August 2004

Forecast for the Japanese Economy In Fiscal 2004 and 2005

UFJ Institute

Economic Research Department

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

(1) Current State of the Japanese Economy

During the April–June quarter of 2004, Japan's real GDP rose 0.4% over the previous quarter (an annualized growth rate of 1.7%), thus recording the ninth consecutive quarter of positive growth. This result showed that the economy is continuing to recover, but the margin of increase is smaller than during the latter half of the previous fiscal year, and the momentum of the recovery is weakening. In addition, GDP in nominal terms declined 0.3% from the previous quarter (an annualized decline of 1.3%), the first decrease in five quarters. The rate of decline in the GDP deflator, compared with the same period of the previous year, was 2.6%, the same as for the previous quarter. However, the deflator for domestic demand for the quarter was 2.0% below the same period of the previous year, smaller in absolute terms than the 2.6% decline in the previous quarter.

By major component of demand, exports are continuing to increase, sustained by recovery in the world economy. The contribution of external demand, after subtracting imports, was +0.3%, thus continuing the positive contribution that has been sustained almost consistently since 2002. On the other hand, private capital investment, which, along with external demand, has been a driving force for the recovery, showed no change (+0.0%) from the previous quarter, suggesting that capital spending is decelerating after reaching a peak in growth during the October–December quarter of 2003. Nevertheless, indicators of capital investment, including machinery orders and shipments of capital goods, show that investment is recovering, and there is a possibility that investment may be revised upward in the second quick estimate of GDP.

Private consumption during the April–June period expanded 0.6% from the previous quarter, the fifth consecutive quarter of expansion. Although the rate of growth has declined because of weakness in recovery of incomes, consumption continues to provide underlying support for the economic recovery. In addition, housing investment was up 0.3% over the previous quarter, thus remaining virtually level. Government public investment continues to fall, slipping 5.1% from the previous quarter, and the margin of decline is continuing to increase. Overall public-sector demand decreased for the seventh consecutive quarter, and the private sector continued to be the leading force powering the recovery.

(2) Key Features of the Economic Outlook

There is almost full agreement with the view that the Japanese economy is continuing to recover. According to the Bank of Japan (BOJ)'s *Short-Term Survey of Enterprises (Tankan)* for June, the diffusion indexes for business conditions (based on the number of "favorable" responses minus "unfavorable" responses), especially among large companies in the manufacturing sector, are at higher levels than during the two previous recovery periods after the collapse of Japan's bubble economy. However, the underlying sense persists that too much optimism about the future course of the economy is not warranted.

One of the factors leading to uncertainty about future conditions is the length of the recovery thus far. The trough preceding the current recovery was in January 2002, meaning the recovery trend has continued now for more than 30 months. The average length of economic recoveries in Japan since World War II has been 33 months. It is only natural that some observers are beginning to suggest that the current recovery may be drawing to an end.

Another factor is the strength of the recovery trend. The over 6% annual real growth reported in the latter half of the previous fiscal year was unusually strong. Private capital investment and exports recorded double-digit growth and led the expansion, while private consumption, growing at nearly 3% annually, provided support for growth. If this ideal growth pattern could continue, there would be no problem, but it appears that the high rates of growth are generating an effect somewhat similar to acrophobia, based on concerns that such high-flying performance cannot continue indefinitely. Regarding this point, we believe that the decline in growth in the April–June quarter should be viewed as a return to a sustainable growth rate

Whether the concern that the economy will experience slower growth will prove to be correct, or the recent slowdown will turn out to be a temporary adjustment will depend on the following four factors.

(a) Trends in Overseas Economies

Expansion in overseas economies has fueled growth in exports and has been a leading factor in Japan's current recovery, but there is a possibility that expansion in the United States and other economies will slow. In fact, during July, the increase in the number of employed persons in the non-agricultural sector in the United States was considerably lower than forecast, and views about an economic slowdown are becoming more common. Although fluctuations in employment statistics can be substantial and it is not appropriate to make judgments based on a single month's data, the stimulatory effects of major tax cuts and low interest rates are weakening. For these reasons, growth in the U.S. economy is expected to decline. Moreover, crude oil prices remain at high levels, and this may have a negative impact on the world economy because of pressures on corporate profits and restraints on private consumption owing to higher energy prices.

(b) Inventory Investment

One of the features of the current recovery is that inventories have not risen along with increases in production. A number of factors seem to account for this. These include advances in inventory management technology, the shift away from mass-produced goods toward manufacturing of order-made items that do not have to be held in inventory, and the disincentive to holding inventories created by deflation. However, even if companies do not increase inventories intentionally, there may still be unintended increases in stocks. At present, for example, inventories of electronic parts and devices, including semiconductors, are expanding. Demand for digital products is rising and production is increasing rapidly, but the ratio of inventories to shipments is also climbing, giving rise to concern about the buildup of inventories.

Compared to overall production, the level of inventories is low, and inventory adjustments that would be likely to lower production are not taking place. However, for certain products, the buildup in inventories may result in adjustments in production. If these items are in digital-related areas that have led the recovery thus far, the impact may spread.

(c) Capital Investment

Along with exports, capital investment has led the current recovery trend. Supported by improvement in corporate profitability, capital investment is expanding mainly in digital-related areas, including semiconductors and liquid crystal displays (LCDs), and in industries where exports are strong, including automobiles. In addition, among small and medium-sized enterprises that have postponed necessary capital investments, the demand for replacement investment is rising, bringing a broadening in the scope of the recovery in investment. As we noted in the section on the current state of the Japanese economy, capital investment in the April–June quarter was virtually level with the previous quarter, but the upward trend in investment is expected to continue. However, the momentum will probably begin to weaken compared with the rapid growth in the October–December quarter of 2003.

(d) Private Consumption

Private consumption has provided support for the recovery. Consumption is more stable than other components of final demand and is unlikely to trigger an economic downturn. However, even though employment has recovered to some degree, per capita wages are declining, in part because of the rising percentage of part-time workers. It is uncertain whether the increase in private consumption will continue indefinitely unless incomes show a stronger recovery. The flow of events toward a slowdown in consumption will not be as simple as a deceleration following the positive impact of unseasonably hot summer weather and the Athens Summer Olympics, but we believe the high rates of growth experienced in the latter half of the last fiscal year should not be expected. The ratio of private consumption to GDP is high, and, when growth in consumption slows, the downward pressure on the overall economic growth rate will not be inconsequential.

Of the four factors mentioned, the effects of trends in overseas economies and inventory investments are likely to be felt relatively soon. Most careful attention should probably be directed toward trends in overseas economies and private capital investment because of the magnitude of their impact. Although growth in private consumption may also decelerate, the timing and magnitude are difficult to predict. None of the four factors alone may have enough impact to tip the economy toward a downturn. However, rather than continuing to expand, each of the factors appears likely to move toward an adjustment phase. The possibility of entering an adjustment phase in the latter half of fiscal 2004 appears to be growing.

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 has been on an expansionary trend since the latter half of 2003, driven principally by growth in private consumption, supported by a major tax cut, and investment to renew the capital stock. Beginning in the latter half of 2004, the economy is expected to move into an adjustment phase, as the positive impact of the tax cut runs its course and the period of low interest rates draws to a close. However, the adjustment is expected to be minor. Private consumption is likely to remain firm, as a result of the improvement in the employment and income environments, and, since inventory levels are low at present, there is little possibility of a major adjustment in production. After this miniadjustment, the U.S. economy is likely to move back to a recovery path in the latter half of 2005.

The eurozone entered the recovery process led by external demand beginning in the July–September quarter of 2003. Recent data show that in May exports to Eastern European countries that have recently joined the

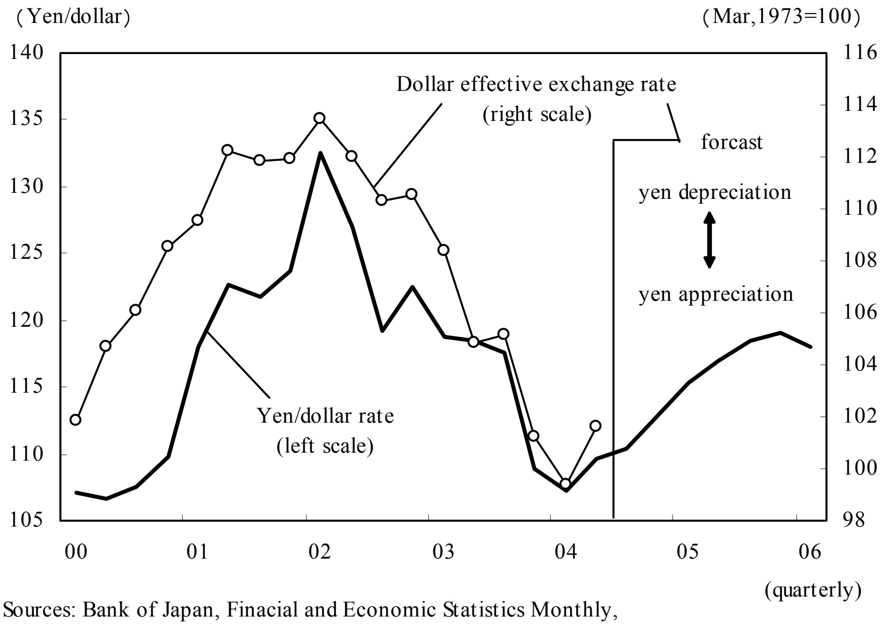
EU and to China were holding firm and that production was on a recovery trend. However, there has been no improvement in employment and unemployment remains at a high level. As a result, improvement in consumer confidence is lagging, and progress toward recovery in personal consumption remains slow. Beginning in the latter half of 2004, the world economy is likely to experience a slowdown as the United States moves into an adjustment phase and the eurozone also enters a period of adjustment. Beginning in the latter half of 2005, however, the eurozone is expected begin to expand again, along with improvement in the world economy.

In Asia, the economies of the region are reporting rapid expansion as exports continue to be strong, along with the recovery in the world economy, and employment and incomes are recovering. The Chinese economy is exceptionally robust. However, these trends are expected to weaken, and growth is likely to decelerate as the U.S. economy slows and controls on capital investment take effect in China. The effects of China's policy of restraining investment since mid-2003 have been in evidence. Moreover, there are signs of adjustment in certain product areas that heretofore were booming, including automobiles and air conditioners. These adjustments are likely to continue through the first half of 2005, but, along with the recovery in the world economy, economic conditions are forecast to swing upward in the latter half of 2005.

(b) Exchange Rates

After reaching a recent high of about ¥103 to the U.S. dollar at the beginning of April, the yen has weakened to approximately ¥110, as the likelihood of interest rate hikes in the United States has increased. However, no major fluctuations in the yen/dollar rate are expected, since expansionary trends in both Japan and the United States are forecast to weaken. Moving closer to fiscal 2005, concerns about the relative weakness of the Japanese economy may grow, leading to a slight decline in the value of the yen.

Exhibit 1: Outlook for Yen-Dollar Exchange Rate



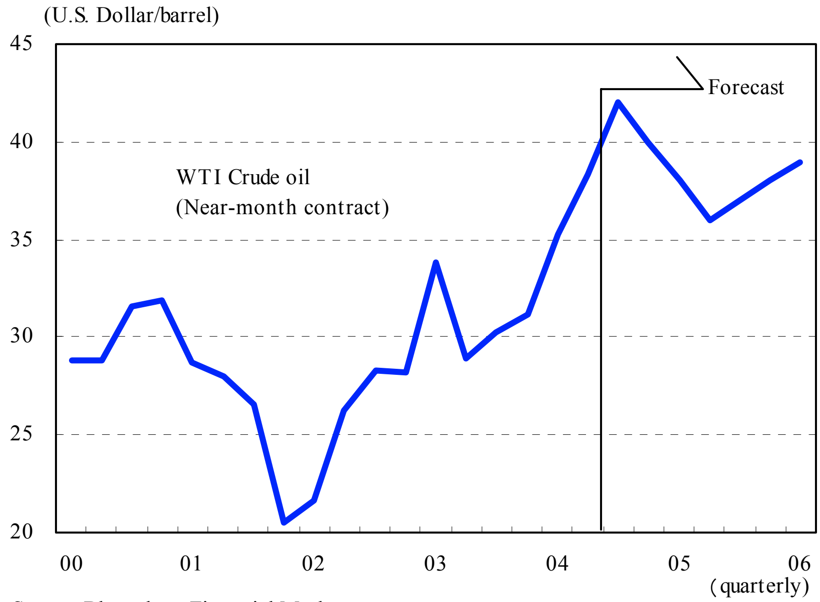
Sources: Bank of Japan, Finacial and Economic Statistics Monthly,
FRB「Federal Reserve Bulletin」

(c) Crude Oil Prices

The West Texas Intermediate (WTI) crude oil price (near month contract) has risen to about US$45 a barrel as a result of a combination of factors. These include the recovery in the world economy, expansion of demand especially in the United States and China, and increased geopolitical risk. OPEC has expanded production substantially to restrain the rise in oil prices, but the shrinkage of excess production capacity has fueled uncertainty about supplies.

Conditions in Iraq appear to have reached an impasse and there are no supply side factors in evidence now that might push prices down. For this reason, oil prices are expected to remain high, in the US$40 to US$45 range, as long as the world economic recovery continues. However, the rising inflow of excess financial liquidity into commodity markets has begun to abate along with the increase in interest rates. Provided the world economy decelerates in the latter half of fiscal 2004, we anticipate that downward pressures on oil prices will emerge. However, the adjustment in the international economy may be limited, and OPEC seems likely to counter any decline in prices with production cutbacks. Therefore, there is a strong possibility that any major decline in oil prices will be staved off. In the latter half of fiscal 2005, we believe oil prices will begin to rise again as the world economy moves toward recovery.

Exhibit 2: Outlook for WTI Crude Oil Price



Source: Bloomberg Financial Markets

(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 have 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%. On the other hand, 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% over the previous year, and nursing insurance payments 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 both fiscal 2004 and fiscal 2005, we assume that the government will not pass supplementary budgets containing additional allocations for public works.

For social welfare payments, we assume that no changes, such as alterations in the percentage of social insurance payments borne by individuals, will be made in related systems that might result in major reductions in payments of welfare benefits. These expenditures are forecast to continue to rise in fiscal 2005 and delay the progress toward reining in government expenditures.

(e) Monetary Policy

As the economic recovery continues and signs emerge that the downtrend in prices is coming to an end, some observers have pointed out that the BOJ may be close to ending its policy of the quantitative relaxation of monetary policy. However, the BOJ has announced that the condition for suspending monetary relaxation 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 current 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

Economic recovery is continuing, led by the private sector, and we are forecasting 3.1% real GDP growth for fiscal 2004, the third consecutive year of positive real growth. We are also forecasting expansion in nominal terms of 1.2%, the second consecutive year of positive growth. However, we believe signs of adjustments in the economy will become increasingly pronounced in the latter half of the fiscal year.

Trends in the economy will be shaped by exports and private capital investment. The international economy is continuing to recover, but in the latter half of fiscal 2004, the United States, China, and other economies are expected to experience a slowdown. Exports from Japan will decline, and this will exert downward pressure domestically on production and corporate profits. A decline is also forecast for private capital investment in the second half.

Private consumption, which accounts for more than half of GDP, however, is likely to remain firm. Since improvement in the employment and income environments will be gradual, the relatively high levels of growth attained in the latter half of fiscal 2003 will not be sustained. However, we are forecasting that consumption will continue on a gradual rising trend in real terms. On the other hand, private residential investment will be about the same as during the previous fiscal year or decline only slightly. Government public works investment will continue to decline, but government consumption expenditures will remain on an upward trend because of expansion in health care and nursing costs.

In tandem with the recovery in the domestic economy, downward pressures on prices will ease, and domestic corporate prices are beginning to rise, reflecting increases in raw material prices. Moreover, year-to-year declines in consumer prices have shrunk virtually to zero. In fiscal 2004, domestic corporate prices will most likely continue to rise, but, as prices of crude oil and other primary commodities begin to decline and the economy slows in the latter half of the fiscal year, corporate prices may also begin to fall as we approach the end of the fiscal year. Consumer prices may rise temporarily above the previous year's levels but are expected to remain generally level with those of the prior year.

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

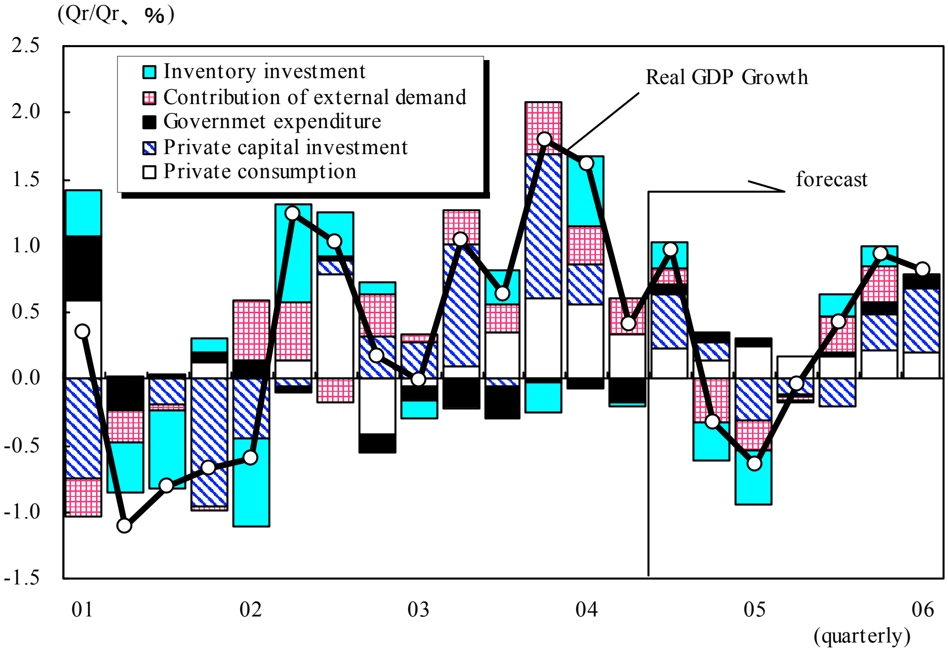
During fiscal 2005, the economic adjustments begun in the previous year are expected to continue, but we are forecasting a bottoming out and improvement in the second half. We are looking for real GDP growth of 0.6%, marking the fourth consecutive year of positive real growth. However, nominal GDP is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

Exports and private capital investment will determine the overall shape of economic trends in fiscal 2005. After decelerating, the world economy will begin to recover again in the latter half, thus bringing expansion in Japan's exports. This, together with recovery in production and corporate profits, will stimulate an increase in capital investment.

In fiscal 2005, as in fiscal 2004, private consumption and government final consumption will rise, while private residential investment and government public works investment will decline. However, the momentum of expansion in private consumption may weaken somewhat because of deterioration in employment and income environments, while the margin of decline in government public works investment may shrink.

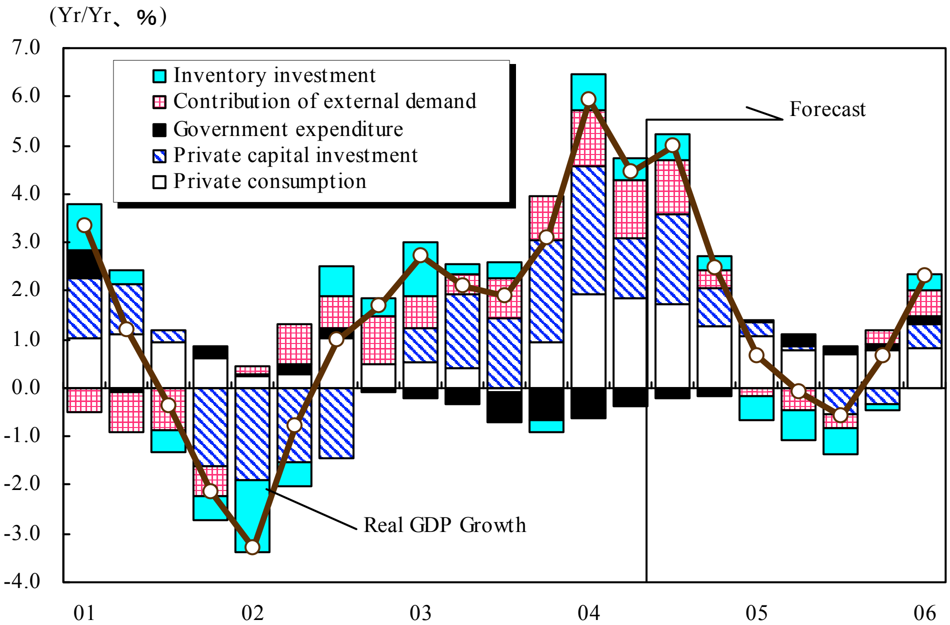
Prices levels are forecast to show slight declines in fiscal 2005, as the economic slowdown beginning in the second half of fiscal 2004 will strengthen downward pressures on prices. However, in the latter half of fiscal 2005, the margin of decline in prices will diminish as growth in the economy begins to pick up.

Exhibit 3: Real GDP Growth (seasonally adjusted)



Source：Cabinet Office, Annual of National Accounts

Exhibit 4: Real GDP Growth



Source：Cabinet Office, Annual of National Accounts (quarterly)

3. Outlook by Demand Component

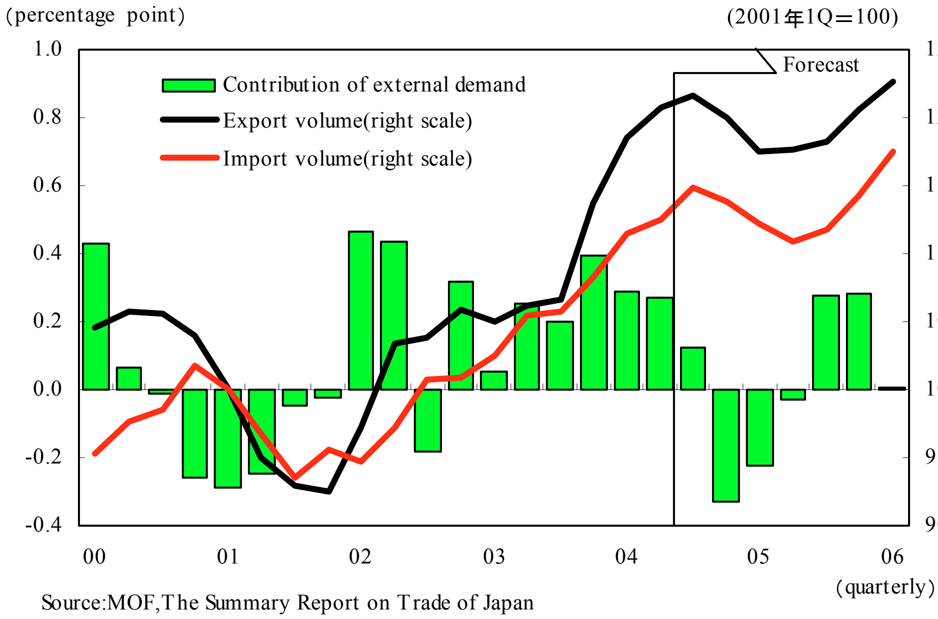
(1) External Demand: Outlook for a negative contribution beginning in the latter half of fiscal 2004

Examination of trends in the unit volume of exports shows continued growth against a background of recovery in overseas economies. The principal driving force is exports to Asia, especially electronics-related and capital goods. However, in the latter half of fiscal 2004, the U.S. economy will decelerate as the positive impact of the tax reduction runs its course, interest rates rise, and the effectiveness of sales promotion policies for automobiles diminishes. In China also, growth will slow because of the effects of policies to curb excessive capital investment. As a result, Japan's exports in volume terms are forecast to decline. In fiscal 2005, weakness in exports is expected to continue in the first half as overseas economies are expected to be stagnant, but, in the latter half, exports will begin to increase again as conditions in overseas economies improve.

The unit volume of imports is increasing along with improvement in the domestic economy. Factors accounting for this include principally increases in imports of basic materials and intermediate goods from overseas production centers of Japanese companies as well as rising imports of consumer goods mainly from Asia, including audiovisual equipment, apparel, and household goods. However, in the latter half of fiscal 2004, imports, especially basic materials and intermediate goods, are likely to decline because of the slowdown in production along with the deceleration of the domestic economy. This weakness will continue in the first half of fiscal 2005, but in the latter half imports are expected to rise along with the recovery in the domestic economy.

In the first half of fiscal 2004, growth in exports will exceed expansion in imports, and the external sector is expected to continue to make a positive contribution. However, during the latter half of the fiscal year, the contribution is forecast to be negative because of the impact of the slowdown in overseas economies. This negative contribution of the external sector is expected to continue in the first half of fiscal 2005, but, from mid-year, the contribution will become positive again as exports bottom out and increase.

Exhibit 5: Outlook for Trade



Source:MOF,The Summary Report on Trade of Japan
METI, Economic and Industrial Statistics

(2) **Corporate Sector:** Will peak out in the latter half of fiscal 2004

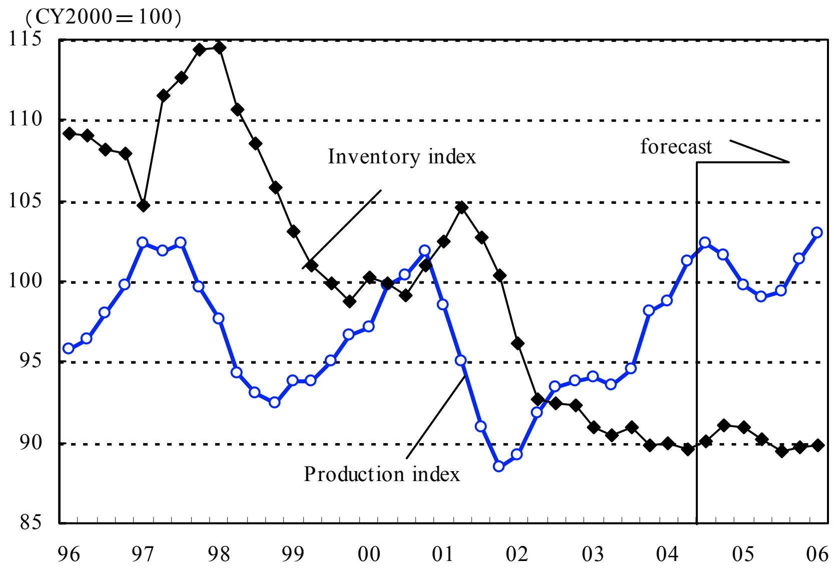
(a) Production: Will begin to decline in the latter half of fiscal 2004

Production is continuing to expand because of robust exports, strong demand for digital appliances, recovery in capital investment, and other factors. Production in the April–June quarter of 2004 was up 2.6% from the previous quarter, the fourth consecutive quarterly gain. According to the forecast index for the manufacturing sector, growth of 1.6% over the previous month is expected in July and 1.0% growth in August, thus continuing the rising trend. This upward movement in production is thus likely to persist into early autumn.

However, during the latter half of fiscal 2004, production is likely to begin to decline as growth in the U.S. and other overseas economies decelerates and Japan's exports start to weaken. In addition, inventories of semiconductors and certain other electronic parts, which have pushed production upward thus far, are now rising. This upward trend in inventories may become the cause for production cutbacks. In addition, if capital investment levels off, this may cause manufacturers to restrain production.

Although production levels are expected to decline from the latter half of fiscal 2004 through the middle of fiscal 2005, overall inventory levels are low. Therefore, any adjustment in production is expected to be relatively mild. Moreover, production is expected to begin to rise again beginning in mid-2005 as conditions in overseas economies improve and Japan's exports recover.

Exhibit 6: Outlook for Industry Production



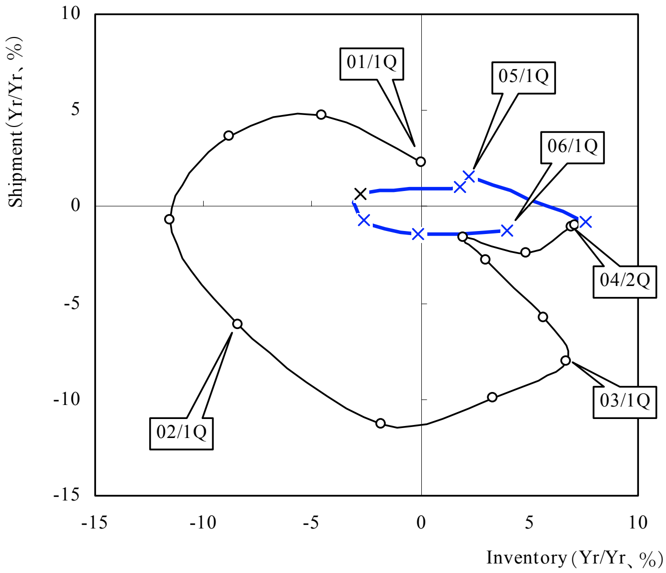
Source: Ministry of Economy, Trade and Industry (METI), Economic and Industrial Statistics

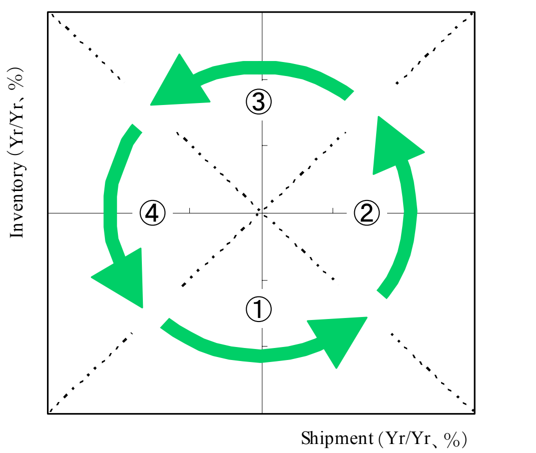
Inventories increased for three consecutive months, from February through April, but then began to decline in May and June. Unlike recovery periods in the past, there are no signs that companies are expanding inventories aggressively, and, at present stocks are at relatively low level. Factors accounting for this include advances in inventory management technology, the desire among companies to avoid the risk of holding inventories in a deflationary environment, and the trend toward holding inventories at overseas production centers.

Nevertheless, a detailed examination of data on inventories shows buildups in certain products. Particularly in semiconductors and other IT-related goods, producers are entering a phase of unintended inventory accumulation. Compared to 2000, at the time of the IT boom, inventories are still relatively low, but producers may adopt a cautious stance toward accumulating stocks and take quick action to adjust inventory levels.

IT-related goods have been a driving force propelling the upward trend in production. For this reason, it is possible that inventory adjustments in IT-related industries may have an effect on overall production levels and that the industrial sector will enter an inventory adjustment phase in early 2005. However, the adjustment is expected to be relatively minor and not result in a major downward trend in overall production because inventory accumulation outside the IT-related industries is expected to be relatively small. As the inventory cycle graph shows, the size of the cycle this time is smaller than previously. We expect that the adjustment will be completed in the latter half of fiscal 2005.

Exhibit 7: Inventory Cycle Movements





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

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

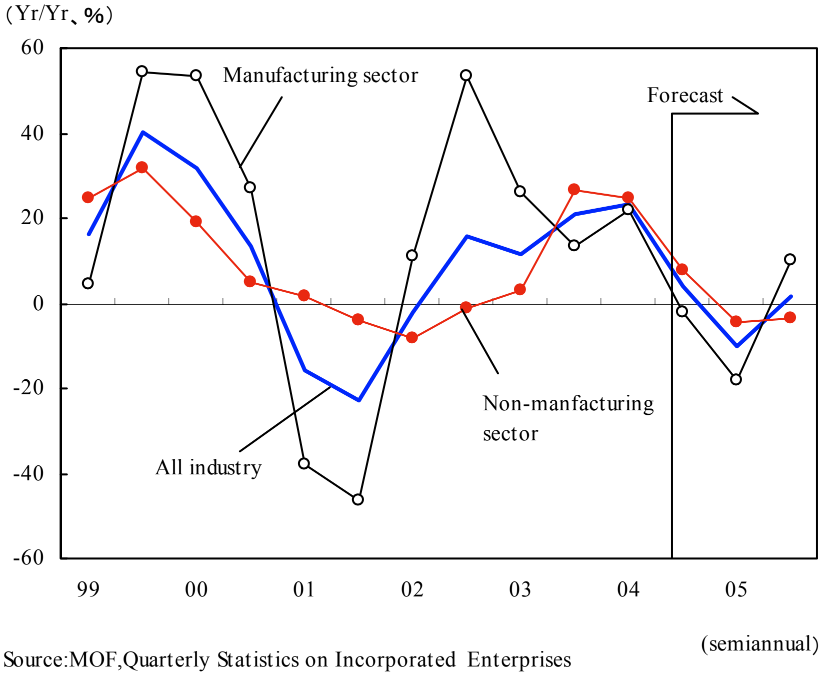
(b) Corporate Profitability: Downtrend in manufacturing profits in the latter half of fiscal 2004

Growth in corporate profits remains strong supported by favorable export trends and recovery in private consumption. In the manufacturing sector, shipments of investment goods and IT-related goods, such as digital appliances, are holding firm, and sales are expected to continue to expand through mid-2004. Moreover, the beneficial impact of restructuring, including paying down debt and cutting personnel costs, is emerging steadily, and current profits are expanding. In the non-manufacturing sector, although recovery is lagging behind the manufacturing sector, profitability is recovering along with the improvement in private consumption and a pickup in corporate activities.

However, in the latter half of fiscal 2004, there may be deterioration in factors influencing profitability. Overseas economies will slow and exports will decline. Shipments of IT-related and capital goods, which, heretofore, have been strong, are likely to decelerate and sales growth will suffer. In addition, the adverse impact of the deterioration in Japan’s terms of trade, owing to continued increases in crude oil and international commodity prices, will become evident in the latter half of fiscal 2004 and will have a restraining effect on profitability. Moreover, the favorable impact of restructuring activities will have run its course, and, as a result of the increase in capital investments in recent quarters, the burden of depreciation charges will rise.

In the first half of fiscal 2005, there may be further deterioration in the profit environment, but the financial and operating positions of the corporate sector are much stronger than previously and will allow corporations to show profits even with stagnant sales growth. Therefore, a major downturn in profitability is not expected. Toward the end of fiscal 2005, as oil prices settle down, exports begin to rise again, and domestic demand makes a comeback, profits are also forecast to recover.

Exhibit 8: Outlook for Corporate Performance



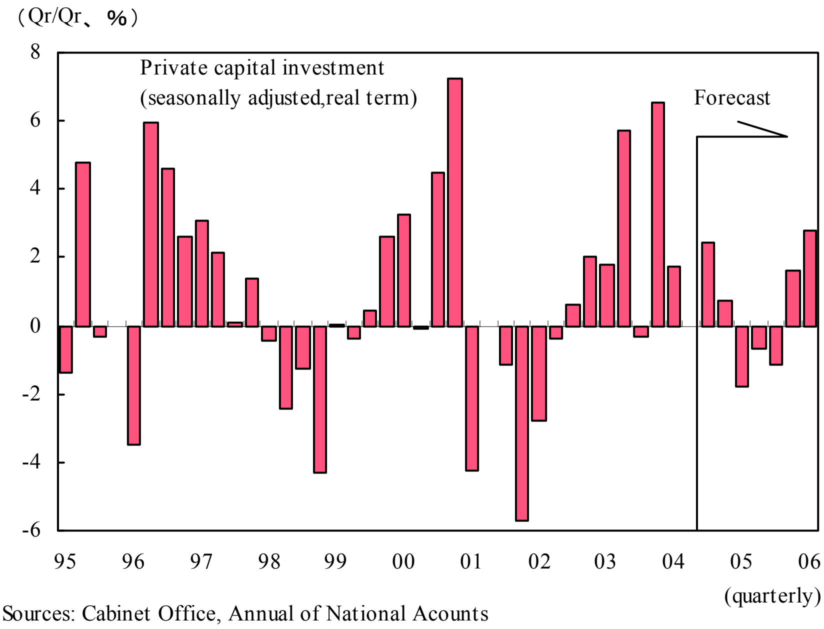
Source:MOF,Quarterly Statistics on Incorporated Enterprises

(c) Private Capital Investment: Increase to continue through end of the year, followed by a slump early next year

Private capital investment is continuing to expand. Factors driving the expansion include recovery in corporate profitability, strength in the electric machinery industry owing to demand for digital equipment, and increased capital expenditures by small and medium-sized enterprises that had previously restrained their capital outlays. In the April–June quarter of 2004, capital investment in real terms was level with the previous quarter. However, orders for machinery and equipment (of the private sector, excluding shipping and electric power), which are a leading indicator of investment spending, are continuing to hold firm. After a substantial rise in orders of 10.3% in the April–June quarter, forecast surveys call for an increase of 1.8% in the July–September period. Moreover, the rate of capacity utilization is high, and companies are less prone to report they have excess capacity. For these reasons, we are forecasting that the increase in private capital investment will continue for the rest of 2004.

However, in the latter half of fiscal 2004, corporate profitability is expected to weaken, and companies are likely to have completed their acquisition of new capital equipment, which has driven investment growth for more than two years. Therefore, we are forecasting that capital investment will begin to decline early in 2005. However, this decline is not likely to be a prolonged one because only a marginal decline is forecast for production and corporate performance. After the middle of fiscal 2005, investment is likely to bottom out and begin to rise as corporate profitability starts to improve again.

Exhibit 9: Private Capital Investment



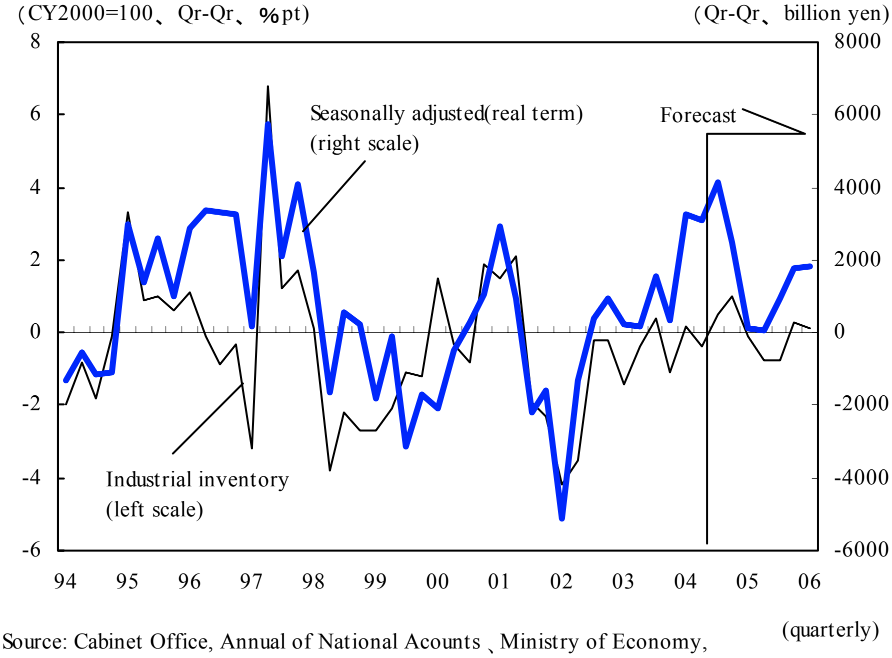
Sources: Cabinet Office, Annual of National Acounts

(d) Private Inventory Investment: Fluctuations likely to remain small

Owing to the cautious stance adopted by corporations toward expanding inventories, the contribution of inventory investment to economic growth has been marginal. However, recently, there have been signs of a weak buildup in inventories accompanying favorable demand trends. Looking forward, we believe that unintended inventory investments may begin to emerge gradually as growth in shipments weakens. As a result, in mid-fiscal 2004, the contribution of inventory investments, may become negative as corporations take steps to implement inventory adjustments.

We believe these adjustments will be completed in the first half of fiscal 2005, but inventory investments are expected to make only a slight positive contribution to growth because corporations are likely to remain cautious about adding to inventories.

Exhibit 10: Inventory Investment



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

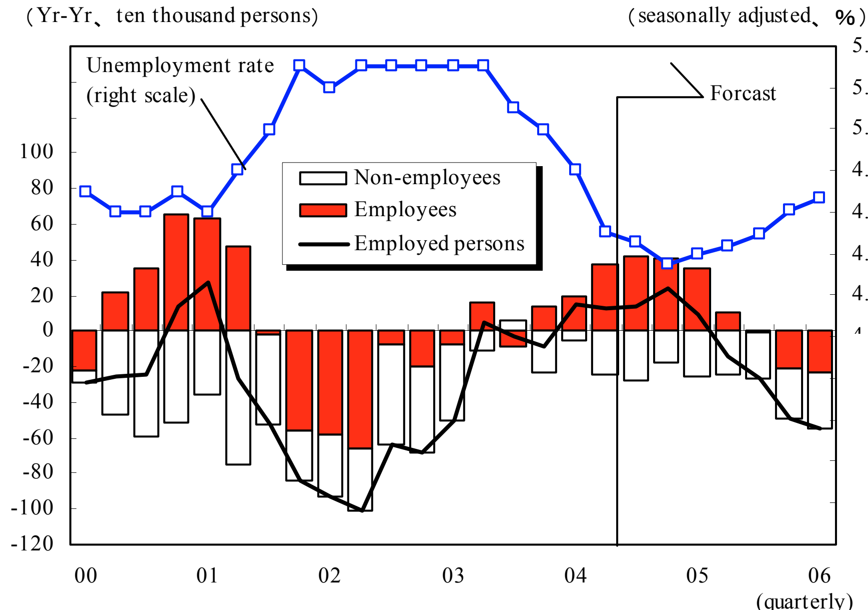
(3) Household Sector

(a) Employment: Currently improving, but conditions will deteriorate again in fiscal 2005.

The number of employed persons is increasing along with the economic recovery. Reasons for this include the completion, for the time being, of corporate restructuring and the rise in the number of part-time employees, especially females. Provided the economic recovery continues, we anticipate that the number of employed persons will continue to rise as corporate profitability shows further improvement. On the other hand, other categories of labor, including self-employed persons and family workers, are on a declining trend that has little relationship to general employment conditions. The number of employed persons is expected to rise until the first half of fiscal 2005 but then begin to decline, following behind the slowdown in the domestic economy. The number of persons in the workforce is expected to move in parallel with the number of employed persons.

The unemployment ratio has declined to 4.6% as a result of increased hiring by companies along with recovery in the economy and the lull in restructuring activities. However, if the employment environment shows further improvement, people who have lost their desire to look for work and dropped out of the workforce may begin to look for jobs again. On the other hand, some workers may leave their jobs voluntarily to look for new positions. Therefore, on balance, a major improvement in the unemployment ratio is not expected. Moreover, as the impact of the economic slowdown in fiscal 2005 emerges, the unemployment ratio may rise again.

Exhibit 11: Employed Persons and Unemployment Rate



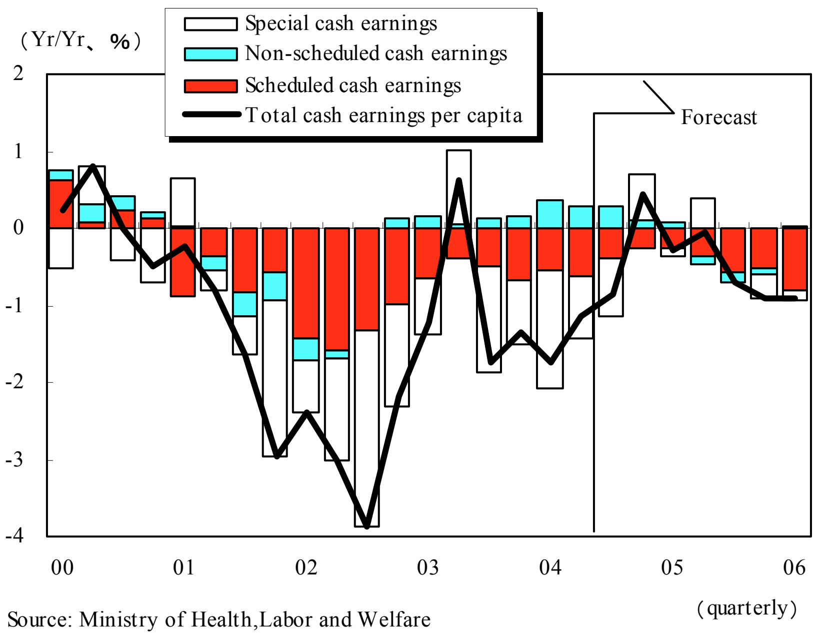
Note: 'Non-employees' consisits of 'Self employed' and 'Family workers'.
Source: Ministry of public Management, Home Affairs, Posts and Telecommunications, Labor Force Survey

(b) Incomes: No major improvement is expected, may begin to decline again in fiscal 2005

Unscheduled compensation is continuing to rise along with the recovery in production, but scheduled compensation remains on the decline because of the impact of the rising percentage of part-time workers. Moreover, special compensation in June was down a substantial 4.7% from the same month of the previous year. This suggests that a major improvement is not likely as small and medium-sized enterprises are continuing to experience difficulty in paying summer bonuses and reflects the substantial reduction in bonuses for government employees. For these reasons, even recent data show that per capita wages remain essentially stagnant.

Going forward, a major improvement in scheduled compensation is not expected, but there may be increases in unscheduled compensation and winter bonuses along with the increase in production and improvement in corporate profitability. Accordingly, we believe per capita wages may show a slight increase over the previous year in the latter half of fiscal 2004. However, we anticipate that wages will again fall below the previous year's levels in fiscal 2005 because of the decline in production and deceleration in corporate profitability.

Exhibit 12: Cash Earnings of Employees



Source: Ministry of Health,Labor and Welfare

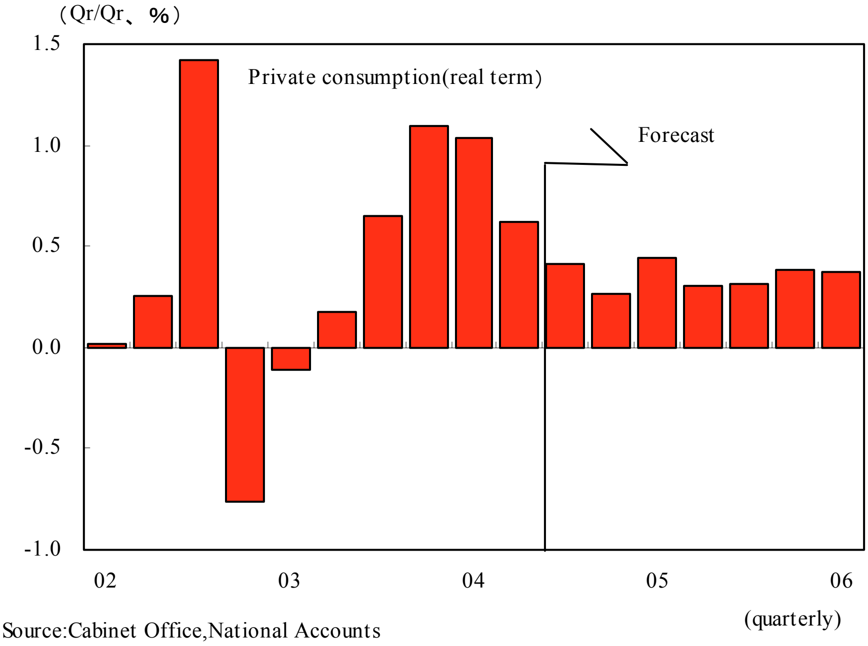
(c) Private Consumption: Growth will be lackluster in fiscal 2005 as the employment and income environments deteriorate.

Real private consumption in the April–June quarter of 2004 rose 0.6% over the previous quarter, but this figure was the second consecutive quarterly decline in the growth rate. Reasons for this included a reaction to the relatively high rate of expansion in the January–March quarter and a lull in the improvement in consumer confidence, which has tended to boost consumer spending.

In fiscal 2004, we are forecasting that consumption will remain firm, supported by improvement in the employment and income environments, but the rate of expansion in consumer spending will continue to decline. However, for the year as a whole, we are forecasting that private consumption will expand 2.7%, about the same rate of growth as in 1996, when there was a surge in consumer spending in advance of the increase in consumption taxes. One of the factors accounting for this growth in fiscal 2004 is the high rate of expansion in the January–March quarter, which ratcheted the level of consumer spending upward for the year as a whole.

Going into fiscal 2005, however, signs of economic adjustments will become more pronounced, and the employment and income environments will deteriorate. As a result, major expansion in consumption is unlikely, and consumption growth is expected to weaken. Although deflation will continue to boost real purchasing power, consumer spending in fiscal 2005 is forecast to rise at a relatively slow rate of 1.4% in real terms.

Exhibit 13: Real Private Consumption



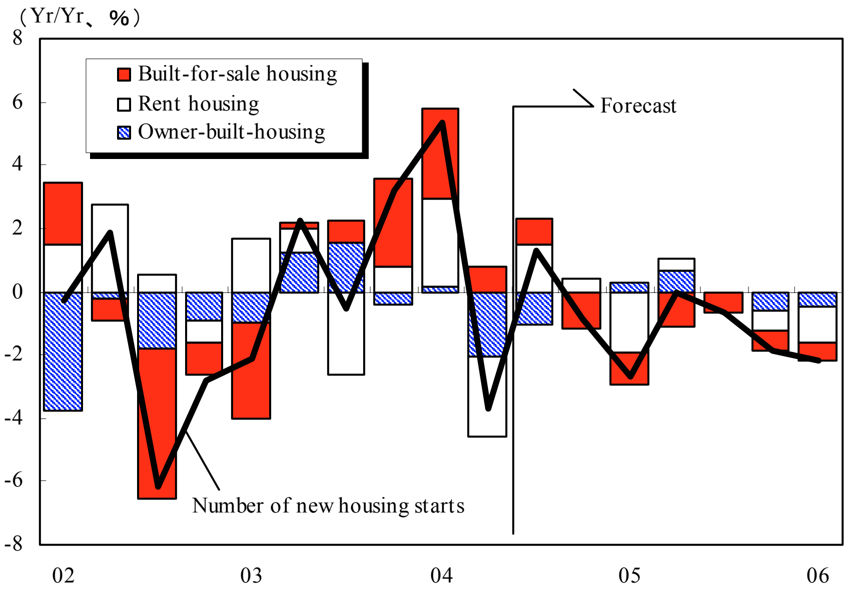
(d) Private Residential Investment: Housing starts to remain lackluster in fiscal 2004 and thereafter

The number of new housing starts during the April–June quarter was 3.7% below the previous year's level (representing an annualized rate of 1.155 million units). This major decline was mainly due to a reaction to the high level of housing starts in the previous year, when housing construction surged prior to the implementation of revisions to the building code in July 2003. However, on a GDP basis, private housing investment was virtually level with the previous quarter, rising 0.3% and reflecting firm housing starts during the latter half of the fiscal 2003.

The number of new housing starts in fiscal 2004 is forecast to decline a marginal 1.5% from fiscal 2003, to 1.156 million. Although starts of built-for-sale houses remain at a relatively high level, starts of owner-built and rental housing are expected to begin to decline.

In fiscal 2005, rental housing and owner-built housing are expected to show a temporary recovery, but built-for-sale housing is likely to decline because of the deterioration in the employment and income environments and other factors. As a result, housing starts as a whole are expected to trend downward. Since starts of owner-built and rental housing will begin to decline again, total starts for fiscal 2005 are forecast to continue downward, falling 1.2%, to 1.142 million units.

Exhibit 14: Outlook for Housing Starts



Source: Ministry of Land, Infrastructure and Transport, Housing Construction Starts Statistics

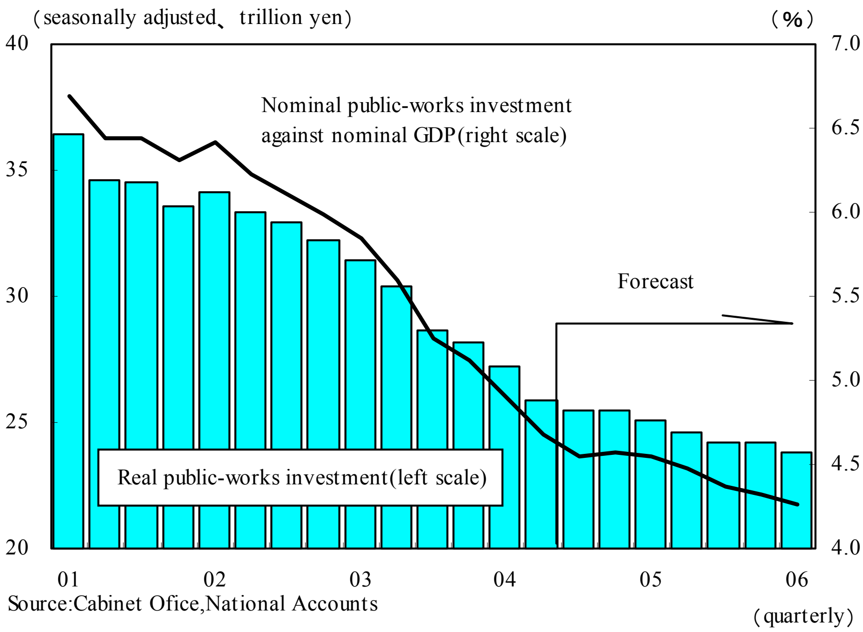
(4) Government Sector

(a) Government Public Investment: Continued decline anticipated

Since the government decided to forego the passage of a supplementary budget with additional allocations for public works spending in fiscal 2003, government public investment began to slow in the second half of the fiscal year and continued to decline into fiscal 2004. Public works investments are scheduled to be reduced further in fiscal 2004, with public works expenditures of the national government to be cut 3.5%. In addition, budgets for projects undertaken at the initiative of regional governments were slashed 9.5%. Although the reduction in the national government budget for fiscal 2004 was smaller than in fiscal 2003, budgets of regional governments for fiscal 2004 were reduced more than in fiscal 2003. Examination of government public investment in the April–June quarter of 2004 shows expenditures were 15.5% below the previous year, a larger decline than in the budgetary allocations. A number of factors appear to be accelerating the drop in public works investment. These include the usage of budget funds more evenly over the year, rather than concentrating them earlier in the year as in the past, and a decline in construction works of public entities, including public corporations and other organizations. Looking ahead, the pace of decline in public works expenditures may be less pronounced, as progress is made toward using the amounts allocated, but the declining trend will continue throughout the year.

As a result of budgetary cuts in fiscal 2005, government public investment will continue to decline. However, the margin of cuts will shrink, and the pace of decline will be more gradual than in fiscal 2004.

Exhibit 15: Outlook for Public-works Investment



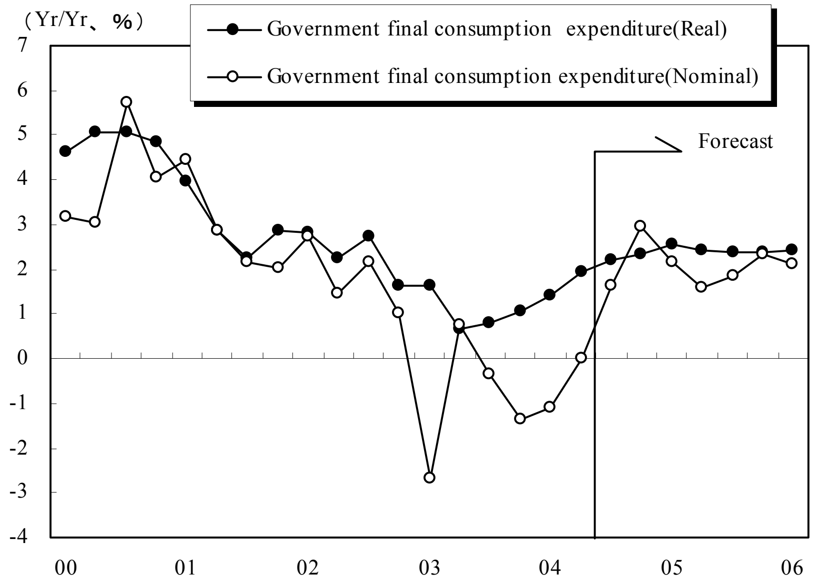
Source:Cabinet Ofice,National Accounts

(b) Government Final Consumption Expenditures

Government consumption expenditures have begun to increase at a faster pace since the beginning of fiscal 2004, in part because the impact 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 show firm increases 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 received, 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 this change. However, steps to reduce compensation of government employees have paused, with no further changes in monthly salaries or bonuses recommended by the National Personnel Authority in 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



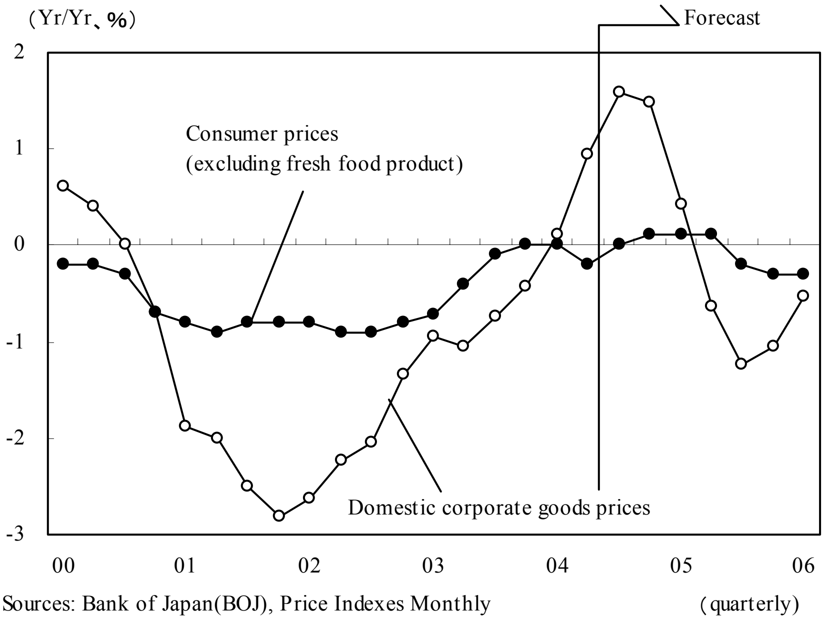
Source：Cabinet Office, Annual of National Accounts

(5) Prices: Deflationary pressures recede temporarily.

Domestic corporate prices have begun to increase as a result of the rise in demand accompanying the recovery and upstream inflationary pressure stemming from higher prices of crude oil and other international commodity prices. However, passing on these higher costs downstream to final product prices is difficult because of excess production capacity and stronger competition from low-cost imported goods. As a result, pressures for increasing downstream prices are marginal. For the time being, domestic corporate prices are expected to continue to rise because of the increases in basic materials prices, but moving into 2005, the supply/demand balance will ease because of the slowdown in the economy and domestic corporate prices will begin to decline again. Thereafter, in the latter half of fiscal 2005, the supply/demand balance is forecast to tighten again as the economy recovers, and the margin of decline in prices will shrink.

Consumer prices currently remain slightly below the levels of the previous year as the impact of special factors, including an increase in the burden of health-care costs borne by individuals and a rise in the tax on tobacco products, has diminished. The increase in domestic corporate prices and the tightening of the supply/demand balance are acting as checks on larger declines. We anticipate that consumer prices will remain at virtually the same level as for the previous year during fiscal 2004. In fiscal 2005, we are forecasting that consumer prices will show a somewhat larger margin of decline from the previous year because of the easing of the supply/demand balance along with the slowing of the economy and the decline in domestic corporate prices.

Exhibit 17: Outlook for Prices



Sources: Bank of Japan(BOJ), Price Indexes Monthly
; Ministry of Public Management, Home Affairs, Post and Telecommunications,Monthly on Price Indexes

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 for fiscal 2004-2005

half/half、%
Yr/Yr、%

Forcast

	Fy2003 First half	Fy2003 Second half	FY2004 First half	FY2004 Second half	FY2005 First half	FY2005 Second half	FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
Nominal G D P	0.3	1.3	0.9	-0.8	-0.6	0.8	0.8	1.2	-0.6
	-0.1	1.7	2.3	0.1	-1.4	0.2			
Real G D P	1.4	2.9	1.7	-0.2	-0.1	1.6	3.3	3.1	0.6
	2.0	4.5	4.7	1.6	-0.3	1.5			
cotribution of domestic demand(Qr/Qr、%)	1.0	2.3	1.2	0.2	-0.1	1.1	2.4	2.5	0.6
Private consumption	0.4	1.9	1.3	0.7	0.7	0.7	1.5	2.7	1.4
	0.3	2.6	3.3	2.2	1.4	1.5			
Housing investment	0.7	1.0	-0.2	-2.8	-0.6	-1.4	0.3	-1.1	-2.7
	-1.0	1.7	0.7	-2.9	-3.4	-2.0			
Private capital investment	6.5	7.3	2.1	1.0	-2.1	2.4	12.3	6.0	-0.4
	9.8	14.5	9.5	3.1	-1.3	0.4			
Contriburyion of Inventory investment	0.1	0.2	0.3	-0.4	-0.1	0.2	0.2	0.2	-0.2
Government expenditure	-1.7	-0.8	-0.9	0.7	0.1	0.7	-2.5	-0.8	0.8
	-2.2	-2.8	-1.3	-0.4	1.0	0.7			
Public investment	-7.2	-6.1	-7.4	-1.6	-3.3	-1.7	-12.1	-10.7	-5.0
	-11.5	-12.6	-13.2	-8.8	-5.1	-4.9			
Government final consumption expenditure	0.2	1.0	1.1	1.3	1.1	1.3	1.0	2.3	2.4
	0.7	1.3	2.1	2.5	2.4	2.4			
Contribution of external demand	0.4	0.6	0.5	-0.4	-0.0	0.4	0.8	0.6	0.0
Export of goods and services	3.6	9.5	6.8	-2.7	-0.8	5.9	11.0	10.1	0.7
	8.3	13.5	16.9	4.0	-3.5	5.0			
Import of goods and services	0.5	5.7	4.3	0.1	-1.1	3.8	4.9	7.1	0.8
	3.6	6.2	10.0	4.4	-1.0	2.6			
G D P deflator（Yr/Yr、%）	-2.1	-2.7	-2.3	-1.5	-1.1	-1.2	-2.4	-1.8	-1.2

Forecast

Yr/Yr、%

	Fy2003 First half	Fy2003 Second half	FY2004 First half	FY2004 Second half	FY2005 First half	FY2005 Second half	FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
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)	(4.7)	(3.4)	(-1.1)	(-1.5)	(3.0)	3.5	5.1	-0.6
	1.6	5.4	7.8	2.6	-2.8	1.6			
Corporate goods prices	-0.9	-1.3	1.1	1.9	-0.5	-0.7	-1.0	1.5	-0.6
Domestic corporate goods prices	-0.9	-0.2	1.3	0.9	-0.9	-0.8	-0.5	1.1	-0.8
Consumer prices	-0.3	-0.2	-0.2	0.1	-0.1	-0.3	-0.2	0.0	-0.2
exccluding freshfood	-0.3	0.0	-0.1	0.1	-0.1	-0.3	-0.2	0.0	-0.1
Yen/U.S.Dollar	118.0	108.1	110.1	114.1	117.8	118.5	113.0	112.1	118.1
Newly issued government bond yields（10years）	0.9	1.3	1.6	1.6	1.7	2.0	1.1	1.6	1.8
Crude oil price (U.S.dollar/barrel)	29.6	33.2	40.1	39.0	36.5	38.5	31.4	39.6	37.5
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.1	5.9	4.4	3.7	1.7	2.0	3.1	4.6	2.3
Spring wage increases＊	—	—	—	—	—	—	1.63	1.63	1.61

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 lavor 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】

Forcast

Yr/Yr、%

	Fy2003 First half	Fy2003 Second half	FY2004 First half	FY2004 Second half	FY2005 First half	FY2005 Second half	FY2003 (actual)	FY2004 (forecast)	FY2005 (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】

Forcast

Yr/Yr、%

	Fy2003 First half	Fy2003 Second half	FY2004 First half	FY2004 Second half	FY2005 First half	FY2005 Second half	FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
Cash earnings of employees (per capita)	-0.5	-1.5	-1.1	0.1	-0.4	-0.9	-1.0	-0.5	-0.6
Regular compensation*	-0.6	-0.8	-0.6	-0.4	-0.6	-0.8	-0.7	-0.5	-0.7
Overtime compensation	1.8	4.6	5.3	1.5	-2.0	-0.7	3.3	3.3	-1.3
Number of employees	0.1	0.3	0.7	0.7	0.1	-0.4	0.2	0.7	-0.2
Compensation of employees*	-0.6	-1.2	-0.8	0.2	-0.6	-1.4	-0.9	-0.3	-1.0
Unemployment rate	5.3	5.0	4.6	4.5	4.6	4.7	5.1	4.5	4.7

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

【New Housing Starts】

Forcast

ten thousand units(annualized)
Yr/Yr、%

	Fy2003 First half	Fy2003 Second half	FY2004 First half	FY2004 Second half	FY2005 First half	FY2005 Second half	FY2003 (actual)	FY2004 (forecast)	FY2005 (forecast)
New housing starts	115.9	119.1	114.4	117.0	114.1	114.6	117.5	115.7	114.3
(change from the previous year)	0.9	4.2	-1.3	-1.7	-0.4	-2.0	2.5	-1.5	-1.2
Owner-built	38.1	36.4	36.3	36.6	36.6	36.0	37.3	36.4	36.6
housing	4.2	-0.5	-4.6	0.5	1.0	-1.8	2.1	-2.3	-0.2
Rental	44.8	47.3	44.9	46.4	45.5	45.4	45.9	45.1	44.8
housing	-2.2	4.4	-1.5	-1.7	0.5	-2.2	0.9	-1.6	-0.8
Built-for-sale	32.3	34.4	33.3	33.1	32.2	32.4	33.4	33.2	32.4
housing	1.6	9.6	3.0	-3.6	-3.2	-2.1	5.6	-0.5	-2.6

＊ 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	0.9	1.2	0.8	-1.9	0.8	-0.1	2.2	-1.0
	-0.2	0.0	2.5	2.0	-1.0	-1.0			
Real G D P	0.6	2.1	2.7	1.0	-0.8	0.9	2.5	4.4	0.2
	2.4	2.5	5.2	3.7	0.3	0.0			
Contribution of domestic demand	0.5	1.9	2.3	0.9	-0.5	0.4	1.8	3.6	0.3
Private consumption	-0.4	1.3	1.9	0.9	0.7	0.7	0.8	3.1	1.5
	0.8	0.8	3.5	2.7	1.7	1.4			
Housing investment	-1.6	2.6	0.3	-2.4	-1.3	-1.2	-0.8	0.2	-3.0
	-2.7	1.0	2.8	-2.0	-3.7	-2.5			
Private capital investment	5.8	5.8	5.0	2.8	-1.8	-0.7	9.3	9.7	-0.7
	6.9	11.8	11.5	8.0	1.0	-2.5			
Contriburyion of Inventory investment	-0.1	0.1	0.4	0.0	-0.6	0.2	0.3	0.5	-0.4
Government expenditure	0.2	0.7	1.0	1.3	1.2	1.1	-2.1	-1.5	0.7
	-1.1	-3.0	-2.2	-0.9	0.6	0.7			
Public investment	-5.1	-8.1	-6.6	-4.0	-2.5	-2.6	-10.4	-12.1	-5.9
	-7.8	-12.9	-13.8	-10.3	-6.7	-5.1			
Government final consumption expenditure	0.2	0.7	1.0	1.3	1.2	1.1	1.0	2.0	2.4
	1.1	0.9	1.7	2.3	2.5	2.4			
Contribution of external demand	0.3	0.5	0.6	0.1	-0.4	0.4	0.7	0.9	-0.2
Export of goods and services	3.5	7.0	9.0	2.4	-3.6	2.9	10.1	14.0	-1.1
	9.4	10.8	16.7	11.5	-1.4	-0.8			
Import of goods and services	0.7	3.5	5.5	2.3	-0.9	-0.2	5.0	8.5	0.1
	5.8	4.2	9.1	7.9	1.4	-1.1			
GDP deflator	-2.6	-2.4	-2.6	-1.7	-1.3	-1.1	-2.5	-2.1	-1.2

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	9.0	8.1	9.1	15.8	18.6	17.7
balance on goods (trillion yen)	5.3	6.9	7.3	7.6	6.4	7.8	12.3	14.9	14.3
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.3	-1.9	-2.1	-3.9	-4.2	-4.0
balance on income (trillion yen)	4.2	4.1	4.7	4.2	4.0	3.8	8.3	8.9	7.9
Industrial production	0.2	2.7	3.8	2.0	-2.5	0.9	3.2	6.3	-1.0
	3.9	2.5	7.1	5.6	-0.3	-1.7			
Corporate goods prices	-1.5	-1.1	-0.1	2.0	0.7	-0.9	-1.3	0.9	-0.1
Domestic corporate goods prices	-1.0	-0.6	0.5	1.5	-0.1	-1.1	-0.8	1.0	-0.6
Consumer prices	-0.3	-0.3	-0.2	0.1	0.1	-0.3	-0.3	-0.1	-0.1
exccluding freshfood	-0.6	-0.1	-0.1	0.1	0.1	-0.3	-0.3	-0.0	-0.1
Yen/U.S.Dollar	118.6	113.2	108.5	111.7	116.1	118.8	115.9	110.1	117.4
Newly issued government bond yields（10years）	0.7	1.3	1.4	1.7	1.6	1.8	1.0	1.5	1.7
Crude oil price (U.S.dollar/barrel)	31.4	30.7	36.8	41.0	37.0	37.5	31.0	38.9	37.3
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.2	5.8	4.0	3.5	2.7	3.1	3.0	4.3	3.0
Spring wage increases＊	–	–	–	–	–	–	1.63	1.63	1.61

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 lavor 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)

UFJ Institute

【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	-1.5	-0.2	-0.2	-0.8	-0.9	-0.8	-0.5
Regular compensation*	-0.6	-0.8	-0.7	-0.4	-0.4	-0.8	-0.7	-0.6	-0.6
Overtime compensation	1.8	3.2	5.6	3.4	-0.2	-2.1	2.5	4.5	-1.2
Number of employees	0.1	0.0	0.5	0.8	0.4	-0.2	0.1	0.7	0.1
Compensation of employees*	0.0	-1.2	-1.6	0.0	-0.2	-1.2	-0.6	-0.8	-0.7
Unemployment rate	5.4	5.1	4.8	4.5	4.5	4.7	5.2	4.6	4.6

Notes:

* Figures are for establishments of five employees or more, Ministry of Health, Labour and Welfair, 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	115.0	116.5	113.5	116.0	118.1	115.5
(change from the previous year)	-0.1	1.4	0.8	0.2	-1.4	-1.3	0.8	1.7	-2.2
Owner-built	37.3	37.0	36.2	36.4	36.8	36.1	37.3	36.4	36.5
housing	0.5	1.5	-2.9	-1.6	1.5	-1.1	1.3	-2.4	0.3
Rental	45.7	44.6	46.6	45.9	45.9	45.6	45.2	45.7	45.1
housing	2.5	-1.6	2.0	2.8	-1.4	-0.6	0.3	1.1	-1.3
Built-for-sale	32.1	33.1	34.0	32.9	32.7	32.2	32.7	33.5	32.5
housing	-4.6	6.3	5.9	-0.6	-3.8	-2.3	0.8	2.6	-3.0

UFJ Institute

Economic Outlook (Quarterly)

Forecast (starts at Fy2004 7-9)

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 ＧＤＰ	0.6	0.3	0.6	1.1	-0.3	1.4	-0.9	-1.3	-0.3	0.7	0.6	-0.3
	0.0	-0.3	0.3	3.2	1.8	3.0	1.1	-1.0	-1.0	-1.8	-0.3	0.7
Real ＧＤＰ	1.0	0.6	1.8	1.6	0.4	1.0	-0.3	-0.6	-0.0	0.4	0.9	0.8
	2.1	1.9	3.1	5.9	4.4	5.0	2.5	0.6	-0.1	-0.6	0.7	2.3
cotribution of domestic demand(Qr/Qr、%)	0.8	0.4	1.4	1.3	0.1	0.8	-0.0	-0.4	-0.0	0.2	0.7	0.8
Private consumption	0.2	0.7	1.1	1.0	0.6	0.4	0.3	0.4	0.3	0.3	0.4	0.4
	0.7	-0.1	1.8	3.5	3.4	3.2	2.3	2.0	1.4	1.3	1.4	1.5
Housing investment	-0.2	3.1	-0.8	0.5	0.3	-1.5	-2.1	0.1	-0.7	-0.0	-1.8	0.8
	-3.3	1.2	0.8	2.5	3.0	-1.4	-2.7	-3.2	-4.2	-2.6	-2.3	-1.6
Private capital investment	5.7	-0.3	6.6	1.7	0.0	2.4	0.7	-1.8	-0.7	-1.2	1.6	2.8
	10.6	9.1	14.7	14.4	8.0	10.8	5.1	1.4	0.6	-3.0	-2.0	2.5
Contriburyion of Inventory investment	-0.0	0.3	-0.2	0.5	-0.0	0.2	-0.3	-0.4	-0.0	0.2	0.1	0.0
Government expenditure	-0.9	-1.1	-0.1	-0.4	-0.8	0.3	0.4	0.3	-0.1	0.1	0.4	0.4
	-1.5	-2.9	-3.0	-2.6	-1.8	-0.9	-0.8	0.1	1.1	0.8	0.6	0.8
Public investment	-3.2	-5.8	-1.6	-3.4	-5.1	-1.4	-0.1	-1.7	-1.6	-1.7	-0.1	-1.4
	-9.2	-13.5	-12.4	-12.7	-15.5	-11.2	-9.6	-7.8	-5.0	-5.2	-5.0	-4.7
Government final consumption expenditure	-0.2	0.6	0.4	0.5	0.4	0.8	0.6	0.8	0.3	0.7	0.6	0.8
	0.7	0.8	1.1	1.4	2.0	2.2	2.3	2.6	2.4	2.4	2.4	2.4
Contribution of external demand	0.3	0.2	0.4	0.3	0.3	0.1	-0.3	-0.2	-0.0	0.3	0.3	0.0
Export of goods and services	1.3	3.6	5.2	4.5	3.5	1.9	-2.6	-2.2	-0.4	1.4	3.5	3.4
	6.6	9.9	11.6	15.5	17.9	16.0	7.4	0.6	-3.2	-3.8	2.2	8.0
Import of goods and services	-1.0	2.6	2.7	3.1	2.0	1.5	-0.3	-0.7	-0.2	-1.0	1.9	4.8
	3.5	3.6	4.8	7.6	10.6	9.5	6.3	2.5	0.3	-2.2	-0.1	5.4
ＧＤＰ deflator（Yr/Yr、%）	-2.0	-2.1	-2.7	-2.6	-2.6	-1.9	-1.4	-1.6	-0.9	-1.2	-0.9	-1.5

Forecast (starts at Fy2004 7-9)

	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	4.6	5.1	3.9	4.1	4.0	4.6	4.4	4.9
balance on goods (trillion yen)	2.8	3.2	3.7	3.6	3.7	3.9	3.7	3.1	3.3	3.7	4.1	3.5
balance on service (trillion yen)	-0.7	-0.9	-1.2	-0.8	-1.1	-1.0	-1.3	-0.8	-1.1	-0.9	-1.3	-0.8
balance on income (trillion yen)	1.9	2.4	1.7	2.6	2.1	2.4	1.8	2.0	2.0	2.0	1.8	2.5
Industrial production	-0.4	1.0	3.9	0.5	2.6	1.0	-0.7	-1.8	-0.8	0.3	1.9	1.7
	2.2	1.0	4.1	6.8	7.4	8.1	3.2	2.0	-2.6	-2.9	-0.5	3.6
Corporate goods prices	-1.4	-0.3	-1.9	-0.8	0.6	1.6	2.4	1.5		-0.9	-0.9	-0.5
Domestic corporate goods prices	-1.0	-0.7	-0.4	0.1	0.9	1.6	1.5	0.4	-0.6	-1.2	-1.0	-0.5
Consumer prices	-0.3	-0.2	-0.3	-0.1	-0.3	0.0	0.1	0.1	0.1	-0.2	-0.3	-0.3
exccluding freshfood	-0.4	-0.1	0.0	0.0	-0.2	0.0	0.1	0.1	0.1	-0.2	-0.3	-0.3
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	109.7	110.5	113.0	115.3	117.0	118.5	119.0	118.0
Newly issued government bond yields（10years）	0.59	1.20	1.38	1.31	1.59	1.70	1.60	1.50	1.60	1.70	1.90	2.10
Crude oil price (U.S.dollar/barrel)	28.9	30.2	31.2	35.3	38.3	42.0	40.0	38.0	36.0	37.0	38.0	39.0

【Exports and Imports】

Forecast

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
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】

Forecast

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
Cash earnings of employees (per capita)	0.6	-1.7	-1.3	-1.7	-1.2	-0.9	0.4	-0.3	-0.1	-0.7	-0.9	-0.9
Regular compensation*	-0.5	-0.6	-1.0	-0.6	-0.7	-0.5	-0.4	-0.3	-0.5	-0.7	-0.8	-0.9
Overtime compensation	1.1	2.7	3.6	5.6	5.6	5.0	2.0	1.0	-1.5	-2.5	-1.8	0.5
Number of employees	0.3	-0.2	0.3	0.4	0.7	0.8	0.8	0.7	0.2	0.0	-0.4	-0.4
Compensation of employees*	0.9	-2.3	-0.3	-2.4	-0.9	-0.6	0.5	-0.1	-0.3	-1.0	-1.4	-1.5
Unemployment rate	5.4	5.1	5.1	4.9	4.6	4.6	4.5	4.5	4.5	4.6	4.7	4.8

【New Housing Starts】

Forecast

ten thousand units(annualized)

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
New housing starts(＊)	119.8	112.0	117.5	120.8	115.5	113.4	116.5	117.5	115.5	112.6	114.3	114.9
(change from the previous year)	2.2	-0.6	3.2	5.4	-3.7	1.3	-0.8	-2.7	-0.1	-0.7	-1.9	-2.2
Owner-built housing	38.4	37.8	36.3	36.5	35.9	36.6	36.3	36.9	36.6	36.6	35.5	36.4
	3.6	4.9	-1.3	0.5	-6.0	-3.0	0.0	1.0	2.0	0.0	-2.0	-1.5
Rental housing	46.1	43.5	45.7	48.9	44.3	45.5	46.2	46.6	45.3	45.6	45.6	45.3
	2.0	-6.5	2.0	7.4	-6.4	4.0	1.0	-5.0	1.0	0.0	-1.5	-3.0
Built-for-sale housing	32.8	31.8	34.4	34.3	33.7	32.8	33.0	33.1	32.3	32.1	32.2	32.5
	0.8	2.5	9.8	9.4	3.1	2.9	-4.0	-3.3	-3.9	-2.4	-2.3	-1.9

＊ Seasonally adjusted annual rate