Economist Letter

Japan's Economic Outlook for the Fiscal Years 2023 and 2024 (August 2023)

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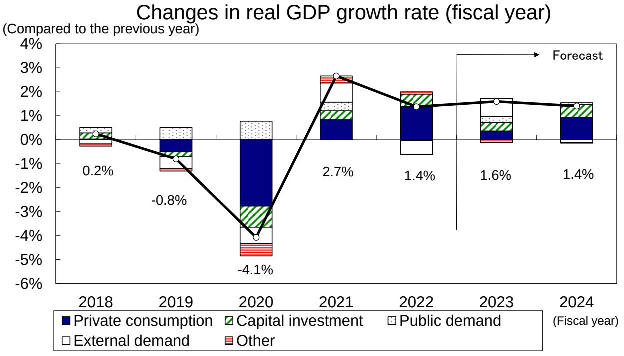
<Real growth rate: 1.6% in FY 2023 and 1.4% in FY 2024>

1. Real GDP grew at a high rate of 1.5% from the previous quarter (equivalent to an annualized rate of 6.0%) in the April-June quarter of 2023. However, this growth was significantly affected by a sharp decline in imports, which will likely lead to negative growth in the July-September quarter.
2. Real GDP growth is forecast to be 1.6% in FY 2023 and 1.4% in FY 2024. Exports are not expected to be the driving force for the economy in the foreseeable future. Rather, the Japanese economy is expected to continue to grow primarily as a result of domestic demand.
3. Nominal GDP growth in FY 2023 is expected to reach 5.0%, marking the highest rate in 32 years. The GDP deflator has been rising sharply, resulting in nominal GDP continuing to outpace real GDP.
4. The consumer price inflation rate (excluding fresh food) is projected to fall from the current 3% level to the upper 2% level after the fall of 2023, but it will not fall below the Bank of Japan's 2% price target until the commencement of FY 2024. This fall can be attributed to a sharp decline in import prices. By contrast, the rate of increase in service prices is likely to rise further, propelled by a remarkable surge in wage rates, marking a 30-year high. Finally, the consumer price inflation rate (excluding fresh food) is predicted to rise by 2.8% in FY 2023 and by 1.6% in FY 2024.

Changes in real GDP growth rate (fiscal year)



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

1. 6.0% annualized positive growth in April-June quarter 2023 from the previous quarter

Real GDP in the April-June quarter of 2023 grew by 1.5% from the previous quarter (6.0% annualized), making this the third consecutive quarter characterized by positive growth.

Exports increased by 3.2% from the previous quarter, while imports decreased by -4.3% over the same period. This boosted the growth rate significantly, with foreign demand contributing 1.8% from the previous quarter (7.2% annualized). Exports of goods and services rose by 3.3% from the previous quarter due to the easing of supply chain constraints, particularly for automobiles, while services also increased by 2.9% from the previous quarter, primarily thanks to a recovery in inbound tourist demand following the relaxation and removal of border measures.

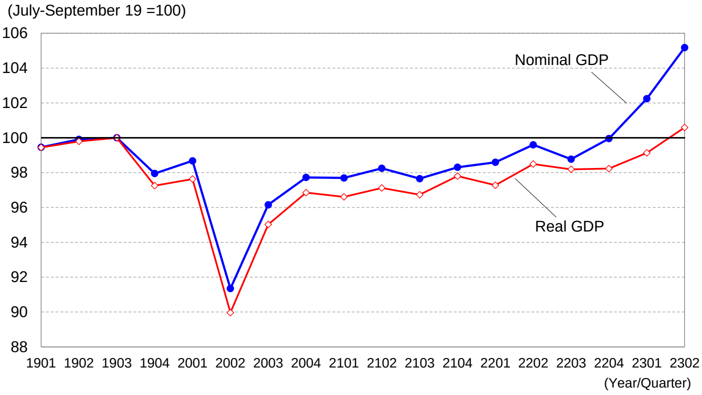
By contrast, private consumption fell for the first time in three quarters (-0.5% from the previous quarter) due to the impact of inflation, while capital investment remained flat (0.0% from the previous quarter), resulting in the first decline in domestic demand in two quarters (-0.3% from the previous quarter).

During the April-June quarter of 2023, growth exceeded initial expectations, primarily driven by an upswing in foreign demand. However, the increase in exports was largely a response to the decline experienced in the January-March quarter, while the significant fall in imports can be viewed as a reflection of sluggish domestic demand. Overall, then, the economy is not as strong as the growth rate indicates.

Nominal GDP increased for the third consecutive quarter at 2.9% from the previous quarter (12.0% annualized), while the GDP deflator was 1.4% from the previous quarter and 3.4% y-o-y. The domestic demand deflator was boosted by a 0.5% from the previous quarter due to the spread of price transfers from higher import prices, and a -3.2% decline from the previous quarter in the import deflator, reflecting the drop in oil prices, which was less than the 0.7% growth in the export deflator. This pushed up the GDP deflator.

The level of real GDP in the April-June quarter of 2023 was 0.6% higher than the pre-COVID-19 peak (July-September quarter of 2019). Nominal GDP also significantly outpaced real growth for three consecutive quarters: the October-December 2022 quarter (4.9% annualized q-o-q), the January-March quarter (9.5% annualized q-o-q), and the April-June quarter (12.0% annualized q-o-q). The April-June quarter of 2023, meanwhile, was 5.2% higher than the pre-COVID-19 peak (July-September quarter 2019).

Trends in Nominal GDP and Real GDP



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

(Exports are not expected to be the driving force of the economy)

Exports grew strongly in the April-June quarter of 2023, which in turn boosted growth. However, it remains questionable as to whether this rate of export recovery is sustainable.

In the April-June quarter, the real exports of the Bank of Japan increased by 2.7% from the previous quarter, representing the first increase in three quarters. In terms of goods, while automotive-related exports grew strongly due to the easing of supply constraints, information-related exports continued to decline thanks to weak global demand for semiconductor-related goods; similarly, capital goods and intermediate goods also experienced a weakening trend. The global PMI, a gauge of global business confidence, has long maintained a level above the neutral mark of 50 for the non-manufacturing sector. However, more recently, it has declined due to a lull in pent-up demand and has remained below 50 for the manufacturing sector since September 2022. More broadly, the global manufacturing cycle, which has a significant impact on Japan's exports, is experiencing an ongoing downtrend.

Our forecasts indicate that the U.S. economy will fall to almost zero growth, with an annual growth rate of 0.3% (annualized q-o-q) in the October-December quarter of 2023 and -0.4% (annualized q-o-q) in the January-March quarter of 2024. This anticipated slowdown is attributed to the cumulative effects of monetary tightening. Meanwhile, in the Eurozone, growth will remain below 1% from the latter half of 2023 to the early half of 2024, although it is unlikely to enter negative territory. In addition, China will see its real GDP growth rate increase to the 5% range in 2023 following the end of its zero-COVID-19 policy from the 3.0% observed in 2022. However, it is then predicted to decline to the 4% range in 2024.

As a result, the growth rate of the overseas economy, weighted by Japan's export weights, will slow significantly from approximately 6% in 2021 to around 3% in 2022, after which it will start to grow again at around 3% in 2023 and 2024—which is below the average growth rate of around 4%, observed since 1980.

After growing at a high 12.4% y/y in FY 2021, Japan's exports slowed to 4.5% y/y in FY 2022. This trajectory is projected to continue, with a further deceleration to 1.8% y/y in FY 2023 and 1.7% y/y in FY 2024. From this, it is evident that exports will not be the driving force of the economy in the foreseeable future.

(Inbound tourist demand is rapidly recovering)

Inbound tourist demand had virtually disappeared thanks to the COVID-19 pandemic. However, it has been enjoying a rapid recovery following the phased relaxation of border measures since October 2022 and their elimination at the end of April 2023. In June 2023, the number of inbound visitors to Japan stood at 2,073,300, marking a 28.0% decline from the same month in 2019. Then, adjusted for seasonal variations by the Institute, this figure rebounded to exceed more than 90% of the pre-COVID-19 level (2019 average).

The number of visitors to Japan from China, which accounted for around 30% of the total before the COVID-19 disaster, remains at a low level of 24% compared to the same month in 2019. However, with the Chinese government lifting the ban on group travel to Japan on August 10, the number of Chinese visitors to Japan is likely to surge in the future.

Furthermore, with inbound tourist demand approaching pre-COVID-19 levels, it appears that potential supply constraints, such as shortages of workforce personnel and lodging facilities, could become more serious in the future. According to the Ministry of Economy, Trade, and Industry's "Tertiary Industry Activity

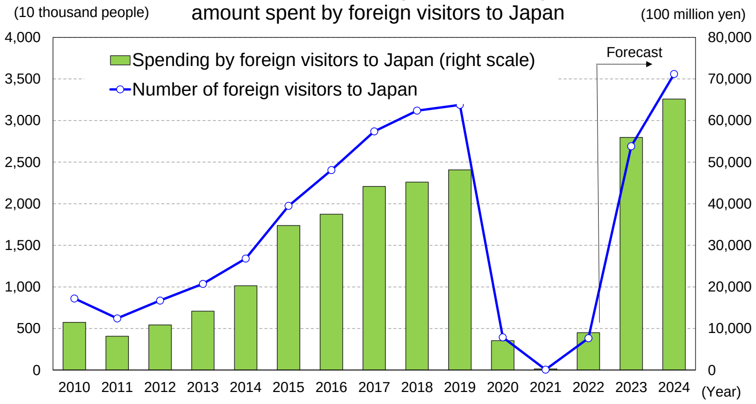
Index," the activity index for the lodging industry fell sharply to roughly 20% of its pre-COVID-19 level in the April-June quarter of 2020, when the state of emergency was first declared. However, it has since gradually recovered to a figure above its pre-COVID-19 level. By contrast, the number of workers in the lodging industry, after falling sharply in response to the drop in demand, has continued to move sideways, remaining at approximately 80% of the 2019 level as of the April-June quarter of 2023. In addition to the risk of supply constraints hampering the recovery of demand, this could lead to a further steep rise in lodging rates, which have already risen markedly.

More pronounced within the scope of recovery than the actual number of foreign visitors to Japan is the volume of travel expenditures made by these visitors. According to the Japan Tourism Agency's "Survey of Trends in Foreign Traveler Spending in Japan," the value of travel spending by foreigners visiting Japan during the April-June quarter of 2023 was 1.2052 trillion yen. Although this figure marks a decline of 4.9% from the equivalent period in 2019, the reduction is notably less severe than the -26.7% drop in the count of foreign visitors to Japan during the same timeframe. This is a trend that has continued since the October-December quarter of 2021, when the survey and publication of the Survey of Spending Trends by Foreign Visitors to Japan resumed, after having been suspended due to the COVID-19 disaster.

Per capita consumption expanded because the yen has become weaker since the pre-COVID-19 period, while the proportion of business and other visitors with longer stays has increased as a result of the sharp decline in the number of tourists with relatively short stays. Of these, the average length of stay is expected to shorten due to the rapid increase in the number of tourists. However, the effect of the weaker yen's contribution is likely to persist into the future.

With the completion of the border measures, the number of inbound foreign visitors will continue to recover in the future and is likely to surpass the pre-COVID-19 period level (31.88 million in 2019) in terms of monthly annualized number by the end of 2023. Although the number of inbound travelers is not expected to reach a new annual record high until 2024, the government's goal of increasing inbound travel spending to 5 trillion yen by 2023 will likely be achieved as the weak yen continues to push up per capita spending.

Estimates of the number of foreign visitors to Japan and the amount spent by foreign visitors to Japan



Sources: "Statistics on foreign visitors to Japan," Japan National Tourism Organization (JNTO); "Survey of foreign visitors' spending," Japan Tourism Agency.

(The rate of wage increase in the spring labor offensive was the highest it has been in 30 years.)

According to the "Status of Spring Wage Hike Demands and Compensation Results for Major Private Sector Firms" released by the Ministry of Health, Labour, and Welfare on August 4, 2023, the wage increase rate for 2023 was 3.60%—1.40 percentage points higher than the 2.20% rate in 2022. In addition, the "portion of wage increases," which corresponds to base increases excluding regular salary increases as calculated by RENGO, was 2.12% (0.63% in 2022).

The spring wage increase rate for 2023 reached its highest point in 30 years. Additionally, it marked the first instance since 1980 that the rate of wage increases improved by 1% compared to the preceding year.[1]

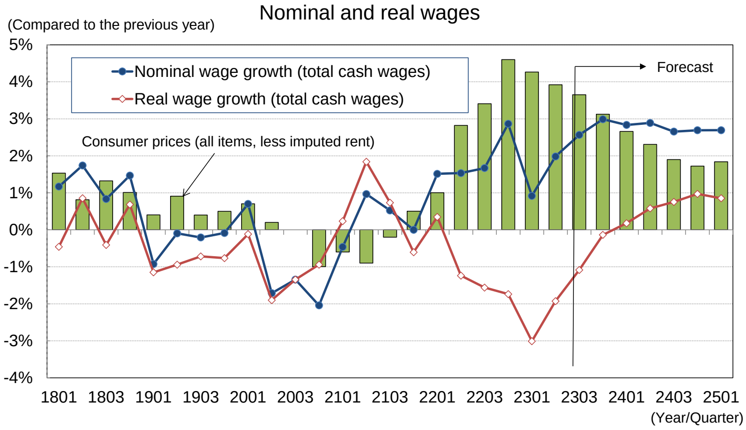
The scheduled cash earnings for general workers, closely tied to the outcomes of the spring offensive, increased from 1.3% y/y in the January-March quarter to 1.7% y/y in the April-June quarter of 2023. However, this improvement was relatively modest compared to the base increase in the spring offensive of 2023, which increased significantly from around 0.5% to around 2% y/y. This is because the first payment of revised wages is not made in April, the beginning of the new fiscal year, but in May or, for many companies, even later.

Growth in scheduled cash earnings for general workers is likely to increase to the 2% level in the July-September quarter of 2023. In addition, scheduled cash earnings per hour for part-time workers is expected to continue to grow at a high rate, reflecting the growing perception of labor shortages among firms. However, the rising ratio of part-time workers will continue to contribute to the fall in average wages for workers as a whole.

Non-scheduled cash earnings are expected to continue to increase as the economy continues to normalize. Special cash earnings, on the other hand, grew at a high 4.6% y/y in 2022 (of which salaries paid as bonuses grew 2.4% y/y in summer 2022 and 3.2% y/y at the end of 2022). However, growth will slow down in 2023, reflecting the recent standstill in the improvement of corporate earnings. Total cash earnings, which include scheduled cash earnings plus non-scheduled cash earnings and special cash earnings, are expected to continue to grow at a rate of 2% from FY 2023 to FY 2024.

Real wage growth has been negative year-on-year since April 2022, primarily thanks to the accelerating pace of consumer price inflation. Although nominal wage growth will increase in the future, the decline in real wages is likely to continue for some time because the rate of consumer price inflation will remain high. Real wage growth is not expected to become positive until after 2024, when the rate of consumer price inflation is expected to slow down.

Nominal and real wages



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

Source: "Monthly Labor Survey(business establishment size of 5 or more)," Ministry of Health, Labor and Welfare.

[1] Since the survey was first conducted in 1965, the highest year-to-year difference of 12.8% (1973: 20.1% to 1974: 32.9%) was recorded in 1974, during the inflationary period of the first oil crisis.

The current forecast assumes that the spring wage hike rate in 2024 will be 3.40%, marking a slight deceleration in growth compared to 2023 but still remaining in the 3% range. Although corporate earnings growth will decline, especially in the manufacturing sector, due to sluggish exports, the high rate of consumer price inflation will help to raise the wage hike rate.

In FY 2022, nominal employment compensation increased for the second consecutive year at 2.0% y-o-y, but real employment compensation decreased at -1.7% y-o-y due to the accelerated pace of consumer price inflation. In FY2024, real employment compensation is expected to increase to 1.6% y-o-y as the pace of price inflation slows, while nominal employment compensation continues to grow at a high rate of 3.2% y-o-y.

2. Real GDP growth rate is projected to be 1.6% in FY 2023 and 1.4% in FY 2024

(Growth will continue to be supported by domestic demand)

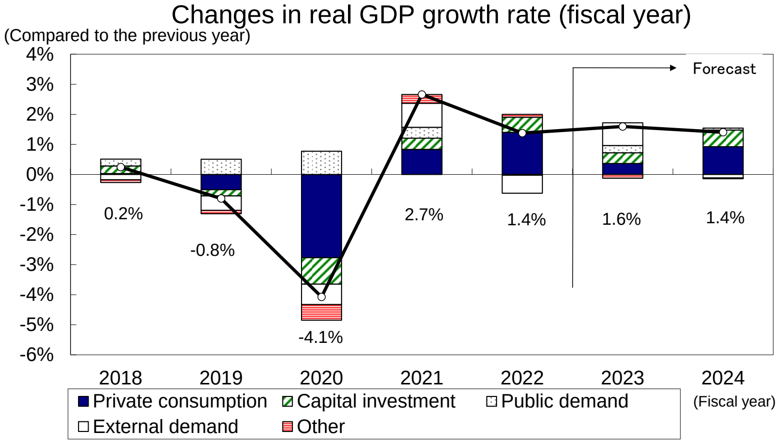
Although foreign demand played a pivotal role in propelling growth during the April-June quarter of 2023, the substantial increase in exports was primarily a response to the contraction witnessed in the January-March quarter. Looking ahead, exports of goods are likely to remain sluggish due to the slowdown in overseas economies, although exports of services will continue to increase from the July-September quarter, mainly as a result of inbound tourist demand. Exports are not expected to be the driving force of the economy in the near term. On the other hand, capital investment will continue to increase on the back of high levels of corporate earnings, while private consumption will recover, especially in face-to-face services, as socioeconomic activities normalize. Thus, the Japanese economy is expected to continue to grow, primarily as a consequence of domestic demand.

In the July-September quarter of 2023, real GDP is expected to decline for the first time in four quarters to -1.9% (annualized q-o-q). Imports will increase sharply in response to the decline in the April-June quarter (-4.3% from the previous quarter), whereas exports will remain low, and external demand will significantly depress the growth rate. Although domestic demand such as private consumption will remain resilient, negative growth will be unavoidable due to the large drop in external demand.

In the January-March quarter of 2024, when the U.S. economy is expected to experience slight negative growth, Japan's annual growth rate will be in the low zero-percent range, mainly due to a decline in exports. However, after the start of fiscal 2024, when the overseas economy is expected to rebound, the growth rate will increase mainly thanks to a recovery in exports.

Real GDP growth rate is projected to be 1.6% in FY 2023 and 1.4% in FY 2024. In FY 2024, while exports are expected to remain low, imports will outpace exports, reflecting the strength of domestic demand. This means that

Changes in real GDP growth rate (fiscal year)



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

external demand is expected to make a small negative contribution to the growth rate. On the other hand, domestic demand is expected to slow down in FY 2023, mainly due to sluggish private consumption growth on the back of lower real incomes. Meanwhile, in FY 2024, domestic demand growth is likely to accelerate again because consumption growth will increase on the back of higher real incomes and capital investment will remain firm.

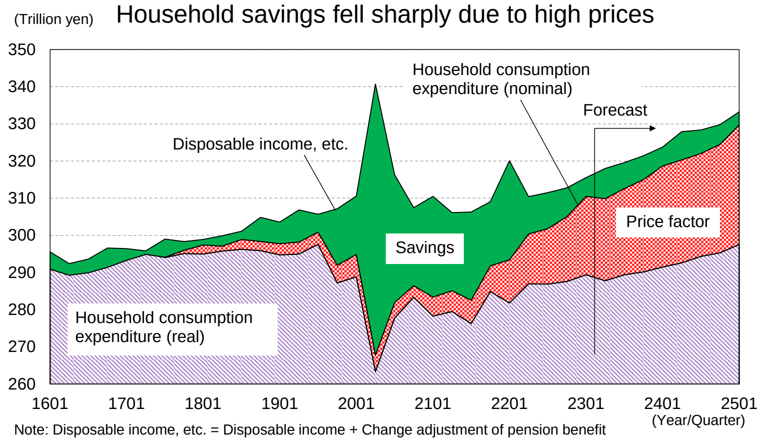
(Household savings rate approaches normal level)

Private consumption in the April-June quarter of 2023 declined for the first time in three quarters, falling by 0.5% from the previous quarter. This decline can be attributed to factors such as the decrease in real purchasing power due to inflation. Additionally, the household savings rate has converged toward a standard level, and the stimulus from the reduction in the savings rate seems to have reached its limit, resulting in sluggish consumption.

The household savings rate, which averaged 1.2% from 2015–2019 prior to the onset of the COVID-19 pandemic, jumped to 21.4% in the April-June quarter of 2020. This substantial increase was a result of two key factors: the pronounced reduction in consumption following the declaration of a state of emergency in April 2020, and a significant rise in disposable income owing to the provision of special fixed benefits.

The variance in household savings from the normal level (2015–2019 average) in the January-March quarter of 2023 can be broken down into income factors (disposable income, etc.), consumption factors (real household consumption expenditures), and price factors (household consumption deflator). The increase in disposable income by 16.6 trillion yen, due to various COVID-19 related support measures by the government, as well as an increase in employer compensation, is a factor boosting savings. In addition, a decline in the level of real household consumption expenditure boosted savings by 4.7 trillion yen. Having said this, the greatly accelerated pace of price inflation has reduced savings by -19.8 trillion yen. As a result, household savings, which increased to 72.9 trillion yen (seasonally adjusted, annualized) in the April-June quarter of 2020, have declined to near normal levels of 5.0 trillion yen in the January-March quarter of 2023 (up by 1.5 trillion yen from the 2015–2019 average).

Household savings fell sharply due to high prices



Note: Disposable income, etc. = Disposable income + Change adjustment of pension benefit

Source: "Quarterly Estimates of GDP," "Quarterly Estimates of Household Disposable Income and Household Saving Ratio (Reference series)," Cabinet Office.

Looking ahead, while inflation will continue to bring down the savings rate, rising disposable income growth due to higher wages will support consumption. In our current outlook, we assume that the household savings rate will decline to roughly the same level as that seen under normal circumstances by the end of FY2024.

Private consumption is forecast to grow 0.7% y/y in FY 2023 and 1.7% y/y in FY 2024. The continued decline in real incomes due to the persistently high rate of price inflation in FY 2023 will suppress consumption growth, while the increase in real incomes due to the decline in the rate of price inflation in FY 2024 will boost consumption growth. In FY2024, consumption growth is expected to receive a boost from a rise in real income, driven by a decrease in the rate of price inflation.

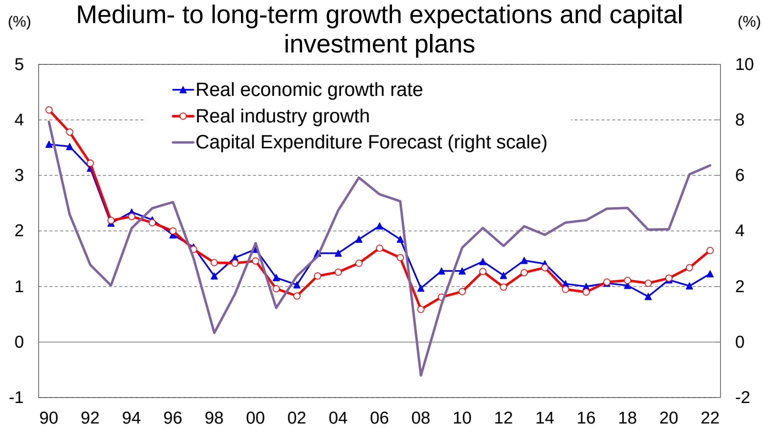
(Medium- to long-term growth expectations among corporations will gradually increase)

Capital investment is expected to remain stable, with a growth rate of 2.2% y/y in FY 2023 and 3.3% y/y in FY 2024.

A major influence on medium- to long-term capital investment trends is the expected growth rate of companies. One of the reasons why the expected growth rate has been sluggish for a long time can be attributed to the fact that many corporate managers have believed that a shrinking domestic market is inevitable under a declining population.

According to the Cabinet Office's " Survey on Business Behavior," the outlook for real economic growth for companies over the next three years remains low, at just 1.2% (surveyed in FY 2022). However, the outlook for real growth in industry demand, which had been lower than the outlook for real economic growth for 18 consecutive years since FY 1999, has exceeded the real economic growth rate since FY 2017, rising to 1.6% in FY 2022. In line with this, the outlook for capital investment also increased to 6.4% in FY 2022 (the annual average for the next three years and the highest level in approximately 30 years). The fact that industry demand growth expectations are improving is a positive factor in the outlook for capital investment.

Medium- to long-term growth expectations and capital investment plans

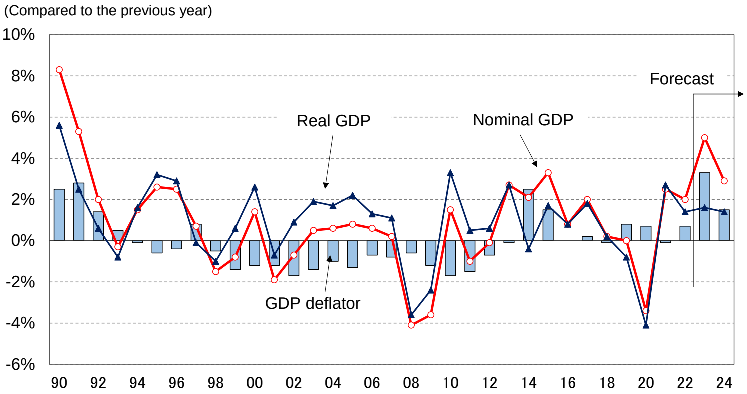


Note: Forecast for the next three years (average)
Source: "Survey on Corporate Behavior," Cabinet Office.

(Nominal GDP growth rate in FY 2023 set to be the highest it has been in 32 years)

The growth rate of nominal GDP continues to outpace that of real GDP. This divergence is driven by a pronounced rise in the GDP deflator, which is attributed to the escalation of the domestic demand deflator stemming from the propagation of higher import prices into domestic prices, the decline of import deflator, which is a deduction from GDP, mirroring the fall in oil prices. After increasing from 3.4% in the April-June quarter to 4.6% y/y in the July-September quarter, it is widely expected to peak out, but the GDP deflator in FY 2023 will be 3.3% y/y, a significant acceleration from the 0.7% y/y in FY 2022. As a result, nominal GDP growth rate in FY 2023 is expected to be 5.0%, the highest it has been in 32 years since FY 1991 (5.3%).[2]

Trends in nominal and real GDP growth rates



Note: Simplified retrospective series before 1994

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

(Outlook for consumer price inflation)

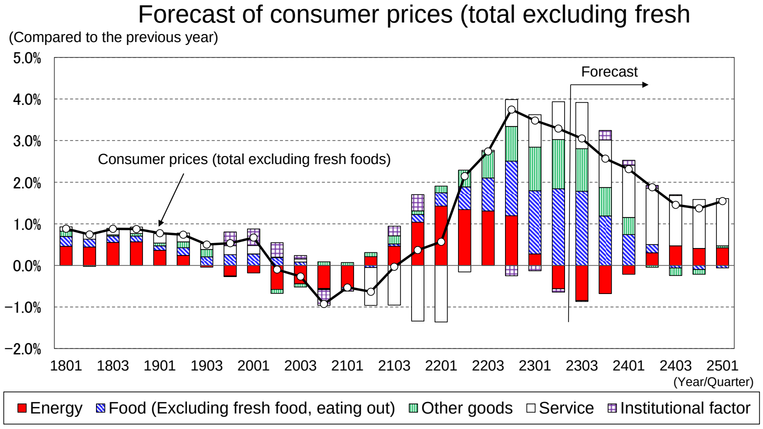
Consumer Prices (excluding fresh food, hereinafter core CPI) grew to 4.2% y/y in January 2023 (the highest growth in 41 years and 4 months since September 1981) and has remained in the low 3% range since February due to government measures to ease the burden of electricity and city gas bills. However, the core core CPI (excluding fresh food and energy) has increased to the upper 4% range, further increasing the underlying upward pressure on prices.

The rise in import prices, which previously stood as the main cause of inflation, has now come to a halt. In July 2023, import prices were significantly negative (-14.1% y/y). Therefore, the rate of increase in goods prices is expected to slow down in the future as the trend to pass on raw material costs to prices gradually weakens.

On the other hand, while service prices have increased to the mid-1% range, base increases, which are highly linked to service prices, were around 2% in 2023. The pace of increase is likely to accelerate further in the future as the trend to pass on increased labor costs to prices spreads. T Moreover, given the extended time period over which prices have remained static, the pace of future service price increases is likely to be very fast.

The core CPI growth rate will slow from the current 3% level to the upper 2% level after the fall of 2023, but it will not fall below the BOJ's price target of 2% until after the beginning of 2024. This shift will occur when the deceleration in the rate of goods price growth becomes

Forecast of consumer prices (total excluding fresh



Note: Factors influencing the system include consumption tax, free education, Go To travelcampaign, and nationwide travel support.

Source: "Consumer Price Index," Statistics Bureau, Ministry of Internal Affairs and Communications.

[2] Based on simplified retrospective series of GDP statistics.

evident, owing to the diffusion of the impact from declining import prices, coinciding with the continual decrease in energy prices.

In regard to goods and services, most of the price increases in FY 2022 were caused by rises in goods, primarily energy and food (excluding fresh food and eating out). However, from FY 2023 to FY 2024, the focus of price increases will gradually shift from goods to services.

Core CPI is projected to be 2.8% y/y in FY 2023 and 1.6% y/y in FY 2024, after 3.0% y/y in FY 2022, and core core CPI is projected to be 3.7% y/y in FY 2023 and 1.3% y/y in FY 2024, after 2.2% y/y in FY 2022.

Outlook for the Japanese economy

(Units,%)

	FY 2021 Actual	FY 2022 Actual	FY 2023 Forecast	FY 2024 Forecast	22/4-6 Actual	22/7-9 Actual	22/10-12 Actual	23/1-3 Actual	23/4-6 Actual	23/7-9 Forecast	23/10-12 Forecast	24/1-3 Forecast	24/4-6 Forecast	24/7-9 Forecast	24/10-12 Forecast	25/1-3 Forecast	Previous forecast(2023.6) FY 2023 Forecast	Previous forecast(2023.6) FY 2024 Forecast
Real GDP	2.7	1.4	1.6	1.4	1.3	- 0.3	0.0	0.9	1.5	- 0.5	0.3	0.1	0.4	0.6	0.5	0.6	1.0	1.6
					5.1	- 1.2	0.2	3.7	6.0	- 1.9	1.0	0.5	1.8	2.3	2.1	2.4		
					1.7	1.5	0.4	2.0	2.0	1.5	1.7	1.2	0.3	1.4	1.6	2.2		
Contribution to domestic demand	(1.9)	(1.9)	(0.8)	(1.5)	(1.1)	(0.3)	(- 0.3)	(1.2)	(- 0.3)	(0.1)	(0.3)	(0.4)	(0.4)	(0.5)	(0.4)	(0.5)	(1.4)	(1.6)
Private demand	(1.5)	(1.9)	(0.6)	(1.5)	(1.0)	(0.3)	(- 0.4)	(1.1)	(- 0.4)	(0.1)	(0.3)	(0.3)	(0.4)	(0.5)	(0.4)	(0.5)	(1.1)	(1.5)
Public demand	(0.4)	(- 0.0)	(0.2)	(0.1)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(- 0.0)	(0.0)	(0.0)	(0.2)	(0.1)
Contribution to external demand	(0.8)	(- 0.6)	(0.8)	(- 0.1)	(0.1)	(- 0.6)	(0.3)	(- 0.3)	(1.8)	(- 0.6)	(- 0.0)	(- 0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(- 0.4)	(0.0)
Private final consumption expenditure	1.5	2.5	0.7	1.7	1.8	- 0.0	0.2	0.6	- 0.5	0.5	0.4	0.3	0.5	0.4	0.5	0.6	1.7	1.8
Private residential investment	- 0.6	- 3.0	2.0	- 0.1	- 1.8	- 0.1	0.9	0.7	1.9	- 1.1	- 0.1	0.3	- 0.3	0.4	- 0.2	0.4	0.3	0.4
Private nonresidential investment	2.3	3.1	2.2	3.3	1.7	1.7	- 0.7	1.8	0.0	0.5	0.3	0.7	0.9	1.1	0.8	1.1	2.5	3.2
Government final consumption expenditure	3.4	0.7	0.2	0.1	0.4	- 0.0	0.2	0.1	0.1	- 0.0	- 0.1	0.0	- 0.0	0.1	0.1	0.0	0.4	0.3
Public investment	- 6.5	- 3.1	3.5	0.9	0.1	1.1	0.3	1.7	1.2	0.3	0.3	0.6	0.2	- 0.4	0.3	0.8	2.3	0.7
Exports of goods & services	12.4	4.5	1.8	1.7	1.9	2.4	1.5	- 3.8	3.2	0.3	0.2	- 0.6	0.6	1.0	0.9	0.8	- 1.2	1.8
Import of goods & services	7.1	7.2	- 1.9	2.3	1.1	5.5	- 0.1	- 2.3	- 4.3	3.7	0.3	0.6	0.2	0.4	0.4	0.5	0.7	1.7
Nominal GDP	2.5	2.0	5.0	2.9	1.0	- 0.8	1.2	2.3	2.9	- 0.4	0.4	0.2	1.6	0.8	0.7	0.5	4.1	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 2021	FY 2022	FY 2023	FY 2024	22/4-6	22/7-9	22/10-12	23/1-3	23/4-6	23/7-9	23/10-12	24/1-3	24/4-6	24/7-9	24/10-12	25/1-3	FY 2023	FY 2024
Industrial production (QoQ)	5.5	- 0.3	0.3	1.8	- 1.4	3.1	- 1.7	- 1.8	1.4	0.4	0.2	0.1	0.5	0.7	0.7	0.9	0.0	2.6
Domestic Corporate Goods Prices (YoY)	7.1	9.4	2.3	0.3	9.7	9.6	10.0	8.4	5.2	3.1	0.5	0.4	0.5	0.6	0.3	- 0.2	2.0	0.2
Consumer Prices (YoY)	0.1	3.2	2.8	1.6	2.4	2.9	3.9	3.6	3.3	3.1	2.6	2.2	1.9	1.5	1.4	1.5	2.8	1.3
Consumer Prices (excluding fresh food)	0.1	3.0	2.8	1.6	2.1	2.7	3.7	3.5	3.3	3.1	2.6	2.3	1.9	1.5	1.4	1.5	2.7	1.3
Current account balance (¥trillion)	20.2	9.4	19.7	17.9	12.8	4.1	9.9	11.0	23.8	19.5	19.1	16.4	18.7	18.3	18.8	15.7	10.2	8.1
(Ratio to nominal GDP)	(3.7)	(1.7)	(3.3)	(2.9)	(2.3)	(0.7)	(1.8)	(1.9)	(4.0)	(3.3)	(3.2)	(2.8)	(3.1)	(3.0)	(3.1)	(2.6)	(1.8)	(1.4)
Unemployment rate (%)	2.8	2.6	2.5	2.3	2.6	2.6	2.5	2.6	2.6	2.5	2.5	2.5	2.4	2.4	2.3	2.3	2.5	2.4
Housing starts (10 thousand)	86.6	86.1	83.0	83.7	85.3	86.3	85.1	87.6	81.5	82.9	83.6	83.8	83.5	83.8	83.5	83.8	86.2	86.5
10-year government bond rate (over-the-counter quotation)	0.1	0.3	0.6	0.7	0.2	0.2	0.3	0.4	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6
USD/JPY	112	135	140	132	130	138	141	132	137	143	141	137	135	133	131	130	133.0	124.5
Crude oil price (CIF, Dollar/Barrel)	77	102	89	95	109	112	101	87	83	85	91	94	94	95	95	95	87.5	93.0
Ordinary profit (YoY)	36.8	8.8	3.6	8.4	17.6	18.3	- 2.8	4.3	0.1	5.6	6.6	3.2	6.7	8.4	9.6	9.1	5.7	8.7

Note: 10-year government bond rate, Foreign exchange rates and Crude oil prices are average data of the period. Oridinary profit of 23/4-6 is forecast.
Sources: "Quarterly Estimates of GDP," Economic and Social Research Institute, Cabinet Office; "Indices of Industrial Production," Ministry of Economy, Trade and Industry; "Consumer Price Index," Ministry of Internal Affairs and Communications; "Financial Statements Statistics of Corporations by Industry, Quarterly," Ministry of Finance and others.

Outlook for the U.S. economy

		2021	2022	2023	2024	2022				2023				2024			
						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,% QoQ	5.9	2.1	2.1	0.9	- 1.6	- 0.6	3.2	2.6	2.0	2.4	2.0	0.3	- 0.4	1.2	1.7	1.6
FF rate target	End of period, Upper,%	0.25	4.50	5.75	4.75	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.75	5.75	5.75	5.25	4.75
10-year government bond rate	Average,%	1.4	3.0	3.8	3.5	2.0	2.9	3.2	3.9	3.6	3.7	3.9	3.8	3.6	3.5	3.4	3.3

Outlook for the European (Euro area) economy

		2021	2022	2023	2024	2022				2023				2024			
						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,% QoQ	5.5	3.4	0.6	1.1	2.6	3.2	1.5	- 0.2	0.1	1.1	0.8	0.7	0.8	1.7	1.6	1.5
ECB Refinancing rate	End of period,%	0.00	2.50	4.50	3.50	0.00	0.00	1.25	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.00	3.50
10-year German govt. bond rate	Average,%	- 0.4	1.1	2.4	2.3	0.1	1.1	1.3	2.1	2.3	2.4	2.5	2.6	2.6	2.4	2.2	2.0
EUR/USD	Average, Dollars	1.18	1.05	1.09	1.12	1.12	1.06	1.01	1.02	1.07	1.09	1.10	1.11	1.12	1.12	1.12	1.13