



JRI news release

A Revised Economic Forecast for FY 2003-2004

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Present Status:

April-June Sees Positive Growth for a Sixth Consecutive Quarter

The real growth rate for the April-June quarter of 2003 was up 0.6 points on the previous quarter, confirming that the economy is still recovering at a gentle pace. Although the slump in the government sector continues, consumer spending and capital investment are both maintaining a gentle rate of growth, and external demand has also made a positive contribution. The movements of the major elements of demand were as follows.

(1) Consumer spending

Consumer spending held steady overall, despite the continued deterioration of income conditions. Although the fall in demand that followed the demand rush ahead of changes to the tax system caused a slump in the number of passenger cars sold, demand for new products among cellular phones and digital consumer electronics underpinned overall demand.

(2) Capital investment

Against the background of a recovery in equipment utilization ratios and business results, figures for capital investment rose for a fifth quarter, largely on the strength of investment in IT, etc. However, capital investment declined for a second quarter on a nominal basis and on a real basis is still being underpinned by the significant weakening of the deflator.

(3) External demand

A rise in exports to the EU and a recovery in exports to the United States after the slump recorded in the January-March quarter caused export figures to rise for a sixth consecutive quarter. A slump in services payments triggered by the fall in demand for overseas travel, among other factors, caused imports to decline for the first time in six quarters. As a net result, external demand boosted overall GDP by 0.2 points.

Outlook:

Signs of Recovery Set to Become Clearer in Second Half of Fiscal Year

In the short term, in spite of positive factors such the continued growth of capital investment thanks to steady business profits and signs of a recovery in consumer confidence, the following two factors suggest that the pace of economic growth is likely to slow for a time.

- (1) Owing to the slow pace of recovery of the EU and US economies and the increasingly clear economic slowdown in Asia triggered by the SARS epidemic, among other factors, exports remain sluggish.
- (2) Demand for seasonal goods and services has slumped owing to this year's cool summer, and the typhoon that hit Japan over the second weekend in August also exerted a downward pressure on consumer spending.

However, the following three factors suggest that the economic recovery is likely to become a clearer trend in the second half of the fiscal year*.

- (1) The recovery of the EU, US and Asian economies is likely to bring a recovery in exports to those regions and a higher volume of exports of industrial plant, orders for which have been rising in recent months, to the Middle East.
- (2) The recovery in exports is likely to boost the pace of the recovery in capital investment, centering on electrical and general machinery.
- (3) With the deterioration in employment and income conditions slowing, and the recovery in consumer confidence, consumer spending is becoming firmer once more.

* One reason for the unexpected scale of the economic upturn is that weakening of the deflator was accelerated by the reflection of the qualitative improvement centering on computers in the form of deflation. The capital investment deflator for the April-June quarter was 6.8 points down on the same quarter in 2002, and down 3 points on the annual average for 2000-2002. The rate of decline of the consumer spending deflator increased to 1.6 points quarter-on-quarter although the rate of decline in consumer prices slowed to 0.4 points.