May 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 January–March period of 2004, Japan’s real GDP rose 1.4% over the previous quarter (an annualized growth rate of 5.6%), thus recording the eighth consecutive quarter of positive growth and the second consecutive quarter of growth over 5%(annualized growth rate). Although the rate of decline in the GDP deflator was –2.6% compared with the same quarter of the previous year, GDP growth in nominal terms over the previous quarter was 0.8%, the fourth consecutive quarter of expansion.

Exports are continuing to increase, sustained especially by shipments to Asia against a background of growth in the world economy. Along with the recovery in corporate profitability, private capital investment is showing steady expansion. In addition, although improvement in the employment and income environments is gradual, private consumption is firm, sustained in part by improvement in consumer confidence. Housing investment rose for the first time in two quarters.

On the other hand, government final consumption is continuing to increase, accompanying expansion in health-care and nursing costs, but the margin of decline in government public investment is increasing, in part because of the impact of the absence of a supplementary budget containing additional allocations for public works. As a result, demand from the public sector has now declined for six consecutive quarters, and, from the perspective of the economy as a whole, private-sector demand continues to be the driving force for the recovery in the Japanese economy.

The real GDP growth rate for fiscal 2003, ended March 31, 2004, was 3.2%. This exceeded the 3.0% growth for fiscal 2000, at the time of the IT boom, and is the highest rate of growth since the 3.6% recorded in fiscal 1996. Private capital investment (contributing +1.9%) and external demand (contributing +0.9%) were the key drivers in the economy, but the rate of growth in private consumption began to rise in the second half of the fiscal year (contributing +0.9%). Nominal GDP growth was 0.7%, the first positive growth in three years.

(2) Key Features of the Economic Outlook

The current recovery trend, which began early in 2002, appears to be continuing and has expanded in scope from external demand to private capital investment and private consumption. The GDP for the January–March quarter of 2004 stood 5.4% above the same quarter of 2003 in real terms and was up 2.6% in nominal terms. This real growth rate was comparable to rates of expansion during Japan's bubble economy. The most recent data show recovery is above expectations, and we have revised upward our forecast for fiscal 2004, issued in our last quarterly report (in February). However, our scenario for a slowdown in the latter half of the fiscal year remains unchanged. Some of the key features of our outlook this time may be summarized as follows.

(a) Recovery in the World Economy and Expansion in Exports

External demand accounted for 0.8% of the 1.1% real growth of the economy in fiscal 2002. In fiscal 2003, real GDP growth rose to 3.2% and external demand accounted for 0.9%. External demand is therefore playing a major role in driving growth in the current recovery. In considering the future outlook for the economy, trends in the world economy, which support Japan's external demand, will be an important factor to watch. At present, exports to Asia are growing rapidly, against a background of recovery in the world economy, and exports to the United States are beginning to recover. In addition, exports to the EU, Latin America, Russia, and certain other areas are expanding. The positive contribution of exports to Japan's external demand is on track as previously expected, and export growth is likely to continue in the first half of fiscal 2004. Thereafter, as the world economy slows in the second half, the rate of expansion in exports is likely to fall. We are looking for the next expansionary phase in exports in the latter half of 2005.

(b) Recovery in Corporate Profitability and Expansion in Capital Investment

Corporate profits are recovering along with expansion in production and shipments. Although sales prices are on a declining trend and the value of sales is not rising significantly, profits are increasing supported by growth in demand—which is bringing expansion in the unit volume of sales—and cost reductions. For this reason, small and medium-sized companies, which had been postponing capital investment because of a shortage of funds, are now expanding replacement investment. In addition, some sectors where utilization rates are high, such as digital electronics manufacturing, are beginning to make investments to expand capacity. This recovery in capital investment is proceeding as expected, but the scale of the recovery is greater than previously anticipated.

Looking forward, fluctuations in exports are likely to have an impact on corporate profits, and this, in turn, will be a determining factor for trends in capital investment. For this reason, in the latter half of fiscal 2004, we believe the decline in exports will bring a deterioration in corporate profits, thus leading to a deceleration of capital investment. Thereafter, we believe capital investment will begin to expand again in the latter half of fiscal 2005.

(c) Recovery Spreading to the Household Sector

As corporate profitability improves, employment and incomes will rise, but, during the current recovery, the improvement in the employment and income environments has been marginal. On the other hand, since the latter half of fiscal 2003, the pace of recovery in private consumption has been rising. Reasons for the firmness in consumption compared with the income environment appear to include improvement in consumer confidence. Although the recovery in income and employment is not robust, the awareness that the worst is over and conditions are better appears to have made consumers more confident than before.

If there is no improvement in the employment and income environments, the recovery in consumption based on increased confidence alone may be short-lived. However, on the other hand, there are other factors contributing to the firmness in private consumption. First, senior citizens are showing a trend toward drawing from their savings, and, with the percentage of older persons in the population rising, this will tend to push the overall propensity to consume upward. In addition, the decline in prices, which pushes real income upward, is most likely another factor accounting for the firmness in private consumption. As these considerations suggest, consumption will most probably not show the relatively high rates of expansion reported in the latter half of fiscal 2003, but a gradual recovery trend seems likely to continue.

(d) Possibility of an End to Deflation

The rate of decline in consumer prices has moved virtually to zero, and domestic corporate prices have begun to rise year on year. Does this mean that deflation will end and that inflation will return? We believe that the decline in prices will pause and then begin to rise temporarily. However, the rate of increase will be small, and the probability of a sustained rise in prices is low. Until recently, the shrinkage in the margin of decline in prices appears to have been due to a narrowing of the gap between supply and demand along with the economic recovery and increases in raw material prices. First, movements toward passing on increases in raw material prices to product prices are continuing, but the closer to final demand, the more difficult it is to pass on cost increases. Moreover, if signs of a slowdown in the economy emerge, the forces of supply and demand will again exert downward pressure on prices.

However, a continuation of deflation does not mean that the economy will move into a downslide. To the contrary, if deflation continues, a major increase in inventories is not likely, and private consumption is not likely to weaken. Therefore, a sudden deterioration in economic conditions is unlikely.

On the other hand, we should focus our attention on the likelihood that if deflationary pressures persist at the consumption stage, an increase in raw material prices will lead to downward pressures on corporate profits. While exports are strong and production as well as shipments, are expanding in unit terms, it is possible to absorb cost increases from higher raw material prices. However, when the economy slows, higher raw material prices will have a more serious negative impact on corporate profits.

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

Since the latter half of 2003, the U.S. economy has been in a growth phase, supported by expansion in private consumption stimulated by a major tax cut and growth in private capital investment, especially replacement investments. Employment and income environments have improved. In addition, the rate of inflation is rising, and concerns about possible deflationary trends have receded. From the latter half of 2004 through the first half of 2005, although the economy may show some signs of weakening as the impact of the tax cut runs its course and interest rates rise, a major adjustment is not likely. Instead, we are looking for a return to the recovery path in the latter half of 2005.

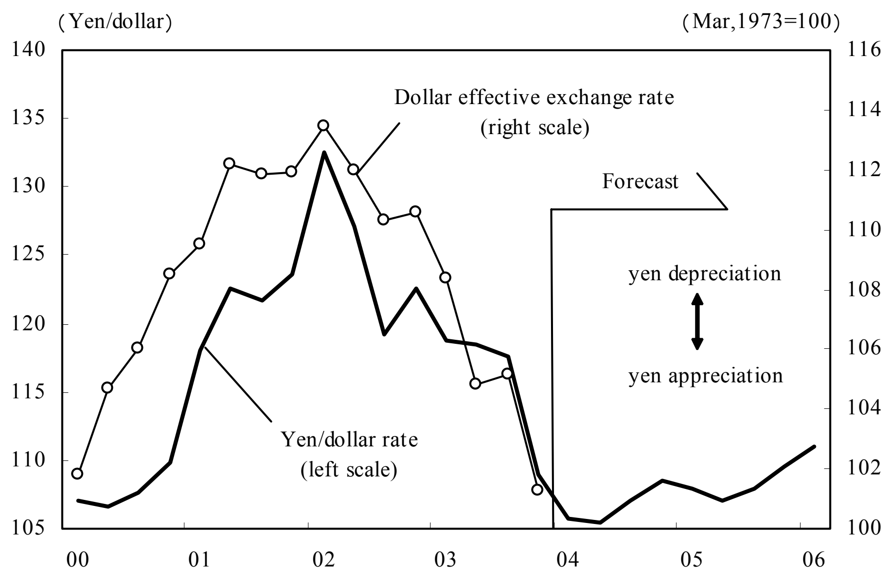
The eurozone entered the recovery process led by external demand beginning in the July–September quarter of 2003. As a result of recovery in exports and industrial production, corporate confidence is gradually improving. On the other hand, in Germany, improvement in consumer confidence has been delayed by reforms in social welfare, which will increase the burden on households, and other factors, and, as a result, private consumption remains stagnant. Although recovery trends are expected to continue in the eurozone, the pace will be gradual. In addition, there may be growing signs of economic adjustments from the latter half of 2004 through the first half of 2005 as exports slow.

In Asia, the economies of the region are expanding rapidly as exports remain firm, along with recovery in the world economy, and employment and incomes are recovering. The Chinese economy is exceptionally robust. However, these trends may weaken and economic growth may slow beginning in the latter half of 2004 as the U.S. economy decelerates and the impact of policies to tighten regulatory and monetary conditions in China emerges. In China, concern about the overheating of the economy—along with excessive investment due to the construction boom and other factors—has prompted the central government to adopt stricter criteria for granting approvals and the central bank to raise deposit reserve requirements. The effects of these policies will emerge gradually. Beginning in the latter half of 2005, however, the economy is expected to pick up again, along with recovery in the world economy.

(b) Exchange Rates

After reaching a recent high of ¥103 to the U.S. dollar at the beginning of April 2004, the yen began to weaken following the announcement of favorable economic indicators in the United States and growing anticipation of higher dollar interest rates. Although factors that may lead to a weaker dollar and a stronger yen remain, such as expectations for recovery in Japan and concern about conditions in Iraq, we are assuming that the dollar will gradually strengthen against the yen as confidence in the U.S. recovery grows and expectations of higher dollar interest rates rise. From the latter half of fiscal 2004 onward, concerns about future trends in the Japanese economy may also lead to a weaker yen.

Exhibit 1: Outlook for Yen-Dollar Exchange Rate



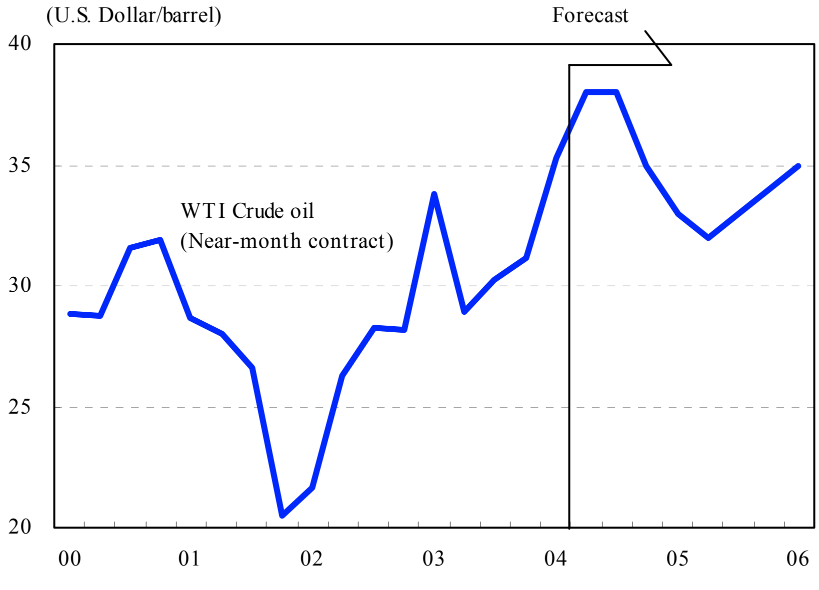
Sources: Bank of Japan, Finacial and Economic Statistics Monthly,
FRB「Federal Reserve Bulletin」

(c) Crude Oil Prices

The West Texas Intermediate (WTI) crude oil price index (NYMEX WTI crude, monthly closing price) has risen to slightly more than US$40 a barrel as a result of a combination of factors. These include the recovery in the world economy, the shortage of refining capacity, which has brought sharp increases in the price of gasoline in the U.S., and the inflow of speculative funds into oil markets triggered by the stalemate in Iraq. Some observers have raised concerns about a possible downtrend in the world economy set off by high oil prices and believe that the likelihood that OPEC may increase production is rising. However, since OPEC is already producing well over the production quotas formally set by the cartel, spare capacity is limited and higher production may put only limited downward pressure on crude oil prices. On the contrary, as long as the gasoline problems continue in the United States and the uncertainty about supply because of terrorist incidents in the Middle East, as well as other factors that will tend to push prices upward, persist, there is a strong possibility that prices may remain around US$40 a barrel.

However, by the latter half fiscal 2004, when the world economy is slowing and after the shortage of gasoline supplies in the United States has peaked, oil prices are forecast to show a gradual declining trend. A major adjustment, however, will be avoided because the downward pressures created by trends in the world economy are likely to be relatively weak, and, even if oil prices decline, OPEC may respond by lowering production. The expansion in demand owing to increases in industrial production in China and other countries in Asia will also act to sustain prices. Since the world economy will move toward recovery in 2005, oil prices are likely to begin to rise again.

Exhibit 2: Outlook for WTI Crude Oil Price



Source: Bloomberg Financial Markets

(d) Government Fiscal Policy

In the national government budget for fiscal 2004, public works related expenditures were cut 3.5% from the previous fiscal year. On an original budget basis, public works spending has declined for three consecutive years. Similarly, regional governments have cut their budgets for projects undertaken on their own initiative by 9.5% 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 increase 4.8% over the previous year, and nursing insurance payments will rise 14.9%.

In fiscal 2005, we have assumed that national government public works related expenditures will be reduced 3.0% from fiscal 2004 and that outlays for projects undertaken by local government on their own initiative will be cut 5.7% (with expenditures of an investment nature in local budgets declining 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 expenditures, we are assuming that no changes, such as alterations in the percentage of social insurance payments borne by individuals, will be made in related systems that will result in major cutbacks in payments of welfare benefits. These expenditures are also assumed to increase in fiscal 2005, thus bringing an overall gain in government expenditures.

(e) Monetary Policy
At present, the economic recovery is gaining momentum, and this is having a braking effect on the downtrend in prices. These developments have given rise to discussion that the Bank of Japan (BOJ) may be close to ending its policy of quantitative relaxation of monetary policy. However, to calm speculative comments about its policy intentions, the BOJ has announced that the condition for suspending its policy of monetary relaxation will be “when the core portion of the consumer price index (CPI) rises and remains stable above 0% in comparison with the same period of the previous year.” We do not believe the CPI will satisfy this condition for ending the current policy during the forecast period, and, therefore, we assume that the quantitative relaxation of monetary policy will remain in effect.

Moreover, we believe that stability in the financial system will be an important condition for suspending the current policy. It is reasonable to believe that instability in the financial system has been avoided as a result of the provision of liquidity through monetary relaxation. In this sense, other conditions for the suspension of the currency policy of monetary relaxation will be (1) the satisfaction 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 full removal of blanket deposit insurance as scheduled by April 2005.

(2) Economic Outlook for Fiscal 2004: Third consecutive year of positive growth, movement into an adjustment phase in the second half

Fiscal 2004 began with a continuation of the recovery trend that commenced in the previous fiscal year. We are forecasting real GDP expansion of 2.9%, the third consecutive year of positive growth, and expansion in nominal terms of 1.1%, the second year of positive growth. However, we believe the economy will move into an adjustment phase beginning in the latter half of the fiscal year.

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

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. Nevertheless consumer confidence is improving, and we expect consumption will continue on a gradual rising trend in real terms. On the other hand, private residential investment will be level with that of the previous fiscal year or decline slightly. Government public works investment will most likely continue on a downward trend, while government consumption will show further increases along with higher expenditures for health care and nursing.

Along with the recovery in the economy, downward pressure on prices will ease, and domestic corporate prices are beginning to rise, reflecting increases in raw material prices. In addition, year to year declines in consumer prices have shrunk close to zero. In fiscal 2004, domestic corporate prices will most likely continue to rise, but, as crude oil and other commodity prices begin to decline and the economy slows in the latter half of the fiscal year, corporate prices may begin to fall. Moreover, although consumer prices may rise temporarily above the previous year’s level, they will generally remain level with those of the prior year.

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

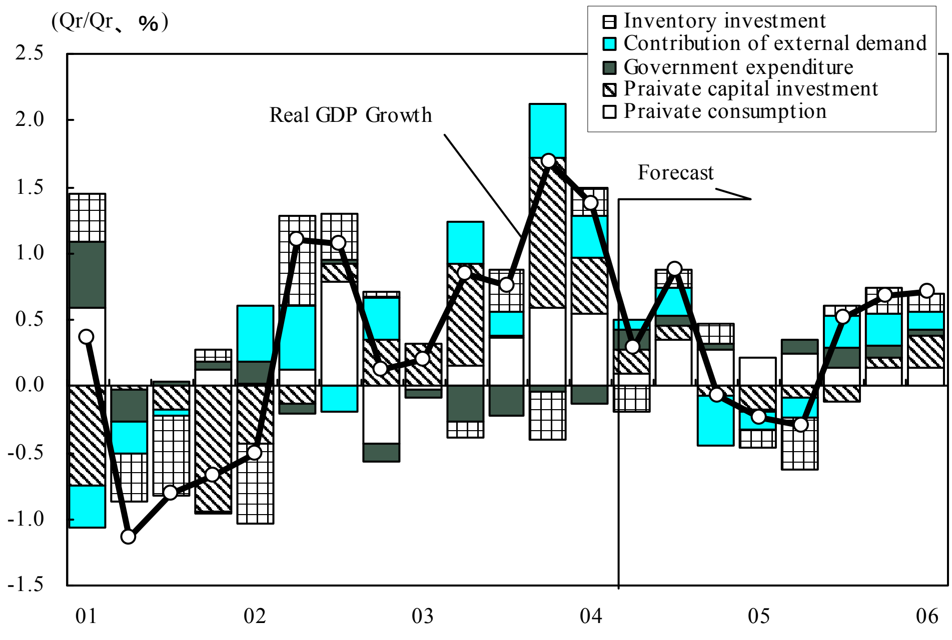
The economic adjustments in fiscal 2004 are expected to continue into fiscal 2005, but we are forecasting a bottoming out and improvement in the second half of fiscal 2005. Real GDP is forecast to rise 0.7%, marking the fourth consecutive year of positive growth. However, nominal GDP is expected to decline 0.7%, the first negative growth in three years.

Trends in the economy in fiscal 2005 will be shaped by exports and private capital investment. The world economy will slow in the first half but begin to recover again in the latter part of the year, thus bringing expansion in exports. This, together with recovery in corporate profits, will bring an increase in capital investment.

The rising trends in private consumption and government final consumption and the declining trends in private residential investment and government public works investment prevailing in fiscal 2004 will continue in fiscal 2005. 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.

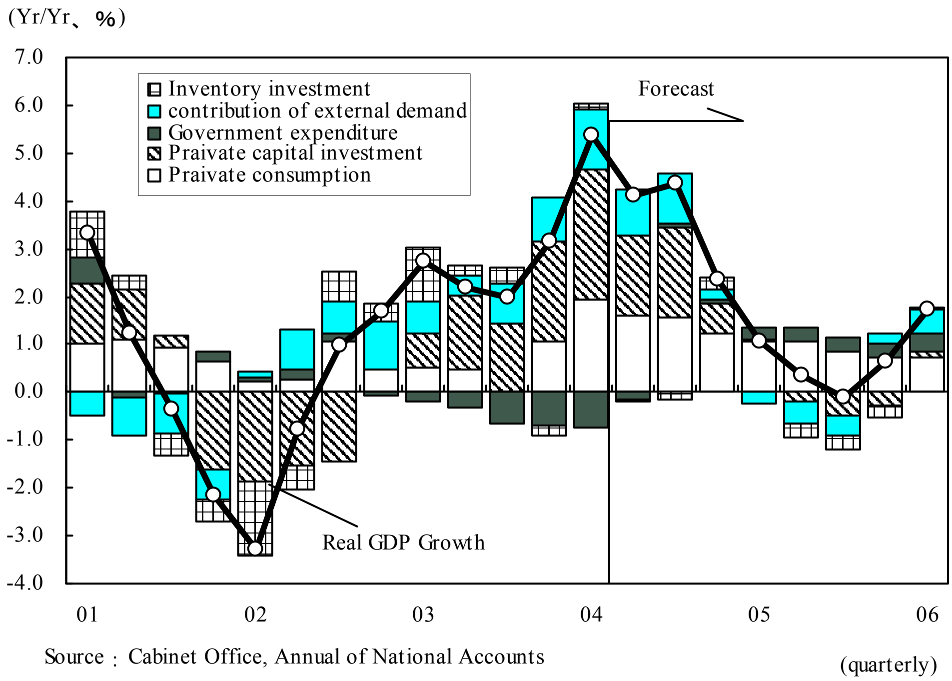
Prices are expected to decline by a small margin as the economic slowdown beginning in the second half of fiscal 2004 will strengthen downward pressures on price levels. However, in the latter half of fiscal 2005, the margin of decline in prices will shrink as growth in the economy begins to recover.

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

3. Outlook by Demand Component

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

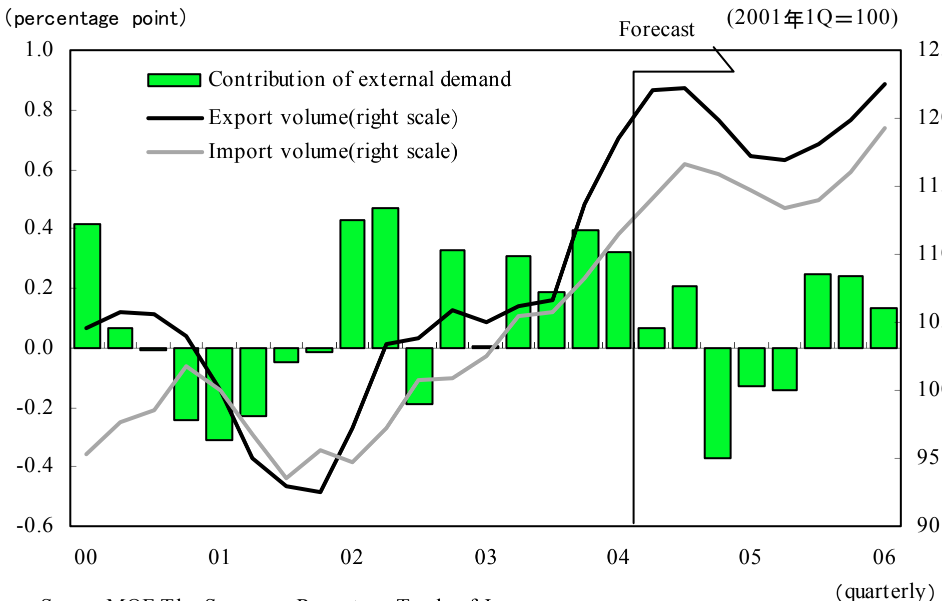
Examination of trends in the unit volume of exports shows that exports were stagnant in the first half of fiscal 2003 because of the impact of the weakness in overseas economies and the SARS epidemic; however, growth rates rose in the latter half, especially for electronics-related goods.

Since recovery in overseas economies is expected to continue in the first half of fiscal 2004, the upward trend in exports will most likely persist. The principal driving forces will be shipments of electronics-related and capital goods to the rest of Asia, along with exports to the United States, principally capital goods and automobiles. However, in the latter half of fiscal 2004, the U.S. economy is likely to show slower growth as the positive impact of the tax cut diminishes and interest rates rise. In addition, since the Chinese economy is expected to slow as a result of policies to tighten regulatory and monetary conditions, Japan's exports in volume terms are forecast to begin to decline. In fiscal 2005, exports will remain weak in the first half but, in the latter half, will rise along with stronger conditions in overseas economies.

Examination of trends in import volumes in fiscal 2003 shows increases along with the recovery in the domestic economy. Since expansion in the economy will continue in the first half of fiscal 2004, imports are likely to continue to expand, especially raw materials, intermediate goods, and machinery from overseas production centers of Japanese companies. In the latter half of fiscal 2004, the domestic economy will weaken and production will fall. As a result, imports of raw and intermediate materials are expected to decline. In the first half of fiscal 2005, stagnation in imports will persist, but, in the second half, imports will rise along with the recovery in the domestic economy.

External demand contributed a significant 0.9 percentage point to the overall growth rate in fiscal 2003. In the latter half of fiscal 2004, the growth in exports is expected to exceed growth in imports; therefore, external demand will make a positive contribution. Nevertheless, in the latter half, as a result of the impact of slower growth overseas, the contribution of the external sector is likely to be negative. In the early part of fiscal 2005, negative contributions may continue, but after midyear, exports will begin to pick up, and the contribution of the external sector is expected to become positive.

Exhibit 5: Outlook for Trade



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

(2) Corporate Sector: Strong performance to peak out in latter half of fiscal 2004

(a) Production: Will continue to rise through first half of fiscal 2004, but momentum will weaken in the second half

Production marked time at the beginning of 2003, but expansion resumed in the latter half of the year, as a result of firm demand for digital home appliances and other factors. In the October–December quarter of 2003, production recorded strong growth of 3.9% over the previous quarter 2003 and, subsequently, rose 0.5%, thus maintaining an upward trend in the January-March quarter 0f 2004. Production in fiscal 2003 increased 3.5%

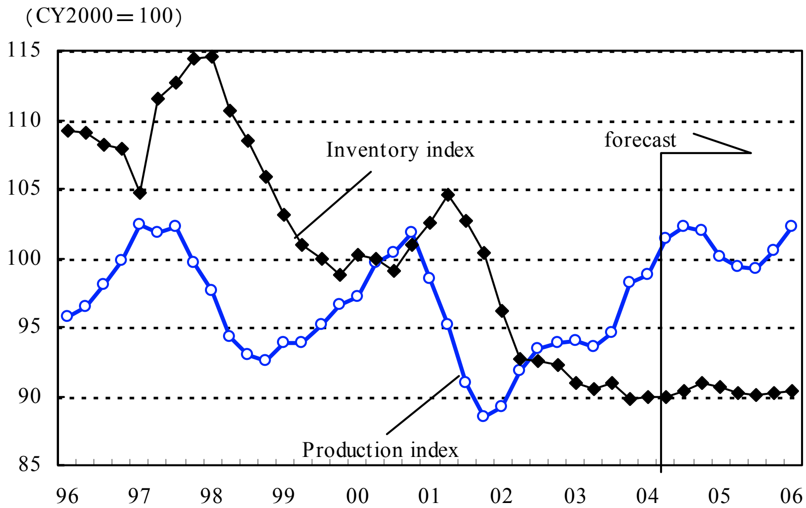
over the previous fiscal year, faster than the 2.8% increase reported for fiscal 2002.

According to the forecast index for the manufacturing sector, even higher growth of 5.6% over the previous month is expected for April, although 2.2% is forecast for May. Therefore, the rising trend in production is viewed as likely to continue, even now that the economy has entered fiscal 2004. Factors leading to this upward trend include continued strong exports, owing to good performances of the U.S. and other overseas economies and demand for digital home appliances prior to the Summer Olympics in Athens. In addition, orders for small sized machinery and equipment are increasing substantially, and the wave of recovery in private capital investment appears to have spread to small and medium-sized enterprises, thus providing support for expansion in production of investment-related capital goods. The rising trend in production is expected to continue through the middle of fiscal 2004.

Nevertheless, in the latter half of fiscal 2004, the U.S. economy is likely to begin to slow and Japan's exports may weaken. At present, recovery in production is driven by exports, and, if exports begin to slow, this may lead to the beginning of a downward trend in production. Also, if capital investment pauses, this will also be a factor restraining production.

Production is likely to show a downward trend from the latter half of fiscal 2004 through the first half of fiscal 2005, but, in view of low levels of inventories, the adjustment in production is likely to be relatively short-lived. When economic conditions overseas begin to improve and Japan's exports start to rise in the latter half of fiscal 2005, production is also expected to resume expansion.

Exhibit 6: Outlook for Industry Production

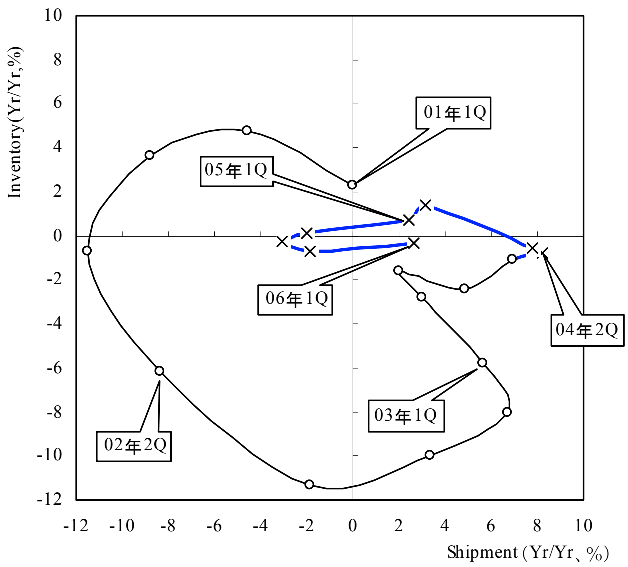


Source: Ministry of Economy, Trade and Industry (METI), Economic and Industrial Statistics (quarterly)

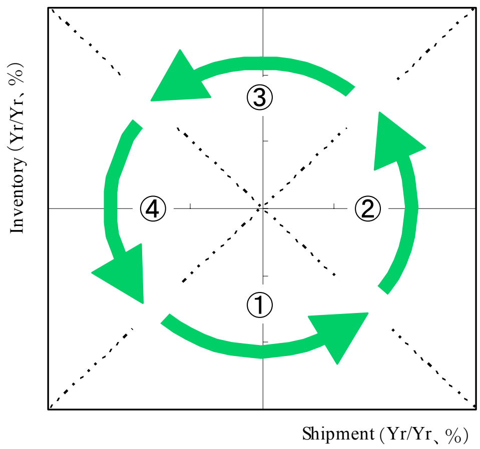
Inventories increased for two consecutive months, in February and March 2004, and were up 0.2% for the January–March quarter, thus showing signs of expansion. However, unlike recovery periods in the past, there are no signs that companies are expanding inventories aggressively, and, at present, stocks are at a relatively low level. Factors accounting for this include improvements in inventory management technology, the desire among companies to avoid the risk of holding inventories in a deflationary environment where stocks of goods may lose value, and the trend toward holding inventories overseas where companies have relocated their production activities.

However, it is possible that there may be gradual increases in inventories in the latter half of fiscal 2004 in sectors where demand is strong at present, such as IT-related goods. Moreover, declines in export growth may be another factor leading to higher inventories. Corporations are adopting a cautious stance toward building inventories; therefore, it is possible that they will make adjustments in production quickly before there is any significant increase in stocks. For this reason, we believe an adjustment in inventories will begin around the beginning of 2005. Nevertheless, since the rise in inventories will have been relatively small, the adjustment phase should be mild, without any major downward pressures on production. In the inventory cycle graph, the size of the cycle this time is smaller than before.

Exhibit 7: Inventory Cycle Movements



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



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

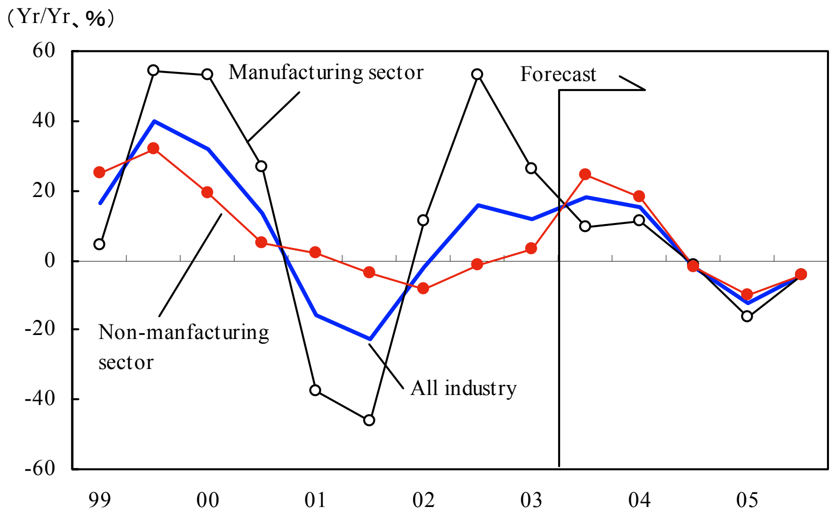
(b) Corporate Profitability: Profits to continue to rise, but downward pressures will emerge in the latter half of fiscal 2004

Corporate profits are likely to show a steady increase through the middle of fiscal 2004. In the manufacturing sector, shipments of IT-related goods, including capital goods and digital home appliances, are expected to continue to be strong, and, together with favorable exports, sales are expected to rise. In addition, as a result of restructuring measures completed to date, including reduction in liabilities and personnel costs, corporations are better positioned to generate profits and are expected to report further increases in current profits. The performances of companies in the non-manufacturing sector are also expected to improve, although the pace of increase in sales and profits is likely to lag that of the manufacturing sector.

However, the operating environment is expected to become more challenging in the latter half of fiscal 2004. Sales are likely to level off, as the momentum of domestic demand weakens because of the slowdown in exports, lower demand for capital investment goods, and other factors. Moreover, the deterioration in Japan's terms of trade, as a consequence of continued increases in crude oil and other commodity prices, is expected to have a lagged negative impact and begin to put downward pressures on profitability in the latter half of fiscal 2004. In addition, the positive impact of previous restructuring measures has about run its course, and the rise in depreciation expenses in the wake of increased capital investment will increase costs. As a consequence, in the latter half of fiscal 2004, profits in the manufacturing and non-manufacturing sectors are expected to begin to fall.

In the first half of fiscal 2005, the margin of decline in profits will expand, but, even though growth in sales will weaken, companies have streamlined their activities and are expected to continue to generate earnings without having to report a major deterioration in profitability, even under more difficult business conditions. Profits are forecast to begin to recover near the end of fiscal 2005 as exports start to expand again and domestic demand stages a comeback.

Exhibit 8: Outlook for Corporate Performance



Source:MOF,Quarterly Statistics on Incorporated Enterprises

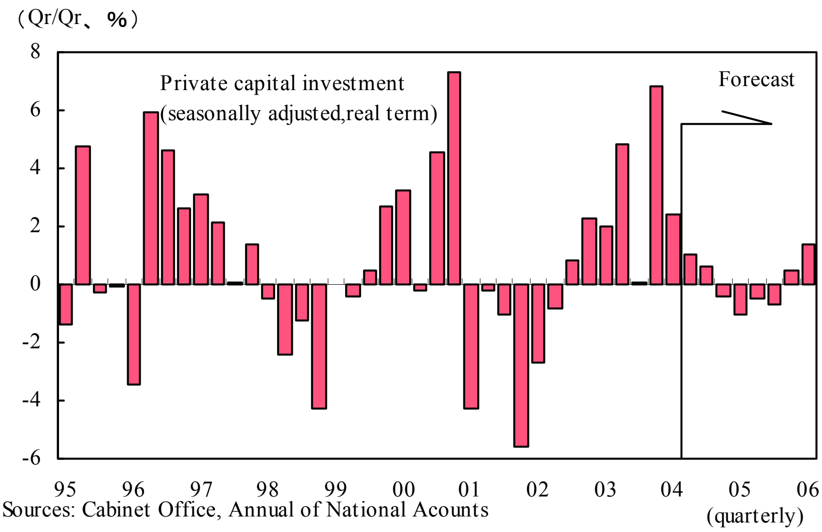
(c) Private Capital Investment: Forecast to peak out in mid-fiscal 2004

Private capital investment has expanded steadily on a real GDP basis for seven consecutive quarters, beginning in the July–September period of 2002, and has been one of the factors driving economic expansion. We are looking for continued growth in capital investment through the middle of fiscal 2004, driven especially by the electric machinery industry, where demand for digital-related equipment is firm as well as among small and medium-sized companies that have thus far restrained their capital outlays.

However, as corporate profitability begins to weaken and after more than two years of expansion in capital investment, new investment demand is likely to have run its course. Therefore, we anticipate that capital investment will peak out and begin to decline in the latter half of fiscal 2004. Orders for plants and equipment from private sectors (excluding orders from the shipping and electric power industries), which are a leading indicator for investment spending, began to decline in the January–March quarter of 2004, falling 5.6% below the previous quarter. Surveys of the outlook for plant and equipment orders forecast a 3.2% decline for the April–June quarter, thus suggesting a slowdown in capital spending in the months to come.

Nevertheless, since the drop in production will be relatively small and the impact on corporate performance is to be minor, the decline in investment will not be prolonged. As performance begins to improve in the latter half of fiscal 2005, investment is expected to stage a recovery.

Exhibit 9: Private Capital Investment

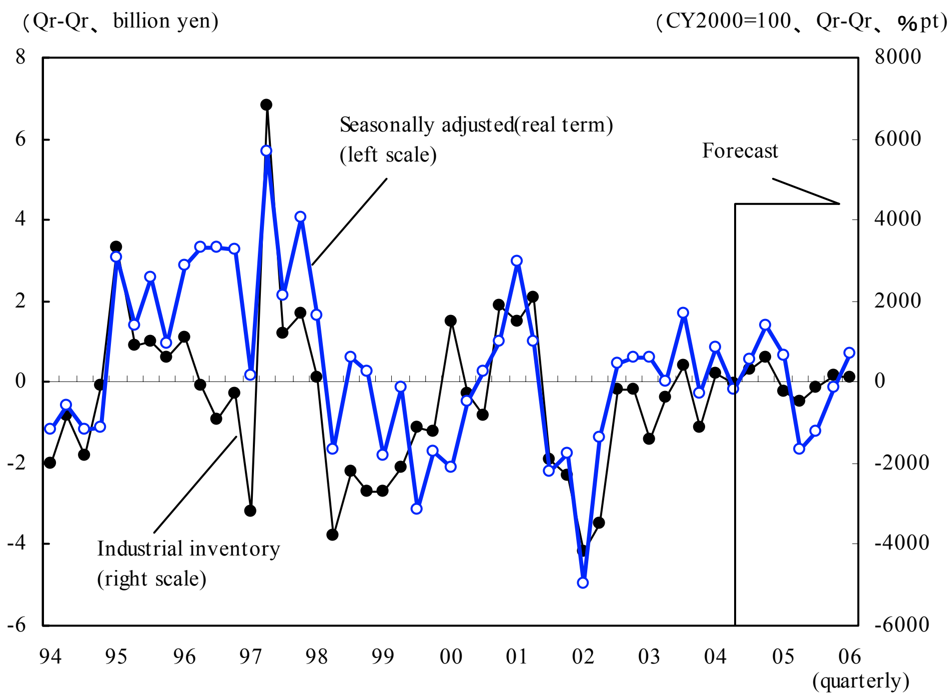


Sources: Cabinet Office, Annual of National Acounts

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

Since companies are cautious about adding to their inventories, inventory investment is making only a small contribution to GDP growth. As demand remains firm in the coming months, we expect a weak trend toward building inventories. As a consequence, inventory investment will have only a slight positive impact on growth. However, since growth in shipments is expected to slow, corporations will begin to make unintended inventory investments, and, as a trend toward inventory adjustments emerges in the latter half of fiscal 2004, the contribution of inventory investment to GDP growth will become negative, and, for the fiscal year as a whole, the contribution is likely to remain unchanged. In fiscal 2005, inventory adjustments will be completed in the first half, but, in the latter half, companies will continue to adopt a cautious stance toward adding to inventories. Therefore, inventory investment will make a slight negative contribution for fiscal 2005 as a whole.

Exhibit 10: Inventory Investment



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

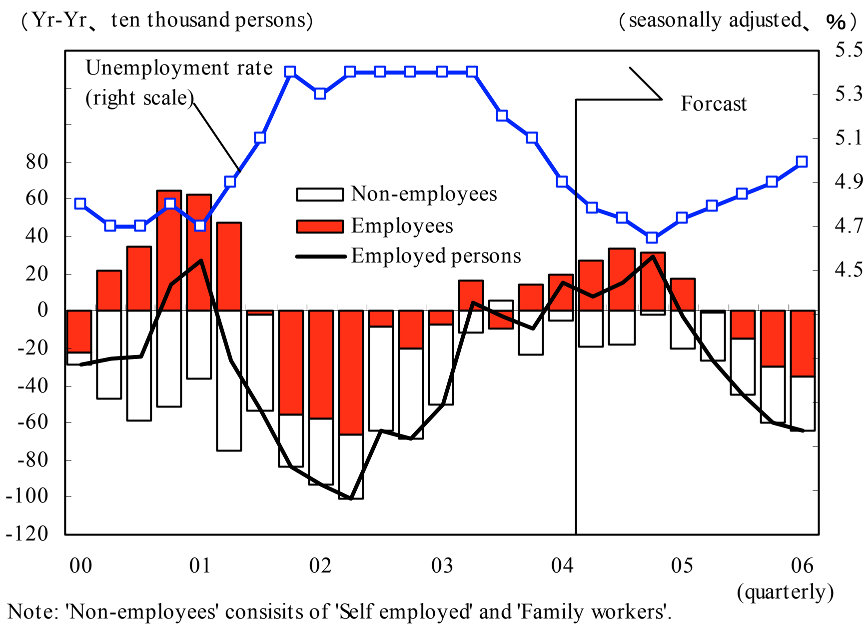
(3) Employment and Income Environments: Will deteriorate in fiscal 2005, and growth in the individual sector will slow

(a) Employment: Improvement in the employment environment to continue throughout fiscal 2004 but weaken in fiscal 2005 due to the impact of the economic slowdown

The number of employed persons is increasing with a lag along with the recovery in the economy. Reasons for this include the completion, for the time being, of corporate restructuring and the rise in the number of part-time, especially female, employees. If the economic recovery continues, we anticipate that the number of employees will continue to grow as corporate profitability continues to improve. 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. For this reason, the number of persons in the workforce is expected to rise during fiscal 2004, as the number of employed persons increases, but in fiscal 2005, the number of employed persons is likely to begin to decline, following behind the deceleration of the economy, and, as a consequence, the number of persons in the workforce will also begin to drop.

The unemployment ratio has declined to 4.7% 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 the desire to look for work and dropped out of the workforce may begin to look for jobs again, and furthermore, some workers may leave their jobs voluntarily to look for new jobs. As a net result, 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

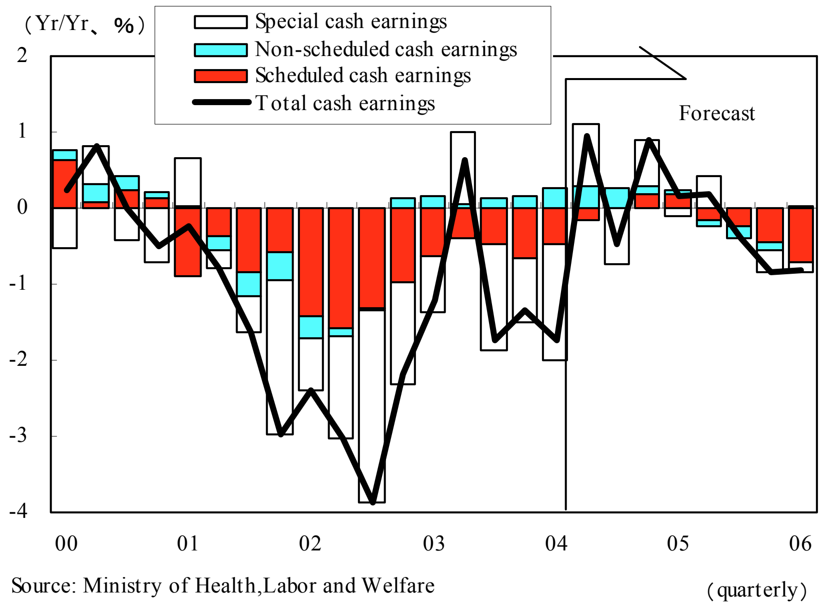


Note: 'Non-employees' consisits of 'Self employed' and 'Family workers'.
Source: Ministry of public Management, Home Affairs, Posts and Telecommunications, Labor Force Survey

(b) Incomes: Will rise throughout fiscal 2004 but begin to decline entering fiscal 2005

Regarding per capita wages, unscheduled compensation is continuing to increase along with the recovery in production, but scheduled compensation remains on the decline because of the impact of the rising percentage of part-time and short-term contract workers. In addition, employees' winter bonuses in 2003 declined 1.3% from the previous year. As a result of these factors, the pace of improvement in the income environment is weak. It appears that the percentage increase in the spring wage negotiation for 2004 may remain at about the same level as in the previous year; therefore, a major increase in scheduled compensation is not expected, but unscheduled compensation and bonuses are likely to rise along with the increase in production and improvement in corporate profitability. In fiscal 2005, as a result of the decline in production and deterioration in profits, wages may fall below the levels of the previous year.

Exhibit 12: Cash Earnings of Employees



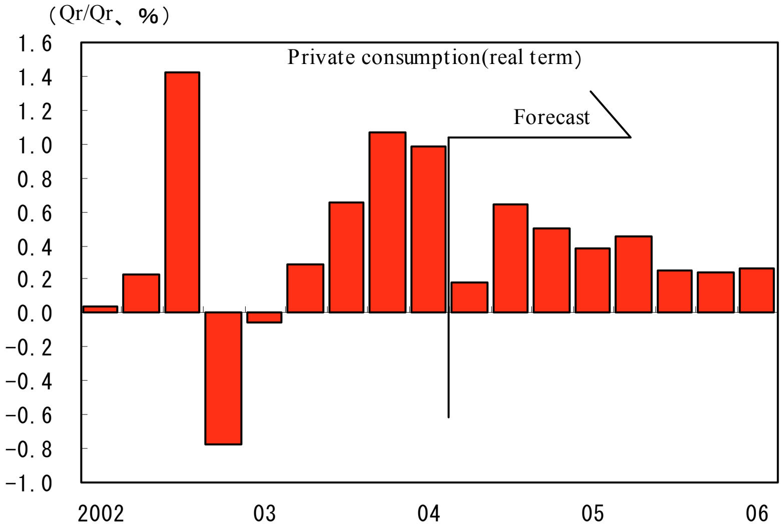
(c) Private Consumption: Growth will gradually decline as the employment and income environments deteriorate.

Real private consumption in fiscal 2003 expanded at a relatively high rate of 1.6% over the previous year. Although per capita wages were stagnant, the number of employed persons began to rise, because of the lull in corporate restructuring, principally in the manufacturing sector. In addition, the higher propensity to consume, as a result of the wealth effect of rising stock prices, also helped to push consumption upward. Similarly, improvement in consumer confidence also acted as a positive factor for consumption.

In fiscal 2004, although the growth rate of consumption is expected to drop in the April–June quarter in reaction to rapid expansion in the January–March quarter, it is forecast to remain firm thereafter, sustained by improvement in the employment and income environments. The rapid growth in the January–March quarter also served to ratchet upward the level of personal consumption in fiscal 2004, and growth for the year is forecast to be 2.5%. This is comparable to growth in consumption in 1996, when consumption surged prior to an increase in the consumption tax rate.

Nevertheless, moving into fiscal 2005, as signs of economic adjustment emerge, growth in consumption is expected to decline as a result of deterioration in the employment and income environments. Although deflation will continue to boost real purchasing power, consumer spending in fiscal 2005 is forecast to increase at a slower rate of 1.6% in real terms.

Exhibit 13: Real Private Consumption



Source:Cabinet Office,National Accounts

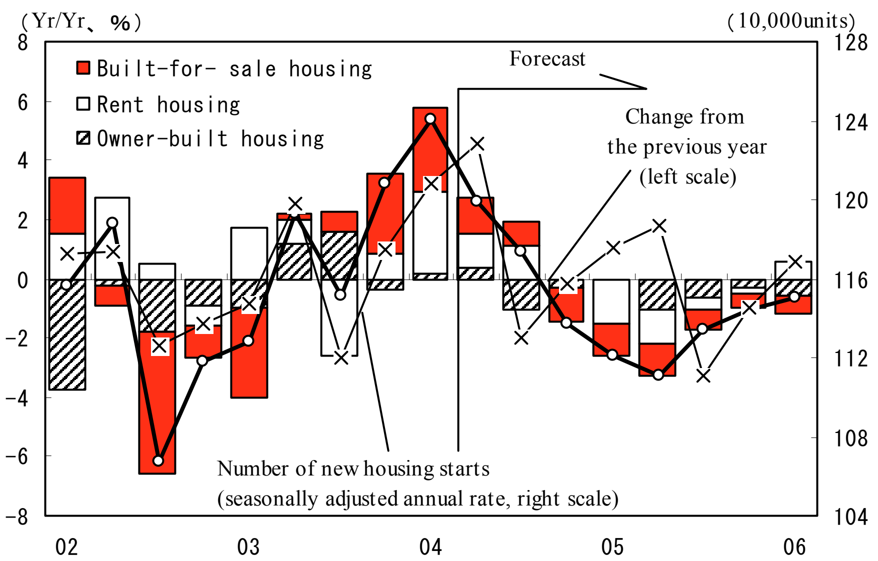
(d) Private Residential Investment: Housing starts to remain weak in fiscal 2004 and thereafter

The number of new housing starts rose 2.5% over the previous year, to 1,174 thousand, the first year to year increase in four years. Factors accounting for this were the surge in starts prior to an anticipated expiration of a housing loan tax relief measure (the time limit for the measure was subsequently extended) and the implementation of revisions to the building code as well as a major rise in housing units built for sale, principally in the Tokyo metropolitan area.

We are forecasting that housing starts in fiscal 2004 will decline 0.1%, to 1,173 thousand, virtually the same level as in fiscal 2003. Although starts will be above the level for the previous year in the first half, in the second half starts of condominium apartments and rental housing, which have been on the rise, will begin to decline.

In fiscal 2005, while rental housing starts will recover, sustained by low interest rates and the demand for rental housing as an investment, the deterioration in the employment and income environments will prolong the decline in owner-built and built-for-sale housing. We are forecasting starts for the fiscal year of 1,152 thousand, representing a decline of 1.7% year on year, a larger decline than in the previous year.

Exhibit 14: Outlook for Housing Starts



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

(4) Government Spending: Government public investment will continue to decline, but government consumption expenditures will make a positive contribution to growth.

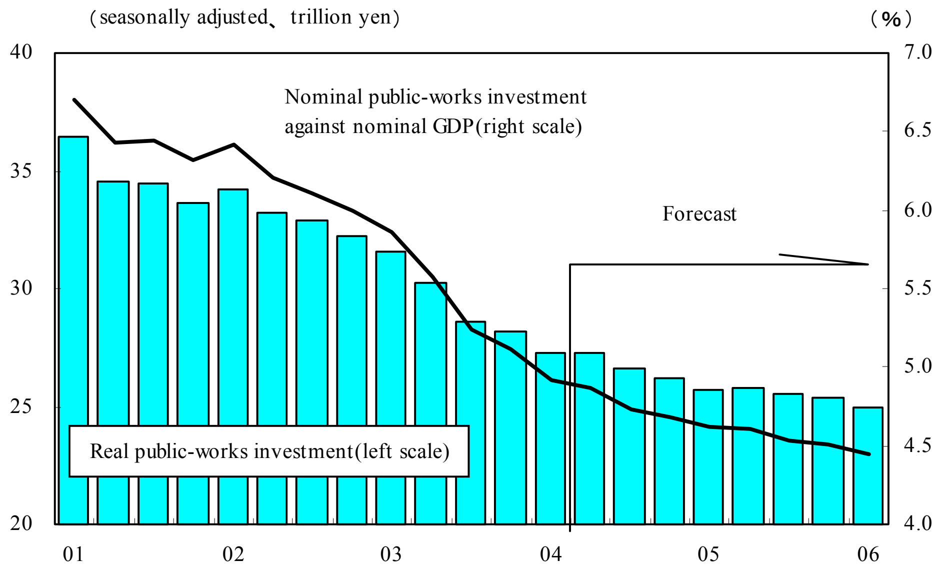
(a) Government Public Investment: Decline to continue

In fiscal 2003, both the national and regional governments stepped up their efforts to restore financial soundness by restraining expenditures, and, as a result, allocations for public works projects were reduced again. Under these budgetary constraints, the decline in public works investment continued, and spending in fiscal 2003 was reduced a substantial 12.8% in real terms. On a quarterly basis, expenditures dropped steadily, and the decline in public investment, which began in the April–June quarter of 2002, has now continued for eight quarters. Moreover, since the government has foregone the passage of supplementary budgets containing additional allocations, the decline in public works investment continued in the second half of the fiscal year.

The cutbacks in public investment budgets have continued through fiscal 2004. Public works related investments at the national level were reduced 3.5%; regional governments made cuts in expenditures of an investment nature of 8.4%. Compared with fiscal 2003, the margin of reductions in these expenditures is smaller in fiscal 2004, but expenditures, nevertheless, remain on a declining trend. As a result of cutbacks in the size of projects, government public investment is expected to remain on a gradual declining trend.

The cutbacks are expected to continue in fiscal 2005. However, because the margin of the budget decline is expected to be smaller, the pace of decline in public investment will be moderate.

Exhibit 15: Outlook for Public-works Investment



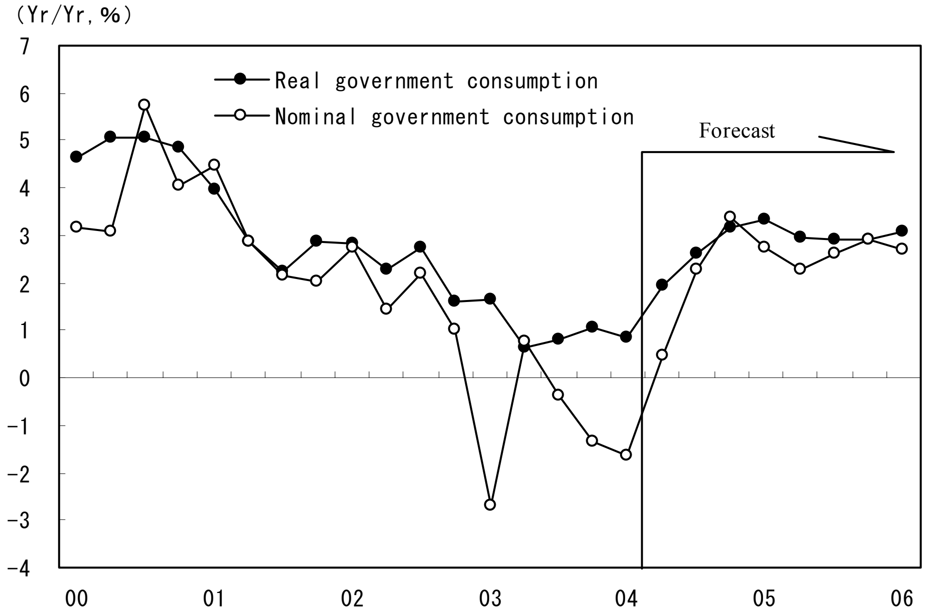
Source:Cabinet Ofice,National Accounts

(b) Government Final Consumption Expenditures: Increase will continue as expenditures on health care and nursing grow

Real government final consumption expenditures in fiscal 2003 rose 0.8% over the previous fiscal year. In April 2003, the percentage of health care costs borne by recipients, who are salaried employees, was increased from 20% to 30%. This, together with revisions in the health insurance system to restrain benefit payments, resulted in a decline in the rate of expansion in these government expenditures. Nevertheless, such factors as the expansion in use of nursing care insurance along with the increase in the number of senior citizens led to a continued rise in the value of social welfare goods and services provided in kind and resulted in higher government final consumption expenditures.

Since the impact of changes in the health care system and benefits will run its course, the growth rate in expenditures in fiscal 2004 will rise over the previous year, and the increase will continue into fiscal 2005. Since there was a decrease in the salaries of government employees, principally a reduction in the number of months of bonus 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, since a lull in steps to reduce government employees' compensation is expected in fiscal 2005 and thereafter, the adjustment resulting from the deflator is expected to be small, with the real and nominal figures being virtually the same.

Exhibit 16: Outlook for Government consumption



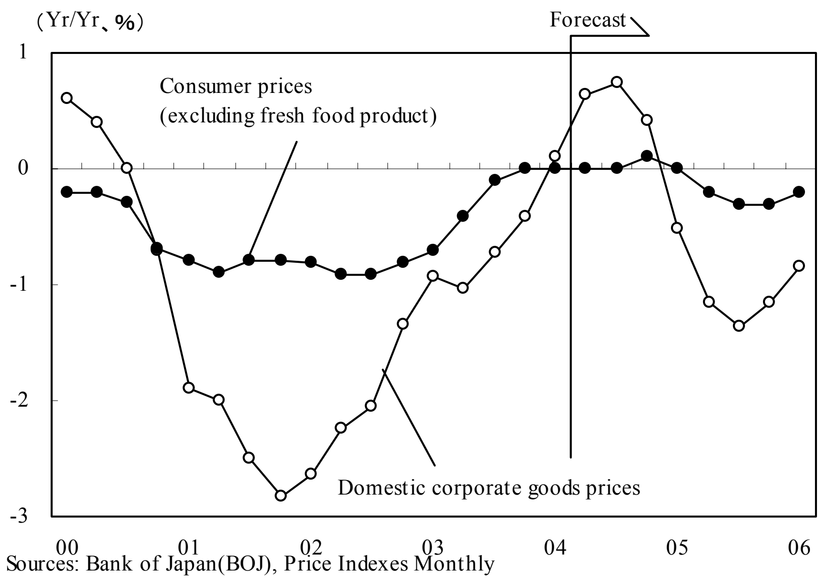
Source:Cabinet Ofice,National Accounts

(5) Prices: Prices to begin to decline again in fiscal 2005

Domestic corporate prices have begun to increase compared with the previous year as a result of the rise in demand accompanying the recovery in the economy and upstream inflationary pressures stemming from rising commodity prices. However, passing on higher costs downstream is difficult because of excess production capacity, greater competition from imported goods, and other factors; and, thus, pressures for increasing downstream prices are marginal. Therefore, for the time being, the rise in domestic corporate prices owing to higher raw material costs will continue but will be marginal. In the latter half of fiscal 2004, the easing of the supply/demand balance due to the slowdown in the economy and the decline in commodity prices will place downward pressure on prices. As a result, domestic corporate prices are expected to begin to decline again from the levels of the previous year. Thereafter, in the latter half of fiscal 2005, the supply/demand balance is expected to tighten again as the economy recovers, and the margin of decline in prices will shrink.

Consumer prices have stopped declining because of special factors, including increases in prices of agricultural and fishery products and the rise in the tax on tobacco products (beginning July 2003), as well as increases in domestic corporate prices. Although the impact of these special factors will diminish over time, the tightening of the supply/demand balance and an increase in costs, accompanying the rise in domestic corporate prices and wages, will exert upward pressure on consumer prices. Throughout fiscal 2004, we are forecasting that consumer prices will show zero change from the previous year. In fiscal 2005, however, the deceleration of the economy and decreases in domestic corporate prices will bring a resumption of the decline in consumer prices compared with the previous year.

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

Forcast

half/half、%
Yr/Yr、%

	Fy2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Nominal G D P	0.4	1.1	0.9	-0.8	-0.3	-0.1	0.7	1.1	-0.7
	-0.0	1.5	2.1	0.2	-1.0	-0.3			
Real G D P	1.3	2.8	1.4	0.3	-0.2	1.3	3.2	2.9	0.7
	2.1	4.2	4.2	1.7	0.1	1.2			
cotribution of domestic demand(Qr/Qr、%)	0.9	2.1	1.1	0.6	-0.1	0.9	2.3	2.5	0.7
Private consumption	0.6	1.9	1.0	1.0	0.8	0.5	1.6	2.5	1.6
	0.4	2.7	2.9	2.1	1.8	1.3			
Housing investment	0.7	1.0	0.2	-2.3	0.0	-1.2	0.3	-0.5	-1.7
	-1.0	1.7	1.0	-2.1	-2.2	-1.1			
Private capital investment	5.9	8.2	2.5	-0.7	-1.4	0.8	12.4	6.0	-1.2
	9.8	14.7	10.9	1.8	-2.0	-0.4			
Contriburyion of Inventory investment	0.0	-0.1	-0.0	0.1	-0.4	0.3	0.1	0.0	-0.2
Government expenditure	-1.8	-1.0	0.6	0.4	0.8	0.9	-2.7	0.4	1.5
	-2.2	-3.1	-0.1	0.8	1.4	1.6			
Public investment	-7.7	-5.8	-2.9	-3.6	-1.1	-2.0	-12.3	-7.3	-3.8
	-11.5	-12.9	-8.6	-6.3	-4.8	-3.0			
Government final consumption expenditure	0.3	0.7	1.6	1.6	1.3	1.6	0.8	2.8	3.0
	0.7	1.0	2.3	3.2	2.9	3.0			
Contribution of external demand	0.4	0.7	0.3	-0.3	-0.1	0.4	0.9	0.5	-0.0
Export of goods and services	3.9	8.9	5.9	-3.3	-1.2	5.3	10.9	8.6	-0.3
	8.3	13.3	15.3	2.5	-4.5	4.0			
Import of goods and services	0.6	4.7	4.7	-1.1	-0.8	2.6	4.5	6.5	-0.0
	3.6	5.4	9.6	3.5	-1.9	1.8			
G D P deflator（Yr/Yr、%）	-2.1	-2.7	-2.1	-1.5	-1.1	-1.5	-2.4	-1.8	-1.3

Forecast

Yr/Yr、%

	Fy2003		FY2004		FY2005		FY2003	FY2004	FY2005
	First half	Second half	First half	Second half	First half	Second half	(actual)	(forecast)	(forecast)
Current account balance (trillion yen)	8.3	9.0	8.9	7.7	7.9	8.7	17.3	16.6	16.6
balance on goods (trillion yen)	6.0	7.3	7.1	6.2	6.7	7.0	13.3	13.3	13.7
balance on service (trillion yen)	-1.7	-2.0	-2.2	-2.0	-2.0	-2.4	-3.7	-4.2	-4.4
balance on income (trillion yen)	4.3	4.2	4.4	3.9	3.7	4.5	8.5	8.3	8.3
Industrial production	(0.2)	(4.7)	(3.4)	(-0.8)	(-1.7)	(2.1)	3.5	5.5	-1.0
	1.6	5.4	8.3	2.9	-2.5	0.5			
Corporate goods prices	-0.9	-1.3	0.9	1.2	-1.3	-0.9	-1.0	1.0	-1.1
Domestic corporate goods prices	-0.9	-0.2	0.7	-0.1	-1.3	-1.0	-0.5	0.3	-1.2
Consumer prices	-0.3	-0.2	0.0	0.1	-0.3	-0.3	-0.2	0.0	-0.2
exccluding freshfood	-0.3	0.0	0.0	0.1	-0.3	-0.3	-0.2	0.1	-0.3
Yen/U.S.Dollar	118.0	108.1	113.5	117.0	117.8	119.3	113.0	115.3	118.5
Newly issued government bond yields（10years）	0.9	1.3	1.5	1.4	1.4	1.6	1.1	1.4	1.5
Crude oil price (U.S.dollar/barrel)	29.6	33.2	38.0	34.0	32.5	34.5	31.4	36.0	33.5
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		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	15.1	5.3	-5.3	3.2	6.3	10.1	-1.1
Volume	2.5	10.1	14.8	2.2	-3.9	2.2	6.3	8.3	-0.9
Imports (yen basis)	6.5	1.9	13.5	11.4	-5.1	0.5	4.1	12.4	-2.3
Volume	6.6	8.0	9.2	5.0	-1.3	2.0	7.4	7.0	0.3
Exports surplus (trillion yen)	5.0	6.2	6.1	5.2	5.8	6.0	11.2	11.3	11.8

【Income and Employment】

Forcast

Yr/Yr、%

	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	0.3	0.6	-0.1	-0.8	-1.0	0.4	-0.5
Regular compensation*	-0.6	-0.8	-0.1	0.3	-0.2	-0.7	-0.7	0.1	-0.5
Overtime compensation	1.8	3.9	5.3	1.5	-2.0	-0.7	2.9	3.3	-1.3
Number of employees	0.1	0.3	0.6	0.5	-0.1	-0.6	0.2	0.5	-0.4
Compensation of employees*	-0.6	-1.3	0.3	0.4	-0.5	-1.4	-1.0	0.4	-1.0
Unemployment rate	5.3	5.0	4.8	4.7	4.8	4.9	5.1	4.7	4.9

Notes:

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

【New Housing Starts】

ten thousand units(annualized)

Forcast

Yr/Yr、%

	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	117.9	116.6	114.9	115.7	117.5	117.3	115.3
(change from the previous year)	0.9	4.2	1.8	-2.0	-2.6	-0.8	2.5	-0.1	-1.7
Owner-built	38.1	36.4	37.7	36.3	36.7	35.8	37.3	37.0	36.7
housing	4.2	-0.5	-0.9	-0.5	-2.5	-1.5	2.1	-0.7	-2.1
Rental	44.5	47.4	45.9	46.5	44.9	46.7	45.9	46.2	45.8
housing	-2.2	4.4	3.0	-1.8	-2.1	0.4	0.9	0.6	-0.9
Built-for-sale	32.2	34.6	33.5	33.3	32.4	32.7	33.4	33.4	32.5
housing	1.6	9.6	3.8	-3.6	-3.3	-1.8	5.6	-0.1	-2.5

＊ Seasonally adjusted annual rate

Economic Outlook (Quarterly)

Forecast

half/half、%
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	0.5	0.3	0.5	0.8	0.3	0.5	-0.6	-0.8	-0.1	0.4	-0.2	-0.1
	0.1	-0.2	0.4	2.6	2.0	2.2	0.9	-0.6	-0.8	-1.2	-0.6	-0.0
Real G D P	0.8	0.8	1.7	1.4	0.3	0.9	-0.1	-0.2	-0.3	0.5	0.7	0.7
	2.2	2.0	3.2	5.4	4.1	4.4	2.3	1.0	0.3	-0.1	0.7	1.7
cotribution of domestic demand(Qr/Qr、%)	0.5	0.6	1.3	1.1	0.2	0.7	0.3	-0.1	-0.2	0.3	0.4	0.6
Private consumption	0.3	0.7	1.1	1.0	0.2	0.6	0.5	0.4	0.5	0.3	0.2	0.3
	0.9	0.0	1.9	3.5	2.9	2.9	2.3	2.0	2.0	1.6	1.3	1.3
Housing investment	-0.2	3.2	-0.9	0.6	-0.3	0.3	-2.7	0.5	-0.6	0.7	-1.8	0.5
	-3.3	1.2	0.8	2.6	2.4	-0.2	-2.0	-2.2	-2.5	-2.0	-1.1	-1.2
Private capital investment	4.8	0.1	6.9	2.4	1.0	0.6	-0.4	-1.0	-0.5	-0.7	0.5	1.4
	10.6	9.1	14.7	14.7	10.8	11.0	3.8	0.1	-1.3	-2.7	-1.7	0.6
Contriburyion of Inventory investment	-0.1	0.3	-0.4	0.2	-0.2	0.1	0.1	-0.1	-0.4	0.1	0.2	0.1
Government expenditure	-1.2	-1.0	-0.2	-0.6	0.7	0.4	0.3	-0.1	0.5	0.7	0.4	0.2
	-1.5	-2.9	-3.0	-3.2	-0.6	0.4	0.5	1.2	1.4	1.4	1.4	1.7
Public investment	-4.1	-5.5	-1.4	-3.4	-0.1	-2.3	-1.5	-2.0	0.3	-0.8	-0.8	-1.5
	-9.2	-13.5	-12.4	-13.3	-10.1	-7.1	-7.0	-5.6	-5.5	-4.1	-3.3	-2.7
Government final consumption expenditure	-0.2	0.6	0.3	0.2	0.9	1.2	0.8	0.3	0.6	1.2	0.8	0.5
	0.7	0.8	1.1	0.9	1.9	2.6	3.2	3.3	3.0	2.9	2.9	3.1
Contribution of external demand	0.3	0.2	0.4	0.3	0.1	0.2	-0.4	-0.1	-0.1	0.2	0.2	0.1
Export of goods and services	1.8	3.5	5.1	3.9	2.7	2.4	-3.4	-2.2	-1.3	2.4	2.4	3.2
	6.6	9.9	11.6	15.1	15.9	14.8	5.5	-0.6	-4.4	-4.5	1.3	6.9
Import of goods and services	-1.0	2.6	2.5	1.9	3.1	1.3	-1.0	-1.6	-0.3	0.6	0.8	3.1
	3.5	3.6	4.8	6.0	10.2	9.0	5.3	1.7	-1.6	-2.2	-0.5	4.3
G D P deflator（Yr/Yr、%）	-2.0	-2.1	-2.7	-2.6	-2.1	-2.1	-1.4	-1.7	-1.2	-1.1	-1.3	-1.7

Forecast

	FY2003				Fy2004				Fy2005			
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
Current account balance (trillion yen)	3.8	4.5	3.9	5.0	4.3	4.6	3.7	4.0	3.7	4.2	3.9	4.8
balance on goods (trillion yen)	2.8	3.2	3.7	3.5	3.5	3.6	3.3	3.0	3.1	3.6	3.6	3.4
balance on service (trillion yen)	-0.7	-0.9	-1.2	-0.8	-1.1	-1.1	-1.3	-0.7	-1.0	-1.1	-1.5	-0.9
balance on income (trillion yen)	1.9	2.4	1.7	2.5	2.1	2.3	1.9	2.0	1.8	1.9	2.0	2.5
Industrial production	-0.4	1.0	3.9	0.5	2.7	0.8	-0.3	-1.8	-0.8	-0.1	1.2	1.8
	2.2	1.0	4.1	6.8	8.5	8.1	3.5	2.3	-2.0	-3.0	-1.6	2.5
Corporate goods prices	-1.4	-0.3	-1.9	-0.8	0.5	1.4	2.0	0.4	-1.0	-1.6	-1.2	-0.6
Domestic corporate goods prices	-1.0	-0.7	-0.4	0.1	0.6	0.7	0.4	-0.5	-1.2	-1.4	-1.2	-0.8
Consumer prices	-0.3	-0.2	-0.3	-0.1	0.0	0.0	0.1	0.0	-0.2	-0.3	-0.3	-0.2
exccluding freshfood	-0.4	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	-0.2	-0.3	-0.3	-0.2
Yen/U.S.Dollar	118.4	117.6	108.9	107.2	111.6	115.5	117.5	116.5	117.0	118.5	120.0	118.5
Newly issued government bond yields（10years)	0.59	1.20	1.38	1.31	1.50	1.50	1.40	1.30	1.30	1.40	1.50	1.60
Crude oil price (U.S.dollar/barrel)	28.9	30.2	31.2	35.3	38.0	38.0	35.0	33.0	32.0	33.0	34.0	35.0

【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	13.8	16.4	9.7	0.9	-5.2	-5.4	0.5	6.0
Volume	2.6	2.3	7.3	13.1	15.0	14.7	5.5	-1.0	-4.3	-3.4	0.1	4.5
Imports (yen basis)	6.4	6.6	-0.5	4.3	10.5	16.4	16.7	6.1	-3.3	-6.8	-2.6	3.7
Volume	8.4	5.0	7.1	9.0	8.3	10.0	7.2	2.6	-0.7	-2.0	0.0	4.0
Exports surplus (trillion yen)	2.4	2.7	3.2	3.0	3.0	3.1	2.7	2.5	2.7	3.1	3.1	2.9

【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	0.9	-0.5	0.9	0.2	0.2	-0.4	-0.8	-0.8
Regular compensation*	-0.5	-0.6	-1.0	-0.5	-0.2	0.0	0.3	0.2	-0.2	-0.3	-0.7	-0.8
Overtime compensation	1.1	2.7	3.6	4.2	5.5	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	0.5	0.6	0.6	0.3	0.0	-0.3	-0.6	-0.7
Compensation of employees*	0.9	-2.3	-0.2	-2.8	0.9	-0.4	0.7	0.1	-0.2	-0.9	-1.4	-1.5
Unemployment rate	5.4	5.1	5.1	4.9	4.8	4.7	4.6	4.7	4.8	4.8	4.9	5.0

【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	122.8	113.0	115.7	117.6	118.7	111.0	114.6	116.8
(change from the previous year)	2.2	-0.6	3.2	5.4	2.6	0.9	-1.5	-2.6	-3.3	-1.7	-1.0	-0.6
Owner-built	38.4	37.8	36.2	36.7	38.8	36.5	35.9	36.8	37.6	35.8	35.5	36.1
housing	3.6	4.9	-1.3	0.5	1.0	-3.0	-1.0	0.0	-3.0	-2.0	-1.0	-2.0
Rental	45.6	43.4	45.9	48.9	46.7	45.0	46.0	46.9	45.2	44.7	45.9	47.6
housing	2.0	-6.5	2.0	7.4	3.0	3.0	0.0	-4.0	-3.0	-1.0	-0.5	1.5
Built-for-sale	32.7	31.8	34.5	34.6	34.2	32.8	33.1	33.5	32.8	32.1	32.5	32.9
housing	0.8	2.5	9.8	9.4	4.7	2.9	-4.0	-3.3	-4.1	-2.4	-1.7	-1.9

＊ Seasonally adjusted annual rate

Economic Outlook for calendar 2004-2005

half/half、%

Forecast

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	-0.6	0.8	1.2	0.3	-1.2	0.3	-0.0	1.9	-0.8
	-0.2	0.1	2.3	1.5	-0.7	-0.9			
Real G D P	0.7	2.0	2.4	1.0	-0.4	0.7	2.5	4.0	0.5
	2.5	2.6	4.7	3.3	0.7	0.3			
Contribution of domestic demand	0.6	1.9	1.9	0.8	-0.1	0.2	1.9	3.3	0.7
Private consumption	-0.3	1.3	1.6	1.0	0.9	0.6	0.9	2.9	1.7
	0.9	1.0	3.2	2.6	2.0	1.5			
Housing investment	-1.6	2.6	0.0	-1.2	-1.1	-0.5	-0.8	0.6	-1.9
	-2.7	1.0	2.5	-1.1	-2.3	-1.6			
Private capital investment	5.6	6.0	6.4	0.9	-1.5	-0.7	9.3	10.1	-1.4
	6.9	11.8	13.0	7.4	-0.5	-2.2			
Contriburyion of Inventory investment	-0.0	0.1	-0.1	0.1	-0.3	-0.0	0.3	0.0	-0.2
Government expenditure	0.3	0.6	0.8	2.1	1.0	1.9	-2.1	-0.8	1.4
	-1.1	-3.0	-2.0	0.4	1.3	1.4			
Public investment	-5.1	-8.1	-4.1	-3.0	-2.6	-1.0	-10.4	-9.5	-4.6
	-7.8	-12.9	-12.0	-7.1	-5.6	-3.6			
Government final consumption expenditure	0.3	0.6	0.8	2.1	1.0	1.9	1.0	2.1	3.0
	1.1	0.9	1.4	2.9	3.2	2.9			
Contribution of external demand	0.3	0.5	0.6	0.0	-0.4	0.3	0.7	0.9	-0.2
Export of goods and services	3.5	7.0	7.9	2.0	-4.5	3.0	10.1	12.6	-2.1
	9.4	10.8	15.5	10.0	-2.6	-1.6			
Import of goods and services	0.9	3.3	4.7	2.3	-2.2	0.9	5.0	7.6	-0.7
	5.8	4.2	8.1	7.1	0.0	-1.3			
GDP deflator	-2.6	-2.4	-2.3	-1.7	-1.4	-1.2	-2.5	-2.0	-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	9.4	8.2	3.9	4.1	15.8	17.6	16.6
balance on goods (trillion yen)	5.3	6.9	7.1	6.9	3.0	3.6	12.3	13.9	13.3
balance on service (trillion yen)	-1.7	-2.2	-1.9	-2.3	-0.8	-1.3	-3.9	-4.3	-4.2
balance on income (trillion yen)	4.2	4.1	4.7	4.2	1.9	2.0	8.3	8.9	7.7
Industrial production	0.2	2.7	3.8	2.1	-2.3	0.1	3.2	6.7	-1.1
	3.9	2.5	7.6	5.8	0.2	-2.3			
Corporate goods prices	-1.5	-1.1	-0.2	1.7	-0.3	-1.4	-1.3	0.8	-0.9
Domestic corporate goods prices	-1.0	-0.6	0.4	0.6	-0.8	-1.3	-0.8	0.5	-1.0
Consumer prices	-0.3	-0.3	-0.1	0.1	-0.1	-0.3	-0.3	0.0	-0.2
exccluding freshfood	-0.6	-0.1	0.0	0.1	-0.1	-0.3	-0.3	0.0	-0.2
Yen/U.S.Dollar	118.6	113.2	109.4	116.5	116.8	119.3	115.9	113.0	118.0
Newly issued government bond yields（10years）	0.70	1.29	1.41	1.45	1.30	1.45	0.99	1.43	1.38
Crude oil price (U.S.dollar/barrel)	31.4	30.7	36.7	36.5	32.5	33.5	31.0	36.6	33.0
U.S. Real GDP (CY) (seasonally-adjusted annual rate)	2.1	5.9	4.4	4.1	3.0	3.1	3.1	4.7	3.3
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】

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	12.8	13.0	-2.2	-2.5	4.7	12.9	-2.3
	Volume	5.0	4.9	14.1	9.9	-2.7	-1.7	4.9	11.9	-2.2
Imports (yen basis)		7.4	2.9	7.4	16.6	1.3	-4.7	5.1	12.0	-1.8
	Volume	8.3	6.1	8.7	8.6	1.0	-1.0	7.1	8.6	0.0
Exports surplus (trillion yen)		4.3	5.8	6.1	5.8	5.1	6.2	10.2	11.9	11.4

【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	-0.3	0.3	0.2	-0.6	-0.9	0.0	-0.3
	Regular compensation*	-0.6	-0.8	-0.4	0.2	0.0	-0.5	-0.7	-0.1	-0.3
	Overtime compensation	1.8	3.2	4.8	3.4	-0.3	-2.1	2.5	4.1	-1.2
Number of employees		0.1	0.0	0.4	0.6	0.1	-0.4	0.1	0.5	-0.1
Compensation of employees*		0.0	-1.1	-0.8	0.2	-0.1	-1.2	-0.6	-0.3	-0.6
Unemployment rate		5.4	5.1	4.8	4.7	4.8	4.9	5.2	4.8	4.8

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	121.8	114.4	118.1	112.8	116.0	118.1	115.5
(change from the previous year)		-0.1	1.4	3.9	-0.3	-3.0	-1.4	0.8	1.7	-2.2
	Owner-built	37.4	37.0	37.7	36.2	37.2	35.6	37.3	37.0	36.4
	housing	0.6	1.5	1.0	-2.1	-1.4	-1.6	1.3	-0.6	-1.6
	Rental	45.6	44.7	47.8	45.5	46.0	45.3	45.2	46.6	45.6
	housing	2.5	-1.5	4.8	1.9	-3.7	-0.5	0.3	3.1	-2.1
	Built-for-sale	32.1	33.1	34.4	33.0	33.1	32.3	32.7	33.6	32.7
	housing	-4.6	6.3	7.1	-0.6	-3.7	-2.0	0.8	3.0	-2.9