JRI news release

A Forecast of GDP Statistics for the October-December Quarter of 2003

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1. Substantial Positive Growth in the October-December Quarter

The GDP statistics for the October-December quarter of 2003 are likely to show an increase of 1.6% in real economic growth on the previous quarter (annualized rate +6.8%), the highest rate of growth since 1990. The reasons behind this growth are that, although housing investment has begun to decline, (i) exports, especially to Asia, have recorded substantial growth as the recovery of the global economy has strengthened, (ii) the recovery of capital investment in the manufacturing sector has gathered momentum owing to the recovery of industrial output and (iii) consumer spending has held firm thanks to continued strong sales performance of digital consumer electronics and a recovery of consumption of services. These figures boil down to an estimated growth rate of +2.6% for 2003.

Movement of the Major Elements of Demand

(1) Consumer Spending

With the deterioration in employment and income conditions slowing and consumer confidence improving, consumer spending continued to rise thanks to (i) the continued firm sales performance of digital consumer electronics and (ii) a gentle recovery of spending on services, among other factors. Sales of winter clothing were sluggish owing to the mild weather from November through the first half of December, but the negative impact on consumer spending was outweighed by the boost provided by consumption of other products and services.

(2) Housing Investment

Investment in the construction of condominiums in the Tokyo area remained firm, but the reaction to the demand rush ahead of the deadline for preferential tax treatment of housing loans and the raising of interest rates caused a sharp fall in construction starts on detached houses across the country, and overall housing investment figures has fallen for the first time in two quarters.

(3) Capital Investment

Capital investment has risen sharply, and the figures are likely to be up 6.7% on the previous quarter (equivalent to an annualized rate of +29.4%). Although some of this growth may have been a reaction to the sudden deceleration observed in the July-September quarter, most was generated by a substantial rise in capital investment in the manufacturing sector, centering on electrical machinery and general machinery. On the supply side, investment in special industrial equipment such as industrial robots and metalworking machinery saw substantial growth, and investment in computers also held firm.

(4) Government Expenditure

Although civil servant salaries remained weak, government consumption continued to grow owing to the expansion of spending on medical care and nursing. Public investment remained fairly constant, but this is thought to have been a reaction to the substantial fall over the past two quarters, and the downward trend is likely to continue in the medium-to-long term.

(5) Exports

With the recovery of the global economy gathering momentum, the growth of exports is accelerating. Among exports to Asia in particular, there has been substantial growth of exports to satisfy internal demand such as chemical products and general machinery as well as exports of production goods such as electronic devices and audio equipment components.

(6) Imports

Although imports continue to grow on the strength of the recovery of manufacturing output, the growth has been slow in comparison to that of exports. As a result, the contribution of external demand is likely to be +0.4% on the previous quarter (equivalent to an annualized rate of +1.7%).

2. Economy Likely to Hold Firm For the Time Being

Given that the recovery of the global economy is expected to continue for the time being, it is likely that the Japanese economy will continue to recover under the leadership of the manufacturing sector, with export growth leading to a rise in corporate profits, leading in turn to higher capital investment. The negative impact of the strengthening of the yen against foreign currencies is likely to be slight, given that (i) trade conditions are not deteriorating and (ii) there is a lag of more than 12 months in the impact on volume.

Given (i) the fact that overseas demand is likely to continue to recover on the strength of the continued growth of the Chinese economy and (ii) the fact that progress with restructuring programs in the corporate sector is likely to strengthen

the foundations of the economic recovery mean there is little risk that Japan will suddenly fall into recession, even during the adjustment phase that is expected to come during the second half of fiscal 2004.