Economist Letter

JAPAN's Economic Outlook for Fiscal Years 2022 and 2023 (August 2022)

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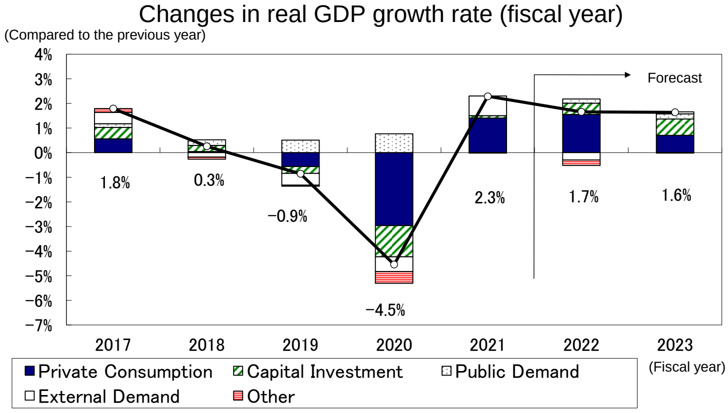
<Real GDP growth rate: 1.7% in FY 2022, 1.6% in FY 2023>

1. In the April-June quarter of 2022, real GDP grew from the previous quarter at an annualized rate of 2.2%, driven in part by a strong 1.1% quarter-on-quarter increase in private consumption following the end of COVID-19-related priority preventative measures.
2. Real GDP is expected to grow by 1.7% in FY 2022 and 1.6% in FY 2023. A boost from exports is not currently expected due to the continuing slump in overseas economies. However, positive growth is expected to continue beyond the July–September quarter of 2022 in the absence of state of emergency or other restrictive measures; this is mainly due to increases in private consumption and capital investment backed by high levels of household savings and corporate earnings.
3. However, there are significant downside risks, including a sharp slowdown in the United States economy due to monetary tightening, a downturn in China's economy due to the government's continued zero-COVID-19 policy, a worsening of the Ukrainian situation, curbs on economic activities due to winter electricity shortages, and uncertainty about policy responses to the spread of COVID-19.
4. Consumer price inflation (excluding fresh food) is forecast at 2.4% in FY 2022 and 1.0% in FY 2023. This rate will increase to the upper 2% range around autumn 2022 due to the accelerated pace of food inflation and increasing price pass-through for a wide range of products in response to the rise in import prices accompanying the yen's depreciation. However, growth will slow to the upper zero percent range in the second half of FY 2023, when the impact of rising raw material prices will have run its course.

Changes in real GDP growth rate (fiscal year)



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

1. April‑June 2022 grew at an annual rate of 2.2% quarter-on-quarter

In the April–June quarter of 2022, real GDP grew 0.5% quarter-on-quarter (annualized rate of 2.2%), its third consecutive quarter of positive growth. The main reason for this positive growth was a strong 1.1% quarter-on-quarter increase in private consumption, particularly for face-to-face services such as dining out and accommodation, following the end of priority preventative measures. The growth was also boosted by a two-quarter rise in capital spending of 1.4% from the previous quarter on the back of high corporate earnings. External demand, which significantly depressed the growth rate in the January–March quarter, only grew slightly with a rate of 0.9% from the previous quarter, as exports to China fell due to the lockdown, while imports grew at a similarly low rate of 0.7%, mainly due to a decline in vaccine purchases, making the contribution 0.0% (0.2% per annum) from the previous quarter, almost neutral to the growth rate.

In the April‑June quarter of 2022, real GDP finally recovered to its pre-COVID-19 levels, 0.2% higher than the October–December quarter of 2019. By demand category, private consumption exceeded that in the pre-COVID-19 period by 1.3%, while government consumption far exceeded that in the pre-COVID-19 period, reflecting the cost of the health-care response and vaccination efforts. Meanwhile, housing investment, capital expenditure, and public investment remain below pre-COVID-19 levels. Exports are 2.3% higher, but the export of services remains well below the pre-COVID-19 levels; goods exports continue to rise on the back of a recovery in overseas economies and a weak yen, while inbound demand remains severely depressed.

In the October–December of 2019 quarter, Japan experienced a sharp contraction of 11.3% on an annualized basis due to the impact of a hike in the consumption tax rate and a significant drop in the level of economic activity ahead of the impact of COVID-19 becoming apparent. Compared to the most recent peak in the April–June quarter of 2019, real GDP is down 2.7%, and private consumption is down 1.8% in the April–June quarter of 2022. It appears that there is a long way to go before the economy normalizes.

(The slowdown of overseas economies becomes clear)

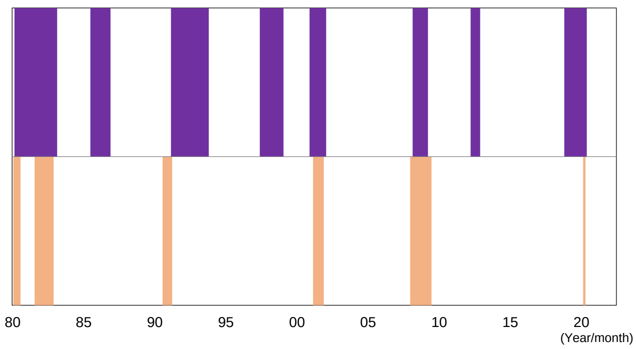
After a sharp slowdown in 2020 due to the impact of COVID-19, the global economy recorded high growth in 2021, partly in reaction. Nevertheless, a clear deceleration trend has become apparent recently.

Real GDP in the United States, which recovered quickly from the COVID-19 crisis, contracted sequentially in the April–June quarter following the January–March quarter of 2022. This marked the second consecutive quarter of negative growth; a pattern generally considered a technical recession. The National Bureau of Economic Research is tasked with determining the formal business cycle. However, the economic indicators it considers important, such as employment and consumer spending, have generally remained strong and, while the definition of a technical recession has been met, this does not necessarily imply an actual recession.

The current scenario is that a recession will be avoided in the United States but the impact of monetary tightening will keep growth below potential for the foreseeable future. The Federal Reserve has signaled that it will continue to tighten monetary policy to curb inflation even if it leads to a recession, raising the bar for a soft landing.

Looking at the business-cycle relationship between Japan and the United States since 1970, there have been cases where Japan was the only one of the two to fall into recession; for

Business cycle in Japan and the United States



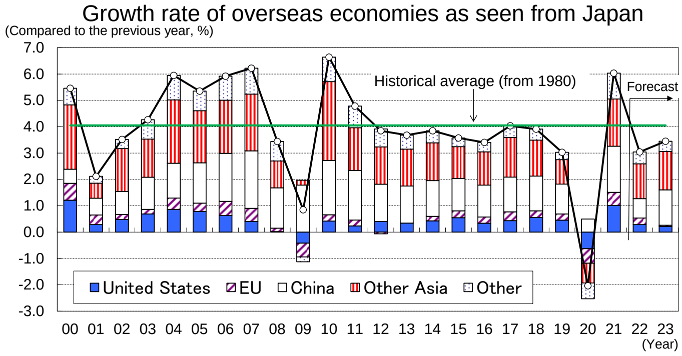
Source: Cabinet Office, NBER

example, in the mid-1980s, when the yen was strong, and when the consumption tax rate was raised in 1997. However, whenever the United States has entered a recession, Japan has also been in a recession. Whether the United States avoids a recession now will likely have a major impact on the future of the Japanese economy.

The euro area economy is expected to fall into recession in late 2022 and early 2023 due to monetary tightening to curb inflation and the significant negative impact of the cuts in the supply of Russian gas on economic activity. Moreover, the outlook for China's economy, which, as a result of the country's lockdown, had a year-on-year growth rate close to 0% in the April–June quarter of 2022, is likely to remain at high risk of a downturn as a result of the government's zero-COVID-19 policy.

The growth rate of overseas economies weighted by Japan's exports is expected to slow significantly to around 3% in 2022, after declining by around 2% in 2020 due to the impact of COVID-19 and rising by around 6% in 2021 as a reaction. The expected slowdown is due to a sharp decline in the growth rate of China's real GDP from 8.1% in 2021 to its current 3% level, as well as an expected slowdown in the United States from 5.7% in 2021 to 1.6%, and a decrease in the euro area from 5.3% in 2021 to 2.7%. In 2023, with China's real GDP returning to growth in the 6% range, but the US and the euro area expected to slow further to 1.2% and 0.5%, respectively, overseas economic growth in the eyes of Japan will remain in the mid- 3% range, still below the 4% average growth rate since 1980.

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; those for other regions from IMF data, as of July 22.

Sources: IMF "World Economic Outlook;" Ministry of Finance "Trade Statistics."

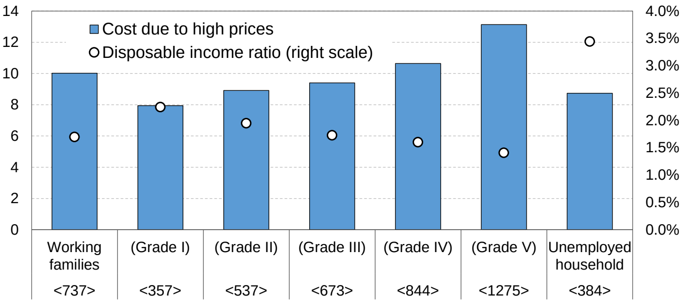
Exports fell sharply in FY 2020, down 10.0% from the previous year, but rebounded strongly in FY 2021, up 12.5%. Despite a boost from the weaker yen, FY 2022's year-on-year growth is expected to slow significantly to 1.5% due to a slowdown in overseas economies, while FY 2023's growth is expected to remain low at 1.8%.

(Burden of high prices and excess savings in household attributes)

Year-on-year consumer prices (total CPI excluding fresh foods, hereafter core CPI) have been in the low 2% range since April 2022, but the "total excluding imputed rent for owner-occupied housing" that households are actually facing is higher, at about 3%. High growth in fresh-food prices is not included in the core CPI, and low growth in imputed rent for owner-occupied homes (zero percent) is included but does not actually contribute to the gap between total and core CPI. We now expect FY 2022's year-on-year core CPI to be 2.4% and total excluding imputed rent, to be 3.0%.

The burden of high prices varies according to household attributes. Based on FY 2022's price projections, the estimated cost per household of high prices is 100,000 yen for working families and 87,000 yen for unemployed families (two-or-more-person households). When working families are categorized by income bracket, the burden is higher for those with higher incomes (because they spend more) than for those with lower annual incomes. In terms of the real effect, however, the burden of high prices, measured as a percentage of disposable income, is heavier for

Cost due to the price of goods by household attribute and income class



Note: Two-or-more-person households. Costs incurred when consumer prices in FY 2022 (excluding imputed rent of the

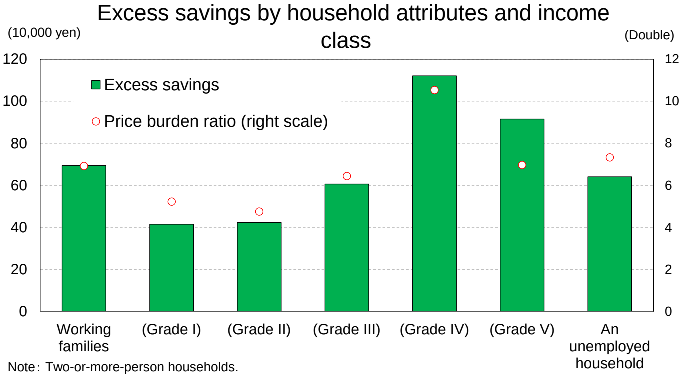
< > Figures in parentheses indicate annual income (10,000 yen). Calculations based on Statistics Bureau, Ministry of Internal Affairs and Communications "Family Income and Expenditure Survey," and "Consumer Price Index."

unemployed and working families with lower annual incomes than for working families. Behind this is the fact that the weight of "food" and "utilities," both of which have relatively high inflation rates, is higher for unemployed households and those with a low annual income.

In FY 2022, the increased burden of high prices will weigh on consumer spending. However, households are still accumulating excessive savings due to the repeated restrictions on behavior imposed because of the COVID-19 crisis. If we calculate as excess savings the portion of the increase in savings in 2020 and 2021 (compared with that in 2019) caused by an increase in the savings rate, then the excess savings of working families would be 393,000 yen in 2020 and 301,000 yen in 2021, for a total of 694,000 yen.

However, as with the burden of high prices, there may be differences in excess savings resulting from household attributes. When we estimate the excess savings by household attribute, jobless households, on average, account for 641,000 yen, slightly less than the working-age household. Among working families, there is a large excess of savings among those with a high annual income, exceeding 1 million yen among those in class IV. The ratio of excess savings to the burden of higher prices varies from 5.2 times for working families and those in class II to 10.5 times for those in class IV, but in all cases, the excess savings exceed the assumed burden of higher prices in FY 2022. This indicates that it is possible to mitigate the adverse effects of high prices by lowering the savings rate or unloading accumulated savings.

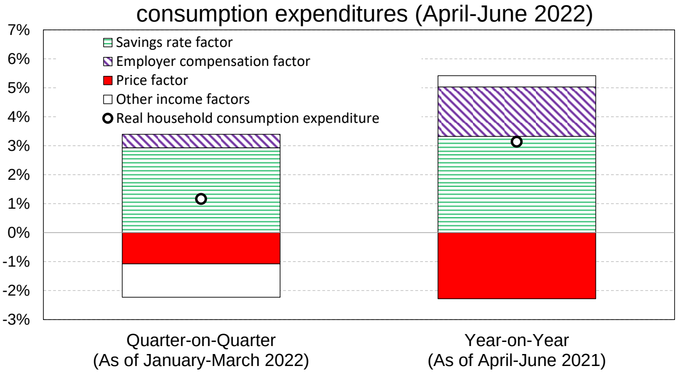
Excess savings by household attributes and income class



Note: Two-or-more-person households.
The amount of excess savings estimated based on totals for 2020 and 2021 as published by Statistics Bureau, Ministry of Internal Affairs and Communications, "Family Income and Expenditure Survey" and "Consumer Price Index."

In fact, consumer spending has clearly recovered since the end of the period of priority preventative measures, particularly in face-to-face services such as dining out and travel, which had dropped sharply due to the COVID-19 crisis, even as consumer price inflation soared to the 2% level. In the April‐June quarter of 2022, real household consumption expenditure increased by 3.1% year on year and 1.2% quarter on quarter. A rise in the household consumption deflator (2.3% YOY, 1.1% QOQ) contributed to the downward pressure on consumption (price factor), but consumption was significantly boosted by a decline in the savings rate following the lifting of the activity restrictions. [*]1

Factors behind fluctuations in real household consumption expenditures (April-June 2022)



Note: Prices are household consumption deflators, other income is property income, income tax, social benefits, etc.
Source: Cabinet Office "Quarterly Estimates of GDP;" "Quarterly Estimates of Household Disposable Income and Household Saving Ratio (Reference series)."

2. Real growth expected to be 1.7% in FY 2022 and 1.6% in FY 2023

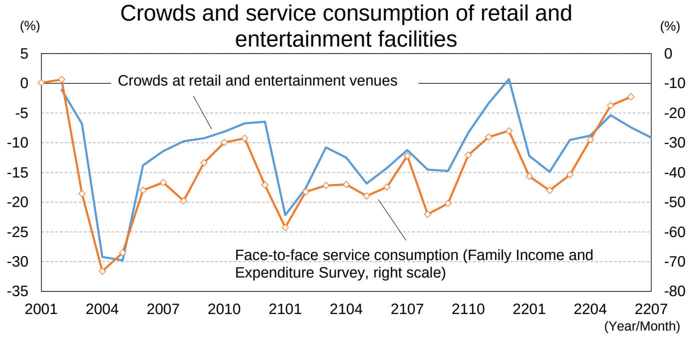
(Face-to-face service consumption bounces back following the end of priority preventative measures)

With priority preventative measures ending on March 21, 2022, retail and entertainment turnout, which is closely linked to service consumption, experienced a clear rebound to a level above those in the pre-COVID-19 period during Golden Week in May.

1 Savings rate for April-June 2022 estimated by NLI Research Institute based on actual figures for household consumption expenditures and employee compensation.

According to the Family Income and Expenditure Survey of the Statistics Bureau in the Ministry of Internal Affairs and Communications, the consumption of face-to-face services (general dining out, transportation, accommodation, package tours, admission, viewing, and games) plunged from the previous month by 15.5% in January and 9.5% in February 2022 in response to the application of priority preventative measures, but surged by 60.0% in the four months from March to June. The index, which was 100 before the COVID-19 crisis (2019 average), recovered to 85.5 in June, its highest level since the pandemic began.

Since July, a recovery in attendance has stalled amid the spread of COVID-19. The government has not imposed any special restrictions on people's movements, unlike previous outbreaks where the state of emergency and priority preventative measures were imposed. As a result, crowd numbers have not dropped as significantly as they did during previous outbreaks. Even during the recent outbreak, there was an increase in the number of summer festivals and other events held for the first time in three years, suggesting that the trend is closer to normal. Consumer spending is likely to remain on a recovery track, albeit at a slower pace.



Note: Comparison of attendance at retail and entertainment facilities with the median number of days between January 3, 2020, and February 6, 2020. Face-to-face service consumption includes general dining out, transportation, accommodation fees, package travel expenses, admission, viewing and gaming expenses. Seasonally Adjusted Values, Percent Deviation from 2019 Year Average, by NLI Research Institute. Service consumption is a deviation rate from the 2019 average.

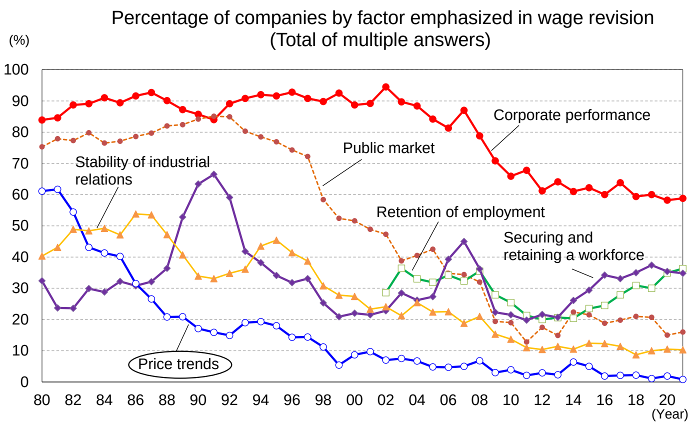
Sources: Google "Community Mobility Report;" Bank of Japan "Consumption Activity Index."

(The accelerating pace of price increases will depress real income)

Nominal wages per capita fell sharply in FY 2020 due to the impact of COVID-19 and have continued to rise since the start of FY 2021. However, real wages have experienced negative growth since April 2022 due to a significant increase in the rate of consumer price inflation. The spring wage increase rate in 2022 improved by 0.34 percentage points from the previous year (1.86%) to 2.20% (the status of requests and settlements for spring wage increases by major private companies in the Ministry of Health, Labour and Welfare). The rate of wage increases was higher than the previous year for the first time in four years, but the base increase, excluding regular pay increases of about 1.7 ~ 1.8%, remains in the 0% range. Since consumer prices in FY 2022 are expected to remain in the 2% range, real wage growth is likely to remain in the negative range.

The 2023 spring wage increase is expected to be 2.40%, an improvement of 0.20 percentage points from the previous year. Although corporate earnings growth in FY 2022 will slow significantly from FY 2021 due to rising raw material prices and sluggish exports due to a slowdown in overseas economies, a certain level of price growth in the previous year will help wage increases.

It is important to note, however, that in recent years price trends have rarely been taken into account in wage negotiations. According to the Ministry of Health, Labour and Welfare's Survey on the State of Wage Hikes, the percentage of companies that emphasized "price trends" when revising wages (multiple answers allowed) exceeded 60% in 1980. This ratio dropped rapidly in response to the price stability that followed, but remained above 10% until the late 1990s. However, after falling below 10% in 1999, it remained in the low single digits for more than 20 years, with a record low of 0.8% in 2021. Although the recent rise in prices may be changing the price-setting behavior of companies, the effect of higher

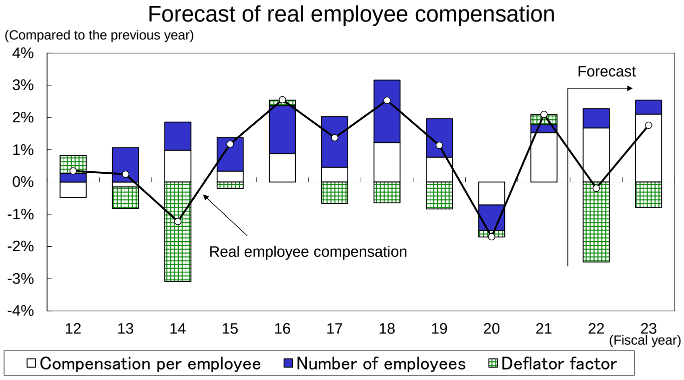


Source: Ministry of Health, Labour and Welfare "Survey on the State of Wage Hikes."

prices on wages is likely to be limited since the increases due to higher raw material prices also create pressure on companies' earnings.

Nominal employee compensation declined 1.5% year on year to FY 2020, the first decline in eight years, and then increased 1.8% to FY 2021. Nominal employee compensation in FY 2022 will increase to 2.3% from the previous year, reflecting higher spring wage increases than the previous year, higher growth in Scheduled Cash Earnings, and an increase in Special Cash Earnings (bonuses), which is closely linked to corporate earnings, as the number of employees continues to increase against the backdrop of a high sense of labor shortages in companies.

At the same time, however, the pace of price increases is expected to accelerate, so real employee pay is expected to decline from 2.1% in FY 2021 to 0.2% in FY 2022, the first decline in three years. With nominal employee pay growing at a brisk 2.5% year on year, FY 2023's real employee pay will shift to an increase of 1.8% as the pace of price increases slows.



Source: Cabinet Office "Quarterly Estimates of GDP;" Statistics Bureau, Ministry of Internal Affairs and Communications "Labour Force Survey."

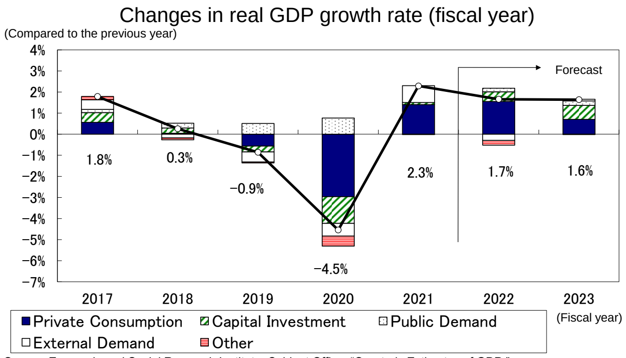
(Real GDP will surpass its latest peak at the end of FY 2023.)

In the April–June quarter of 2022, the economy grew at an annual rate of 2.2% from the previous quarter, mainly due to a strong increase in private consumption, particularly for face-to-face services.

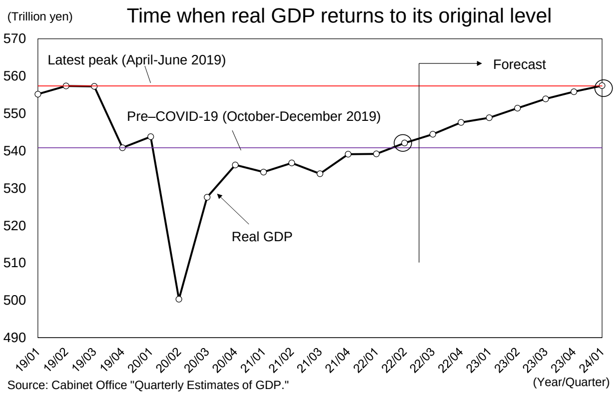
While a boost from exports is unlikely for the time being due to the high likelihood of continued weakness in overseas economies, positive growth is expected to continue beyond the July-September quarter of 2022, mainly due to increases in private consumption and capital investment backed by high household savings and corporate earnings, in the absence of action restrictions in the state of emergency and elsewhere. However, there are significant downside risks, including a sharp slowdown in the economy of the United States due to monetary tightening, a downturn in China's economy due to continued zero-COVID-19 policy, a worsening of the Ukrainian situation, curbs on economic activities due to winter electricity shortages, and uncertainty about policy responses to the spread of the virus causing COVID-19.

It is difficult to completely end the spread of the COVID-19 virus, and the number of new positive cases is expected to fluctuate in the future. To ensure that economic and social activities are not restricted even in the event of an outbreak of the COVID-19 virus, it is necessary to review the Infectious Diseases Act and develop a system for providing medical care.

Real GDP is expected to grow by 1.7% in FY 2022 and 1.6% in FY 2023. In the April–June quarter of 2022, real GDP exceeded the level in the pre-COVID-19 period (October–December quarter of 2019) by 0.2%. As mentioned above, Japan's level of economic activity fell sharply in the pre-COVID-19 period due to an increase in the consumption tax rate, so simply returning to pre-COVID-19 levels does not constitute economic normalization. We expect real GDP to recover its most recent peak (April–June quarter 2019) in the January–March 2024 quarter.



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



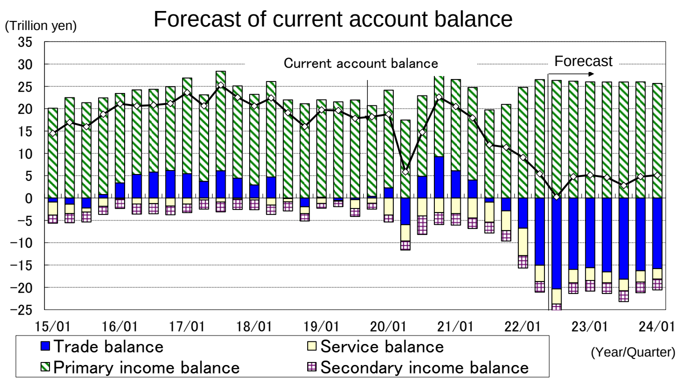
Source: Cabinet Office "Quarterly Estimates of GDP."

(Current account balance: outlook)

The surplus in the current account balance continued to shrink after peaking at 22.6 trillion yen (seasonally adjusted and annualized) in the October–December quarter of 2020, reaching 5.4 trillion yen in the April–June quarter of 2022. After the trade balance turned negative in the July–September quarter of 2021, the sharp increase in the deficit due to the high growth of imports in line with the high price of crude oil is the main reason for the shrinking surplus in the current account balance. On the other hand, the primary-income surplus, which continued a high level of around 20 trillion yen annually, backed by a large amount of net foreign assets, has given the current account balance a major boost.

Looking ahead, the surplus in the current account balance will shrink further and may temporarily fall into a deficit as the country's trade deficit widens due to sluggish exports in a time of slowdown in overseas economies and higher imports stemming from higher oil prices and a weaker yen. Although a deficit in the services account gradually shrinks as inbound demand recovers, a significant improvement is not expected as there is likely to be a limited easing of immigration restrictions for the time being. On the other hand, despite the expectation of yen's appreciation toward the end of the forecast period, the primary income balance will remain high since the yen will remain relatively weak (compared to its levels in the period up to FY 2021).

From the second half of FY 2022, the trade deficit is expected to narrow, albeit modestly, as a pause in oil-price movements slows down import growth. However, as the overseas economic slowdown continues and export growth is not expected to increase significantly, a trade surplus will not be realized until the end of FY 2023, and the primary income surplus will continue to supplement the trade deficit. The current account balance is expected to contract significantly from 12.6 trillion yen in FY 2021 (2.3% of nominal GDP) to 3.9 trillion yen in FY 2022 (0.7% of nominal GDP), and in FY 2023, it is expected to remain low at 4.3 trillion yen (0.8% of nominal GDP).



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

(Price outlook)

Consumer prices (total CPI excluding fresh foods, hereafter core CPI) have been in the low 2% range since April 2022 compared to the previous year. The big boost to the core CPI so far has been a sharp rise in energy prices due to higher oil prices, but the main driver of the increase has shifted to food (excluding fresh food).

Food prices started to rise at a rate of 0.1% year on year in July 2021 and increased to 3.2% year on year in June 2022. However, prices at the upstream level are high, with import prices of around 30% year on year and food prices in domestic corporate goods at the 5% level. It is likely that the price increase of food products (excluding fresh foods) will increase at a high rate of around 4% from the summer onward as a result of the further shift to consumers of upstream price increases.

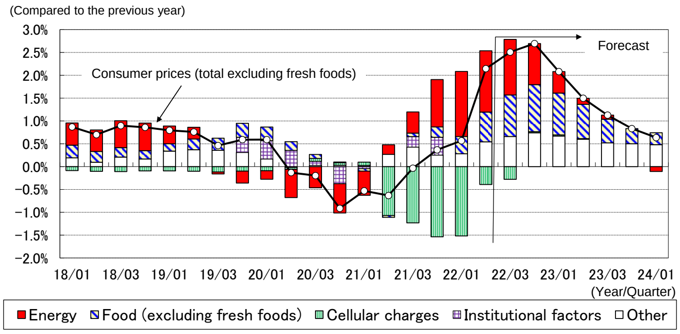
On the other hand, the price of crude oil (Dubai) has fallen to the $90 level per barrel mainly due to the growing concern of a slowdown in the world economy, but the market has been structured such that a fall in the market does not directly lead to a fall in energy prices because gasoline and kerosene prices have been suppressed by the mitigation measures of drastic changes in fuel oil prices (subsidies to oil wholesalers). Energy prices peaked at 20.8% year on year in March 2022 and have slowed but will continue to grow at a high rate of 10% year on year during 2022.

The core CPI is expected to rise to the upper 2% level in the fall of 2022, when the impact of lower mobile phone rates will have run its course and premiums on fire and earthquake insurance will likely rise. This is the result of a further acceleration in the pace of food inflation and the spread of price pass-through for a wide range of items such as daily necessities and clothing in response to rising import prices due to the weaker yen.

However, most of the rise in prices has been caused by shifting large increases in the prices of raw materials to the selling prices faced by consumers. Service prices, which account for about 50% of CPI prices, and are closely linked to wages, have remained sluggish. The spring wage increase rate will continue to improve in 2022 and 2023, but in terms of base increases, the rate is expected to be in the low 0% range. We do not expect the trend of prices to increase significantly through higher service prices. In the second half of FY 2023, when upward pressure from rising raw material prices is expected to run its course, core CPI inflation is likely to slow to the upper zero percent range.

Core CPI inflation is forecast to be 2.4% in FY 2022 and 1.0% in FY 2023.

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.

Outlook for the Japanese economy (After reflecting 2st QE (announced 8/15) for April-June 2022)

(Units,%)

	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 Actual	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
Real GDP	- 4.5	2.3	1.7	1.6	0.5	- 0.5	1.0	0.0	0.5	0.4	0.6	0.2	0.5	0.5	0.3	0.3
					1.8	- 2.1	4.0	0.1	2.2	1.7	2.3	0.9	1.9	1.8	1.4	1.2
					7.3	1.2	0.5	0.7	1.1	2.0	1.7	1.9	1.7	1.7	1.5	1.6
Contribution to domestic demand	(- 3.9)	(1.5)	(2.0)	(1.6)	(0.7)	(- 0.7)	(0.9)	(0.5)	(0.5)	(0.5)	(0.6)	(0.2)	(0.5)	(0.4)	(0.3)	(0.3)
Private demand	(- 4.7)	(1.5)	(1.8)	(1.3)	(0.6)	(- 0.8)	(1.2)	(0.6)	(0.3)	(0.4)	(0.5)	(0.1)	(0.4)	(0.4)	(0.3)	(0.2)
Public demand	(0.8)	(- 0.0)	(0.2)	(0.2)	(0.0)	(0.0)	(- 0.3)	(- 0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)
Contribution to external demand	(- 0.6)	(0.8)	(- 0.3)	(0.1)	(- 0.2)	(0.2)	(0.0)	(- 0.5)	(0.0)	(- 0.1)	(- 0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Private final consumption expenditure	- 5.4	2.6	2.9	1.3	0.4	- 0.9	2.4	0.3	1.1	0.4	0.5	- 0.1	0.5	0.5	0.3	0.0
Private residential investment	- 7.8	- 1.6	- 4.2	- 0.0	1.6	- 1.8	- 1.3	- 1.4	- 1.9	- 0.4	0.2	0.1	- 0.4	0.1	0.0	0.9
Private nonresidential investment	- 7.7	0.6	2.9	4.2	1.2	- 2.1	0.2	- 0.3	1.4	1.5	1.3	0.8	1.2	1.1	0.8	0.9
Government final consumption expenditure	2.5	2.0	1.2	0.5	0.9	1.1	- 0.3	0.4	0.5	0.0	0.2	0.2	0.1	0.0	0.1	0.1
Public investment	5.1	- 7.5	- 1.3	2.0	- 2.5	- 3.3	- 3.7	- 3.2	0.9	1.8	1.7	0.8	0.0	- 0.0	0.1	0.9
Exports of goods & services	- 10.0	12.5	1.5	1.8	3.0	0.0	0.6	0.9	0.9	- 0.8	0.1	0.6	0.4	0.7	0.7	0.8
Import of goods & services	- 6.3	7.2	3.0	1.4	4.4	- 1.1	0.4	3.5	0.7	- 0.5	0.3	0.2	0.3	0.5	0.6	0.7
Nominal GDP	- 3.9	1.3	1.8	2.6	- 0.2	- 0.5	0.5	0.4	0.3	0.5	1.1	0.5	0.9	0.6	0.2	0.5

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 >

	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
Industrial production (QoQ)	- 9.6	5.8	0.8	3.1	0.2	- 1.9	0.2	0.8	- 2.7	3.2	1.6	0.3	0.7	0.5	0.5	0.2
Domestic Corporate Goods Prices (YoY)	- 1.4	7.0	6.9	1.3	4.3	5.8	8.4	9.2	9.6	8.2	5.9	4.0	1.7	1.1	1.2	1.0
Consumer Prices (YoY)	- 0.2	0.1	2.3	0.9	- 0.8	- 0.2	0.5	0.9	2.4	2.5	2.6	1.8	1.3	1.1	0.8	0.6
Consumer Prices (excluding fresh food)	- 0.4	0.1	2.4	1.0	- 0.6	0.0	0.4	0.6	2.1	2.5	2.7	2.1	1.5	1.1	0.8	0.6
(excluding consumption tax)	(- 0.9)	(0.1)	(2.4)	(1.0)	(- 0.6)	(0.0)	(0.4)	(0.6)	(2.1)	(2.5)	(2.7)	(2.1)	(1.5)	(1.1)	(0.8)	(0.6)
Current account balance (¥trillion)	16.3	12.6	3.9	4.3	17.9	11.9	11.4	9.1	5.4	0.2	4.8	5.1	4.6	2.8	4.8	5.1
(Ratio to nominal GDP)	(3.0)	(2.3)	(0.7)	(0.8)	(3.3)	(2.2)	(2.1)	(1.7)	(1.0)	(0.0)	(0.9)	(0.9)	(0.8)	(0.5)	(0.8)	(0.9)
Unemployment rate (%)	2.9	2.8	2.5	2.4	2.9	2.8	2.7	2.7	2.6	2.5	2.5	2.4	2.4	2.4	2.4	2.3
Housing starts (10 thousand)	81.2	86.6	85.2	85.4	86.5	86.7	85.5	87.3	85.2	84.9	85.2	85.3	85.0	85.2	85.2	86.0
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
USD/JPY	106	112	132	129	109	110	114	116	130	135	132	130	130	129	128	127
Crude oil price (CIF, Dollar/Barrel)	43	77	110	110	67	73	80	86	109	111	108	110	110	110	110	110
Ordinary profit (YoY)	- 15.6	36.8	5.7	6.4	93.9	35.1	24.7	13.7	9.2	10.5	2.4	1.8	3.4	8.5	5.7	9.0

Note: Yields on 10 year government bonds, Foreign exchange rates and Crude oil prices are average data of the period. Oridinary profit of 22/4-6 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	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP	Annual rate,% YoY	- 3.4	5.7	1.6	1.2	6.3	6.7	2.3	6.9	- 1.6	- 0.9	1.0	1.4	1.3	1.2	1.4	1.4
FF rate target	End, Upper,%	0.25	0.25	3.50	3.75	0.25	0.25	0.25	0.25	0.50	1.75	3.00	3.50	3.75	3.75	3.75	3.75
10 government bond rate	Average,%	0.9	1.4	2.7	3.0	1.3	1.6	1.3	1.5	2.0	2.9	2.8	3.0	3.1	3.0	3.0	3.0

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	Actual	Flash	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP	Annual rate,% YoY	- 6.3	5.3	2.7	0.5	- 0.4	8.5	9.7	1.6	2.0	2.8	0.1	- 2.0	- 1.8	3.9	2.9	1.7
ECB Refinancing rate	End of period,%	0.00	0.00	1.25	1.50	0.00	0.00	0.00	0.00	0.00	0.00	0.75	1.25	1.25	1.25	1.50	1.50
10-year German govt. bond yield	Average,%	- 0.5	- 0.3	1.0	1.8	- 0.4	- 0.2	- 0.4	- 0.2	0.1	1.1	1.2	1.5	1.6	1.8	1.9	2.0
EUR/USD	Average, Dollars	1.14	1.18	1.06	1.08	1.20	1.21	1.18	1.14	1.12	1.06	1.02	1.03	1.05	1.08	1.10	1.10