Economic Outlook for FY2008, FY2009 and FY2010

February 2009

The following is Mizuho Research Institute's (MHRI) outlook on the economy in FY2008, FY2009 and FY2010 reflecting the release of *The First Preliminary Quarterly Estimates of GDP (1st QE)* for the Oct-Dec quarter of 2008. The key points are as follows.

<The US Economy>

	Private demand will slump and the recovery will remain weak even after the implementation of the economic stimulus measures
2009	-2.4% (previous outlook -1.0%)
2010	1.3%

<The Japanese Economy>

FY2008	-2.8% (previous outlook -0.8%)
	Exports and capital investment will fall at a faster pace in the second half of the fiscal year
FY2009	-4.6% (previous outlook -1.0%)
	The risks of deflation will intensify along with the fall of both domestic demand and exports
FY2010	0.8%
	Deflationary risks will linger amid a tepid recovery

This English-language translation is based upon the outlook in Japanese released on February 18, 2009. This publication is compiled solely for the purpose of providing readers with information and is in no way meant to encourage readers to buy or sell financial instruments. Although this publication is compiled on the basis of sources which MHRI believes to be reliable and correct, MHRI does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice.

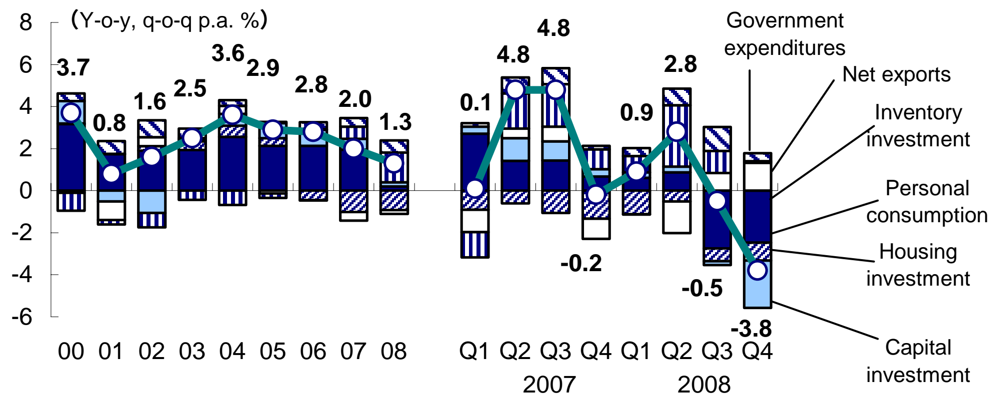
Mizuho Research Institute

I. The US economy

US economic conditions deteriorated in the Oct-Dec quarter of 2008(-3.8%q-o-q p.a.), given the broad fall of domestic final demand in the private sector

US gross domestic product (GDP) in real terms fell 3.8% q-o-q p.a. in the Oct-Dec quarter of 2008 (advance estimates), marking the deepest fall since the Jan-Mar quarter of 1982 (**Chart 1**). Final demand (excluding inventory investment from GDP) contracted a sharp 5.1% q-o-q p.a., given the deterioration of personal consumption, housing investment and capital investment, in addition to the sharp fall of exports. Even though inventory investment increased from the previous quarter and served to push up real GDP growth (contribution +1.32%), the US economy is predicted to come under inventory adjustment pressures in the first half of 2009 amid the absence of signs that the fall of domestic and overseas demand is coming to a halt.

[Chart 1: US real GDP growth]



Note: The line represents real GDP growth (calendar year data on a y-o-y basis and quarterly data on a q-o-q p.a. basis). The bars represent the contribution to the line.
Source: US Department of Commerce.

Negative growth looks inevitable in 2009 (previous forecast -1.0%→ current forecast -2.4%) The economy will recover gradually (+1.3%) in 2010 as the stimulus measures start to sink in.

We have revised down our forecast on US growth in FY2009 from -1.0% y-o-y in our previous forecast to -2.4% y-o-y (**Chart 2**). This is based upon our view on the sharp deterioration of private-sector demand, the significant slowdown of the global economy and the limited impact of tax cuts making up the core segment of the US economic stimulus package. However, when extending our forecast horizon to 2010, we expect that the US economy will start to recover slowly and grow 1.3% y-o-y in real terms based upon the following reasons: (1) stock adjustment pressures in the housing market will start to ease, and (2) the economic stimulus measures will shift from tax cuts to direct fiscal spending such as public works which will be more effective in stimulating economic growth.

However, there are considerable risks that the economy will chart negative growth for two consecutive years

Note however, that major downside risks still linger. Since the foregoing scenario is based upon high expectations toward the impact of the extraordinary policy response by the US toward the "once-in-a-century" financial-economic crisis and the dynamism of the US economy, there is still a considerable risk that US growth will chart negative territory in 2010. The possibility of the main

scenario being overturned by the downside scenario in a matter of a few months cannot be denied altogether. Our view stems from the fact that the current financial-economic crisis entails the readjustment of the US economy's distorted saving-investment balance backed by excessive credit and, eventually, the correction of the global imbalance. In particular, US households will be compelled to refrain from excessive spending and investment activities. In turn, the global economy, which depended on such extravagance among US households, must also weather similar hardships.

The Obama Administration's "New" New Deal Policy seeks to utilize the private sector's excess savings created in the course of such adjustments, thus leading to the stimulation of the economy, the improvement of social safety nets and long-term economic growth. There are high expectations toward the upturn of the US economy by the economic stimulus measures. The economies overseas may also benefit from secondary demand. Having said so, given the magnitude of the issues faced by the US, the adjustment will most likely turn out to be a long and arduous process.

[Chart 2: Outlook on the US economy]

(%)

	2008	2009 (Forecast)	2010 (Forecast)	2008		2009 (Forecast)		2010 (Forecast)	
				1H	2H	1H	2H	1H	2H
GDP	1.3	-2.4	1.3	1.1	-0.5	-4.6	0.1	1.6	1.9
Personal consumption	0.3	-2.3	0.6	1.0	-2.5	-3.2	-0.2	0.7	1.0
Housing investment	-20.8	-23.6	-12.0	-22.9	-17.3	-27.2	-22.7	-11.5	0.0
Capital investment	1.8	-11.8	1.6	2.7	-5.3	-17.4	-6.1	4.2	4.5
Inventory investment (USD100 million)	-211	-92	-1	-304	-117	-242	59	39	-42
Government expenditures	2.9	4.1	5.9	2.1	4.3	3.2	5.6	6.1	5.9
Net exports (USD100 million)	-3,882	-3,640	-3,826	-4,217	-3,548	-3,633	-3,648	-3,749	-3,902
Exports	6.5	-9.6	1.6	6.7	-1.1	-16.7	-2.8	3.2	3.0
Imports	-3.3	-9.0	2.4	-2.8	-7.6	-12.8	-2.1	3.7	4.1
Domestic final demand	0.0	-2.6	1.5	0.4	-2.0	-4.1	-0.1	2.0	2.4
Unemployment rate	5.8	9.4	9.1	5.2	6.5	8.9	9.8	9.2	9.0
Nonfarm payrolls (per month, 1,000 persons)	-187	-238	-13	-82	-291	-380	-95	-38	13
PCE deflator <y-o-y change>	3.3	0.6	1.5	3.6	3.0	0.8	0.4	1.4	1.5
Core PCE deflator <y-o-y change>	2.2	0.7	0.8	2.2	2.1	1.1	0.3	0.6	1.1
Current account balance (USD100 million)	-6,601	-4,133	-4,407	-3,566	-3,035	-2,145	-1,988	-2,179	-2,228
<as a percentage of nominal GDP>	-4.6	-2.9	-3.0	-5.0	-4.2	-3.0	-2.8	-3.0	-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 (as of February 18, 2009).

Housing investment will bottom out in the second half of 2010
An arduous adjustment process will continue until then

In the housing market, sales of existing homes have more or less flattened out in contrast to the ongoing fall of both sales and construction starts of new homes. As the latter stems from stock adjustment in addition to the financial crisis, housing investment should follow a downward path. From the second half of 2010, we expect that stock adjustment pressures will be eliminated and that housing investment will start to bottom out. During this time period, the upturn of residential prices is unlikely.

According to the US Department of Commerce, there are approximately 4.141 million vacant housing units for rent and 2.23 million vacant housing units for sale (owner-occupied homes) as of the end of 2008. In contrast, there is only 976 thousand households worth of new housing demand in 2008 (calculated on the basis of the change in number of occupied housing units, regardless of whether they are rental or owner-occupied). As indicated by the sharp fall of residential prices, the housing market is subject to significant stock adjustment pressures. The vacancy rate of housing units for sale has doubled from the lower end of the 1%-level in 2005 to 2% at the end of 2008.

Despite considerable uncertainties regarding the future increase in number of households which will lead to new housing demand, let us assume that 1.5 million units worth of housing demand will be created per year and that the owner-occupied housing rate will remain unchanged at 67.5% (actual readings as of the end of 2008). Let us also assume that new housing starts will continue to fall precipitously at a rate of 50% y-o-y. Based upon the foregoing premises, the vacancy rate of housing units for sale will fall below the 1%-level which is estimated to be the equilibrium around mid-2010 (**Chart 3**).

Even though the economic stimulus measures include a slight increase of tax credits on existing mortgages, we do not expect it to serve as a major stimulus upon housing demand, given the limited borrowers of mortgage loans in view of forecasts that labor adjustments will persist.

That said, as mentioned before, stock adjustment pressures should gradually abate as housing starts decline further while the number of households increase. Accordingly, housing investment is predicted to bottom out in the second half of 2010.

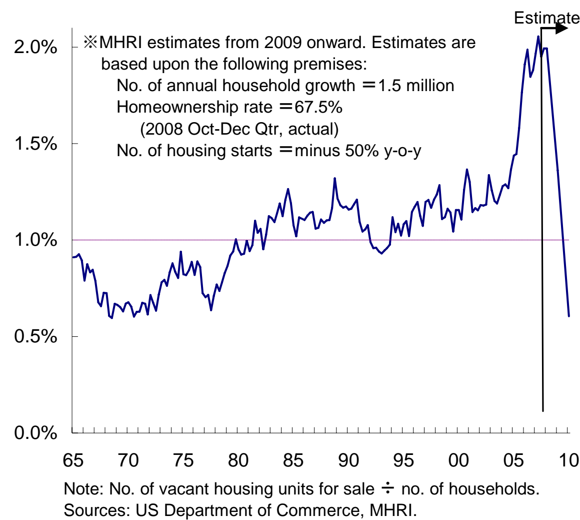
The household sector will remain under labor adjustment and balance sheet adjustment pressures
Tax cuts will have limited impact.

The environment surrounding personal consumption – the cornerstone of the US economy – has deteriorated further since our previous Economic Outlook. In addition to the ongoing intensification of labor adjustments, note that both the stock and housing markets are continuing to slump and balance sheet adjustment pressures are rising. The personal saving rate rose sharply to 3.6% in December 2008, in an outward sign of the foregoing adjustment pressures. The household sector faces the inevitable task of raising its saving rate considering that it has a debt overhang equivalent to USD3 trillion (**Chart 4**), just as the financial sector is faced with the task of deleveraging.

Looking forward, a major tax cut will be implemented in the US. The major part of the tax cut will be the "Making Work Pay" tax credit which is designed to increase income at a gradual pace over a year (in the case of workers receiving wages once every two weeks, the tax credit is said to provide the worker with a tax credit of USD15 at the time of payment of wages). In contrast to cases in which checks are sent directly to individuals, it will be difficult for the "Making Work Pay" tax credit to serve as a clear trigger to boost personal consumption. Furthermore, in many cases, the tax credit may disappear in the form of savings by households which are experiencing the erosion of assets or debt servicing by households which are under pressures to repay various types of loans.

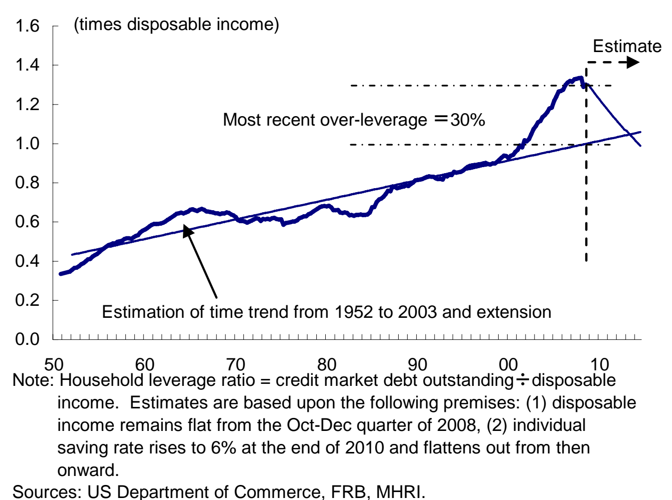
The stimulus measures also include a tax break on new car buyers. However, it is unlikely that the tax cut will lead to an upturn of car sales for the following reasons. Firstly, severe labor market conditions are predicted to persist for a prolonged period. Secondly, estimations based upon car purchase cycles suggest that there has been a frontloading of demand equivalent to approximately 10 million units during the past decade in the US car market.

[Chart 3：The vacancy rate of housing units for sale]



Note: No. of vacant housing units for sale ÷ no. of households.
Sources: US Department of Commerce, MHRI.

[Chart 4: The debt overhang in the household sector]



Note: Household leverage ratio = credit market debt outstanding÷disposable income. Estimates are based upon the following premises: (1) disposable income remains flat from the Oct-Dec quarter of 2008, (2) individual saving rate rises to 6% at the end of 2010 and flattens out from then onward.
Sources: US Department of Commerce, FRB, MHRI.

The downturn of economic growth expectations among businesses is pushing capital investment into an adjustment cycle

Faced with the sharp contraction of both domestic and overseas demand, corporate businesses slashed capital investment at a pace of 20% q-o-q p.a. in the Oct-Dec quarter of 2008. Even after the turn of the year in 2009, there are no signs of a recovery of final demand. Although retail sales unexpectedly rose above the previous month in January 2009, it would be overly optimistic to interpret it as a sign of an upturn of consumer demand since it is only the result of the clearance of inventories among retailers. Even when looking overseas, exports orders are continuing to slump. According to the Institute for Supply Management (ISM), the new export orders index both among manufacturers and nonmanufacturers remained low at the upper end of the 30%-level in January, falling far below the contraction-expansion threshold of 50. Protectionist

measures taken around the world also provide reasons for concern.

Furthermore, according to the US Federal Reserve Board, financial institutions are continuing to take an extremely tight lending stance toward corporate enterprises. As indicated by large risk spreads on corporate bond yields, the funding environment for corporate enterprises remains extremely severe.

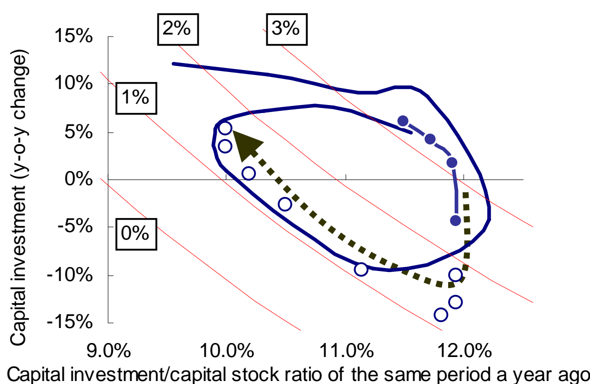
Corporate enterprises are finding it extremely difficult to discern the future course of the US and global economies. Given a sharp downturn of projected profit ratios in a reaction to the strong growth thus far, it appears that capital investment has fallen into an adjustment cycle (**Chart 5**). The depth and duration of the adjustment should rival that of the adjustment after the collapse of the IT Bubble.

Risk of deflation rears its head again

The core inflation rate is falling sharply due to the drop of international commodity prices such as crude oil and the sharp deterioration of demand. As of December 2008, the core personal consumption expenditure (PCE) deflator registered -0.1% from three months before (p.a.), falling for the first time since 1959 when such statistics may be traced back (with the exception of September 2001 when the core PCE deflator fell 0.6% from three months before (p.a.) due to the impact of the 9/11 terrorist attacks) (**Chart 6**).

According to the Congressional Budget Office (CBO), significant deflation gaps will linger in 2009 (-3.9% to -6.9%) and 2010 (-3.2% to -5.3%) even if economic stimulus measures are implemented. Of the stimulus measures, the tax cuts which are expected to serve as a short-term stimulus upon the economy, will only have limited impact. To stop the fall of private-sector demand, the economy would have to wait until the full-fledged start of public works from around FY2010.

[Chart 5: The capital investment cycle]

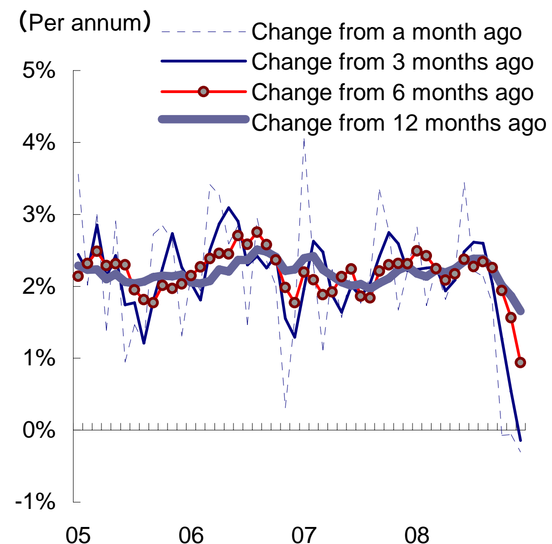


Capital investment/capital stock ratio of the same period a year ago

Note: The equilibrium lines toward expected growth rates (the values in the graph above) are based upon the premise that the rate of depreciation is 9.6% and that the rate of change of the capital coefficient is -0.6%. Actual readings for the years from 1997 to 2007, the quarterly results in 2008 (●), and forecasts up to the Oct-Dec quarter of 2010 (○).

Sources: US Department of Commerce, MHRI.

[Chart 6: The core PCE deflator]



Source: US Department of Commerce.

As a result, the unemployment rate should remain high throughout the forecast horizon and corporate enterprises may not expect a recovery of their pricing power any time soon. Given the easing of supply and demand throughout 2009, core inflation should remain at an extremely low level. In terms of the year-on-year rate of change, the risks of deflation will be felt strongly in the second half of 2009.

II. The Japanese economy

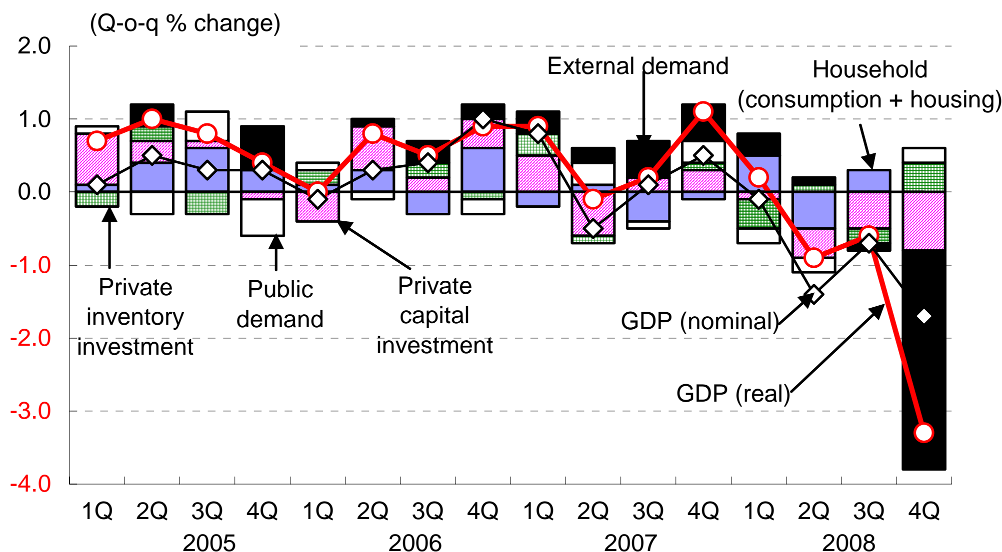
(1) The current state of the economy

The Japanese economy shrank at a double-digit rate in annualized terms due to the sharp slowdown of exports

Japan's real GDP shrank 3.3% q-o-q (-12.7% q-o-q p.a.) in the Oct-Dec quarter of 2008, marking the sharpest fall since the Jan-Mar quarter of 1974 (-3.4% q-o-q) subsequent to the 1st Oil Crisis (**Chart 7**).

Looking closer at each of the components of demand, personal consumption took a downturn (-0.4% q-o-q). As a result of the rise of concerns regarding job security, the tendency to cut back on purchases of cars and clothing items led to the fall of durable goods (-3.2% q-o-q) and semi-durable goods (-3.6% q-o-q). Housing investment continued to increase (+5.7% q-o-q) for the second quarter in a row along with the progress of construction of housing starts up to early 2008. Capital investment dropped for the fourth consecutive quarter, revealing a faster pace of decline (-5.3% q-o-q). Private-sector inventory investment grew strongly, contributing +0.4% pt to GDP growth. The contribution by domestic private sector demand stood at -0.5% pt, recording the third straight quarter of negative contribution to growth. Even though public investment ebbed slightly (-0.6% q-o-q), government consumption picked up (1.2% q-o-q), leading to a slight rise of the contribution by public demand (+0.2% pt), thus serving to ease the decline of growth. As a result, the contribution by domestic demand stood at -0.3% pt, registering a negative contribution for the fourth quarter in a row. Furthermore, given the sharpest fall of exports (-13.9% q-o-q) since such statistics were first collected in 1995 in contrast to the rise of imports (+2.9% q-o-q) for the second quarter in row, the contribution by external demand served as a major drag upon growth (-3.0% pt).

[Chart 7：Japan's quarterly GDP growth]



Source: Cabinet Office, *Preliminary Quarterly Estimates of GDP.*

The GDP deflator climbed into positive territory due to the decline of the import deflator

The GDP deflator, a broad measure of price changes, turned positive (+0.9% y-o-y) for the first time in approximately 11 years since the Jan-Mar quarter of 1998. Thus, the breadth of the contraction of nominal GDP growth (-1.7% q-o-q, or -6.6% in annualized terms) was smaller than that of real GDP. This stems from the fact that the import deflator fell sharply from +17.4% y-o-y in the Jul-Sep quarter to -11.7% y-o-y. The rise of the domestic demand deflator slowed considerably from +1.4% y-o-y in the previous quarter to +0.4% y-o-y. In particular, note that the personal consumption deflator has already taken a downturn (-0.2% y-o-y).

The deterioration of Japan's real economy turned out to be far more serious than in the US and Europe

Looking at the Oct-Dec quarter of 2008 alone, Japan's economy has plunged far deeper than in the US and Europe which are the epicenters of the financial crisis. The reason may be traced to the fact that Japan was hit by a major shock – the plunge of exports – when domestic demand was already slumping due to the deterioration of its trade terms up to the summer of 2008.

The economy will remain deep in negative territory in the Jan-Mar quarter

On the basis of currently-available data, it looks certain that Japan's economy will register double-digit negative growth again in the Jan-Mar quarter. In addition to prospects that exports will continue to fall sharply – albeit not as sharply as in the Oct-Dec quarter last year – forecast indicators portend a further contraction of capital investment. The economic contraction after the 1st Oil Crisis only lasted one quarter. A sharp contraction of the economy for two consecutive quarters presents a far more serious condition.

Manufacturers are cutting output at an unprecedented pace

Given the sharp fall of exports along with the global economic slowdown, manufacturers are cutting output at an unprecedented pace. Industrial production fell 12.0% q-o-q in the Oct-Dec quarter of 2008, marking the largest production cut since 1955 when such statistics were first recorded on a quarterly basis. Even so, since inventories still rose 2.7% q-o-q, manufacturers are slashing output at an even faster pace. Judging from the weakness of the *Survey of Production Forecast* index (January: -9.1% m-o-m, February: -4.7% m-o-m), the odds are high that the breadth of the production cut in the Jan-Mar quarter will surpass -20% q-o-q. The breadth of the production cut from the latest peak (February 2008) reached -33.7% up to the end of the February 2009 (the level calculated on the basis of the forecast index), indicating that production activity will drop to the level around the mid-1980s (**Chart 8**).

Lower operating ratio and earnings decline send strong adjustment pressures upon capital investment

The operating ratio is falling sharply along with the massive production cuts. Given the fall of demand and decline of earnings, manufacturers are compelled to revise their initial capital investment plans based primarily upon the sustained expansion of overseas demand. Machinery orders (private-sector demand excluding orders for ships and orders by electrical power companies) – a leading indicator of capital investment – which already registered a double-digit decline for the second quarter in a row up to the Oct-Dec quarter of 2008, are predicted to remain on a downward path. We are thus inclined to believe that capital

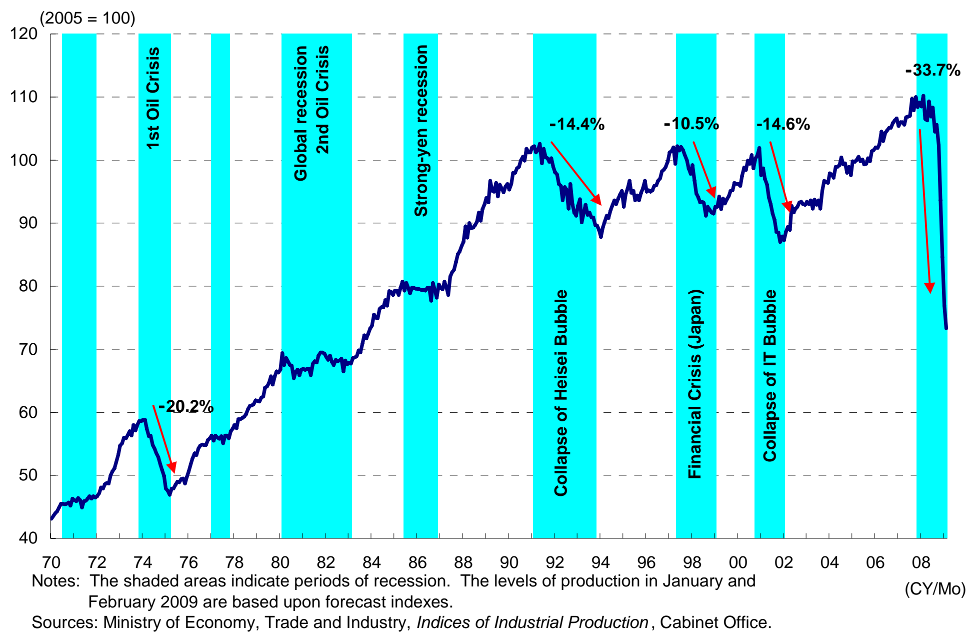
investment will continue to fall at a faster pace in the first half of 2009.

Labor adjustment pressures are also rising mainly among manufacturers

Furthermore, labor adjustment pressures are rising sharply mainly in the manufacturing sector due to the current rapid fall of demand (**Chart 9**). In addition to job severances of temporary dispatch workers and job offer withdrawals of new graduates which are attracting widespread attention, labor adjustment pressures will most likely spread to regular workers, leading to concerns regarding consumer spending.

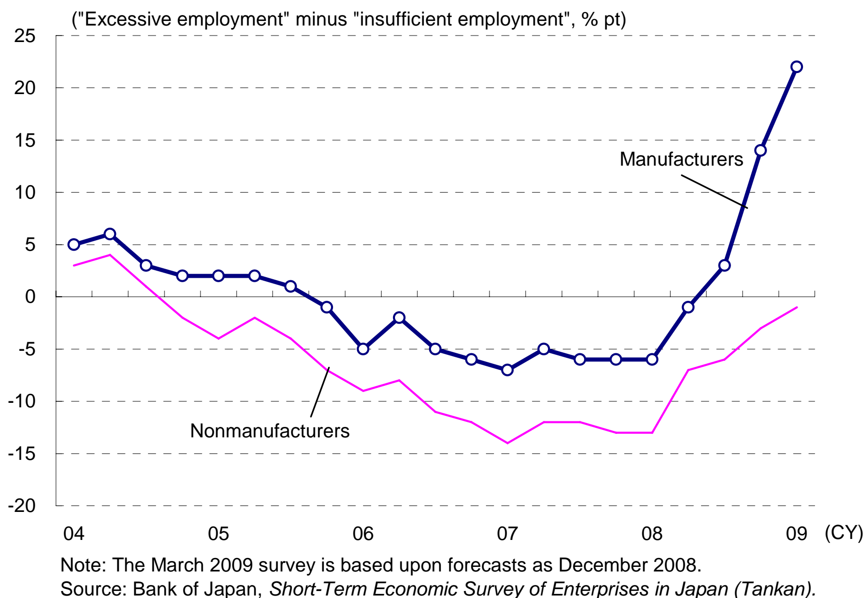
As explained above, Japan is at the brink of a vicious cycle in which the intensification of adjustment pressures upon both capital investment and labor due to output cuts accompanying the sharp decline of exports are leading to the fall of domestic demand.

[Chart 8: Long-term trends of industrial production]



Notes: The shaded areas indicate periods of recession. The levels of production in January and February 2009 are based upon forecast indexes.
Sources: Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Cabinet Office.

[Chart 9: The employment conditions DI]



Note: The March 2009 survey is based upon forecasts as December 2008.
Source: Bank of Japan, *Short-Term Economic Survey of Enterprises in Japan (Tankan).*

(2) Forecast of the Japanese economy in FY2008, FY2009 and FY2010

Real GDP growth in FY2008: -2.8%

As explained in the previous section, the Japanese economy is predicted to remain deep in negative territory in the Jan-Mar quarter of 2009 due primarily to the fall of exports and capital investment. FY2008 real GDP growth is forecast to contract 2.8% in FY2008, falling into negative territory for the first time in seven years since 2001. The rate of nominal GDP growth is also expected to contract 3.2%, registering negative growth for the first time in six years.

Real GDP growth in FY2009: -4.6%

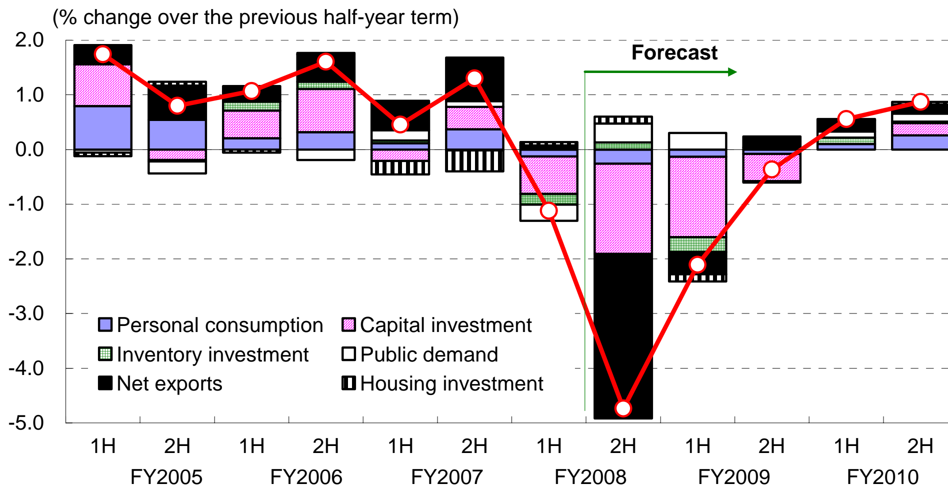
Given the sharp fall of real GDP growth in the second half of FY2008, FY2009 will start out with a substantial negative carry-over of growth (predicted to be -3.5%). In the first half of the fiscal year, exports and production are predicted to fall amid the stagnation of the overseas economies and continue to serve as a drag upon capital investment. Even though the fixed-sum benefits scheduled from March onward should serve to underpin personal consumption temporarily in the Apr-Jun quarter, they will fall short of jump-starting the economy. The unemployment rate will rise to the mid-5% level in FY2009, leading to the stagnation of personal consumption due to job uncertainties and income falls.

The recovery of the Japanese economy will depend upon the future course of exports. From the summer of 2009, we expect that exports and industrial production will bottom out as the economic stimulus measures in the US and China start to have effect. Even so, the pace of export recovery will most likely be slow, due in part to the strength of the yen so far. Furthermore, since the recovery will start out from an extremely depressed level of corporate activity, it will take time until corporate enterprises start to invest in plant and equipment and hire workers. We are thus inclined to believe that the recovery of domestic demand will take time and that economic growth will remain negative during 2009 (**Chart 10**). As a result, the rate of real GDP growth will sink deeper into negative territory from FY2008 and reach -4.6% in FY2009. The rate of nominal GDP growth should stand at -4.1% and the GDP deflator should turn positive for the first time in 12 years since 1997 and reach 0.6% y-o-y. This is due to the improvement of trade terms stemming from the sharp fall of the import deflator as a result of the fall of commodity markets and the strength of the yen. Nevertheless, since the impact of the improvement of trade terms will be lost amid the sharp fall of demand, we do not believe that it will serve as a harbinger of economic recovery.

The strength of the recovery will remain limited in FY2010

Even though the economy should start to pick up in FY2010, the pace of the recovery will remain slow. Given the slow upturn of exports amid the sluggish recovery of overseas economies, it looks unlikely that production activities will return to levels prior to the recession. Therefore, the recovery of domestic demand will also lack strength. The rate of real GDP growth in FY2010 should remain around 0.8%.

[Chart 10: Forecast on Japan's real GDP growth (half-year basis)]



Source: Cabinet Office, *Preliminary Quarterly Estimates of GDP.*

The resurgence of deflationary risks

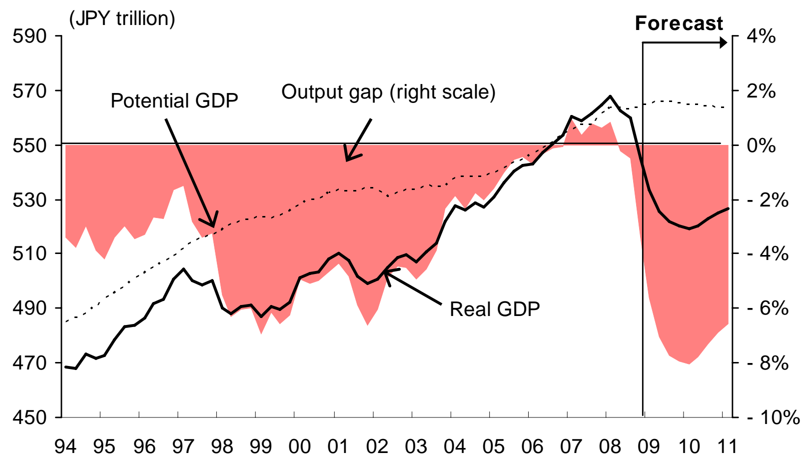
The output gap (the gap between real GDP and potential GDP) estimated by MHRI stood at -4.3% as of the Oct-Dec quarter of 2008 (**Chart 11**). If the Japanese economy grows in accordance to our outlook, the output gap should dip deeper into negative territory to around -8% at the end of FY2009. This surpasses the breadth in negative territory (around -7% at most) during the period from FY1998 to FY2002 when Japan suffered under deflation. In addition to the fall of energy prices which will lower the percentage rise of the CPI in FY2009, demand-side factors will also serve as downward pressures upon prices. If the economic recovery turns out to be weak in FY2010, the breadth of the output gap in negative territory will not contract much; the odds are high that consumer prices excluding energy and food (core core CPI) will continue to edge down in FY2010 (**Chart 12**).

More measures to stimulate domestic demand are necessary

As explained above, the Japanese economy will come face to face with the risks of deflation again as it falls into the second consecutive year of negative growth. Even in consideration of the three economic stimulus packages unveiled by the Japanese government in FY2008, the output gap is still predicted to balloon to historical levels. While we expect the overseas economies, mainly the US and Chinese economies, to emerge out of their darkest moments around the middle of 2009, there are downside risks that it will take more time than expected for the overseas economies to recover. Given its strong dependence upon external demand as well as its low inflation rate to start out with, there is no doubt that Japan faces strong risks of falling into deflation. Japan will need to narrow the breadth of its negative output gap by its own devices. As a means to do so, it will be necessary for Japan to implement additional economic stimulus measures worth JPY15 trillion (approximately 3% of GDP) as soon as possible. In addition to urgently-needed measures in areas such as employment, an important point will be to place priority upon future growth areas such as the environment and measures to deal with demographic ageing. The current economic recession has highlighted

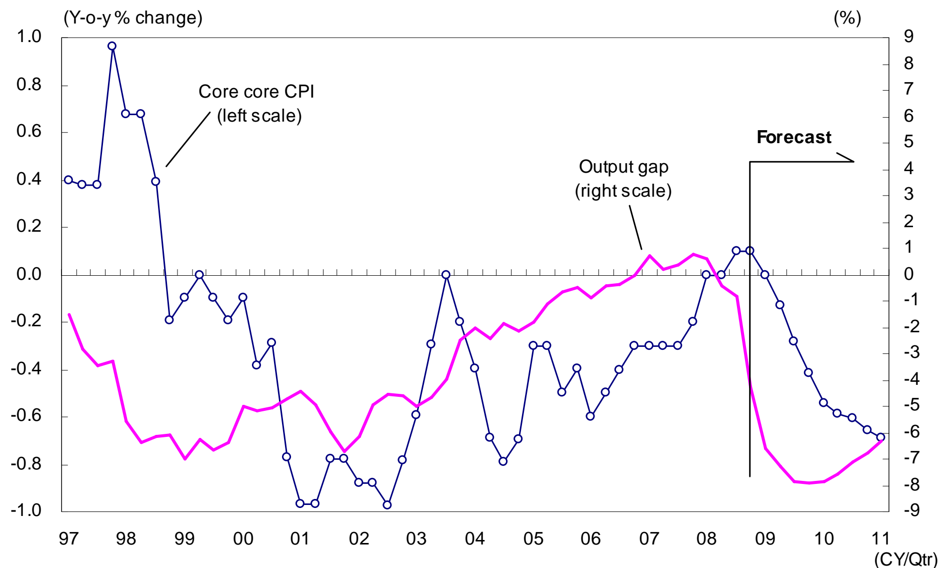
the instability of economic growth dependent upon external demand. The additional economic measures should promote the shift of Japan to a domestic demand-driven economy.

[Chart 11: The output gap]



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

[Chart 12: The output gap and core core CPI]



Note: "Core core CPI" = CPI excluding food and energy (excluding the impact of the consumption tax hike in FY1997).
Sources: Estimates by MHRI based upon Cabinet Office, *National Accounts,* Ministry of Internal Affairs and Communications, *Consumer Price Index.*

[Chart 13: Outlook on the Japanese economy]

(%)

	FY2007	FY2008	FY2009	FY2010	FY2008		FY2009		FY2007	FY2008	FY2009	FY2010
					1H	2H	1H	2H	(Contribution)	(Contribution)	(Contribution)	(Contribution)
	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Actual)	(Forecast)	(Forecast)	(Forecast)	(Actual)	(Forecast)	(Forecast)	(Forecast)
GDP (real)	1.9	-2.8	-4.6	0.8	-2.2	-9.3	-4.2	-0.7	-	-	-	-
Domestic demand	0.7	-1.8	-2.7	0.5	-2.6	-2.6	-3.5	-1.1	0.6	-1.7	-2.6	0.5
Private sector demand	0.6	-2.3	-4.1	0.3	-2.5	-4.3	-5.2	-1.6	0.5	-1.7	-3.0	0.2
Personal consumption	0.9	-0.2	-0.5	0.3	-0.5	-0.9	-0.5	-0.3	0.5	-0.1	-0.3	0.2
Housing investment	-13.0	-2.2	-2.7	1.2	4.6	9.7	-8.7	-1.7	-0.4	-0.1	-0.1	0.0
Capital investment	2.3	-8.7	-16.5	-0.8	-8.3	-20.1	-19.2	-7.3	0.4	-1.4	-2.5	-0.1
Public sector demand	0.7	-0.3	2.2	0.9	-2.8	3.3	2.8	0.3	0.1	-0.1	0.5	0.2
Government consumption	2.2	0.5	2.4	1.6	-2.2	3.6	2.4	1.4	0.4	0.1	0.4	0.3
Public investment	-5.8	-3.8	1.2	-2.5	-5.6	2.4	4.4	-4.8	-0.2	-0.1	0.0	-0.1
Net exports (contribution)	1.2	-1.0	-1.8	0.4	0.2	-6.0	-0.8	0.4	1.2	-1.0	-1.8	0.4
Exports	9.3	-6.7	-15.0	3.7	-1.1	-31.6	-12.6	1.5	1.4	-1.1	-2.3	0.5
Imports	1.8	-0.3	-4.1	1.1	-3.1	3.3	-8.8	-1.7	-0.2	0.0	0.5	-0.1
GDP (nominal)	1.0	-3.2	-4.1	-1.0	-3.5	-6.1	-3.2	-3.9				
GDP deflator	-0.9	-0.4	0.6	-1.8	-1.5	0.9	2.3	-1.1				
Industrial production	2.6	-12.1	-24.0	3.6	-1.8	-22.3	-13.8	1.7				
Unemployment rate	3.8	4.2	5.4	5.6	4.1	4.3	5.2	5.6				
Current account balance (JPY trillion)	24.5	13.0	14.7	13.2	16.8	10.2	14.6	14.4				
as a percentage of nominal GDP	4.7	2.6	3.1	2.8	3.3	2.1	3.0	3.0				
Domestic corporate goods prices	2.3	3.6	-3.9	0.2	6.0	1.1	-5.8	-1.9				
Consumer prices	0.3	1.3	-1.3	-0.1	1.9	0.7	-1.4	-1.3				
Long-term interest rate (%)	1.59	1.44	1.13	1.38	1.60	1.29	1.10	1.15				
Nikkei stock average (JPY)	16,000	10,850	8,300	9,500	13,300	8,400	8,000	8,600				
Exchange rate (JPY/USD)	114.2	99	91	97	106	92	89	93				
Crude oil price (WTI)	82.2	86	45	61	121.0	51	42	49				

Notes: 1. FY = rate of change from the previous year. Half-year GDP = rate of change from the previous term p.a. (the GDP deflator = rate of change from the previous year).
2. Half-year corporate goods prices and half-year consumer prices = rate of change over a year ago. Consumer prices = nationwide (excluding fresh foods).
3. Half-year industrial production = rate of change from the previous term. The half-year unemployment rate and half-year current account balance are adjusted for seasonal factors and the figures on current account balance are converted into annualized rates.
4. Crude oil price = near-term contract for WTI crude futures. The long-term interest rate = yield on newly-issued 10-yr government bonds.

Sources: Cabinet Office, *National Accounts*, Ministry of Economy,Trade and Industry, *Indices of Industrial Production*, Ministry of Internal Affairs and Communications, *Labor Force Survey*, *Consumer Price Index*, Ministry of Finance, *Balance of Payments*, Bank of Japan, *Corporate Goods Price Index*.

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