# Building Code Revision Intensifies Downside Risk to the Economy — Short-term Economic Forecast (FY 2007～2008)

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

*The real economy expanded at a 1.5% annualized rate in the third quarter of 2007, following negative growth in the second quarter. However, growth will slow in the second half of fiscal 2007 due to weak export growth amid the U.S. economic slowdown, and slump of housing starts following the building code revision. For fiscal 2007 overall, real GDP will grow 1.1%, falling under the 2% threshold for the first time since fiscal 2003. We predict the economy will resume a 2.0% pace in fiscal 2008. Nonetheless, downside risks—an unexpectedly deep U.S. slowdown, and repercussions of a prolonged slump in building construction starts—could intensify and derail the economy.*

## 1. Exports Drive Growth in Q3 2007

### (1) Turnaround From Second Quarter

In Q3 (July-September) 2007, real GDP expanded 0.4% from Q2 (1.5% annual rate), regaining positive ground for the first time in two quarters. Exports, which expanded 1.0% sequentially in Q2, surged to 2.6% in Q3, causing external demand to contribute a robust 0.5 percentage point to economic growth. Meanwhile, domestic demand contributed -0.1 percentage point, remaining negative from Q2. Despite stronger growth in private consumption and business investment, the economy was held back by a -7.9% plunge in residential investment. This is attributed to the revision of the building code, which has significantly impacted the number of building permits issued and construction starts.

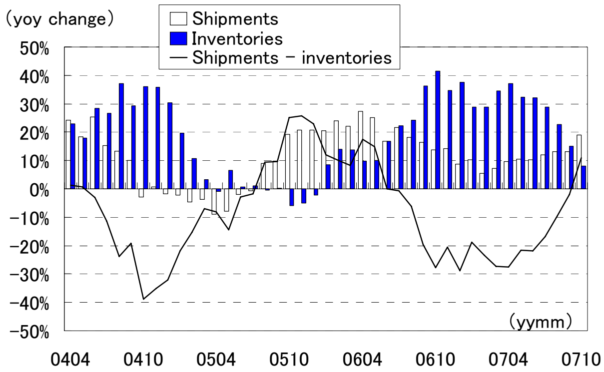
Although business investment grew 1.1% for the first time since Q4 2006, it was not enough to offset the -0.4% and -1.7% declines in Q1 and Q2 2007 respectively. Business investment may already have entered a down phase. Moreover, the sustained growth of private consumption is in doubt due to the absence of income growth. Thus the economy's turnaround in Q3 2007 does not give much cause for optimism due to the fact that growth was driven by external demand.

### (2) Ongoing Inventory Adjustment in Electronic Components & Devices

Strong exports helped boost industrial production 2.2% from the previous quarter in Q3, up significantly from 0.2% growth in Q2. By sector, electronic components and devices surged 8.4% thanks to progress in inventory adjustment, pushing up the industrial production index 1.3% sequentially in Q3. In addition, transport equipment, which plunged -7.2% in July from June when production was interrupted by the Niigata earthquake, surged 17.0% in August when production resumed. For Q3 as a whole, transport equipment surged 4.2% from the previous quarter. Automobile exports were strong for all destinations except the U.S., boosting domestic automobile production significantly. Electronic components and devices and transport equipment sectors alone account for almost 2 percentage points of the 2.2% industrial production index growth in Q3.

Inventory growth of electronic components and devices began in early 2006, peaking at 41.4% (year-on-year) in October 2006. The shipment-inventory balance (year-on-year growth of shipments, minus that of inventories) deteriorated to -28.8% in December 2006. However, the balance improved due to strong domestic demand for digital home electronics,

**Exhibit 1 Shipment-Inventory Balance for Electronic Components & Devices**




Source: Ministry of Economy, Trade and Industry, *Indices of Industrial Production*.

and robust growth of IT-related exports. From July 2007, the shipment-inventory balance improved for four straight months, reaching 11.0% in October. The positive balance indicates that shipments outpaced inventories for the first time since May 2006. Thus in our view, inventory adjustment is nearly completed.

However, the slump in construction starts triggered by the building code revision has impacted production activity. Shipment and production of construction materials has declined at an accelerating pace and inventory appears to be mounting. Thus inventory adjustment stemming from construction materials has emerged as a new risk.

## 2. Impact of Building Code Revision

### 1. Residential Investment to Plunge Again in Q4

The building code revision, which took effect on June 20, reinforces compliance of building permits with earthquake resistance standards. From July, construction starts plunged due not only to stricter compliance, but to difficulties in transitioning to the new code. Quarterly housing starts, which previously hovered at 1.2 to 1.3 million units (seasonally adjusted annual rate), plunged to 799,000 units in Q3. As a result, real residential investment plummeted -7.9% from Q2, trimming -0.3 percentage point off of the GDP growth rate.

The Ministry of Land, Infrastructure, Transport and Tourism has taken steps to ease the transition, including consultation services, briefing sessions, dispatch of advisers, and administrative improvements. Although we expect these measures to facilitate compliance and lead to a gradual recovery in construction starts, the time frame for this remains unclear.

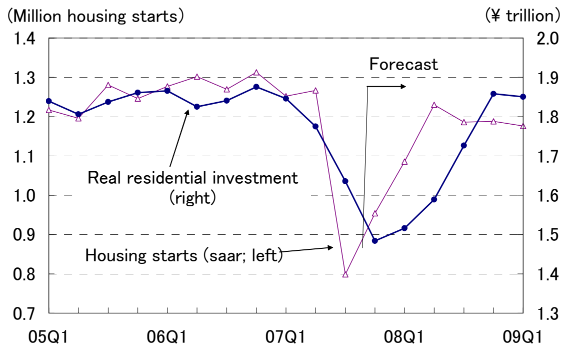
In the GDP data, since residential investment is measured based on construction in progress, any change in construction starts will not immediately be reflected in the GDP data. Our forecast assumes that housing starts will recover to 950,000 units in Q4 2007, 1.09 million units in Q1 2008, and 1.23 million units in Q2 2008. But due to the above lag, we expect residential investment to plunge another -9.3% in Q3 2007 from Q2.

However, if housing starts recover as assumed, quarterly growth of residential investment will turn positive in Q1 2008, helping boost the economy. For fiscal 2007, we predict residential investment will plunge -13.2%, but rebound at a brisk 9.6% pace in fiscal 2008.

### 2. Construction Investment also Declines

The slump of building construction starts associated with the building code revision appears to be hindering construction investment in new factories, offices, and outlets. Since construction investment accounts for approximately one-fourth of business fixed

**Exhibit 2 Forecast for Housing Starts and Residential Investment**




Sources: Cabinet Office, *Quarterly GDP Estimates*; Ministry of Land, Infrastructure, Transport and Tourism, *Statistics on Building Construction Started*.

investment, a sharp decline would put a serious dent in business fixed investment.

A leading indicator for construction investment is floor space of construction starts (for private non-residential use). After surging 15.9% (yoy) in Q2 2007 ahead of the building code revision, the indicator plummeted -31.8% (yoy) in Q3 2007.

Based on *Annual of Construction Statistics* data for construction by type of structure, floor area, and distribution of construction period, we estimate that the average construction period for business construction investment has increased and now stands at approximately 10 months, compared to four months for personal dwellings. Thus in the GDP data, the slump of construction starts will likely be reflected sooner in residential investment than in business construction investment, and the impact of the latter is likely to persist.

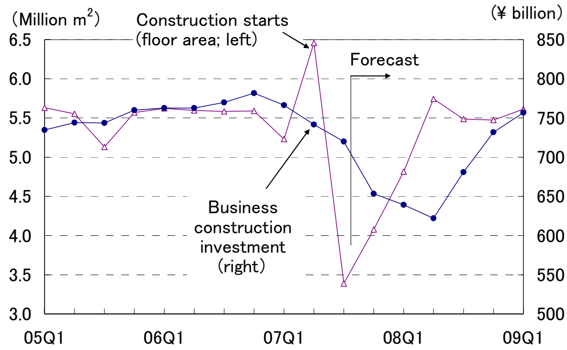
Our forecast assumes that floor area of construction starts (for private non-residential use) will recover in the same way as housing starts. However, construction investment in the GDP data will slump more sharply in Q4 2007, and continue to decline on a quarterly basis to Q2 2008.

Machinery orders (private demand excluding volatile shipbuilding and electric power orders)—which are a leading indicator for the equipment component of business fixed investment—surged 2.5% from the previous quarter in Q3 2007, the first increase since Q4 2006. We predict machinery orders will expand 3.1% again in Q4, and continue to grow steadily thereafter.

However, weak construction investment will likely reduce business fixed investment in the second half of fiscal 2007 and early fiscal 2008.

As a result, we predict that business fixed investment growth will plunge to 0.4% in fiscal 2007, down from 5.6% in fiscal 2006, but rebound to 5.2% in fiscal 2008.

**Exhibit 3　Forecast for Construction Investment by Businesses**

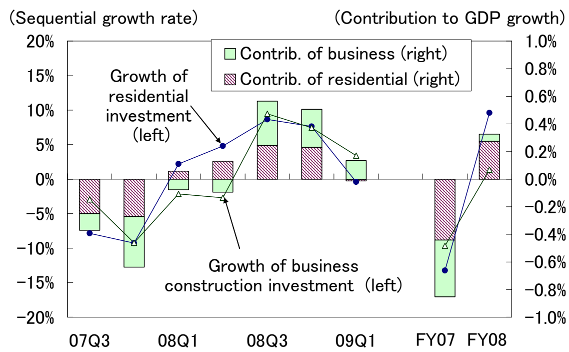



Notes: Business construction investment (private sector non-housing) shows value of construction put in place after applying construction cost deflator. Both business construction investment and floor area of construction starts are seasonally adjusted.
Sources: MLIT, *Statistics on Building Construction Started*, and *Integrated Statistics on Construction Work.*

The impact of the building code revision on both residential investment and business construction investment will peak in Q3 2007, reducing GDP growth by -0.6 percentage point. In the first half of 2008, a turnaround in residential investment will be offset by softness in business construction investment, leaving the contribution in neutral territory. However, in the second half of 2008, both components will contribute significantly to GDP growth. For the fiscal year, residential investment and business construction investment will contribute -0.9 percentage point to GDP growth in fiscal 2007, and 0.3 percentage point in fiscal 2008.

Thus while construction investment will inevitably reduce GDP growth in fiscal 2007, if

**Exhibit 4　Contribution of Construction Investment to GDP Growth**




Notes: Shows sequential growth rate and contribution to real GDP growth rate.
Source: Cabinet Office, *Quarterly GDP Estimates.*

MLIT efforts to turn around construction starts prove successful from late 2007 to early 2008, the rebound will help boost GDP growth in fiscal 2008.

On the other hand, if construction starts continue to slump in the long term, negative repercussions will spread to earnings, cash flow, production and employment of construction-related sectors. This would pose a serious risk to the economic expansion.

## 3. Economy to Grow 1.1% in FY2007, 2.0% in FY2008

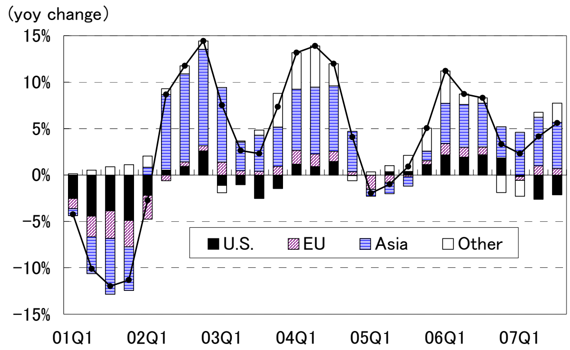
### 1. External Demand Growth to Decelerate

In Q3 2007, external demand drove the economy. Export growth accelerated as exports to Asia remained robust while exports to the U.S. recovered.

The U.S. economy expanded at a 3.8% annual pace in Q2 2007 and 4.9% pace in Q3. However, it is expected to decelerate to below 1% in Q4 amid the subprime loan problem, sluggish housing market, and impact of soaring gasoline prices on personal consumption. The economy is expected to recover to a 2% pace in the second half of 2008. We predict the U.S. economy will expand 2.2% in 2007 and 1.9% in 2008, thus continuing to perform below the potential growth rate.

After plummeting in Q2 2007, Japan's export volume to the U.S. recovered slightly in Q3. However, it will likely slump again from Q4 onward. Continued export growth to Asia, the EU, and emerging economies will help cover the weakness of exports to the U.S. However, this could change if the U.S. slowdown becomes severe enough to slow down the world economy. We predict that external demand will contribute 0.9 percentage point to Japan's GDP growth in fiscal 2007 (up from 0.8 percentage point in fiscal 2006), but contribute only 0.3 percentage point in fiscal 2008.

**Exhibit 5 Export Volume by Destination**



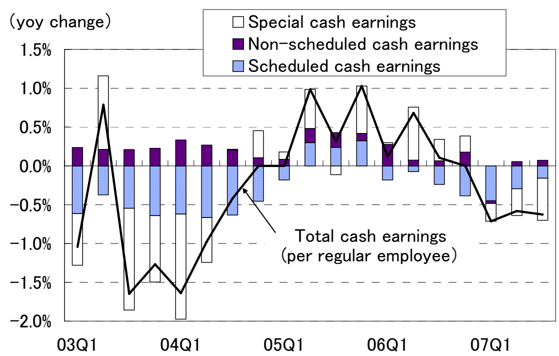

Note: Export volume is calculated as export value / export price.
Source: MOF, *Trade Statistics of Japan*.

### 2. Personal Consumption to Weaken

Private consumption remained firm in Q2 2007, expanding 0.3% sequentially for the fourth straight quarter. However the environment surrounding personal consumption is deteriorating.

The unemployment rate, which dipped below the 4% level in April 2007 for the first time in nine years, returned above 4% in September. Growth of scheduled cash earnings has remained negative, while the summer bonus unexpectedly dipped 1.1% year-on-year for the first time in three years. As a result, total cash earnings per regular employee (which includes scheduled, non-scheduled, and special cash earnings) has declined year-on-year for three straight quarters since Q1 2007. Meanwhile, year-on-year growth of aggregate employee compensation in the GDP data has dropped from the 2.2% peak of Q2 2006,

**Exhibit 6 Sluggish Growth of Wages**




Source: MHLW, *Monthly Labour Survey*.

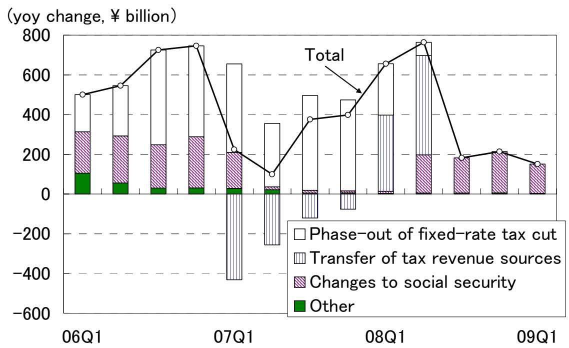
and stands at 0.0% in Q3 2007.

Moreover, the tax burden on households has grown due to the recent hike in local inhabitants' tax. In the first half of 2007, although the provisional fixed-rate income tax cut was ended in January, the tax burden temporarily abated due to a separate income tax cut, also in January. This tax cut was part of tax reforms which, among other things, transfer tax revenue sources from the national to local government. Meanwhile, a series of tax hikes was begun in June for the local inhabitants' tax, boosting the tax burden once again. In aggregate, we estimate that the tax reforms (transfer of tax revenue sources from national to local government, phase-out of fixed-rate income tax cut, and changes to social security) generated an additional tax burden of approximately ¥100 billion in Q2 2007, and ¥400 billion in Q3. The tax reforms are expected to keep boosting the tax burden until mid 2008.

Another concern is that consumer confidence is deteriorating. In the Cabinet Office's *Monthly Consumer Confidence Survey*, consumer sentiment as measured by the consumer confidence index has plummeted since spring 2007. In fact, pessimism is growing in all four components of the index—overall livelihood, income growth, employment, and willingness to buy durable goods.

Amid the sluggish income growth, deteriorating mindset of consumers, and growing household tax burden, private consumption growth will likely be moderate at best.

**Exhibit 7 Rise in Household Tax Burden due to Tax Reform (estimate)**




Source: Calculated using data from Cabinet Office, MOF, and MHLW.

By the end of fiscal 2008, the labor market will likely tighten as the population decline and aging cause the labor force to shrink. The labor force, which grew year-on-year from 2005 as more women and elderly persons entered, began declining again in Q3 2007. In the future, population decline and aging will combine to push up the elderly ratio in the population and labor force. Because the elderly have a lower labor participation rate than younger persons, the overall labor force participation rate will decline, causing the labor force to continue shrinking. We predict this trend will improve the supply-demand balance in the labor market, pulling down the unemployment rate to the mid 3% range by the end of fiscal 2008, and gradually pushing up wages. One optimistic sign is that Keidanren has shifted to a more lenient stance on wage increases for the 2008 spring labor offensive.

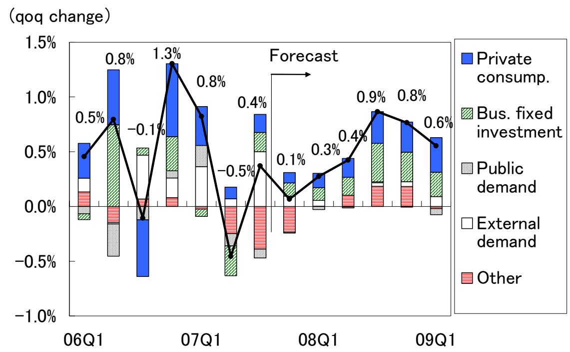
However, since employers remain determined to contain labor costs, wage growth will not be very strong. Private consumption growth will not accelerate until mid fiscal 2008, when the local inhabitants' tax hike subsides, causing growth of the household tax burden to abate. We predict private consumption will grow 1.4% in fiscal 2007, and 1.5% in fiscal 2008.

## 3. Soft 2H FY2007 to be Followed by Brisk Growth in FY2008

In fiscal 2007, real GDP growth will be limited to 1.1% due to the construction slump associated with the building code revision. This will interrupt the economy's consistent performance of 2% growth since fiscal 2003. However, we predict the economy will rebound and return to a 2% growth pace in fiscal 2008.

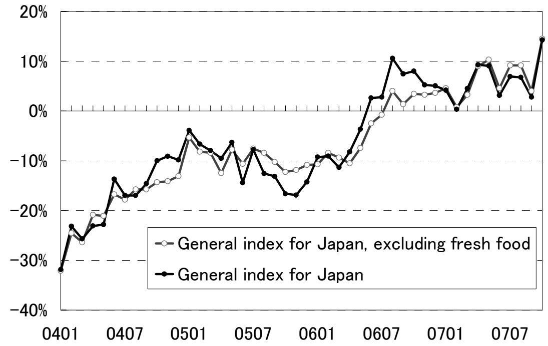
By quarter, the slump of construction starts will take the greatest toll in Q4 2007, restraining the economy to 0.1% growth from the previous quarter (0.3% annualized rate). But the economy will recover to a brisk annual pace of 2% to 3%,

## Exhibit 8(1) Composition of Real GDP Growth (by quarter)



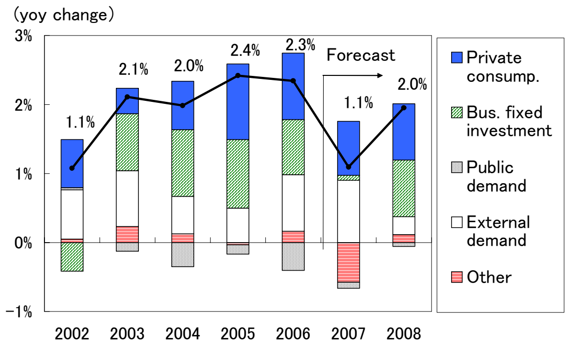

Source: ESRI, Cabinet Office, *Quarterly Estimates of GDP*.

## Exhibit 9 Ratio of Rising to Falling Prices in the CPI




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

## Exhibit 8(2) Composition of Real GDP Growth (by fiscal year)




Source: ESRI, Cabinet Office, *Quarterly Estimates of GDP*.

led by a strong rebound in residential investment and business fixed investment from mid 2008. Still, the impact of the building code revision will continue to weigh heavily on the economy from fiscal 2007 to 2008.

## 4. Outlook for Inflation and Monetary Policy

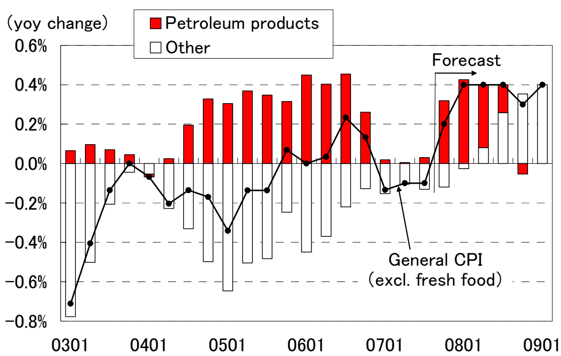
The general consumer price index (excluding fresh food) edged up 0.1% in October 2007 from a year ago, marking the first increase in ten months. In addition to soaring oil prices, which have pushed up gasoline and other petroleum product prices, the increase is attributed to the growing prevalence of passing on higher raw materials costs to consumers. As a result, prices have started to rise for food and other consumer staples.

Of the 584 items comprising the consumer price index (523 excluding fresh food), more items have been rising in price (year-on-year) than declining since mid 2006. Judging from this simple item count, the scope of inflation appears to be widening.

As petroleum product prices keep rising, their growing impact, combined with price hikes planned by food manufacturers and many other companies, will likely cause inflation to accelerate in the future.

Thus in the near term, the main source of inflation is rising oil prices. But for CPI inflation to stabilize at a positive rate, wage growth must be significant enough to boost the prices of services. The earliest this scenario is expected to happen is after entering fiscal 2008. We predict the general CPI (excluding fresh food) will rise 0.1% in fiscal 2007, and 0.4% in fiscal 2008.

## Exhibit 10 CPI Forecast




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

The negative GDP deflator, which grew to -1.6% year-on-year in Q3 2005, has eased to -0.4% for three straight quarters since Q1 2007. However, with the import price deflator expanding in Q4 2007 due to soaring oil prices, the negative value of the GDP deflator will likely increase.

We predict the GDP deflator will turn positive in Q3 2008 as the continued rise in the domestic demand deflator combines with the shrinking negative value of the import price deflator. For fiscal 2007, we predict the GDP deflator will be -0.5%, turning positive to 0.2% in fiscal 2008. This means that the abnormal situation that has persisted for the past 11 years—wherein the nominal growth rate has undercut the real growth rate—is finally coming to an end. We predict the nominal growth rate will be 0.6% in fiscal 2007, and 2.1% in fiscal 2008.

In monetary policy, considering the downside risk to Japan's economy posed by the deteriorating situation in the U.S. (subprime loan problem, worsening economic slowdown, and series of interest rate cuts by the FRB), the BOJ is not in a position to raise interest rates during fiscal 2007. We predict the next rate hike will be in Q3 2008. However this assumes that concerns about the U.S. economy abate, turmoil caused by the building code revision comes to an end, and Japan's economy starts to accelerate.

## Forecast for U.S.

(% change or as noted)

| | | 2006 | 2007 | 2008 | 2006 | | 2007 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (f) | (f) | II | III | I | II | III (f) | IV (f) | I (f) | II (f) | III (f) | IV (f) |
| Real GDP | (annual rate) | 2.9 | 2.2 | 1.9 | 1.1 | 2.1 | 0.6 | 3.8 | 4.9 | 0.9 | 0.7 | 1.4 | 2.0 | 2.5 |
| Personal consumption expenditures | 〃 | 3.1 | 2.8 | 1.6 | 2.8 | 3.9 | 3.7 | 1.4 | 2.7 | 1.0 | 0.9 | 1.7 | 2.2 | 2.4 |
| Nonresidential fixed investment | 〃 | 6.6 | 4.5 | 4.4 | 5.1 | −1.4 | 2.1 | 11.0 | 9.4 | 3.2 | 2.1 | 3.1 | 4.3 | 4.5 |
| Residential investment | 〃 | −4.6 | −16.6 | −14.0 | −20.4 | −17.2 | −16.3 | −11.8 | −19.7 | −19.9 | −16.3 | −10.9 | −4.0 | −1.2 |
| Change in private inventories | (contrib) | 0.1 | −0.2 | 0.1 | 0.1 | −1.3 | −0.7 | 0.1 | 0.9 | −0.4 | −0.1 | 0.0 | 0.0 | 0.0 |
| Net exports | (contrib) | −0.1 | 0.6 | 0.6 | −0.3 | 1.3 | −0.5 | 1.3 | 1.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Consumer price index | (annual rate) | 3.2 | 2.8 | 2.2 | 3.1 | −2.1 | 3.8 | 6.0 | 1.9 | 4.0 | 1.0 | 1.5 | 1.8 | 1.8 |
| Unemployment rate | (avg) | 4.6 | 4.6 | 4.8 | 4.7 | 4.5 | 4.5 | 4.5 | 4.6 | 4.7 | 4.8 | 4.9 | 4.9 | 4.9 |
| Federal funds rate target | (end) | 5.25 | 4.25 | 3.75 | 5.25 | 5.25 | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 | 3.75 | 3.75 | 3.75 |
| 10-year Treasury note yield | (avg) | 4.8 | 4.6 | 4.3 | 4.9 | 4.6 | 4.7 | 4.8 | 4.7 | 4.2 | 4.1 | 4.2 | 4.3 | 4.4 |

## Forecast for Euro Area

(% change or as noted)

| | | 2006 | 2007 (f) | 2008 (f) | 2006 | | 2007 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | III | IV | I | II | III (f) | IV (f) | I (f) | II (f) | III (f) | IV (f) |
| Real GDP | (yoy) | 2.9 | 2.7 | 2.0 | 2.8 | 3.3 | 3.2 | 2.5 | 2.7 | 2.3 | 1.9 | 2.1 | 1.9 | 2.0 |
| | (annual rate) | | | | 2.3 | 3.3 | 3.1 | 1.2 | 2.9 | 1.9 | 1.8 | 1.9 | 2.1 | 2.2 |
| Domestic demand | (yoy contrib) | 2.7 | 2.3 | 1.9 | 3.0 | 2.4 | 2.9 | 2.0 | 2.0 | 2.2 | 1.7 | 2.2 | 1.9 | 1.9 |
| Private consumption | (yoy) | 1.9 | 1.6 | 1.9 | 1.7 | 2.1 | 1.3 | 1.5 | 1.6 | 1.5 | 2.0 | 1.8 | 1.8 | 1.9 |
| Gross fixed investment | (yoy) | 5.7 | 4.6 | 2.2 | 7.7 | 4.0 | 8.1 | 3.5 | 3.3 | 4.3 | 1.1 | 3.4 | 2.2 | 2.3 |
| Net exports | (yoy contrib) | 0.2 | 0.4 | 0.1 | −0.1 | 0.9 | 0.3 | 0.5 | 0.7 | 0.1 | 0.3 | −0.0 | 0.0 | 0.0 |
| HICP | (yoy) | 2.2 | 2.1 | 2.4 | 2.2 | 1.8 | 1.9 | 1.9 | 1.9 | 2.8 | 2.8 | 2.6 | 2.2 | 1.9 |
| Unemployment rate | (avg) | 8.3 | 7.4 | 7.2 | 8.1 | 7.9 | 7.6 | 7.5 | 7.4 | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 |
| ECB policy interest rate | (end) | 3.50 | 4.00 | 4.00 | 3.00 | 3.50 | 3.75 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| 10-year government bond yield | (avg) | 4.78 | 4.22 | 4.25 | 3.89 | 3.77 | 4.01 | 4.34 | 4.35 | 4.18 | 4.10 | 4.20 | 4.30 | 4.40 |
| USD/EUR exchange rate | (avg) | $1.26 | $1.37 | $1.49 | $1.27 | $1.29 | $1.31 | $1.35 | $1.38 | $1.46 | $1.50 | $1.50 | $1.48 | $1.48 |
| EUR/JPY exchange rate | (avg) | ¥146 | ¥161 | ¥162 | ¥148 | ¥152 | ¥157 | ¥163 | ¥162 | ¥162 | ¥162 | ¥162 | ¥163 | ¥163 |

# Forecast for Japan

(% change or 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) |
| Real GDP | (seq) | 2.3 | 1.1 | 2.0 | 1.3 | 0.8 | −0.5 | 0.4 | 0.1 | 0.3 | 0.4 | 0.9 | 0.8 | 0.6 |
| | (annualized) | | | | 5.3 | 3.3 | −1.8 | 1.5 | 0.3 | 1.1 | 1.7 | 3.5 | 3.1 | 2.2 |
| | (yoy ) | | | | 2.3 | 2.8 | 1.6 | 1.9 | 0.6 | 0.4 | 1.0 | 1.8 | 2.2 | 2.8 |
| Domestic demand | <seq contrib> | <1.5> | <0.2> | <1.7> | <1.1> | <0.4> | <−0.5> | <−0.1> | <−0.0> | <0.2> | <0.4> | <0.8> | <0.7> | <0.5> |
| Private sector | <seq contrib> | <1.9> | <0.3> | <1.7> | <1.0> | <0.2> | <−0.4> | <−0.0> | <−0.0> | <0.3> | <0.4> | <0.8> | <0.7> | <0.5> |
| Public sector | <seq contrib> | <−0.4> | <−0.1> | <−0.1> | <0.1> | <0.2> | <−0.1> | <−0.1> | <−0.0> | <−0.0> | <−0.0> | <0.0> | <−0.0> | <−0.1> |
| Net exports | <seq contrib> | <0.8> | <0.9> | <0.3> | <0.2> | <0.4> | <0.1> | <0.5> | <0.1> | <0.1> | <−0.0> | <0.0> | <0.0> | <0.1> |
| Private consumption | (seq) | 1.7 | 1.4 | 1.5 | 1.2 | 0.6 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.5 | 0.5 | 0.6 |
| Private residential investment | (seq) | 0.2 | −13.2 | 9.6 | 1.9 | −1.6 | −3.8 | −7.9 | −9.3 | 2.2 | 4.8 | 8.6 | 7.6 | −0.4 |
| Private non-residential invest. | (seq) | 5.6 | 0.4 | 5.2 | 1.9 | −0.4 | −1.7 | 1.1 | 0.8 | 0.7 | 1.0 | 2.2 | 1.7 | 1.4 |
| Government consumption | (seq) | 0.1 | 0.6 | 0.6 | −0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.0 | 0.2 | 0.3 | 0.0 | −0.1 |
| Public investment | (seq) | −9.2 | −4.1 | −4.4 | 3.0 | 4.9 | −4.6 | −2.3 | −1.5 | −0.8 | −1.2 | −1.3 | −0.3 | −1.2 |
| Exports of goods & services | (seq) | 8.2 | 7.4 | 4.4 | 1.0 | 3.2 | 1.0 | 2.6 | 1.2 | 0.8 | 0.6 | 1.2 | 1.4 | 1.5 |
| Imports of goods & services | (seq) | 3.0 | 1.7 | 4.0 | −0.3 | 1.0 | 0.7 | −0.2 | 0.9 | 0.6 | 0.8 | 1.4 | 1.6 | 1.4 |
| Nominal GDP | (seq) | 1.6 | 0.6 | 2.1 | 1.3 | 0.5 | −0.5 | 0.2 | −0.4 | 0.7 | 0.6 | 0.9 | 0.4 | 0.7 |

## Major indicators

(% change or 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) |
| Industrial production (IIP) | (seq) | 4.8 | 2.7 | 2.9 | 2.2 | −1.3 | 0.2 | 2.2 | 0.6 | 0.2 | 0.4 | 1.1 | 0.9 | 0.7 |
| Domestic CGPI | (yoy) | 2.1 | 1.8 | 0.5 | 1.9 | 1.4 | 1.7 | 1.6 | 2.0 | 2.1 | 1.1 | 0.2 | 0.1 | 0.5 |
| CPI | (yoy) | 0.2 | 0.1 | 0.4 | 0.3 | −0.1 | −0.1 | −0.2 | 0.3 | 0.4 | 0.4 | 0.5 | 0.3 | 0.4 |
| Core CPI (excl. fresh food) | (yoy) | 0.1 | 0.1 | 0.4 | 0.1 | −0.1 | −0.1 | −0.1 | 0.2 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 |
| Current account balance | (¥ tril) | 21.2 | 24.7 | 23.4 | 22.9 | 22.5 | 26.1 | 24.8 | 24.2 | 23.7 | 24.8 | 24.0 | 23.6 | 21.4 |
| (% nominal GDP) | (%) | 4.1 | 4.8 | 4.5 | 4.4 | 4.4 | 5.1 | 4.8 | 4.7 | 4.6 | 4.8 | 4.6 | 4.5 | 4.0 |
| Unemployment rate | (%) | 4.1 | 3.8 | 3.6 | 4.0 | 4.0 | 3.8 | 3.8 | 3.8 | 3.7 | 3.7 | 3.6 | 3.6 | 3.5 |
| Housing starts | (million) | 129 | 103 | 120 | 131 | 125 | 127 | 80 | 95 | 109 | 123 | 119 | 119 | 118 |
| Unsecured overnight call rate | (end %) | 0.50 | 0.50 | 1.00 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 |
| 10-year JGB yield | (avg OTC) | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.8 | 1.8 | 2.0 |
| USD/JPY exchange rate | (avg ¥) | ¥117 | ¥114 | ¥110 | ¥118 | ¥119 | ¥121 | ¥118 | ¥111 | ¥108 | ¥108 | ¥110 | ¥110 | ¥110 |
| CIF crude oil price | (avg $/bbl) | $64 | $78 | $84 | $61 | $58 | $64 | $72 | $89 | $87 | $84 | $81 | $84 | $87 |
| Current profit | (yoy) | 10.0 | 3.3 | 3.2 | 8.3 | 7.4 | 12.0 | −0.7 | 0.5 | 1.5 | 2.4 | 4.3 | 2.9 | 3.2 |

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