



Japan's Economic Outlook 2007-2008 – November 2007 (summary) –

This outlook was originally released on November 15th, 2007 in Japanese, based upon 1st QE.

Gradual slackening of economic momentum **Real GDP growth rates of 1.7% in FY 2007, 2.2% in FY 2008**

(Our previous outlook: 2.0% in FY 2007, 2.0% in FY 2008)

- **Economic trend hereafter:** In FY2007, the economy will continue its gradual expansion. While high levels will be maintained in FY2008, the impact of slowdown in the US economy and the winding down of business investment will cause a gradual slowing of growth.
- **Assumed Macroeconomic Policy:** Regarding monetary policy, two additional interest hikes are predicted by the end of FY08. In terms of fiscal policy, a consumption tax increase is predicted for FY10. As for the JPY/USD exchange rate, a strong yen in the lower 110 yen range is predicted.
- **Overseas economy:** In 2008, the downward adjustment of the US economy will intensify in light of the subprime loan problem. Caught between a worsening economy, and inflationary pressures, FRB policy maneuvers will become increasingly difficult. The EU will see a certain amount of slowdown in the pace of expansion due to the impact of US economic deceleration and financial confusion. China is expected to experience gradual deceleration after the end of the Beijing Olympics.

At present, the economy is maintaining a firm tone. Domestically, growth in business investment continues, and increase in foreign demand is being maintained. Despite growth being somewhat more sluggish in private consumption than initial expectations, gradual growth is continuing.

However, recently uncertainty factors are rapidly becoming prominent. The US subprime loan problem, and the fluctuations it will cause in the US economy, will likely have the greatest impact. It is inferred that the agitation it will cause in the world money market will not end at an early stage with only the US. Moreover, the further increase in oil prices is introducing instability into the world economy. Domestically, it will be impossible to avoid impact on the economy due to the sharp drop in new housing starts caused by the revised construction standards that came into effect in June. Given this context, it is increasingly probable that the economic pace will gradually weaken throughout FY08.

On the other hand, this is not likely to become a true economic recession, and will probably be nothing more than a mild adjustment phase. The US economy will probably slowly rally in mid FY08. Regarding the destabilizing factor of housing starts, from spring 08 construction that had been delayed will become a factor in rebound growth. In the corporate sector, a cautious business stance continues, and the mood of surplus in employment and facilities is also poor. As a result, the real growth rate for FY2007 is forecast to be 1.7% (previous forecast: 2.0%). In FY08, although the pace of the economy will weaken slowly, there will be rebound growth in housing investment from housing starts delayed in FY07, and it is predicted that the growth rate will increase somewhat to 2.2% (previous forecast: 2.0%). The nominal growth rate is predicted to be 1.3% in FY2007 and 2.4% in FY2008 (previous forecast: 1.9% in FY07, 2.3% in FY08). Figures for FY2008 are high in comparison to the economic scenario, but considering the special factor of erratic fluctuation in housing starts, the growth rate is predicted to follow a gradual slowdown trend.

In terms of the overseas economy, regional trends will vary. There is a strengthening trend toward downturn in the closely-watched US economy. The US real GDP growth rate is forecast to be 2.2% for CY2007 and 2.4% for CY2008 (previous forecast (Aug.): 2.1% for CY07, 2.9% for CY08). In Q4 2007, deterioration in the housing market will spread to consumption and business investment, and a fairly sharp deceleration in domestic demand is forecast. In 2008, it is predicted that the adjustment in the housing market will continue through second semester, which will curb consumption via the employment environment and negative wealth effect, and growth will continue to undershoot the potential growth rate (MRI calculates this will be in the upper 2% range).

The tone of expansion in the EU economy will continue due to robust German business investment and gradual expansion in consumption. However, there is anxiety over worsening profits in financial institutions due to financial confusion introduced by the emergence of unrecoverable subprime loans over the summer, and there are signs of decline in leading business sentiment due to uncertainty regarding US economic deceleration. While the GDP growth rate will be 2.8% in CY2007 (previous forecast: 2.9%), in 2008

deceleration is predicted with growth in the vicinity of YoY +2.4% (previous forecast, +2.7%) as there will be a slowdown in production and business investment caused by US economic deceleration and sluggish overseas orders due to the strong euro.

In Asia, expansion looks set to continue, with high growth rates in China through the end of summer 2008. However, from 09 onward, there will be a trend toward gradual deceleration due to the end of the Olympics economy and a strengthening mood of surplus facilities primarily in the materials industry. Hereafter, it is feared that in place of China, India, to which an influx of capital to the banking sector and securities market is underway, will see a strengthening mood of overheating.

Major adjustments since the previous forecast are as follows. First, in terms of fiscal policy, it is expected that the stance on expenditure cuts will become slightly relaxed as compared with the course charted by Koizumi/Abe. However, the stance on curtailment is not expected to be greatly rolled back in FY08. As for monetary policy, one interest hike is predicted in FY07 (previously two hikes were forecast). Given the context of the strengthening sense of uncertainty domestically and abroad and fluctuation in the money market, the hurdles have become higher for additional BoJ interest hikes. Regarding market conditions, estimates for currency exchange and oil prices have been revised in consideration of the current strong yen and high oil prices. In the overseas economy, the US and EU growth rates were revised downward, mainly in 08, in light of fallout from the subprime loan problem, while China, which sees continuing high growth, was revised upward overall.

Table: Comparison between the current (November 2007) and the previous forecast (August 2007)

<Japan>					
Fiscal Year, YoY	Current forecast - Nov. 2007 -			Previous - Aug. 2007 -	
	2006	2007 forecast	2008 forecast	2007 forecast	2008 forecast
Nominal GDP	1.3%	1.3%	2.4%	1.9%	2.3%
Real GDP	2.0%	1.7%	2.2%	2.0%	2.0%
Private final consumption	0.7%	1.7%	1.7%	1.8%	1.8%
Private residential investment	0.4%	-13.2%	12.8%	-1.4%	1.4%
Private nonresidential investment	7.7%	2.2%	2.7%	3.3%	3.6%
Change in private inventories*	0.0%	-0.1%	0.1%	-0.1%	0.1%
Government final consumption	0.9%	0.8%	0.9%	0.8%	0.8%
Public fixed investment	-9.6%	-4.9%	-4.8%	-4.6%	-5.1%
Net exports	***	***	***	***	***
Exports	8.2%	7.3%	4.3%	6.1%	4.7%
Imports	3.4%	2.0%	2.5%	2.7%	3.4%
IIP	4.8%	2.5%	2.7%	2.2%	1.8%
Domestic CGPI	2.8%	2.3%	1.6%	1.8%	0.7%
CPI core	0.1%	0.0%	0.3%	0.0%	0.3%
GDP deflator	-0.7%	-0.4%	0.2%	-0.1%	0.3%
Unemployment rate	4.1%	3.8%	3.8%	3.6%	3.5%
New housing starts (million unit)	2.9%	-22.5%	29.0%	-0.3%	1.6%
Official discount rate	0.75%	1.25%	1.50%	1.25%	1.50%
Overnight call rate	0.509%	0.750%	1.000%	1.000%	1.250%
10-year JGB rate	1.73%	1.72%	2.03%	1.87%	2.25%
Money supply (M2+CD)	0.9%	1.8%	2.2%	2.1%	2.8%
Nikkei225 (yen)	16,415	16,699	17,000	17,797	18,300
Crude oil price (WTI, dollar/bll.)	64.9	79.8	80.8	66.2	65.0
yen/dollar rate	117.0	115.7	112.0	118.5	116.5

Note: YoYs of items with * are contributions to the GDP growth.

Source: Official statistics, forecasts by Mitsubishi Research Institute, Inc.

<Overseas>		Current forecast - Nov. 2007 -			Previous - Aug. 2007 -	
CY, YoY	2006	2007 forecast	2008 forecast	2007 forecast	2008 forecast	
	U.S.	2.9%	2.2%	2.4%	2.1%	2.9%
EU27	3.1%	2.8%	2.4%	2.9%	2.7%	
Japan	2.2%	2.0%	2.0%	2.2%	2.0%	
Asia 9	7.8%	7.8%	7.2%	7.4%	6.6%	
China	11.1%	11.3%	10.0%	10.8%	9.0%	

Source: Official statistics, forecasts by Mitsubishi Research Institute, Inc.

Table: Major assumptions

Fiscal Policy	FY2007: Supplementary budget in line with previous years FY2008: Budget will continue to be restrained FY2010: Consumption tax hike (+3%)
Monetary Policy	FY2007: One additional interest hike (+.25% points) FY2008: One interest hike (+.25% points)
Exchange rate	The yen exchange rate will be in the lower 110 JPY/USD range. The euro will continue to be strong against the dollar and yen.
Long-term interest rate	Will reach over 2% level through the end of FY2008.
Oil prices (WTI base)	Movement in the USD 80/barrel range.

Source: Mitsubishi Research Institute, Inc.

I. Overall Economy

Overall Economy

- **Economic trends:** In FY2007, the economy will continue its gradual expansion. While high levels will be maintained in FY2008, the impact of slowdown in the US economy and the winding down of business investment will cause a gradual slowing of momentum.
- **Trends in main economic indices:** The representative economic indices (GDP, Diffusion Index, BoJ Tankan, IIP) indicate conflicting trends, indicate the possibility that economic momentum is wavering.
- **Historical DI trends:** The Historical DI (derived from the DI), which is the final authority among the formulae used by the government in judging economic phases, is above the 50% mark which is considered the threshold for making judgments.

II. Policy Trends and Scenario

Policy Trends

- **Fiscal policy:** It is expected that the Fukuda administration's stance on expenditure cuts will be slightly relaxed as compared with the course charted by Koizumi/Abe. However, in FY08's budget, initial budget guidelines for budget appropriation requests have already been determined, and the stance on curtailment is not expected to be greatly rolled back. Steady expansion of tax revenues is expected. There is little likelihood of a sudden increase of long-term interest risk premiums.
- **Monetary policy:** Given the strengthening sense of uncertainty domestically and abroad and fluctuation in the money market, the hurdles have become higher for additional BoJ interest hikes. However, in light of healthy domestic economic fundamentals, the BoJ is seeking continued interest hikes. In terms of the market too, monetary policy will have to confront it with a certain amount of breadth for the time being.

Policy Scenario

- **Fiscal policy :** FY2007: Supplementary budget in line with previous years, FY2008: Budget will continue to be restrained, FY2010: Consumption tax hike (+3%)
- **Monetary policy :** FY2007: One additional interest hike (+.25% points), FY2008: One interest hike (+.25% points)
- **JPY/USD rate :** The yen exchange rate will be in the lower 110 JPY/USD range. The euro will continue to be strong against the dollar and yen.
- **10 year-JGB yield:** Will reach over 2% level through the end of FY2008.
- **Oil prices (WTI base) :** Movement in the USD 80/barrel range.

Present fiscal policy - fiscal management under the Fukuda administration

Since the previous August 15 Outlook, the environment surrounding policy has changed considerably, with the end of the Abe administration and emergence of the Fukuda regime, and the resignation of the head of the main opposition party.

Under the circumstances, the below scenarios are predicted in fiscal policy. First, regarding the FY08 budget assumed in preparing the economic forecast, there will not likely be any large rollback in the pace of annual expenditure reductions laid out under Koizumi/Abe based on the August budget guidelines for budget appropriation requests (ceiling). Even if the Lower House were to dissolve at an early stage (for example, at the beginning of the year), it is predicted that the budget draft will consolidate on the government side by the

end of the year of 2007. Therefore, no large course change is expected with regards to annual expenditures in the initial budget. The Fukuda administration seems to be working out highly appealing policies that address disparities and local economy, but has relatively little of the required funding. In consideration of these points, while budget-drafting will continue to be restrained and maintain the present spending ceiling, the depth of further cuts will likely be less than those of Koizumi/Abe (although, there may be strong political influences in the FY08 supplementary budget). With regards to FY07, there is a large probability that disparities and local economy will be addressed with a supplementary budget.

On another note, tax revenues are expected to continue to show firm growth, reflecting the gradual economic expansion. As a result, it will be possible to avoid the impact of upward pressure on long-term interest rates. Many members of the ruling party are active in regards to tax reform, and at present their stance toward future tax increases is strengthening. However, in view of the current political situation, this outlook predicts no rising of the consumption tax or lowering of corporate taxes for the forecast period.

Conditions surrounding monetary policy

There are increasing difficulties with BoJ monetary policy management. Stated simply, the BoJ seeks interest hikes in the face of opposition. From the outset, domestically there were strong voices urging caution regarding interest hikes based on tenacious deflationary pressure. Now the BoJ is under the shadow of strengthening uncertainty domestically and abroad stemming from the US subprime loan problem. At this point, care must also be given to market-related trends. In addition to a stock market that is showing noticeable signs of weakening, there is strengthening pressure from the strong yen in the currency exchange too. The impact of these factors should be assessed.

However, at present domestic demand is essentially maintaining a firm tone overall. With regards to the agitation in money market conditions too, they should be examined from a certain distance. For example, stock prices have not so much become an adverse factor, but rather have been temporarily "dragged down" by the drop in US stock prices. With regards also to the strong yen in currency exchange, this is in large part due to the rewinding of yen-carry trade, and can be seen as an adjustment phase of an excessively weak yen.

The high price of oil is more difficult to evaluate from the standpoint of monetary policy. It provides a justification for interest hikes from the perspective of heading off inflationary pressure, but is also a deterrent to interest hikes, given that the rising prices will have a depressive effect on the domestic economy. In light of the domestic mood, it appears that the latter is the more prevalent interpretation.

Although cautious consideration is needed with regards to these various factors, the BoJ is nevertheless seeking interest hikes. Added to the factor of increasing costs due to the high price of oil, deflationary pressure is gradually weakening, reflecting tightening in domestic demand. The BoJ fears that the continuation of low interest disconnected from fundamentals will place a strain on the economy and money market. Although the probability of interest hikes is decreasing compared with before, given the BoJ's stance, both scenarios -the market both with and without renewed interest hikes- must be considered. For example, examining the yield curve with regards to short-term interest term loans, one can see that the curve went from being extremely flat in 2006 into a sudden steepening phase, then again entered a flat phase, indicating that market participants too are hesitant over additional interest hikes.

III. Trends by sector

Corporate sector

- **Business investment:** Business investment is showing firm expansion in the context of favorable corporate earnings and growth in domestic and foreign demand. This trend will likely continue until FY08. However, the tempo of expansion will probably slacken due to slowdown in corporate earning, and also in light of the economic cycle.
- **Corporate earnings:** while the basic tone of earnings increase will continue in FY07, it will be influenced by US economic deceleration and high import costs. In FY08, slowdown in business investment and an inventory adjustment are foreseen. Conspicuous increases in labor costs and further erosion of earning rates are also predicted.
- **Inventory investment:** Looking at the macro economy overall, there is low likelihood of an inventory adjustment during FY07, and one estimate is that it will be held off by the Beijing Olympics until around mid FY08.

Household sector

- **Personal consumption:** At present, private consumption is weakening more than initially expected, but there are no negative factors that would cause it to buckle. However, pressure from rising prices in import materials (oil, wheat etc.) and the impact (negative wealth effect) of fluctuations in the monetary markets on household consumption have suddenly emerged as downturn risks.
- **Employment/wages:** Although the current unemployment rate has worsened, the number of unemployed persons is declining, and a gradual improvement trend in the employment environment is predicted. The income environment is weakening, and given the structural context, incomes are in a trend that makes growth difficult.
- **Housing investment:** It cannot be denied that this will act as a factor in economic downturn given the sharp drop in new housing starts caused by the revised construction standards. It is probably safe to assume that its downward pressure will remain for about half a year since, even if the housing start base recovers, in the GDP base the figures will be carried over and calculated.

Foreign demand

- **Trends in foreign demand:** While there is no change in the main predicted scenario of stable growth in the global economy, downturn risks are heightening due to increased uncertainty in the US economy, etc. As the tempo of autonomous economic growth in the Japanese economy slows, a further level of caution will be necessary with regards to trends in foreign demand.

Exchange rates and oil prices

- **Exchange rates:** With the growth of the subprime loan problem, there will probably be a prolonged lull in yen-carry trade due to the narrowing of the Japan-US interest rate spread and increasing volatility in the yen-dollar exchange rates. Looking forward, while it is possible that the strong yen will be seen depend on the situation of US economy, baseline movement is forecast to be primarily in the 110-115 yen/dollar range.
- **Oil prices:** The drop of oil inventory is driving prices up, but looking at actual supply and demand, the situation does not warrant fears of a sudden supply-demand crunch. Although it is expected that developments in the winter demand season will test the high prices, there is also a good probability that prices will undergo an adjustment phase next spring and drop to about US \$70.

IV. Overseas Economy

US Economy

- **Economic trends:** The real GDP growth rate is forecast to be 2.2% for CY2007 and 2.4% for CY2008 (previous forecast: 2.1% for CY2007, 2.9% for CY2008). In Q4 2007, deterioration in the housing market will spread to consumption and business investment, and a fairly sharp deceleration in domestic demand is forecast. In 2008, it is predicted that the adjustment in the housing market will continue through second semester, which will curb consumption via the employment environment and negative wealth effect, and growth will continue to undershoot the potential growth rate (MRI calculates this will be in the upper range of 2%).
- **Housing market trends:** With regards to the housing market, the subprime loans problem is stressing the balance sheets of financial institutions, resulting in, they are keep tightening their lending standards. With the decrease in the number of housing sales, inventories are at historically high levels. Furthermore, future resetting of interest rates in adjustable rate mortgages set between 2004 and 2006 (in most cases, ARMs are fixed for about the first three years, after which they become adjustable), will lead to an increase in the payment burden of the subprime stratum, and a rise in the rate of delinquency. The pace of adjustment pressure on housing investment is exceeding the initial forecast and adjustment is expected to continue until it ends in second semester 2008.

Table: Outlook for US economy

	YoY%	CY2006	CY2007	CY2008
Real GDP		2.9	2.2	2.4
Personal consumption		3.1	2.9	1.9
Nonresidential fixed inv.		6.6	4.3	3.9
Residential fixed inv.		-4.6	-16.4	-11.0
Private inventories		(0.1)	(-0.3)	(0.1)
Government consumption		1.8	2.0	2.4
Net exports		(-0.1)	(0.5)	(0.4)
Exports		8.4	7.8	7.3
Imports		5.9	2.3	3.1
Nominal GDP		6.3	4.4	4.9
PPI (final goods)		2.9	3.2	4.4
CPI		3.2	2.5	3.0
FF target rate (%)		5.25	4.50	4.50
Unemployment rate (%)		4.6	4.6	5.2

Source: BEA, BLS, FRB; Forecasts by Mitsubishi Research Institute, Inc.

EU Economy

- **Status:** The tone of expansion in the EU economy will continue due to robust German business investment and gradual expansion in consumption. However, there is anxiety over worsening profits in financial institutions due to financial turmoil introduced by the emergence of subprime loans problem over the summer, and signs of decline are visible in leading business sentiment due to uncertainty regarding US economic deceleration. While the GDP growth rate will be 2.8% in CY2007 (previous forecast: 2.9%), in 2008 deceleration is predicted with growth of YoY +2.4% (previous forecast, +2.7%) as there will be a slowdown in production and business investment caused by US economic deceleration and sluggish overseas orders due to the strong euro.
- **ECB monetary policy:** the euro area CPI (consumer price index) showed YoY growth of 2.6% due to the rise in oil prices and steep rises in food prices, and has exceeded the 2% target for the last two consecutive

months. In the October Governing Council meeting, the ECB decided to remain interest rate unchanged, but at that time the ECB indicated that the economic outlook was on the downside, and expressed fears that turmoil in the money market would be transferred to the economy as a whole. At this point, the ECB will probably adopt a wait-and-see stance, while keeping an eye on leading economic indicators.

Asian Economy

- **Status:** Regarding overall trends in the Asia region, inflationary pressure is strengthening due to the rise in consumer prices, primarily in food and energy. As a result, the central banks will likely move toward a tightening stance in monetary policy in the region as a whole.

Table: Outlook for Asian Economy

CY, YoY%	2003	2004	2005	2006	Forecast	
					2007	2008
China	10.0	10.1	10.4	11.1	11.3	10.0
Hong Kong	3.2	8.6	7.5	6.9	5.9	5.0
South Korea	3.1	4.7	4.2	5.0	4.4	4.8
Taiwan	3.5	6.2	4.1	4.7	4.3	4.1
Thailand	7.1	6.3	4.5	5.0	4.5	4.5
Indonesia	4.8	5.0	5.7	5.5	5.9	4.5
Malaysia	5.8	6.8	5.0	5.9	5.3	5.0
Philippines	4.9	6.4	4.9	5.4	6.7	5.5
Singapore	3.1	8.8	6.6	7.9	6.9	5.9
East Asia 9	6.8	7.8	7.5	7.8	7.8	7.2
India	8.5	7.5	8.8	9.4	9.5	9.0

Source: Official statistics, forecasts by Mitsubishi Research Institute, Inc.

- **China:** The Chinese economy, for which a growth course based on the "Scientific Outlook on Development" laid out in the 17th Party Congress was adopted, will continue to see expansion with a high growth rate through around summer 2008. Foreign demand is providing traction for growth. The government has produced a series of export control policies, but their effect has been limited so far. The trade surplus reached 185.6 billion dollars in the Jan.-Sep. period, and has already surpassed last year's historically high performance for the entire year (177.5 billion dollars). In response to the huge influx of foreign capital, the People's Bank of China is making efforts to preserve the Renminbi yuan rate via dollar purchase intervention, but it cannot be denied that this is the primary cause of excess liquidity. However, from 09 onward, there will be a trend toward gradual deceleration due to the end of the Olympics economy and a strengthening mood of surplus facilities primarily in the materials industry.
- **Thailand:** On September 3, 2007, the Thai Office of the National Economic and Social Development Board (NESDB) announced the Apr.-Jun. GDP, revealing that the country's economy posted YoY growth of 4.4% due to an increase in exports. Examining the Thai economy for the period by demand components, the growth rate in private consumption was just YoY 0.9%, but growth in exports was YoY 6.7%. With general elections set for December 23, the warrant for former Prime Minister Thaksin's arrest, and the formation of a new political party by Thaksin's allies, the Thai political situation will continue to be troubled. Furthermore, due to the subprime loan problem, the Thai baht, which at one time fell to 33 baht/dollar, shows signs of strengthening again, requiring the Thai socioeconomic situation be observed carefully in the Oct.-Dec. quarter.

- **Malaysia:** The Malaysian economy continues to expand. One reason for this was the wage increase for public employees in May 2007, which increased their disposable income, which coupled with the stable prices and the employment environment contributed to the YoY 13.1% growth in private consumption. Public sector consumption posted YoY growth of 10.2% due to expansion of general public expenses and government services. Fixed capital formation also achieved YoY growth of 6.6. %, given traction by the construction industry, which is enjoying a construction boom currently, and natural gas/oil-based fixed capital formation which continues to increase production in the context of rising energy prices.
- **India:** Hereafter, it is feared that in place of China, India, to which an influx of capital to the banking sector and securities market is underway, will see a strengthening mood of overheating. Hereafter too, the economy will probably continue to see high growth rates at the second half of this year. The influx of capital to the Indian banking sector and securities market has for some time been the source of anxiety to Reserve Bank India and the Security Exchange Board of India. Although rumors of comprehensive regulation of anonymous participatory notes (P-notes) caused a drop of over 8% in the Bombay Stock Exchange on October 19, Finance Minister Chidambaram has denied that there will be such regulation, and market prices are moving toward recovery.

Table: Summary of Japan's Economy

Fiscal Year	Unit: billion yen					
	FISCAL YEAR			YoY		
	2006	2007 forecast	2008 forecast	2006	2007 forecast	2008 forecast
Nominal GDP	510,092.3	516,763.9	529,112.7	1.3%	1.3%	2.4%
Private final consumption	288,622.3	292,754.8	298,656.9	0.4%	1.4%	2.0%
Private residential investment	18,904.9	16,660.3	18,977.6	2.6%	-11.9%	13.9%
Private nonresidential investment	81,146.5	83,578.4	86,747.2	8.2%	3.0%	3.8%
Change in private inventories*	1,024.1	1,002.1	1,411.7	0.0%	0.0%	0.1%
Government final consumption	91,071.5	92,246.7	93,560.5	0.4%	1.3%	1.4%
Public fixed investment	21,976.3	21,216.9	20,404.8	-8.4%	-3.5%	-3.8%
Change in public inventories*	213.2	197.5	238.5	0.0%	0.0%	0.0%
Net exports of goods and services*	7,133.5	9,107.4	9,115.6	0.1%	0.4%	0.0%
Exports	83,889.4	91,747.8	95,941.6	12.0%	9.4%	4.6%
Imports	76,755.9	82,640.4	86,826.0	12.2%	7.7%	5.1%

Unit: 2000 chain price, billion yen

Real GDP	551,381.7	560,859.9	573,047.8	2.0%	1.7%	2.2%
Private final consumption	304,681.7	309,779.5	315,063.9	0.7%	1.7%	1.7%
Private residential investment	18,546.8	16,090.0	18,142.8	0.4%	-13.2%	12.8%
Private nonresidential investment	88,754.3	90,721.7	93,184.6	7.7%	2.2%	2.7%
Change in private inventories*	1,316.4	937.1	1,284.2	0.0%	-0.1%	0.1%
Government final consumption	95,589.0	96,383.3	97,205.6	0.9%	0.8%	0.9%
Public fixed investment	21,869.2	20,791.5	19,801.6	-9.6%	-4.9%	-4.8%
Change in public inventories*	227.5	222.6	230.0	0.0%	0.0%	0.0%
Net exports of goods and services*	21,324.7	26,131.3	28,324.2	0.8%	0.9%	0.4%
Exports	82,094.1	88,104.8	91,876.8	8.2%	7.3%	4.3%
Imports	60,769.4	61,973.6	63,552.6	3.4%	2.0%	2.5%

Note: YoYs of items with * are contributions to the GDP growth.

Unit: CY2000=100

	FISCAL YEAR			YoY		
	2006	2007 forecast	2008 forecast	2006	2007 forecast	2008 forecast
	IIP	107.0	109.7	112.6	4.8%	2.5%
Domestic CGPI	101.2	103.5	105.1	2.8%	2.3%	1.6%
CPI, core	100.1	100.0	100.3	0.1%	0.0%	0.3%
GDP deflator	92.5	92.1	92.3	-0.7%	-0.4%	0.2%
Unemployment rate	4.1%	3.8%	3.8%	***	***	***
New housing starts (million unit)	128.52	99.67	128.55	2.9%	-22.5%	29.0%
Current account	21,154	24,504	22,827	***	***	***
Goods and services	8,186	9,831	8,766	***	***	***
Goods	10,484	12,444	11,595	***	***	***
Exports	73,665	80,250	83,595	13.0%	8.9%	4.2%
Imports	63,182	67,807	72,000	13.6%	7.3%	6.2%
Official discount rate (end of year)	0.75%	1.25%	1.50%	***	***	***
Overnight call rate	0.51%	0.75%	1.00%	***	***	***
10-year JGB rate	1.73%	1.72%	2.03%	***	***	***
Crude oil price (WT I, dollar/bl.)	64.9	79.8	80.8	***	***	***
yen/dollar rate	117.0	115.7	112.0	***	***	***
dollar/euro rate	1.284	1.418	1.473	***	***	***
yen/euro rate	150.1	164.0	164.9	***	***	***

Source: Official statistics, forecasts by Mitsubishi Research Institute, Inc.

Calendar Year

Unit: billion yen

	CALENDAR YEAR			YoY		
	2006	2007	2008	2006	2007	2008
		forecast	forecast		forecast	forecast
Nominal GDP	507,545.7	514,822.1	525,513.3	1.2%	1.4%	2.1%
Private final consumption	288,121.7	291,567.0	297,024.9	0.6%	1.2%	1.9%
Private residential investment	18,815.0	17,527.6	17,888.3	2.9%	-6.8%	2.1%
Private nonresidential investment	79,494.8	82,300.2	86,303.1	7.8%	3.5%	4.9%
Change in private inventories*	1,149.8	970.4	1,229.6	0.0%	0.0%	0.1%
Government final consumption	90,919.1	91,915.0	93,305.2	0.3%	1.1%	1.5%
Public fixed investment	22,444.6	21,440.0	20,687.0	-6.2%	-4.5%	-3.5%
Change in public inventories*	252.2	193.1	227.3	0.0%	0.0%	0.0%
Net exports of goods and services*	6,348.5	8,908.9	8,847.9	-0.1%	0.5%	0.0%
Exports	81,756.3	90,474.7	94,815.5	13.7%	10.7%	4.8%
Imports	75,407.8	81,565.9	85,967.7	16.1%	8.2%	5.4%

Unit: 2000 chain price, billion yen

Real GDP	548,111.9	559,061.8	570,069.8	2.2%	2.0%	2.0%
Private final consumption	303,644.1	308,719.2	313,603.0	0.9%	1.7%	1.6%
Private residential investment	18,563.1	16,967.4	17,141.1	1.0%	-8.6%	1.0%
Private nonresidential investment	87,101.6	89,532.6	92,943.6	7.4%	2.8%	3.8%
Change in private inventories*	1,305.7	1,110.7	1,104.6	0.1%	0.0%	0.0%
Government final consumption	95,301.2	96,099.2	97,036.8	0.4%	0.8%	1.0%
Public fixed investment	22,408.6	21,105.9	20,122.3	-7.4%	-5.8%	-4.7%
Change in public inventories*	252.1	211.0	230.0	0.0%	0.0%	0.0%
Net exports of goods and services*	20,169.9	25,275.7	27,877.4	0.8%	0.9%	0.5%
Exports	80,668.7	86,917.5	90,992.7	9.6%	7.7%	4.7%
Imports	60,498.8	61,641.8	63,115.3	4.5%	1.9%	2.4%

Note: YoYs of items with * are contributions to the GDP growth.

Unit: CY2000=100

	CALENDAR YEAR			YoY		
	2006	2007	2008	2006	2007	2008
		forecast	forecast		forecast	forecast
IIP	106.2	108.9	112.1	4.8%	2.6%	2.9%
Domestic CGPI	100.7	102.9	104.8	3.0%	2.2%	1.8%
CPI, core	100.1	100.0	100.2	0.1%	-0.1%	0.2%
GDP deflator	92.6	92.1	92.2	-0.9%	-0.6%	0.1%
Unemployment rate	4.1%	3.9%	3.8%	***	***	***
New housing starts (million unit)	129.04	101.26	126.97	4.4%	-21.5%	25.4%
Current account	19,849	24,476	22,721	***	***	***
Goods and services	7,346	10,070	8,712	***	***	***
Goods	9,464	12,627	11,524	***	***	***
Exports	71,631	79,207	82,627	14.4%	10.6%	4.3%
Imports	62,167	66,580	71,103	18.9%	7.1%	6.8%
Official discount rate (end of year)	0.40%	1.00%	1.50%	***	***	***
Overnight call rate	0.26%	0.50%	1.00%	***	***	***
10-year JGB rate	1.76%	1.68%	1.98%	***	***	***
Crude oil price (WTI, dollar/bbl.)	66.2	72.6	82.5	***	***	***
yen/dollar rate	116.3	117.5	111.8	***	***	***
dollar/euro rate	1.257	1.371	1.485	***	***	***
yen/euro rate	146.2	161.0	165.9	***	***	***

Source: Official statistics, forecasts by Mitsubishi Research Institute, Inc.

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