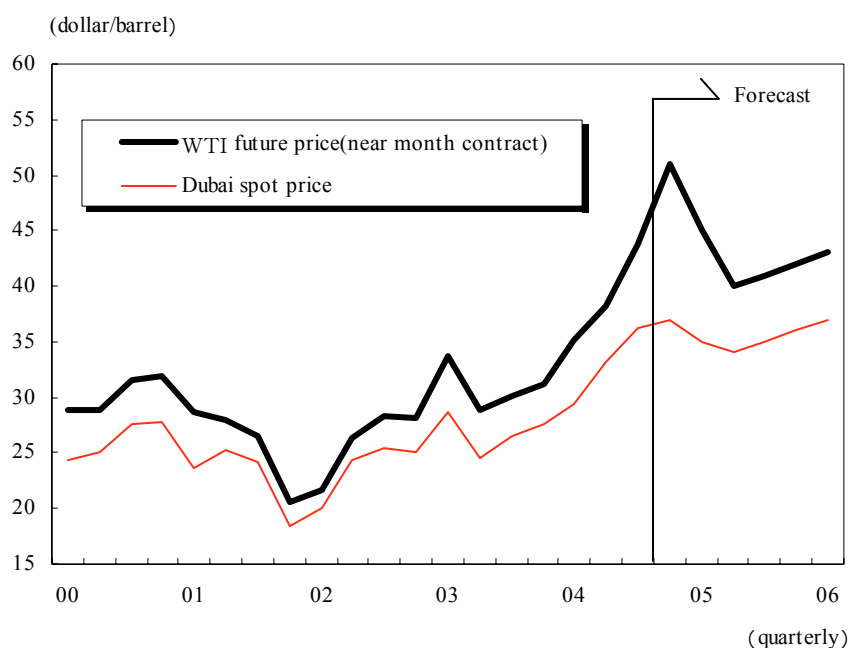


\$55 registered in the latter part of October will be the peak in WTI futures prices for the time being.

Looking forward, investments in oil development are gradually beginning to come on stream and supply capacity is rising. On the other hand, as the world economy is expected to slow during the first half of 2005, prices seem likely to remain on a declining trend. However, the adjustment in the global economy is expected to be mild, and a decline in prices is very likely to cause OPEC to cut production. Accordingly, a large drop in prices is not expected. Moreover, in the latter half of 2005, the world economy will again move toward recovery, bringing increases in crude oil prices.

Note that the Dubai spot oil price, which is the indicator for Japan's crude oil imports, is diverging from the WTI crude oil price because of conditions in a specific region, namely demand-supply tightness in the United States. However, if demand-supply loosen in the United States, the difference between WTI and Dubai crude prices will diminish.

**Exhibit 2: Outlook for WTI Crude Oil Price**



#### **(d) Government Fiscal Policy**

In Japan's national government budget for fiscal 2004, public works related expenditures were cut 3.5% from the previous fiscal year. Regional governments also cut their budgets for projects undertaken on their own initiative by 9.5% from the previous year and reduced the total figure for all expenditures of an investment nature by 8.4%. However, no comparable restraints have been imposed on government outlays for social welfare. Expenditures for health care borne by the national treasury in fiscal 2004 are scheduled to rise 4.8% from the previous year, and nursing insurance benefits are set to rise 14.9%.

For the fiscal 2005 budget, the government has established a general guideline calling for further cuts of 3% from the previous fiscal year. In addition, regional governments are expected to further cut their budgets for projects undertaken on their own initiative by 5.7% and reduce total expenditures of an investment nature by 4.7%.

In early calendar 2005, the government is expected to prepare a supplementary budget for fiscal 2004 to deal with the aftereffects of the Niigata Chuetsu Earthquake, typhoons, and other natural disasters. The budget needed for restoring roads, port equipment, public facilities, and other infrastructure is believed likely to be smaller than that required after the Great Hanshin Awaji Earthquake and is expected to amount to several hundred billion yen for public works. We assume that the government will not pass supplementary budgets containing additional allocations for public works in fiscal 2005.

Regarding social welfare payments, we assume that no major changes, such as alterations in the percentage of social insurance payments borne by individuals, will be made that might result in major reductions in such payments borne by the government. These expenditures are forecast to continue to rise in fiscal 2005 at about the same pace as in fiscal 2004.

### **(e) Monetary Policy**

In its *Outlook for the Economy and Prices*, issued in October 2004, the Bank of Japan (BOJ) indicated its awareness that the economy is continuing to recover. Regarding prices, the BOJ expressed the view that the core portion of consumer prices would remain below the levels of the previous year throughout fiscal 2004, but, in fiscal 2005, is forecasting slightly higher levels compared with the previous year. However, going forward, the BOJ expressed strong concern about the risk of an economic downturn and gave no hint that it might end its policy of quantitative relaxation of monetary policy in the near future.

The BOJ has announced that the condition for suspending this policy will be “when the core portion of the consumer price index (CPI) rises and remains stable above 0% in comparison with the previous year.” We do not believe the CPI will satisfy this condition during the forecast period and assume the quantitative relaxation policy will continue to be in effect.

Moreover, we believe that stability in the financial system will be an important condition for suspending the currency policy. Instability in the financial system has quite likely been avoided as a result of the provision of liquidity through monetary relaxation. In this sense, other conditions for the suspension of monetary relaxation will be (1) the confirmation of the condition imposed by the Financial Services Agency, as part of its program for financial revitalization, that leading banks reduce the percentage of their nonperforming loans by half the previous level by March 31, 2005, and (2) the removal of blanket government guarantees on bank deposits as scheduled by April 2005.

### **(2) Economic Outlook for 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 2.7% real GDP growth for fiscal 2004, the third consecutive year of positive growth. We are also forecasting GDP expansion in nominal terms of 0.8%, the second consecutive year of

positive growth. However, the economy is gradually decelerating and we believe signs of adjustments in the economy will become increasingly pronounced in the latter half of the fiscal year.

Thus far, exports and private capital investment have been the drivers of economic recovery, but now both show signs of slowing. In addition, private consumption is holding firm, but slow growth in wages is expected to persist and this is likely to bring a slowdown in the pace of consumption. Private residential investment is also holding relatively firm, supported by built-for-rental and built-for-sale housing. Although a slowdown is expected in the second half of fiscal 2004, the number of housing starts on an annual basis will be higher than for the previous fiscal year. Government consumption expenditures will continue on a rising trend because of growth in health care and nursing costs, but public works investment will continue to decline.

Downward pressures on prices are easing. Domestic corporate prices are now above previous year levels, reflecting higher costs of raw materials. Looking ahead, as a result of the peaking out of crude oil and other international commodity prices, the rate of increase in domestic corporate prices is expected to slow. In addition, consumer prices are slightly below the levels of the previous year. The CPI appears to have reached bottom—following the increases in upstream prices and improvement in the supply/demand balance—and is expected to remain virtually level.

***Outlook for fiscal 2005: Recovery to resume in the second half, the fourth consecutive year of positive real growth***

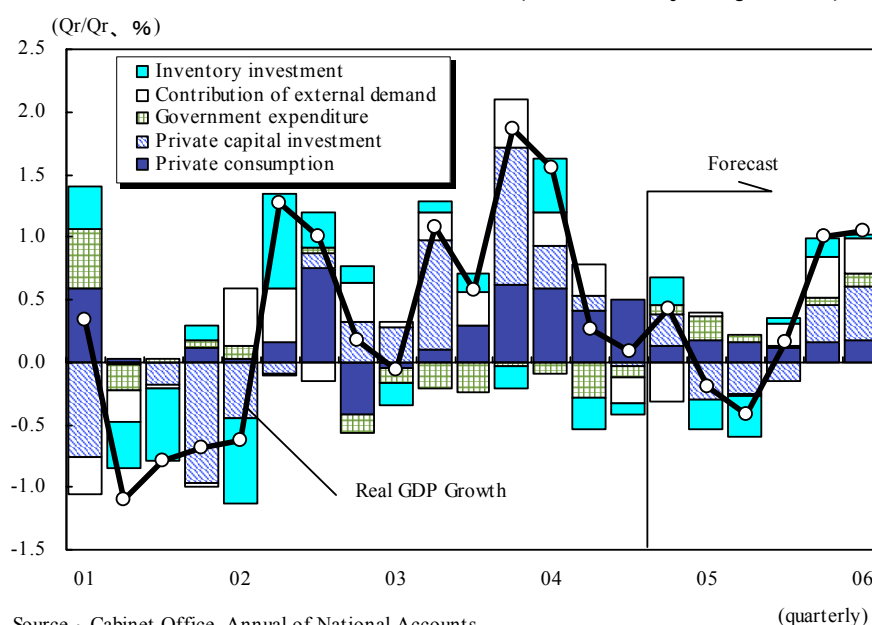
During fiscal 2005, the economic adjustments begun in the previous year are expected to continue, but we are forecasting a bottoming out and improvement in the second half. We are looking for real GDP growth of 0.6%, marking the fourth consecutive year of positive real growth. However, nominal GDP is forecast to decline 0.8%, the first negative growth in three years.

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

Consumption is not expected to show a major increase because improvement in the employment and income environments will lag the recovery in the economy as a whole. However, consumption will 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 improve in the latter half of the fiscal year buoyed by resumption of the economic recovery. Expansion in government consumption expenditures will continue along with the growth in health care and nursing costs. Government public works investment will continue to shrink, but the pace of decline will slow.

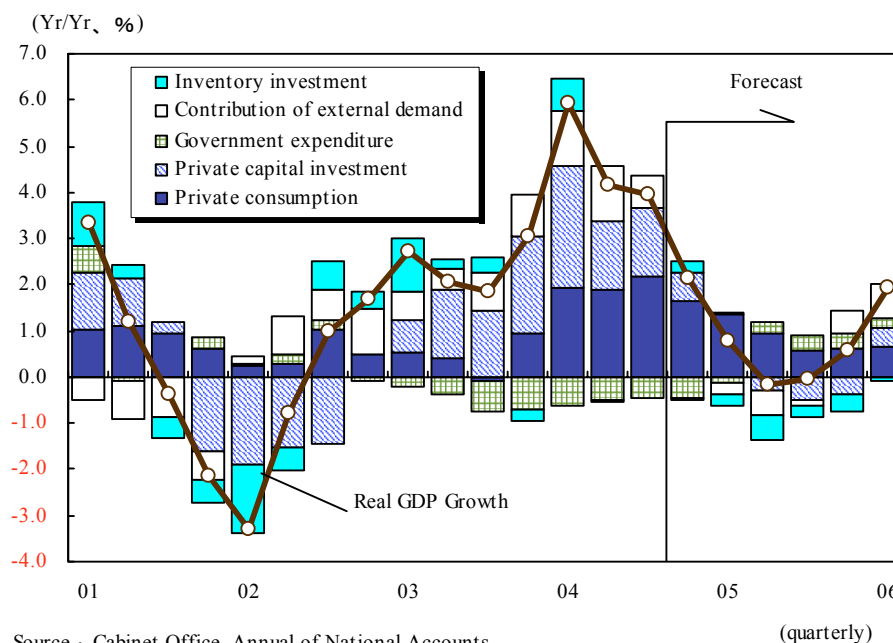
The margin of decline in price levels, both domestic corporate prices and consumer prices, will increase as a consequence of the deceleration of the economy beginning in the latter half of fiscal 2004.

**Exhibit 3: Real GDP Growth (seasonally adjusted)**



Source : Cabinet Office, Annual of National Accounts

### Exhibit 4: Real GDP Growth



## 3. Outlook by Demand Component

### (1) External Demand: Exports to decline through the first half of fiscal 2005

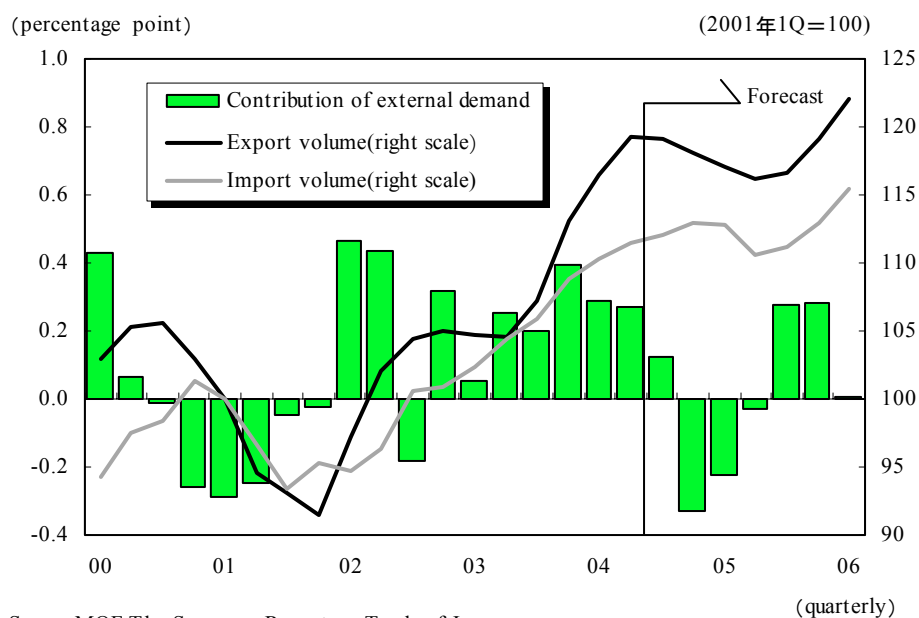
Export volume showed continued to increase with the recovery of the global economy, but leveled off in the July–September quarter. Demand for digital appliances and related goods appears to have peaked, and exports of semiconductors and other electronic parts have lost momentum. Through the middle of 2005, economies overseas, principally the United States and China, are expected to slow, and, as a result, exports in volume terms are forecast to begin to decline. From mid-year onward, however, overseas economies are likely to strengthen, and exports will resume their upward trend.

Thus far in fiscal 2005, imports in volume terms have expanded and have mainly comprised goods from other countries in Asia, but, as Japan's economy begins to stagnate, production will decline, and imports, mainly of raw materials and intermediate goods, are expected to begin to decline.

During the latter half of fiscal 2005, domestic demand will strengthen along with the recovery in the economy, and imports are forecast to begin to rise again at that time.

An examination of the contribution of external demand (which equals exports of goods and services minus imports of goods and services) to GDP growth on a quarterly basis shows that after turning negative in the July–September quarter of 2004, external demand will make virtually zero contribution in the first two quarters of calendar 2005, but will begin to contribute again in the latter half of the year.

**Exhibit 5: Outlook for Trade**



**(2) Corporate Sector:** Adjustments to continue through the first half of fiscal 2005

**(a) Production:** Has already begun to decline

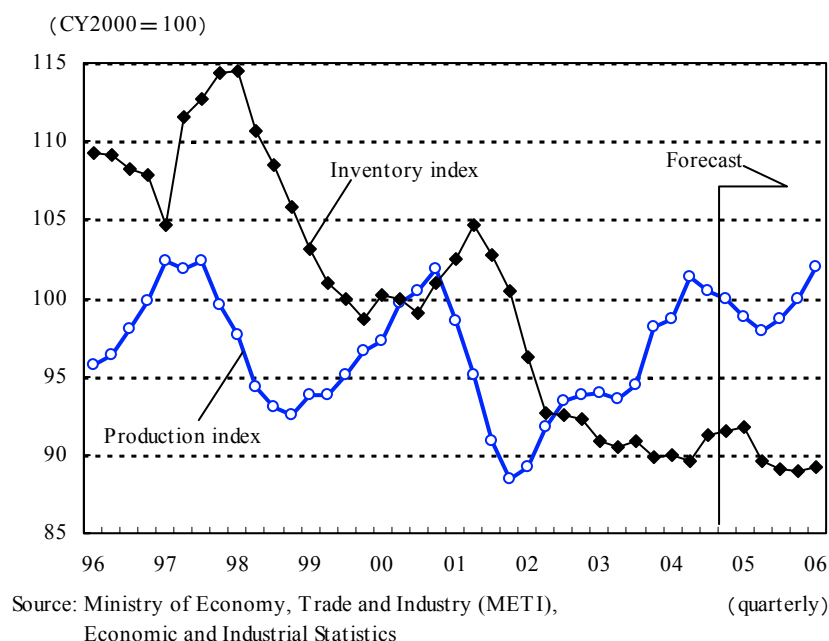
Production in the July–September quarter dropped 0.7%, for the first decline in five consecutive quarters. A declining trend may already have set in because exports, which were expanding, have begun to decelerate and, in

the digital appliance and related industries, demand has paused and inventories are rising. Production of investment goods, which remains firm at present, will probably see sustained momentum through early spring 2005. According to the forecast index for industrial production, growth of 0.9% over the previous month is expected in October and expansion of 1.6% in November, but recent actual growth rates have tended to diverge downward from forecast rates; therefore, we do not expect growth will meet forecast levels.

The slump in production will persist through the first half of calendar 2005. Factors restraining output levels will be the decline in exports accompanying the slowdown in the U.S. and other economies, continuing adjustments of inventories now built up in the semiconductor and other electronic parts industries, and a temporary pause in capital investment activities.

Nevertheless, the adjustment in production is expected to be relatively mild because inventory levels are low. In mid-2005, as overseas economies strengthen and exports begin to recover, expansion in production is expected to resume.

### Exhibit 6: Outlook for Industry Production

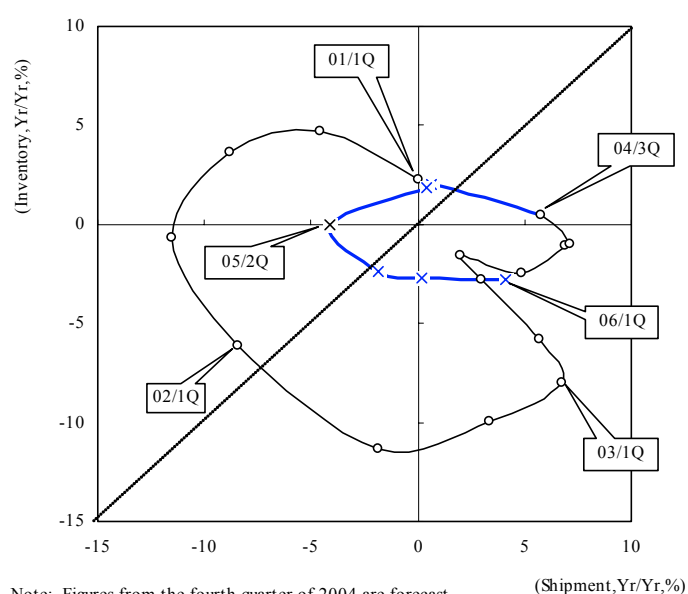




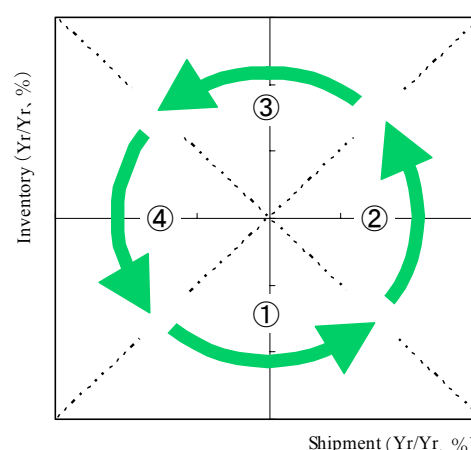
Inventory levels showed consecutive month-to-month rises in August and September, and companies are moving into a period of unintended inventory investment. The principal reason for the rise in inventories is a pileup in stocks of IT-related goods, including semiconductors, as demand has weakened. Since IT-related industries have been a driving force for expansion in output, the adjustment in inventories in this sector may have an impact on production as a whole. As a result, the industrial sector will probably enter an inventory adjustment phase toward the beginning of calendar 2005.

However, since companies did not aggressively build up their inventories during the recovery this time, as they have in past recovery periods, inventory levels are relatively low. Also, if we exclude IT-related goods, the inventory buildup has been relatively small. Accordingly, the adjustment is expected to be mild and will not have a major depressing effect on production levels as a whole. As the accompanying inventory cycle graph shows, the size of the cycle this time is likely to be smaller than during the previous adjustment phase. We expect inventory adjustments to be completed in the latter half of fiscal 2005.

### Exhibit 7: Inventory Cycle Movements



Note: Figures from the fourth quarter of 2004 are forecast  
Source: Ministry of Economy, Trade and Industry (METI),  
Economic and Industrial Statistics



- ① the phase of unintended inventory decrease
- ② the phase of intended inventory investment
- ③ the phase of unintended inventory investment
- ④ the phase of inventory adjustment

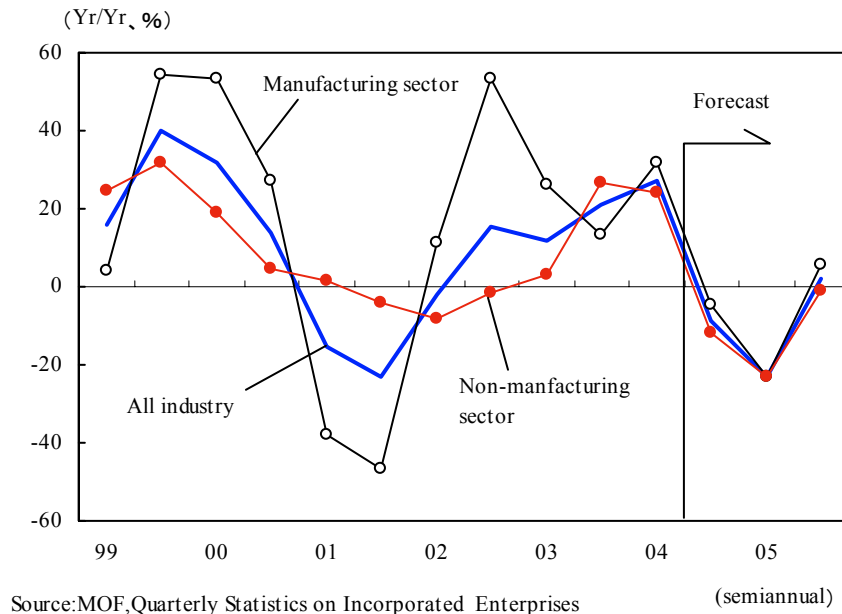
**(b) Corporate Profitability:** Expect gradual deterioration, with declines to continue through the first half of fiscal 2005

Corporate profitability has been strong until recently, supported by robust exports and recovery in private consumption. In the manufacturing sector, shipments, especially of capital goods and such IT-related products as digital appliances, have held firm, and sales have expanded steadily. Moreover, current profits have also been on a rising trend, in part because of the positive effects of restructuring, including reduction in liabilities and personnel costs. In the non-manufacturing sector as well, sales and current profits have been expanding because of the improvement in private consumption and increased corporate activities.

Nevertheless, the environment for profitability is expected to deteriorate. Overseas economies are expected to decelerate and Japan's exports are forecast to decline. These developments are likely to put a brake on shipments of IT-related and capital goods, which have held firm thus far, and restrain sales growth. In addition, as a result of rising crude oil and other international commodity prices, the terms of trade have worsened. The impact of this development is expected to appear in the latter half of fiscal 2004 and subsequently and place pressures on corporate profitability. Moreover, the positive impact of restructuring measures is expected to run its course and rising depreciation charges owing to increased private capital investment in previous periods will also place downward pressures on profitability. For these reasons, current profits are forecast to begin to decline in the latter half of fiscal 2004 in both the manufacturing and non-manufacturing sectors.

The margin of decline in profits is likely to become more pronounced in the first half of fiscal 2005, but most corporations now have strong financial positions that will enable them to show profits even if sales weaken. Therefore, corporations are expected to be able to avoid a major downturn in profitability. As we approach the end of fiscal 2005, however, we expect oil prices to restore stability, exports to begin to expand again, and domestic demand to regain momentum. As a result, we are forecasting that profitability also will bottom out and begin to recover.

### Exhibit 8: Outlook for Corporate Performance



**(c) Private Capital Investment:** Will remain relatively weak through the first half of fiscal 2005

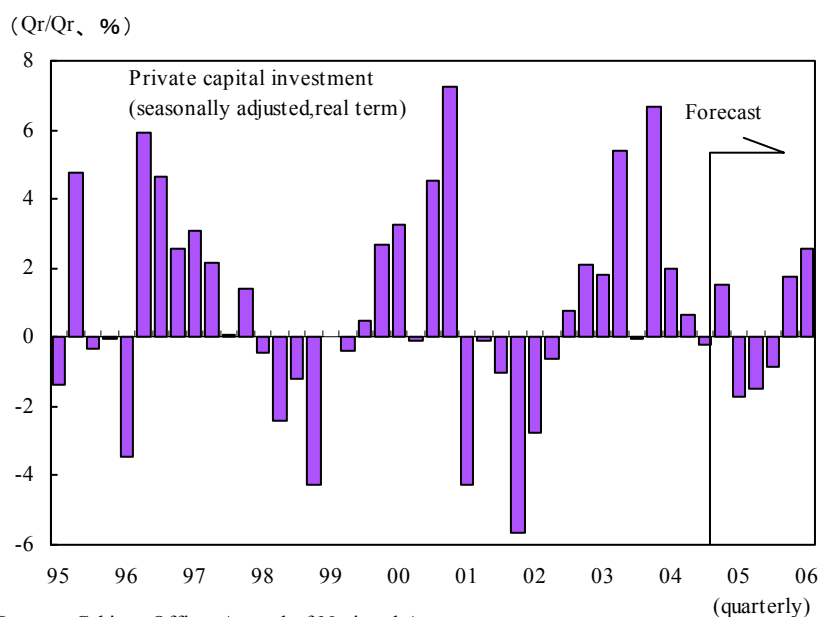
Although private capital investment has continued strong thus far, it fell below the level of the previous quarter for the July-September period of 2004 and shows other signs of losing momentum. Private-sector orders for machinery and equipment (excluding orders from the shipping and electric power industries), which are a leading indicator for capital investment, fell 8.4% from the previous quarter in the July-September period. The outlook is for only a slight increase of 1.8% in the October-December quarter.

Looking ahead, corporate profitability is expected to weaken and, after more than two years of expanding their capital investments, corporations appear to have attained their objectives for new equipment and facilities. Therefore, we believe capital investment will remain stagnant through the first half of fiscal 2005.

However, if the decline in production is relatively small and, if the economic slowdown has only minor effects on corporate performance, the decline in private capital investment will not last long. Instead, we are

looking for investment to begin to recover in mid-fiscal 2005 as corporate performance stages a comeback. In addition, the growing sentiment among corporations that current stocks of plant and equipment are not excessive will also be a factor making the slowdown in investment short-lived.

### Exhibit 9: Private Capital Investment

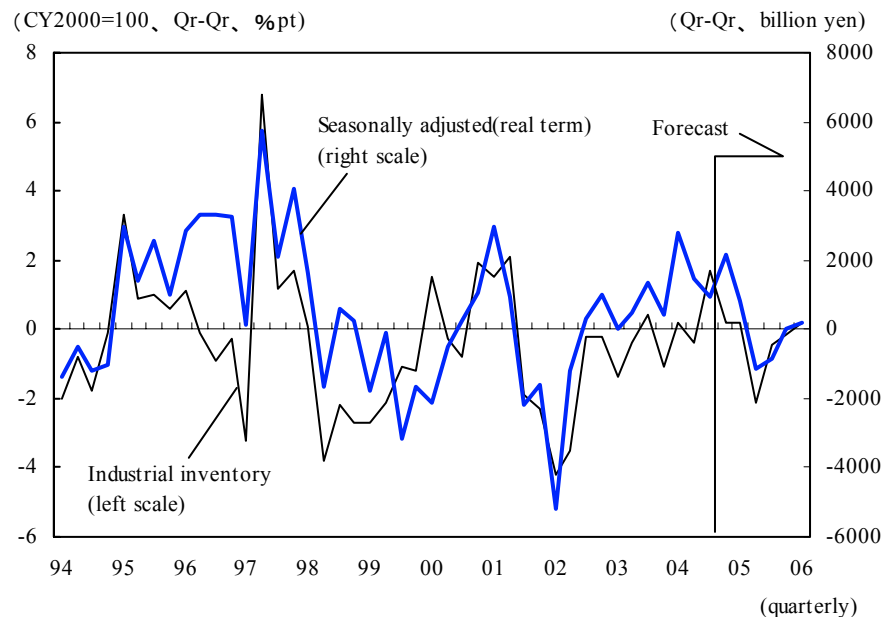


#### (d) Private Inventory Investment: Moving into an adjustment phase

The contribution of private inventory investment to real GDP growth declined for two consecutive quarters through the July–September period of 2004, reflecting the cautious attitude of corporations toward building inventories. However, as corporations will move into a phase of unintended inventory investment in the latter half of fiscal 2004, the contribution to GDP growth will turn positive. Accordingly, for fiscal 2004 as a whole, the contribution of private investment is expected to be virtually zero.

The current inventory adjustment is expected to end during the first half of fiscal 2005, but after adjustments have been completed, corporations are expected to remain cautious about stockpiling inventories. As a result, the contribution of inventory investment in fiscal 2005 as a whole is likely to be negative.

### Exhibit 10: Inventory Investment



Source: Cabinet Office, Annual of National Accounts, Ministry of Economy, Trade and Industry (METI), Economic and Industrial Statistics

### (3) Household Sector

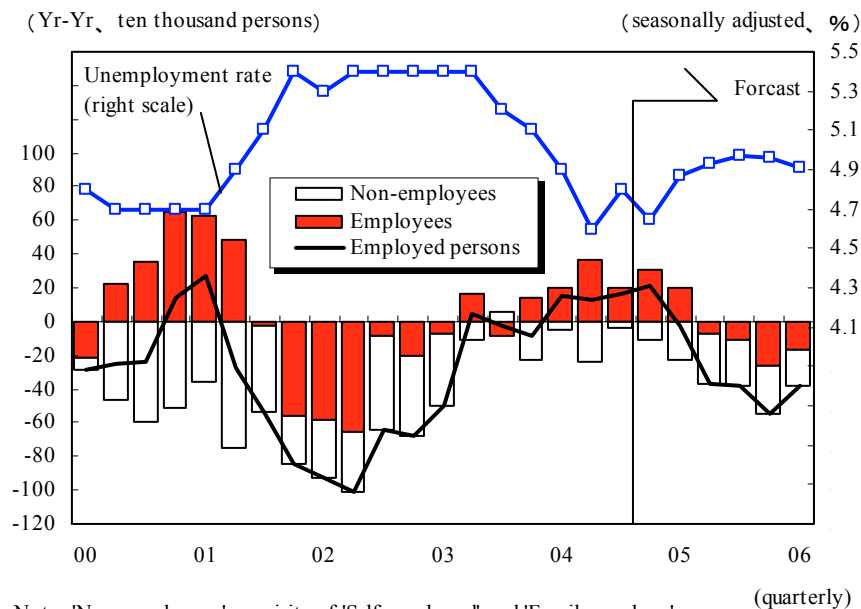
#### (a) Employment: Conditions to deteriorate again in fiscal 2005

The number of employed persons is increasing along with the economic recovery and completion of restructuring measures for the time being. Since the number of employed persons lags behind recovery in the economy, the increasing trend may continue for the time being. However, as the slowdown in the economy becomes more pronounced moving into fiscal 2005, the number of employed persons may begin to decline. On the other hand, the number of people in other categories of labor, including self-employed persons and family workers, are showing signs of bottoming out at present, but as the economy decelerates, these categories are expected to resume a declining trend. For these reasons, the number of people in the workforce is expected to show a rising trend in fiscal 2004, but then begin to decline in fiscal 2005.

The unemployment rate declined temporarily to 4.6%, but since then has fluctuated, as the number of people seeking work has increased along with

the improvement in labor market conditions. The unemployment rate is expected to begin to rise again as the economy slows in the coming months.

### Exhibit 11: Employed Persons and Unemployment Rate



Note: 'Non-employees' consists of 'Self employed' and 'Family workers'.

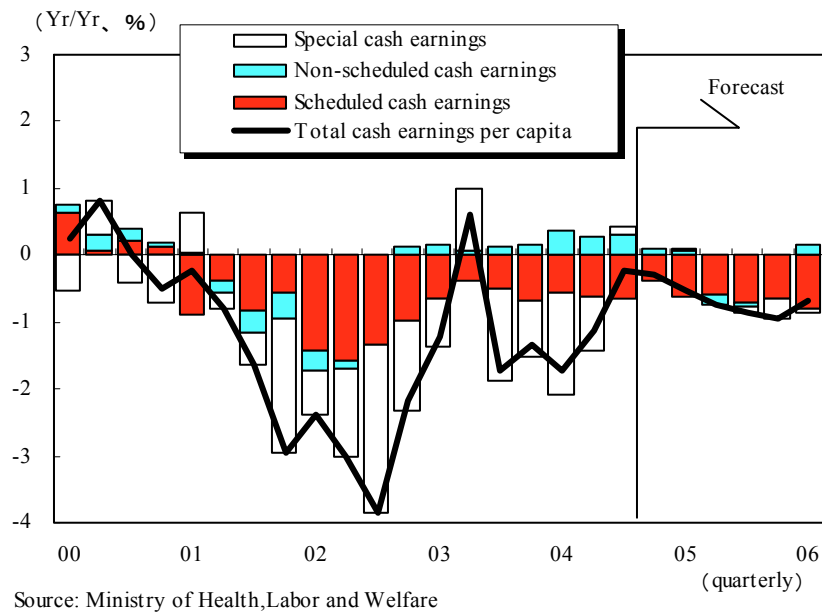
Source: Ministry of public Management, Home Affairs, Posts and Telecommunications, Labor Force Survey

**(b) Incomes:** No major improvement expected, and the margin of decline may expand in fiscal 2005

Unscheduled compensation is continuing to rise accompanying recovery in production. However, scheduled compensation is continuing to decline because of the impact of the rising percentage of part-time workers. In addition, wage growth remains weak because of the adverse effects of a 1.2% decline in summer bonuses and other factors.

We anticipate that the rate of decline in per capita wages compared with the previous year may accelerate as the lackluster trend in scheduled compensation combines with the beginning of a decline in unscheduled compensation as production levels decline.

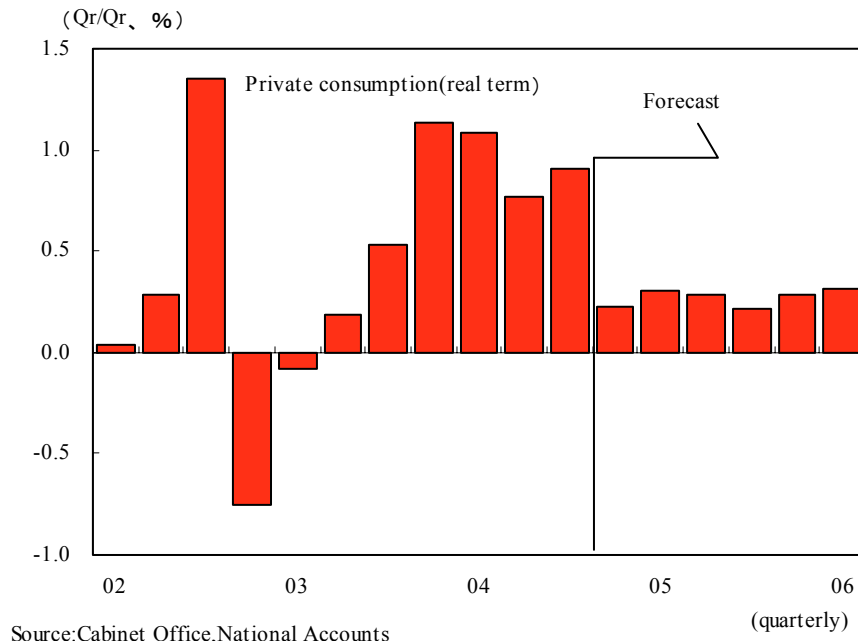
**Exhibit 12: Cash Earnings of Employees**



**(c) Private Consumption:** Growth will weaken in fiscal 2005 as the employment and income environments deteriorate.

Consumer spending continues firm, supported in part by the effects of improvement in the employment environment. However, as wages continue to show little improvement, it will likely be difficult for consumption to sustain a high rate of growth in the coming quarters. In addition, in the October–December quarter a reactionary decline is expected following the surge in purchases of digital appliances that accompanied the 2004 Olympics. As signs of adjustment in the economy become increasingly prominent in the first half of fiscal 2005 and the employment and income environments deteriorate, the momentum of increase in consumer spending is expected to weaken. In the latter half of fiscal 2005, consumption may regain momentum as the economy bottoms out and begins to recover. However, improvement in employment and income conditions will lag recovery in the economy as a whole, and, as a result, consumer spending is not expected to show major expansion but a relatively low rate of growth.

### Exhibit 13: Real Private Consumption



**(d) Private Residential Investment:** Housing starts to be relatively firm in fiscal 2004, but experience a slowdown in fiscal 2005

The number of new housing starts during the July–September period was up 9.4% from the same quarter a year earlier (representing an annualized rate of 1.225 million units). This substantial increase reflected in part a surge in demand prior to the scaling back of the tax breaks for new housing that is scheduled for December 2004. The increase is the highest attained since 2000, at the height of the IT bubble, and the pace of new housing starts is expected to decline along with the slowdown in the economy.

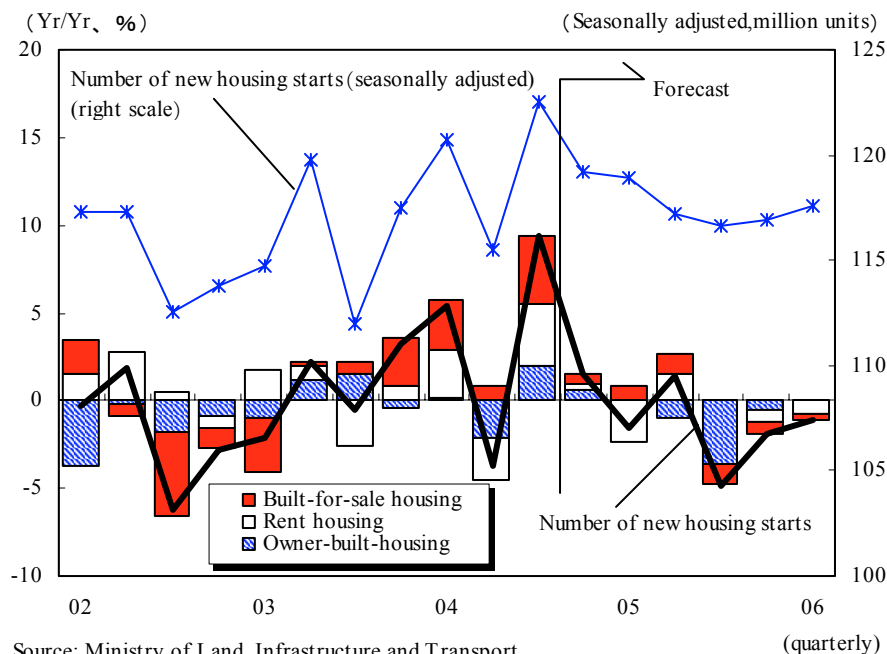
In the latter half of fiscal 2004, a drop in owner-built housing starts is likely due to a combination of factors, including a reactionary decline following the surge in residential investment in anticipation of the scaling back of tax breaks for new housing and the deterioration in the employment and income environments. Nevertheless, built-for-rental and built-for-sale housing starts are expected to remain at relatively high levels. As a consequence, new housing starts for fiscal 2004 are expected to rise 1.4%



from the previous fiscal year, to 1.190 million.

In fiscal 2005, the decline in owner-built housing is expected to continue, while starts of built-for-sale and built-for-rental homes will lose momentum, thus leading to an overall declining trend in housing starts. Although private residential investment is expected to start to strengthen along with the resumption of economic recovery in the latter half of fiscal 2005, total housing starts for the full fiscal year are forecast to decline 1.7%, to 1.170 million.

**Exhibit 14: Outlook for Housing Starts**



#### (4) Government Sector

##### (a) Government Public Investment: Continued decline anticipated

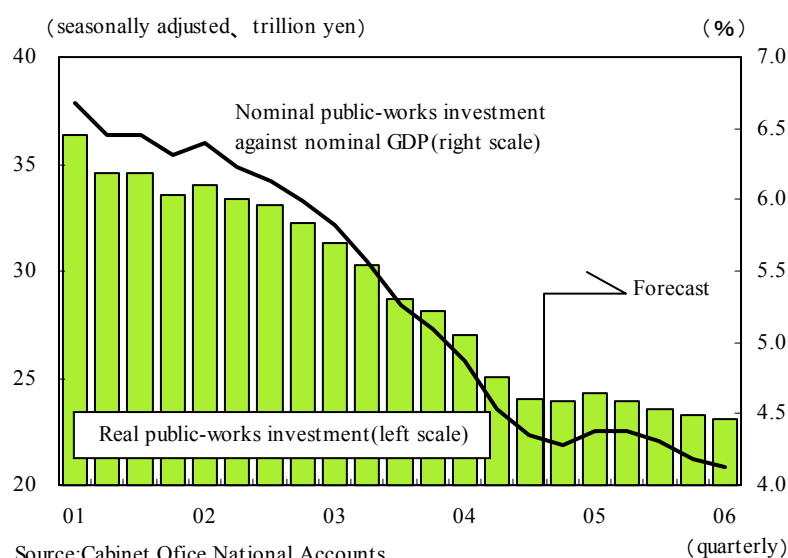
Government public works spending remains on a downward trend. Compared with fiscal 2003, the margin of decline in the national government budget will be smaller in fiscal 2004, but cutbacks by regional governments will be larger. Data for the first half of fiscal 2004 show a decline of 17.1% in public works investment, which is larger than the

reduction in the budget. This acceleration of the drop in government investment spending appears to be due to the more even distribution of expenditures over the fiscal year (versus the previous policy of making more expenditures earlier in the fiscal year) and reduction in spending by public corporations and other organizations. Looking ahead, the rate of decline in public investment is expected to diminish as progress is made toward spending budget allocations, but public investment will remain on a declining trend over the course of the fiscal year.

In fiscal 2005, the reduction in public investment is forecast to continue as a result of cutbacks in government budgets. However, the size of cuts will diminish, and the decline is expected to be milder in comparison with fiscal 2004.

The government is expected to pass a supplementary budget for fiscal 2004 to deal with the aftereffects of the Niigata Chuetsu Earthquake, typhoons, and other natural disasters. Nevertheless, the costs of repairing infrastructure and other disaster relief spending will be less than at the time of the Great Hanshin Awaji Earthquake, amounting to about several hundreds of billion yen, and this will be insufficient to push public investment upward significantly.

### Exhibit 15: Outlook for Public-works Investment

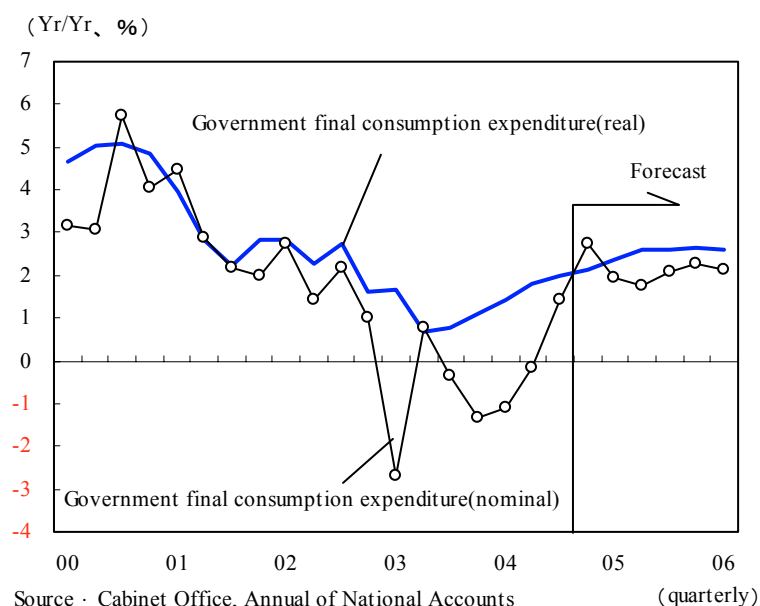


**(b) Government Final Consumption Expenditure:** Increase to continue because of expansion in social welfare related expenditures

The rate of increase in government consumption has continued to rise compared with the same periods of the previous fiscal year after the beginning of fiscal 2004. This is in part because the effects of changes in the health care and benefit systems implemented in April 2003 have run their course. Along with the increase in public welfare insurance payments for medical care and nursing, the value of welfare goods and services provided in kind is also expected to rise. Principally for these reasons, government final consumption expenditures are expected to remain on an increasing trend in fiscal 2004 and fiscal 2005.

Note that since there was a decrease in the salaries of government employees, principally a reduction in the number of months of bonus payments they receive, beginning in the latter half of fiscal 2002, the margin of decline in the deflator for government final consumption expenditures expanded substantially, thus offsetting the impact of the decrease in the salaries. However, steps to reduce the compensation of government employees have paused, with no further changes in monthly salaries or bonuses recommended by the National Personnel Authority in fiscal 2004. Accordingly, the adjustment made using the deflator in the latter half of fiscal 2004 will be minor, and, as a result, nominal expenditures and real expenditures will be virtually identical.

## Exhibit 16: Outlook for Government final consumption expenditure



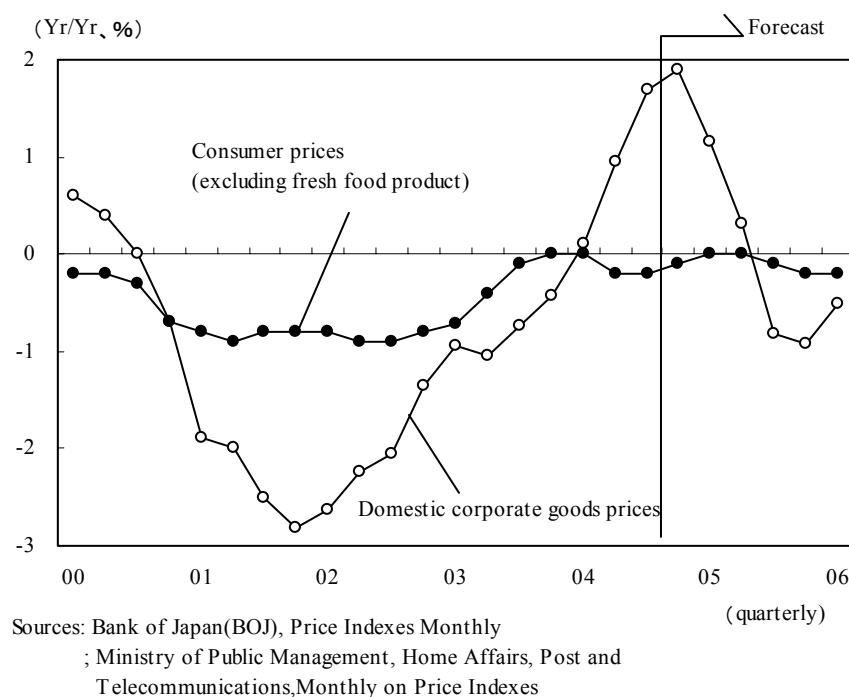
### (5) Prices: Deflationary pressures recede temporarily

Domestic corporate prices have begun to increase as a result of the rising inflationary pressures accompanying the recovery in the economy and higher commodity prices. Although domestic corporate prices are likely to continue to rise for the time being because of higher costs of energy and basic materials, it appears that international commodity prices, including crude oil, have peaked because of concerns about future trends in the world economy. Moreover, looking forward, the outlook is for the rate of increase in domestic corporate prices to slow because of the deflationary impact of the relaxation of the supply/demand balance accompanying the economic slowdown, and in the latter half of fiscal 2005, domestic corporate prices are forecast to fall below the levels of the previous year. Thereafter, moving into calendar 2006, we expect the margin of decline to shrink as the supply/demand balance begins to tighten along with the resumption of economic recovery.

Consumer prices are currently slightly below the levels of the previous year, but have virtually stopped declining because of the rise in domestic corporate prices and improvement in the supply/demand balance. We

anticipate that consumer prices will remain at approximately the same level as during the previous year for the time being, but, in fiscal 2005, the margin of decline in consumer prices compared with the previous year may widen as a result of the relaxation of the supply/demand balance along with a slowing of the economy and the effects of slower rates of increase on domestic corporate prices.

**Exhibit 17: Outlook for Prices**



*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.*

## 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 0.0	-0.0 -0.3	0.8 0.3	1.0 3.2	-0.4 1.3	0.0 1.7	0.3 0.7	-0.6 -0.6	-1.1 -1.3	-0.0 -1.5	1.1 -0.6	0.5 0.4	
Real G D P	1.1 2.1	0.6 1.9	1.9 3.1	1.5 5.9	0.3 4.2	0.1 3.9	0.4 2.1	-0.2 0.8	-0.4 -0.2	0.2 -0.1	1.0 0.6	1.0 1.9	
cotribution of domestic demand(Qr/Qr, %)	0.8	0.3	1.5	1.3	0.0	0.3	0.7	-0.2	-0.4	-0.0	0.7	0.8	
Private consumption	0.2 0.7	0.5 -0.2	1.1 1.7	1.1 3.4	0.8 3.5	0.9 3.9	0.2 3.0	0.3 2.5	0.3 1.7	0.2 1.0	0.3 1.1	0.3 1.2	
Housing investment	-0.1 -3.3	3.0 1.2	-1.0 0.8	0.7 2.5	0.6 3.1	0.2 0.7	1.9 3.4	-1.5 1.1	-1.0 -0.6	-1.5 -2.1	0.5 -3.5	0.8 -1.2	
Private capital investment	5.4 10.7	-0.1 9.1	6.6 14.7	2.0 14.6	0.6 9.5	-0.2 8.8	1.5 4.1	-1.7 0.2	-1.5 -1.9	-0.8 -2.7	1.8 -2.2	2.5 1.9	
Contriburyion of Inventory investment	0.1	0.2	-0.2	0.4	-0.2	-0.1	0.2	-0.2	-0.3	0.0	0.1	0.0	
Government expenditure	-0.9 -1.6	-1.0 -3.0	-0.2 -3.1	-0.5 -2.6	-1.4 -2.3	-0.4 -2.2	0.4 -2.2	1.0 -0.6	0.3 1.4	0.1 1.6	0.3 1.6	0.5 1.0	
Public investment	-3.3 -9.9	-5.2 -13.9	-2.0 -12.7	-3.8 -12.8	-7.4 -17.8	-4.2 -16.8	-0.4 -15.0	1.5 -9.9	-1.3 -4.7	-1.5 -2.0	-1.1 -2.4	-0.9 -4.5	
Government final consumption expenditure	-0.1 0.7	0.5 0.8	0.5 1.1	0.5 1.4	0.4 1.8	0.6 2.0	0.6 2.1	0.7 2.4	0.7 2.6	0.6 2.6	0.6 2.7	0.7 2.6	
Contribution of external demand	0.2	0.3	0.4	0.3	0.3	-0.2	-0.3	0.0	-0.0	0.2	0.3	0.3	
Export of goods and services	1.2 6.6	4.0 9.9	5.1 11.6	4.4 15.5	3.6 18.2	0.4 13.9	-1.7 6.7	-0.7 1.4	-1.6 -3.7	1.0 -3.1	3.8 2.3	3.6 6.8	
Import of goods and services	-0.9 3.5	2.4 3.6	2.7 4.8	3.2 7.5	2.3 10.7	2.7 11.5	0.9 9.3	-1.2 4.6	-2.2 0.1	-0.4 -2.9	1.8 -1.9	2.1 1.3	
G D P deflator (Yr/Yr, %)	-2.0	-2.1	-2.7	-2.6	-2.7	-2.1	-1.4	-1.3	-1.2	-1.4	-1.2	-1.5	

	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

### 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 2 billion 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				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	15.4	10.3	2.2	-2.1	-3.3	2.0	5.9	
Volume	2.6	2.3	7.3	13.1	13.9	14.1	5.6	-0.8	-2.5	-2.8	0.4	4.4	
Imports (yen basis)	6.4	6.6	-0.5	4.3	9.0	13.1	13.7	6.7	0.2	-3.2	-1.2	3.9	
Volume	8.4	5.0	7.1	9.0	6.7	8.4	5.4	0.5	-1.3	-2.5	0.2	4.7	
Exports surplus (trillion yen)	2.4	2.7	3.2	3.0	3.2	3.3	3.1	2.6	2.8	3.2	3.6	3.0	

### 【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*	0.9	-2.3	-0.3	-2.4	-0.2	0.1	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	3.6	4.9	-1.3	0.5	-6.0	5.9	2.0	0.0	-3.0	-11.0	-2.0	0.0	
Built-for-sale 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	
(housing)	2.0	-6.5	2.0	7.4	-6.4	9.4	1.0	-6.0	4.0	0.0	-1.5	-2.0	
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	
(housing)	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

## Economic Outlook for fiscal 2004-2005

	FY2003		FY2004		FY2005		FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
	First half	Second half	First half	Second half	First half	Second half			
Nominal G D P	0.3 -0.2	1.3 1.6	0.1 1.5	0.0 0.1	-1.4 -1.4	1.3 -0.1	0.8	0.8	-0.8
Real G D P	1.3 2.0	2.9 4.4	1.1 4.0	0.4 1.5	-0.4 -0.1	1.6 1.2	3.2	2.7	0.6
Contribution of domestic demand(Qr/Qr, %)	1.0	2.3	0.8	0.8	-0.5	1.1	2.4	2.3	0.4
Private consumption	0.4 0.3	1.9 2.6	1.8 3.7	0.8 2.7	0.6 1.4	0.5 1.2	1.4	3.2	1.3
Housing investment	0.8 -1.0	0.8 1.6	1.0 1.8	1.2 2.3	-2.5 -1.4	0.2 -2.4	0.3	2.0	-1.9
Private capital investment	6.3 9.8	7.7 14.6	1.5 9.1	0.5 2.0	-2.7 -2.3	2.6 0.0	12.3	5.3	-1.1
Contribution of Inventory investment	0.1	0.1	-0.1	0.0	-0.4	0.2	0.2	-0.0	-0.3
Government expenditure	-1.7 -2.3	-0.9 -2.9	-1.8 -2.3	0.6 -1.4	0.8 1.5	0.5 1.3	-2.6	-1.8	1.4
Public investment	-7.2 -12.1	-6.4 -12.8	-11.1 -17.3	-1.8 -12.5	-1.3 -3.2	-2.3 -3.5	-12.5	-14.6	-3.4
Government final consumption expenditure	0.2 0.7	1.0 1.3	0.9 1.9	1.3 2.2	1.3 2.6	1.3 2.6	1.0	2.1	2.6
Contribution of external demand	0.4	0.6	0.3	-0.4	0.1	0.5	0.8	0.4	0.2
Export of goods and services	3.6 8.3	9.5 13.5	6.0 16.0	-1.9 4.0	-1.5 -3.4	6.1 4.5	11.0	9.7	0.5
Import of goods and services	0.6 3.6	5.6 6.2	5.2 11.1	1.6 7.0	-2.9 -1.4	2.7 -0.4	4.9	9.0	-0.9
G D P deflator (Yr/Yr, %)	-2.1	-2.7	-2.4	-1.4	-1.3	-1.3	-2.4	-1.9	-1.3

	FY2003		FY2004		FY2005		FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
	First half	Second half	First half	Second half	First half	Second half			
Current account balance (trillion yen)	8.3	9.0	9.7	8.0	8.7	9.4	17.3	17.7	18.0
balance on goods (trillion yen)	6.0	7.3	7.6	6.8	7.0	7.6	13.3	14.4	14.7
balance on service (trillion yen)	-1.7	-2.0	-2.1	-2.2	-2.0	-2.1	-3.7	-4.3	-4.0
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	(3.4) 7.8	(-1.1) 2.6	(-1.5) -2.8	(3.0) 1.6	3.5	5.1	-0.6
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

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	14.4	6.3	-2.7	3.9	6.3	10.2	0.6
Volume	2.5	10.1	14.0	2.4	-2.7	2.3	6.3	8.0	-0.2
Imports (yen basis)	6.5	1.9	11.1	10.2	-1.5	1.3	4.1	10.6	-0.1
Volume	6.6	8.0	7.5	3.0	-1.9	2.4	7.4	5.2	0.2
Exports surplus (trillion yen)	5.0	6.2	6.5	5.7	6.0	6.6	11.2	12.2	12.6

### 【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*	-0.6	-1.2	0.0	0.2	-0.6	-1.0	-0.9	0.1	-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	115.9	119.1	119.0	119.1	116.9	117.3	117.4	119.0	117.0
(change from the previous year)	0.9	4.2	2.6	0.1	-1.8	-1.6	2.5	-1.5	-1.2
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
	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	CY2004	CY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Nominal G D P	-0.7	0.7	1.2	-0.0	-1.0	-0.1	-0.1	1.7	-1.0
	-0.2	-0.0	2.2	1.2	-1.0	-1.0			
Real G D P	0.6	2.1	2.6	0.4	-0.2	0.4	2.4	4.0	0.3
	2.4	2.5	5.0	3.0	0.3	0.3			
Contribution of domestic demand	0.6	1.8	2.3	0.9	-0.3	0.0	1.8	3.4	0.4
Private consumption	-0.4	1.2	2.0	1.4	0.6	0.5	0.8	3.5	1.6
	0.8	0.8	3.5	3.5	2.1	1.1			
Housing investment	-1.5	2.4	0.5	1.4	-1.1	-1.8	-0.8	2.4	-1.3
	-2.7	1.0	2.8	2.0	0.2	-2.8			
Private capital investment	5.6	6.0	5.6	0.9	-1.7	-0.7	9.3	9.3	-1.6
	6.9	11.8	12.2	6.4	-0.7	-2.5			
Contributory of Inventory investment	-0.1	0.1	0.2	-0.1	-0.3	-0.0	0.3	0.2	-0.4
Government expenditure	0.2	0.7	0.9	1.1	1.4	1.2	-2.1	-2.4	1.0
	-1.2	-3.1	-2.5	-2.2	0.4	1.6			
Public investment	-5.8	-7.7	-8.3	-8.0	0.7	-2.7	-10.8	-15.3	-5.0
	-8.1	-13.2	-14.8	-15.8	-7.9	-2.2			
Government final consumption expenditure	0.2	0.7	0.9	1.1	1.4	1.2	1.0	1.8	2.6
	1.2	0.9	1.6	2.1	2.5	2.6			
Contribution of external demand	0.3	0.6	0.6	-0.2	-0.1	0.3	0.7	0.7	-0.1
Export of goods and services	3.3	7.3	8.9	1.3	-2.4	2.1	10.1	13.3	-0.8
	9.4	10.8	16.8	10.1	-1.2	-0.4			
Import of goods and services	0.9	3.3	5.7	4.3	-1.8	-0.6	5.0	9.8	-0.1
	5.8	4.2	9.1	10.4	2.3	-2.4			
GDP deflator	-2.7	-1.8	-1.3	-1.3	-1.5	-1.5	-2.5	-2.2	-1.3

	Forecast						Yr/Yr, %		
	CY2003		CY2004		CY2005		CY2003	CY2004	CY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)	7.3	8.5	9.6	8.2	8.0	8.4	15.8	17.8	16.4
balance on goods (trillion yen)	5.3	6.9	7.3	7.0	6.6	7.7	12.3	14.3	14.3
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.7	-2.2	-2.7	-3.9	-4.6	-4.9
balance on income (trillion yen)	4.2	4.1	4.7	4.3	4.0	3.8	8.3	9.0	7.9
Industrial production	0.2	2.7	3.8	0.3	-1.9	1.0	3.2	5.5	-1.2
	3.9	2.5	7.1	3.9	-1.3	-1.1			
Corporate goods prices	-1.5	-1.1	-0.1	2.3	1.1	-0.9	-1.3	1.1	0.1
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

### 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	12.8	0.0	-0.6	4.7	12.7	-0.3
Volume	5.0	4.9	13.5	9.7	-1.7	-1.2	4.9	11.5	-1.4
Imports (yen basis)	7.4	2.9	6.6	13.4	3.4	-2.2	5.1	10.1	0.5
Volume	8.3	6.1	7.8	6.9	-0.4	-1.1	7.1	7.3	-0.8
Exports surplus (trillion yen)	4.3	5.8	6.2	6.5	5.4	6.8	10.2	12.6	12.2

### 【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*	0.0	-1.2	-1.2	0.2	-0.3	-0.9	-0.6	-0.5	-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)		
	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
Rental housing	46.9	43.6	47.0	45.8	46.4	45.5	45.2	46.2	45.9
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