

(Translation)

Forecast on the *Preliminary Quarterly Estimates of GDP* for the Jan-Mar Quarter of 2004

April 30, 2004

On May 18th, 2004 (Tuesday), the Cabinet Office will release the *Preliminary Quarterly Estimates of GDP (QE)* for the Jan-Mar 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 0.8% on a quarter-on-quarter (q-o-q) basis (3.2% in annualized terms) in the Jan-Mar quarter. Although the pace of growth slowed from the Oct-Dec quarter of 2003, the Japanese economy most likely managed to maintain positive growth. In nominal terms however, Japan's GDP growth probably shrank 0.1% q-o-q (-0.5% in annualized terms), dipping into negative territory for the first time in four quarters. While capital investment fell due to a reaction to the surge in the previous quarter, exports and consumer spending remained relatively strong.

We believe that Japan's economy will regain momentum in the Apr-Jun quarter on the basis of: (1) expectations that capital investment will pick up again on the basis of statistics such as capital investment plans in the Bank of Japan's *Short-Term Economic Survey of Enterprises in Japan* (the "Tankan") and forecast indexes on machinery and industrial production, (2) forecasts on brisk consumer spending in view of factors including the purchase of digital home electronic appliances ahead of the Olympic games in Athens, and (3) forecasts that exports will continue to grow given the strength of the overseas economies. We are inclined toward the view that the corporate sector will regain center stage as the main driver of Japan's economic recovery in the Apr-Jun quarter.

On the basis of the foregoing estimate, the rate of real GDP growth in FY2003 should reach 3.0%, climbing to the 3% level for the first time since FY2000. In nominal terms, the rate of growth would be 0.5%, recording positive growth also for the first time since the year FY2000.

This English-language translation is based upon MHRI's forecast in Japanese released on April 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 0.8% q-o-q (3.2% in annualized terms) in the Jan-Mar quarter of 2004, recording positive growth for the fifth quarter in a row.

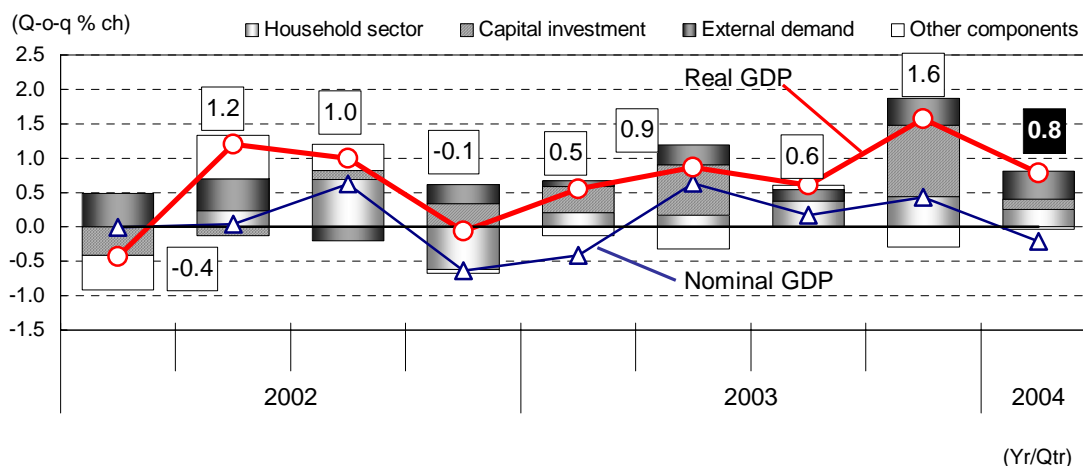
On May 18th (Tuesday), the Cabinet Office will release the *Preliminary Quarterly Estimates of GDP (QE)* for the Jan-Mar quarter of 2004. On the basis of currently available statistics, MHRI estimates that Japan's GDP in real terms grew 0.8% q-o-q (3.2% q-o-q p.a.) in the Jan-Mar quarter of 2004. Although the pace of growth slowed from the previous quarter from October to December of 2003, the Japanese economy most likely managed to maintain positive growth. In nominal terms however, Japan's GDP probably shrank 0.1% q-o-q (-0.5% q-o-q p.a.), dipping into negative territory for the first time in four quarters.

The initial consensus view was that Japan's growth would slow considerably due to a reaction to the strong growth in the Oct-Dec quarter of 2003. While the reaction materialized in certain components of demand such as capital investment, the ongoing strength of exports and personal consumption leads to our view that overall growth did not slow as much as initially expected.

Chart 1: Jan-Mar Quarter 2004 QE Forecast

GDP (real)													GDP (nominal)	
(%)	Degree of contribution to real GDP				Percentage change from previous quarter (%)								(%)	
	Domestic demand	Private demand	Public demand	External demand	Personal consumption	Housing investment	Capital investment	Inventory investment	Government consumption	Public investment	Exports	Imports		
0.8 (3.2)	0.4	0.4	-0.0	0.4	0.4	1.0	0.9	-0.0	0.6	-2.3	4.9	2.3	-0.1 (-0.5)	

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



Note: Figures for the Jan-Mar quarter of 2004 are forecasts by MHRI.
Source: Cabinet Office, *Preliminary Quarterly Estimates of GDP (QE)*.

Look forward to a stronger recovery in the Apr-Jun quarter driven by the corporate sector.

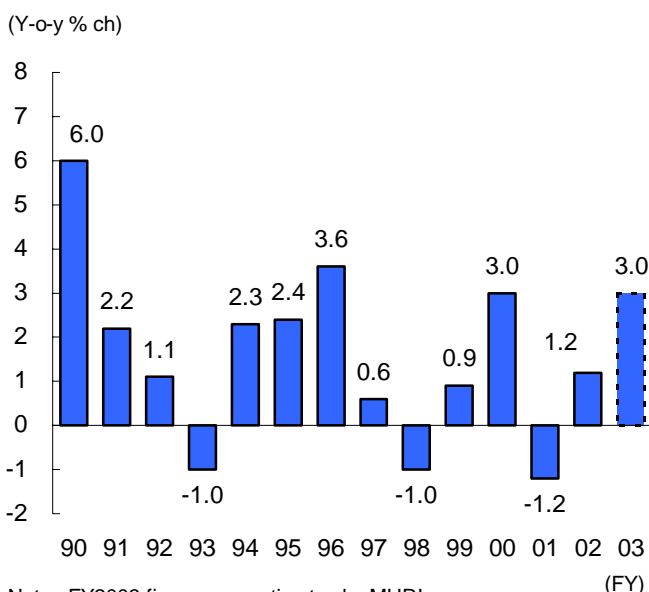
Japan's rate of GDP growth in FY2003 will likely reach 3.0% in real terms and 0.5% in nominal terms.

Although the industrial production index dropped sharply to 0.3% q-o-q in the Jan-Mar quarter because of a reaction to the previous quarter, production will likely regain strength and reach 5.8% q-o-q in the Apr-Jun quarter judging from forecast indexes up to May. Japan's GDP growth is also expected to gather momentum in the Apr-Jun quarter due to (1) expectations that capital investment will pick up on the basis of statistics such as capital investment plans in the BOJ's *Tankan* survey and forecast indexes on machinery and industrial production, (2) forecasts on brisk consumer spending in view of factors including the purchase of digital home electronic appliances ahead of the Olympic games in Athens, and (3) the ongoing rise of exports on the back of strong overseas economic growth judging from statistical releases such as the OECD's leading economic indexes. We are inclined to believe that the corporate sector will regain center stage as the main driver of Japan's economic recovery in the Apr-Jun quarter.

The release of the GDP statistics for the Jan-Mar quarter of 2004 on May 18th will determine Japan's rate of GDP growth in FY2003 on a preliminary basis. Assuming that there are no significant changes in the statistics up to the Oct-Dec quarter of 2003, the rate of real GDP growth will reach 3.0% in FY2003, climbing to the 3% level for the first time since 2000. Likewise, GDP growth in nominal terms will reach 0.5%, recording positive growth for the first time since FY2000.

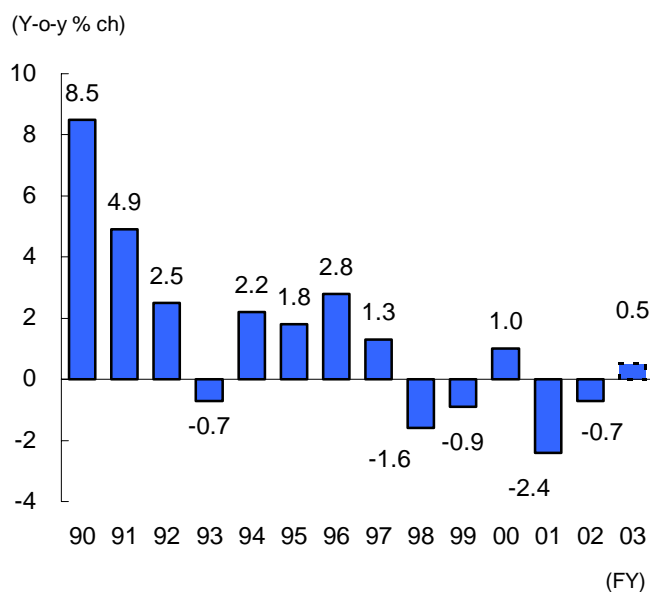
Chart 3: Japan's GDP Growth (on a fiscal year basis)

(1) Real GDP growth



Note: FY2003 figures are estimates by MHRI.
Source: Cabinet Office, *Annual Report on National Accounts*.

(2) Nominal GDP growth



Note: FY2003 figures are estimates by MHRI.
Source: Cabinet Office, *Annual Report on National Accounts*.

2. Trends in Major Demand Components

A benign slowdown of personal consumption (0.4%)

Personal consumption most likely grew 0.4% q-o-q in the Jan-Mar quarter. Although this represents a slight slowdown from the previous quarter from October to December of 2003, the overall trend is still relatively strong in consideration of a reaction to the spending spree on digital consumer electronic appliances at the end of last year. Among the plausible reasons for the recent strength of consumer spending is the improvement of consumer confidence given the bottoming of labor compensation - serving as the source for consumption expenditures - and the wealth effect accompanying the stock market rally.

Housing investment will increase slightly (1.0%) from the previous quarter.

Private-sector housing investment most likely grew 1.0% q-o-q, turning positive for the first time in two quarters. Despite an ebb of construction activity of owner-occupied houses due to a reaction to the Jul-Sep quarter to the Oct-Dec quarter, the construction of houses built for sale (mainly urban condominiums) is still growing. In addition, there are signs of renewed activity with respect to rental housing which took a dip at the end of last year.

Although capital investment fell sharply to 0.9% q-o-q, this is only a temporary slowdown.

Private-sector capital investment is poised to slow considerably from 6.3% q-o-q in the Oct-Dec quarter of 2003 to 0.9% q-o-q in the Jan-Mar quarter of 2004. In nominal terms, investment in plant and equipment probably fell 0.5% q-o-q, dipping into negative territory for the first time in two quarters. Even so, FY2004 capital investment plans of corporate enterprises in the BOJ's *Tankan* survey provide us with reasons to believe that investment will continue to grow mainly among global-oriented manufacturers such as electrical machinery makers. Furthermore, note a sharp rise of the forecast indexes for general machinery in the Apr-May period in the *Indices of Industrial Production* of the Ministry of Economy, Trade and Industry. This presages a strong revival of capital investment in the Apr-Jun quarter.

Public investment is poised to drop 2.3% q-o-q, falling at a faster pace.

Public investment appears to have dropped 2.3% q-o-q, recording a faster pace of decline. The ongoing decline of public works contracts – a leading indicator of public investment – and the inclination to cut public investment among central and local government bodies leads to our view that public investment will remain on a downswing.

The degree of contribution by external demand to GDP growth will remain flat.

Exports and imports of goods and services most likely grew 4.9% q-o-q and 2.3% q-o-q respectively. The degree of contribution by external demand to real GDP growth will remain flat from the Oct-Dec quarter at 0.4%. The export volume index during the Jan-Mar quarter reveals that exports to all major areas increased: Asia-bound exports (6.5% q-o-q), US-bound exports (2.1% q-o-q), EU-bound exports (4.0% q-o-q) (seasonal adjustments by MHRI). Despite concerns that intra-industry trade with China would

contract due to an export-related tax refund rate cut, exports to China actually grew at a faster pace during the Jan-Mar quarter given the acceleration of China's economic growth. We expect a steady rise of exports for the time being.

- End -

MIZUHO

The logo for Mizuho, featuring the word "MIZUHO" in a bold, dark blue, sans-serif font. Below the text is a red, curved underline that starts under the 'M' and ends under the 'O', arching slightly upwards in the middle.