Economist Letter

Japan's Economic Outlook for Fiscal 2022 and 2023 (May 2022)

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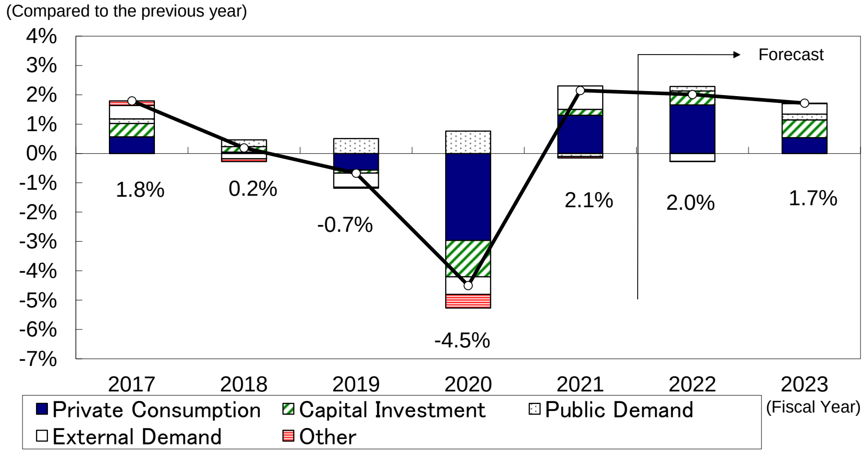
<Real GDP growth rate: 2.0% in FY 2022 and 1.7% in FY 2023>

1. In the January-March quarter of 2022, real GDP posted an annualized growth rate of negative 1.0%, the first decline in 2 quarters, due to sluggish private consumption accompanying priority preventative measures and deteriorating external demand.
2. Real GDP is expected to grow 2.0% in FY 2022 and 1.7% in FY 2023. In the April-June quarter of 2022, real GDP is expected to recover its pre-COVID-19 level (October-December 2019), with an annualized growth of 4.1% over the previous quarter on the back of strong private consumption growth, mainly in the form of face-to-face services.
3. However, there are significant downside risks, such as a further rise in resource prices, the worsening situation in Ukraine, monetary tightening by the United States, China's zero-COVID-19 policy, and electricity shortages due to the disruption of energy supply from Russia. Furthermore, if we continue to tighten restrictions as we have in the past during another outbreak of the new COVID-19 virus, we will not see a sustainable recovery in consumption.
4. The consumer price inflation (excluding fresh food) is expected to be 2.0% in FY 2022 and 0.9% in FY 2023. Although energy prices have plateaued as a result of measures to counter rising prices, it will continue to grow by about 2% in FY 2022 as a result of a growing trend of passing prices on to consumers for food and daily necessities. However, in FY 2023, when the impact of the rise in raw material prices will be over, growth will slow to less than 1%.

Changes in real GDP growth rate (fiscal year)



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

1. Annual decline of 1.0% in January-March 2022

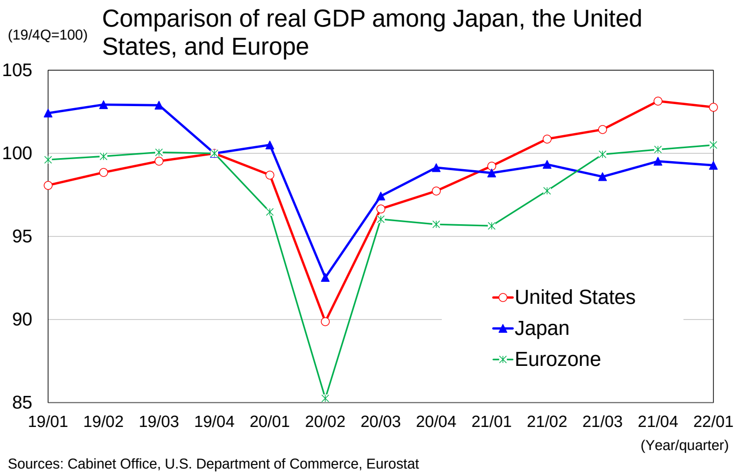
In the January-March quarter of 2022, real GDP posted its first negative growth in 2 quarters, down 0.2% from the previous quarter (down 1.0% on an annual basis).

Due to the influence of priority preventative measures, private consumption, especially face-to-face services such as dining out and lodging, decreased slightly by 0.03% from the previous quarter, while the contribution of external demand was significantly reduced by 0.4% from the previous quarter (down 1.7% on an annual basis). Capital investment rose 0.5% from the previous quarter for the second consecutive quarter on the back of high corporate profits, and government consumption rose 0.6%, reflecting the progress of vaccination, although this did not cover the decline in consumption and external demand.

The real GDP growth rate in FY 2021 was 2.1%. Although this was the first positive growth in 3 years, the pace of recovery was extremely slow after the sharp contraction in FY 2020 (- 4.5%).

The Japanese economy registered a record-high annual contraction of 28.2% in the April-June quarter of 2020 due to the impact of the new COVID-19 virus, followed by high growth in the second half of 2020, but repeated contraction and positive growth in 2021. In the United States, real GDP in the April-June quarter of 2021 and that of the Eurozone in the October-December quarter of 2021 exceeded that of the pre-COVID-19 period (October-December 2019), but Japan's real GDP was still 0.7% below that of the pre-COVID-19 period in the January-March quarter of 2022.

In addition, Japan's economic activity had fallen significantly before the impact of the new COVID-19 virus became apparent, with an annualized decline of 10.8% in the October-December quarter of 2019 from the previous quarter due to the hike in the consumption tax rate. Compared to its most recent peak in the April-June quarter of 2019, real GDP in the January-March quarter of 2022 was 3.5% lower. The normalization of economic activity is a long way off.



(Impact of yen depreciation and high crude oil prices)

The difference in interest rates between Japan and the United States has widened as the FRB has raised its key interest rate to cope with high inflation and Japan has continued its monetary easing policy. The dollar-yen exchange rate and nominal effective exchange rate are at their lowest levels in about 20 years, and the real effective exchange rate is at its weakest level in about 50 years.

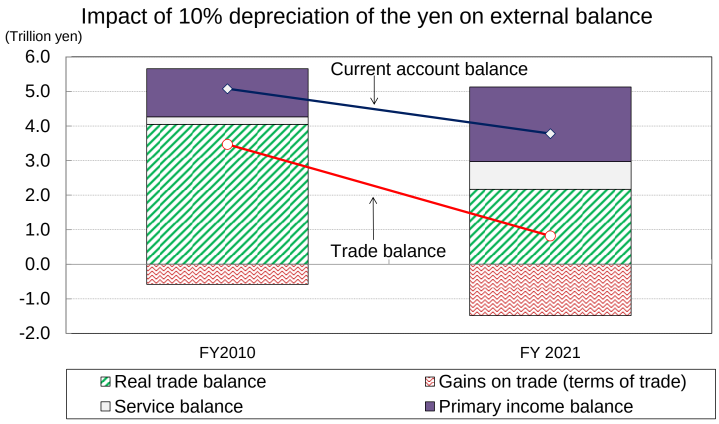
The weak yen has both merits and demerits. Advantages of the depreciation of the yen include (1) an increase in exports due to an increase in export volume and export prices through improved price competitiveness, (2) an increase in exports of services, mainly due to inbound tourist demand, and (3) an increase in income received from overseas (in yen terms). On the other hand, there are disadvantages such as (1) the deterioration of corporate profits due to the rise in import costs and (2) the decline in the real purchasing power of households due to the rise in import prices.

We have estimated the export function (real exports) using the real GDP of overseas economies (income factor) and the real effective exchange rate (price factor) as explanatory variables to examine the impact of the depreciation of the yen on exports. We can see that the price elasticity of goods exports has been declining in recent years because the linkage between foreign currency-denominated export prices and exchange rates has been decreasing due to the increase in value added of export items, while the price elasticity of services exports has been rising due to the expansion of inbound demand.

An estimate of the impact of the 10% depreciation of the yen on the external balance shows that the trade balance improved by 3.5 trillion yen in FY 2010, but the improvement in the balance is now 800 billion yen, a significant decrease. [*]1By breakdown, the improvement in the real trade balance shrank from 4 trillion yen in FY 2010 to 2.2 trillion yen, and the deterioration in terms of trade (trade gains and losses) widened from 600 billion yen in FY 2010 to 1.5 trillion yen. On the other hand, exports of services increased by 200 billion yen in FY 2010 and by 800 billion yen now. However, entry restrictions are currently in place as a border measure against the new COVID-19 virus, and unless such immigration restrictions are eased significantly, service exports cannot be expected to benefit from the weak yen.

The primary income balance improved by 2.2 trillion yen compared to 1.4 trillion yen in FY 2010. This is because the primary income balance (income received from overseas minus payments) is larger than in FY 2010 (primary income balance: 13.9 trillion yen in FY 2010 to 21.6 trillion yen in FY 2021), making it easier to benefit from the weaker yen.

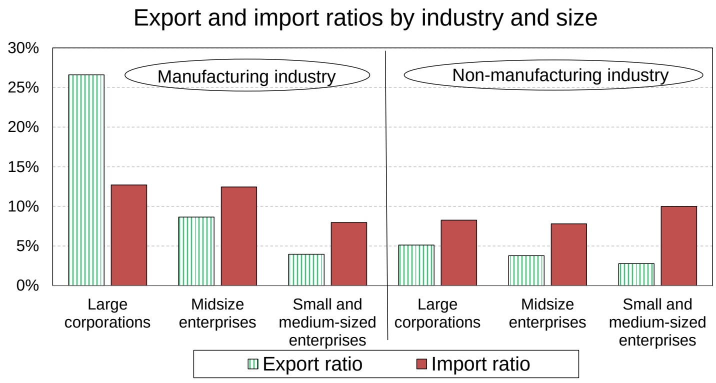
The impact on current account balance — the sum of the balance of trade, the balance of services, and the primary income balance — is that a 10% depreciation of the yen has resulted in an improvement in current account balance of 3.8 trillion yen, compared with 5.1 trillion yen in FY 2010. [*]2The effects of the yen's depreciation are smaller than in the past, but the overall impact on external balance is still positive.



Note: NLI Research Institute estimates based on Ministry of Finance "Trade Statistics" and "Balance of Payments Statistics."

Using our macroeconomic model, we estimate the impact of a weaker yen on the corporate and household sectors. A weaker yen leads to an increase in corporate profits and capital investment through an increase in exports. In addition, the rise in import prices due to the depreciation of the yen initially adversely affects personal consumption through the decline in real income due to the rise in consumer prices, but the positive effects of the spread of improvement in corporate profits to employment and wages subsequently outweigh the negative effects, contributing to a boost in personal consumption.

It should be noted, however, that the impact of the yen's depreciation on the corporate sector varies greatly depending on the industry and the size of the company. According to the Ministry of Economy, Trade and Industry's Basic Survey of Japanese Business Structure and Activities, large manufacturers have a high export ratio (exports/sales) and are more likely to benefit from the weak yen, while non-manufacturers have a high import ratio (imports/purchases) and are more likely to



Note: Exports as a percentage of sales and imports as a percentage of purchases.
Large enterprises have 1000 or more employees; small and medium enterprises have less than 100 employees.
Source: Ministry of Economy, Trade and Industry "2020 Basic Survey of Japanese Business Structure and Activities."

1 Calculated using trade, services, and primary income balance for FY 2021
2 the impact of the secondary income account is excluded

be impacted by increased import costs associated with the weak yen. In the manufacturing sector, small and medium-sized firms have lower export ratios and higher import ratios, making them less likely than large firms to benefit from the weak yen.

Thus, while the yen's depreciation has some negative effects, its positive effects on the Japanese economy as a whole are likely to be greater. One of the reasons why the "bad yen depreciation" is attracting attention is that the recent depreciation of the yen has occurred at the same time as the soaring prices of resources such as crude oil and grains such as wheat. The rise in resource prices leads to a decline in corporate profits and a decline in the real purchasing power of households through the outflow of income to foreign countries due to the deterioration of the terms of trade. A weak yen will raise both export and import prices, but the foreign currency-denominated ratio is higher for imports, leading to a deterioration in terms of trade, as is the case with high crude oil prices. At present, most of the deterioration in terms of trade is due to the deterioration of the contract currency base, and the impact of the yen's depreciation is small. However, since the yen's depreciation is working to amplify the negative effects of the rise in crude oil prices (rise in resource and grain prices), the negative aspects of the yen's depreciation are probably being emphasized.

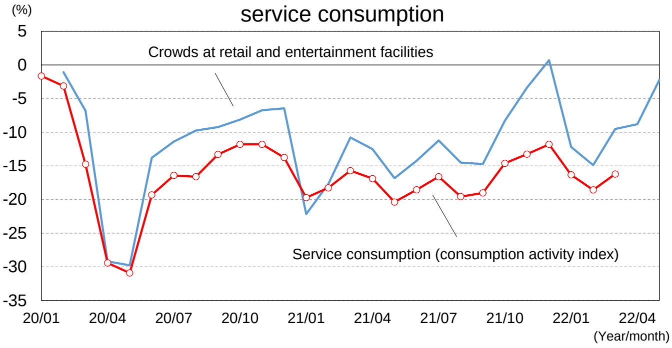
2. Real growth rate is expected to be 2.0% in FY 2022 and 1.7% in FY 2023

(Consumer spending picks up after priority preventative measures end)

With priority preventative measures being ended on March 21st, attendance at retail and entertainment venues highly linked to service consumption picked up and, in Golden Week in May, recovered to levels clearly above those before the COVID-19 pandemic began.

According to the Bank of Japan's Consumption Activity Index, real service consumption rose 6.3% quarter-on-quarter in the October-December quarter of 2021, then fell 4.4% quarter-on-quarter in the January-March quarter of 2022. On a monthly basis, however, it fell 5.1% month-on-month in January 2022, fell 2.7% in February, and rose 2.9% in March. Service consumption is expected to recover after April, given the movement of people after April.

Crowds at retail and entertainment facilities and service consumption



Note: Comparison of attendance at retail and entertainment facilities with the median number of days between January 3, 2020, and February 6, 2020. Service consumption is a deviation rate from the 2019 average.

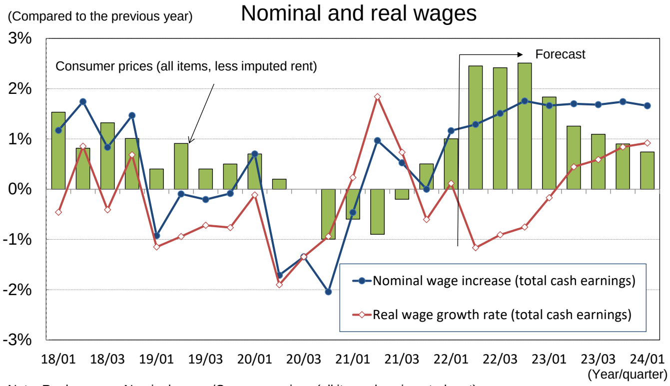
Sources: Google "Community Mobility Report", Bank of Japan "Consumption Activity Index."

(Accelerated pace of price increases depresses real income)

The nominal wage per capita fell sharply in FY 2020 due to the impact of the new COVID-19 virus but has been on an upward trend since the beginning of FY 2021. However, the rise in consumer price inflation has been a depressing factor in real wages.

In 2021, the wage increase rate fell below 2% for the first time in 8 years to 1.86% (the state of demands and agreements for wage increases in the spring by major private companies in Ministry of Health, Labour and Welfare), but in 2022, it is certain to rise above that for the previous year for the first time in 4 years due to improvements in corporate performance, and it is highly

Nominal and real wages



Note: Real wages = Nominal wages/Consumer prices (all items, less imputed rent)

Source: Ministry of Health, Labor and Welfare "Monthly Labor Survey (business establishments with five or more employees)."

likely that the rate will again be above 2%. Excluding regular pay increases, which are said to be around 1.7 ~ 1.8%, the base increase will remain at the 0 percent level. As consumer prices in FY 2022 are expected to continue growing by about 2%, it is likely that real wages (per capita) will remain in the negative range.

Nominal employee compensation declined 1.5% in FY 2020 from the previous year, the first decline in 8 years, and then rose by 1.7% in FY 2021. In FY 2022, as the number of employees continues to increase due to the background of the high sense of labor shortages at companies, the nominal compensation of employees is expected to increase by 2.1% from the previous year, reflecting the higher growth in scheduled cash earnings, the higher rate of wage increases in the spring labor offensive compared with the previous year, and the increase in special cash earnings (bonuses), which is closely linked with corporate profits. At the same time, however, the pace of price increases will accelerate, and the growth of real employee compensation is expected to decline significantly from 2.0% in FY 2021 to 0.4% in FY 2022. The growth rate in FY 2023 is expected to rise to 1.8% as the pace of price increases slows.

(Adverse effects of higher prices can be offset by a reduction in the savings rate)

Under normal circumstances, a decline in real income would directly lead to a slump in consumption. However, in the wake of the COVID-19 crisis, the savings rate was much higher than in normal times due to behavioral restrictions, so consumption will continue to be influenced more by trends in the savings rate than by real income.

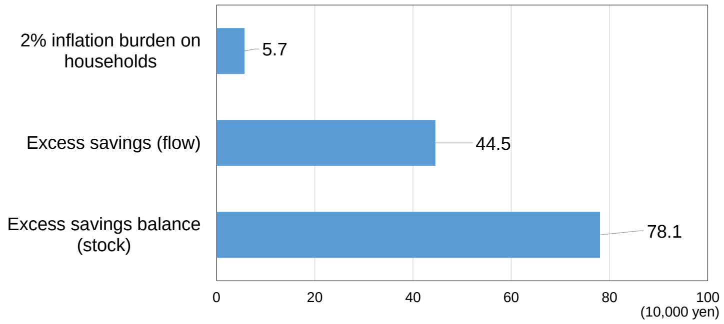
The amount of household savings increased sharply to 74.7 trillion yen (seasonally adjusted annualized value) in the April-June quarter of 2020, mainly due to the provision of the special fixed benefits, and then decreased to 28.1 trillion yen in the October-December quarter of 2021. However, it still exceeds the level of the pre-COVID-19 period. This is because the household savings rate has remained higher than usual due to restrictions imposed by the state of emergency, although disposable income has declined significantly from its peak due to the full impact of the special fixed benefits.

The household savings rate rose from 1.4% in FY 2018 to 3.7% in FY 2019 and then jumped to 13.1% in FY 2020. On a quarterly basis, it rose to an extremely high level of 21.9% in the April-June quarter of 2020, and then fell to 9.0% in the October-December quarter of 2021, but the level remains high compared to normal times.

As a result of the accumulation of flow savings, household cash and deposits as stock have also increased significantly. The amount of cash and deposits held by households rose at an annual pace of 10 trillion ~ 20 trillion yen from the pre-COVID-19 period to more than 1,000 trillion yen at the end of 2019, but the pace of increase has accelerated due to an increase in savings resulting from the COVID-19 crisis. The balance of cash and deposits for the quarter from October to December 2021 was approximately 1,085 trillion yen (seasonally adjusted value calculated by the Institute), a deviation of approximately 46 trillion yen from the trend during the pre-COVID-19 period.

If consumer prices rose by 2% in FY 2022, the annual household burden would increase by 57,000 yen (per household), but the excess savings in 2021 would be estimated at 445,000 yen in flow and 781,000 yen in stock. ［*］3 ［*］4It is true that the

Relationship between the burden on households due to high prices and excess savings(per household per year)



Note: Estimated from Statistics Bureau, Ministry of Internal Affairs and Communications “Family Income and Expenditure Survey”, Cabinet Office “Household Disposable Income and Household Savings Ratio Quarterly Flash Report (Reference Series)”, Bank of Japan "Flow of Funds Accounts."

3 Household Burden = Estimated based on consumption expenditure in FY 2021 (Family Income and Expenditure Survey, total households) x 2%

4 Excess Savings (Flow) = (Savings in 2021 - (Disposable Income in 2021 + Pension Benefit Adjustment) x Average Savings Rate from 2015 to 2019) ÷ Total Households, Excess Savings (Stock) = Deviation from Trend of Cash and Deposit Balance at End of 2021 ÷ Estimated by Total Households

decline in real purchasing power due to price increases will depress consumption, but it is possible to maintain a recovery in consumption if the savings rate can be significantly reduced without imposing restrictions on activity.

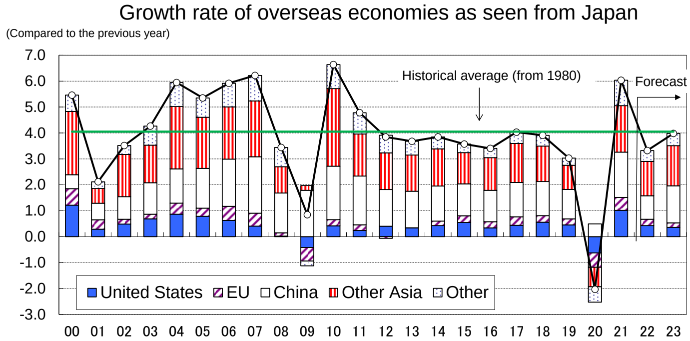
(Real GDP will exceed the latest peak in FY 2023)

In the January-March quarter of 2022, real GDP posted negative 1.0% growth on an annualized basis, mainly due to the decline of private consumption, but in the April-June quarter of 2022, real GDP is expected to grow at an annualized rate of 4.1% due to the recovery of private consumption, particularly of face-to-face services, following the termination of priority preventative measures.

However, there are significant downside risks, such as a further rise in resource prices, the worsening situation in Ukraine, monetary tightening by the United States, China's zero-COVID-19 policy, and electricity shortages due to the disruption of energy supply from Russia. In particular, if the economy of China, which accounts for a little over 20% of Japan's exports, slows down sharply as a result of the zero-COVID-19 policy, Japan's exports may fall sharply. In addition, there are concerns that the disruption of the logistics network due to the lockdown in China will have a negative impact on production activities in Japan.

The growth rate of the overseas economy, weighted by the weight of Japan's exports, fell by about 2% in 2020 due to the impact of the new COVID-19 virus, and rose sharply by about 6% in 2021 in reaction to that, but is expected to slow sharply to the low 3% range in 2022. This is because China's growth rate is expected to slow sharply from 8.1% in 2021 to around 4%, the United States' growth rate is expected to slow down from 5.7% in 2021 to 2.4% due to the effect of monetary tightening, and the growth rate of the Eurozone, which has strong ties to Russia, is expected to slow down from 5.4% in 2021 to 2.6%.

Growth rate of overseas economies as seen from Japan



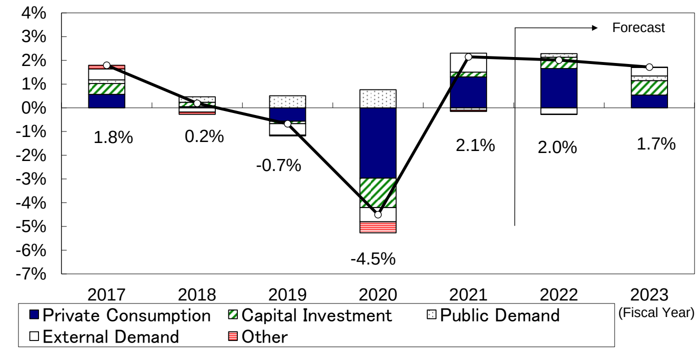
Note: Weighted average of real GDP growth in each country and region by weight of Japan's exports. The forecasts for the United States, the EU, and China are from the NLI Research Institute, while those for the other regions are those of the IMF as of April 22.
Sources: IMF "World Economic Outlook", Ministry of Finance "Trade Statistics."

Exports rose 12.5% in FY 2021, reflecting a sharp decline of 10.5% from the previous year in FY 2020. In FY 2022, although the yen's depreciation is expected to push up the exports growth rate, it is expected to slow down significantly to 1.8% due to a slowdown in overseas economies. The growth rate is expected to increase to 4.5% in FY 2023, when the world economy is expected to recover due to the normalization of the Chinese economy.

Although a boost from exports is not expected for the time being, GDP growth exceeding the potential growth rate is expected to continue after the July-September quarter of 2022, largely due to high private consumption growth backed by high savings, in the absence of activity restrictions such those stemming from a state of emergency. However, it is difficult to completely end the spread of COVID-19 virus infections, and the number of new positive cases is expected to increase and decrease repeatedly in the future. A sustained recovery in consumption would not be possible if the government continues to tighten restrictions with each outbreak.

Real GDP is expected to grow 2.0% in FY 2022 and 1.7% in FY 2023. Even if restrictions on economic activities are lifted, it will take time for consumption to fully recover because a certain degree of caution about

Changes in real GDP growth rate (fiscal year)

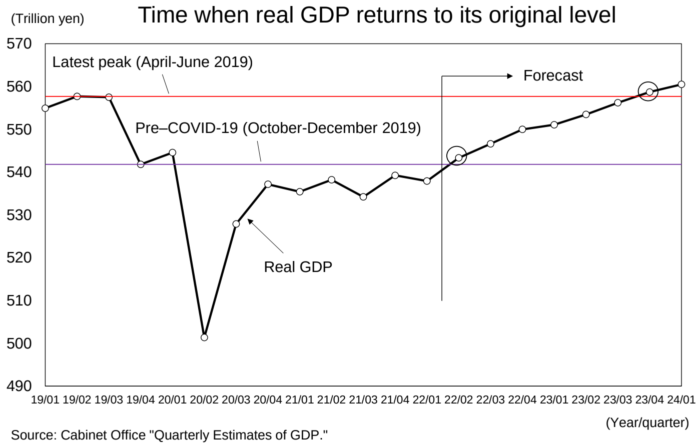


Source: Economic and Social Research Institute, Cabinet Office "Quarterly Estimates of GDP."

infectious diseases will curb face-to-face service consumption. Private consumption in FY 2021 increased by 2.6% from the previous year, but it failed to recover even half of the 5.4% decline in FY 2020. Although private consumption will continue to increase by 3.1% in FY 2022 and 1.0% in FY 2023 from the previous year, the growth rate is expected to be quite low after a significant decline in FY 2020. Private consumption will not exceed its most recent peak in the July-September quarter of 2019 until FY 2024.

In the January-March 2022 quarter, real GDP was 0.7% below the pre-COVID-19 level (October-December 2019), but in the April-June quarter, its annual growth rate will be 4.1%, mainly due to the high growth in private consumption, and at last it will recover the pre-COVID-19 level.

However, because the level of economic activity in Japan had fallen significantly during the pre-COVID-19 period due to the effect of the increase in the consumption tax rate, simply returning to the pre-COVID-19 level would not be considered economic normalization. Real GDP is not expected to recover to its most recent peak in April-June 2019 until the October-December quarter of 2023.



Source: Cabinet Office "Quarterly Estimates of GDP."

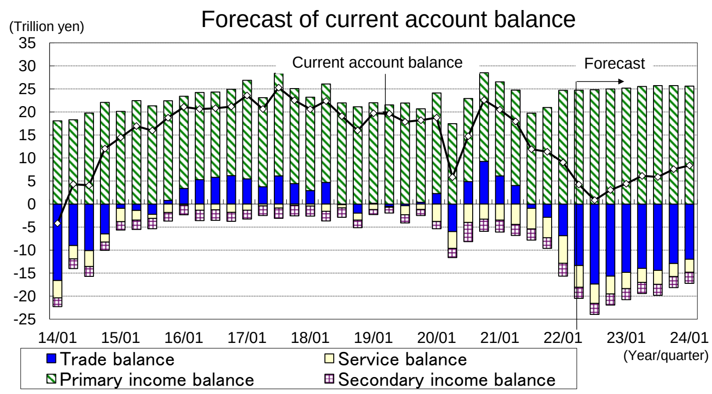
(Outlook of current account balance)

The current account balance posted a surplus of 12.6 trillion yen in FY 2021, down from 16.3 trillion yen in FY 2020. On a quarterly basis, it peaked at 22.6 trillion yen (seasonally adjusted, annualized) in the October-December quarter of 2020 and continued to decline, reaching 9 trillion yen in the January-March quarter of 2022.

Looking at the breakdown of current account balance, trade balance in FY 2021, the impact of high crude oil prices led to a 35.0% year-on-year increase in imports, posted 1.7 trillion yen deficit from a surplus of 3.8 trillion yen in FY 2020. Because of the deterioration of the travel account balance due to the sluggish inbound tourist demand, the service account also recorded a deficit of 4.8 trillion yen (compared to 3.5 trillion yen in FY 2020), but the primary income account surplus reached a high level of 21.6 trillion yen (compared to 18.8 trillion yen in FY 2020) on the back of a large amount of net foreign assets, which was the main cause of the surplus in the current account balance.

Looking ahead, it is highly likely that the current account balance’s surplus will shrink significantly through the summer of 2022, as the trade deficit will widen due to sluggish exports caused by the slowdown in overseas economies and rising imports caused by high crude oil prices. Although the service account deficit will gradually narrow due to a pickup in inbound demand, it is unlikely to improve significantly since the easing of immigration restrictions is likely to remain limited for the time being.

On the other hand, as the value of income received from overseas increases in yen due to the depreciation of the yen, the primary income balance will continue to expand at a high level.



Note: Seasonally adjusted annualized value.
Source: Ministry of Finance and Bank of Japan "Balance of Payments."

From the second half of 2022 onward, the trade deficit is expected to narrow because import growth will slow due to a pause in high crude oil prices and because exports will increase as overseas economies recover. However, although crude oil prices are expected to plateau, they are expected to remain high. Therefore, a trade surplus will not be realized until the end of FY 2023, and the primary income surplus will continue to make up for the trade deficit.

In FY 2023, the current account balance is expected to post a slightly larger surplus of 7 trillion yen, or 1.2% of nominal GDP, after shrinking sharply from 12.6 trillion yen, or 2.3%, in FY 2021 to 3.1 trillion yen, or 0.6%, in FY 2022.

(Price outlook)

The consumer price index (total CPI excluding fresh foods; core CPI) increased to 0.1% year-on-year in September 2021, the first increase in 1 year and 6 months, and then expanded to 0.8% year-on-year in March 2022. While the sharp decline in mobile phone charges has depressed the core CPI growth rate by about 1.5%, energy and food (excluding fresh food) have pushed up the core CPI.

The price of crude oil (Dubai) remains high at 110 dollars per barrel, but the rate of increase in energy prices from the previous year is expected to slow down after peaking in March due to the mitigation measures against drastic changes in fuel oil prices (subsidies to oil wholesalers).

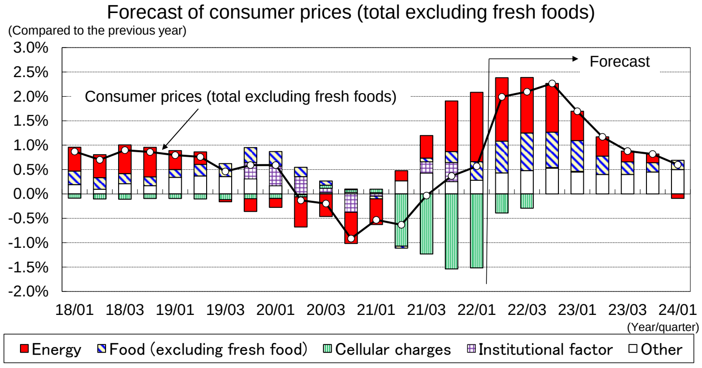
On the other hand, food products (excluding fresh foods) are expected to accelerate the pace of increase. Food prices rose to 0.1% year-on-year in July 2021, and then rose to 2.0% year-on-year in March 2022. Prices in the upstream stage, that is, the import prices of foods, increased by about 30% year-on-year, and food products in the domestic corporate goods price index rose by more than 3% year-on-year. Compared to the October-December quarter of 2015, when the inflation rate of food products exceeded 2%, the rate of increase in the upstream stage (import prices, domestic corporate goods price) is much higher now than it was then.

It is likely that the inflation rate of food products (excluding fresh foods) will accelerate to the 3% level in the summer of 2022 due to a further spread of the movement to pass on the price increases in the upstream stage to consumers via increased sales prices.

The core CPI growth rate in April 2022 is likely to increase to 2% due to a slightly smaller increase in energy prices, a significantly smaller decline in mobile phone charges, a further increase in food prices, and some annual price increases. Although the pace of increase in energy prices has continued to slow since then, the rate is expected to remain around 2% in 2022, as the price increase pressure from the yen's depreciation increases and moves to pass prices on to daily necessities and clothing in addition to food.

However, most of the increase in prices was caused by transferring a large increase in raw material prices to sales prices. Service prices, which account for about 50% of the prices in the consumer price index and are closely linked to wages, have remained stagnant. Although the wage increase rate will continue to improve in 2022 and 2023, the wage increase rate is expected to remain low at the 0% level. Rising service prices are not expected to significantly boost prices. In the second half of FY 2023, when the upward pressure from rising raw material prices is expected to return to normal, core CPI growth is likely to slow to less than 1%.

Forecast of consumer prices (total excluding fresh foods)



Note: Factors behind the system include consumption tax, free education, and the Go To Travel campaign.
Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Consumer Price Index."
Up to 2004 (year and quarter) based on year 2015; 2101 (year and quarter) and later based on year 2020.

Core CPI growth is expected to be 2.0% in FY 2022 and 0.9% in FY 2023.

Outlook for the Japanese economy (After reflecting 1st QE (announced 5/18) for January-March 2022)

(Units,%) Previous forecast(2022.3)

	FY 2020 Actual	FY 2021 Actual	FY 2022 Forecast	FY 2023 Forecast	21/4-6 Actual	21/7-9 Actual	21/10-12 Actual	22/1-3 Actual	22/4-6 Forecast	22/7-9 Forecast	22/10-12 Forecast	23/1-3 Forecast	23/4-6 Forecast	23/7-9 Forecast	23/10-12 Forecast	24/1-3 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast
Real GDP	- 4.5	2.1	2.0	1.7	0.5	- 0.7	0.9	- 0.2	1.0	0.6	0.6	0.2	0.4	0.5	0.4	0.3	2.3	2.1	1.7
					2.1	- 2.9	3.8	- 1.0	4.1	2.4	2.5	0.8	1.7	2.0	1.8	1.3			
					7.3	1.2	0.4	0.2	1.1	2.4	2.1	2.5	1.8	1.7	1.6	1.8			
Contribution to domestic demand	(- 3.9)	(1.4)	(2.3)	(1.4)	(0.8)	(- 0.8)	(0.8)	(0.2)	(1.2)	(0.5)	(0.5)	(0.1)	(0.4)	(0.4)	(0.4)	(0.2)	(1.3)	(1.8)	(1.5)
Private demand	(- 4.7)	(1.5)	(2.1)	(1.2)	(0.8)	(- 0.8)	(1.1)	(0.2)	(1.0)	(0.4)	(0.5)	(0.0)	(0.3)	(0.3)	(0.4)	(0.2)	(1.4)	(1.7)	(1.2)
Public demand	(0.8)	(- 0.1)	(0.1)	(0.2)	(- 0.0)	(0.0)	(- 0.3)	(- 0.1)	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(- 0.1)	(0.2)	(0.2)
Contribution to external demand	(- 0.6)	(0.8)	(- 0.3)	(0.4)	(- 0.2)	(0.1)	(0.1)	(- 0.4)	(- 0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(1.0)	(0.2)	(0.3)
Private final consumption expenditure	- 5.4	2.6	3.1	1.0	0.7	- 1.0	2.5	- 0.0	1.6	0.4	0.5	- 0.2	0.4	0.3	0.4	0.0	2.5	2.1	1.2
Private residential investment	- 7.8	- 1.6	- 0.5	1.0	1.0	- 1.7	- 1.2	- 1.1	1.2	0.4	- 0.1	- 0.6	0.5	0.9	0.6	- 0.3	- 1.4	0.0	- 0.4
Private nonresidential investment	- 7.5	1.3	3.0	3.8	2.2	- 2.4	0.4	0.5	1.2	1.1	1.2	1.0	1.0	0.8	0.7	1.0	1.3	3.0	3.8
Government final consumption expenditure	2.5	2.0	0.9	0.4	0.8	1.1	- 0.3	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	2.0	0.7	0.6
Public investment	5.1	- 9.3	- 0.8	2.2	- 3.7	- 3.8	- 4.7	- 3.6	2.7	1.8	1.1	0.4	0.6	0.7	- 0.2	0.1	- 8.5	0.1	1.8
Exports of goods & services	- 10.2	12.5	1.8	4.5	2.8	- 0.3	0.9	1.1	- 1.2	1.0	1.5	1.2	0.8	1.2	1.2	1.2	12.6	3.0	3.9
Import of goods & services	- 6.5	7.2	3.2	2.7	4.3	- 0.8	0.3	3.4	- 0.3	0.5	1.0	0.6	0.5	0.6	0.8	0.6	6.2	1.8	2.7
Nominal GDP	- 3.9	1.1	1.7	2.7	0.3	- 1.0	0.3	0.1	0.8	0.4	0.7	0.7	1.0	0.5	0.4	0.5	0.9	1.6	2.7

Note: The upper column of real GDP is compared with the previous period, the middle column is annual growth over the previous period and the lower column is compared with the previous year. All other demand items are compared with the previous period.

< Key Economic Indicators >

(Units,%)

	FY 2020	FY 2021	FY 2022	FY 2023	21/4-6	21/7-9	21/10-12	22/1-3	22/4-6	22/7-9	22/10-12	23/1-3	23/4-6	23/7-9	23/10-12	24/1-3	FY 2021	FY 2022	FY 2023
Industrial production (QoQ)	- 9.6	5.8	2.2	2.1	0.2	- 1.9	0.2	0.8	0.4	1.4	0.9	0.2	0.5	0.5	0.4	0.3	6.1	2.6	2.0
Domestic Corporate Goods Prices (YoY)	- 1.4	7.3	6.5	1.0	4.6	6.1	8.8	9.6	9.4	7.7	5.8	3.5	1.5	1.1	0.8	0.5	7.1	4.7	1.0
Consumer Prices (YoY)	- 0.2	0.1	2.0	0.8	- 0.8	- 0.2	0.5	0.9	2.1	2.0	2.2	1.5	1.1	0.9	0.8	0.6	0.1	1.8	0.8
Consumer Prices (excluding fresh food)	- 0.4	0.1	2.0	0.9	- 0.6	0.0	0.4	0.6	2.0	2.1	2.3	1.7	1.2	0.9	0.8	0.6	0.1	1.9	0.8
(excluding consumption tax)	(- 0.9)	(0.1)	(2.0)	(0.9)	(- 0.6)	(0.0)	(0.4)	(0.6)	(2.0)	(2.1)	(2.3)	(1.7)	(1.2)	(0.9)	(0.8)	(0.6)	(0.1)	(1.9)	(0.8)
Current account balance (¥trillion)	16.3	12.6	3.1	7.0	17.9	11.9	11.4	9.0	4.2	0.8	3.1	4.4	6.1	5.9	7.6	8.4	11.5	2.3	5.9
(Ratio to nominal GDP)	(3.0)	(2.3)	(0.6)	(1.2)	(3.3)	(2.2)	(2.1)	(1.7)	(0.8)	(0.2)	(0.6)	(0.8)	(1.1)	(1.0)	(1.3)	(1.5)	(2.1)	(0.4)	(1.0)
Unemployment rate (%)	2.9	2.8	2.7	2.6	2.9	2.8	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.8	2.7	2.6
Housing starts (10 thousand)	81.2	86.6	86.6	87.2	86.5	86.7	85.5	87.3	87.1	86.6	86.6	86.0	86.5	87.2	87.7	87.3	85.9	86.2	85.8
10 year JGB yield (over-the-counter quotation)	0.0	0.1	0.2	0.3	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.1	0.2	0.2
USD/JPY	106.0	112.4	130.5	127.5	109.5	110.1	113.7	116.2	129.0	133.0	131.0	129.0	128.0	128.0	127.0	127.0	112.1	116.3	118.5
Crude oil price (CIF, Dollar/Barrel)	43.2	76.5	113.8	110.0	67.0	73.3	80.4	85.5	110.0	117.0	116.0	112.0	110.0	110.0	110.0	110.0	77.4	120.0	111.0
Ordinary profit (YoY)	- 15.6	33.8	6.3	8.3	93.9	35.1	24.7	4.3	6.3	13.0	4.8	2.7	4.1	8.9	9.4	11.7	33.7	8.1	8.9

Note: Yields on 10 year government bonds, Foreign exchange rates and Crude oil prices are average data of the period. Oridinary profit of 22/1-3 is forecast.
Sources: Economic and Social Research Institute, Cabinet Office "Quarterly Estimates of GDP", Ministry of Economy, Trade and Industry "Indices of Industrial Production" , Ministry of Internal Affairs and Communications "Consumer Price Index", Ministry of Finance "Financial Statements Statistics of Corporations by Industry, Quarterly" and others.

Outlook for the U.S. economy

		2020	2021	2022	2023	2021				2022				2023			
						1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12
		Actual	Actual	Forecast	Forecast	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP	Annual rate,% YoY	- 3.4	5.7	2.4	2.0	6.3	6.7	2.3	6.9	- 1.4	1.9	2.1	2.8	1.9	1.9	1.8	1.3
FF rate target	End, Upper,%	0.3	0.3	2.8	3.3	0.3	0.3	0.3	0.3	0.5	1.5	2.3	2.8	3.0	3.3	3.3	3.3
10 government bond rate	Average,%	0.9	1.4	2.8	2.9	1.3	1.6	1.3	1.5	2.0	2.9	3.1	3.0	2.9	2.9	2.8	2.8

Outlook for the European (Euro area) economy

		2020	2021	2022	2023	2021				2022				2023			
						1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12
		Actual	Actual	Forecast	Forecast	Actual	Actual	Actual	Actual	Revision	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP	Annual rate,% YoY	- 6.4	5.4	2.6	1.9	- 0.4	9.1	9.3	1.2	1.1	0.7	1.9	2.0	2.2	1.9	1.9	1.9
ECB Refinancing rate	End of period,%	0.00	0.00	0.25	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50	0.75	1.00
10-year German govt. bond yield	Average,%	- 0.5	- 0.3	0.7	1.4	- 0.4	- 0.2	- 0.4	- 0.2	0.1	0.8	0.9	1.1	1.2	1.4	1.5	1.7
EUR/USD	Average, Dollars	1.14	1.18	1.07	1.10	1.20	1.21	1.18	1.14	1.12	1.05	1.04	1.06	1.08	1.09	1.10	1.11