

(Translation)

Forecast on the *Preliminary Quarterly Estimates of GDP* for the Apr-Jun Quarter of 2004

July 30, 2004

On August 13th, 2004 (Friday), the Cabinet Office will release the *Preliminary Quarterly Estimates of GDP (QE)* for the Apr-Jun quarter of 2004. On the basis of currently available statistics, Mizuho Research Institute, Ltd. (MHRI) estimates that Japan's gross domestic product (GDP) in real terms grew 1.4% on a quarter-on-quarter (q-o-q) basis (5.7% in annualized terms) in the Apr-Jun quarter. Japan should maintain its strong growth from the previous quarter from January to March of 2004, underscoring the steady recovery of the economy. In nominal terms, Japan's GDP growth probably grew 0.7% q-o-q (3.0% in annualized terms), marking the fifth consecutive quarter of positive growth.

In terms of major demand components, private-sector demand remained strong overall during the quarter, driven by the ongoing expansion of exports and personal consumption and the rise of capital investment. In contrast, public investment fell sharply, pushing the contribution to growth by public demand into negative territory.

The pace of Japan's GDP growth will probably slow down in the Jul-Sep quarter because of (1) the ebb of export growth reflecting the deceleration of the US and Chinese economies and (2) a slower pace of personal consumption growth given the peak out of demand related to the Olympic Games in Athens.

This English-language translation is based upon MHRI's forecast in Japanese released on July 30, 2004. 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.

1. Overview

Japan's real GDP growth will likely reach 1.4% q-o-q (5.7% q-o-q p.a.) in the Apr-Jun quarter of 2004, recording positive growth for the ninth quarter in a row

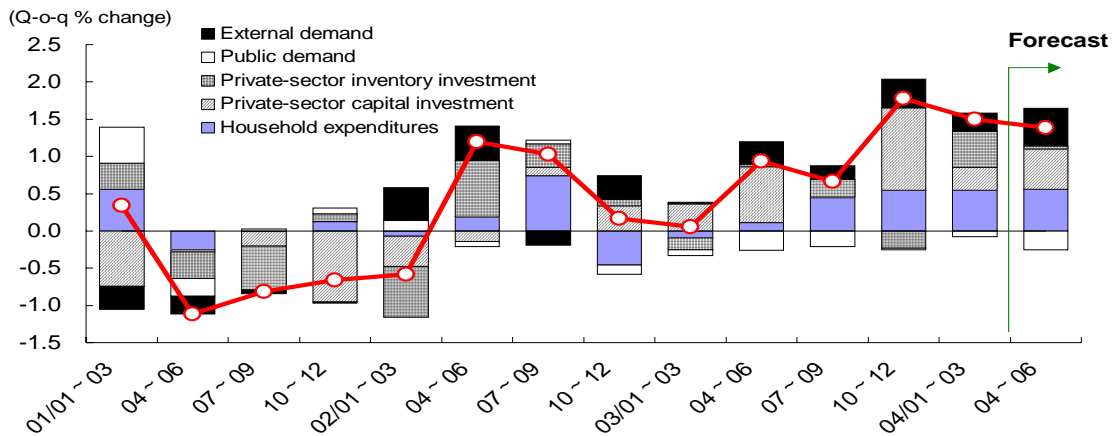
On August 13th (Friday), the Cabinet Office will release the *Preliminary Quarterly Estimates of GDP (QE)* for the Apr-Jun quarter of 2004. On the basis of currently available statistics, MHRI estimates that Japan's GDP in real terms grew 1.4% q-o-q (5.7% q-o-q p.a.) in the Apr-Jun quarter of 2004. As a result, Japan would record the third consecutive quarter of high growth averaging 6~7% per annum from the Oct-Dec quarter of 2003, thus reconfirming its sharp recovery from the end of last year. Looking closer at the major components of demand, we are inclined to believe that private-sector demand grew strongly overall, underpinned by: (1) the ongoing rise of exports reflecting the expansion of the overseas economies, (2) steady consumer spending due in part to demand in connection with the Olympic Games in Athens, and (3) renewed growth of capital investment. In contrast, it appears that public investment fell sharply, expanding the negative contribution to growth by public demand.

In nominal terms, Japan's GDP probably grew 0.7% q-o-q (3.0% q-o-q p.a.), recording positive growth for the fifth quarter in a row. Although nominal growth still falls short of GDP growth in real terms, indicating that Japan is still technically under deflation, the maintenance of positive nominal growth for more than a year most likely contributed significantly to the improvement of business sentiment in ways such as boosting corporate sales. This should be evaluated as a major step toward the autonomous recovery of the Japanese economy.

Chart 1: Apr-Jun Quarter 2004 QE Forecast

GDP (real)													GDP (nominal)
(%)	Contribution to real GDP growth				Percentage change from previous quarter (%)								(%)
(p.a.)	Domestic demand	Private demand	Public demand	External demand	Personal consumption	Housing investment	Capital investment	Inventory investment	Government consumption	Public investment	Exports	Imports	(p.a.)
1.4 (5.7)	0.9	1.1	-0.3	0.5	1.1	-1.1	3.1	0.0	0.5	-7.0	4.2	0.5	0.7 (3.0)

Chart 2: Real GDP Growth and the Degree of Contribution by Major Demand Components



Note: Figures regarding the Apr-Jun quarter of 2004 are forecasts by MHR1.
Source: Cabinet Office, *Preliminary Quarterly Estimates of GDP*.

Growth will probably slow in the Jul-Sep quarter

On the basis of recent data releases such as the production forecast index presaging a slower pace of industrial production growth ahead, the odds are high that Japan's recovery momentum will weaken in the Jul-Sep quarter. In addition to demand-side statistics indicating the slowdown of exports amid forecasts of slower US and Chinese economic growth, the peak-out of demand related to the Athens Olympics should also lead to a gradual ebb of personal consumption. Despite the high level of capital investment mainly among manufacturers, the pace of investment growth on a quarter-on-quarter basis is expected to slow down. While corporate business performance and labor market conditions are continuing to improve, thus feeding a virtuous recovery cycle and keeping the economy on moderate recovery track toward the next fiscal year starting April 2005, the pace of growth will probably slow down in the Jul-Sep quarter.

2. Trends in Major Demand Components

Personal consumption remained strong amid the improvement of consumer confidence

Personal consumption appears to have remained strong, growing 1.1% q-o-q in the Apr~Jun quarter. This would mark Japan's quarterly growth above 1.0% for the third straight quarter since the Oct-Dec quarter of 2003, growing at a pace surpassing the improvement of income conditions. In addition to the brisk sales of digital consumer electronics spurred in part by the Olympic Games in Athens, expenditures on services such as travel are also growing. The improvement of employment and income and the wealth effect accompanying the rise of stock prices since last year are leading to the improvement of consumer confidence and serving to stimulate pent-up demand.

Housing investment dipped into negative territory

Private-sector housing investment took a downturn, falling 1.1% q-o-q, given the drop of housing starts of owner-occupied houses mainly in the Tokyo metropolitan area in addition to the ongoing decline of construction

starts of houses for rent. Even so, the drop of housing investment turned out benign because of the ongoing rise of built-for-sale condominiums in urban areas spurred by speculation on the rise of interest rates and the reduction in scope of tax cuts.

Capital investment regained momentum and grew 3.1% q-o-q, reflecting the positive capital investment stance among manufacturers

Private-sector capital investment probably grew 3.1% q-o-q, reviving after a temporary slowdown in the Jan~Mar quarter (1.7% q-o-q). Corporate capital investment forecasts in the Bank of Japan's (BOJ) Short-Term Economic Survey of Enterprises in Japan (the *Tankan*) in June revealed a surge of capital investment in the manufacturing and processing sectors such as electrical machinery and transportation equipment makers. Even on an all-industries basis, capital investment grew 6.3% y-o-y (actual fixed investment excluding land purchasing expenses in FY2003: 1.9%), underscoring the enthusiasm among companies regarding business fixed investment. Other relevant indicators also suggest that the pace of capital investment growth will pick up. For example, machinery orders grew sharply above the previous quarter in the Apr-Jun quarter and capital goods shipments (excluding transportation equipment) also increased 5.6% q-o-q in the Apr-Jun quarter.

Public investment fell at a faster pace, dropping 7.0% q-o-q

Public investment appears to have dropped 7.0% q-o-q, widening the breadth of the decline. In the absence of major additional public investment by supplementary budgets in FY2003, the level of public investment sank sharply at the end of the fiscal year in March and has not climbed back since the turn of the new fiscal year. Nevertheless, the amount of public works contracts – a leading indicator of public investment – has bottomed out, indicating that the breadth of the decline will start to contract.

Exports continued to buttress the economy – the degree of contribution by external demand stood at 0.5%

Exports and imports of goods and services most likely grew 4.2% q-o-q and 0.5% q-o-q respectively, indicating that the degree of contribution by external demand to real GDP growth stood at 0.5%, expanding slightly from the previous quarter. The export volume index during the Apr-Jun quarter reveals the contraction of both Asia-bound exports (-1.1% q-o-q) and EU-bound exports (-1.2% q-o-q). However, the rise of exports to other parts of the world such as the US (1.6% q-o-q) served to keep total exports (2.9% q-o-q) on an upward trend (seasonal adjustments by the MHRI). Meanwhile, although imports continued to grow along with the expansion of domestic demand, the increase was meager given the decline of crude oil imports and a slower pace of imports of precision instruments such as mobile telephones.

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MIZUHO

The logo consists of the word "MIZUHO" in a bold, dark blue, sans-serif font. Below the text is a red, curved underline that starts under the 'M', goes under the 'I', 'Z', and 'U', and then curves upwards under the 'H' and 'O'.