



JRI news release

**A Forecast of GDP Statistics
for the January-March Quarter of 2003**

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1. Positive Economic Growth for a Fifth Quarter in Succession

The GDP statistics for the January-March quarter of 2003 are likely to show an increase of 0.1% in real economic growth on the previous quarter (equivalent to an annualized rate of 0.4%), positive growth for a fifth quarter in succession. Effectively, however, this constitutes zero growth, and the statistics are likely to confirm that the economy is merely treading water. Although capital investment has risen for a fourth consecutive quarter, buoying the economy to some extent, (i) the continued weakness of consumer spending, (ii) the further decline in public investment and (iii) the fact that net exports have made a negative contribution for the first time in two quarters, have all exerted downward pressures on the growth rate.

Movement of the Major Elements of Demand

(1) Consumer Spending

The figures for consumer spending are set to show a decline of 0.2% on the previous quarter (annualized rate -0.7%). Owing to a decline in consumer confidence which, until now, has remained firm in spite of the deterioration of income conditions, supply- and demand-side indices are both likely to be down. However, the fact that sales of passenger cars have remained at a high level means that indices are unlikely to have seen a sharp fall.

(2) Housing Investment

The figures for housing investment are set to decline by 2.4% (annualized rate -9.2%). Investment in owner-occupied houses has continued to fall and investment in condominium apartments has been declining since mid-2002.

(3) Capital Investment

The decline in software investment and other IT-related investment has bottomed out owing to the recovery in capacity utilization ratios and business results, and figures for capital investment are set to rise for a fourth quarter. However, the decline in the pulling power of redevelopment projects in the metropolitan area (office building and subway construction, etc.) means that the growth rate is set to slow.

(4) Public Investment

Owing to the deterioration in the financial position of local governments, the figures are set to show a further decline in public investment.

(5) Exports

Although exports have risen for a fifth quarter, the rate of growth has slowed sharply, and is likely to be virtually the same as for the previous quarter. Although exports to Asia show continued growth, centering on electronic devices and capital goods, exports of automobiles to the United states have fallen sharply.

(6) Imports

Although import figures are likely to show a rise for a fifth consecutive quarter, the

rate of growth is slowing due to the deceleration of the domestic economy.

2. Future Economic Trend Remains Uncertain

As a result of the above movements, the figures are likely to show that the Japanese economy achieved positive growth during all four quarters of fiscal 2002, and a high growth rate of 1.8% for the year as a whole. Looking to the immediate future, domestic demand, which has until now been sluggish, promises to recover as consumer spending remains unexpectedly firm and orders for machinery continue to rise at a gentle pace. However, as it is highly likely that the contribution of external demand will fall in the second half of the fiscal year, it remains difficult to predict the future trend of the economy. However, the rapidly growing impact of the following two negative factors in recent months makes recovery led by private sector demand uncertain, and it is even possible that the economy will enter a recession phase in the near future:

- (i) Share prices continue to fall, and in view of the growing anxiety over the future of the domestic financial markets, the downward trend of business and consumer confidence may well accelerate.
- (ii) The fall in capacity utilization ratios and slump in consumer spending in China amidst growing fears over SARS raise the possibility that exports to China, which until now have been the mainstay of Japan's exports, will begin to decline.