

March 15, 2002

A Revised Forecast for the Japanese Economy in Fiscal 2001-2002

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October-December Quarter GDP Evaluation

**Capital Investment Falls Sharply
Economic Growth Negative for Third Consecutive Quarter**

Real economic growth in the October-December quarter of 2001 was down 4.5% on the same quarter in 2000, negative for the third consecutive quarter. Although private consumption rose for the first time in three quarters, external demand (public investment, exports) continued to decline and capital investment recorded

its most substantial fall since the 1980s. The trends by demand sector are as follows:

1. Private Consumption

Although employment and income conditions continued to deteriorate, positive factors such as firm demand for winter clothing and a rise in the number of people visiting cinemas and theme parks were supplemented by a reaction to the sharp fall in consumer spending recorded in the April-June and July-September quarters.

2. Capital investment

Although fixed capital investment by the financial and insurance industries and investment in software held steady, fixed capital investment by companies in other sectors fell substantially. By sector, the sharp fall in capital investment spread from the electrical machinery to other industries, while in the non-manufacturing sector, where investment had until now had remained relatively firm, it started to decline, especially in the telecommunications, wholesale and retail industries.

3. Exports

Although the decline in exports of IT devices slowed, the fall in demand for IT final goods, such as personal computers and telecommunications equipment, became more pronounced, and exports fell for the fifth consecutive quarter.

Looking ahead to the January-March quarter of 2002, it is highly likely that the decline in capital investment will continue, and as a reactionary downturn in consumer spending is likely owing to the continued deterioration of employment and income conditions, the economy is likely to register negative growth for a fourth consecutive quarter.