Economy Must Shift to Consumption-Led Growth—Economic Forecast for FY 2007–2008

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The economy's performance was mixed in January-March (Q1) 2007. Although real GDP expanded 3.3% (annualized), industrial production fell for the first time in six quarters. In fiscal 2007, the economy will slow in the first half as exports and personal consumption weaken, but pick up in the second half as the U.S. economy improves and domestic wage growth stimulates consumption. We predict real economic growth of 2.0% in fiscal 2007 and 2.1% in fiscal 2008. However, to sustain the recovery, income growth must steadily spread from the corporate to household sector by three routes—wages, interest income, and dividend income—to generate consumption-led growth.

1. Introduction

The real economy expanded 0.8% from the previous quarter (3.3% annualized) in the first quarter (January-March) of 2007—down from 1.3% growth (5.4% annualized) in Q4 2006, but nonetheless positive for the ninth straight quarter. Although private nonresidential investment barely rose 0.3% from the previous quarter, private consumption grew an impressive 0.8%, while external demand contributed 0.5% to the growth rate, led by exports to Asia (mainly China).

Yet despite steady real GDP growth, the index of industrial production—the most sensitive indicator of business conditions—sagged -1.3% in Q1 from the previous quarter, marking the first decline in six quarters. Leading the decline was a -4.4% drop in transport equipment after an impressive 6.9% spurt in Q4 2006. Reflecting the stagnant production situation, the coincident diffusion index fell below 50% for the first three months of 2007.

Inventories of electronic components and devices—whose high levels stifled industrial production from late 2004 to summer 2005—began rising again in early 2006. With the 37.2% (year-on-year) surge in April 2007, inventory adjustment appears to be inevitable.

Otherwise, however, inventories are generally low, posing little risk that inventory adjustments will reverberate across industrial production as a whole. In April, industrial production fell -0.2% from March for the second consecutive monthly decline. However, judging from the METI index of manufacturing production forecast—which rose 1.8% sequentially in May and 1.4% again in June—the industrial production index is poised to rise 1.6% sequentially in Q2. Thus despite the inventory adjustment of electronic components and devices, industrial production should return to positive growth in Q2.

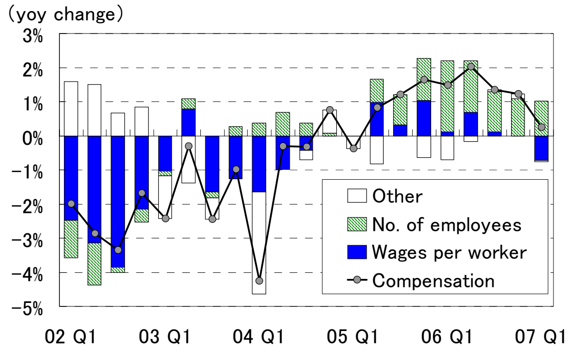
2. Economy to Grow 2.0% in FY 2007, 2.1% in FY 2008

(1) Slowdown in First Half of FY 2007

Following a strong second half in fiscal 2006, the economy is set to soften in the first half (April-September) of fiscal 2007. Although private consumption surged 1.1% sequentially in Q4 2006 and 0.8% in Q1 2007, one-time factors accounted for much of the growth—i.e., the sales rebound following the weak summer, and the warm winter effect, spurring springtime apparel sales and encouraging people to consume more services away from home.

Meanwhile, employee compensation growth has gradually slowed after peaking at 2.0% growth (yoy) in Q2 2006, dropping to 0.3% in Q1 2007. Despite relatively high growth of 1% in number of employees, growth of wages per worker has been sluggish due to the decrease in scheduled cash earnings. Total cash earnings per worker (scheduled, non-scheduled, and special cash earnings)

Exhibit 1 Compensation of Employees



Sources: Cabinet Office, Quarterly Estimates of GDP; MIC, *Labour Force Survey*; MHLW, *Monthly Labour Survey*.

dropped -0.7% (yoy) in Q1 2007 for the first time in ten quarters.

The fact that income growth has not kept pace with personal consumption growth casts some doubt on the recovery's sustainability. We predict that as companies continue to cut labor cost, wage growth will remain low in the near future, limiting personal consumption growth to a modest pace in the first half of 2007.

While external demand greatly boosted the economy in Q1 2007, exports are bound to decelerate from Q2 2007 as the U.S. economy softens. In the U.S., real GDP growth plunged from 2.5% in Q4 2006 to 0.6% in Q1 2007. Despite strong personal consumption, the sharp downturn of residential investment continued unabated, and nonresidential investment growth was lackluster. While employment growth—which used to drive consumption—rose in May, it has trended down since the start of the year. Growth of wage income has also declined. In addition, high gasoline prices and other factors will hamper consumption in Q2.

Although Japan's exports to China will post double-digit growth (yoy) and remain pivotal to the economy, the U.S. economic slowdown will impact economic growth in Asia and elsewhere, dampening Japan's export growth from Q2 2007 onward.

In light of the predicted sluggishness of consumption and exports—both of which significantly boosted growth in Q1—Japan's economic growth in the first half of fiscal 2007 will be limited to the low 1% range.

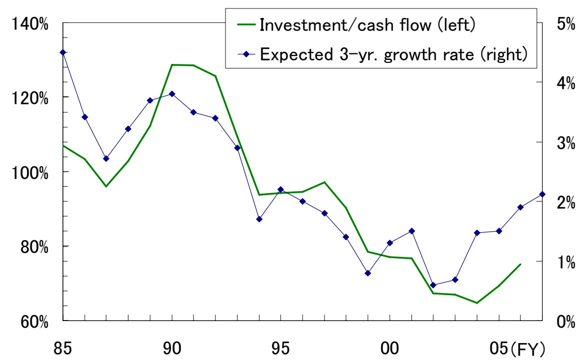
2. Nonresidential Investment Cools

Nonresidential investment in Q1 2007 edged up only 0.3% from the previous quarter. Meanwhile, machinery orders (private demand excluding volatile orders for shipbuilding and electric power)—a leading indicator of nonresidential investment—dropped -0.7% in Q1 for the first decline in two quarters, and the Cabinet Office predicts another -11.8% decline in Q2. Thus pessimism is mounting that nonresidential investment can no longer drive the economy.

However, we believe the pessimism may be slightly excessive. In recent years, the second-quarter achievement ratio (ratio of actual orders to forecast orders) has consistently exceeded 100% by a wide margin. However, the Cabinet Office forecast for Q2 2007 assumes an achievement ratio of only 92.6%, which is the trailing average of the past three quarters. If we instead apply the average second-quarter achievement ratio of the past three years (110.0%), the Q2 forecast for machinery orders changes from a -11.8% decrease to a 4.8% increase.

In pondering nonresidential investment growth, another key factor is the steady improvement in corporate expectations for real economic growth over the next three years. In the latest *Annual Survey of Corporate Behavior* (January 2007) by the Cabinet Office, the expected growth rate rose 0.2-percentage point to 2.1%, marking its first move above 2% in 11 years. Improving growth expectations

Exhibit 2 Investment/Cash Flow Ratio and Expected Economic Growth Rate



Notes: Cash flow = Ordinary profit x 0.5 + Depreciation expense. Survey of expected economic growth rate is conducted in January of the previous fiscal year.
Sources: MOF, *Financial Statements Statistics of Corporations by Industry*; Cabinet Office, Annual Survey of Corporate Behavior

tend to boost the ratio of investment in plant and equipment to cash flow, which is widely seen as an indicator of investment intentions. The ratio, which only started to recover from the post-bubble plunge in fiscal 2005, still remains low. Taken together, the two factors suggest that nonresidential investment has ample room to keep growing.

However, we predict that growth of corporate earnings will gradually diminish as earnings are squeezed by slowing exports and sales revenue on the one hand, and rising raw materials prices and labor cost on the other. Investment will continue to grow, but no longer at the pace necessary to drive the economy. We predict that nonresidential investment growth will fall from 7.9% in fiscal 2006 to 5.3% in fiscal 2007, and 3.9% in fiscal 2008.

3. Economy to Pick up in H2 FY 2007

Despite encountering a rough patch in the first half of fiscal 2007, Japan's economy will successfully avert a recession in the second half. Meanwhile, the U.S. economy will maintain a slow growth pace, bottoming out in the first half of 2007, and gradually accelerating in the second half. Economic recovery will become distinct in 2008 once nonresidential investment recovers and residential investment completes adjustment. By that time, the U.S. economy will be growing at approximately a 3% sequential pace, or near the potential growth rate. Thus real GDP growth will drop from 3.3% in 2006 to 2.0% in 2007, and recover to 2.9% in 2008.

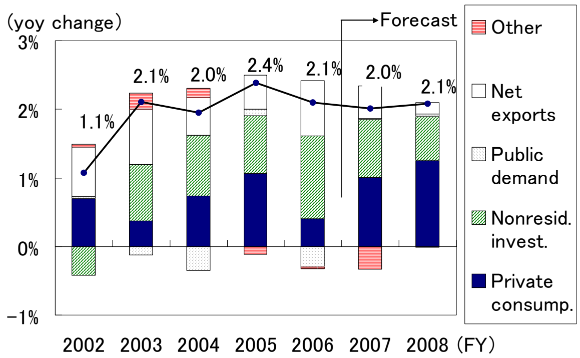
The U.S. recovery will boost Japan's export growth in the second half of fiscal 2007. But in fiscal 2008, the narrowing interest rate spread and mounting U.S. current account deficit will strengthen the yen against the dollar, limiting Japan's export growth. Meanwhile, strong domestic demand will drive import growth in fiscal 2008. As a result, the contribution of external demand to economic growth will decline from 0.8% in fiscal 2006 to 0.5% in fiscal 2007, and 0.2% in fiscal 2008.

As nonresidential investment cools down, the mainstay of Japan's economic growth will shift to personal consumption sometime from the second half of fiscal 2007 to fiscal 2008. The unemployment rate dropped to 3.8% in April 2007, breaking below the 4% threshold for the first time in nine years and one month. Although wage growth is still low, the labor market shows signs of tightening—demand for labor is rising, while labor supply will contract as baby boomers start to retire en masse. The tight labor market will increase wage growth, fueling personal consumption. Meanwhile, financial income will grow as higher interest rates and booming corporate profits boost interest and dividend income, steadily augmenting household disposable income and thereby accelerating the growth of consumption.

As a result, we predict that private consumption growth will accelerate from 0.7% in fiscal 2006 to 1.8% in fiscal 2007, and 2.3% in fiscal 2008.

We predict that real GDP will expand 2.0% in fiscal 2007 and 2.1% in fiscal 2008. Nonresidential investment and external demand—the key growth drivers in fiscal 2006—will gradually be replaced by private consumption in fiscal 2007. The mainstay of growth will thus shift from the corporate sector to the household sector.

Exhibit 3　Real GDP Growth by Component



Source: ESRI, *Quarterly Estimates of GDP*.

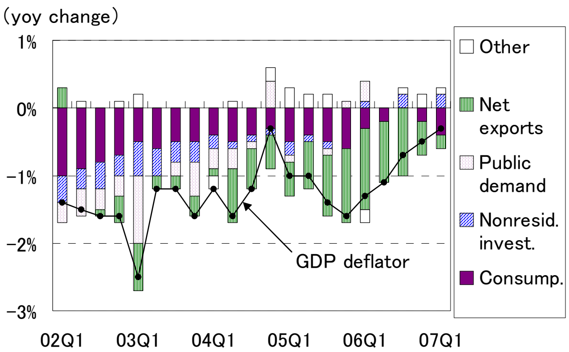
4. Prices and the GDP Deflator

Consumer price inflation (general prices excluding volatile fresh food prices), which became slightly positive (yoy) in June 2006, turned negative in February 2007. The downturn is attributed to the drop in oil prices after peaking last summer. As a result, the high inflationary effect of gasoline and other petroleum products recently became deflationary. Oil prices began rising again in late March, and gasoline prices turned upward in April. However, since oil prices are low compared to last summer, petroleum products should continue to depress year-on-year consumer price changes for a while.

CPI inflation will remain slightly negative, turning positive in the second half of fiscal 2007. In fiscal 2008, as the labor market tightens further and unemployment falls to the mid-3% level, wages will gradually apply cost-push pressure on prices. We predict that CPI inflation will remain unchanged in fiscal 2007 at 0.1%, and rise to 0.5% in fiscal 2008.

The GDP deflator has been steadily approaching positive ground, rising from -1.6% (yoy) in Q4 2005 to -0.3% in Q1 2007. While the private consumption component grew significantly more negative, the import deflator—which had significantly depressed the GDP deflator—improved slightly. Higher raw material prices caused the deflator for residential, nonresidential, and public investment to rise by a growing margin. With the investment deflator expected to remain persistently high, and the negative private consumption deflator gradually shrinking, the GDP deflator should turn positive in fiscal 2007, bringing the economy's nominal growth rate back above the real growth rate for the first time in a decade. We predict that nominal GDP will grow 2.1% in fiscal 2007, and 2.4% in fiscal 2008.

Exhibit 4 Factor Analysis of Changes in the GDP Deflator



Source: ESRI, *Quarterly Estimates of GDP*.

5. Rate Hike Predicted in Q3 2007

In the *Outlook for Economic Activity and Prices* release on April 27, the Bank of Japan stated that it "will adjust the level of interest rates gradually in accordance with improvements in the economic and price situation." At a press conference on the same day, BOJ Governor Toshihiko Fukui remarked that if the economy's growth mechanism is solid and long-term price trends are firm, interest rate levels must be adjusted accordingly, or the risk will arise of distortions in resource allocation and large swings in economic activity—thus emphasizing that interest rates may be raised despite short-term weakness in prices.

While year-on-year CPI inflation has been negative since February 2007, members of the Monetary Policy Board have hinted at additional rate hikes based on an overall assessment that includes asset prices. In addition, favorable economic data from the U.S. has helped erase uncertainties about its economy. With much weaker expectations of a U.S. rate hike, and the ECB taking a stronger anti-inflationary stance, conditions are growing more favorable for the BOJ to raise rates.

Financial markets already anticipate a third rate hike by September, and perhaps as early as August. They also expect the rate hike to be followed by regular 0.25% rate hikes every two quarters, raising the call rate target (unsecured overnight) to 1.50% by the end of fiscal 2008.

3. Disposable Income Holds Key

1. Lump-sum Retirement Allowance Boosts Employee Compensation

After bottoming out in January 2002, the economy entered a recovery that already exceeds the *Izanagi* boom as the longest postwar expansion. With the corporate sector no longer capable of driving the expansion, the recovery's future rests on the strength of personal consumption. Since consumption trends are largely determined by household income, below we examine employee compensation and financial income (interest and dividend income) trends.

Employee compensation, which comprises approximately 90% of disposable income, rose in fiscal 2005 for the first time in five years. But the increase in fiscal 2006 was small due mainly to stagnation in average wage growth. Due to the realities of economic globalization, companies remain committed to reducing labor cost. Moreover, while new graduate hiring has increased sharply, average wages are depressed by the shifting age composition of workers as higher-wage baby boomers start to retire.

Structural factors that keep wages from rising are predicted to remain in place. Meanwhile, in the national accounts, compensation of employees includes not only wages and salaries, but also lump-sum retirement allowances (employer's imputed social contributions). In fiscal 2005, lump-sum retirement allowances amounted to ¥10.9 trillion. But as baby boomers start to retire this year, that amount is predicted to reach ¥13 trillion in fiscal 2007 and ¥14 trillion in fiscal 2008. This by itself is expected to boost the compensation of employees approximately 0.8% in fiscal 2007 and 0.4% in fiscal 2008.

Due to the stagnant growth of average wages, wages and salaries will increase only 1.0% in fiscal 2007, while the increase in lump-sum retirement allowances will push up compensation of employees by 1.6%, slightly more than the 1.3% increase in fiscal 2006. In fiscal 2008, the growth of retirement allowances will subside, while wage growth will rise as the labor market tightens, pushing up the growth of compensation of employees to 2.3%.

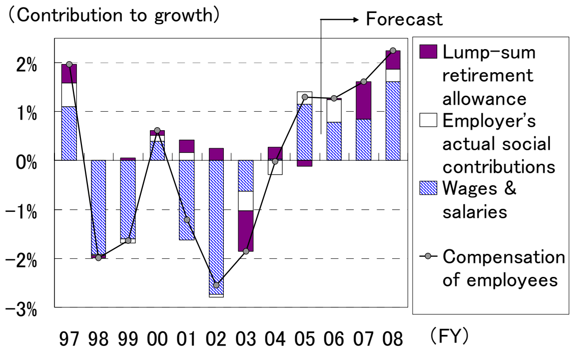
However, compared to wage income, a smaller proportion of retirement allowances is spent on consumption. Thus while boosting disposable income, retirement allowances will tend to reduce the average propensity to consume.

2. Interest & Dividend Income to Boost Disposable Income

Looking ahead, a significant boost to household income will come from financial income. After peaking out in fiscal 1991 at ¥35.8 trillion, net financial income of households plunged to ¥6.3 trillion in fiscal 2003. Due to the prolonged period of ultra low interest rates, interest income dropped precipitously. In fiscal 2005, households received interest income of only ¥3.0 trillion, or less than one-tenth of the ¥38.5 trillion received in fiscal 1991. In fact, net interest income has been negative since fiscal 1997.

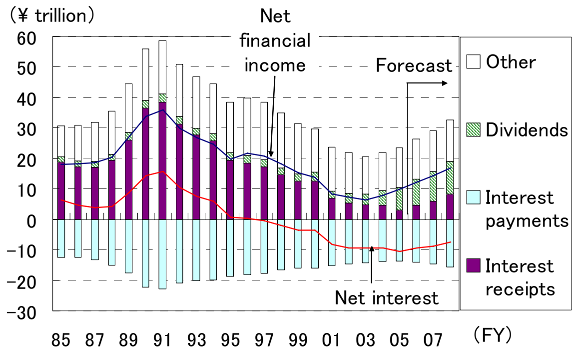
The growth of financial income from fiscal 2004 can be mainly attributed to dividend income. Companies are paying out more dividends not only because of strong corporate profits, but as a defense against hostile takeovers. The dividend income of households grew an impressive 51% in fiscal 2005, and

Exhibit 5　Forecast for Compensation of Employees



Notes: Lump-sum retirement allowance is the employer's imputed social contributions. Shows actual compensation of employees to fiscal2006, and actual breakdown to fiscal 2005
Source: ESRI, *Annual Report on National Accounts*.

Exhibit 6　Forecast for Household Financial Income



Note: Other income contains imputed financial income of insurance policyholders and rental income.
Source: ESRI, *Annual Report on National Accounts*.

even more companies increased dividend payouts in fiscal 2006. If corporate profits remain strong, households stand to enjoy more dividend increases in fiscal 2007 and beyond.

In addition, according to the latest data, interest income was still decreasing in fiscal 2005. But with the end of the zero-interest rate policy in July 2006 and the additional rate hike in February 2007, the BOJ raised the call rate target to 0.5%, causing deposit rates to edge up from near zero percent. As a result, the interest income of households is likely to have grown in fiscal 2006 for the first time in 15 years.

We predict that the BOJ will implement four more rate hikes in fiscal 2007 and 2008, raising the call rate to 1.50% by the end of fiscal 2008. This will cause deposit rates and other interest rates to rise, increasing the interest income of households. Of course, borrowing rates will also rise. But since households hold far more financial assets than liabilities, their net interest income will rise.

Based on our outlook for interest and dividend income, we predict that financial income will increase the disposable income of households by 0.7% in fiscal 2007 and 0.9% in fiscal 2008.

3. Higher Public Burdens

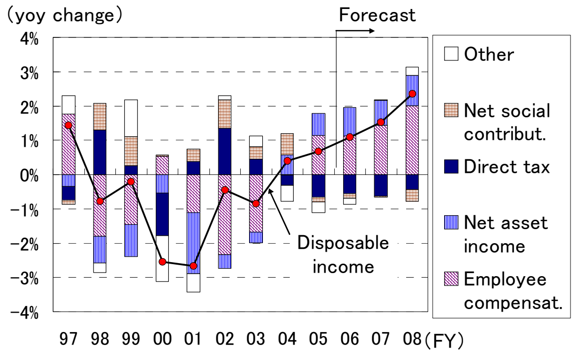
The most prominent impact to household disposable income is the elimination of the fixed-rate tax cut in the personal income tax. Introduced in 1999, the tax cut was halved in January 2006, and eliminated in January 2007. As a result, we estimate that the household tax burden increased approximately ¥1.6 trillion in fiscal 2006 and ¥1.5 trillion in fiscal 2007.

Separately, in fiscal 2007, tax revenue sources are being transferred from the national to local level. Technically, this means that ¥3 trillion of tax revenue will simply change in form from the personal income tax to the inhabitant tax. However, a gap occurs in the timing of the two changes—the income tax began in January 2007, while the inhabitant tax increase occurred in June 2007. As a result, the tax burden temporarily eased between January and May 2007, which may have boosted personal consumption in Q1 2007. On a fiscal year basis, however, the transfer of tax revenue sources should have a neutral effect.

The total burden on households—including increases in the social security burden and other adjustments—will increase roughly ¥1.4 trillion in fiscal 2007 and ¥1.3 trillion in fiscal 2008. But since these amounts represent only about 0.3% of disposable income, we expect the impact on personal consumption to be minor.

We predict that as financial income grows, and as employee compensation increases due to higher wage growth, disposable household income growth will climb to 2.4% in fiscal 2008. The steady outflow of income from the corporate to household sector through three routes—wages, interest income and dividend income—will not only add momentum to personal consumption, but stabilize and prolong the current record-setting recovery.

Exhibit 7 Forecast for Disposable Income



Note: Shows actual values to fiscal 2006 for compensation of employees, and to fiscal 2005 for the rest.
Source: ESRI, *Annual Report on National Accounts*.

Forecast for U.S.

(% as noted)

	2006	2007	2008	2006		2007				2008			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		(f)	(f)			(rev)	(f)	(f)	(f)	(f)	(f)	(f)	(f)
Real GDP (annualized rate)	3.3	2.0	2.9	2.0	2.5	0.6	2.6	2.5	2.8	2.9	3.0	3.1	3.1
Personal consumption expend. 〃	3.2	3.3	2.6	2.8	4.2	4.4	2.2	2.4	2.5	2.7	2.8	2.8	2.8
Nonresidential fixed invest. 〃	7.2	3.0	4.8	10.0	−3.1	2.9	3.4	3.6	4.3	4.6	5.3	6.3	6.0
Residential investment 〃	−4.2	−14.1	−2.4	−18.6	−19.8	−15.4	−9.8	−8.5	−6.0	−2.7	2.8	3.8	4.2
Change in priv. inventories *(contrib)*	*0.2*	*−0.3*	*0.1*	*0.1*	*−1.2*	*−1.0*	*0.6*	*0.2*	*0.1*	*0.0*	*0.0*	*0.1*	*0.1*
Net exports *(contrib)*	*0.0*	*0.2*	*0.2*	*−0.2*	*1.6*	*−1.0*	*0.3*	*0.2*	*0.1*	*0.2*	*0.2*	*0.1*	*0.0*
Consumer price index (annualized rate)	3.2	2.4	2.1	3.1	−2.1	3.8	4.8	1.0	2.0	2.1	2.1	2.1	2.1
Unemployment rate (avg)	4.6	4.6	4.7	4.7	4.5	4.5	4.5	4.6	4.7	4.7	4.7	4.7	4.7
Federal funds rate target (end)	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
10-year Treasury note yield (avg)	4.8	4.9	5.3	4.9	4.6	4.7	4.8	5.1	5.2	5.2	5.3	5.3	5.3

Forecast for Euro Area

(% as noted)

	2006	2007	2008	2006		2007				2008			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		(f)	(f)				(f)	(f)	(f)	(f)	(f)	(f)	(f)
Real GDP (yoy chg)	2.8	2.7	2.2	2.8	3.3	3.0	2.7	2.7	2.3	2.2	2.1	2.1	2.2
(annualized rate)	2.8	2.7	2.2	2.4	3.5	2.4	2.5	2.2	2.0	2.0	2.2	2.3	2.4
Domestic demand *(contrib to yoy chg)*	*2.6*	*2.7*	*2.1*	*3.0*	*2.3*	*3.0*	*2.7*	*2.6*	*2.5*	*2.1*	*2.1*	*1.9*	*2.4*
Private consumption (yoy chg)	1.8	1.6	2.3	1.7	1.9	1.2	1.7	1.6	1.8	2.5	2.3	2.2	2.2
Gross fixed investment (yoy chg)	3.7	5.7	2.6	4.8	5.9	7.2	5.7	5.4	4.5	2.6	2.5	2.5	2.7
Net exports *(contrib to yoy chg)*	*0.3*	*0.0*	*0.0*	*−0.2*	*1.0*	*0.1*	*0.0*	*0.1*	*−0.3*	*0.0*	*0.0*	*0.2*	*−0.2*
HICP (yoy chg)	2.2	2.0	2.0	2.2	1.8	1.9	2.0	1.9	2.0	2.0	2.0	2.0	2.0
Unemployment rate (avg)	7.9	7.1	6.8	7.8	7.6	7.3	7.1	7.0	6.9	6.9	6.8	6.8	6.8
ECB policy interest rate (ending)	3.50	4.25	4.25	3.00	3.50	3.75	4.00	4.25	4.25	4.25	4.25	4.25	4.25
10-year government bond yield (%)	3.78	4.31	4.43	3.89	3.77	4.01	4.27	4.50	4.45	4.40	4.40	4.45	4.45
EUR/USD exchange rate (avg)	$1.26	$1.35	$1.36	$1.27	$1.29	$1.31	$1.35	$1.36	$1.36	$1.36	$1.36	$1.36	$1.36
EUR/JPY exchange rate (avg)	¥146	¥161	¥158	¥148	¥152	¥156	¥162	¥165	¥162	¥162	¥158	¥158	¥154

Forecast for Japan

(% as noted)

	2006	2007	2008	FY 2006		FY 2007				FY 2008			
	FY	FY	FY	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
		(f)	(f)			(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)
Real GDP (sequential chg)	2.1	2.0	2.1	1.3	0.8	0.3	0.3	0.6	0.5	0.6	0.5	0.4	0.5
(annualized rate)				5.4	3.3	1.1	1.1	2.4	2.2	2.3	2.0	1.7	2.1
(year-on-year chg)				2.2	2.6	2.2	2.5	1.5	1.8	2.0	2.3	2.0	2.1
Domestic demand *(contrib)*	*1.3*	*1.5*	*1.9*	*1.2*	*0.3*	*0.4*	*0.3*	*0.5*	*0.5*	*0.5*	*0.4*	*0.4*	*0.5*
Private sector *(contrib)*	*1.6*	*1.5*	*1.9*	*1.0*	*0.4*	*0.3*	*0.3*	*0.5*	*0.5*	*0.5*	*0.5*	*0.4*	*0.5*
Public sector *(contrib)*	*-0.3*	*0.0*	*0.0*	*0.2*	*-0.1*	*0.0*	*-0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Net exports *(contrib)*	*0.8*	*0.5*	*0.2*	*0.2*	*0.5*	*-0.1*	*0.0*	*0.1*	*0.1*	*0.0*	*0.1*	*0.0*	*0.0*
Private consumption (seq chg)	0.7	1.8	2.3	1.1	0.8	0.3	0.3	0.5	0.5	0.6	0.6	0.5	0.6
Private residential invest. (seq chg)	0.4	0.0	-0.4	2.2	-0.5	-0.7	-0.4	1.0	-0.5	0.1	-0.5	-0.4	-0.1
Private nonresidential invest. (seq chg)	7.9	5.3	3.9	2.7	0.3	1.6	1.3	1.2	1.2	1.0	0.7	0.6	0.7
Government consumption (seq chg)	0.9	1.0	1.1	0.1	-0.1	0.4	0.3	0.5	0.3	0.3	0.1	0.4	0.3
Public investment (seq chg)	-9.6	-4.6	-4.3	3.7	-1.2	-1.6	-2.6	-0.7	-1.2	-1.2	-1.2	-0.5	-1.1
Exports of goods & services (seq chg)	8.3	5.8	5.1	0.8	3.3	0.5	0.9	1.6	1.5	1.2	1.2	1.0	1.1
Imports of goods & services (seq chg)	3.2	3.5	5.6	-0.2	0.4	1.5	1.0	1.5	1.5	1.4	1.2	1.4	1.5
Nominal GDP (seq chg)	1.4	2.1	2.4	1.4	0.5	0.1	0.7	0.5	0.8	0.6	0.7	0.1	0.8

Major Indicators

(As noted)

	2006	2007	2008	FY 2006		FY 2007				FY 2008			
	FY	FY	FY	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
		(f)	(f)			(f)	(f)	(f)	(f)	(f)	(f)	(f)	(f)
Industrial production (IIP) (% seq chg)	4.8	2.3	3.2	2.2	-1.3	0.6	0.7	1.0	0.9	0.7	0.7	0.8	0.7
Domestic CGPI (% yoy chg)	2.8	1.5	0.3	2.6	1.9	2.1	1.1	1.2	1.4	0.3	0.1	0.4	0.4
CPI (% yoy chg)	0.2	0.0	0.5	0.3	-0.1	-0.1	-0.1	0.1	0.3	0.5	0.5	0.5	0.6
Core CPI (excl. fresh food) (% yoy chg)	0.1	0.1	0.5	0.1	-0.1	-0.1	0.0	0.2	0.3	0.5	0.5	0.5	0.6
Current account balance (¥ tril)	21.3	23.1	23.1	22.9	23.0	22.5	22.3	24.3	23.4	24.2	22.9	23.3	21.9
(as % of nominal GDP) (%)	4.2	4.4	4.3	4.5	4.5	4.4	4.3	4.7	4.4	4.6	4.3	4.4	4.1
Unemployment rate (%)	4.1	3.8	3.6	4.0	4.0	3.9	3.9	3.8	3.7	3.7	3.6	3.6	3.5
Housing starts (million)	129	128	128	131	125	127	127	128	128	129	128	127	127
Unsec. overnight call rate (end, %)	0.50	1.00	1.50	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
10-year JGB yield (avg, OTC)	1.8	2.0	2.4	1.7	1.7	1.7	1.9	2.1	2.2	2.3	2.3	2.5	2.6
USD/JPY exchange rate (avg)	¥117	¥120	¥115	¥118	¥119	¥120	¥121	¥119	¥119	¥116	¥116	¥113	¥113
CIF crude oil price (avg, $/bbl)	$63	$63	$64	$61	$58	$63	$63	$63	$64	$64	$64	$64	$64
Current profit (% yoy)	10.0	3.5	1.1	8.3	7.4	4.4	3.5	2.6	3.4	1.6	1.0	0.5	1.4

Notes:10-year JGB yield, exchange rate, and oil price are average values in the period; call rate is at end of period.

Sources: ESRI, *Quarterly Estimates of GDP*; METI, *Indices of Industrial Production*; MIC, *Consumer Price Index*; MOF, *Financial Statements Statistics of Corporations by Industry*; others.