Economy Struggles with Rising Raw Material Prices —Short-Term Economic Forecast (FY 2008-2009)

by Taro Saito
Economic Research Group
tsaito@nli-research.co.jp

Real GDP in Q1 (Jan-Mar) 2008 surged an impressive 4.0% (annualized) from the previous quarter. However, rising raw material prices have battered corporate earnings, causing business fixed investment to decelerate. This setback to the economy's main driving force suggests that the economy probably peaked out in late 2007 and is now contracting. The cyclical trough should occur in the second half of fiscal 2008 as the U.S. economy recovers and the impact of raw material prices eases. We predict real GDP will grow 1.1% in fiscal 2008 and 1.8% in fiscal 2009. Led by surging petroleum product prices and ongoing food price increases, the general CPI (excluding fresh foods) will rise 1.4% in fiscal 2008, and 1.1% in fiscal 2009.

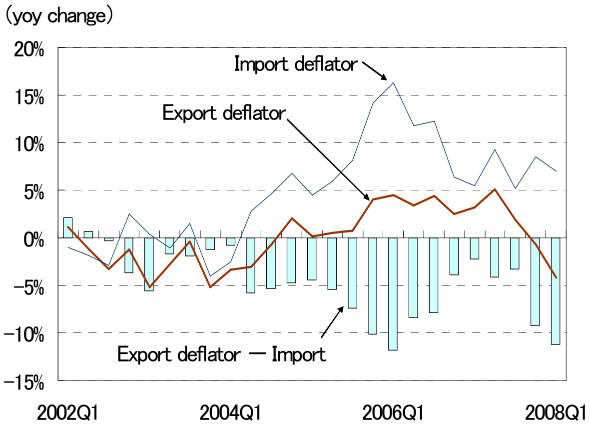
1. Growing Signs of Corporate Weakness

1. Economy's High Growth Spurs Income Transfers Abroad

In January-March (Q1) 2008, real GDP surged 1.0% (4.0% annualized) from the previous quarter for the third time in a row. In addition, following on the 0.7% sequential growth of Q4 2007, the economy once again outpaced the potential growth rate.

External demand contributed an impressive 0.5-percentage point to the sequential growth rate, boosted by higher export growth. Domestic demand remained firm due to brisk growth in private consumption and residential investment (0.8% and 4.6% respectively). On the other hand, soaring raw material prices clipped corporate earnings, limiting business fixed investment growth to 0.2%.

Exhibit 1 Deteriorating Terms of Trade

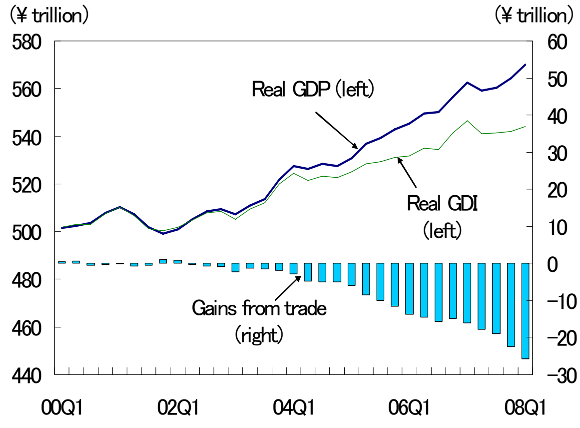


Source: Economic and Social Research Institute, Cabinet Office, *Preliminary Quarterly Estimates of GDP.*

But amid the brisk growth of real GDP, income transfers abroad have risen due to the deteriorating terms of trade. The gains from trade, which turned negative around 2004, have recently accelerated downward. This is because the divergence between import and export deflators has widened—export deflator growth turned negative due to the strong yen, while import deflator growth remains high due to soaring raw material prices. In Q1 2008, gains from trade dropped to -25.8 trillion yen, or -4.5% of GDP. As a result, even though external demand still drives the economy, the worsening terms of trade in the past two quarters has reduced the gains from trade, which eclipses the growth of external demand due to export growth.

On an annual basis, real GDP grew 1.6% in fiscal 2007, dipping below the 2% level for the first time in five years.

Exhibit 2 Real GDP and Real GDI



Note: Real GDI = Real GDP ＋ Gains from trade
Source: ESRI, *Preliminary Quarterly Estimates of GDP.*

2. Decline of Corporate Earnings

The transfer of income abroad associated with the deteriorating terms of trade has caused corporate earnings to decline.

According to the *Financial Statements Statistics of Corporations by Industry* (MOF), current profit growth (yoy) turned negative in Q3 2007, and deteriorated further to -17.5% in Q1 2008. Moreover, in the March 2008 BOJ Tankan (*Short-term Economic Survey of Enterprises in Japan*), the current profit projection for fiscal 2007 was downgraded 1.1-percentage point from December to -1.6%, marking the first negative projection in six years. Moreover, the second half of fiscal 2007 was downgraded -4.8-percentage points, marking -7.5% profit decline from a year ago.

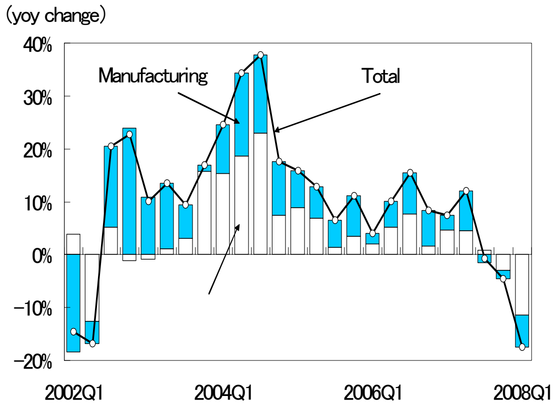
Until fiscal 2006, the profit rate had improved in the face of rising raw material prices. However, with labor cost also rising faster, the current profit rate is projected to deteriorate in fiscal 2007 for the first time in six years.

In past years, Tankan projections of current profit tended to be conservative. Still, the projections were regularly upgraded unexpectedly strong sales growth could more than offset unexpectedly high cost growth led by raw materials. However, in the March 2008 survey, the sales projection failed to improve from the previous survey. As a result, cost increases from soaring raw material prices squeezed profit.

The repeated upgrades of sales projections occurred largely because the yen remained weaker than expected. However, as concerns mounted over the U.S. economic slowdown, the yen surged past the assumed exchange rate in the second half of fiscal 2007. This prompted a sales downgrade, thus reducing the current profit projection.

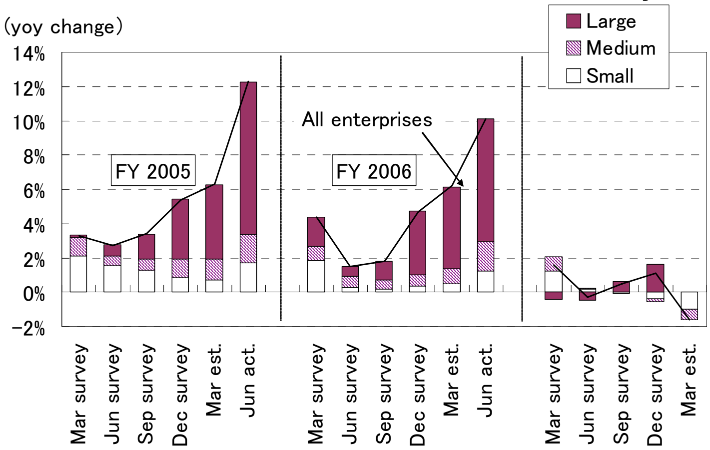
For fiscal 2008, the current profit projection initially assumed an exchange rate of 108.31 yen per dollar (all enterprises and industries). However, with the actual exchange rate averaging 104 yen from April 1 to June 10, sales are poised for a downgrade. Meanwhile, spiking oil prices will likely cause cost increases to exceed assumptions. Thus the initial projection for current profit in fiscal 2008, which called for a 2.4% increase from the previous year (all enterprises and industries), is subject to downside risk, and corporate earnings will likely continue to erode in the near term.

Exhibit 3 Growth of Current Profit (yoy)



Source: MOF, *Financial Statements Statistics of Corporations by Industry*

Exhibit 4 Revision of Current Profit Projection



Source: BOJ, *Tankan*

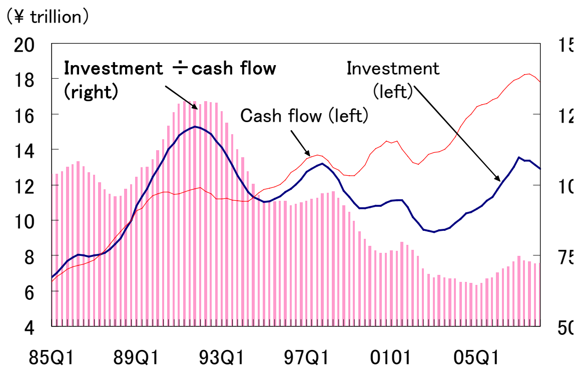
3. Sluggish Business Fixed Investment

Weak profit performance has already caused businesses to rein in fixed investment. Throughout the present economic expansion, businesses have doggedly maintained a conservative stance. Thanks to rigorous cost cutting, current profit recovered quickly after the economy bottomed out in early 2002, growing (yoy) from Q3 2002. However, fixed investment did not achieve positive growth until three quarters later in Q2 2003, and subsequently continued to lag behind profit growth.

Meanwhile, the ratio of fixed investment to cash flow—an indicator of investment intentions—remained stalled until the economy entered the fourth year of expansion in 2005. Even then, investment lagged far behind cash flow, and the ratio peaked off in fiscal 2007.

Looking ahead, we predict investment will remain weak in the near term as expectations of poor profit performance reinforce the conservative stance.

Exhibit 5 Business Fixed Investment and Cash Flow



Notes: Cash flow = Current profit×0.5+Depreciation; quarterly average.
Source: MOF, *Financial Statements Statistics of Corporations by Industry.*

2. Economy to Grow 1.1% in FY 2008, and 1.8% in FY 2009

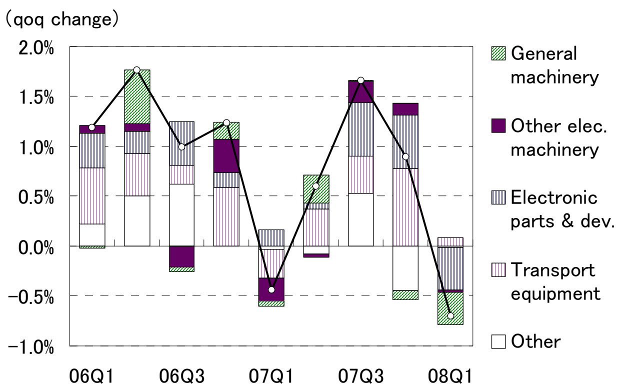
1. Cyclical Peak Occurred in 2007

Despite the economy's strong performance in Q1 2008, industrial production indices—the key indicator when determining economic cycles—dropped -0.7% from the previous quarter for the first time in a year. By industry, electronic components and devices fell -4.1% after driving production in the second half of 2007, while weakness of exports to the U.S. caused transport equipment to plunge to 0.4%, down from 4.4% in Q4 2007.

Export growth, which had led production growth, recently peaked out. In Q1 2008, the export volume index rose 9.8% from a year ago, slightly below the 11.2% pace of Q4 2007. Although slowing exports to the U.S. were compensated by growth to other regions, these other regions have recently shown signs of softness, particularly in Asia. Exports to China, the second largest market after the U.S., have shrunk in volume (yoy) since November 2007, and decelerated sharply in value as well. We see this as a sign that exports to emerging markets are slowing down.

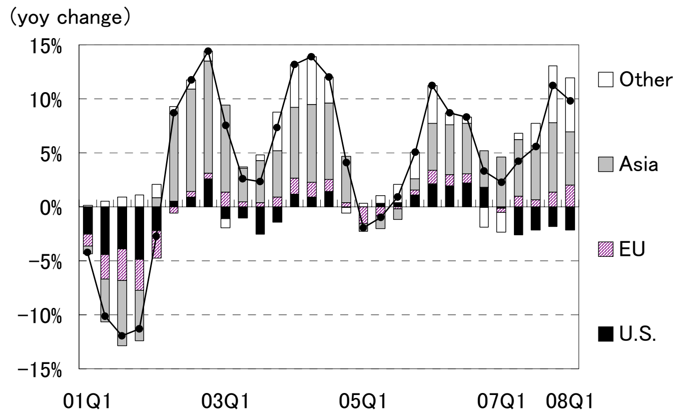
In the U.S., real GDP rose 0.6% (annualized) from the previous quarter in Q4 2007 and 0.9% in Q1 2008. Near-zero growth is predicted again in Q2 amid the residential investment slump and continued weakness of personal

Exhibit 6 Industrial Production Index



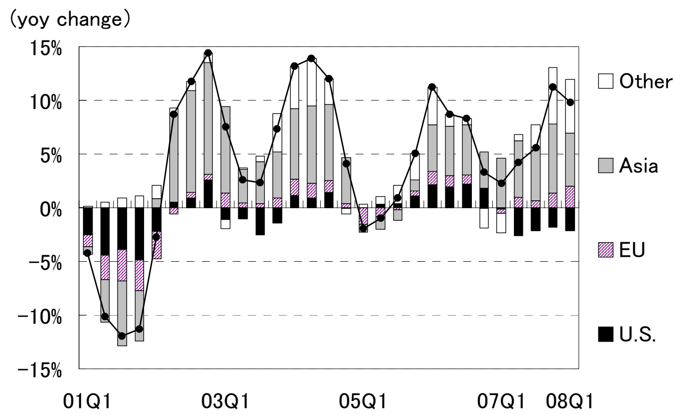
Note: Other electrical equipment refers to electrical equipment and IT equipment.
Source: METI, *Industrial Production Indices.*

Exhibit 7 Export Volume Growth by Destination



Note: Export volume = Export value ÷ Export price
Source: MOF, *Trade Statistics of Japan.*

Exhibit 8 Slowing Export Growth to China



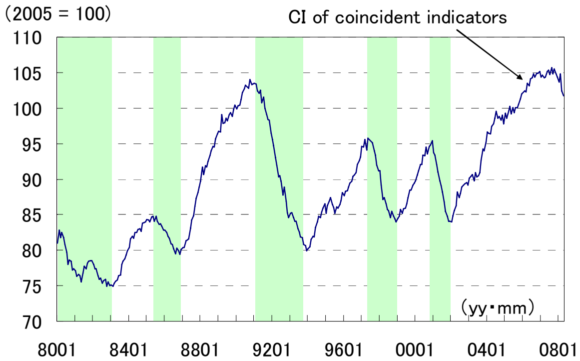
Note: Shows 3-month moving average
Source: MOF, *Trade Statistics of Japan.*

consumption amid sluggish wage growth and soaring gasoline prices. A weak U.S. economy is expected to drag down the world economy, causing Japan's exports to decelerate further. Being sensitive to export trends, Japan's industrial production indices are likely to remain weak in the near term.

In the past, the government's assessment of the economy focused on the diffusion index (DI) of business cycle indexes. But starting with the release of data for April 2008 on June 9, the emphasis switched to the composite index (CI).

The DI compares monthly values of selected business indexes to values from three months ago, and expresses the proportion of indexes that have improved. It is primarily used to determine reference dates for the business cycle, and identifies the direction of change without specifying the size or rate of change. In contrast, the CI quantifies the amplitude and rate of change, and is the standard indicator used internationally.

Exhibit 9 Business Cycles and the CI of Coincident Indexes



Note: Shaded areas indicate recessions.
Source: Cabinet Office, *Indexes of Business Conditions*.

In the preliminary release of the *Indexes of Business Conditions* for April 2008, the CI of coincident indexes stood at 101.7 (2005 = 100), marking a -0.7-percentage point decline from the previous month. Historically, the CI has generally correlated well with business cycles. As of April 2008, the CI is down by as much as 4-percentage points from the recent peak of 105.7 in April 2007. By comparison, in the two previous lulls during the present expansion from early 2002 (H2 2007 to H1 2003, and H2 2004 to mid 2005), the CI of coincident indexes largely remained flat.

Economic and Fiscal Policy Minister Hiroko Ota, described the economy as in a lull but not necessarily set to contract. However, the recent CI movements suggest that the present situation differs significantly from recent lulls.

In inaugurating the new CI of coincident indexes, the Cabinet Office assessed economic conditions as "signaling a possible turning point," downgraded from the previous assessment that the economy was weakening. The Cabinet Office defines "turning point" as a situation that "tentatively indicates that a cyclical peak or trough determined after the fact is likely to have occurred several months earlier." This suggests that the economy is likely to already be in recession.

Meanwhile, the official reference date is still determined in the same way as before, based on a historical DI compiled from coincident indexes. Since most of the 11 coincident indexes peaked out in 2007, the reference date for the peak is likely to be in late 2007.

2. Inflation Reduces Real Purchasing Power of Households

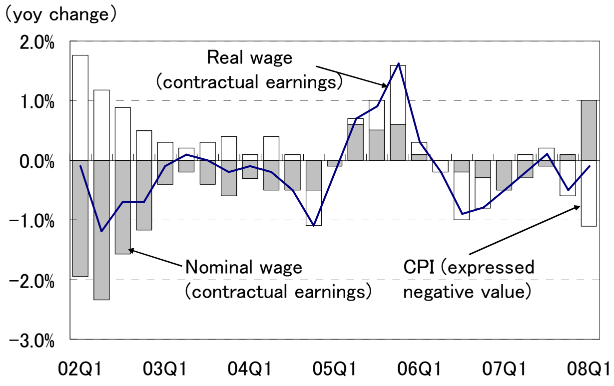
Private consumption, which grew 0.8% in Q1 2008 from the previous quarter, contributed significantly to the economy. But since this is partly due to the leap year, we suspect that the consumption recovery may not be sustainable.

Growth in compensation of employees pulled out of its persistent slump, jumping from 0.2% (yoy) in Q4 2007 to 1.4% in Q1 2008. Although growth of employees plunged, wages per person (total cash earnings) grew 1.6% in Q1 for the first time in five quarters.

The nominal wage growth can be partly attributed to the revised part-time labor law that took effect in April 2008, encouraging employers to promote part-time workers (who actually work full-time) to permanent status. In the past, growth of part-time workers was much higher than that of ordinary workers, and their lower wages pushed down the average wage level. However, entering 2008, part-time workers have stopped growing as a proportion of total workers, relieving the downward pressure on average wages.

Nonetheless, with inflation rising, real wage growth remains elusive. When the inflation rate (general, excluding imputed rent) is subtracted from nominal wage growth (contractual earnings), the real wage growth rate still drops into negative territory.

Exhibit 10 Inflation Reduces Real Wage Growth



Sources: MHLW, *Monthly Labour Survey*; Statistics Bureau, MIC, *Consumer Price Index.*

Another downside factor for consumption is the continued slide in consumer confidence. According to the *Monthly Consumer Confidence Survey* (Cabinet Office), the consumer confidence index, which indicates purchasing intentions, has deteriorated since spring 2007, while soaring gasoline prices and food price increases have shaken consumer confidence. Amid the decline of real purchasing power and shrinking consumer confidence, personal consumption is likely to remain soft.

3. Near-Zero Growth in H1 Fiscal 2008

Despite two consecutive quarters of strong growth in Q4 2007 and Q1 2008, the economy is likely to slip into negative growth in Q2 2008, as weakening exports reduce the contribution of external demand, and the twin domestic demand pillars of private consumption and business fixed investment slacken up. We also predict near-zero growth in Q3 2008. The cyclical trough will occur in the first half of 2009, when tax cuts and cumulative interest rate cuts work their way through the U.S. economy, and raw materials prices ease up the pressure on corporate earnings.

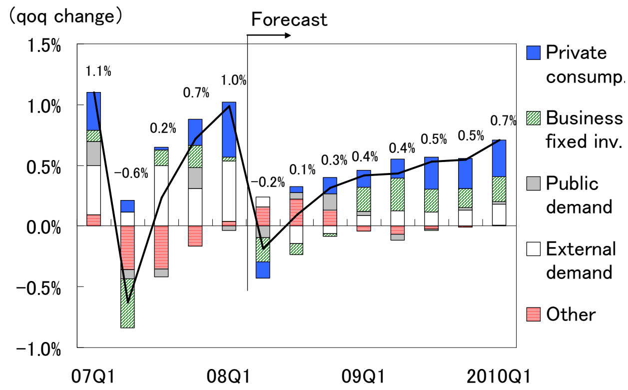
In fiscal 2008, real GDP growth will ease to 1.1%, down from 1.6% in fiscal 2007. However, compared to recent recessions after the bubble economy's collapse in the early 1990s, the adjustment will be mild. In the past three recessions, economic growth turned negative on a fiscal year basis (-1.0% in fiscal 1993, -1.5% in fiscal 1998, and -0.8% in fiscal 2001). However, the economy has improved significantly since then. For example, the excessive debt, fixed investment and employment problems that saddled the economy long after the bubble economy collapsed have all disappeared. In particular, the employment situation is unlikely to unravel in a mild recession because employers are highly sensitive to labor shortages as a result of the mass retirement of baby boomers and decline of young workers.

In addition, while inventory cycles in the manufacturing sector usually have a strong influence on short-term business cycles, companies have kept a tight rein on inventory growth ever since the present expansion began in 2002.

At present, the U.S. economy is expected to post near-zero growth in Q2 2008. We assume it will then recover moderately. If the U.S. slump turns out to be mild, we believe that Japan can also avoid a serious recession.

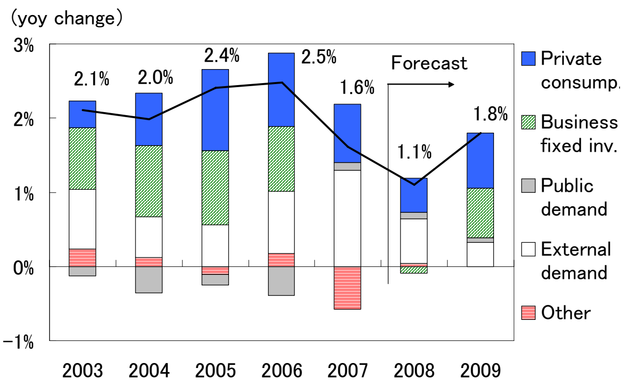
By demand component, private consumption will be constrained by a decline of real

Exhibit 11(a) Real GDP Growth (qoq)



Source: ESRI, *Preliminary Quarterly Estimates of GDP.*

Exhibit 11(b) Real GDP Growth (FY)



Source: ESRI, *Preliminary Quarterly Estimates of GDP.*

purchasing power, expanding only 0.8% in fiscal 2008. However, it will grow 1.3% in fiscal 2009 on the strength of wage growth.

Residential investment will rebound from the slump triggered by the building code revision, growing 6.5% in fiscal 2008. However, with condominium sales dampened by rising prices, the rebound will not offset the sharp plunge in fiscal 2007 (-13.3%). We predict residential investment will grow 3.5% in fiscal 2009.

Business fixed investment will decrease -0.6% in fiscal 2008—the first decline in six years—due to deteriorating profits. In fiscal 2009, it will regain momentum as profits recover, growing 4.4%.

External demand will contribute 0.6% to economic growth in fiscal 2008, down from 1.3% in fiscal 2007, due to slower export growth. The contribution will continue to shrink to 0.3% in fiscal 2009.

4. Prices and Monetary Policy

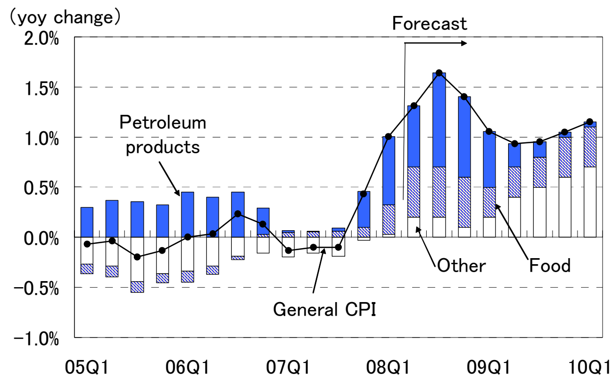
The general consumer price index (core CPI, which excludes fresh foods) grew 1.2% year-on-year in March 2008, declining to 0.9% in April when the tentative gasoline surcharge expired. However, after the surcharge was reinstated, pump prices quickly surged far past the previous level, and continue to test new highs. As a result, core CPI inflation is likely to reach nearly 2% over the summer.

Needless to say, petroleum products and food are the primary causes behind the rising inflation rate. Recently, even goods and services not directly tied to raw materials prices have started to show signs of price increase.

Our forecast assumes that the oil price (WTI futures) will stay at 130 dollars per barrel. After expanding to over 1% in Q3 2008, the contribution of petroleum products to the core CPI inflation rate will gradually subside. In fiscal 2009, rising oil prices will have almost no direct impact.

However, we predict that as inflation stabilizes, companies will become much less resistant to raising prices, and pass on price increases on a wide range of products. Moreover, if inflation exceeds 1% in fiscal 2008, wages are likely to

Exhibit 12 Prediction for CPI Inflation



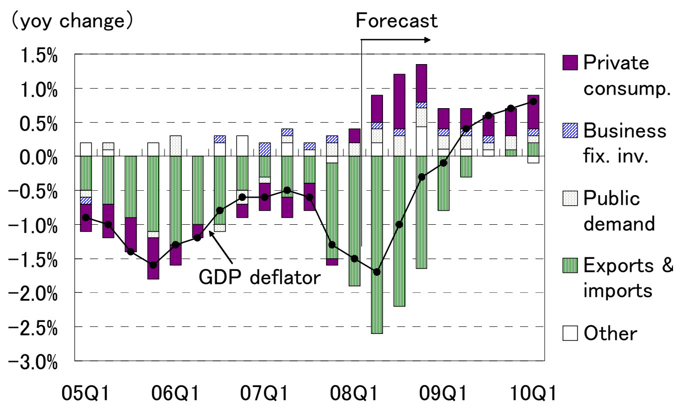
Source: Statistics Bureau, MIC, *Consumer Price Index.*

adjust to some extent in fiscal 2009, pushing up service prices. This will add even more inflationary pressure.

We predict core CPI inflation will reach 1.4% in fiscal 2008, and edge down to 1.1% in fiscal 2009.

In Q4 2007, the GDP deflator plummeted -1.3% from a year ago, followed by another -1.5% plunge in Q1 2008. Higher CPI inflation helped boost the domestic demand deflator to 0.4% growth from a year ago in Q1 2008 (compared to 0.1% in Q4 2007). However, this was overwhelmed by the persistently high import deflator, coupled with the worsening export deflator due to the strong yen. We predict the GDP deflator will turn positive in Q2 2009 as downward pressure from the import deflator abates while the domestic demand deflator continues to grow. The present reversal between nominal and real GDP growth rates will not normalize until fiscal 2009. We predict the nominal GDP growth rate will be 0.3% in fiscal 2008, and 2.5% in fiscal 2009.

Exhibit 13 Prediction for GDP Inflator



Source: ESRI, *Preliminary Quarterly Estimates of GDP.*

In the *Outlook for Economic Activity and Prices* released on April 30, the BOJ downgraded its overall assessment of the economy in fiscal 2008. At the same time, it shifted the conduct of monetary policy from October's stance to "adjust the level of interest rates gradually in accordance with improvements in the economic and price situation," to a clear neutral stance that "it is not appropriate to predetermine the direction of future monetary policy."

Recently, with oil prices surging higher, inflation is increasingly likely to exceed the forecast in the April 2008 BOJ *Outlook* (for fiscal 2008, the median forecast of Policy Board members calls for the core CPI to rise 1.1% from a year ago, and domestic corporate goods price index to rise 2.5%). Meanwhile, with the growing downside risks to the economy, policy rates will need to remain unchanged in the near term. We predict rate hikes will resume in the first half of fiscal 2009, when economic recoveries are confirmed in the U.S. and Japan.

Forecast for U.S.

(% as noted)

	2007	2008	2009	2007		2008				2009			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		(f)	(f)				(f)	(f)	(f)	(f)	(f)	(f)	(f)
Real GDP (seq. rate annualized)	2.2	1.5	1.6	4.9	0.6	0.9	0.3	1.9	1.0	1.1	2.0	2.4	2.6
Personal consumption exp. 〃	2.9	1.6	1.8	2.8	2.3	1.0	0.6	2.2	1.2	1.5	2.0	2.5	2.8
Nonresid. fixed investment 〃	4.7	2.8	3.6	9.4	6.0	−0.2	−2.0	1.5	3.4	4.4	4.6	4.9	5.6
Residential investment 〃	−17.0	−21.5	−3.8	−20.5	−25.2	−25.5	−22.7	−16.3	−9.8	−1.9	5.4	7.2	9.6
Change in priv. inventories *(contrib)*	*−0.3*	*−0.1*	*0.2*	*0.9*	*−1.8*	*0.2*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Net exports *(contrib)*	*0.6*	*0.9*	*0.5*	*1.4*	*1.0*	*0.8*	*0.8*	*0.3*	*0.4*	*0.4*	*0.6*	*0.5*	*0.3*
Consumer price index (yoy)	2.9	4.1	2.9	2.4	4.0	4.2	4.0	4.3	3.8	3.5	3.1	2.6	2.4
Unemployment rate (avg)	4.6	5.3	5.7	4.7	4.8	4.9	5.3	5.5	5.5	5.6	5.6	5.7	5.7
Federal funds rate target (end)	4.25	2.00	3.25	4.75	4.25	2.25	2.00	2.00	2.00	2.00	2.25	2.75	3.25
10-year Treasury note yield (avg)	4.6	3.9	4.3	4.7	4.3	3.7	3.9	4.0	4.1	4.2	4.2	4.3	4.4

Forecast for Euro Area

(% as noted)

	2007	2008	2009	2007		2008				2009			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		(f)	(f)				(f)	(f)	(f)	(f)	(f)	(f)	(f)
Real GDP (yoy chg)	2.6	1.8	1.6	2.7	2.1	2.2	1.9	1.6	1.7	1.3	1.6	1.7	1.8
(annualized rate)	2.6	1.8	1.6	2.7	1.3	3.2	0.5	1.4	1.5	1.6	1.7	1.9	2.0
Domestic demand *(contrib to yoy chg)*	*2.3*	*1.5*	*1.4*	*2.1*	*1.9*	*1.6*	*1.6*	*1.3*	*1.6*	*1.2*	*1.4*	*1.5*	*1.6*
Private consumption (yoy chg)	1.6	0.7	1.3	1.8	1.2	1.2	0.7	0.3	0.6	0.8	1.1	1.5	1.7
Gross fixed investment (yoy chg)	4.4	3.3	2.0	3.9	3.2	3.6	3.8	3.3	2.7	1.6	2.0	2.1	2.3
Net exports *(contrib to yoy chg)*	*0.3*	*0.3*	*0.2*	*0.5*	*0.2*	*0.6*	*0.3*	*0.3*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*
HICP (yoy chg)	2.1	3.4	2.4	1.9	2.9	3.4	3.4	3.6	3.1	2.7	2.5	2.3	2.2
Unemployment rate (avg)	7.4	7.2	7.4	7.4	7.2	7.1	7.1	7.2	7.3	7.4	7.4	7.4	7.4
ECB policy interest rate (ending)	4.00	4.25	4.25	4.00	4.00	4.00	4.00	4.25	4.25	4.25	4.25	4.25	4.25
10-year government bond yield (%)	4.24	4.14	4.20	4.30	4.23	3.90	4.25	4.20	4.20	4.20	4.20	4.20	4.20
EUR/USD exchange rate (avg)	$1.37	$1.53	$1.49	$1.38	$1.45	$1.50	$1.56	$1.54	$1.52	$1.50	$1.50	$1.48	$1.48
EUR/JPY exchange rate (avg)	¥161	¥161	¥160	¥162	¥164	¥158	¥164	¥162	¥160	¥161	¥161	¥158	¥158

Forecast for Japan

(% as noted)

		2007	2008	2009	FY 2007		FY 2008				FY 2009			
		FY	FY (f)	FY (f)	10-12	1-3	4-6 (f)	7-9 (f)	10-12 (f)	1-3 (f)	4-6 (f)	7-9 (f)	10-12 (f)	1-3 (f)
Real GDP	(qoq change)	1.6	1.1	1.8	0.7	1.0	-0.2	0.1	0.3	0.4	0.4	0.5	0.5	0.7
	(qoq annualized)				2.9	4.0	-0.7	0.4	1.3	1.7	1.7	2.1	2.2	2.9
	(yoy change)				1.7	1.3	1.5	1.5	0.8	0.6	1.3	1.7	1.9	2.3
Domestic demand	*(contrib)*	*0.4*	*0.5*	*1.5*	*0.4*	*0.5*	*-0.3*	*0.2*	*0.4*	*0.3*	*0.3*	*0.4*	*0.4*	*0.5*
Private sector	*(contrib)*	*0.3*	*0.4*	*1.4*	*0.2*	*0.5*	*-0.2*	*0.2*	*0.2*	*0.3*	*0.4*	*0.4*	*0.4*	*0.5*
Public sector	*(contrib)*	*0.1*	*0.1*	*0.1*	*0.2*	*0.0*	*-0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
External demand	*(contrib)*	*1.3*	*0.6*	*0.3*	*0.3*	*0.5*	*0.1*	*-0.1*	*-0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Private consumption	(qoq)	1.4	0.8	1.3	0.4	0.8	-0.2	0.1	0.2	0.3	0.3	0.5	0.4	0.5
Private residential invest.	(qoq)	-13.3	6.5	3.5	-9.2	4.6	3.9	5.5	4.6	-0.5	-0.4	0.3	0.7	0.7
Private nonresidential invest.	(qoq)	0.0	-0.6	4.4	1.2	0.2	-1.3	-0.6	-0.1	1.3	1.7	1.2	1.0	1.3
Government consumption	(qoq)	0.7	1.0	1.0	0.8	-0.4	0.0	0.4	0.9	0.3	-0.1	0.1	0.3	0.3
Public investment	(qoq)	-1.8	-2.7	-3.1	0.6	1.3	-2.9	-0.2	-0.6	-0.4	-1.1	-0.7	-0.8	-1.0
Exports of goods & services	(qoq)	9.5	5.8	3.9	2.6	4.0	1.0	-0.6	-0.1	1.1	1.2	1.3	1.4	1.5
Imports of goods & services	(qoq)	2.1	2.9	2.9	0.9	1.4	0.8	0.3	0.4	0.8	0.7	0.9	0.9	0.7
Nominal GDP	(qoq)	0.6	0.3	2.5	-0.1	0.5	-0.7	0.7	0.0	0.4	0.5	1.4	0.4	0.8

Major Indicators

(As noted)

		2006	2007	2008	FY 2006		FY 2007				FY 2008			
		FY	FY (f)	FY (f)	10-12	1-3	4-6 (f)	7-9 (f)	10-12 (f)	1-3 (f)	4-6 (f)	7-9 (f)	10-12 (f)	1-3 (f)
Industrial production (IIP)	(% qoq)	2.6	-0.3	2.3	0.9	-0.7	-0.3	-0.9	0.2	1.0	0.6	0.7	0.6	0.8
Domestic CGPI	(% yoy)	2.3	3.6	0.9	2.4	3.4	4.4	3.9	3.5	2.8	0.8	0.8	0.9	1.1
CPI	(% yoy)	0.4	1.4	1.1	0.5	0.9	1.2	1.8	1.5	1.1	1.0	1.0	1.1	1.2
Core CPI (excl. fresh food)	(% yoy)	0.3	1.4	1.1	0.5	1.0	1.3	1.8	1.4	1.1	1.0	1.0	1.1	1.2
Current account balance	(¥ tril)	24.6	18.5	20.4	24.9	22.5	19.7	18.9	18.3	17.3	18.4	20.3	21.5	21.2
(as % of nominal GDP)	(%)	4.8	3.6	3.8	4.8	4.4	3.8	3.7	3.5	3.3	3.5	3.8	4.1	4.0
Unemployment rate	(%)	3.8	3.9	3.7	3.8	3.8	3.9	3.9	3.9	3.9	3.8	3.7	3.6	3.5
Housing starts	(million)	1.04	1.16	1.19	0.95	1.14	1.18	1.15	1.15	1.15	1.16	1.18	1.19	1.21
Unsec. overnight call rate	(end, %)	0.50	0.50	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
10-year JGB yield	(avg, OTC)	1.6	1.8	2.1	1.6	1.4	1.6	1.8	1.9	1.9	1.9	2.1	2.2	2.3
USD/JPY exchange rate	(avg)	¥114	¥106	¥107	¥113	¥105	¥105	¥105	¥105	¥107	¥107	¥107	¥107	¥107
CIF crude oil price	(avg, USD/bbl)	$78	$127	$129	$83	$95	$121	$129	$129	$129	$129	$129	$129	$129
Current profit	(% yoy)	-3.3	-2.1	5.7	-4.5	-17.5	-8.0	-5.6	-0.1	6.2	3.1	4.3	5.2	10.2