

# 06 Economy

## Economic Situation

After an unusually prolonged stagnation during the 1990s, the Japanese economy finally started showing a recovery in official statistics in February 2003, and the recovery is steadily continuing. According to an announcement by the Cabinet Office in March 2006, Japan's gross domestic product (GDP) rose 1.3% in real terms in the October–December 2005 quarter and 5.4% on an annualized basis, registering the fourth straight quarterly growth. The figure brought the 2005 annual GDP growth to 2.7% in real terms and 1.4% in nominal terms.

The unemployment rate, which peaked at 5.4% in 2002, dropped to 5.3% in 2003, the first improvement in 13 years. The figure further improved to 4.7% in 2004 and to 4.4% in 2005. Stock prices recovered dramatically from their post-bubble low of 7,603.76 posted in April 2003 to 16,111.43 on December 30, 2005. Private consumption marked a 2.2% increase in real terms in 2005. Spurred by brisk shipments of electronic products, steel, and other raw materials to China and other Asian countries and to the United States, Japan's exports in 2005 increased 7.3% to register ¥65.7 trillion. Capital spending on an all-industry basis also rose 7.8% in real terms. Under such circumstances, the Bank of Japan decided on March 9, 2006, to end its unprecedented "quantitative monetary easing" policy, which was implemented in March 2001 as an emergency measure to keep the nation's banking system from breakdown and save the economy from a deflationary spiral.

In January 2006 the government decided on its economic forecast for fiscal 2006 (April 2006 to March 2007). The forecast suggests that the Japanese economy will continue to grow at 2.0% in nominal and 1.9% in real terms, driven mainly by private consumption and capital investment. Nominal GDP is expected to total around ¥513.9 trillion, achieving positive growth for the fourth consecutive year. The GDP deflator, which widely reflects consumer prices, is expected to rise 0.1%, moving into positive territory for the first time in nine years and lifting the economy out of deflation. The unemployment rate is also expected to improve to 4.1%.

## Trends in Gross Domestic Product (Gross Domestic Expenditure)

	Nominal		Real	
	Total (¥ billion)	Change over previous year (%)	Total (¥ billion)	Change over previous year (%)
1995	495,735.7	1.8	480,963.3	2.4
1996	506,479.5	2.2	494,261.8	2.8
1997	510,465.8	0.8	493,793.5	-0.1
1998	501,383.5	-1.8	487,603.2	-1.3
1999	496,605.8	-1.0	490,369.4	0.6
2000	502,783.1	1.2	504,322.5	2.8
2001	492,346.7	-2.1	500,387.8	-0.8
2002	488,724.4	-0.7	506,048.3	1.1
2003	493,533.2	1.0	517,435.0	2.3
2004	496,197.0	0.5	526,378.0	1.7

Source: Economic and Social Research Institute, Cabinet Office, *Kokumin keizai keisan* (National Accounts), FY 2004.

## Nominal GDP of Major Countries

	2000		2003		2004		2005	
	Total (US\$ bil.)	Per capita (US\$)	Total (US\$ bil.)	Per capita (US\$)	Total (US\$ bil.)	Per capita (US\$)	Total (US\$ bil.)	Per capita (US\$)
USA	9,817	34,775	10,985	37,756	11,734	39,935	12,452	41,976
Japan	4,749	37,436	4,302	33,720	4,671	36,596	4,672	36,599
Netherlands	372	23,425	513	31,660	608	37,326	623	38,180
UK	1,442	24,593	1,799	30,156	2,133	35,548	2,197	36,429
Germany	1,875	22,816	2,409	29,201	2,755	33,390	2,800	33,785
France	1,313	21,673	1,754	28,536	2,046	32,911	2,113	33,855
Canada	724	23,629	867	27,442	993	31,134	1,106	34,375
Italy	1,078	18,728	1,471	25,589	1,680	29,014	1,719	29,635
Australia	379	19,776	508	25,429	618	30,682	684	33,526
Hong Kong	165	24,638	159	23,038	164	23,608	174	24,715
Spain	563	14,092	840	20,844	1,041	25,320	1,124	27,175
Korea (ROK)	512	10,885	605	12,499	680	14,151	800	16,493
Mexico	581	5,957	626	6,112	675	6,494	758	7,183
Russia	260	1,779	434	3,030	582	4,087	772	5,459
Brazil	600	3,604	498	2,870	604	3,325	789	4,297
China	1,081	853	1,410	1,087	1,654	1,272	1,910	1,462

Source: International Monetary Fund, *The World Economic Outlook Database*, September 2005.

## Real GDP Growth in Major Countries and Regions (change over previous year, %)

	1999	2000	2001	2002	2003	2004	2005
China	7.1	8.0	7.5	8.3	9.5	9.5	9.0
Thailand	4.4	4.8	2.2	5.3	6.9	6.1	3.5
Malaysia	6.1	8.9	0.3	4.4	5.4	7.1	5.5
Korea (ROK)	9.5	8.5	3.8	7.0	3.1	4.6	3.8
Hong Kong	3.4	10.2	0.5	1.9	3.2	8.1	6.3
Singapore	6.8	9.6	-1.9	3.2	1.4	8.4	3.9
Taiwan	5.3	5.8	-2.2	3.9	3.3	5.7	3.4
Indonesia	0.8	4.9	3.8	4.4	4.9	5.1	5.8
USA	4.4	3.7	0.8	1.6	2.7	4.2	3.5
UK	3.0	4.0	2.2	2.0	2.5	3.2	1.9
Australia	4.3	3.2	2.5	4.0	3.3	3.2	2.2
Brazil	0.8	4.4	1.3	1.9	0.5	4.9	3.3
Japan	-0.1	2.4	0.2	-0.3	1.4	2.7	2.0
Spain	4.2	5.8	3.5	2.7	2.9	3.1	3.2
Canada	5.5	5.2	1.8	3.1	2.0	2.9	2.9
France	3.2	4.1	2.1	1.3	0.9	2.0	1.5
Germany	1.9	3.1	1.2	0.1	-0.2	1.6	0.8
Netherlands	4.0	3.5	1.4	0.1	-0.1	1.7	0.7

Source: International Monetary Fund, *The World Economic Outlook Database*, September 2005.

## Private- and Public-Sector Economic Trends

(real values, %)

### Private Sector

	Private consumption expenditure		Housing investment		Corporate capital investment	
	Change over previous year	Contribution to GDP growth	Change over previous year	Contribution to GDP growth	Change over previous year	Contribution to GDP growth
1995	2.4	1.3	-5.6	-0.3	3.1	0.5
1996	2.5	1.4	13.3	0.6	5.3	0.8
1997	-1.0	-0.6	-18.9	-1.0	3.3	0.5
1998	0.3	0.2	-10.5	-0.5	-7.2	-1.1
1999	1.2	0.7	3.5	0.1	-0.5	-0.1
2000	0.9	0.5	0.0	0.0	7.2	1.0
2001	1.2	0.7	-7.7	-0.3	-2.3	-0.3
2002	1.3	0.8	-2.2	-0.1	-2.6	-0.4
2003	0.8	0.5	-0.0	-0.0	7.0	0.9
2004	1.7	1.0	1.7	0.1	5.4	0.8

### Public Sector

	Governmental final consumption expenditure		Public fixed capital formation		Export of goods and services	
	Change over previous year	Contribution to GDP growth	Change over previous year	Contribution to GDP growth	Change over previous year	Contribution to GDP growth
1995	4.1	0.6	7.5	0.6	4.6	0.4
1996	2.2	0.3	-2.7	-0.2	7.7	0.7
1997	0.9	0.1	-6.2	-0.5	8.9	0.9
1998	2.6	0.4	1.6	0.1	-3.7	-0.4
1999	4.1	0.6	-0.5	-0.0	5.5	0.6
2000	4.2	0.7	-7.7	-0.6	9.2	1.0
2001	2.9	0.5	-5.0	-0.3	-7.7	-0.8
2002	2.1	0.4	-5.3	-0.3	11.4	1.2
2003	2.5	0.5	7.0	-0.6	9.7	1.1
2004	1.8	0.3	5.4	-0.7	11.4	1.4

Source: Economic and Social Research Institute, Cabinet Office, *Kokumin keizai keisan* (National Accounts), FY 2004.

## Trends in National Income

	Total (¥ billion)	Change over previous year (%)	Per capita (¥1,000)	Change over previous year (%)
1996	379,107.6	–	3,014	–
1997	382,763.5	1.0	3,035	0.7
1998	372,503.5	– 2.7	2,947	– 2.9
1999	366,739.6	– 1.5	2,895	– 1.8
2000	371,597.5	1.3	2,929	1.2
2001	360,952.1	– 2.9	2,837	– 3.1
2002	355,784.6	– 1.4	2,790	– 1.7
2003	358,396.8	0.7	2,807	0.6
2004	361,012.6	0.7	2,826	0.7

Source: Economic and Social Research Institute, Cabinet Office, *Kokumin keizai keisan* (National Accounts), FY 2004.

## National Wealth

(¥ trillion)

	1999	2000	2001	2002	2003
<b>Net assets (national wealth)</b>	<b>2,957.2</b>	<b>2,948.7</b>	<b>2,884.5</b>	<b>2,795.6</b>	<b>2,724.3</b>
Inventories	90.8	89.4	84.4	81.1	79.5
Work-in-progress	36.6	35.8	31.5	29.5	28.7
Tangible fixed assets	1,157.7	1,169.4	1,157.4	1,147.6	1,151.9
Dwellings	259.4	259.0	253.6	250.1	249.9
Other buildings	256.1	258.5	255.7	255.0	257.8
Other structures	453.7	467.5	471.2	475.0	485.8
Transport equipment	28.0	27.2	27.0	26.9	27.0
Other machinery and equipment	183.8	183.5	179.9	172.9	166.6
Cultivated assets	1.5	1.7	1.2	1.8	1.7
Intangible fixed assets (computer, software)	15.8	17.2	18.9	19.8	20.1
Tangible nonproduced assets	1,608.2	1,539.7	1,444.6	1,371.8	1,300.0
Land	1,606.8	1,538.4	1,443.3	1,370.5	1,298.9
Net external assets	84.7	133.0	179.3	175.3	172.8

Source: Economic and Social Research Institute, Cabinet Office, *Kokumin keizai keisan* (National Accounts), FY 2003.

Note: Figures are as of end of year.

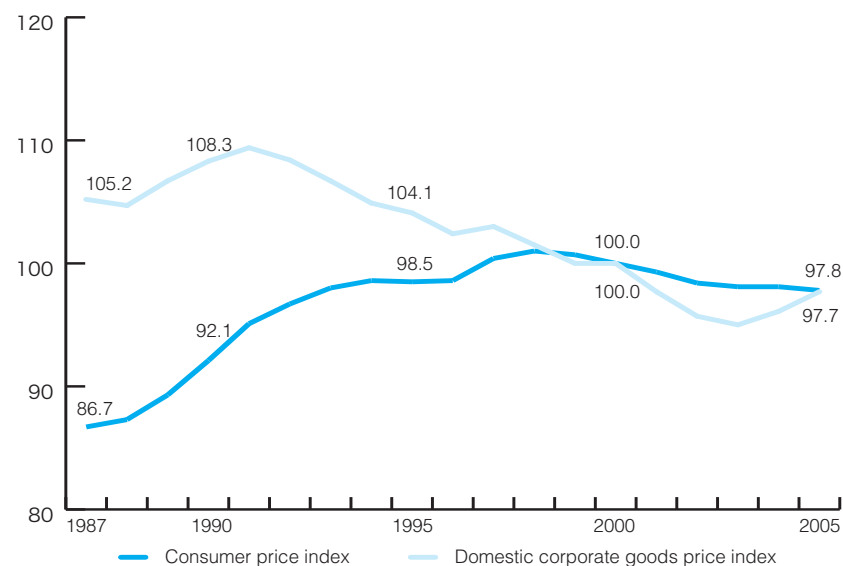
## Prices

In recent years the Japanese economy has sustained severe deflationary pressure, which reflects insufficient aggregate demand relative to supply, and the government has made fighting deflation its top priority. Japan's consumer price index (CPI) was on a downward trend for five consecutive years from 1999 to 2003. Although the CPI stopped falling in 2004 at 98.1 against the 2000 base of 100, it again dropped to 97.8 in 2005. Excluding the volatile prices of perishable fresh food items, the index registered a slight decline of 0.1% to 97.8 in 2005, marking a decrease for six consecutive years. From November 2005 to February 2006, however, the CPI registered a rise for four consecutive months, indicating that the Japanese economy was steadily escaping from deflationary pressure.

The corporate service price index (CSPI) in 2005 dropped 0.5% from the previous year to 93.2 against the 2000 base of 100, the eighth year-on-year decline in a row. The rate of decrease decelerated from 1.5% in 2003. On the other hand, the domestic corporate goods price index (CGPI) in 2004 recovered to 96.1 from 94.9 in 2003, the first rise in seven years. The figure further improved to 97.7 in 2005, a rise of 1.7% over the previous year.

## Trends in Price Indexes

(2000=100)



Source: Ministry of Internal Affairs and Communications, *Shohisha bukka shisu* (Report on the Consumer Price Index), 2005; Bank of Japan, *Kigyō bukka shisu* (Monthly Report on the Corporate Service Price Index), January 2006.

Note: The corporate goods price index (CGPI) has replaced the wholesale price index (WPI) to improve the accuracy of price changes. The CGPI includes such new components as goods related to information technology and gives more weight to electronics goods.

## Investment in Plant and Equipment

### Change of Investment in Plant and Equipment by Industry (¥100 million, %)

	FY 2000		FY 2002		FY 2003		FY 2004	
	Amount	Rate of increase	Amount	Rate of increase	Amount	Rate of increase	Amount	Rate of increase
<b>Total industries</b>	<b>388,962</b>	<b>8.6</b>	<b>297,479</b>	<b>- 18.5</b>	<b>316,319</b>	<b>6.3</b>	<b>400,722</b>	<b>26.7</b>
Manufacturing	132,383	18.6	90,390	- 19.9	96,835	7.1	129,819	34.1
Chemical	13,678	7.9	12,615	- 14.6	9,850	- 21.9	13,610	38.2
Electric machinery	39,266	62.2	14,229	- 40.9	17,096	20.1	13,778	n/a
Information machinery							16,440	n/a
Transport machinery	14,900	- 1.0	15,922	- 1.9	18,983	19.2	20,938	10.3
Nonmanufacturing	256,579	4.0	207,089	- 17.9	219,484	6.0	270,903	23.4
Wholesale/Retail	49,550	26.1	32,663	- 26.3	55,420	69.7	36,861	n/a
Transportation	67,379	34.6	49,221	- 7.8	19,719	- 59.9	35,247	n/a
Communications							35,044	n/a
Service	87,746	7.1	85,097	- 15.4	95,458	12.2	113,704	19.1

Source: Ministry of Finance, *Nenjibetsu hojinkigyo tokei chosa* (Annual Fiscal Statement Statistics of Corporations by Industry), 2004.

Note: Investment in plant and equipment = amount of increase of tangible fixed assets (excluding land) + depreciation expense.