Economic Outlook for FY2010 and FY2011

November 2010

Key points of Mizuho Research Institute's (MHRI) outlook on the economy in FY2010 and FY2011
reflecting *The First Preliminary Quarterly Estimates of GDP (1st QE)* for the Jul-Sep quarter of 2010

<The US Economy>

	Continuation of low growth, leading to concerns regarding deflation
2010	+2.7% (previous outlook +2.7%)
2011	+1.8% (previous outlook +2.0%)

<The Japanese Economy>

FY2010 +2.6% (previous outlook +2.0%)
More definite signs of stagnation due to the slowdown of exports and fading impact of policy measures

FY2011 +1.3% (previous outlook +1.5%)
Despite a return to a mild recovery track, growth will not be sufficient for an emergence out of deflation

Mizuho Research Institute

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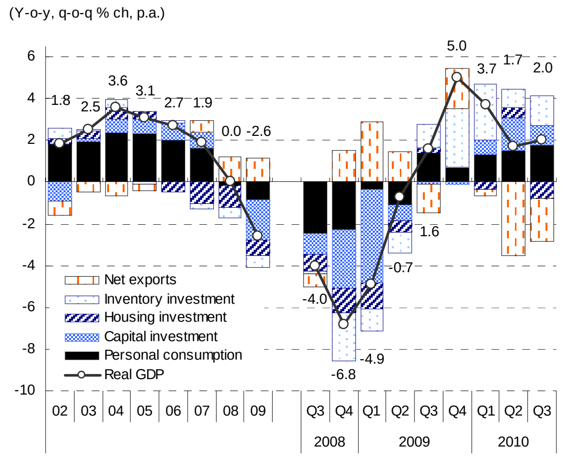
I. The US economy

The US economy continued to grow at a mild pace

According to advance estimates released by the Bureau of Economic Analysis, US real gross domestic product (GDP) grew +2.0% q-o-q p.a. in the Jul-Sep quarter of 2010 (Apr-Jun quarter: +1.7% q-o-q p.a. (third estimates)), indicating that the US economy is continuing to grow at a mild pace (**Chart 1**). The slowdown since the Oct-Dec quarter of 2009 has come to a pause.

[Chart 1: US real GDP growth]



Note: Quarterly data series are seasonally-adjusted. The figures in the graph represent the rate of real GDP growth (q-o-q % ch, p.a.)
Source: US Department of Commerce.

	Q-o-q % ch, p.a. 2010 Apr-Jun	Q-o-q % ch, p.a. 2010 Jul-Sep	Contribution (%) 2010 Apr-Jun	Contribution (%) 2010 Jul-Sep
Real GDP	1.7	2.0	—	—
Personal consumption	2.2	2.6	1.54	1.79
Capital investment	17.2	9.7	1.51	0.91
Housing investment	25.7	-29.1	0.55	-0.80
Inventory investment	(68.8)	(115.5)	0.82	1.44
Net exports	(- 449.0)	(- 514.9)	-3.50	-2.01
Exports	9.1	5.0	1.08	0.61
Imports	33.5	17.4	-4.58	-2.61
Government consumption	3.9	3.4	0.80	0.68
Domestic final demand	4.3	2.5	4.42	2.58
GDP deflator	1.9	2.3	—	—

Note: Adjusted for seasonal factors. The figures in the columns regarding the q-o-q % ch (p.a.) of inventory investment and net exports represent the levels (p.a., USD billion)
Domestic final demand = GDP – exports + imports – inventory investment
The contributions to domestic final demand are calculated by Mizuho Research Institute (MHRI).
Source: US Department of Commerce, Mizuho Research Institute (MHRI).

Fall of saving rate amid sluggish income growth contributed to the solid growth of personal consumption. In the background is the rise of the stock market

Looking closer at each of the components of demand, the recovery of personal consumption and the acceleration of the pace of inventory buildup drove up US GDP growth. In the Jul-Sep quarter, personal consumption turned out to be firm even amid the sharp slowdown of disposable income which is the main source of personal consumption, revealing that the decline of the saving rate supported the recovery of consumer spending. The saving rate fell by 0.4% pt from 5.9% in the Apr-Jun quarter to 5.5% in the Jul-Sep quarter. This alone pushed up the annual rate of personal consumption by 1.6% pt (the q-o-q change of the saving rate × 4 contribution by the saving rate decline to the annual rate of personal consumption growth).

The saving rate is affected by consumer perceptions on labor market conditions, concerns regarding future fiscal burdens and movements in asset prices. Considering the upsurge of the TEA Party movement, rallying around slogans of "Tax Enough Already", it is improbable that US households in the Jul-Sep quarter held sanguine views on labor market conditions or the mitigation of fiscal burdens. Most likely, the rise of the stock market and the stabilization of residential prices contributed to the decline of the saving rate and served to push up consumer spending.

Unexpectedly strong cyclical inventory buildup

Turning to inventory investment, note a larger buildup of inventories. Subsequent to the inventory cycle's shift from inventory reduction to inventory buildup mode in the Jan-Mar quarter of 2010, the buildup of inventories continued to accelerate for two straight quarters and pushed up the rate of GDP growth. The developments show that the impact of the backlash (cyclical change) to inventory reduction accompanying the financial crisis was stronger than expected. A breakdown of inventory investment in the Jul-Sep quarter by industrial sector reveals that the buildup of inventories was greater among wholesalers and retailers than manufacturers, indicating the progress of preparations toward the Christmas shopping season.

Housing investment took a downturn and capital investment also slowed. Apart from computer-related and passenger car investment, investment in machinery & software stood firm. Some bright spots in construction investment

Meanwhile, the fall of housing investment accompanying the expiration of the homebuyer tax credit and the slowdown of capital investment pushed down the rate of GDP growth.

Looking closer at capital investment, investment in machinery and software slowed down to +12.0% q-o-q p.a. from +24.8% q-o-q p.a. in the Apr-Jun quarter, due largely to the stagnation of computer-related and passenger car investment. Of these soft spots, computer-related investment is still continuing to slow down. Despite lingering uncertainties, investment in machinery and software remains on solid footing with the exception of investment in the foregoing areas.

Subsequent to its ongoing fall, construction investment picked up in the Jul-Sep quarter (+3.9% q-o-q p.a.), registering growth in positive territory for the first time since the Apr-Jun quarter of 2008. Construction of office buildings has been continuing to fall sharply and construction of factories has been decreasing for several quarters. However, in addition to signs that construction of commercial facilities is nearing the bottom, there has been a sharp expansion in investment in petroleum and natural gas exploration facilities from the turn of the year in 2010 which continued to drive overall construction investment in the Jul-Sep quarter. That said, it is unclear whether this stems from the Obama Administration’s Green New Deal policy or the oil spill in the Gulf of Mexico.

The negative contribution by external demand contracted despite the slowdown of exports and solid growth of imports

Turning to external demand, export growth slowed down in contrast to the solid growth of imports, sending net exports deeper into negative territory in comparison to the Apr-Jun quarter. The breakdown of exports reveals that consumer goods and capital goods held up relatively well while commercial materials and automobile-related goods took a downturn from the previous quarter, serving as a drag upon the recovery of exports. That said, the contribution by external demand to real GDP growth improved from -3.50% in the Apr-Jun quarter to -2.01% in the Jul-Sep quarter.

Forecast on real GDP growth unchanged at +2.7% in 2010 and downgraded to +1.8% in 2011

We have revised our outlook on US economic growth to +2.7% in 2010 and +1.8% in 2011. While our forecast on 2010 is unchanged from our outlook as of September 2010, we have revised down our outlook on 2011 to -0.2% pt.

Our fundamental view (main scenario) on the US economy remains unchanged. (1) The contribution to economic growth by inventory replenishment will contract. (2) Fiscal policy will shift into tightening mode. (3) Given the weak recovery of employment, the economy will continue to follow an essentially “jobless recovery”. (4) Apart from the fading impact of the homebuyers tax credit, the housing market will likely remain sluggish due to the jobless recovery and the lingering effect of the mortgage loan problem. (5) Disinflation will persist amid the weak recovery of the economy, leading to higher risks of deflation. (6) Monetary policy easing will persist during the forecast horizon.

Based upon the foregoing, our outlook on domestic final demand is that corporate capital investment activity will turn out stronger than expected because of solid export growth, in contrast to stagnant consumer spending and slumping housing investment. Furthermore, in connection with exports and capital investment, we have decided to revise upward our forecast on imports.

Weak consumer spending due to jobless recovery. Flat saving rate despite lingering uncertainties

Judging from the continuation of a jobless recovery, consumer spending will likely remain weak and housing investment is also expected to stagnate.

According to the National Federation of Independent Business (NFIB), weak sales is the most pressing issue faced by small and medium-sized businesses in the US (survey in October 2010). Being an inevitable consequence of the existence of a large deflationary gap, tepid sales should haunt businesses for some time. Since businesses faced with such issues are unlikely to take a positive stance toward new hiring, we are inclined to believe that the US economy will remain on a jobless recovery.

Based upon the so-called “Okun’s law” which represents the empirical relationship between real GDP growth and the change in the unemployment rate, unemployment will not improve (decline) from the previous year unless real GDP grows at least 2%. Since the US economy is expected to remain at this pivotal stage, the unemployment rate should continue to remain high for some time.

Given the labor market slack and ongoing disinflationary trends, income growth should also remain limited. On the other hand, labor hours are expected to rise gradually, and the historical low labor share (at its lowest in post-WWII history) is predicted to hit bottom and start to rise. Nevertheless, it is unlikely that businesses will significantly ease its grips upon labor costs.

Under these conditions, the pause in the rise of the saving rate accompanying balance sheet adjustments may be perceived as a godsend for the recovery of consumer spending. According to estimates by MHRI, the current level of the saving rate lies within the range reflecting household net assets (net financial assets and net housing assets), and thus would not indicate the existence of strong upward pressures. MHRI’s economic outlook on FY2010 and FY2011 (“*Economic Outlook*”) is also based upon the view that the saving rate will remain more or less flat during the forecast horizon. That said, this does not indicate the absence of balance sheet adjustment pressures. Given the ongoing aftereffects of the subprime mortgage crisis such as the housing market overhang, mortgage loan problem and slumping housing prices, upside risks still linger upon the saving rate (downside risks to consumer spending). Looking elsewhere across the world, the global economy faces various issues and risks such as the European debt crisis which risk a stock market plunge. Consumer spending will respond to theses movements in asset prices through the change of the saving rate.

Strong exports are driving corporate capital investment

While the strong growth of consumer spending is unlikely anytime soon, exports are expected to serve as the driver of the US economy. Compared to the past two recovery cycles in the first half of the 1990s and the first half of the 2000s, exports are serving as a powerful engine of the current economic recovery. Capital investment should grow strongly on the back of export strength. The US capital stock cycle indicates that the US is in an expansion cycle as of the Jul-Sep quarter of 2010. Even though corporate export orders and capital investment sentiment weakened, reflecting rising uncertainties accompanying the European debt crisis in the summer of 2010, signs of improvement are starting to emerge.

Lingering uncertainties regarding the extension of the Bush-era tax cuts

In addition to the developments in the private sector summarized above, there are also important policy-related factors to be considered. In terms of fiscal policy, there is the question regarding the extension of the Bush-era tax cuts. As in our previous forecasts, our latest *Economic Outlook* is based upon the premise that the permanent extension of the Bush-era tax cuts for all taxpayers including the wealthy will be passed by the end of December 2010, and thus the financial markets will not be subject to any turmoil.

Given the large number of seats gained in the midterm elections by the Republican Party which advocates the continuation of the Bush-era tax cuts toward the wealthy, President Obama and the Democratic Party are facing a rising need to compromise their stance on the abolition of the tax cuts for the wealthy, for the smooth conduct of proceedings at the new Congress starting in January 2011. Thus, our foregoing premises of the *Economic Outlook* appear valid. Having said so, uncertainties still linger due to ongoing political bargaining regarding the Bush-era tax cuts. On the other hand, the mid-term election victory of the Republican Party – especially the rise of the Tea Party which advocates a small government – may make it difficult to carry out the additional economic stimulus measures. The *Economic Outlook* does not factor in the additional economic stimulus. President Obama’s three-pronged additional economic stimulus in September – comprised of public investment, research & development tax credit, and capital investment tax credit – is also expected to face opposition against a backdrop of concerns regarding fiscal deterioration.

Further monetary easing measures by the FRB

The effectiveness of monetary policy also holds the key in forecasting the future course of the US economy. An important question is whether the further monetary easing measures introduced by the Federal Reserve Board (FRB) will be able to halt the progress of disinflation and avoid deflation.

In November 2010, the FRB decided that it would purchase a further USD600 billion of longer-term Treasury securities for a period of eight months until the end of June 2011. In addition to the purchases implemented in a bid to keep monetary policy accommodative, the purchases of longer-term Treasury securities are set to reach a maximum of USD900 billion.

Limited effect to boost GDP. US economy may slip into deflation in the first half of 2012

The FRB's launch of such bold monetary easing measures stems from the fact that the inflation rate is already below the level which may be deemed as "price stability" amid the high level of unemployment. The core personal consumption expenditure deflator has dipped to +1.2 y-o-y as of September.

Given the existence of significant downward pressures upon inflation due to perceptions that it is difficult to close the deflationary gap anytime soon, MHRI believes that it cannot ignore the risks of the US economy falling into deflation in the first half of 2012. Even though the recent monetary easing measure is commendable as the FRB's best effort under the current circumstances, it is still insufficient for the avoidance of deflation. We expect the FRB to come under pressures for new measures by the time the recent monetary easing measure expires in mid-2011.

A key point to be mentioned in MHRI's price outlook is the presumption that the level of natural unemployment perceived to be rising close to 7% against a backdrop of a labor market mismatch. Insofar as the natural unemployment rate is perceived to be rising, deflationary pressures would ease even under a high rate of unemployment. However, if the natural unemployment rate is not rising as presumed, there would be a higher possibility of the US economy falling into deflation and that the timing of such descent into deflation would be earlier than expected.

On the other hand, the recent bout of monetary easing by the FRB also (1) may contribute to the stability of the expected rate of inflation (said to be a determinant of inflation) and curb disinflation, or (2) serve as risk by a sharp rise of the expected rate of inflation as voiced by some hawkish high-ranking FRB members. If events proceed in the former fashion, this would mean a success for the FRB's management of monetary policy. A massive supply of money under a low interest environment would lead to the rise of asset prices, thereby stimulating economic activity and accelerating the recovery process. While it would be necessary for the FRB to take such a reflationary policy for some time, the odds are high that speculation on an "exit strategy" would rise in the financial markets and keep asset prices subdued.

[Chart 2: Outlook on the US economy]

(%)

	2009 (Actual)	2010 (Forecast)	2011 (Forecast)	2009 1H	2009 2H	2010 (Forecast) 1H	2010 (Forecast) 2H	2011 (Forecast) 1H	2011 (Forecast) 2H
GDP	-2.6	2.7	1.8	-4.3	1.9	3.5	1.8	1.6	2.4
Personal consumption	-1.2	1.6	1.9	-1.5	0.8	1.7	2.3	1.8	1.8
Housing investment	-22.9	-2.8	0.6	-31.6	-0.7	-1.0	-8.5	3.5	4.7
Capital investment	-17.1	5.8	8.1	-26.0	-3.1	7.7	11.2	7.1	7.3
Inventory investment (USD 100 million)	-1,131	780	617	-1,438	-825	565	996	594	640
Government consumption	1.6	1.2	0.8	0.3	1.9	-0.2	3.2	-0.0	0.0
Net exports (USD 100 million)	-3,630	-4,575	-5,094	-3,656	-3,605	-3,937	-5,213	-5,144	-5,044
Exports	-9.5	11.3	7.5	-20.4	11.6	13.8	6.3	7.4	9.0
Imports	-13.8	14.2	8.4	-26.7	8.6	14.9	18.3	5.0	6.0
Domestic final demand	-3.1	1.8	2.3	-4.9	0.6	1.8	3.0	2.0	2.0
Unemployment rate	9.3	9.7	9.8	8.7	9.8	9.7	9.7	9.8	9.8
Nonfarm payrolls (per month, 1,000 persons)	-489	-57	90	-649	-351	31	62	96	107
PCE deflator <y-o-y change>	0.2	1.7	0.6	-0.0	0.4	2.2	1.2	0.6	0.5
Core PCE deflator <y-o-y change>	1.5	1.4	0.6	1.5	1.5	1.6	1.1	0.7	0.4
Current account balance (US 100 million)	-3,784	-5,151	-5,558	-1,800	-1,984	-2,324	-2,827	-2,731	-2,646
<as a percentage of nominal GDP>	-2.7	-3.5	-3.7	-2.6	-2.8	-3.2	-3.8	-3.7	-3.5

Notes: 1. Calendar-year figures refer to the rate of change from the previous year. Half-year term figures refer to the rate of change from the previous half-year term (annualized).
2. The shaded columns are forecasts.
3. Regarding the current account balance, figures for the half-year terms are adjusted for seasonal factors and the calendar-year figures are the totals. The percentages of nominal GDP are annualized.

Sources: US Department of Commerce, US Department of Labor, MHRI.

II. The Japanese economy

(1) The current state of the economy

Despite the growth of the Japanese economy for the fourth consecutive quarter, there is scant reason for celebration

According to the *First Preliminary Quarterly Estimates of GDP (1st QE)*, Japan's real GDP grew at a rate of +0.9% q-o-q (+3.9% in annualized terms) in the Jul-Sep quarter of 2010, growing for the fourth quarter in a row since the Oct-Dec quarter of 2009 (**Chart 3**). Despite the strong results surpassing consensus forecasts, note that Japan's growth stems largely from a temporary rise of durable goods consumption and does not deserve positive evaluation.

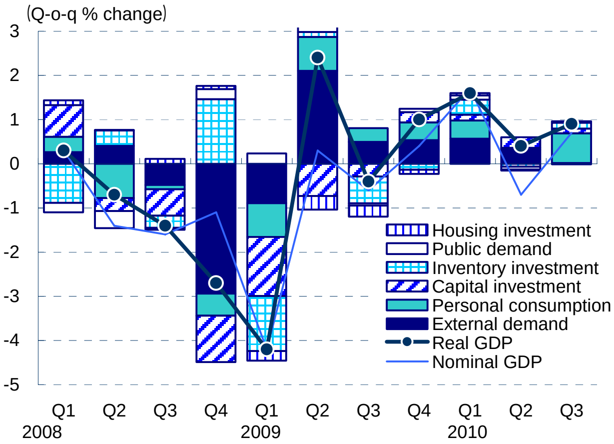
Looking closer at each of the components of demand, external demand contributed +0.0% pt (Apr-Jun quarter: +0.3% pt) , indicating that external demand which had thus far served as the engine of Japan's economy, has lost momentum. Export growth (+2.4% q-o-q, Apr-Jun quarter: +5.6% q-o-q) declined along with the slowdown of the overseas economies – notably in Asia and the US – falling below the growth of imports (+2.7% q-o-q, Apr-Jun quarter: +4.0% q-o-q).

Turning to domestic demand, the contribution by private and public sector demand turned out to be +0.9% pt and -0.0% pt respectively, revealing a wider disparity between private and public demand. In particular, personal consumption grew a strong +1.1% q-o-q (Apr-Jun quarter: +0.1% q-o-q), serving as the main driver of Japan's growth. However, this is due to the growth of durable goods consumption (+11.1% q-o-q) stemming primarily from the sharp rise of car sales prior to the termination of the Eco-Car Subsidy Program. As shown by the fact that household final consumption expenditures are actually falling (-0.8% q-o-q) when excluding durable goods, personal consumption is not following an upward trend. Turning to private sector investment activity, housing investment (-1.3% q-o-q) picked up for the first time in two quarters. Both inventory investment (contribution to q-o-q growth +0.1% pt) and capital investment (+0.8% q-o-q) also pushed up the rate of growth. As for public demand, although government consumption rose (+0.1% q-o-q), public investment fell (Jul-Sep quarter: -0.6% q-o-q, Apr-Jun quarter: -2.3% q-o-q), recording a decline for the fifth quarter in a row. Despite the ongoing reduction of public investment in a bid to reduce wasteful spending since the inauguration of the administration led by the Democratic Party of Japan (DPJ), the fall of public investment has slowed as a result of the policy shift this summer to increase public works in order to stimulate the economy. There is the possibility that some of the public works may have been front-loaded.

Deflationary conditions remain unabated

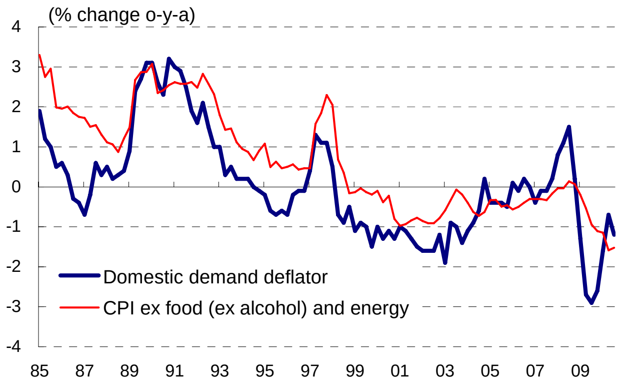
The domestic demand deflator stood at -1.2% y-o-y in the Jul-Sep quarter (Apr-Jun quarter: -0.7% y-o-y) (**Chart 4**). Even though the breadth of price falls is narrowing – mainly of investment goods and producer goods – against a backdrop of rising natural resource prices, the fall of general prices remains unchanged because demand in both the corporate and household sectors remain on heavy footing due to the lingering overhangs in capacity and labor.

Chart 3: Japan's quarterly GDP growth



Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP.*

Chart 4: Domestic demand deflator and CPI



Sources: Cabinet Office, Ministry of Internal Affairs and Communications.

(2) Outlook on the Japanese economy in FY2010 and FY2011

Viewed overall, the Japanese economy should continue to recover through the second half of FY2010 and FY2011 despite temporary production adjustments.

The Japanese economy in the second half of FY2010

The rate of real GDP growth in FY2010 is forecast to reach +2.6% y-o-y (previous outlook: +2.0% y-o-y). In the second half of FY2010, the odds are high that demand and production will continue to stagnate. Given the slowdown of the overseas economic recovery, the chances are high that exports will lack momentum. Under these conditions, the ripple effect from external demand to domestic demand, such as the expansion of production triggered by the rise of exports and the eradication of excessive labor and capacity, are expected to stall. Furthermore, the tightening of fiscal conditions represented by the termination of the Eco-Car Subsidy Program will most likely serve as a drag upon domestic demand. In the household sector, personal consumption is expected to weaken amid the stagnation of labor and income conditions due to the decline of labor demand accompanying output cuts. In particular, we expect a considerable softening of durable goods consumption for some time in view of the successive termination and/or contraction of government measures to boost purchases. Likewise, in the corporate sector, investment activity should remain tepid along with the decline of the capacity utilization ratio and slowdown of profit growth. That said, due in part to conservative capital investment plans comprised mainly of investment to maintain and renew existing equipment, a sharp slowdown of investment activity is unlikely even amid the reduction of output.

While we have made a large upward revision to our outlook on growth in FY2010 from our previous *Economic Outlook*, this is due to a sharp upward revision of growth in the second half of 2009 because of a retroactive revision of GDP data (the retroactive revision of seasonal adjustments to data by the Cabinet Office). Thus, this does not indicate a significant change in our forecast on the economy. Our forecast on the year-on-year rate of real GDP growth in the Jan-Mar quarter of 2011 remains more or less unchanged at +0.9% from our previous forecast of +0.8%.

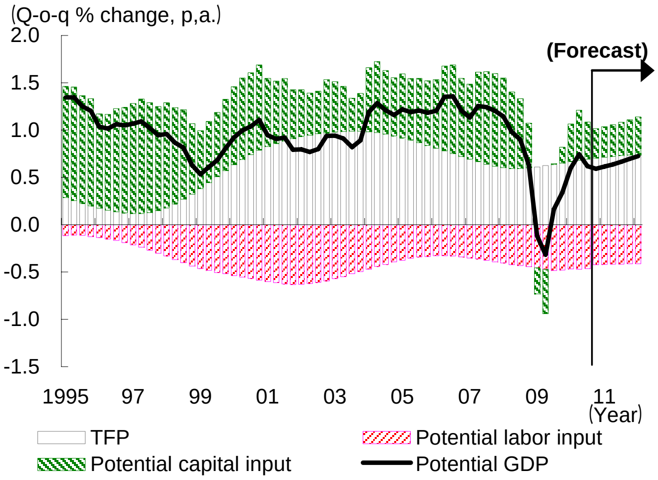
The Japanese economy in FY2011

The Japanese economy should gradually emerge out of the stagnation of production and return to a recovery track in FY2011. Even though the US and European economies remain on heavy footing, Japan’s exports mainly to Asia should expand as the Asian economies such as China show signs of autonomous recovery. While the negative effect stemming from the termination of the measures to support purchases of durable goods will gradually ease, the economic stimulus measures launched this autumn will start to be implemented. Thus, the conduct of fiscal policy toward the stimulation of the economy will serve as tailwinds, pushing domestic production back into expansion mode. In tandem with these movements, the environment will turn ripe for a recovery of capital investment and labor market conditions. That said, the pace of recovery of capital investment and labor market conditions will likely be moderate, given the strong possibility that businesses will start to feel a larger burden from excess capacity and labor along with the cutbacks on production in the second half of 2010. In FY2011, real GDP growth is forecast to reach +1.3% y-o-y (previous outlook: +1.5% y-o-y)

Pausing on the road out of deflation

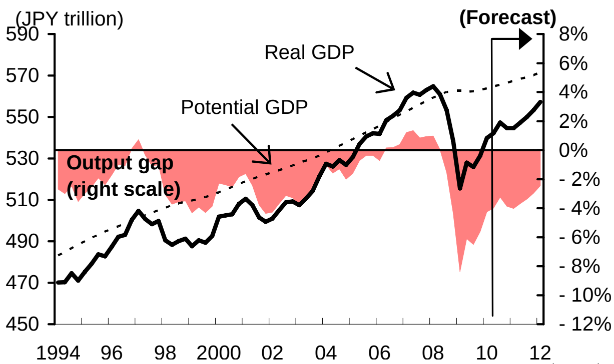
On the basis of our outlook, the breadth of the output gap in negative territory (the "deflationary gap", currently estimated to be around JPY18 trillion) is still predicted to be around JPY14 trillion even in the Jan-Mar quarter of 2012. Although downward price pressures should ease due to the contraction of the deflationary gap, Japan is still far from emerging out of deflation in view of the following factors: (1) forecasts that the pace of contraction of the deflationary gap will be slow due to expectations on economic growth falling below its potential growth rate in the second half of FY2010, and (2) the difficulty to raise the expected inflation rate because of the entrenchment of deflation since the 1990s. We expect the consumer price index (excluding fresh food) to remain on a downward path in both FY2010 and FY2011 as follows: FY2010 -0.9% y-o-y (previous outlook: -1.0% y-o-y), FY2011 -0.3% y-o-y (previous outlook: -0.3% y-o-y).

Chart 5: Potential GDP



Sources: Made by MHRI based upon various sources.

Chart 6: Japan's output gap



Note: Estimates by MHRI.
Sources: Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications and others.

[Chart 7: Outlook on the Japanese economy]

		FY2009	FY2010	FY2011	2009			2010				2011				2012
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP (real)	Q-o-q % ch	-1.8	2.6	1.3	2.4	-0.4	1.0	1.6	0.4	0.9	-0.5	0.0	0.5	0.5	0.6	0.7
	Q-o-q % ch p.a.	--	--	--	9.9	-1.5	4.2	6.6	1.8	3.9	-2.1	0.2	1.8	2.1	2.5	2.7
Domestic demand	Q-o-q % ch	-2.3	1.4	1.1	0.3	-0.9	0.5	1.0	0.1	1.0	-0.6	0.0	0.4	0.5	0.6	0.6
Private sector demand	Q-o-q % ch	-3.9	1.8	1.3	-0.2	-1.1	0.5	1.3	0.3	1.3	-0.7	0.0	0.4	0.6	0.6	0.6
Personal consumption	Q-o-q % ch	0.8	1.3	0.3	1.3	0.5	0.7	0.7	0.1	1.1	-1.2	0.2	0.1	0.2	0.3	0.3
Housing investment	Q-o-q % ch	-18.4	-1.2	7.8	-9.2	-8.3	-3.5	2.0	-0.8	1.3	1.3	1.6	2.0	2.5	2.9	0.3
Capital investment	Q-o-q % ch	-15.3	4.3	4.0	-5.0	-2.1	1.7	1.0	1.8	0.8	1.2	0.2	1.0	1.1	1.4	1.5
Inventory investment	Q-o-q contribution, % pt	-0.6	0.0	0.1	0.1	-0.6	-0.1	0.3	-0.1	0.1	0.0	-0.1	0.1	0.1	0.0	0.0
Public sector demand	Q-o-q % ch	3.0	0.0	0.5	1.7	-0.2	0.3	0.4	-0.3	-0.1	-0.4	-0.2	0.3	0.3	0.4	0.5
Government consumption	Q-o-q % ch	1.7	1.3	1.0	0.1	0.2	0.6	0.6	0.2	0.1	0.4	0.2	0.3	0.2	0.2	0.2
Public investment	Q-o-q % ch	9.3	-6.9	-1.6	9.1	-2.1	-1.0	-0.7	-2.3	-0.6	-4.2	-2.8	0.3	0.8	1.5	1.8
External demand	Q-o-q contribution, % pt	0.4	1.2	0.2	2.1	0.5	0.5	0.6	0.3	0.0	0.1	0.1	0.0	0.0	0.0	0.1
Exports	Q-o-q % ch	-9.5	18.7	4.5	10.1	9.3	5.1	7.0	5.6	2.4	0.3	0.8	1.0	1.3	1.5	1.6
Imports	Q-o-q % ch	-12.2	10.8	3.9	-5.4	5.2	1.4	3.2	4.0	2.7	-0.3	0.5	0.9	1.3	1.5	1.2
GDP (nominal)	Q-o-q % ch	-3.6	0.8	0.6	0.3	-0.6	0.4	1.7	-0.7	0.7	-0.8	0.2	0.2	-0.1	0.8	0.8
GDP deflator	Y-o-y % ch	-1.8	-1.7	-0.7	-0.5	-0.7	-2.9	-3.1	-1.9	-2.0	-1.7	-1.4	-0.6	-1.1	-0.6	-0.4
Domestic demand deflator	Y-o-y % ch	-2.5	-0.9	-0.1	-2.7	-3.0	-2.7	-1.7	-0.7	-1.2	-0.9	-0.8	-0.3	-0.5	0.1	0.2

Note: The readings above may differ from public releases because the rates of change are calculated based upon actual results.
Source: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP* .

		FY2009	FY2010	FY2011	2009			2010				2011				2012
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Industrial production	Q-o-q % ch	-8.9	7.7	1.8	6.6	5.3	5.9	7.0	1.5	-1.8	-3.9	0.9	1.3	1.4	1.7	1.5
Ordinary profits	Y-o-y % ch	2.1	29.7	7.7	-53.0	-32.4	102.2	163.8	83.4	50.1	11.0	-0.3	2.2	4.5	12.4	12.1
Nominal labor compensation	Y-o-y ch	-3.5	0.6	0.3	-4.6	-3.8	-4.5	-0.2	1.2	1.0	0.8	-0.7	-0.0	0.3	0.3	0.6
Unemployment rate	%	5.2	5.1	5.0	5.1	5.4	5.2	4.9	5.2	5.1	5.1	5.1	5.0	5.0	5.1	4.9
New housing starts	P.a., 10,000 units	77.5	81.8	88.8	76.9	71.3	79.1	83.7	76.0	81.2	83.6	85.1	86.4	88.0	90.5	90.5
Current account balance	P.a., JPY tril	15.8	16.8	16.3	14.1	14.5	15.9	18.6	15.1	17.2	17.6	17.4	15.6	16.9	15.2	17.1
Domestic corporate goods prices	Y-o-y % ch	-5.2	0.3	1.0	-5.5	-8.3	-5.2	-1.7	0.2	-0.1	0.8	0.4	0.2	0.8	1.2	1.8
Consumer prices	Y-o-y % ch	-1.6	-0.9	-0.3	-1.0	-2.3	-1.7	-1.2	-1.2	-1.1	-0.6	-0.8	-0.5	-0.3	-0.4	-0.1
Uncollateralized overnight call rate	%	0.08	0～0.10	0～0.10	0.11	0.10	0.09	0.08	0.10	0.11	0～0.10	0～0.10	0～0.10	0～0.10	0～0.10	0～0.10
Yield on newly-issued 10-yr JGBs	%	1.35	1.03	0.78	1.42	1.34	1.32	1.34	1.21	0.99	0.88	0.85	0.80	0.80	0.75	0.75
Nikkei average	JPY	9,974	9,750	10,500	9,294	10,141	9,959	10,503	10,343	9,357	9,500	9,700	9,900	10,300	10,700	11,100
Exchange rate	JPY/USD	93.0	85.0	82.0	97.3	93.6	89.7	91.0	92.0	86.0	82.0	81.0	80.0	81.0	83.0	85.0
Crude oil price (WTI nearest term contract)	USD/bbl	71.0	81.0	90.0	59.8	68.2	76.1	79.0	78.0	76.0	84.0	87.0	88.0	89.0	91.0	93.0

Notes: 1. The readings above may differ from public releases because the rates of change are calculated based upon actual results.
2. Ordinary profits are based upon the *Financial Statements Statistics of Corporations by Industry (all industries)* .
3. Consumer prices exclude fresh food.
4. Quarterly data on the unemployment rate, new housing starts and current account balance are seasonally-adjusted.
5. Of the finance-relate indices, the uncollateralized overnight call rate refers to the rate at the end of term and all others are averages during the relevant terms.

Sources: Made by MHRI based upon Cabinet Office, *Preliminary Quarterly Estimates of GDP* , Ministry of Economy, Trade and Industry, *Indices of Industrial Production* , Ministry of Finance, *Financial Statements Statistics of Corporations by Industry, Quarterly* , Ministry of Internal Affairs and Communications, *Labor Force Survey, Consumer Price Index* , Ministry of Land, Infrastructure, Transport and Tourism, *Current Survey on Construction Statistics* , Bank of Japan, *Balance of Payments* , *Corporate Goods Price Index* , *Financial and Economic Statistics Monthly, Foreign Exchange Rates* , Japan Bond Trading Co., Ltd., *Latest Daily JGB Rates* , Nikkei Inc. and Bloomberg.

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