The Worst May be Over for Japan's Economy— Short-term Economic Forecast (Fiscal 2009-2010)

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Japan experienced its worst recession to date in fiscal 2009, marked by two consecutive quarters of double-digit negative growth. However, the economy has apparently bottomed out as the export downturn has abated and inventory adjustment is underway. We predict the record economic stimulus package announced in April 2009 will boost the economy above its potential growth rate in the first half of 2009. However, due to persistent weakness in personal consumption and business fixed investment, the economy could falter when the fiscal stimulus effect wanes in fiscal 2010. We predict real GDP will contract -3.2% in fiscal 2009 but subsequent expand 1.1% in fiscal 2010.

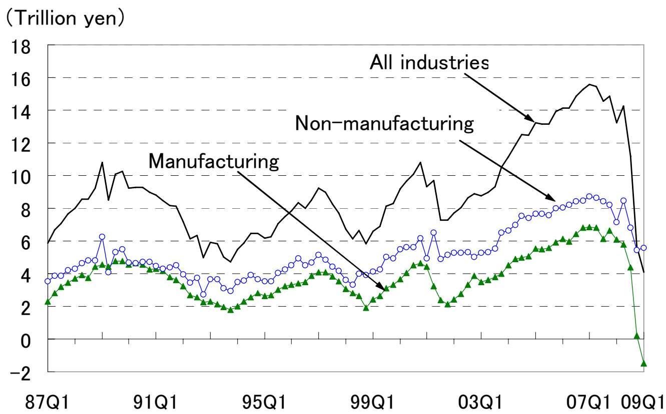
1. Signs of Bottoming Out in Q1 2009

1. Record Plunge of Real GDP in Q1 2009

Japan's economy tumbled after the Lehman Brothers shock in autumn 2009. Real GDP contracted -3.6% from the previous quarter (-13.5% annualized) in Q4 2008, followed by an even larger -3.8% decline in Q1 2009 (-14.2% annualized), marking the two worst consecutive quarterly performances on record.

The economy's downturn in Q4 2008 is largely attributed to weak external demand. Yet despite easing of the export downturn in Q1 2009, the economy continued to flounder due to weak domestic demand, with private consumption and business fixed investment contracting -1.1% and -8.9% respectively from the previous quarter.

Exhibit 1　Ordinary Profit Trend (seasonally adjusted)



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

As a result, GDP performance in fiscal 2008 was the worst on record in both real (-3.3%) and nominal (-3.6%) terms. Moreover, while quarter-on-quarter growth was negative throughout fiscal 2008, the severe plunge in the second half produced a highly negative growth carry-over of -4.6% entering fiscal 2009. As a result of this extremely low starting point, the average annual growth rate in fiscal 2009 will remain negative despite positive sequential growth in each quarter.

According to the MOF *Financial Statements Statistics of Corporations by Industry*, ordinary profit in all industries (excluding finance and insurance) continued to plunge by -70.1% from one year ago in Q1 2009 (expanding from -64.6% in Q4 2008) for the seventh consecutive quarter. This occurred despite a -20.4% reduction in variable cost (accelerating from -10.5% in Q4 2008) due to lower commodity prices, and a -8.1% reduction in fixed cost including labor cost (increasing from -4.9% in Q4 2008). Both cost declines were outweighed by a -20.4% drop in revenue (expanding from -11.6% in Q4 2008) due largely to slumping external demand. Manufacturing was particularly hard hit by a profit decline of -2.2 trillion yen, resulting in the sector's first loss since records were started in Q2 1954.

Ordinary profit in all industries (seasonally adjusted) totaled 4.1 trillion yen, consisting of a -1.5 trillion yen loss in the manufacturing sector, and 5.6 trillion yen profit in the non-manufacturing sector. This profit level is the lowest since seasonally adjusted data was first released in Q2 1985, and is a mere one-fourth of the peak level of 15.6 trillion yen reached in Q1 2007.

2. Economy Heading Toward Recovery

Although the economy suffered the worst contraction on record in the second half of fiscal 2008, the latest data already reveals signs that the economy may have bottomed out.

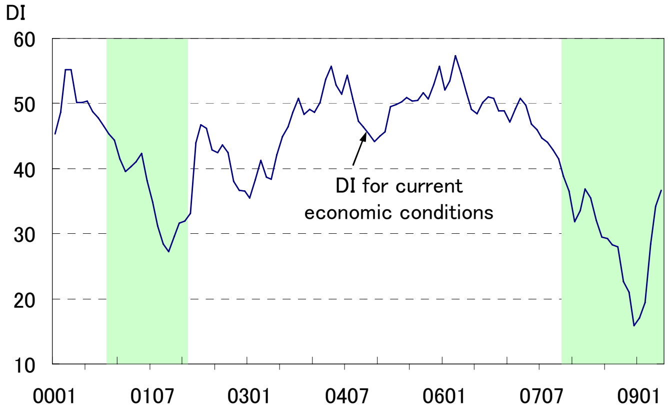
First, after plunging from autumn 2008 to yearend, both the *Economy Watchers Survey* and *Consumer Confidence Index* have posted five consecutive months of improvement since December 2008. In particular, the *Economy Watchers Survey* is highly regarded as a sensitive indicator of economic trends—in the previous recession (November 2000 to January 2002), its diffusion index for current economic conditions correctly predicted the trough as early as October 2001. Probable reasons for the improvement in consumer confidence include rising stock prices, expressway toll cutbacks, the government's cash benefit disbursement, and tax incentive for automobile purchases.

Second, the export downturn that weighed heavily on the economy has shown signs of abating. Monthly export volume, which accelerated downward from autumn 2008 and reached an alarming pace of -45.4% (year-on-year) in February 2009, abated to -35.9% in April. Although exports continue to slump to the U.S. and Europe, exports to Asia are recovering, particularly to China where the economic stimulus package is gaining traction.

Third, the production index of the *Indices of Industrial Production* (METI), which closely tracks current economic conditions, posted a record decline of -11.3% in Q4 2008 from the previous quarter, followed by an even larger -22.1% decline in Q1 2009. On a monthly basis, however, the index actually rose 1.6% in March from February for the first monthly gain in six months, and improved further to 5.9% in April. We predict it will turn positive in Q2 2009.

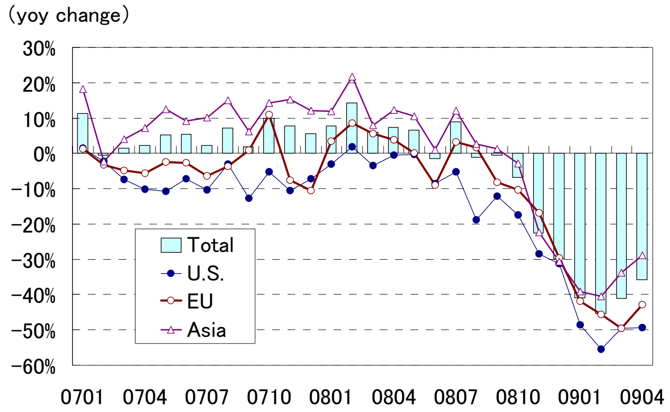
For industrial production to recover, it is critical for exports to bottom out and inventories to adjust. In fact, the inventory index, which rose sequentially for three straight quarters through Q4

Exhibit 2 Economy Watchers Survey (monthly)



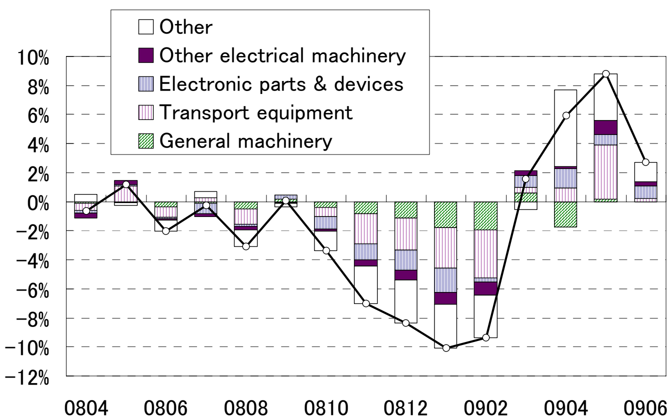
Note: Shadowed areas indicate contraction phases.
Source: Cabinet Office, *Economy Watchers Survey*

Exhibit 3 Export Volume by Destination (monthly)



Source: Ministry of Finance, *Trade Statistics of Japan.*

Exhibit 4 Recovery of Industrial Production (monthly)



Note: Other electrical machinery is comprised of electrical machinery and information and communication electronics equipment
Source: METI, *Indices of Industrial Production.*

2008, actually fell a record -9.0% in Q1 2009. Despite the sharp contraction of final demand from autumn 2008, the inventory buildup is less pronounced than in previous severe contractions such as after the first oil shock and collapse of the bubble economy. This is attributed to the bold and prompt action of producers to slash output in the early phase of the slowdown. As the export downturn continues to abate, inventory adjustment will also advance rapidly.

Meanwhile, according to the *Survey of Production Forecast*, planned production rose 8.8% from the previous month in May and 2.7% in June. In particular, planned production of transport equipment, whose production plummeted almost 60% between August 2008 and February 2009, rose 3.1% in March for the first time in eight months, accelerating to 7.4% in April and 28.5% in May.

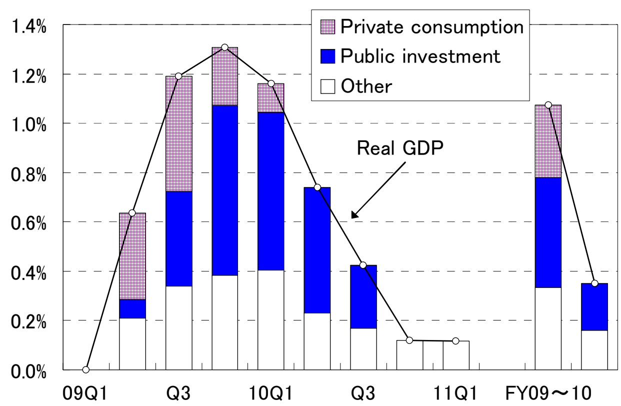
To predict the production index for Q2 2009, we extrapolated the April production index using the planned production index for May and June. We predict the production index will rise 10.5% from the previous quarter for the first increase in five quarters. At the very least, the production index is set to turn positive, and could possibly reach double-digit growth considering that no downgrades have been made to planned production.

The reference dating of business cycles is based on the historical diffusion index, which tracks the peaks and troughs of 11 coincident indicators. Specifically, the trough of a business cycle is marked when six of the 11 coincident indicators have reached a turning point. Since most of the coincident indicators are related to manufacturing, the historical diffusion index tends to correlate highly with the METI indices of industrial production. Thus if the industrial production indices continue to rise after May, the coincident DI will likely follow suite despite lingering weakness in other components related to employment and business fixed investment. If events unfold as we predict, the industrial production indices and business cycle will both mark a trough in Q1 2009.

3. Effect of the Stimulus Package

From August to December 2008, the government announced three fiscal stimulus packages, but as the economy continued to deteriorate, an additional "Policy Package to Address Economic Crisis" was announced on April 10 to stave off an economic crisis. Compared to the first three packages, which totaled 75 trillion yen in value and 12 trillion yen in government expenditure, the latest package is valued at 56.8 trillion yen and entails a record 15.4 trillion yen in fiscal spending, eclipsing the previous record expenditure of 7.6 trillion yen set by the Obuchi administration in 1998.

Exhibit 5 Effect on Real GDP Growth of the Economic Crisis Policy Package (April 2009)



Sources: Compiled using data from Cabinet Office and MOF.

The three previous packages adopted in fiscal 2008 focused on expanding the safety net of employment and financial measures. The latest package goes further by stimulating domestic demand through additional public investment, tax breaks and rebates on low-emission vehicles, and the eco-point scheme for energy-efficient home appliances (air conditioners, refrigerators, and TVs).

The effect of the economic crisis package will start to appear in Q2 2009, when the eco-car and eco-point purchase incentives boost private consumption, followed by a surge in public investment in Q3 2009. The stimulus measures will cause real GDP to peak in Q4 2009. The contribution to quarterly real GDP growth will peak in Q2 and Q3 2009 at approximately 0.6 percentage point, but subsequently turn negative in Q1 2010. Thus unless private demand starts to drive a sustained recovery by that time, the economy could falter.

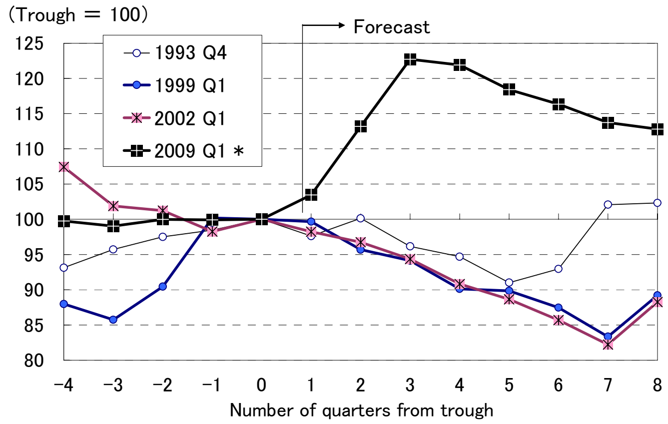
We predict the economic crisis package will contribute 1.5 percentage points to real GDP growth. Assuming that approximately one-third of the public investment outlay occurs in fiscal 2010, 1.1 percentage point will be contributed in fiscal 2009 and 0.4 percentage point in fiscal 2010.

2. Recovery Pattern

1. Public Investment to Drive Recovery

Japan's previous recovery (from January 2002) was driven by strong export growth against the backdrop of vigorous overseas economies. Today, however, the U.S. and European economies are still struggling, although the downturn has started to abate. In particular, U.S. households are burdened with massive debt, while Europe's financial system is embroiled in long-term problems. Thus we predict their recovery will occur later than in Japan, and take additional time to regain momentum. Elsewhere, despite the export recovery to China and the rest of Asia, and despite expectations of a general rebound from Japan's severe export downturn in the second half in fiscal 2008, we predict export growth will be modest at best.

Exhibit 6 Public Investment in Previous Expansions



Note: 2009 Q1 trough is assumed.
Source: ESRI, *Quarterly Estimates of GDP.*

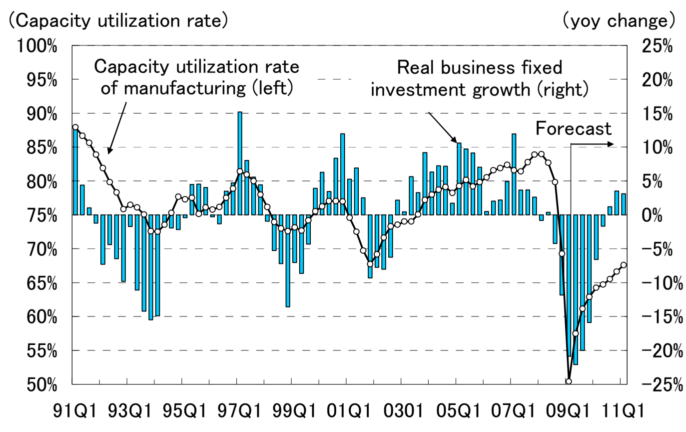
To take the place of exports, the driving force of Japan's recovery is expected to be public investment. Although mostly flat in fiscal 2008, public investment is already set to surge in fiscal 2009 due to outlays in the fiscal 2008 and 2009 supplementary budgets. Since the economy has already turned the corner, public investment will in effect be fueling the expansion, rather than playing its traditional role of easing the contraction.

Meanwhile, we predict growth of domestic private demand components such as private consumption and business fixed investment will be moderate compared to previous expansion phases.

2. Business Investment Recovery Must Wait to Fiscal 2011

With the abatement of the export downturn, improving terms of trade, and cost cutbacks centered around labor cost, we predict corporate earnings growth (year-on-year) will start to recover in Q2 2009 and turn positive in Q4 2009. However, business fixed investment will likely trail far behind the earnings recovery. In the previous recovery, companies adopted a disciplined stance of financing capital expenditure out of cash flow. Today, with cash flow debilitated by weak earnings, companies must inevitably rein in investment spending accordingly. Moreover, the recession's severity has sharply reduced growth expectations, which will hinder investment intentions.

Exhibit 7 Relationship Between Capacity Utilization Rate and Business Fixed Investment



Sources: METI, *Indices of Industrial Production*; ESRI, *Quarterly Estimates of GDP.*

In addition, due to massive production cutbacks since last autumn, the capacity utilization rate of manufacturing has plunged to approximately 60% of the peak level. Based on the monthly capacity utilization index (base year 2005 = 100, actual capacity utilization rate = 79.5%), we estimate the capacity utilization rate in Q1 2009 to be 50.4%. At this level, manufacturers can readily increase production from Q2 2009 by raising the capacity utilization rate, and thus will not need to add new capacity in the near term.

Historically, a full-scale investment recovery tends to occur when the capacity utilization rate exceeds 75%. We estimate the utilization rate will not exceed 70% through the end of fiscal 2010, implying that a full-scale investment recovery will be delayed to fiscal 2011.

3. Further Deterioration of Employment and Income Situation

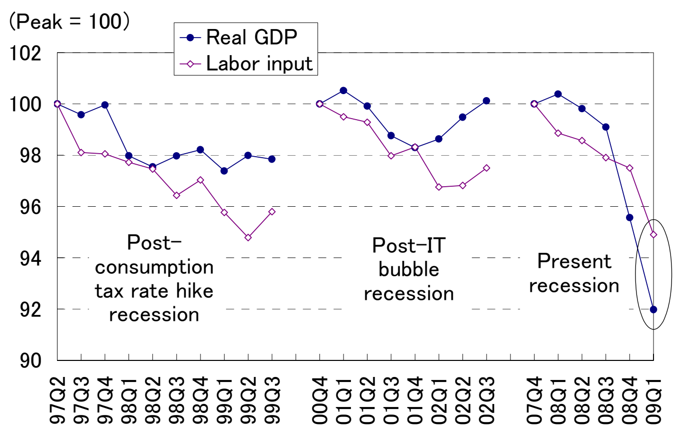
After hovering around 4% in 2008, the unemployment rate surged 0.9 percentage point from February to April 2009, reaching the 5.0% level for the first time in five years and five months. This surge at the end of the fiscal year was the lagged outcome of the sharp economic downturn from last autumn.

However, while real GDP plummeted -8.4% in Q1 2009 from its peak one year ago in Q1 2008, labor input (number of employees x total hours worked) has only declined -5.1%. Moreover, reduced work hours and overtime in particular account for most of the decline, while payroll employment decreased only -0.6%. Thus employment adjustment will likely intensify in the future.

We predict the unemployment rate will eclipse the current record of 5.5% in the second half of 2009, and reach 6% in early 2010. It will start to decline in fiscal 2010, one year after the end of the contraction phase.

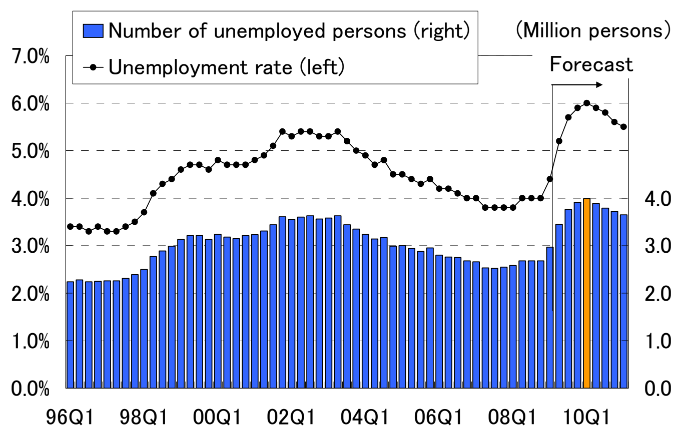
Total cash earnings per employee shrank -3.0% (year-on-year) in Q1 2009, deteriorating from -1.2% in Q4 2008, and the trend will likely accelerate in fiscal 2009. Moreover, special cash earnings (bonuses) are set to plummet in fiscal 2009 due to dismal corporate earnings in fiscal 2008. Considering the above trends, we predict the compensation of employees (number of employees x average cash earnings) will decline a record -4.1% in fiscal 2009.

Exhibit 8 Real GDP and Labor Input During Recessions



Note: Labor input = Number of employees x Total hours worked.
Sources: ESRI, *Preliminary Quarterly Estimates of GDP;* MIC Statistics Bureau, *Labour Force Survey*: MHLW, *Monthly Labour Survey*.

Exhibit 9 Unemployment Rate to Reach 6%



Source: MIC Statistics Bureau, *Labour Force Survey.*

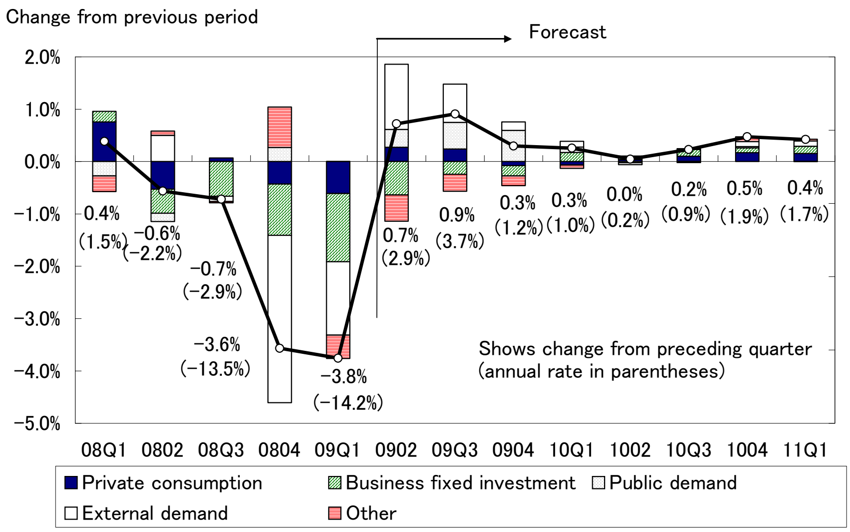
3. Real GDP Growth Forecast: -3.2% in Fiscal 2009, 1.1% in Fiscal 2010

1. Economy Likely to Falter in Fiscal 2010

After four straight quarters of negative growth in fiscal 2008, the economy will likely expand 0.7% (2.9% annualized) in Q2 2009 from the previous quarter—the first growth in five quarters—on renewed export strength and the cash benefit stimulus effect. We predict growth will accelerate to 0.9% (3.7% annualized) in Q3 2009 as the record-sized economic crisis policy package announced in April stimulates the economy with public works and other fiscal spending. Meanwhile, however, personal consumption and business fixed investment will remain sluggish. Thus when the fiscal stimulus effect fades entering fiscal 2010, the economy will likely falter again.

Following on the -3.3% contraction in fiscal 2008, we predict real GDP will contract another -3.2% in fiscal 2009. Although the economy will grow on a sequential quarterly basis, the annual average growth rate in fiscal 2009 will be reduced by an extremely large -4.6% growth carry-over from fiscal 2008. We predict the economy will resume a positive growth rate of 1.1% in fiscal 2010.

Exhibit 10 Contribution to Real GDP Growth (quarterly)



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

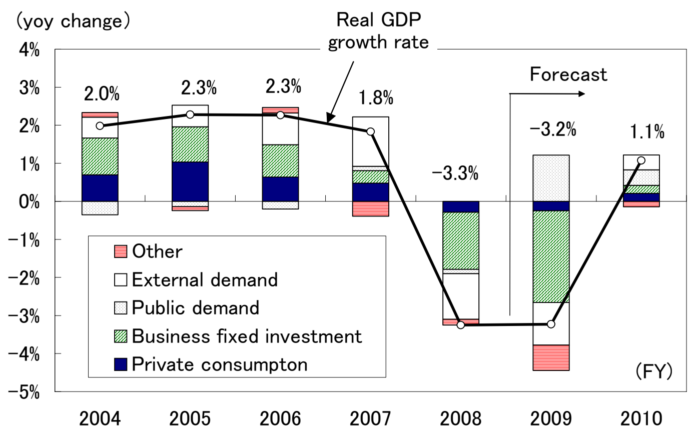
By demand component, private consumption will contract -0.4% again in fiscal 2009, following on -0.5% in fiscal 2008. Despite fiscal stimuli such as the cash benefit disbursement, support for eco-friendly vehicles, and eco-point incentive for home appliance purchases, consumption is severely constrained by the worsening income and employment situation. However, consumption will resume growth of 0.4% in fiscal 2010 when the income and employment situation stabilizes.

Residential investment will plummet -12.8% in fiscal 2009 following on the -3.1% decline in fiscal 2008, due mainly to the deteriorating income and employment situation. However, we predict growth of 1.8% in fiscal 2010 for the first annual growth in six years.

Due to dismal earnings and low capacity utilization rates, business fixed investment will plunge an unprecedented -16.2% in fiscal 2009. In fiscal 2010, growth will turn positive to 1.6% for the first time in three years. However, a full-fledged investment recovery appears unlikely until fiscal 2011.

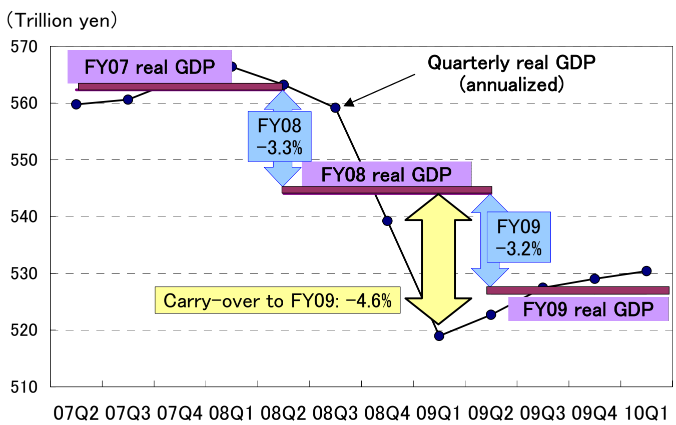
Public investment will surge 17.0% from the previous year in fiscal 2009 as a result of the economic crisis policy package. But while the fiscal 2009 outlay will be funded by a supplementary budget, funding for the fiscal 2010 outlay is as yet uncertain. If the initial fiscal 2010 budget is compiled according to custom, funding will be insufficient

Exhibit 11 Contribution to Real GDP Growth (FY)



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

Exhibit 12 The Highly Negative Carry-Over from Fiscal 2008



Note: Forecast from Q2 2009 onward was compiled by NLI Research Institute.
Source: ESRI, *Preliminary Quarterly Estimates of GDP.*

because spending levels are compared against the previous year's initial budget. After being slashed 10% by the Koizumi administration in fiscal 2002, the public works budget has shrunk 3% per year since fiscal 2003.

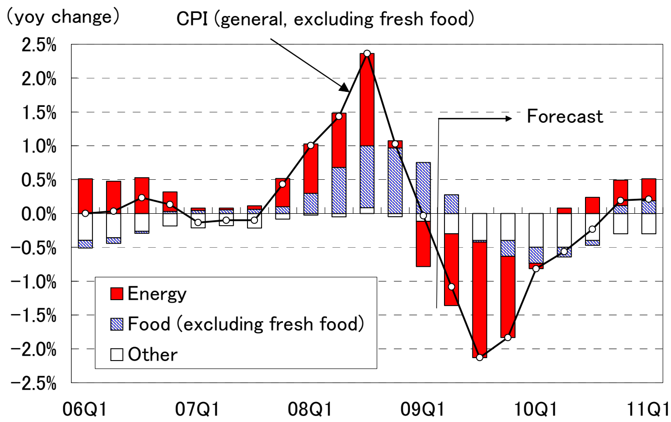
In our forecast, we assume public investment in fiscal 2010 will be carried out as planned and edge down only -1.6% from the previous year. We assume funding will be provided either in the initial fiscal 2010 budget or in a supplementary budget.

In fiscal 2009, we predict weak external demand will make a large negative contribution to real GDP growth of -1.1 percentage point, following on -1.2 percentage point in fiscal 2008. While imports will plummet -13.6% from the previous year due to sluggish domestic demand, exports will dive -17.6%. In fiscal 2010, export growth will recover to 5.4% as overseas economies turn around, raising the contribution of external demand above zero to 0.4 percentage point for the first time in three years.

2. Forecast for Consumer Price Inflation

Although the core consumer price index (general CPI excluding fresh foods) rose as high as 2% from the previous year in the summer months of 2008, it subsequently declined due in large part to lower gasoline prices when oil prices plummeted. In March 2009, the core CPI inflation rate turned negative at -0.1% for the first time in one and a half years.

Exhibit 13 Forecast for Core CPI Inflation



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

From May 2009, in addition to large rate cuts for electric power and natural gas, food prices (excluding fresh foods) are expected to start declining from year ago levels. As a result, the core CPI is expected to fall at an accelerating pace and reach -2% in the summer months. In autumn 2009, deflation will abate as energy prices stop falling, but the demand-supply gap will continue to apply downward pressure on prices.

We predict the core CPI, which rose 1.2% in fiscal 2008, will decrease -1.4% in fiscal 2009 and another -0.1% in fiscal 2010. The core CPI will turn upward in the second half of fiscal 2010 when the demand-supply gap shrinks due to economic recovery, and as oil prices rise amid a global economic recovery.

Forecast for the U.S.

(Percent change from preceding period at annual rate, unless otherwise noted)

	2008	2009	2010	2008		2009				2010			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Forecast→				*Revised*	*Forecast*→			*Forecast*→			
Real GDP	1.1	−2.9	1.1	−0.5	−6.3	−5.7	−2.3	0.3	0.8	1.2	2.0	2.2	2.5
Personal consumption	0.2	−0.8	1.4	−3.8	−4.3	1.5	−0.6	1.0	1.4	1.6	1.7	1.9	2.0
Nonresidential fixed investment	1.6	−17.4	1.6	−1.7	−21.7	−36.9	−11.9	−5.0	1.4	3.0	4.0	6.9	8.0
Residential investment	−20.8	−22.4	2.8	−16.1	−22.7	−38.7	−20.3	−8.3	3.4	5.5	8.6	9.4	10.2
Chg. in priv. inventories 〈contrib.〉	〈−0.3〉	〈−0.7〉	〈0.1〉	〈0.8〉	〈−0.1〉	〈−2.3〉	〈−0.6〉	〈−0.2〉	〈0.1〉	〈0.2〉	〈0.2〉	〈0.3〉	〈0.4〉
Net exports 〈contrib.〉	〈1.4〉	〈0.8〉	〈−0.0〉	〈1.1〉	〈−0.2〉	〈2.2〉	〈0.2〉	〈0.1〉	〈0.0〉	〈−0.0〉	〈−0.1〉	〈−0.1〉	〈−0.2〉
CPI inflation	3.8	−0.9	1.5	6.2	−8.3	−2.4	0.5	0.8	1.4	1.6	1.8	1.9	2.0
Unemployment rate (avg.)	5.8	9.3	10.2	6.1	6.9	8.1	9.3	9.8	10.0	10.1	10.2	10.2	10.2
Federal funds rate target (end)	0.25	0.25	0.50	2.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
10-year Treasury yield (avg.)	3.7	3.5	4.4	3.8	3.2	2.7	3.4	4.0	4.1	4.2	4.3	4.4	4.5

Forecast for the Euro Area

(Percent change, unless otherwise noted)

	2008	2009	2010	2008		2009				2010			
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		Forecast →					Forecast →			Forecast →			
Real GDP (yoy change)	0.7	−4.5	0.2	0.5	−1.7	−4.8	−4.9	−4.8	−3.1	−0.5	0.0	0.5	0.7
(seq. chg. at annual rate)	0.7	−4.5	0.2	−1.4	−6.8	−9.7	−1.6	−0.8	0.0	0.4	0.6	0.8	1.0
Domestic demand 〈yoy contrib.〉	〈0.7〉	〈−2.9〉	〈0.2〉	〈0.4〉	〈−0.3〉	〈−2.8〉	〈−2.7〉	〈−3.3〉	〈−2.6〉	〈−0.5〉	〈0.0〉	〈0.4〉	〈0.7〉
Priv. final consumption (yoy chg)	0.4	−1.2	0.2	0.1	−0.6	−1.1	−1.2	−1.4	−1.0	−0.5	0.0	0.4	0.6
Fixed capital formation (yoy chg)	−0.0	−8.7	0.2	−0.3	−5.5	−10.4	−9.7	−9.0	−4.9	−0.7	0.1	0.6	0.9
External demand 〈yoy contrib.〉	〈−0.0〉	〈−1.5〉	〈0.0〉	〈0.0〉	〈−1.3〉	〈−2.0〉	〈−2.2〉	〈−1.5〉	〈−0.5〉	〈−0.0〉	〈0.0〉	〈0.0〉	〈0.0〉
HICP (yoy change)	3.3	0.4	1.5	3.8	2.3	1.0	0.1	0.0	0.4	1.4	1.5	1.6	1.6
Unemployment rate (avg)	7.6	9.5	10.7	7.6	8.0	8.7	9.4	9.8	10.1	10.4	10.6	10.8	10.8
ECB policy rate (end)	2.50	1.00	1.00	4.25	2.50	1.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10-year govt. bond yield (avg)	4.0	3.5	4.1	4.2	3.4	3.1	3.4	3.7	3.8	4.0	4.1	4.2	4.2
EUR in USD (avg)	1.47	1.31	1.29	1.50	1.32	1.30	1.37	1.30	1.25	1.25	1.30	1.30	1.30
EUR in JPY (avg)	152	122	122	162	127	122	134	120	113	119	124	124	124

Forecast for Japan

(Percent sequential change, unless otherwise noted)

	Fiscal year			FY 2008		FY 2009				FY 2010			
	2008	2009	2010	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
		Forecast →				Forecast →				Forecast →			
Real GDP (seq. change)	−3.3	−3.2	1.1	−3.6	−3.8	0.7	0.9	0.3	0.3	0.0	0.2	0.5	0.4
(seq. change annualized)				−13.5	−14.2	2.9	3.7	1.2	1.0	0.2	0.9	1.9	1.7
(yoy change)				−4.3	−8.8	−7.1	−5.9	−1.8	2.4	1.4	0.8	0.9	1.2
Domestic demand 〈contrib.〉	〈−2.0〉	〈−2.3〉	〈0.7〉	〈−0.3〉	〈−2.3〉	〈−0.5〉	〈0.2〉	〈0.1〉	〈0.1〉	〈0.1〉	〈0.2〉	〈0.4〉	〈0.3〉
Private demand 〈contrib.〉	〈−1.9〉	〈−3.5〉	〈0.3〉	〈−0.6〉	〈−2.3〉	〈−0.9〉	〈−0.3〉	〈−0.5〉	〈0.0〉	〈0.1〉	〈0.2〉	〈0.4〉	〈0.3〉
Public demand 〈contrib.〉	〈−0.1〉	〈1.2〉	〈0.4〉	〈0.3〉	〈0.0〉	〈0.3〉	〈0.5〉	〈0.6〉	〈0.1〉	〈−0.0〉	〈−0.0〉	〈0.0〉	〈−0.0〉
External demand 〈contrib.〉	〈−1.2〉	〈−1.1〉	〈0.4〉	〈−3.2〉	〈−1.4〉	〈1.2〉	〈0.7〉	〈0.2〉	〈0.1〉	〈−0.0〉	〈0.0〉	〈0.1〉	〈0.1〉
Priv. final consumption exp.	−0.5	−0.4	0.4	−0.8	−1.1	0.5	0.4	−0.1	−0.1	0.1	0.2	0.3	0.3
Housing investment	−3.1	−12.8	1.8	5.3	−5.5	−9.2	−4.7	0.5	1.1	1.4	−0.7	1.5	1.0
Business fixed investment	−9.8	−16.2	1.6	−6.4	−8.9	−4.6	−1.8	−1.5	1.4	0.4	1.0	0.7	1.1
Govt. final consumption exp.	0.3	3.4	2.5	1.6	0.0	1.1	0.8	1.3	0.7	0.5	0.3	0.6	0.1
Public investment	−4.4	17.0	−1.6	−0.1	0.1	3.5	9.4	8.4	−0.7	−2.9	−1.8	−2.2	−0.8
Exports	−10.2	−17.6	5.4	−14.7	−26.0	8.8	4.1	1.4	1.1	0.7	1.3	1.4	1.8
Imports	−3.5	−13.6	3.0	3.1	−15.0	−2.4	−2.3	0.1	0.3	1.3	1.6	0.9	1.3
Nominal GDP	−3.6	−3.1	0.2	−1.3	−2.7	−0.7	0.8	0.2	0.0	−0.3	−0.1	0.5	0.4

Key Indicators

(Pecent change, unless otherwise noted)

	Fiscal year			FY 2008		FY 2009				FY 2010			
	2008	2009	2010	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3
		Forecast →				Forecast →				Forecast →			
Industrial production (seq chg)	−12.7	−11.1	4.5	−11.3	−22.1	10.3	5.5	1.8	1.1	−0.3	0.9	1.2	1.7
DCGI (yoy chg)	3.2	−6.2	−0.3	2.6	−1.8	−5.3	−9.9	−6.3	−2.7	−1.8	−0.1	0.3	0.3
CPI (yoy chg)	1.1	−1.4	−0.1	1.1	−0.1	−1.0	−2.0	−1.8	−0.8	−0.6	−0.2	0.2	0.2
excl. fresh food (yoy chg)	1.2	−1.4	−0.1	1.0	−0.1	−1.1	−2.1	−1.8	−0.8	−0.6	−0.2	0.2	0.2
Current acct. balance (¥ tril.)	12.2	13.6	14.9	8.4	6.8	10.8	15.5	15.5	12.4	14.9	16.5	15.4	12.6
(as % of nominal GDP)	(2.5)	(2.8)	(3.1)	(1.7)	(1.4)	(2.3)	(3.2)	(3.2)	(2.6)	(3.1)	(3.4)	(3.2)	(2.6)
Unemployment rate (%)	4.1	5.7	5.7	4.0	4.4	5.2	5.7	5.9	6.0	5.9	5.8	5.6	5.5
Housing starts (millions)	1.04	0.91	1.09	1.01	0.90	0.82	0.88	0.94	1.00	1.05	1.07	1.11	1.14
BOJ call rate (end)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-yr JGB yield (avg OTC)	1.5	1.4	1.6	1.4	1.3	1.5	1.4	1.4	1.4	1.5	1.5	1.7	1.7
JPY per USD (avg)	100	94	95	96	94	98	92	90	95	95	95	95	95
Oil price (CIF, avg USD/bbl)	90	65	73	79	44	65	65	65	65	70	70	75	75
Ordinary profit (yoy change)	−40.9	−19.2	39.3	−64.6	−70.1	−62.7	−37.4	34.3	115.1	77.5	47.1	27.7	19.2

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