

Economic Outlook for FY2003 and FY2004 (Revised)

October 10, 2003

The Mizuho Research Institute (MHRI) has revised its economic outlook for FY2003 and FY2004. The key points of the revision are as follows.

<The US Economy>

MHRI has upgraded its forecast on the rate of US gross domestic product (GDP) in real terms to 2.6 percent in 2003 (up from 2.3 percent in our previous forecast in August) and 3.4 percent in 2004 (up from 3.2 percent in our August forecast). Given the gradual shift of the growth engine from the household sector to the corporate sector, the US economy should rebound to an annual growth rate of around 3 percent per annum, driven mainly by the growth of capital investment from mid-2003. Although the pace of recovery will slow down toward the end of 2003 due to the ebb of the positive effect from the tax cuts, the US economy will follow an uninterrupted recovery toward 2004.

<The Japanese Economy>

MHRI has upgraded its forecast on the rate of Japan's GDP in real terms to 2.1 percent in FY2003 (up from 1.2 percent in our previous forecast in August) and 0.8 percent in FY2004 (up from 0.5 percent in our August forecast) to reflect a major upward revision of the Cabinet Office's GDP estimates in the *Second Preliminary Quarterly Estimates of GDP* for the Apr-Jun quarter of 2003. As in our forecast in August, we expect the Japanese economy to slow down temporarily in the second half of FY2003. Despite an ongoing recovery of capital investment among large manufacturers, small and medium-sized enterprises and non-manufacturers will maintain a cautious stance regarding capital investment. Personal consumption will likely remain stagnant reflecting the weak recovery of labor compensation and the rise of social security burdens accompanying a number of amendments to Japan's social security system. We expect Japan's rate of real GDP growth in the second half of FY2003 to contract sharply from the growth rate in the first half of the fiscal year which surged partially because of special factors (1HFY2003: rate of change from the previous term 2.7 percent per annum → 2HFY2003: 0.4 percent). The Japanese economy should regain momentum from then onward on the back of the recovery of the overseas economies. Considering the current slowdown of the pace of economic recovery, there is a risk that the economy may lose momentum if the yen keeps strengthening far beyond the 110 yen line.

This English-language translation is based upon the revised outlook in Japanese released on October 10, 2003.

【 Forecast of the US Economy 】

	(%)									
	2002	2003	2004	2002		2003		2004 (Forecast)		
	(Actual)	(Forecast)	(Forecast)	1st-half	2nd-half	1st-half	2nd-half (Forecast)	1st-half	2nd-half	
GDP	2.4	2.6	3.4	3.5	2.7	1.9	4.0	3.1	3.4	
Personal consumption	3.1	3.1	3.6	3.5	3.0	2.4	4.7	3.2	3.3	
Housing investment	3.9	7.5	2.1	6.7	3.5	9.0	8.5	0.2	-0.1	
Capital investment	-5.7	1.8	8.2	-6.3	-0.5	0.1	7.7	7.9	9.4	
Inventory investment (\$100 million)	52	-112	303	-120	223	-64	-160	167	439	
Government expenditures	4.4	2.9	1.5	5.7	3.0	3.4	1.9	1.3	1.4	
Net exports (\$100 million)	-4,885	-5,452	-6,239	-4,670	-5,101	-5,283	-5,621	-6,023	-6,455	
Exports	-1.6	1.2	5.4	2.6	4.2	-2.4	5.5	4.7	6.5	
Imports	3.7	4.5	8.4	8.1	8.7	0.7	8.1	8.1	9.4	
Domestic final consumption	2.4	3.1	2.9	2.9	2.6	2.6	4.5	2.4	2.5	
Consumer prices	1.6	2.4	2.0	1.4	2.5	2.6	2.1	2.1	1.9	
Current account balance (\$100 million)	-4,809	-5,743	-6,528	-2,296	-2,513	-2,774	-2,969	-3,161	-3,367	
<as percentage of nominal GDP>	-4.6	-5.3	-5.7	-4.4	-4.8	-5.2	-5.4	-5.6	-5.8	

Note: Yr = rate of change from the previous year. Half-year term = rate of change p.a. from the previous term.

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

【 Forecast of the Japanese Economy 】

	(%)									
	FY2002	FY2003	FY2004	FY2003		FY2004		FY2003	FY2004	
	(Actual)	(Forecast)	(Forecast)	1st-half (Forecast)	2nd-half (Forecast)	1st-half (Forecast)	2nd-half (Forecast)	(Contribution) (Forecast)	(Contribution) (Forecast)	
GDP (real)	1.6	2.1	0.8	1.3	0.2	0.4	0.6	-	-	
Domestic demand	0.9	1.8	0.5	1.1	0.3	0.2	0.4	1.7	0.5	
Private sector demand	1.2	2.4	0.6	1.5	0.1	0.2	0.6	1.8	0.5	
Personal consumption	1.4	0.7	0.3	0.4	0.0	0.2	0.3	0.4	0.2	
Housing investment	-2.9	-0.1	-1.5	0.2	1.0	-1.7	-0.6	-0.0	-0.1	
Capital investment	-0.1	8.7	1.3	5.7	0.1	0.4	1.5	1.4	0.2	
Public sector demand	-0.3	-0.3	0.4	-0.3	0.9	0.1	-0.2	-0.1	0.1	
Government consumption	1.9	1.2	1.2	0.4	1.0	0.4	0.5	0.2	0.2	
Public investment	-6.3	-4.6	-2.0	-2.6	0.7	-1.2	-1.9	-0.3	-0.1	
Net exports (contribution)	0.8	0.4	0.3	0.3	-0.1	0.2	0.2	0.4	0.3	
Exports	12.2	3.9	5.0	1.3	0.6	2.9	3.5	0.5	0.6	
Imports	5.5	1.0	3.8	-1.4	1.9	1.9	1.9	-0.1	-0.3	
GDP (nominal)	-0.7	-0.2	-0.8	0.4	-1.0	-0.2	-0.4			
Industrial production	2.8	1.0	1.3	0.0	0.2	0.7	1.1			
Unemployment rate	5.4	5.4	5.5	5.4	5.3	5.5	5.6			
Current account balance (trillion yen)	13.4	14.1	15.1	16.2	12.6	14.4	16.3			
<as percentage of nominal GDP>	2.7	2.9	3.1	3.2	2.6	2.9	3.3			
Corporate goods prices	-1.6	-0.9	-1.3	-0.9	-0.9	-1.2	-1.3			
Consumer prices	-0.6	-0.4	-0.7	-0.3	-0.4	-0.6	-0.7			
Long-term interest rate (%)	1.11	1.10	1.40	0.90	1.30	1.40	1.40			
Nikkei stock average (yen)	9,582	10,000	11,400	9,200	10,800	11,300	11,500			
Exchange rate (yen/dollar)	121.9	114	110	118	110	110	110			
Crude oil price (dollar/barrel)	29.1	29.1	27.5	30.0	28.3	28.0	27.0			

Notes: 1. FY = rate of change from the previous year. Half-year term = rate of change from the previous term (excluding the unemployment rate, current account balance and prices).

2. Half-year corporate goods prices and half-year consumer prices = rate of change over the same period a year ago.

3. Half-year unemployment rate and half-year current account balance are adjusted for seasonal factors.

4. Crude oil price = nearest term contract for WTI crude futures. The long-term interest rate = newly-issued 10-year government bonds.

Sources: Cabinet Office, *Annual Report on National Accounts*,

Ministry of Economy, Trade and Industry, *Production, Shipment and Inventory Indexes*,

Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Labor Force Survey, Consumer Price Index*,

Bank of Japan, *Balance of Payments Statistics, Corporate Goods Price Index*.