

FY2012 and FY2013 Economic Outlook

REVISED
to reflect the 2nd
QE for the
Apr-Jun Qtr
of 2012

September 2012

Key points of Mizuho Research Institute's (MHRI) outlook on the economy in FY2012 and FY2013 reflecting the *Second Preliminary Quarterly Estimates of GDP (2nd QE)* of Japan for the Apr-Jun quarter of 2012

<The US Economy >

- ◆ **Concerns regarding global economic slowdown and the “fiscal cliff” will serve as drags upon growth**

2012: +2.0% (previous forecast +2.0%)

2013: +1.3% (previous forecast +1.3%)

<The Eurozone Economy >

- ◆ **Uncertainties regarding sovereign debt among the countries of southern Europe will persist. Fiscal austerity will drag down growth.**

2012: -0.4% (previous forecast -0.4%)

2013: +0.2% (previous forecast +0.3%)

<The Asian Economy >

- ◆ **Lower growth rate due to stagnant exports. The Chinese economy should pick up slightly on the back of stimulus measures**

2012: +6.2% (previous forecast +6.4%)

2013: +6.1% (previous forecast +6.4%)

<The Japanese Economy >

- ◆ **FY2012: +1.7% (previous forecast +2.1%)**

Despite support by reconstruction-related demand, personal consumption and exports will stagnate from the summer

- ◆ **FY2013: +1.3% (previous forecast +1.3%)**

Slow-down due to peak-out of reconstruction demand

Surge of demand prior to tax hike will push up growth in the second half of the fiscal year

This English-language translation is based upon the outlook in Japanese released on September 11, 2012. 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.

I. The global economy in FY2012 and FY2013

We have revised down our global economic outlook

A look overseas reveals an ongoing slowdown over the summer months among many of the countries and areas of the world. Despite expectations that the Chinese economy would recover as a result of economic stimulus measures, the odds are high that the pace of China's real GDP growth will remain at a level below 8% y-o-y in the Jul-Sep quarter. Given lingering inventory adjustment pressures due to the sluggish rise of public investment, business sentiment among manufacturers has been weak. The deterioration of business sentiment among corporate enterprises (manufacturers in particular) is also evident in the US and the eurozone. Both the US ISM manufacturing index and the eurozone PMI are continuing to trend below 50. It appears that the rise of future uncertainties such as the eurozone sovereign debt crisis is leading to a more cautious behavior among corporate enterprises. In particular, production and investment is weakening in the information technology (IT) sector due to the stagnation of global demand. Economic indicators are generally weak among countries/areas such as the NIEs (South Korea, Taiwan, Hong Kong, Singapore) whose IT sectors have large weights in their economies.

In view of the current state of the economy described above, we have revised downward our economic outlooks with respect to some countries of the world. As a result, our forecasts on the rate of global economic growth (the weighted average of all the countries and areas within the scope of MHRI's economic forecast) for both 2012 and 2013 have been lowered from our *Economic Outlook* in August (2012: +3.3% → +3.2%, 2013: +3.2% → +3.0%) (**Chart 1**).

[Chart 1: Outlook on the global economy]

Calendar year	(Y-o-y % change)				(Y-o-y % change)	
	2010 (Actual)	2011 (Actual)	2012 (Forecast)	2013 (Forecast)	2012 (Previous: August forecast)	2013 (Previous: August forecast)
Total of forecast area	5.4	3.8	3.2	3.0	3.3	3.2
Japan, US, Eurozone	2.5	1.3	1.2	0.8	1.2	0.9
US	2.4	1.8	2.0	1.3	2.0	1.3
Eurozone	1.8	1.5	-0.4	0.2	-0.4	0.3
Japan	4.5	-0.8	2.2	0.9	2.6	1.0
Asia	9.3	7.5	6.2	6.1	6.4	6.4
NIEs	8.4	4.0	1.9	1.8	2.2	1.9
ASEAN5	7.0	4.4	5.7	4.2	5.2	4.3
China	10.4	9.3	7.8	8.1	8.1	8.4
India	8.9	7.5	5.4	5.2	5.9	5.7
Brazil	7.5	2.7	1.2	3.2	1.5	3.5
Russia	4.3	4.3	3.2	3.2	3.2	3.2
Japan (FY)	3.3	-0.0	1.7	1.3	2.1	1.3
Crude oil price (WTI,USD/bbl)	80	95	96	86	95	84

Notes: The total of the forecast area is calculated upon the 2011 GDP share (PPP) by the IMF.
Sources: International Monetary Fund, MHRI.

Forecast on growth was revised downward for China, the NIEs and India

The rate of US real GDP growth in the Apr-Jun quarter of 2012 was revised upward from +1.5% q-o-q p.a. in the “advance” estimate to +1.7% q-o-q p.a. in the “second” estimate released by the Bureau of Economic Analysis. However, we have kept our outlook on the rate of growth for the US unchanged from our previous *Economic Outlook* in August for both 2012 (+2.0%) and 2013 (+1.3%) on the basis of our view that capital investment will remain subdued in the second half of the year reflecting the recent weakness of corporate business conditions.

Our outlook on the rate of eurozone economic growth now stands at -0.4% in 2012 and +0.2% in 2013, as a result of a downward revision of our outlook regarding 2013. Given a prolonged economic slump among the countries of southern Europe, it will take longer – until 2013 – for the eurozone economy to bottom out. We also expect that the pace of recovery in consumption and investment will be tepid subsequent to the turn of the year in 2013.

Of the Asian economies, we have revised down our outlook on the Chinese economy in 2012 (+8.1% → +7.8%) and 2013 (+8.4% → +8.1%). Although we have held the view that production activity would recover from the summer of 2012 due to the rise of public investment, the recovery of industrial production will likely be delayed due to lingering inventory adjustment pressures. Even though the economy should follow a public investment-led recovery in the first half of 2013, we have revised down our outlook on growth in 2013 on the basis of our view that the economic recovery will turn out to be mild reflecting the continuation of a severe environment surrounding exports.

We have revised down our outlook on the NIEs in 2012 (+2.2% → +1.9%) and 2013 (+1.9% → +1.8%). The downward revision takes into consideration the current weakness of IT-related demand and the impact of slumping demand toward China.

In contrast, domestic demand remains generally solid among the ASEAN5 countries (Thailand, Malaysia, Indonesia, Philippines, and Vietnam). Special factors such as demand related to reconstruction after the Thai floods and the rise of fiscal spending in the run-up to the general elections in Malaysia are also contributing to push up demand. The rate of real GDP growth is forecast to rise to +5.7 (*Economic Outlook* in August: +5.2%) in 2012 and slow down to +4.2% (*Economic Outlook* in August: +4.3%). We have revised down our outlook for 2013 in consideration of a backlash to the current special factors with respect to Thailand and Malaysia.

India’s real GDP growth remained at a weak 5.5% y-o-y in the Apr-Jun quarter (Jan-Mar quarter: +5.3% y-o-y). Domestic demand is still weak due to factors such as inflation thus far. We have revised down our outlook on the rate of India’s economic growth in both 2012 (+5.9% → +5.4%) and 2013 (+5.7% → +5.2%).

The rate of Brazil’s real GDP growth in the Apr-Jun quarter stood at a weak

+0.4% q-o-q. We have revised down our outlook on Brazil's economic growth in both 2012 (+1.5% → +1.2%) and 2013 (+3.5% → +3.2%) due to the lingering impact of the fiscal and monetary tightening last year. Even so, a gradual economic recovery is expected in 2013 due to the impact of the current monetary easing and economic stimulus measures.

We have kept our outlook on the rate of Russia's economic growth unchanged at +3.2% in both 2012 and 2013. MHRI forecasts that the price of crude oil (WTI) will fall due to factors such as the easing of global supply-demand (2012: USD96/bbl, 2013: USD86/bbl). The rate of growth of the Russian economy possessing a high dependence upon commodity exports should gradually slow down from the 4%-level in 2010 and 2011.

[Chart 2: Outlook on the US economy]

	2012				2013				2011 (Actual)	2012 (Forecast)	2013 (Forecast)
	Jan-Mar (Actual)	Apr-Jun (Actual)	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			
GDP (q-o-q % ch, p.a.)	2.0	1.7	0.7	1.2	1.4	1.5	1.4	1.3	1.8	2.0	1.3
Personal consumption (q-o-q % ch, p.a.)	2.4	1.7	1.7	1.8	1.0	2.0	1.9	1.7	2.5	1.9	1.6
Housing investment (q-o-q % ch, p.a.)	20.5	8.9	7.0	8.0	3.0	8.0	5.0	5.0	-1.4	10.7	6.1
Capital investment (q-o-q % ch, p.a.)	7.5	4.2	2.5	2.5	2.5	4.0	3.5	3.5	8.6	8.0	3.1
Inventory investment (contribution, q-o-q % pt ch)	-0.4	-0.2	-0.4	0.0	0.5	-0.2	-0.1	-0.1	-0.1	0.1	0.0
Government spending (q-o-q % ch, p.a.)	-3.0	-0.9	-2.7	-2.7	-1.8	-1.8	-1.8	-1.8	-3.1	-2.3	-2.0
Net exports (USD billion p.a.)	-415.5	-404.6	-401.5	-400.6	-396.4	-395.0	-393.5	-392.1	-408.0	-405.5	-394.2
Exports (q-o-q % ch, p.a.)	4.4	6.0	3.5	3.0	2.0	2.0	2.0	2.0	6.7	4.1	2.6
Imports (q-o-q % ch, p.a.)	3.1	2.9	2.3	2.3	0.9	1.4	1.4	1.4	4.8	3.2	1.6
Domestic final demand (q-o-q % ch, p.a.)	2.2	1.6	1.1	1.1	0.7	1.7	1.4	1.3	1.8	1.9	1.2
Unemployment rate (%)	8.3	8.2	8.2	8.2	8.2	8.2	8.2	8.3	8.9	8.2	8.2
Nonfarm payrolls (per month, 1,000)	232	110	110	111	122	133	112	106	125	151	118
Disposable income (q-o-q % ch, p.a.)	6.3	3.8	4.1	4.0	0.6	4.1	4.0	3.9	3.8	3.5	3.1
Personal saving rate (%)	3.6	4.0	4.2	4.2	3.7	3.8	3.9	3.9	4.2	4.0	3.8
PCE deflator (y-o-y % ch)	2.4	1.7	1.4	1.7	1.5	1.8	1.9	1.8	2.4	1.8	1.7
Core PCE deflator ex food and energy (y-o-y % ch)	1.9	1.8	1.9	2.0	2.0	2.1	2.1	2.1	1.4	1.9	2.0

Note: Readings from the Jul-Sep quarter of 2012 are forecasts by MHRI.
Sources: US Department of Commerce, US Department of Labor, MHRI.

[Chart 3: Outlook on the Eurozone economy]

	(%)									
	2011	2012	2013	2011		2012		2013		
	(Actual)	(Forecast)	(Forecast)	1H	2H	1H	2H (Forecast)	1H (Forecast)	2H (Forecast)	
Real GDP	1.5	-0.4	0.2	1.9	0.0	-0.5	-0.7	0.3	0.9	
Y-o-y % ch of 4th qtr of each year (% ch o-y-a for half year terms)	0.6	-0.5	0.8	2.0	0.9	-0.3	-0.6	-0.2	0.6	
Private-sector consumption	0.1	-0.7	0.2	-0.0	-0.6	-1.1	-0.1	0.2	0.6	
Government consumption	-0.1	-0.1	-1.1	-0.4	-0.4	0.5	-1.1	-1.1	-1.0	
Fixed capital formation	1.6	-3.0	-0.3	3.1	-1.5	-3.9	-2.6	-0.1	1.8	
External demand (contribution)	0.9	1.2	0.2	0.7	1.6	1.6	0.1	0.1	0.3	
Exports	6.3	2.5	2.3	5.6	3.4	2.6	1.4	2.0	3.8	
Imports	4.1	-0.3	2.1	4.1	-0.2	-1.0	1.2	1.9	3.2	
Inventories, balancing items (contribution)	0.2	-0.6	0.2	0.7	-0.8	-0.8	0.0	0.4	0.1	
Domestic demand	0.5	-1.7	0.0	1.2	-1.6	-2.2	-0.8	0.2	0.6	
Consumer prices	2.7	2.5	1.9	2.6	2.8	2.6	2.3	1.9	1.9	
Core inflation rate	1.4	1.6	1.7	1.4	1.5	1.6	1.7	1.7	1.7	

Notes: 1. Calendar-year data refer to the y-o-y % ch. Half-year term figures refer to the % change from the previous term (p.a.) for GDP, and the % change from the previous year for consumer prices. The shaded columns are forecasts.

2. Growth rate adjusted for operating days.

Sources: Eurostat, MHRI.

[Chart 4: Outlook on the Asian economies]

	(%)				(%)	
	2010 (Actual)	2011 (Actual)	2012 (Forecast)	2013 (Forecast)	2012 (Previous: August)	2013
Asia	9.3	7.5	6.2	6.1	6.4	6.4
China	10.4	9.3	7.8	8.1	8.1	8.4
NIEs	8.4	4.0	1.9	1.8	2.2	1.9
South Korea	6.3	3.6	2.3	2.1	2.8	2.3
Taiwan	10.7	4.0	1.4	2.1	1.6	2.2
Hong Kong	7.1	5.0	1.3	0.8	1.5	0.9
Singapore	14.8	4.9	1.6	0.5	1.7	0.5
ASEAN5	7.0	4.4	5.7	4.2	5.2	4.3
Indonesia	6.2	6.5	6.2	5.4	6.2	5.4
Thailand	7.8	0.1	5.6	2.8	4.5	3.2
Malaysia	7.2	5.1	5.0	2.7	3.8	2.9
Philippines	7.6	3.9	5.7	3.7	4.9	3.5
Vietnam	6.8	5.9	5.1	5.4	5.1	5.4
India	8.9	7.5	5.4	5.2	5.9	5.7

Notes: 1. Real GDP growth rate (y-o-y ch). The shaded columns are forecasts.

2. Averages are calculated by the 2011 GDP share (PPP basis) by the IMF.

Sources: Statistical data of relevant countries, MHRI.

II. The current state of the Japanese economy

Japan's growth was revised down in the 2nd QE for the Apr-Jun quarter of 2012

The *Second Preliminary Quarterly Estimates of GDP* ("2nd QE") for the Apr-Jun quarter of 2012 released by the Cabinet Office on September 10, 2012 revealed a downward revision of Japan's real GDP growth in the Apr-Jun quarter to +0.2 % q-o-q (+0.7% p.a.) from +0.3% q-o-q (+1.4% p.a.) in the *First Preliminary Quarterly Estimates of GDP* ("1st QE") (Chart 5).

Looking closer at each of the components of demand, the contribution by private sector inventory investment was subject to a sharp downward revision from -0.0% pt to -0.2% pt, reflecting data releases such as the *Financial Statements Statistics of Corporations by Industry*. Furthermore, capital investment was revised down slightly to +1.4% q-o-q from +1.5% q-o-q in the 1st QE. As for other components of domestic private sector demand, housing investment was revised up slightly (1st QE: +0.8% q-o-q → 2nd QE: 0.9% q-o-q) and the growth of personal consumption (+0.1% q-o-q) remained unchanged from the 1st QE. As a result, the contribution by domestic private demand to quarterly real GDP growth fell to +0.1% pt (1st QE: +0.3% pt).

Turning to public demand, government consumption was revised down to +0.2% q-o-q (1st QE: +0.3% q-o-q), while public investment was revised upward to +1.8% q-o-q (1st QE: +1.7% q-o-q). The contribution by public demand to quarterly real GDP growth dipped slightly to +0.1% pt from the 1st QE (+0.2% pt). The contribution by domestic demand – combining both private and public demand – stood at +0.2% pt (1st QE: +0.4% pt).

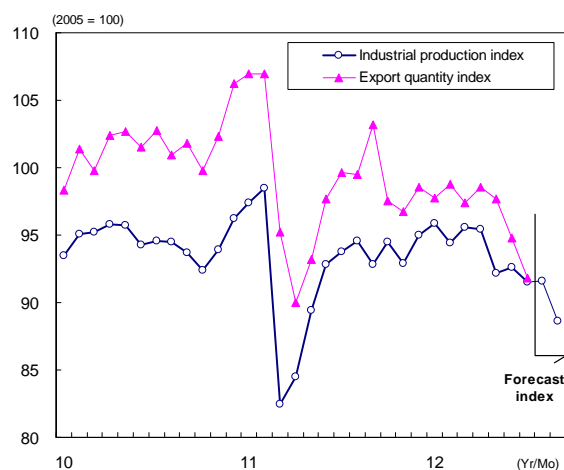
Turning to external demand, the growth of both exports and imports (+1.2% q-o-q and +1.6% q-o-q respectively) remained unchanged. Accordingly, the contribution by external demand to quarterly real GDP growth remained unchanged from the 1st QE (-0.1% pt).

Chart 5: Apr-Jun Qtr 2012 2nd QE

	2011			2012		1 st QE Apr-Jun
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	
Domestic gross expenditure (Q-o-q change, p.a.)	-0.3	1.7	0.1	1.3	0.2	0.3
(Y-o-y change)	-1.3	6.9	0.3	5.3	0.7	1.4
	-1.8	-0.6	-0.7	2.9	3.2	3.5
Domestic demand	0.6	1.0	0.8	1.1	0.2	0.4
	(0.6)	(1.0)	(0.8)	(1.2)	(0.2)	(0.4)
Private demand	0.2	1.4	1.0	1.0	0.2	0.4
	(0.1)	(1.0)	(0.8)	(0.8)	(0.1)	(0.3)
Consumption	0.6	1.1	0.7	1.2	0.1	0.1
Housing investment	-3.0	4.8	0.1	-1.6	0.9	0.8
Capital investment	-0.9	0.3	5.5	-1.6	1.4	1.5
Inventory investment	(0.0)	(0.2)	(-0.4)	(0.3)	(-0.2)	(-0.0)
Public demand	1.9	0.0	0.1	1.5	0.5	0.6
	(0.5)	(0.0)	(0.0)	(0.4)	(0.1)	(0.2)
Government final consumption expenditures	0.6	0.2	0.4	1.1	0.2	0.3
Public investment	7.4	-1.1	-1.0	3.6	1.8	1.7
Net exports of goods & services	(-0.9)	(0.7)	(-0.7)	(0.1)	(-0.1)	(-0.1)
Exports	-5.8	7.8	-3.6	3.4	1.2	1.2
Imports	0.0	3.4	1.0	2.2	1.6	1.6
Nominal GDP	-1.3	1.6	-0.3	1.3	-0.3	-0.1
GDP deflator (y-o-y change)	-2.4	-2.1	-1.8	-1.3	-0.9	-1.1

Note: The figures in parentheses indicate the contributions to gross domestic expenditures.
Source: Cabinet Office, *Preliminary Quarterly Estimates of GDP*.

Chart 6: Industrial production and exports



Note: The export quantity index is adjusted for seasonal factors by MHRI.
The latest actual readings for industrial production and exports are as of July.
Readings on industrial production for August and September are based upon forecast indexes.
Sources: Made by MHRI based upon Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Ministry of Finance, *Trade Statistics*.

The economy is currently in a “soft patch” and may fall in the Jul-Sep quarter

As shown above, the Japanese economy managed to maintain growth in positive territory in the Apr-Jun quarter, mainly by the growth of domestic demand. However, it should be noted that growth has fallen into a soft patch, as indicated by the fall of industrial production in the Apr-Jun quarter (-2.0% q-o-q). In view of the low level of exports in July, the odds are high that exports may take a downturn in the Jul-Sep quarter (**Chart 6**). If the forecast index provides an accurate prediction, the fall of industrial production is also predicted to steepen (-3.0% q-o-q) in the Jul-Sep quarter. Personal consumption is also turning stagnant as the eco-car subsidy program approaches its end. Despite support by public demand, Japan’s economy is forecast to record negative growth in the Jul-Sep quarter.

III. Forecast on the Japanese economy in FY2012 and FY2013

The economy will remain in a soft patch until the Oct-Dec quarter of 2012. Outlook on FY2012 real GDP growth is revised downward

The current “soft patch” of the economy stems from the weakness of exports and industrial production reflecting the slow recovery of the Chinese economy and downturn of global IT demand. Judging from the strength of inventory adjustment pressures within China, we cannot hope for much impetus to push up Japan’s China-bound exports and production in the Oct-Dec quarter of 2012. As for IT-related production, even though the output of parts for new products should gradually pick up, its growth will likely be limited in view of lingering inventory adjustment pressures of existing products and parts. In the Oct-Dec quarter, exports and industrial production should flatten out, keeping the economy in a soft patch. Although real GDP growth should turn positive, supported by public demand, the pace of growth will nevertheless be slow, falling below +1% p.a., due to the decline of personal consumption after the expiration of the eco-car subsidy program.

In the Jan-Mar quarter of 2013, Japan’s exports and industrial production should recover, reflecting the progress of the inventory adjustment process in China. As for domestic demand, in addition to the rise of public investment, personal consumption is expected to turn around and rise from its depressed state after expiration of the eco-car subsidy program. Even though a full-fledged recovery of exports is unlikely due to the weakness of the US and eurozone economies, the Japanese economy should recover to around the lower half of the +1%-level and pick up from a soft patch in the Jan-Mar quarter.

On a fiscal year basis, Japan’s real GDP should grow +1.7% in FY2012 (*Economic Outlook* in August: +2.1%) as a result of the rise of public demand accompanying reconstruction from the Great East Japan Earthquake and the gradual expansion of domestic private-sector demand. That said, as we noted above, growth in the Jul-Sep quarter of 2012 will fall into negative territory and remain weak in the Oct-Dec quarter. Even though the Japanese economy will pick up from a soft patch in the Jan-Mar quarter of 2013, economic activity in general should remain on fragile footing and lack a sense of buoyancy from the summer of 2012.

Reconstruction-related demand will peak out. FY2013 growth will slow down to +1.3%

Reconstruction-related demand is forecast to fall in FY2013, as the majority of public works for infrastructure reconstruction are scheduled to be completed during FY2012 (end of March 2013). Having said so, the pace of decline of public investment in FY2013 should be gradual, since public works for the relocation of communities to higher grounds will start to be implemented on a full scale in FY2013.

In contrast, in the first half of FY2013, personal consumption should continue to pick up from its slump after the expiration of the eco-car subsidy program and capital investment is also expected to continue its gradual expansion. Even

though export growth will remain weak, Japan's economy should maintain growth above the 1%-level p.a. in the first half of FY2013.

In the second half of FY2013, the last-minute rush of demand prior to the consumption tax hike should push up domestic demand. A rush of demand is expected mainly in personal consumption and housing investment prior to the consumption tax hike to 8% (from the current 5%) in April 2014. According to calculations by MHRI, the tax hike should spur a rush of demand of approximately JPY2.9 trillion (JPY2.0 trillion in personal consumption and JPY0.9 trillion in housing investment) during FY2013 and push up FY2013 real GDP growth by 0.63% pt.

On a fiscal year basis, FY2013 real GDP is forecast to grow +1.3% (*Economic Outlook* in August: +1.3%), slowing down from growth in FY2012 which was driven by public demand.

[Chart 7: Outlook on the Japanese economy]

		2010	2011	2012	2013	2012				2013				2014
		FY				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	3.3	-0.0	1.7	1.3	1.3	0.2	-0.1	0.2	0.3	0.3	0.3	0.5	1.1
	Q-o-q % ch p.a.	--	--	--	--	5.3	0.7	-0.5	0.7	1.3	1.2	1.2	2.0	4.3
Domestic demand	Q-o-q % ch	2.6	1.0	2.0	1.3	1.1	0.2	0.2	0.1	0.3	0.3	0.2	0.5	1.1
Private sector demand	Q-o-q % ch	3.2	0.6	1.8	1.3	1.0	0.2	0.1	-0.1	0.1	0.3	0.3	0.6	1.4
Personal consumption	Q-o-q % ch	1.6	1.2	1.4	1.3	1.2	0.1	-0.2	-0.3	0.1	0.2	0.3	0.8	2.0
Housing investment	Q-o-q % ch	2.6	3.8	2.5	6.0	-1.6	0.9	1.4	1.2	-0.2	1.7	1.6	3.6	1.5
Capital investment	Q-o-q % ch	3.9	1.1	3.0	1.5	-1.6	1.4	-0.2	0.3	0.4	0.4	0.5	0.4	0.5
Inventory investment	Q-o-q contribution, % pt	0.8	-0.5	0.1	-0.2	0.3	-0.2	0.2	0.0	0.0	0.0	-0.1	-0.3	-0.3
Public sector demand	Q-o-q % ch	0.8	2.2	2.7	1.2	1.5	0.5	0.6	0.6	0.7	0.0	0.1	0.2	0.2
Government consumption	Q-o-q % ch	2.5	1.9	1.9	1.5	1.1	0.2	0.3	0.5	0.7	0.3	0.3	0.2	0.3
Public investment	Q-o-q % ch	-6.0	2.9	6.4	-0.5	3.6	1.8	1.8	1.3	0.8	-0.9	-0.9	-0.2	-0.5
External demand	Q-o-q contribution, % pt	0.8	-1.0	-0.4	0.1	0.1	-0.1	-0.3	0.1	0.0	0.0	0.1	0.0	-0.0
Exports	Q-o-q % ch	17.4	-1.4	2.5	2.0	3.4	1.2	-1.9	0.1	0.5	0.6	0.9	1.0	0.9
Imports	Q-o-q % ch	12.3	5.6	4.7	1.5	2.2	1.6	0.2	-0.4	0.2	0.4	0.5	0.9	1.0
GDP (nominal)	Q-o-q % ch	1.2	-2.0	1.2	1.3	1.3	-0.3	0.2	-0.1	0.6	0.0	0.7	0.2	1.2
GDP deflator	Y-o-y % ch	-2.1	-1.9	-0.4	0.0	-1.3	-0.9	-0.5	-0.3	0.0	0.0	0.0	0.0	-0.1
Domestic demand deflator	Y-o-y % ch	-1.4	-0.7	-0.6	-0.6	-0.4	-0.6	-0.6	-0.5	-0.6	-0.7	-0.7	-0.6	-0.6

Note: Figures in the shaded areas are forecasts.

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

		2010	2011	2012	2013	2012				2013				2014
		FY				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Industrial production	Q-o-q % ch	9.3	-1.0	-0.9	2.1	1.3	-2.0	-2.0	-0.2	1.0	0.7	0.8	0.8	0.7
Ordinary profits	Y-o-y % ch	39.0	-2.0	2.9	5.6	14.1	15.1	-1.6	3.2	-3.9	3.6	5.5	7.9	5.3
Nominal labor compensation	Y-o-y % ch	0.5	0.1	-0.3	0.4	-0.0	-0.4	-0.3	-0.4	0.0	0.3	0.5	0.5	0.4
Unemployment rate	%	5.0	4.5	4.3	4.2	4.5	4.4	4.3	4.3	4.3	4.3	4.2	4.1	4.1
New housing starts	P.a., 10,000 units	81.9	84.1	87.4	93.6	86.2	87.8	89.7	85.5	86.9	88.9	94.7	98.4	91.8
Current account balance	P.a., JPY tril	16.7	7.6	7.3	11.1	5.9	5.4	7.6	7.7	8.4	7.9	12.2	12.1	12.5
Domestic corporate goods prices	Y-o-y % ch	0.4	1.3	-1.5	-0.7	0.3	-0.8	-2.0	-1.4	-1.7	-1.6	-0.5	-0.4	-0.2
Consumer prices	Y-o-y % ch	-0.8	0.0	-0.2	-0.1	0.1	0.0	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	-0.0
Uncollateralized overnight call rate	%	0.06	0.08	0~0.10	0~0.10	0.08	0.08	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10	0~0.10
Yield on newly-issued 10-yr JGBs	%	1.13	1.05	0.83	0.88	0.97	0.85	0.81	0.85	0.80	0.80	0.85	0.90	0.95
Nikkei average	JPY	9,961	9,181	9,100	9,200	9,274	9,036	8,900	9,400	9,000	8,800	9,000	9,300	9,500
Exchange rate	JPY/USD	86.0	79.0	79.0	81.0	79.3	80.2	79.0	80.0	79.0	80.0	80.0	81.0	82.0
Crude oil price (WTI nearest term contract)	USD/bbl	84.0	97.0	92.0	84.0	103.0	93.0	92.0	94.0	90.0	86.0	84.0	82.0	82.0

Notes: 1. Figures in the shaded areas are forecasts. 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) (ex finance & insurance, and production, transmission and distribution of electricity services).

3. Consumer prices exclude fresh food (2010 base).

4. Quarterly data on the unemployment rate, new housing starts and current account balance are seasonally-adjusted.

5. Of the finance-related indices, the uncollateralized overnight call rate refers to the rate at the end of term and all others are averages during the relevant terms.

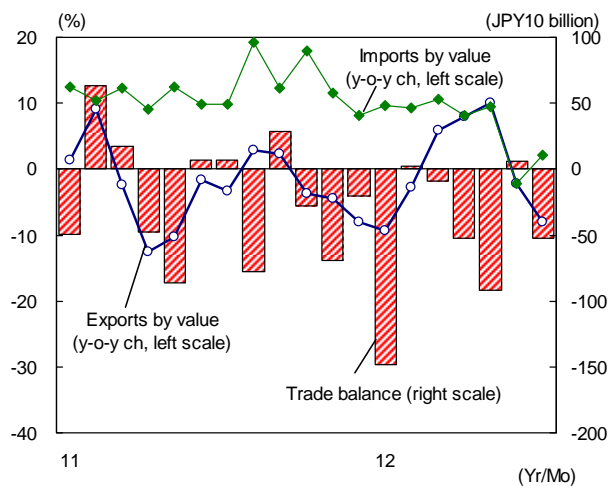
Sources: Made by MHRI based upon Cabinet Office, *Second Preliminary Quarterly Estimates of GDP*, Ministry of Economy, Trade and Industry, *Indices of Industrial Production*, Ministry of Finance, *Financial Statements, Statistics of Corporations by Industry, Quarterly*, Ministry of Internal Affairs and 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.

A return to a trade surplus is only expected sometime in or after FY2014

We have changed our view on Japan's trade balance that it will remain in a deficit during FY2013 along with the downward revision of our outlook on exports and the upward revision of the price of crude oil in FY2012 and FY2013. GDP-based real export outlooks have been revised downward to +2.5% y-o-y (*Economic Outlook* in August: +4.5% y-o-y) for FY2012 and to +2.0% y-o-y (*Economic Outlook* in August: +2.3% y-o-y) for FY2013. On the other hand, our outlooks on the price of crude oil (WTI) have been revised upward to USD92/bbl (*Economic Outlook* in August: USD91/bbl) in FY2012 and USD84/bbl (*Economic Outlook* in August: USD82/bbl) in FY2013.

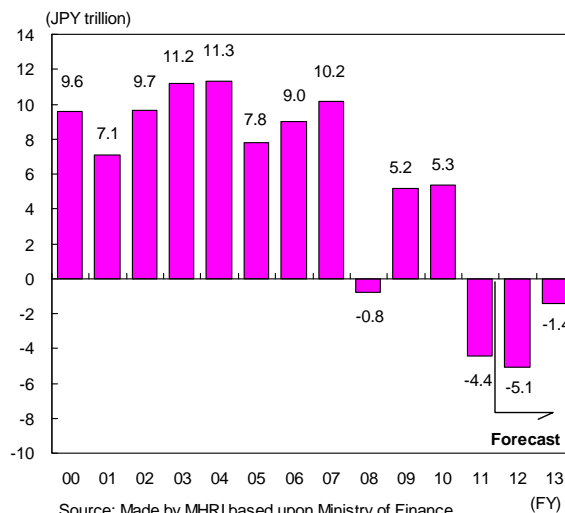
Since the Great East Japan Earthquake, Japan has been recording a trade deficit amid the stagnation of exports and rise of fuel imports accompanying the decline of nuclear power generation (**Chart 8**). At the time of release of our *Economic Outlook* in August, we expected that the trade balance would rise into a slight surplus in FY2013 as a result of the recovery of exports and decline in value of fuel imports. However, given the weak recovery of exports and a narrower breadth of decline of the price of crude oil, Japan's trade balance will still remain in a deficit of JPY1.4 trillion (FY2012 forecast: JPY5.1 trillion). The timing of Japan's return to a trade surplus is expected to take place sometime in or beyond FY2014.

Chart 8: Exports & imports (by value) and the trade balance



Source: Ministry of Finance, *Trade Statistics*.

Chart 9: Forecast on the trade balance



Source: Made by MHIRI based upon Ministry of Finance, *Trade Statistics*.

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