

# Monthly Report of Prospects for Japan's Economy

## February 2009

Macro Economic Research Centre  
Economics Department



The Japan Research Institute, Limited

<http://www.jri.co.jp/thinktank/research/>

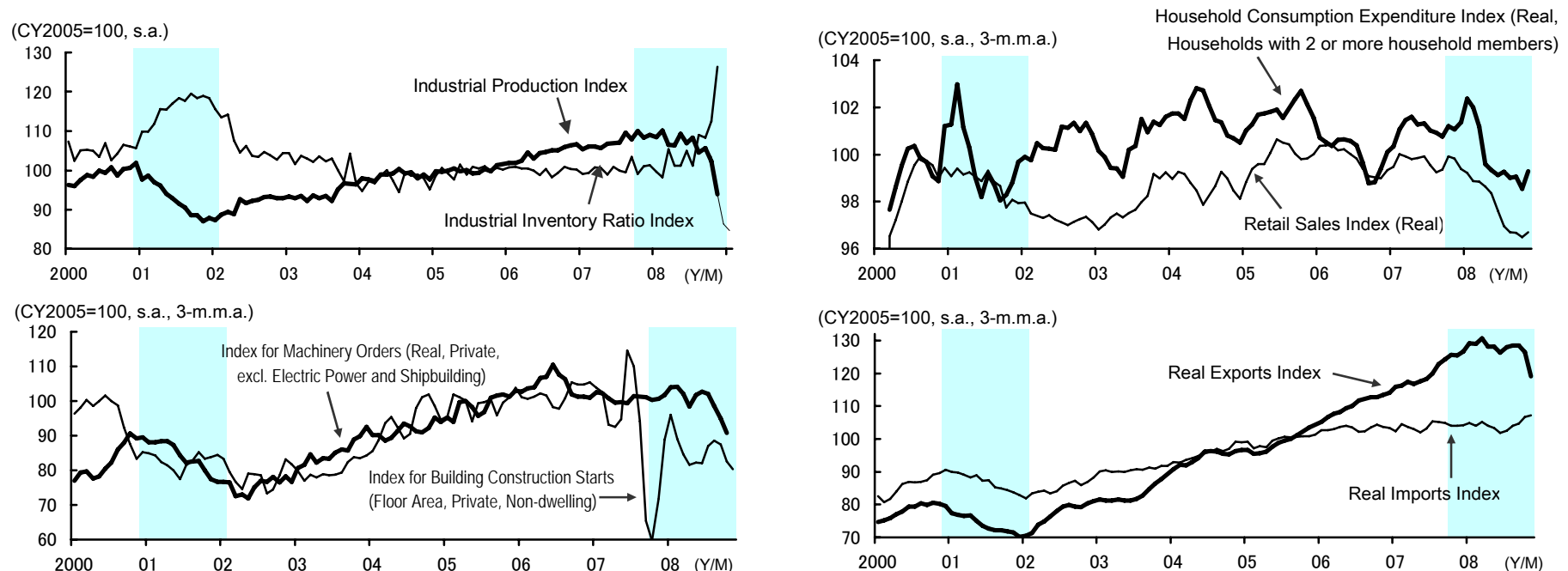
This report is the English version of the January 2009 issue of the original Japanese version.

## Current situation of Japan's economy – On downward trend both in corporate and household sector

Japan's economy has recently been deteriorating rapidly. In the corporate sector, a declining trend of exports has been obvious in all regions of destination as exports to emerging and resource-rich countries begin to decrease, in addition to a further decline in shipments to the US and European countries. Machinery orders excluding electric power and shipbuilding have also been dropping significantly since August 2008. Reflecting these unfavourable moves, industrial production in the final quarter last year is estimated to see a record rate of decrease.

The household sector also continues to be in a sluggish situation. Private consumption is on a stagnating trend as employment and income environments have been worsening fast. The diffusion index for current conditions in the Economy Watchers Survey by the Cabinet Office also continues to stay in considerably negative territory.

Figure 1 Main Indicators for Japan's Economy



Source: The Ministry of Economy, Trade and Industry, The Ministry of Internal Affairs and Communications, The Cabinet Office, The Ministry of Land, Infrastructure and Transport, The Bank of Japan.

Note 1: Indices of industrial production and industrial inventory ratio are seasonally adjusted on a monthly basis. Others are calculated as seasonally adjusted and 3-month moving averages.

Note 2: The industrial production index in December 2008 and January 2009 is based on METI forecasts. Note 3: Shaded areas indicate periods of recession according to the Cabinet Office.

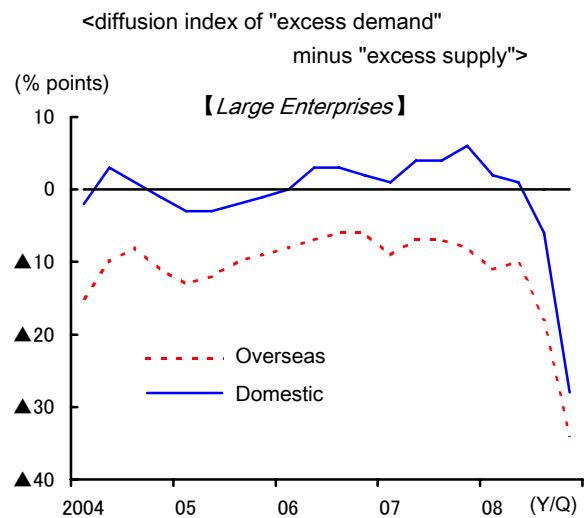
## Business conditions in Tankan – Deteriorated significantly, especially in manufacturing

The Tankan December 2008 survey clearly indicates that the business activity in Japan has been cooling down rapidly.

The diffusion index (DI) for business conditions (shown as "favourable" minus "unfavourable") deteriorated sharply, reflecting a decline in demand at home and abroad. Especially, the DI in the processing industries worsened markedly against the background of a considerable fall in overseas demand. The DI in the motor vehicle industry showed the lowest among those. A further deterioration in business conditions was predicted in the forecast DI, especially in the iron and steel, industrial machinery and motor vehicle industries. In addition, the DI in private consumption-related industries such as retailing and services for individuals declined rapidly, reflecting sluggish domestic demand.

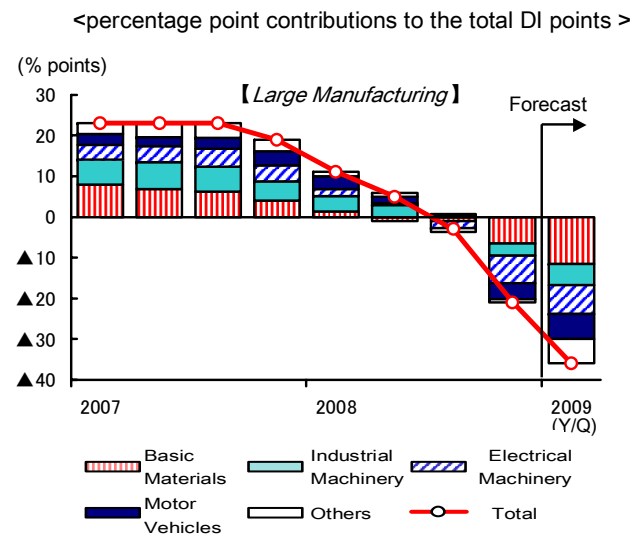
On the other hand, the survey result showed that the output / input price ratio in enterprises had improved slightly due to a fall in input prices. As a result, an improvement was predicted in the forecast DI in the industries such as food and electric and gas utilities. Also, the extent of deterioration in the DI for business conditions was lesser in small and medium-sized enterprises than in large enterprises. The measures taken by the Japanese government to support financing of small and medium-sized enterprises which had begun at the end of last October might have contributed to this result.

Figure 2-1 Diffusion Index for Supply and Demand Conditions for Products and Services



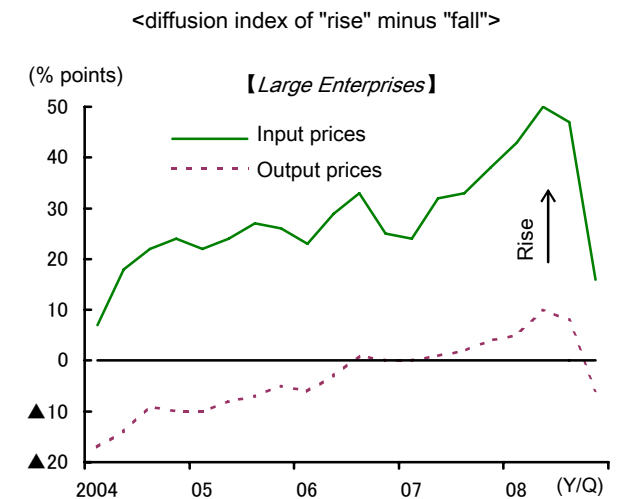
Source: The Bank of Japan, "Tankan Surveys".

Figure 2-2 Contributions to Business Conditions Diffusion Index by Industry



Source: The Japan Research Institute, Ltd. based on the data of The Bank of Japan, "The Tankan December 2008 Survey".

Figure 2-3 Diffusion Index for Change in Input and Output Prices



Source: The Bank of Japan, "Tankan Surveys".

## Production in manufacturing – Has been declining sharply; further downside risk remains

The industrial production index declined by a record 8.1 per cent last November over the previous month, mainly due to a sharp decrease in exports. Further, the production forecast indices for last December and this January indicated a month-on-month drop of 8.0 per cent and of 2.1 per cent, respectively. This forecast appears to predict that a trend of considerable decline could not be checked for the time being. Taking these forecast indices into consideration, industrial production in January is estimated to be at an around 20 per cent lower level than that of the month a year earlier. Especially the fall in the motor vehicle industry is significant.

Moreover, the amendment ratio in the forecast indices tends to be widening downwards and the trend has been intensifying recently. Therefore, it is probable that actual manufacturing production could be revised downwards further from the forecast. Accordingly, it is estimated that there will be significant risk that industrial production could see a considerable year-on-year decline in the October-December period last year and the January-March quarter this year.

Figure 3-1 Industrial Production Index  
<seasonally adjusted>

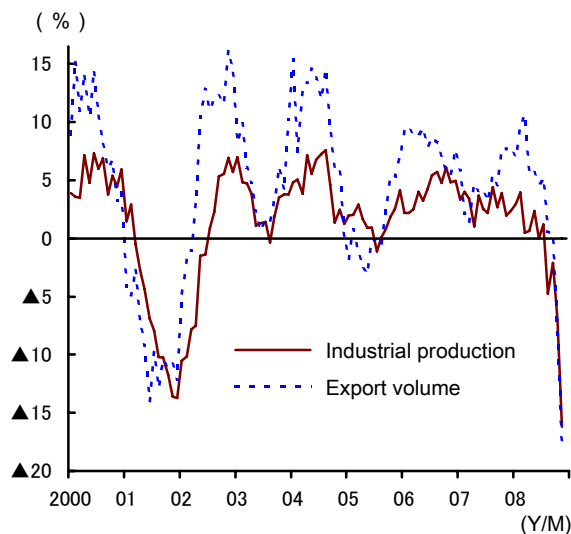


Source: The Ministry of Economy, Trade and Industry.

Note 1: The dotted line indicates the production forecast for December 2008 and January 2009.

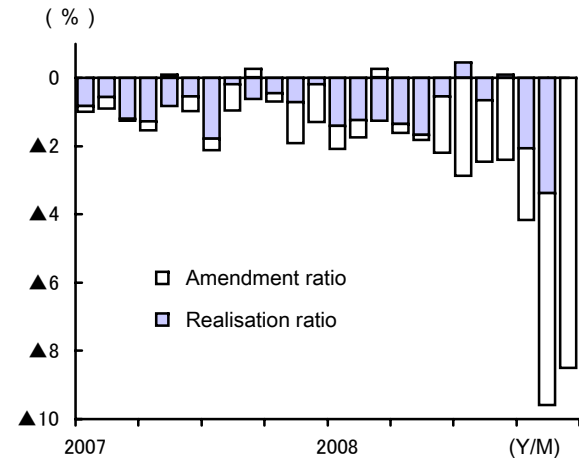
2: The short horizontal line indicates the average in each quarter and the figure shows the quarter-on-quarter % change.

Figure 3-2 Industrial Production Index  
and Export Volume  
<year-on-year % change>



Source: The Ministry of Economy, Trade and Industry,  
The Ministry of Finance.

Figure 3-3 Revision Ratios in Production  
Forecast Indices



Source: The Ministry of Economy, Trade and Industry.

Note : Realisation ratio = Actual figure of the previous month  
in the current survey / Estimate of the previous month  
in the previous survey × 100 - 100

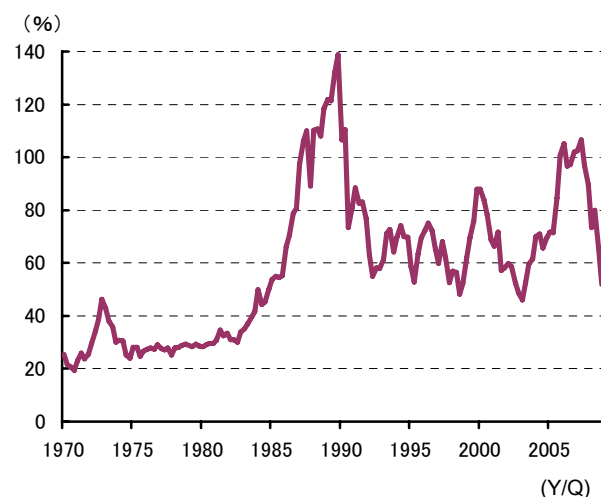
Amendment ratio = Estimate of the current month  
in the current survey / Estimate of the current month  
in the previous survey × 100 - 100

## Falling stock prices - Materialising negative effects on households and enterprises

The fall in stock prices has been accelerating since the latter half of September last year. The ratio of the total market value of the Tokyo Stock Exchange to nominal Gross Domestic Income (GDI) has declined to the lowest level in the past twenty years. It is expected that stock prices will continue softening for the time being, due to an economic downturn at home and abroad and continued uncertainties surrounding the financial markets. The falling stock prices are likely to have adverse effects on the economy through the following three routes:

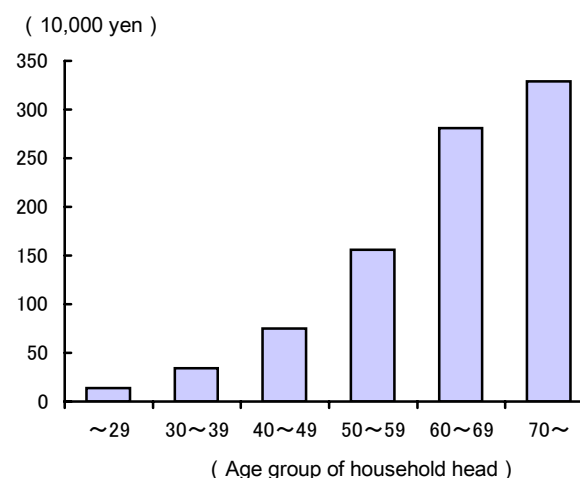
- (i) Sentiment. Deteriorating household and business sentiment, due to intensifying uncertainties as to future economic activity.
- (ii) Households. Intensified negative wealth effect on private consumption expenditure, especially in the households in higher income brackets and/or those with elderly persons as their household heads, which hold relatively large amounts of stock.
- (iii) Enterprises. Worsened corporate profits, reflecting appraisal losses due to the fall of the prices of the stocks held. The deteriorating corporate profits could weigh heavily on business fixed investment and compensation of employees.

Figure 4-1 Ratio of Total Market Value of Tokyo Stock Exchange to Nominal Gross Domestic Income (GDI)



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Tokyo Stock Exchange.  
Note: The figure in Q4 in 2008 is for October and November 2008.

Figure 4-2 Amounts of Stock Held per Household by Age Group of Household Head (all households, including unit trust)



Source: The Cabinet Office, "Annual report of the family income and expenditure survey 2007".

Figure 4-3 Estimated Influence of Change in Stock Prices and the Exchange Rate on Real GDP Growth Rate of Japan (the one year period from October 2008)

		The J. Yen / US Dollar Exchange Rate				
		110	105	100	95	90
The Nikkei 225 Stock Average	14,000	0.1	-0.1	-0.2	-0.4	-0.5
	13,000	-0.0	-0.2	-0.3	-0.5	-0.6
	12,000	-0.1	-0.3	-0.4	-0.5	-0.7
	11,000	-0.2	-0.3	-0.5	-0.6	-0.8
	10,000	-0.3	-0.4	-0.6	-0.7	-0.9
	9,000	-0.4	-0.5	-0.7	-0.8	-1.0
	8,000	-0.5	-0.6	-0.8	-0.9	-1.1
	7,000	-0.6	-0.7	-0.9	-1.0	-1.1

Source: The Japan Research Institute, Ltd. based on the Nikkei NEEDS macro economic models.

Note: Comparison between real GDP growth rate during one year to September 2008 and that to September 2009. Each set of the levels of the Nikkei 225 and the exchange rate is assumed to be kept constant during one year to September 2009.

## The Yen appreciation - To cause exchange net losses and weigh on real net exports

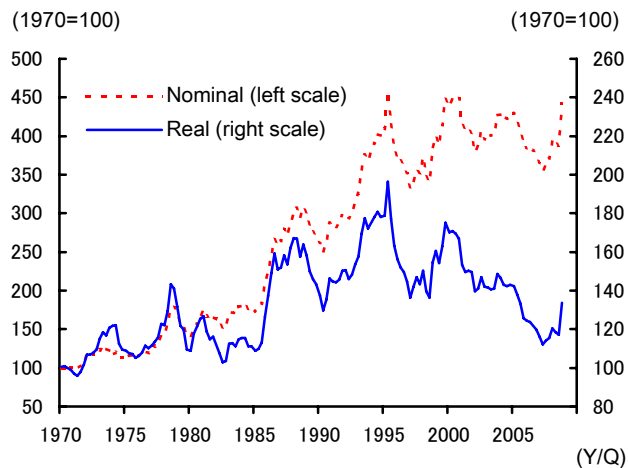
The Japanese yen has appreciated considerably since last summer against other currencies. During that period, it has risen against virtually all major trading currencies. As a result, the real effective rate of the yen has appreciated rapidly. As for the prospects, while the across-the-board appreciation of the yen would be settling for the time being, the yen is expected to continue a mild appreciation trend against the US dollar. Accordingly, the real effective rate of the yen would be at an around 20 % higher level than that of last summer.

The yen appreciation could have adverse influences on the economy through the following two routes:

(i) Export and import prices. The estimates of exchange losses and gains show that while the trade denominated in US dollars would bring about exchange gains, the trade denominated in other currencies would cause exchange losses, which lead to net losses in total currencies. This could erode corporate profits in the second half of FY2008 to March this year.

(ii) Export and import volume. A decrease in export volume and an increase in import volume could weigh on domestic production. The estimate shows that there would be an around one year time lag between the start of the yen appreciation and the time of the materialising of its negative influences on the economy. Therefore, the negative influences through this route could intensify from the middle of this year onwards.

Figure 5-1 Nominal and Real Effective Exchange Rate of Japanese Yen



Source: The Bank of Japan.

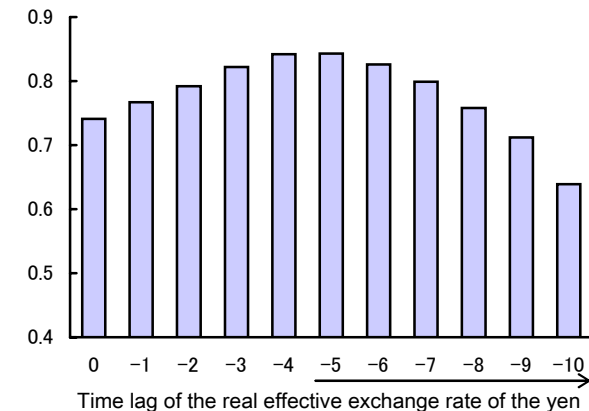
Note: The figure in Q4 in 2008 is for October and November 2008.

Figure 5-2 Estimates of Exchange Losses and Gains (the average rate in July 2008 → the rate at the end of November 2008, annualised amount)

Denominated in	Net exports (100 million yen)		
		Exports	Imports
Total currencies	- 777	- 70,808	70,031
US dollars	16,830	- 43,141	59,971
Euros	- 12,277	- 19,495	7,218
Sterling pounds	- 1,394	- 2,104	709
Other currencies	- 3,936	- 6,068	2,132

Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.

Figure 5-3 Time-lag Correlation Coefficient between Net Exports on an SNA basis and Real Effective Exchange Rate of the Yen



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office and The Bank of Japan.

## Exports - A declining trend could be prolonged

It is expected that a declining trend of exports will be more noticeable, against the background of a deceleration of overseas economies.

Viewed by region:

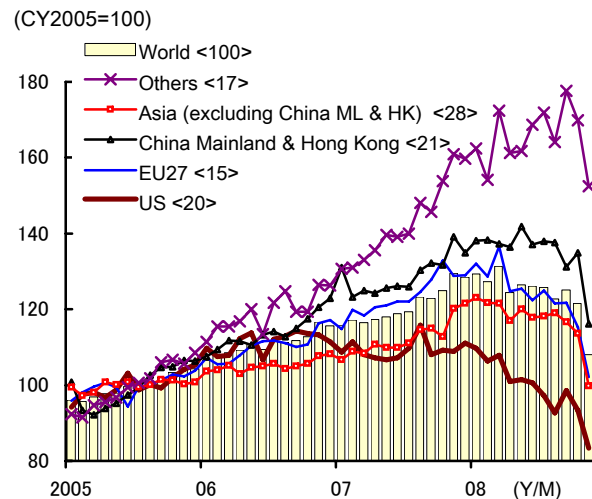
(i) To the US and European countries. A continued decline, reflecting the considerable downturn of their economic activity. Viewed by industry, in addition to a continued decline in exports of motor vehicles, shipments of industrial machinery could also be falling.

(ii) To resource-rich countries. A significant fall mainly in exports to Middle Eastern countries and Russia. The national income of resource-rich countries has been decreasing considerably due to the fall of resource prices.

(iii) To China. A declining trend had become obvious, mainly in exports of producer goods and capital goods. This is reflecting the deteriorating economic situation in the US and European countries.

Moreover, it is expected that negative influences of the yen appreciation would be materialising during this year. As a result, it is likely that the sluggish situation of Japan's exports could be prolonged. A declining trend is projected to continue at least until the end of FY2009.

Figure 6-1 Japan's Real Exports by Region  
<seasonally adjusted>

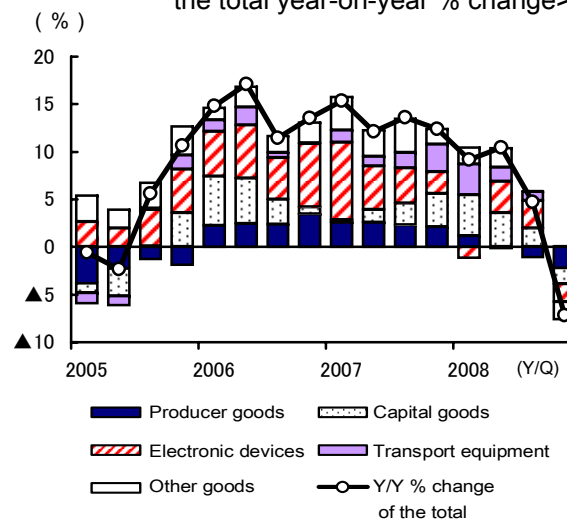


Source: The Ministry of Finance, The Bank of Japan.

Note 1: The figures in angle brackets in the legend indicate the share of each region in total nominal exports of Japan in FY2007.

2: Others: Middle Eastern countries, South American countries, Russia and so on.

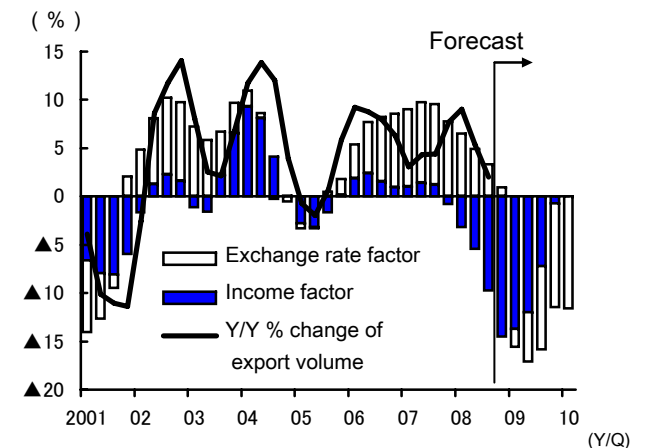
Figure 6-2 Japan's Real Exports to China  
by Commodity <contribution to  
the total year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan.

Note: The figure in Q4 2008 is for October - November 2008.

Figure 6-3 Estimate of Export Volume Function  
<on a year-on-year % change basis>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The OECD, and so on.

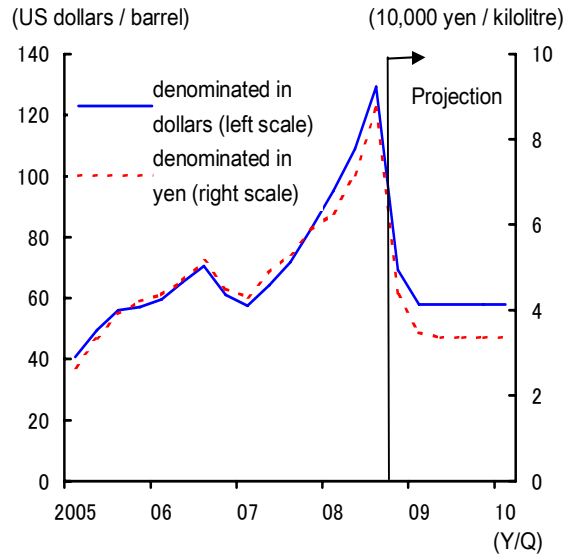
Note: The exchange rate factor; the real effective exchange rate of the yen, the income factor; the OECD economic indicator. The assumptions of forecast are by JRI projections

# The impact of decline of resource prices - Increased income inflow from overseas

It is expected that resource prices would stay at a low level for the time being, as the world economy will decelerate considerably. Accordingly, the income shift from Japan to resource-rich countries peaked in the July-September period last year. As import prices have been falling sharply, the income inflow from overseas to Japan is projected to increase rapidly from the last October-December period onwards. The total amount of income inflow is estimated to be ten trillion yen during CY2009 to December 2009 or eight trillion yen during FY2009 to March 2010.

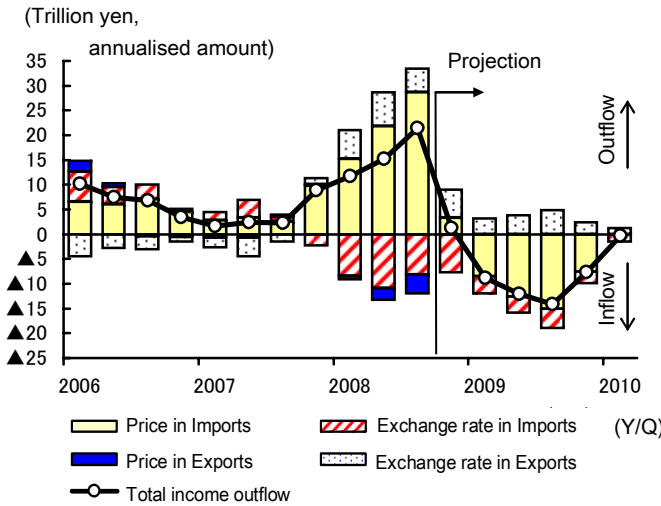
As a result, it is projected that real GDI (Gross Domestic Income), which includes an income increase or decrease due to the change of terms of trade (trade gains and losses), will increase visibly. Also, the surplus in goods and services in the balance of payments, which had been on a decreasing trend, is expected to expand.

Figure 7-1 Import Price of Crude Oil  
<on an arrival CIF basis>



Source: The Ministry of Finance.

Figure 7-2 Contribution of Each Factor of Price and Exchange Rate Changes to Total Income Shift to Overseas  
<year-on-year change amount on an annualised basis>

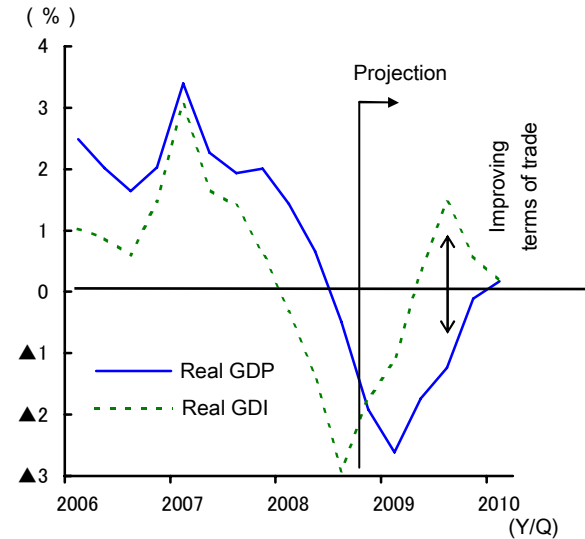


Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan.

Note 1: Prices are on a contract currency basis.

2: Plus figures indicate income outflow to overseas, and minus figures indicate income inflow from overseas.

Figure 7-3 Real GDP and Real GDI  
<year-on-year % change>



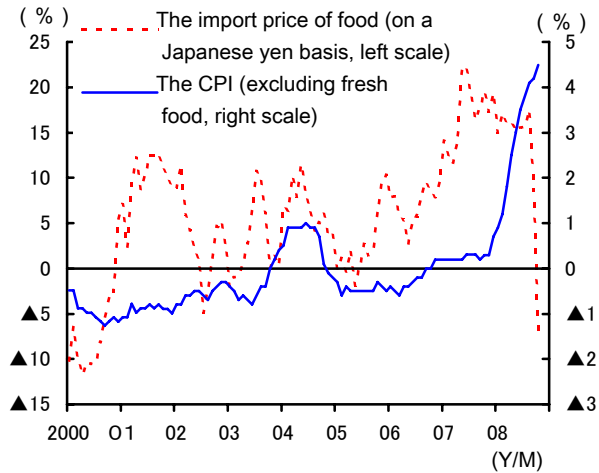
Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office.

# The rate of increase in the CPI - To turn negative again; looming deflationary pressure

It is expected that moves to lower prices will spread among goods and services covered by the Consumer Price Index (CPI), due to re-emerging price competition and a fall of resource prices, amid the sluggish income situation. The core CPI (the CPI excluding fresh food) will decelerate rapidly in the second half of FY2008 mainly due to the sharp fall in the price of petrol, although food prices would stay at a high level. Then, the index is projected to turn negative and decline further sharply after the start of FY2009, against the background of a widening of the supply-demand gap, exhibiting looming deflationary pressure.

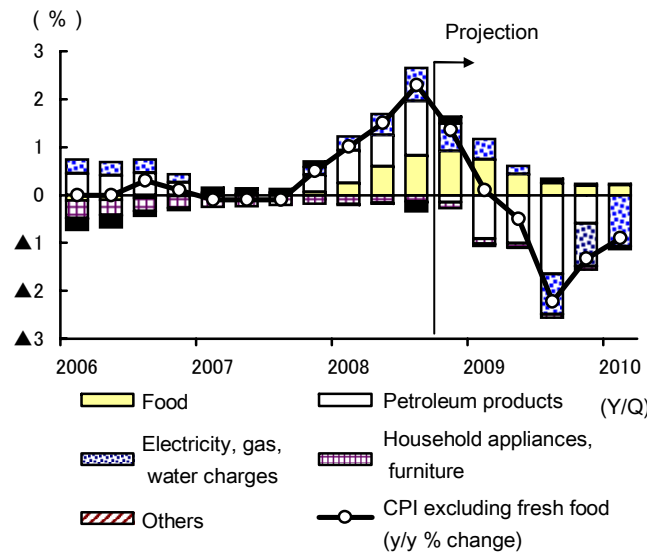
As for an improvement in income flow, at first, the increased income inflow from overseas to Japan due to the fall in resource prices would be a contribution to corporate profits rather than to a fall in consumer prices. Then, it would be a financially contributing factor to households after the start of FY2009. Almost all of the increased income inflow is projected to be the funds to compensate for a reduction in sales prices during the second half of FY2009.

Figure 8-1 Import Price of Food and the CPI excluding Fresh Food <year-on-year % change>



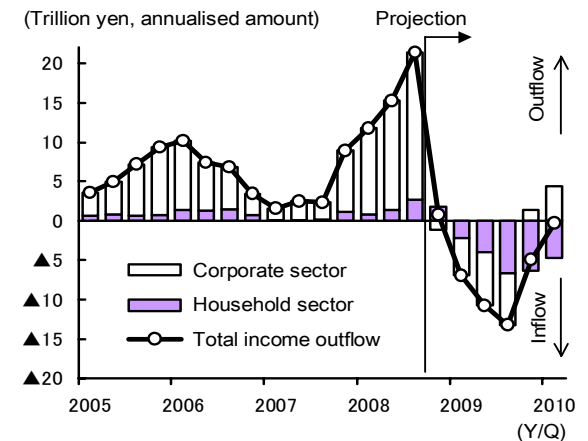
Source: The Bank of Japan, The Ministry of Internal Affairs and Communications.

Figure 8-2 Change in Consumer Price Index on CY2005-base <year-on-year, excluding fresh food>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Figure 8-3 Contribution of the Financial Burden or Benefit of Each Sector to Total Income Shift <year-on-year change amount on an annualised basis>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Bank of Japan, The Cabinet Office.

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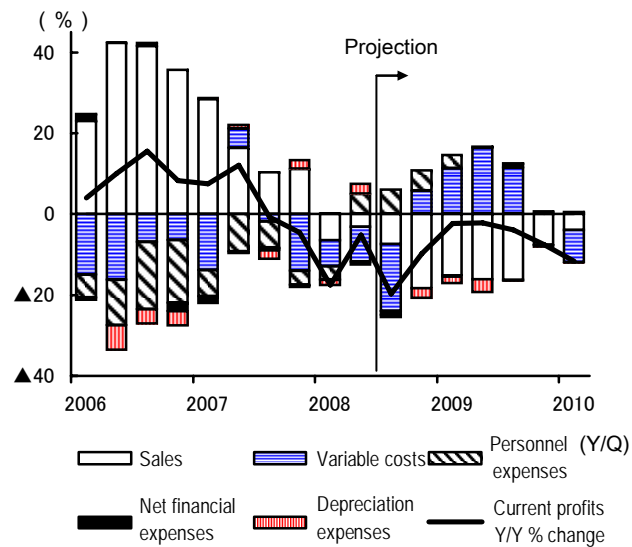
## Continued considerable decline of corporate profits and business fixed investment

It is projected that corporate profits would continue to see a double-digit fall in their change rate on a year earlier. Although an improvement in the output / input price ratio due to the fall in resource prices is expected to contribute to bolstering profits, downward pressure on profits from a decline in sales amount could intensify and outpace the improvement.

The year-on-year minus in the change in business fixed investment is estimated to expand at the moment due to the following: (i) the negative influences of high resource prices would still remain because of a time lag. (ii) The attitude of enterprises to business fixed investment will be more cautious, reflecting a lowering of capacity utilisation and a worsening of business sentiment. Especially, investment in manufacturing would decline considerably.

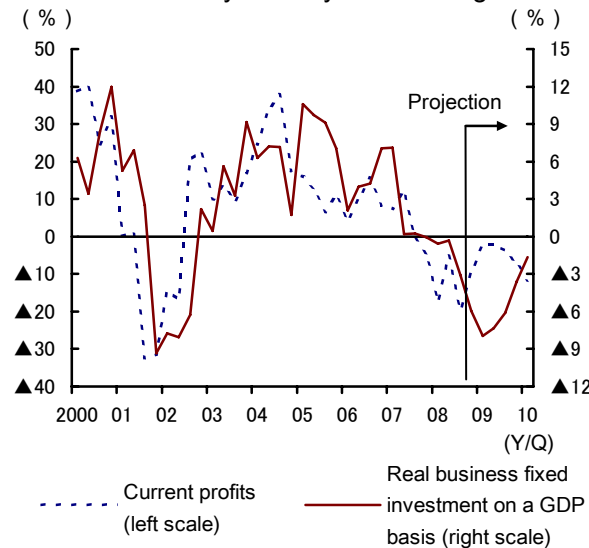
However, it is likely that the adjustment pressure on the corporate sector this time would not be as intensified as in past recessionary phases. This is because the impact of a decline in sales amount on profits has been smaller, reflecting an already strengthened corporate financial situation and improved profitability.

Figure 9-1 Contribution of Sales and Expenses to Year-on-year % Change of Current Profits



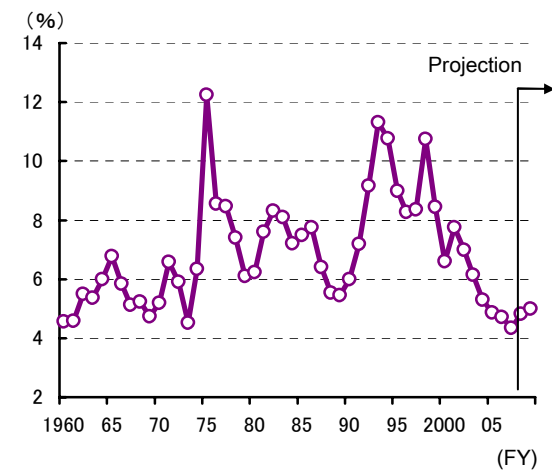
Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, "Financial Statements Statistics of Corporations by Industry: Quarterly".

Figure 9-2 Current Profits and Real Business Fixed Investment <year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Cabinet Office.

Figure 9-3 The Rate of Decrease in Current Profits Corresponding to a 1% Decrease in Sales Amount



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance.

## Declining exports, the yen appreciation - To weigh on the processing industries

An estimate of the influences of declining exports, the yen appreciation and the fall of the price of crude oil shows visibly the difference of the degree of impact between industries.

The processing industries, which feel a significant influence of a fall in exports and the yen appreciation, are estimated to be most adversely affected. Among nonmanufacturing, the wholesale trade and financial services industries, which have a high degree of export or overseas dependence, are estimated to have a downswing in their profits.

On the other hand, the material industries in manufacturing and nonmanufacturing other than the above mentioned industries are projected to have a positive net influence. This is because these industries are able to enjoy to an appreciable degree the benefits of exchange gains in imports and the fall in the price of crude oil.

Figure 10 The Estimated Impact of Declining Exports, the Yen Appreciation and the Fall of the Price of Crude Oil (during CY2009)

( % points )

		Impact of each factor on ratio of profits to sales			
			Decrease in exports	Appreciation of the yen	Fall in the price of crude oil
Manufacturing	Food	3.5	- 0.1	2.4	1.1
	Textiles	14.1	- 0.5	13.0	1.6
	Paper products, pulp	2.2	- 0.7	0.6	2.3
	Chemical products	4.1	- 2.1	0.2	6.1
	Petroleum and coal products	22.7	- 0.8	2.0	21.6
	Ceramic, stone and clay	- 0.2	- 2.4	0.0	2.1
	Steel and steel products	- 2.2	- 3.0	- 1.0	1.8
	Nonferrous metals and products	4.6	- 1.4	3.7	2.3
	Miscellaneous metal products	- 0.3	- 1.8	0.3	1.1
	General machinery	- 4.3	- 2.9	- 2.3	0.9
	Electrical and electric machinery	- 3.2	- 1.9	- 2.5	1.2
	Information and communication equipment	1.2	- 0.6	0.9	0.9
	Electronic parts and devices	- 3.1	- 3.0	- 1.1	1.1
	Transportation equipment	- 4.7	- 2.6	- 3.1	1.0
	Precision machinery	- 0.0	- 2.7	1.9	0.8
	Other manufactured products	6.7	- 1.4	6.6	1.4
	Nonmanufacturing	Agriculture and fishing	4.2	- 0.1	2.9
Construction		1.1	- 0.1	0.0	1.3
Electricity and gas		7.1	- 1.1	- 0.0	8.2
City water supply		0.6	- 0.7	- 0.0	1.3
Wholesale and retail trade		- 1.3	- 1.2	- 0.8	0.7
Financial services and insurance		- 0.7	- 1.0	0.1	0.3
Transport		1.1	- 1.2	- 0.5	2.7
Communication and broadcasting		- 0.2	- 0.7	0.0	0.5
Public service		0.3	- 0.8	0.4	0.7

Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications, The Ministry of Finance, The Ministry of Economy, Trade and Industry, The Bank of Japan.

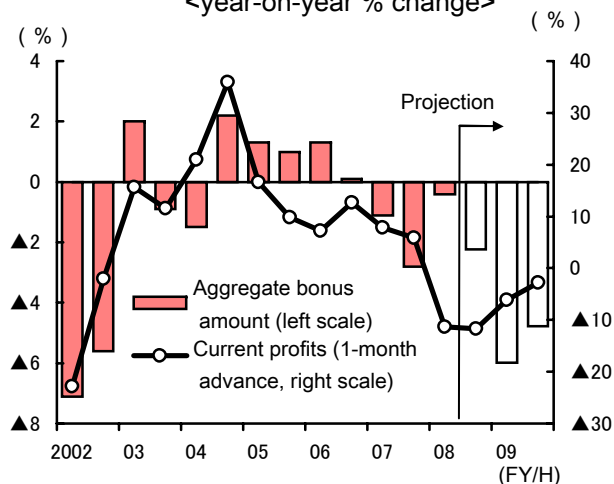
Note : The estimate is based on the assumptions that (i) the yen would appreciate by 20% against all other currencies, (ii) the price of crude oil would fall by 55%, and (iii) enterprises would pass on 30 % of the increased costs to the sales prices.

## Private consumption - Income to decrease, yet lifted by a fall in prices

In the household sector, the following three negative influences would be felt: (i) a worsened employment environment, (ii) a fall in wages, especially bonuses, and (iii) a negative wealth effect due to the fall in stock prices. On the other hand, there would be the following positive factors: (i) an expected two trillion yen of flat-sum cash benefits to households and (ii) an improvement in real purchasing power of households because of the fall in consumer prices.

Taking these into consideration, the projection for private consumption expenditure during FY2009 indicates a contraction in nominal private consumption for the first time in six years. In the income situation, disposable income in the period is expected to decrease slightly, because flat-sum cash benefits would make up for almost all of the decrease in income due to an economic downturn. In the expenditure side, the propensity to consume is expected to decline because of worsened sentiment for consumption and a negative wealth effect. However, real private consumption is projected to grow slightly in FY2009 to play a bolstering role for the economy. This is because the real purchasing power of households will advance, reflecting an improvement in the private consumption deflator due to the fall of consumer prices.

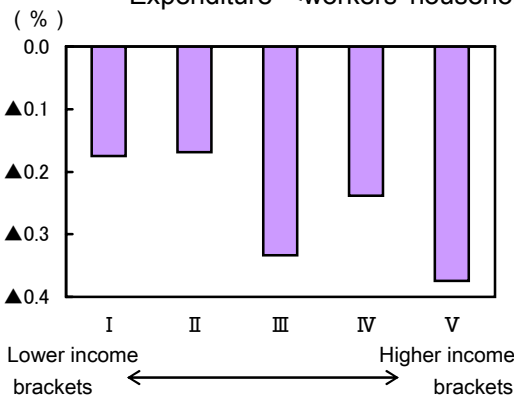
Figure 11-1 Current Profits and Aggregate Bonus Amount <year-on-year % change>



Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Finance, The Ministry of Health, Labour and Welfare.

Note: The aggregate bonus amount is on a Monthly Labour Survey basis.

Figure 11-2 The Impact of a 10% Fall of Stock Prices on Private Consumption Expenditure <workers' households>

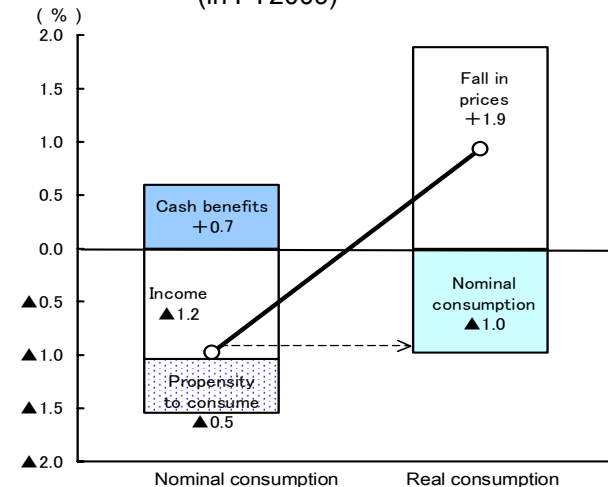


Source: The Japan Research Institute, Ltd. based on the data of The Ministry of Internal Affairs and Communications.

Note: The private consumption expenditure function here:

$$\ln(\text{PCE}) = \text{constant} + \alpha * \ln(\text{actual income}) + \beta * \ln(\text{stock prices})$$

Figure 11-3 The Factors of the Change of Private Consumption Expenditure (in FY2009)



Source: The Japan Research Institute, Ltd. based on the data of The Cabinet Office, The Ministry of Internal Affairs and Communications.

## Prospects for Japan's economy - Projected real GDP change; -2.2% in FY2008 and -2.9% in FY2009

(1) It is expected that the recessionary phase of Japan's economy will be prolonged, against the background of a protracted downturn in the economic activity in the US and European countries, and continued turmoil in the financial markets. It is projected that Japan's real GDP during FY2008 will see four consecutive quarters of contraction, on a seasonally adjusted and quarterly annualised rate over the previous quarter basis. Further, it is expected that the economy will follow a quarterly trajectory at a pace considerably below its potential output growth rate during FY2009. This will lead to minus 2.2 per cent in the real GDP change rate in FY2008 and minus 2.9 per cent in FY2009, a two consecutive fiscal yearly shrinking.

(2) A main cause of the recession appears to be the economic deterioration in the corporate sector. It is expected that Japan's exports, which had been a driving force for the economy, will continue to be declining, and there is not much prospect that the declining trend will be checked. This is due to the prolonged sluggish situation of the US and European economies exacerbated by uncertainties in the financial markets, diminishing driving power for Japan's economy of exports to emerging and resource-rich countries, and a gradual materialising of the negative effect of the Japanese yen appreciation. Reflecting a rapid decline in capacity utilisation, a decreasing trend in business fixed investment would be more visible, especially in the export industries such as motor vehicles and electronic parts and devices. An inventory adjustment could also lower the economic growth rate.

(3) In the household sector, it is expected that private consumption expenditure will continue a "low-flying" trend, due to stagnant income environments in addition to a negative wealth effect of falling stock prices. However, real private consumption expenditure is projected to grow slightly. This is because real purchasing power of households will advance reflecting an improvement in the private consumption deflator due to the fall of consumer prices

(4) As for income flow, the income shift from Japan to resource-rich countries peaked in the July-September period last year. As import prices have been falling sharply, the income inflow from overseas to Japan is projected to increase rapidly from the last October-December period onwards. The year-on-year per cent change in the GDP deflator will likely turn positive in FY2009, mainly reflecting a fall in the import deflator.

Figure 12 Projections for GDP Growth and Main Indicators of Japan ( as of January 13, 2009 )

	(seasonally adjusted, annual % changes from the previous quarter)								FY2006	FY2007	FY2008	FY2009
	CY2008				CY2009							
	1~3	4~6	7~9	10~12	1~3	4~6	7~9	10~12				
	(Actual)				(Projection)				(Actual)		(Projection)	
Real G D P	2.4	▲ 3.7	▲ 1.8	▲ 9.1	▲ 7.2	▲ 1.4	0.1	0.4	2.3	1.9	▲ 2.2	▲ 2.9
Private Consumption Expenditure	3.6	▲ 2.6	1.2	▲ 0.9	▲ 0.5	0.9	1.1	1.0	1.1	0.9	0.1	0.5
Housing Investment	19.9	▲ 10.1	16.5	7.2	▲ 22.5	▲ 6.3	▲ 2.5	▲ 1.8	▲ 0.2	▲ 13.0	▲ 4.6	▲ 5.2
Business Fixed Investment	1.4	▲ 8.3	▲ 7.8	▲ 10.4	▲ 17.5	▲ 12.2	▲ 3.8	▲ 2.9	5.6	2.3	▲ 5.5	▲ 9.4
Private Inventories (percentage points contribution)	(▲ 1.0)	( 0.1)	(▲ 0.6)	( 0.2)	(▲ 0.3)	(▲ 0.1)	(▲ 0.3)	( 0.1)	( 0.2)	( 0.1)	(▲ 0.2)	(▲ 0.1)
Government Consumption Expenditure	▲ 1.5	▲ 3.5	▲ 1.3	0.8	0.5	0.2	0.4	0.3	1.1	2.2	▲ 0.4	0.3
Public Investment	▲ 19.6	▲ 4.7	1.6	0.7	▲ 1.2	0.3	0.9	1.1	▲ 8.8	▲ 5.8	▲ 4.8	0.4
Net Exports (percentage points contribution)	( 1.8)	(▲ 0.4)	(▲ 0.5)	(▲ 7.8)	(▲ 3.2)	( 0.3)	( 0.2)	( 0.0)	( 0.8)	( 1.2)	(▲ 0.8)	(▲ 1.5)
Exports of Goods and Services	14.5	▲ 10.1	3.4	▲ 41.1	▲ 28.9	▲ 7.6	▲ 3.4	▲ 2.5	8.3	9.3	▲ 5.8	▲ 15.0
Imports of Goods and Services	4.1	▲ 11.5	9.6	▲ 1.3	▲ 13.7	▲ 11.5	▲ 6.2	▲ 3.2	3.1	1.8	▲ 1.3	▲ 7.0
	(% changes from the same quarter of the previous year)											
Real G D P	1.4	0.7	▲ 0.5	▲ 3.3	▲ 5.5	▲ 4.9	▲ 4.6	▲ 1.9	2.3	1.9	▲ 2.2	▲ 2.9
Nominal G D P	0.0	▲ 0.8	▲ 2.1	▲ 3.3	▲ 4.2	▲ 3.3	▲ 3.2	▲ 1.2	1.5	1.0	▲ 2.6	▲ 2.3
GDP deflator	▲ 1.4	▲ 1.5	▲ 1.6	▲ 0.0	1.4	1.7	1.5	0.8	▲ 0.7	▲ 0.9	▲ 0.4	0.6
Consumer Price Index (excluding fresh food)	1.0	1.5	2.3	1.4	0.2	▲ 0.8	▲ 1.9	▲ 1.2	0.1	0.3	1.3	▲ 1.2
Industrial Production Index	2.3	1.0	▲ 1.3	▲ 14.7	▲ 22.8	▲ 22.7	▲ 21.9	▲ 13.0	4.6	2.6	▲ 9.7	▲ 15.4
Unemployment Rate (%)	3.9	4.0	4.1	3.9	4.3	4.5	4.6	4.7	4.1	3.8	4.1	4.6
Current Account Balances (trillion JY)	6.58	3.84	4.02	3.82	6.73	5.37	6.93	5.44	21.15	24.54	18.41	24.11
Share of Nominal GDP (%)	5.2	3.0	3.2	2.9	5.4	4.2	5.6	4.1	4.1	4.8	3.6	4.8
Exchange Rates (JY/US\$)	105.2	104.5	107.6	96.1	88.0	89.0	90.0	87.0	116.9	114.2	99.1	88.3
Import Price of Crude Oil (US\$/barrel)	95	109	129	77	42	46	49	51	64	78	89	50

Source: The Cabinet Office, The Ministry of Internal Affairs and Communications, The Ministry of Economy, Trade and Industry, The Ministry of Finance.

The projection figures are based on those of The Japan Research Institute, Ltd.

Note: The projections are made based on the assumptions that real GDP growth rate of the US would be 1.2% in CY2008 and -1.3 in CY2009 and that of the euro area 0.9% in CY2008 and -1.8% in CY2009.