

# Economic Outlook for FY2010 and FY2011

May 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 (1<sup>st</sup> QE)* for the Jan-Mar quarter of 2010

## <The US Economy>

The US economy will stay on a mild recovery track

**2010** +3.0% (previous outlook +2.9%)

**2011** +2.4% (previous outlook +2.2%)

## <The Japanese Economy>

**FY2010** +2.1% (previous outlook +1.2%)

Export growth will gradually feed through to the recovery of domestic demand

**FY2011** +1.8% (previous outlook +1.7%)

Despite the continuation of a gradual recovery, it will be insufficient to push

Japan's economy out of deflation

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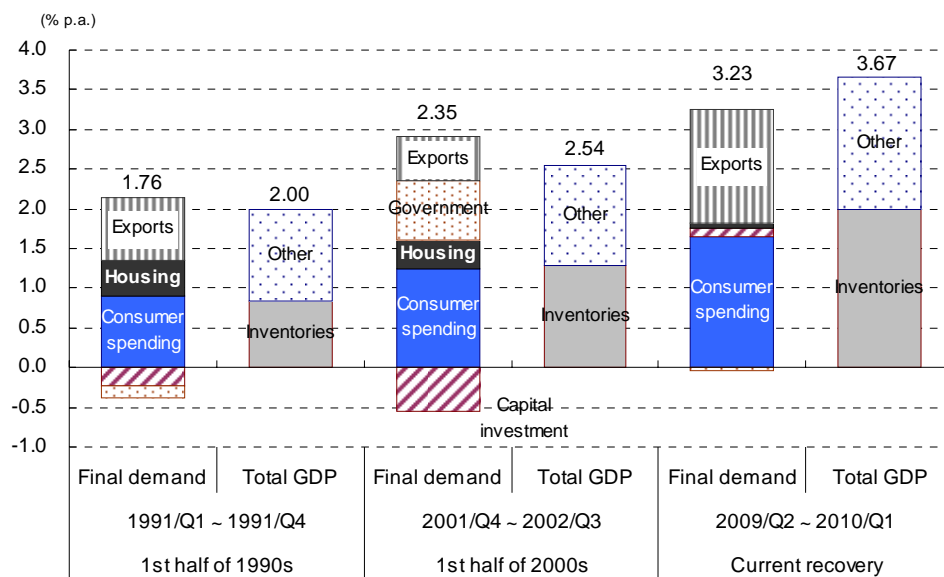
# I. The US economy

**US real GDP grew +3.2% q-o-q p.a. in the Jan-Mar quarter of 2010,**

According to advance estimates released by the Bureau of Economic Analysis, US real gross domestic product (GDP) continued to grow steadily albeit at a slower pace of +3.2% q-o-q p.a. in the Jan-Mar quarter of 2010. Personal consumption grew a robust +3.6% q-o-q p.a. Inventory investment also turned positive on quarter-on-quarter basis for the first time in eight quarters.

While the US economy is continuing to follow a steady recovery, a closer look reveals that the drivers are quite different from previous recovery cycles. The strength of the current recovery is conspicuous in terms of both real GDP and final demand when comparing the current recovery with the first half of the 1990s and the first half of the 2000s - based upon the assumption that the Apr-Jun quarter of 2009 was the trough of the economic cycle (**Chart 1**). This stems most likely from a cyclical rebound from the deep fall as a result of the financial crisis and the strength of the financial stabilization measures and economic stimulus measures.

[ Chart 1: The drivers of the US economy ]



Notes: Real, s.a. Rate of growth during 3 quarters from the bottom of the economic cycle. The numerical figures in the graph refer to the rate of growth of final demand and GDP. The components of the bars represent the contribution to the growth of final demand and total GDP during the 3-qtr period from the bottom of the economic cycle. Final demand = personal consumption + capital investment + housing investment + government expenditures + exports.

Sources: US Department of Commerce, MHRl.

**Consumer spending and exports are the twin pillars of final demand**

Looking closer, inventory investment contributed to a large part of real GDP growth. Even though business firms slashed inventories in the wake of the financial crisis, the breadth of inventory adjustments have then narrowed, serving to push up the rate of real GDP growth. A look at the contents of final demand which enabled firms to ease the inventory reductions reveals that consumer spending and exports are the twin pillars. Tax cuts within the country and the

various economic stimulus measures overseas served to push up final demand in the US.

For US President Barak Obama who advocates a drive to double US export growth, the maintenance of the twin pillars – consumer spending and exports – would appear to be extremely desirable. Put differently, the future course of the US economy depends not only upon domestic factors but also upon overseas economic trends. External risks abound such as the extent to which the eurozone sovereign crisis will impact the US economy through the financial market and trade transactions and whether the Chinese economy will be able to achieve a successful soft landing despite its risks of a bubble.

**Forecast on US real GDP  
growth upgraded to +3.0 %  
in 2010 and +2.4% in 2011**

We have revised our forecast on US economic growth in 2010 to +3.0% and +2.4 in 2011, up +0.1% pt and +0.2% pt respectively from our forecast in our previous *Economic Outlook* in March 2010. While our upgrade takes into consideration the strength of the recovery thus far, this by no means indicates that we have turned sanguine. Even though we have revised upward our forecast on payroll growth, we still expect that the US economy will remain in a “jobless recovery” with weaknesses in payroll growth and a high rate of unemployment.

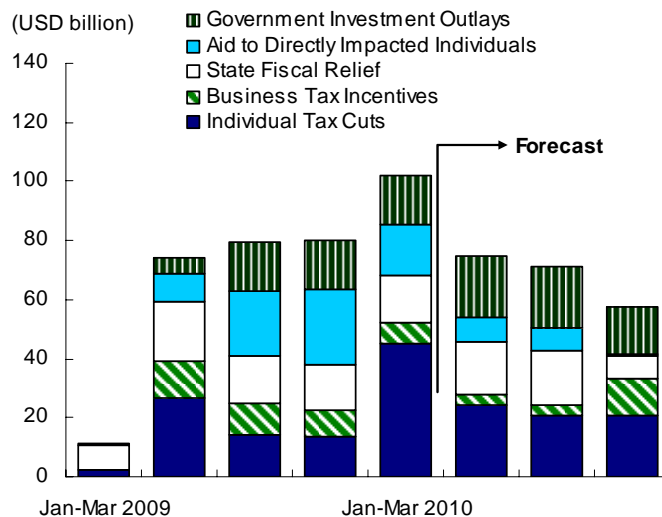
Setting aside the trends in overseas economies and financial market conditions, our view on the US economy may be summarized into five main scenarios as follows: (1) Monetary easing will persist but fiscal policy will turn tighter. (2) Inventory replenishment will continue but its contribution to economic growth will contract. (3) Payrolls will increase but the job recovery will remain weak due to the impact of (1) and (2), resulting in a jobless recovery. (4) The housing market will remain stable but the mortgage loan problem will continue to fester. (5) Deflationary risks will linger amid the persistence of disinflation. In the following paragraphs, we shall comment in more depth on (3) and (5).

**Tighter fiscal policy**

The US economic recovery is sustained largely on a huge “shot in the arm” comprised of monetary easing and economic stimulus measures. According to the Council of Economic Advisers (CEA) of the US President, real GDP growth is pushed up approximately 3% by the stimulus measures.

Going forward, however, the US fiscal policy stance is predicted to turn tighter. A look at the quarterly state of progress of the economic stimulus measures (American Recovery and Reinvestment Act, “ARRA”) leads to our view that the measures will reach a peak in the Jan-Mar quarter of 2010 and start to shrink from then onward (**Chart 2**). Furthermore, state government expenditure cuts and tax hikes are being implemented to achieve a balanced budget amid the sharp reduction of state government revenues. The impact is forecast to intensify in the future.

[ Chart 2: US economic stimulus measures (ARRA) ]



Note: Since the relief measures under the Alternative Minimum Tax (AMT) are not new, they are excluded from the economic stimulus measures. "Forecast" by MHRI.

Sources: Council of Economic Advisers (CEA) (April 2010), MHRI.

**Despite payrolls growth, the recovery will remain weak**

According to US employment data for April, nonfarm payrolls increased for the fourth month in a row. Even though the unemployment rate rose, the employment rate is in fact rising because the uptick of the unemployment rate stems from a larger number of workers looking for jobs in view of the improvement of labor market conditions.

Looking forward, payroll growth should persist. As the economic recovery continues, labor demand should improve. That said, new hirings may not necessarily be so strong since labor hours per worker are also expected to continue to pick up.

**The dramatic rise of labor productivity is cyclical**

There is debate regarding the future course of the labor market – whether the dramatic rise of labor productivity since last year is structural or cyclical. If it is structural, this would mean that the recovery of payroll growth is extremely weak. Even though we have taken into consideration the impact of productivity growth in our past outlooks, we would have to downgrade our view on jobs if we stand upon this hypothesis. However, this argument lacks validity if we take into view the two following factors. The first is that the growth of IT-related investment has been weak during the past few years. The second is that current data generally conforms to Okun's law.

**The buildup of IT stock has been moderate**

In the US, the voracious IT-related investment in the second half of the 1990s led to the rise of productivity several years later in the first half of the 2000s and served to curb employment. However, IT investment in the second half of the 2000s until the onset of the current crisis was weak in comparison to the second half of the 1990s and there was only a mild buildup of IT stock. Thus, it is unlikely that the rise of productivity will emerge later on as it did in the past.

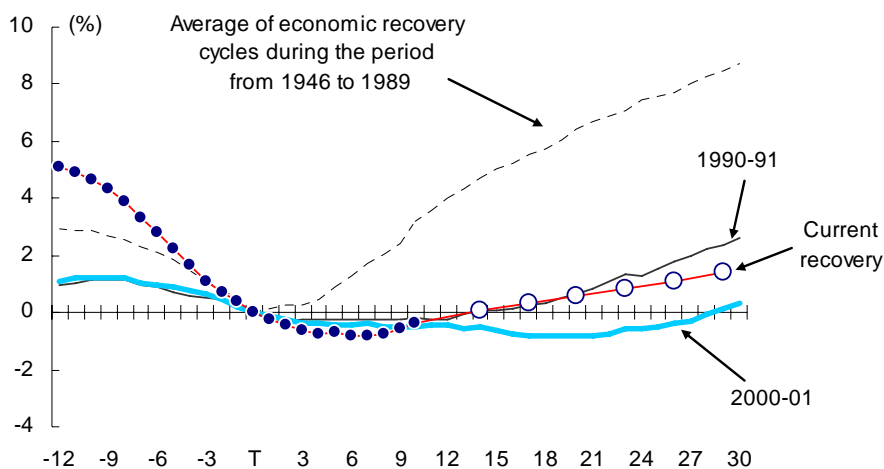
**The divergence of the unemployment rate from Okun's law stems from employment measures**

**In effect, a “jobless recovery” is progressing**

Since the rise of the unemployment rate along with the current economic downturn is larger than what would be predicated by Okun's law, there are some who indicate that the phenomenon may be interpreted as the structural rise of productivity. On the other hand, however, some indicate that the extension of unemployment benefits by the government are leading to more people to continue to look for jobs than would usually be the case, thus serving to raise the unemployment rate. Even though the breadth of the uptick is less than 1% pt, it is enough as a explanation of the rise of the unemployment rate from Okun's law. In other words, if the impact of the unemployment measures were taken into consideration, the rise of the unemployment rate falls short as evidence of a structural rise of productivity.

Apart from mild productivity gains hampering new employment, the scope for labor hours per worker to rise further and the labor mismatch among geographic regions and industrial sectors are also expected to serve as obstacles to the creation of jobs. As a result, even though jobs will increase along with the recovery of the economy, the pace of job growth will be on par as the first half of the 1990s when the term “jobless recovery” was first coined. We are thus inclined to believe that the US economy will in effect remain in a jobless recovery (**Chart 3**).

**[ Chart 3: The pace of job recovery – a comparison of past economic cycles ]**



Notes: Percentage change of nonfarm payrolls from the trough (T) of the economic cycle. The recovery cycles since the second half of 1982 are sampled since the two economic downturns during the period from 1980 to 1982 are deemed as one cycle.

= actual , = forecast

Sources: US Department of Labor, MHRI.

**Deflationary risks will linger given the continuation of disinflation**

As indicated by the unemployment rate near 10%, the US economy faces substantial resource slack (output gap). Amid such conditions, the core inflation rate is hovering at an extremely low level. In March, the rise of the core personal consumption expenditures (PCE) deflator was only +1.3% y-o-y. Assuming that conditions observed during the past three months will persist, the rise of the core PCE deflator would slow down to +0.5% y-o-y in FY2011. While the decline of housing-related prices is contributing to disinflation in recent years, disinflation

**Deflationary risks will  
linger**

may be ascertained even by indicators such as the trimmed mean CPI and the weighted median index which are developed to capture the cyclical movement of the inflation rate excluding special factors.

Considering that a certain section of US households still suffer from a debt overhang, it is crucial to ascertain whether the US economy will fall into deflation. In addition to the above-mentioned output gap, the inflation rate is determined by production costs (unit labor costs) and inflation expectations. Even though the percentage change of unit labor costs is deep in negative territory, suggesting that disinflation will persist, on the other hand, there are no indications of a “deflationary mindset” forming among business firms and financial market players. In addition to the improvement on future outlooks among manufacturers regarding the output prices of their products, inflation expectations among financial market players remain around 1% in the short-term zone and around 2% in the long-term zone.

Even so, we cannot afford undue optimism. If the recent financial market developments were taken into consideration, we could conclude that deflationary risks are rising even more than in the past. If a major shock comparable to the Lehman Shock were to occur, a deflationary mindset will spread among firms and financial market players. The only difference from conditions at the time of the Lehman Shock is that the US economy possesses a huge output gap.

**US financial market under  
stress**

Actually, given the rise of the European sovereign debt crisis in early May, the Financial Stress Index (FSI, Federal Reserve Bank of St. Louis) and the Financial Condition Index (FCI, Bloomberg) - both of which are measures of stress in the financial market - have deteriorated to levels last observed in August 2007 when global anomalies in short-term money markets started to emerge, thus indicating the rise of downside risks.

[ Chart 4: Outlook on the US economy ]

(%)

	2009 (Actual)	2010 (Forecast)	2011 (Forecast)	2009		2010 (Forecast)		2011 (Forecast)	
				1H	2H	1H	2H	1H	2H
GDP	-2.4	3.0	2.4	-4.8	2.3	3.7	2.2	2.4	2.6
Personal consumption	-0.6	2.6	2.2	-0.7	1.6	3.1	2.6	2.0	2.1
Housing investment	-20.5	2.0	1.9	-31.1	2.9	1.8	1.5	0.8	4.7
Capital investment	-17.8	3.3	6.7	-28.0	-4.2	5.0	8.0	7.1	4.7
Inventory investment (USD 100 million)	-1,083	111	265	-1,371	-795	135	87	146	384
Government consumption	1.8	-0.1	-0.4	0.6	2.6	-1.0	-0.9	-0.4	0.0
Net exports (USD 100 million)	-3,556	-3,748	-3,623	-3,585	-3,527	-3,694	-3,801	-3,685	-3,562
Exports	-9.6	10.4	8.4	-21.6	13.1	10.5	7.7	8.0	9.6
Imports	-13.9	9.4	6.2	-26.8	9.8	10.3	7.3	5.3	6.7
Domestic final demand	-2.7	2.1	2.1	-4.7	1.3	2.4	2.4	2.0	2.0
Unemployment rate	9.3	9.8	9.8	8.7	9.8	9.8	9.7	9.8	9.9
Nonfarm payrolls (per month, 1,000 persons)	-489	-36	122	-649	-351	36	134	120	112
PCE deflator <y-o-y change>	0.2	1.8	1.3	0.1	0.3	2.0	1.5	1.3	1.3
Core PCE deflator <y-o-y change>	1.5	1.2	1.0	1.7	1.4	1.3	1.1	1.0	1.0
Current account balance (USD 100 million)	-4,199	-5,074	-4,984	-2,019	-2,179	-2,526	-2,548	-2,436	-2,349
<as a percentage of nominal GDP>	-2.9	-3.4	-3.3	-2.9	-3.0	-3.4	-3.4	-3.2	-3.0

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

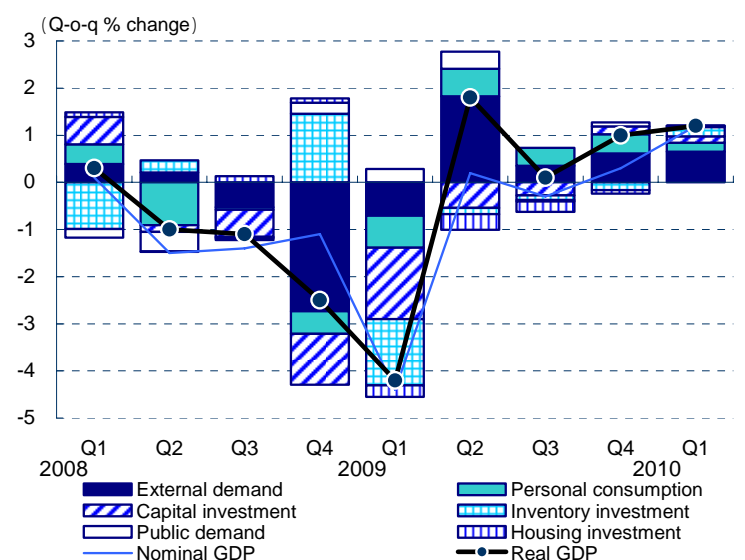
### (1) The current state of the economy

**Japan's economy  
expanded for four quarters  
in a row**

Japan's real GDP grew at a rate of +1.2% q-o-q (+4.9% in annualized terms) in the Jan-Mar quarter of 2010, expanding for four quarters in a row (**Chart 5**). Even though the pace of expansion was slightly below the consensus forecast (+1.4% q-o-q), the results may be described as strong and balanced between domestic and external demand.

Looking closer at each of the components of demand, external demand contributed +0.7%pt, serving as the driver of Japan's economic recovery. Exports grew +6.9% q-o-q (+5.8% q-o-q in the Oct-Dec quarter of 2009), driven by exports to China and the rest of Asia in terms of geographic destinations and exports of IT-related goods such as semiconductors and construction machinery in terms of goods. Imports also grew at a faster pace of +2.3% q-o-q (+1.5% q-o-q in the Oct-Dec quarter) reflecting background factors such as the rise of domestic production.

[ Chart 5: Japan's quarterly GDP growth ]



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

Turning to domestic demand, the contributions to growth by private sector demand and public sector demand were +0.5% pt and +0.0% pt respectively. Personal consumption grew +0.3% q-o-q (+0.7% q-o-q in the Oct-Dec quarter). A breakdown of household final consumption expenditures reveals that purchases of durable goods (+4.2% q-o-q) helped by measures to stimulate purchases of durable consumer goods such as the Eco-Point Program served as the driver. However, note that purchases of durable consumer goods are slowing down when compared to the momentum up to the Oct-Dec quarter (+8.8% q-o-q). As suggested by the flattening out of car sales, the marginal effect of the support measures may be gradually tapering off. As for the Jan-Mar quarter, it appears

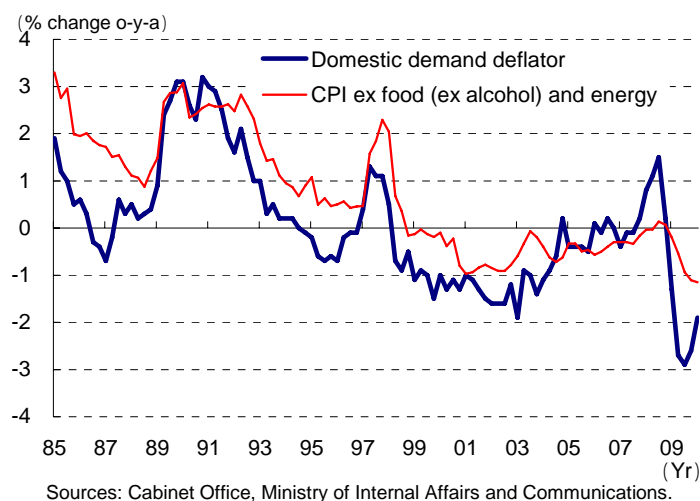


**Deflationary conditions  
remain unchanged**

that the change of items covered under the Eco-Point Program in April led to a rush of flat-panel TV purchases and that, in turn, pushed up consumption of durable goods. Despite the lackluster performance in other areas such as semidurable goods (+0.1% q-o-q), nondurable goods (+0.2% q-o-q) and services (-0.3% q-o-q), positive movements have become discernible such as the spread of export growth to the household sector through the expansion of output as evidenced by the rise of real labor compensation (+1.9% q-o-q). Investment activity also picked up, with housing investment (+0.3% q-o-q) rising for the first time in five quarters. Capital investment (+1.0% q-o-q) and inventory investment (contribution to q-o-q growth +0.2% pt) also pushed up the rate of GDP growth. Turning to public demand, while government consumption increased +0.5% q-o-q, public investment fell (-1.7% q-o-q) (-1.2% q-o-q in the Oct-Dec quarter), recording a decline for three quarters in a row.

The domestic demand deflator stood at -1.9% y-o-y (-2.6% y-o-y in the Oct-Dec quarter) (**Chart 6**). Even though the breadth of the fall has narrowed due to the rise of natural resource prices, prices remain on a downtrend. The CPI excluding food (ex alcohol) and energy fell 1.1% y-o-y as in the previous quarter. The Japanese economy is still in a state of deflation.

**[ Chart 6 : The domestic demand deflator and the CPI ]**



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

Still early for a  
self-sustained recovery of  
domestic demand

Looking forward, the Japanese economy should continue to expand through FY2010 and FY2011 without straying off the current recovery track.

Up to our previous *Economic Outlook*, we said that a genuine sense of recovery would remain weak because (1) the level of real GDP would fall short of the recent peak (Jan-Mar quarter of 2008) even in the final quarter of the forecast horizon (Jan-Mar quarter of 2012), and (2) Japan's economic recovery is driven primarily by external demand and the full-fledged recovery of the domestic private sector – in particular employment and income – would take more time.

In the latest revision of our *Economic Outlook*, we have maintained our view on (1) above that the level of real GDP will fall short of the recent peak. However, in light of changes in conditions, we have made a slight upward revision of our view on (2) regarding the slow recovery of the domestic private sector. Given the faster-than-expected recovery of the overseas economies and Japan's exports, domestic industrial production is following a similar path. As a result, the recovery of capital investment stemming from the rise of the capacity utilization ratio and the improvement of the income environment due to the increase of labor hours may be achieved earlier than initially expected. While we bear in mind that downside risks are mounting regarding the European fiscal crisis, we have revised upward our outlook on growth, mainly with respect to FY2010.

There is debate on whether the Japanese economy is indeed following a self-sustained recovery. If a self-sustained recovery is defined as “a condition in which the economy recovers regardless of the existence or nonexistence of fiscal support”, the debate would be irrelevant at this point in time since the Japanese economy has been picking up since the Apr-Jun quarter of 2009, driven by exports, even without the policy measures to stimulate durable goods purchases. On the other hand, if a self-sustained recovery is defined as “a condition in which a virtuous cycle of the recovery of domestic demand leading to the expansion of production and in turn spreading to further domestic demand is taking hold”, we believe that the economy is not yet strong enough to be described as such. Firms in Japan still feel burdened by considerable slack in capacity and labor. While such corporate sentiment should eventually be dispelled as long as industrial production continues to grow, should some sort of shock to the overseas economies occur and serve as an obstacle to export growth, concerns regarding the output gap would surface again within Japan. In sum, the Japanese economy has not yet reached a stage where we can look forward to a cycle of private demand alone propelling production and in turn serving as a driver of further private demand growth. Within such a context, the future course of the Japanese economy still depends heavily upon the overseas economies and external demand. As stated earlier, we stand upon the basic view that the overseas economies will continue to

expand. We are thus inclined to believe that the Japanese economy will follow a path of “external demand spreading to domestic demand” in which the rise of exports will lead to the recovery of domestic production, income, and demand. Having said so, it will still take more time until the economy can shift into a self-sustained recovery driven by domestic private demand.

**Major premises in fiscal policy**

We shall turn next to the major premises on fiscal policy. In FY2010, we assume policy developments in line with the initial budget which was passed and enacted at the end of March 2010. Assuming that the Eco-Car Subsidy and the Eco-Point Program will end as of the end of September and December respectively, we have not taken into consideration the possibility that they will be extended again. FY2011 is based upon the premise that the full amount of the child allowance will be paid in cash and that it will be funded in part by the reduction of public demand such as public investment.

**The Japanese economy in FY2010**

Based upon the foregoing premises, we turn next to our outlook on the future course of the Japanese economy. Firstly, the Japanese economy should continue to recover in FY2010. Exports are predicted to keep growing, given the overseas economic recovery driven primarily by Asia. In the domestic economy, private sector demand is expected to pick up along with the rise of production initiated by the increase of exports. More specifically, personal consumption should follow a steady course along with the improvement of the income environment against a backdrop of factors including the increase of labor input. In the corporate sector, capital investment will start to expand along with the upturn of the capacity utilization ratio. Even so, given the lingering sentiment among businesses that they are burdened with excess capacity and labor and stagnant expectations (toward domestic demand), the pace of recovery of private sector demand will remain slow. Furthermore, while household sector income and demand will be propped up by the payment of the child allowance, a fall of demand is expected due to the large-scale reduction of public investment and the expiration of the measures to stimulate purchases of durable goods. The economy will be subject to volatile swings due to the intermittent rise of positive and negative impacts stemming from such fiscal policy measures. During the second half of FY2010 when the measures to stimulate purchases of durable goods purchase expire, the recovery of both domestic and external demand will likely slow down as the overseas economic recovery loses steam. The rate of real GDP growth in FY2010 is forecast to reach +2.1% y-o-y (previous outlook: +1.2% y-o-y).

**The Japanese economy in FY2011**

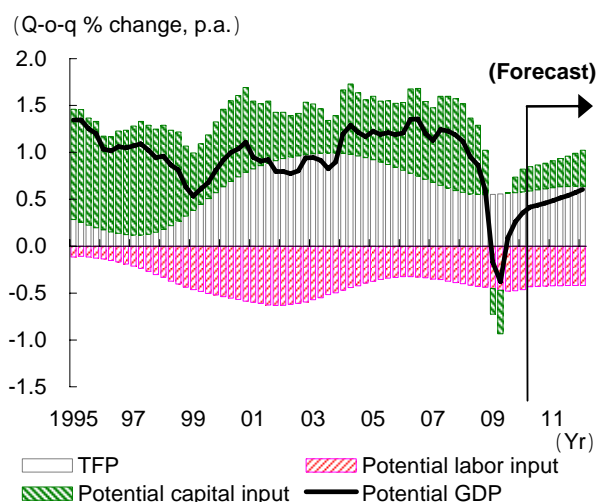
The Japanese economy should remain on a recovery track in FY2011. Domestic private sector demand is expected to grow. Amid the progress of the stock adjustment process, investment in plant & equipment, housing, and inventories should grow at a commensurately high pace. Personal consumption

## A rocky road out of deflation

should keep growing due to expectations that household income will continue to be propped up by measures such as the full payment of the child allowance in addition to the recovery of labor market conditions. Even though public demand will continue to decline in a counteraction to the increase of income distribution to the private sector, overall domestic demand should increase. Despite the ongoing rise of exports, the pace will moderate reflecting the slowdown of the overseas economies from the second half of FY2010. In FY2011, the pace of Japan's real GDP growth is forecast to reach +1.8% y-o-y (previous outlook: +1.7% y-o-y)

On the basis of our outlook set forth herein, the breadth of the output gap in negative territory (currently estimated to be around JPY25 trillion) is still predicted to be around JPY10 trillion even in the Jan-Mar quarter of 2012. Even though downward price pressures should ease due to the contraction of the deflationary gap, it is necessary to take note that the pace of contraction (of the deflationary gap) will be dragged down by a gradual improvement of the potential rate of GDP growth when the following factors are taken into consideration: (1) the increase of capital input due to the rise of capital investment, and (2) the improvement of macroeconomic labor productivity due to the decline of potential unemployment (**Chart 7**). Turning to inflation, even though the expected inflation rate is unlikely to drop much further, neither is it expected to rise. Our forecasts on the domestic demand deflator and CPI (ex fresh food) are as follows: (1) domestic demand deflator -0.5% y-o-y in FY2010 and +0.1% y-o-y in FY2011, (2) CPI (ex fresh food) -1.0% y-o-y in FY2010 and -0.0% y-o-y in FY2011. The CPI excluding food (ex alcohol) and energy, which eliminates the impact of higher natural resource prices pushing up prices, should keep declining: -1.6% y-o-y in FY2010 and -0.6% y-o-y in FY2011. The road out of deflation is still a rocky road.

[ Chart 7: Potential GDP growth ]

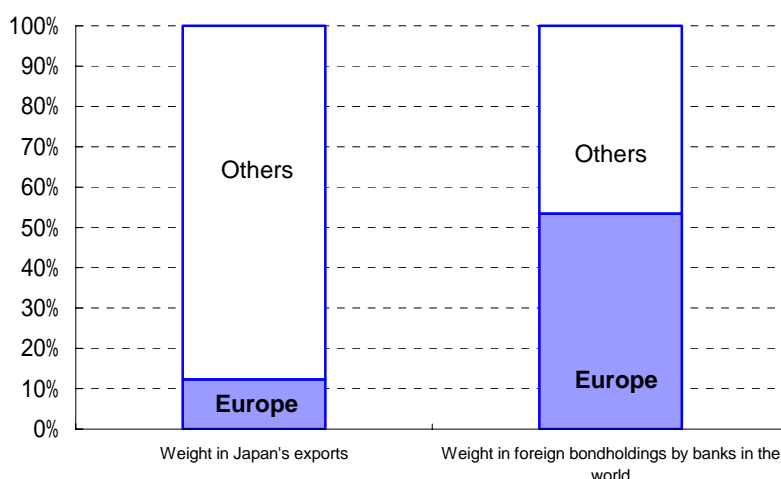


Sources: Made by MHRI based upon various sources.

**The fiscal crisis in southern Europe is a major downside risk**

In closing, we shall comment on the risks to the foregoing scenario. As covered widely in various sources, the fiscal crisis in southern Europe is a major downside risk to growth. Considering that the weight of eurozone-bound exports is only 10% of Japan's total exports, its direct impact should be limited (**Chart 8**). However, if the eurozone economy slows considerably below forecasts along with the tightening of fiscal policy, there are concerns that it might have an indirect impact by, for instance, the drop of Chinese exports to the eurozone leading to the fall of Japan's China-bound exports. Moreover, in the event that countries such as Greece fail to carry out their fiscal rehabilitation plans, or if concerns regarding its implementation should arise, the financial market's attention may focus upon the financial soundness of financial institutions holding government bonds of the relevant countries and lead to a resurgence of a global financial crisis. For the time being, it will be necessary to monitor closely the developments with respect to this issue. Depending upon the turn of events, a major downward revision of our outlook may become inevitable.

**[ Chart 8: Europe's weight in Japan's trade and global finance ]**



Note: "Weight in Japan's exports" (as of March 2010), "weight in foreign bondholdings by banks in the world" (estimate at end of December 2009)  
Sources: Ministry of Finance, *Trade Statistics*, BIS, *Consolidated Banking Statistics*.

**The risks of a surge of natural resource prices**

The surge of natural resource prices is another downside risk. The price of iron ore and coal has been soaring since April. Even though the commodity market is currently cooling down due to a "flight to quality" accompanying the fiscal crisis in Europe, a reversal of market trends may not be ruled out once it becomes apparent that the pace of growth among China and the emerging economies will not lose momentum. In particular, should prices of crude oil – given its large weight in Japan's imports – climb higher, it would have a significant negative effect upon Japan's trade environment. This may even have a negative effect upon corporate earnings and profits – both of which are rising at the moment – and actualize the downside risks to growth as corporate behavior turns more cautious.

[ Chart 9: 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	-1.9	2.1	1.8	1.8	0.1	1.0	1.2	0.3	0.4	0.0	0.4	0.5	0.5	0.7	0.9
	Q-o-q % ch p.a.	--	--	--	7.4	0.5	4.2	4.9	1.3	1.5	0.0	1.5	1.8	2.0	3.0	3.5
Domestic demand	Q-o-q % ch	-2.4	0.8	1.4	-0.1	-0.2	0.4	0.6	0.0	0.3	-0.1	0.3	0.3	0.3	0.6	0.8
Private sector demand	Q-o-q % ch	-4.0	1.5	1.9	-0.5	-0.3	0.4	0.7	0.3	0.5	0.1	0.3	0.7	0.4	0.7	0.7
Personal consumption	Q-o-q % ch	0.6	1.1	0.9	1.0	0.6	0.7	0.3	0.2	0.3	-0.2	0.2	0.4	0.2	0.3	0.3
Housing investment	Q-o-q % ch	-18.5	2.4	6.9	-9.8	-7.3	-2.7	0.3	1.7	3.0	2.4	1.0	1.2	1.0	2.6	3.2
Capital investment	Q-o-q % ch	-15.1	2.2	4.4	-3.7	-2.0	1.3	1.0	0.4	0.5	0.7	0.8	1.1	1.1	1.7	1.8
Inventory investment	Q-o-q contribution, % pt	-0.5	0.1	0.2	-0.1	-0.1	-0.2	0.2	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Public sector demand	Q-o-q % ch	2.9	-1.3	-0.5	1.5	-0.1	0.4	0.1	-1.1	-0.4	-0.6	0.3	-0.8	0.0	0.4	1.1
Government consumption	Q-o-q % ch	1.8	1.6	1.4	0.2	0.1	0.7	0.5	0.3	0.4	0.2	0.4	0.4	0.4	0.3	0.3
Public investment	Q-o-q % ch	8.7	-16.0	-10.7	7.3	-1.0	-1.2	-1.7	-8.1	-4.5	-5.3	-0.7	-7.9	-2.2	1.4	6.2
External demand	Q-o-q contribution, % pt	0.4	1.2	0.3	1.8	0.4	0.6	0.7	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Exports	Q-o-q % ch	-9.6	16.9	6.5	10.1	8.6	5.8	6.9	4.4	1.6	0.6	1.0	1.9	1.9	2.1	2.1
Imports	Q-o-q % ch	-11.8	8.8	4.9	-3.7	5.6	1.5	2.3	3.4	1.4	0.4	0.7	1.5	1.3	1.7	1.7
GDP (nominal)	Q-o-q % ch	-3.7	0.5	1.6	0.2	-0.3	0.3	1.2	-0.6	-0.7	0.8	0.6	0.1	-0.3	1.5	1.2
GDP deflator	Y-o-y % ch	-1.8	-1.6	-0.2	-0.7	-0.7	-2.8	-3.0	-1.9	-2.6	-1.2	-0.9	-0.3	-0.1	-0.4	0.0
Domestic demand deflator	Y-o-y % ch	-2.6	-0.5	0.1	-2.7	-3.0	-2.7	-1.9	-0.5	-0.8	-0.3	-0.4	-0.1	0.2	0.0	0.5

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	13.8	4.1	6.6	5.3	5.9	7.0	2.6	1.2	0.4	0.7	1.1	1.2	1.2	1.5
Ordinary profits	Y-o-y % ch	3.3	26.8	11.7	-53.0	-32.4	102.2	174.0	58.5	37.4	21.5	5.6	9.9	10.7	11.9	13.8
Nominal labor compensation	Y-o-y % ch	-3.5	0.1	0.4	-4.6	-3.8	-4.5	-0.3	-0.3	0.4	0.8	-0.5	0.2	0.3	0.6	0.6
Unemployment rate	%	5.2	5.0	4.7	5.1	5.4	5.2	4.9	5.1	5.0	4.9	4.9	4.8	4.8	4.7	4.6
New housing starts	P.a., 10,000 units	77.5	85.8	93.4	76.9	71.3	79.1	83.7	84.8	82.6	87.0	89.4	90.1	89.2	95.9	99.4
Current account balance	P.a., JPY tril	15.7	15.8	16.9	14.1	14.5	15.9	18.2	13.6	13.1	16.6	20.1	14.0	14.5	17.5	21.4
Domestic corporate goods prices	Y-o-y % ch	-5.2	0.6	1.0	-5.5	-8.3	-5.2	-1.7	0.2	0.5	1.1	0.8	0.7	0.8	1.3	1.4
Consumer prices	Y-o-y % ch	-1.6	-1.0	-0.0	-1.0	-2.3	-1.7	-1.2	-1.3	-1.3	-0.9	-0.7	-0.2	0.0	-0.1	0.1
Uncollateralized overnight call rate	%	0.08	0.10	0.10	0.11	0.10	0.09	0.08	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Yield on newly-issued 10-yr JGBs	%	1.35	1.18	1.35	1.42	1.34	1.32	1.34	1.30	1.20	1.15	1.15	1.20	1.30	1.40	1.50
Nikkei average	JPY	9,974	11,150	12,000	9,294	10,141	9,959	10,503	10,700	11,000	11,300	11,500	11,700	11,900	12,100	12,300
Exchange rate	JPY/USD	93.0	95.0	104.0	97.3	93.6	89.7	91.0	93.0	94.0	96.0	98.0	101.0	103.0	105.0	105.0
Crude oil price (WTI nearest term contract)	USD/bbl	71.0	80.0	88.0	59.8	68.2	76.1	79.0	78.0	84.0	81.0	79.0	85.0	91.0	88.0	86.0

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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