

State of the Region

PEO, Japan Outlook 08-10

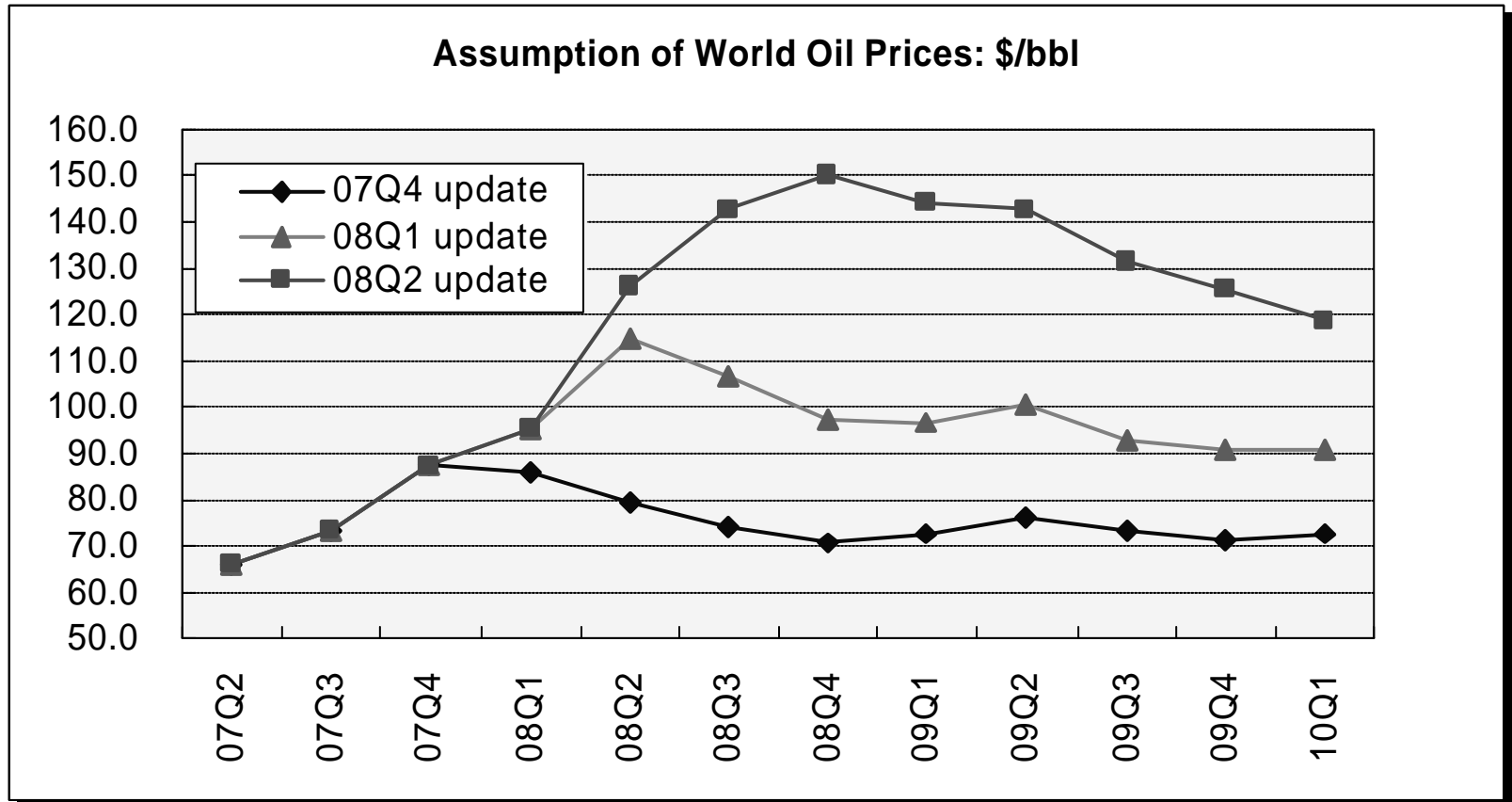
by Yoshihisa INADA

- Upward revision of oil prices assumption
 - METI's explains Oil Prices in April 2008 (\$125.5) by Inventory Change (\$74.7) and by Premium (\$50.8)
 - To which level oil price heading: \$70 (Alternative energy cost), \$100 (real oil price, CPI up 2.5 time since 1980), \$120-130 (market price)
- More stagflationary forecast
 - Since July 2007
- Real GDP growth
 - 1.8% 1.5%(2008) 1.8% 1.5%(2009)
- CPI inflation
 - 0.3% 1.5%(2008) 0.5% 0.8%(2009)
- Including the Analysis of PEO Structure Group
 - The external adjustment under increasing integration

Soaring Commodity Prices

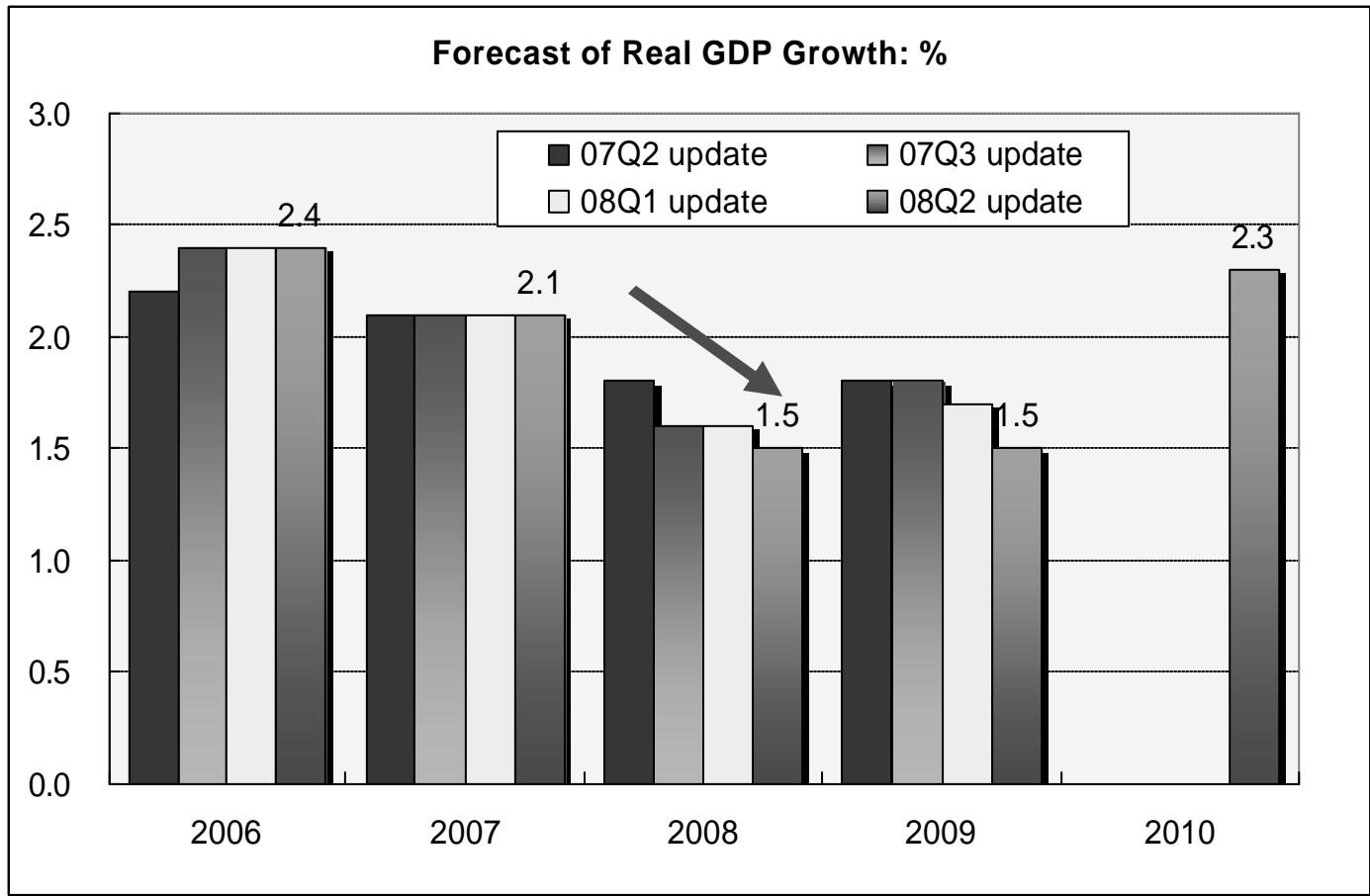


Upward revision of oil prices assumption

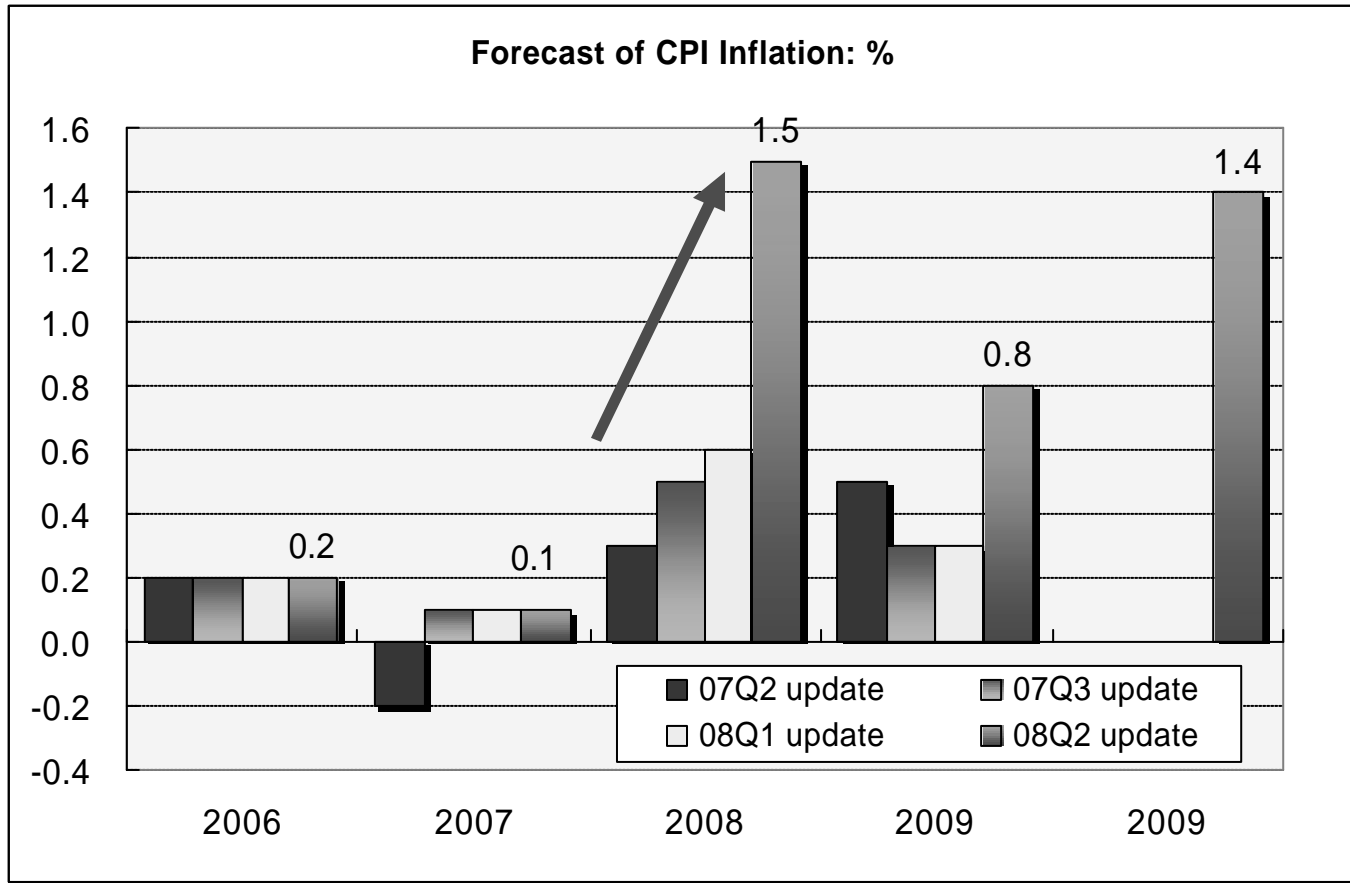


Note: World oil price is the average of WTI, Dubai, North Sea Brent.

Real GDP growth forecast revised down



CPI inflation forecast revised up



Recent IMF's WEO July update

- April WEO was too pessimistic
- Upward revision to economic growth in advanced economies
- China upward but ASEAN-5 downward
- Acceleration of inflation expectation

	2006	2007	Difference from April			
			2008	2009	2008	2009
World output	5.1	5.0	4.1	3.9	0.4	0.1
Advanced economies	3.0	2.7	1.7	1.4	0.4	0.1
U.S.	2.9	2.2	1.3	0.8	0.8	0.2
Japan	2.4	2.1	1.5	1.5	0.1	-
Developing Asia	9.9	10.0	8.4	8.4	0.2	-
China	11.6	11.9	9.7	9.8	0.4	0.3
ASEAN-5	5.7	6.3	5.6	5.9	-0.2	-0.1
Commodity prices						
Oil	20.5	10.7	63.8	7.3	29.5	8.3
in level \$/bbl	64.3	71.1	116.5	125.0	95.5	94.6
CPI						
Advanced economies	2.4	2.2	3.4	2.3	0.8	0.3
Emerging & developing economies	5.4	6.4	9.1	7.4	1.7	1.8

Recent High Frequency Model suggests

- Japan's economy in 2008 Q2 seems to have fallen into negative territory
- US economy appears to be robust, at least 2% growth
- Whether the economy in 2008 Q3 keeps recovering from low growth or starts moving into recession depends on upcoming data
- Two problem contributing to the pessimism of investors and consumers alike. Oil prices and mortgage market
- The Japanese experience over 15 years is any indication of what might happen?

Public money injected then stock prices soared

