April 26, 2011

(Original Japanese version released April 18, 2011)

Japan Economic Monthly

We pray for the souls of those who lost their lives in the Great Eastern Japan Earthquake and extend our deepest sympathies for those who suffered from the devastation. We sincerely hope for the speediest possible recovery for the affected regions.

～Adverse Impacts from Great Eastern Japan Earthquake Start to Appear, Economy's Self-Sustaining Recovery Delayed～

Economic Research Office
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

1. The Real Economy

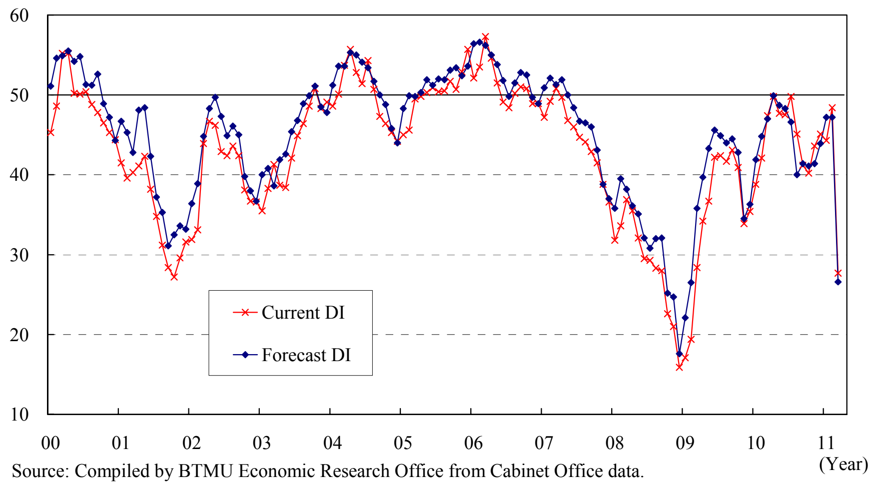
(1) Overview of the Economy

Gradually emerging adverse economic impacts from March earthquake considerable, as projected

One month has passed since the Great Eastern Japan Earthquake struck off the Pacific coast of the Tohoku Region on March 11. Although the entirety of the damage in various forms is still not clear, the effects of the earthquake on the economy are beginning to be clearer from preliminary releases of economic data and indicators. All data released so far has shown considerable adverse impacts, evidence of the wide scale of the damage as well as the seriousness of the circumstances. Japan's self-sustaining recovery, which had been broadening prior to the earthquake, appears to be quickly losing momentum.

The Cabinet Office's *Economy Watchers Survey* is one such data set that reflects the considerable deterioration. In the March survey, which was conducted after the earthquake (between March 25 and 31), the current economic conditions DI plunged by -20.7 points from February, while the future economic conditions DI, which covers the coming two to three months, dropped by -20.6 points (Figure 1). The drops in current and future DIs were the biggest since the survey was introduced in January 2000, well exceeding the falls in November 2009 following the Dubai credit crisis (-7.0 points for current DI and -8.3 points for the future DI) and in October 2008 after the collapse of Lehman Brothers (-5.4 points for current DI and -6.9 points for future DI). By region, though of course the areas most directly impacted by the natural disaster saw the biggest declines—the Tohoku Region current business conditions DI fell -32.1 points and the future business conditions DI by -26.5 points and the Kanto Region current DI fell -24.2 points and future DI by -20.0 points—other regions also posted big drops. (Nationwide excluding the Tohoku Region, the current DI fell -19.4 points and the future DI -19.9 points.) This strongly suggests that the indirect adverse impacts of the earthquake are spreading.

Figure 1: Economy Watchers Survey Business Conditions



Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Further, the BoJ's *Business Conditions Before and After the Tohoku-Pacific Ocean Earthquake* supplement to the March Tankan survey also reflects the chilling in business sentiment that occurred after the March 11 earthquake. (The survey results were collected between March 12 and 31, after the earthquake struck.) The deterioration in business conditions assessments was striking for companies regardless of size and sector, but particularly among large non-manufacturers (actual 7 ppt, forecast -4 ppt) and small manufacturers (actual -6 ppt, future -18 ppt) (Table 1) .

Table 1：BoJ March Tankan Survey - Business Conditions After the Tohoku-Pacific Ocean Earthquake

('Favorable' minus 'Unfavorable,' % points)

	Large Enterprises		Medium-sized Enterprises		Small Enterprises	
	Actual result	Forecast	Actual result	Forecast	Actual result	Forecast
Manufacturers	6	-2	-7	-14	-6	-18
Non-manufacturers	7	-4	-2	-14	-19	-29
All industries	6	-3	-4	-14	-15	-25

Source: Compiled by BTMU Economic Research Office from BoJ data.

The Cabinet Office added the summary assessment '*[t]he economy has suddenly become more severe because of the impact of the Great Eastern Japan Earthquake'* to its March *Economy Watchers Survey* results, and we can only conclude that the robustness of the Japanese economy, which has been hit by a big shock, is weakening somewhat. Japan's economy is likely to continue to be weighed down going forward, with scattering risks that will prolong the stalling in economic activity, such as the nuclear reactor crisis and restricted supplies of electric power. As such, we can expect that various kinds of support, recovery, and reconstruction measures are drafted and implemented without delay. The recent earthquake can be expected to generate considerable potential recovery and reconstruction demand because the damage was so sizable. The rebound will likely help rebuild the stricken areas and lead to a full-fledged recovery of the Japanese economy.

(2) Fiscal

Government, DPJ propose JPY4 trn first supplementary budget outline

The Government and DPJ have drafted an outline of the FY11 first supplementary budget to cover rehabilitation and reconstruction following the March 11 earthquake. The budget is approximately JPY4 trn for the general accounts, and main items include 'hard' projects such as JPY1.13 trn for disaster reconstruction public works projects, JPY483.0 bn for temporary housing, and JPY300.0 bn for cleanup. Other budget items include financial support measures, such as JPY500.0 bn for SME financing (Table 2).

Table2：Main Items Under Consideration for FY11 First Supplementary Budget

General Accounts		
Reconstruction Projects	Disaster reconstruction public works projects (waterways, sewers, highways, etc.)	1,130 Bn
	Disaster rehabilitation costs (70,000 temporary homes, condolence payments)	483 Bn
	Reconstruction of schools, welfare facilities	400 Bn
	Rubble removal	300 Bn
	Construction of 2,000 temporary schools	200 Bn
	Disaster area public housing (10,000 units)	100 Bn
	Construction of temporary schools in municipalities in disaster area	4 Bn
Lifestyle support	Reduction of individual share of medical costs	114 Bn
	Financial support for disaster victims	50 Bn
	Employment measures (job seeking support for displaced workers)	51 Bn
Financial Support	SME financing support (disaster reconstruction loans, etc.)	500 Bn
	Reduced interest rates for reconstruction housing financing	60 Bn
Regional Support	Increased regional tax allocations	120 Bn
Agriculture, Forestry, Fisheries Support	Reconstruction support for fisheries, fishing vessels, and aquaculture facilities	68 Bn
	Financial support for agriculture, forestry, fishery workers	40 Bn
Rescue-related	Self-Defense Force disaster dispatching activity costs	97 Bn
	Equipment costs for Self-Defense Force use in disaster areas	50 Bn
	Japan Coast Guard-related costs (search activity costs, etc.)	15 Bn
	Bolstering police activities in disaster area	14 Bn
Other	Costs related to planned blackouts (support for home electricity-generating equipment	18 Bn
Special Accounts		
Employment Measures	Employment adjustment subsidies	700 Bn
	Employment insurance unemployment benefits	300 Bn

Source: Compiled by BTMU Economic Research Office from various reports.

Ruling and opposition parties battle over funding sources

The Government and DPJ hope to have the supplementary budget draft approved in May, but the ruling and opposition parties have been battling fiercely about funding sources. The biggest point of contention has been the treatment of surplus funds in the initial budget (approximately JPY2.5 trn) in special and other accounts that had been intended to be used for pension coffers. The Government and DPJ propose using the surplus money to fund the supplementary budget, but since this would mean tapping pension reserves, the LDP has pushed for finding funds by increasing bond issuances and reviewing the DPJ's party manifesto. Thus, calls have been increasing for Prime Minister Kan's resignation, both from within and outside his party, following DPJ defeats in regional elections. This has caused concern about the possibility of a delay in passing the supplementary budget because of the political fracas.

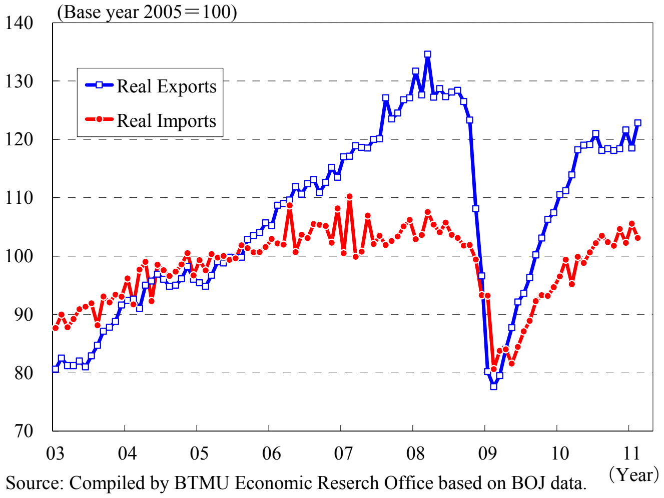
(3) Corporate Sector

①Exports

Exports showed improvement prior to the disaster

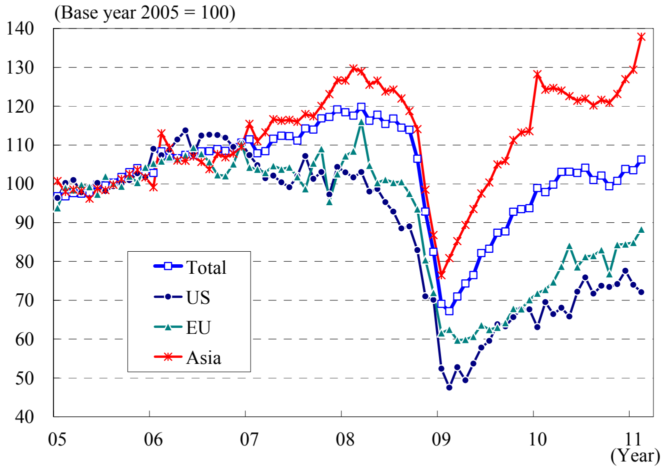
Real exports in February rebounded by +3.6% MoM following January's -2.5% drop that was mainly due to the Chinese New Year (Figure 2). Meanwhile, exports to Asia jumped +8.8% MoM due to increased shipments of power generating equipment, and exports to the EU rose +3.0% MoM because of a rise in shipments of motor vehicles (Figure3).

Figure 2: Real Imports and Exports



Source: Compiled by BTMU Economic Reserch Office based on BOJ data.

Figure 3: Export Volume by Destination Region



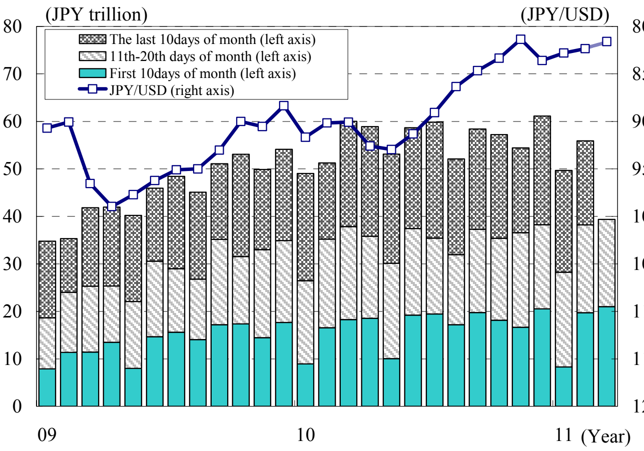
Source: Compiled by BTMU Economic Research Office based on Cabinet Office data.

Further curtailed demand and supply side will weigh

Exports continued to rise on-year through March 20 (Figure 4). Export volume at Sendai Airport and the harbors in the destruction region comprises less than 1% of Japan's total export volume, and the destruction of the airport and ports has not directly caused a big drop in exports, as it did following the

Kobe Earthquake. However, even more fundamentally, current production is not sufficient to meet export demand. Furthermore, exports are likely to decrease because of both demand and supply-side shock, such as suspended production, supply chain disruption and the damage of Fukushima daiichi, nuclear power station. Some foreign countries concern about radiation contamination and performed radiation inspection for import from Japan, which criteria includes prohibition on import from Japan. China, Korea and Taiwan have already prohibited import of foods which glowed around affected aria. In addition, to import industrial products, sample inspection is performed and the report is duty (Table3). The assessment of the nuclear crisis has been raised to a Level 7, the most serious level, and restriction measures and radiation inspections could be tightened further. This could weigh further on exports.

Figure 4: Export Volume and JPY/USD Exchange Rate



Note: JPY/USD conversion rate. March 2011 rate is market rate.
Source: Compiled by BTMU Economic Research Office based on MoF and Bloomberg data.

Table3：Major Trading Partners' Radiation Testing Measures

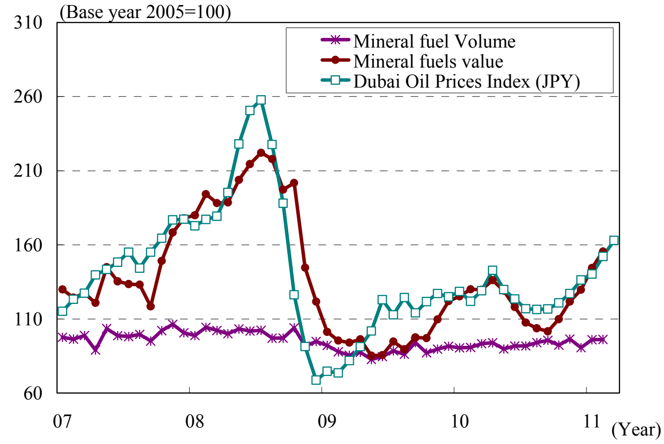
Country	Goods affected	Standards, Inspection details
US	Imported goods from Japan	Inspections conducted by US customs and border officials. Vessels that have passed within 80km of Fukushima Nuclear Reactor tested for radiation by Coast Guard prior to port entry.
China	Imported goods from Japan	Inspection and quarantine facilities in each region requested by General Administration of Quality Supervision, Inspection, and Quarantine to inspect goods passing through local ports of entry for nuclear materials and radiation (standards vary among regions).
Hong Kong	Imported goods from Japan	Surface radiation of air freight goods measured, surface radiation of samples of ocean freight goods measured. Samples of goods like cosmetics are selected and carefully inspected.
Taiwan	Machinery and electric, ectronics, chemical and electronic information and communication machinery imported from Japan	Sample inspections. Measurements exceeding 0.2 microsieverts/hour are decontaminated or rejected.
	Import containers from 13 locales near disaster region	If radiation is above 0.2 microsieverts/hour, main office is notified and goods are decontaminated or rejected.

Source: Compiled by BTMU Economic Research Office from METI materials.

Imports, especially mineral fuels, likely to increase

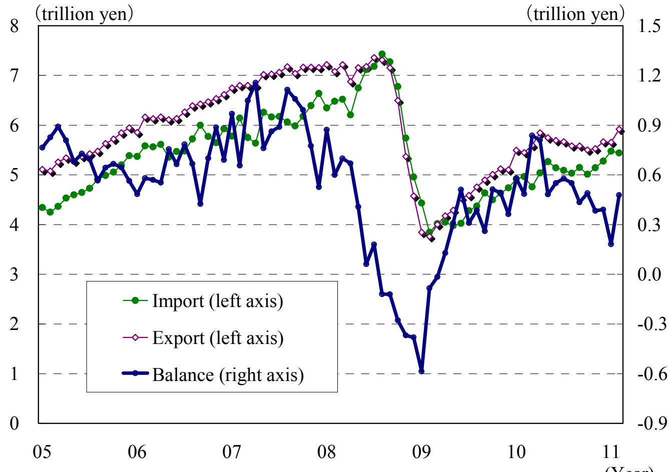
Imports, especially mineral fuels, are expected to increase (Figure 5). Oil prices have been surging around the world recently, and this will cause Japanese import values of mineral fuels to balloon (Figure 5). The volume—which had been flat—of mineral fuels is also very likely to increase. Utilization rates of thermal power plants must be raised in order to continue to ensure stable supply of electricity as long as the Fukushima nuclear reactor crisis persists, and import volumes of mineral fuels—necessary for thermal power—will likely rise. Thus, the trade surplus, which had grown in February, is likely to once again shrink from March (Figure 6).

Figure5: Imports Mineral fuels



Note: Dubai oil price index is calculated according to the forward price multiplied by the exchange rate
Source: Compiled by BTMU Economic Research Office based on MoF statistics and bloomberg

Figure6:Japan's Trade Balance



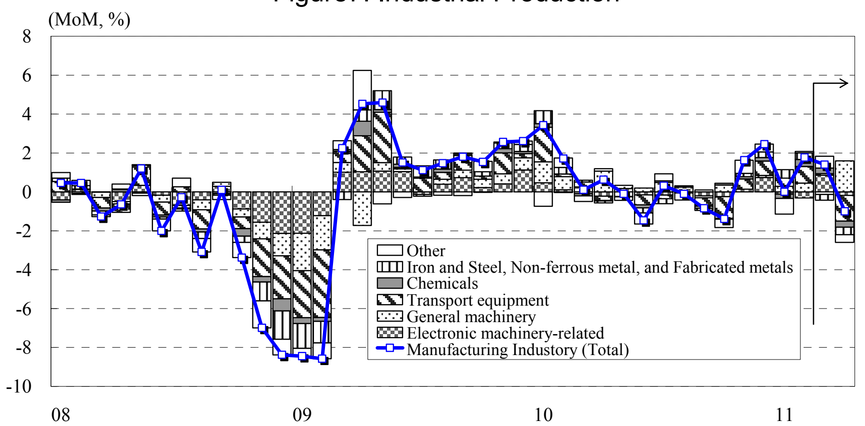
Sorce: Compiled by BTMU Economic Reserch Office based on MoF data

②Production

Through February, production continued to increase

The Indices of Industrial Production rose +1.8% MoM in February (Figure 7). By sector, transport equipment and chemicalsand iron and steel—pulled by external demand— rose. On the other hand, electronics-related production declined, pulled down by electronic parts and devices and information and communication equipment. However, this appears to be due to adjustments to inventories, which exceeded shipments, of LCD TVs as the home electronics Ecopoint system ended. Overall, industrial production had been recovering prior to the earthquake.

Figure7: Industrial Production



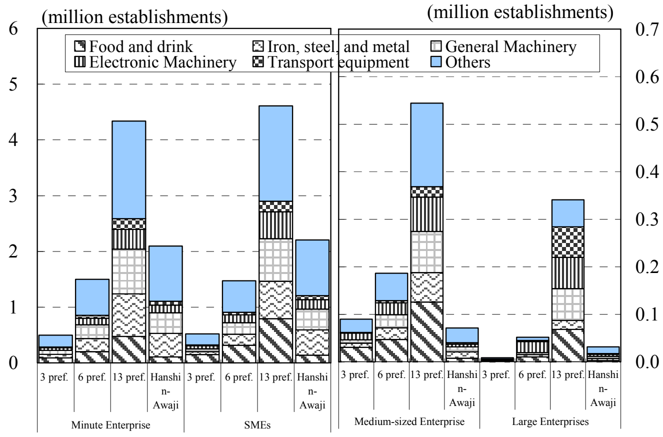
Note: Note: Electronic machinery related: Electronic machinary, Information and communication electronics equipment, Electronic parts and devices
Source: Compiled by BTMU Economic Research Office based on METI data.

After March, production is likely to plunge due to multiple negative factors

According to the *Manufacturing Production Forecast*, taken before the earthquake struck, production is expected to increase +1.4% MoM in March and decrease -1.0% MoM in April as production of electronic parts and devices and transport equipment drops (Figure 7). Industrial production is very likely to actually fall much more because of the impact of the earthquake. Two factors will curtail production—damage to businesses and production facilities in the directly-hit disaster zone, as well as shortages of parts and materials due to electricity restrictions and disruptions to the supply chain in areas not in the disaster zone. In regard to the first factor, there were many more manufacturing businesses of all sizes and types in the 13 prefectures impacted by the Great Eastern Japan Earthquake than in the 1995 Kobe Earthquake (Figure 8). The Cabinet Office has estimated losses at production facilities (facility loss amounts at private companies) at JPY9-16 trn, well above the losses in the Kobe Earthquake. Further, regarding the second factor, the recent widespread bottlenecks as well as the restricted supply of electric power expected to last through this summer are causes for concern. Above all, production at major sectors requiring large amounts of electric power will inevitably be substantially impacted (Figure 9).

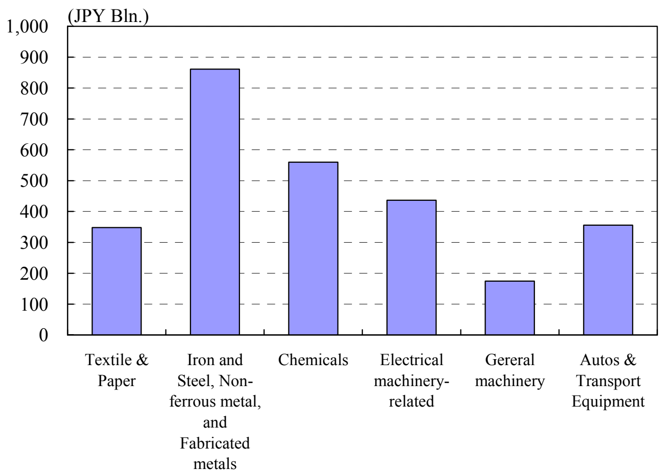
Overall, it is very likely that the March 11 earthquake will have a deep impact on production.

Figure 8: Businesses in Disaster Area, by Size (Manufacturing)



Note: 2009 data used for Most severely-hit prefectures (3 pref), Moderately severely-hit prefectures (6 pref), and Less severely-hit prefectures (13 pref), and 1991 data used for Hanshin-Awaji region (1995 Kobe Earthquake).
Source: Compiled by BTMU Economic Research Office based on MIC statistics.

Figure 9: Input Value into Electric Power by Major Industries



Source: Compiled by BTMU Economic Research Office based on METI data.

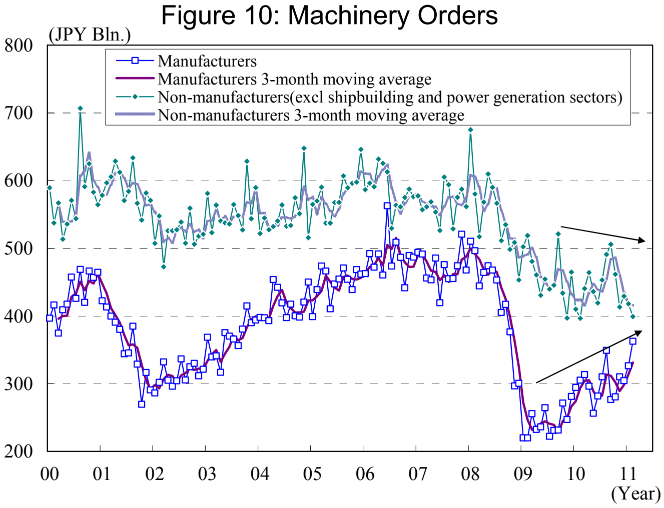
③Capital Expenditures

Firmness in machinery orders likely to weaken from March

Private sector machinery orders (excluding orders for ships and from electric power generation companies), a leading indicator of capital expenditures, dropped slightly in February, rebounding from stronger orders in January. By industry, manufacturer machinery orders continued to rise, up +11.1%. On the other hand, non-manufacturer orders dropped -4.5% (Figure 10), suppressing orders overall. Among manufacturers, machinery orders improved on the back of strong exports and production of power generating machines and machine tools for general machinery, as well as electronic communication equipment for the electric machinery industry. Although non-manufacturer orders remained weak, especially from communications companies, overall machinery orders showed an ongoing recovery.

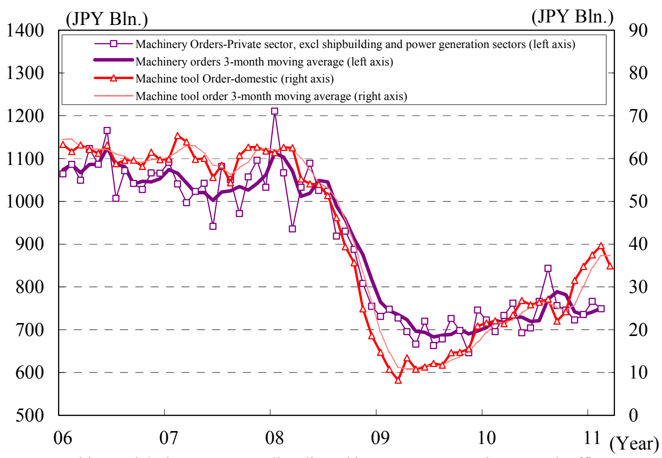
However, orders are likely to change substantially due to the impact of the earthquake. Domestic machine tool orders slipped -13.6% in March (Figure11), despite increasing for five straight months through February. Machine tool orders had been on an upward trend for several months, but they are highly correlated to machinery orders. At the same time, machine tool orders have always been volatile, and the three-month moving average indicates that machine tool orders peaked in March. The shift in machine tool orders likely shows that machinery orders will weaken from March and capital expenditures will thus slow.

Figure 10: Machinery Orders



Source: Compiled by BTMU Economic Research Office based on Cabinet Office data

Figure 11: Machinery and Machine Tool Orders

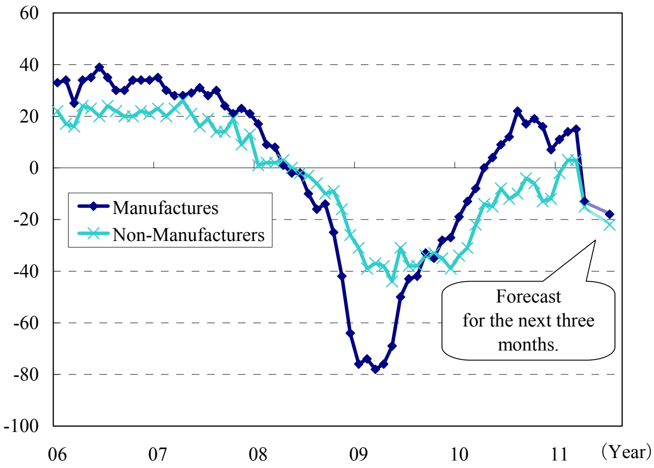


Note: Machine tool Orders are seasonally adjusted by BTMU Economic Research office
Source: Compiled by BTMU Economic Research Office based on Cabinet Office statistics

Business sentiment worst among both manufacturers and non- manufacturers

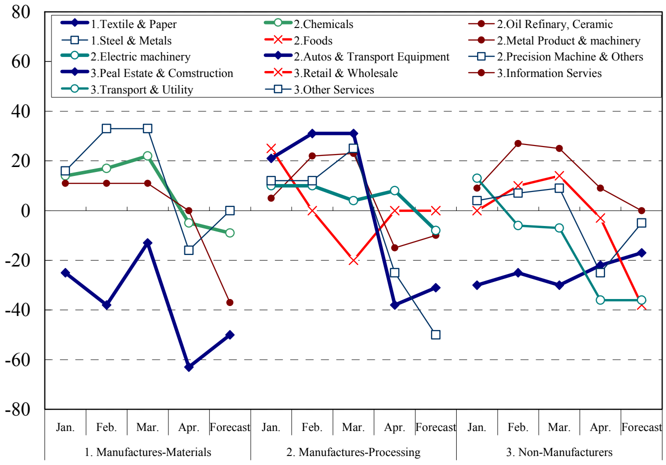
Furthermore, business sentiment has deteriorated sharply recently, and the capital expenditures environment will worsen further. According to the *Reuters Tankan* survey of 400 companies, the actual DI among manufacturers plunged -28 points from 15 in March to -13 in April, while the DI among non-manufacturers plunged -18 points to -15 in April from 3 in March (Figure 12). By industry, only electric machinery and food makers' DIs rose among manufacturers, while only real estate and construction business DIs rose among non-manufacturers. Other industries' DIs dropped sharply (Figure 13). Above all, manufacturer DIs plunged, and the DI for transport equipment dropped the most, by -69 points. This was followed by the textile and paper and precision machinery sectors, which fell by -50 points, and steel and metals, which declined by -49 points. The forecast DIs were worse than the actual DIs, and we predict that the deterioration in business sentiment is likely to persist.

Figure 12：Reuters Tankan



Source: Compiled by BTMU Economic Research Office from Reuters statistics

Figure 13: Reuters Tankan DI by Industry



Source: Compiled by BTMU Economic Research Office from Reuters statistics

Capital expenditures to remain weak although reconstruction demand anticipated

Potential reconstruction demand is expected to be strong for the area devastated by the earthquake. Because, as noted above, business sentiment is weak and significant work remains in terms of clearing rubble and repairing infrastructure, we think that capital expenditures are likely to be weak until reconstruction demand increases, probably in the second half of 2011.

(4) Household Sector

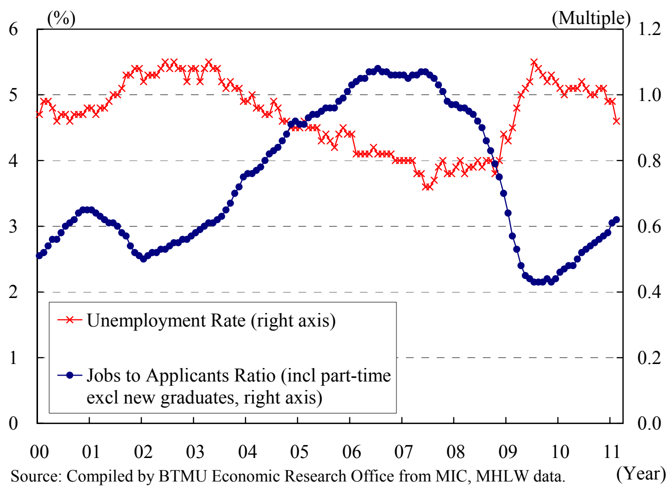
① Employment, Wages

Though employment conditions had been improving prior to March 11, they are expected to start to deteriorate

Employment conditions had been showing signs of improvement before being battered by the natural disaster. Japan's unemployment rate fell -0.3 ppts to 4.6% in February, the first drop in two months (Figure 14). The size of the decline was the biggest in five years, since February 2006, and the rate has fallen by an aggregate 0.5 ppt over the past four months. Further, the jobs to applicants ratio (including part-timers excluding new graduates) rose +0.01 points from January to 0.62x in February. This was the 10th straight month of improvement and the highest level since February 2009. (Figure14)

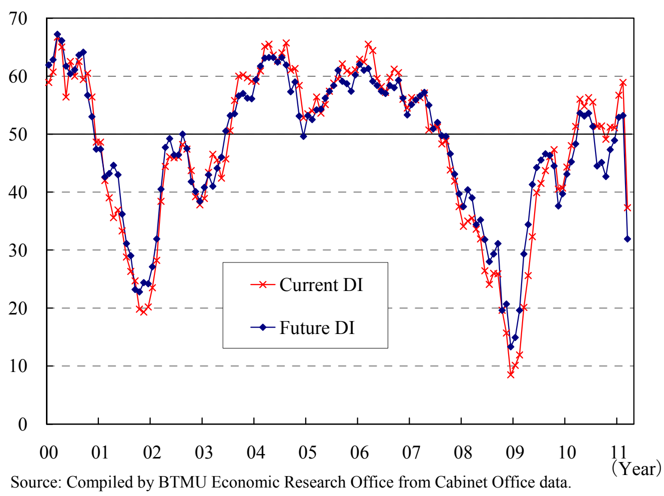
That said, those improvement trends have very likely changed since the earthquake. In the aforementioned March *Economy Watchers Survey*, the employment conditions-related DI, which is based on the answers of respondents who can gauge the direction of labor trends, including temporary placement company employees, job placement information magazine/recruiting ad workers and employment office officials, fell -21.6 points for the current DI and -21.3 points for the forecast DI (Figure 15). The results reflected a steep worsening. We think that the impacts of the disaster will start to steadily appear in labor conditions, especially in the disaster region.

Figure 14: Unemployment Rate and Jobs to Applicants Ratio



Source: Compiled by BTMU Economic Research Office from MIC, MHLW data.

Figure 15: *Economy Watchers Survey* Employment-Related DIs

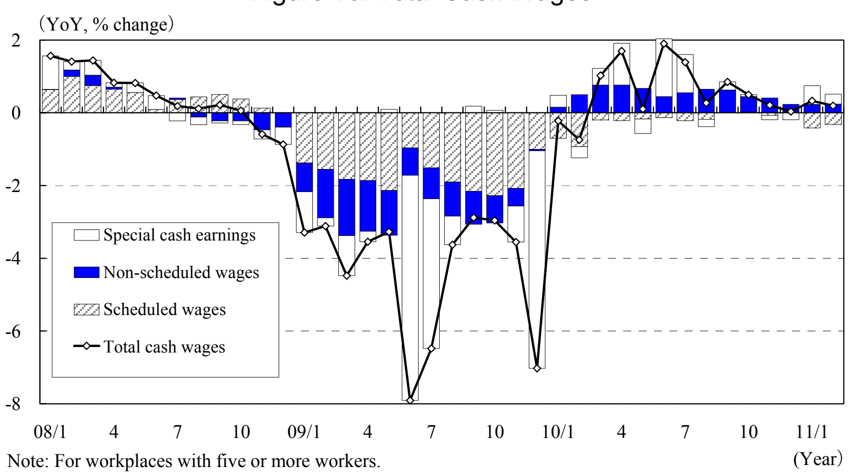


Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Wages had also been on an upward trend through February, but are now likely to weaken going forward

Wages have continued to increase slightly, rising +0.3% YoY in February, before the earthquake disaster, based on total cash wage data for workplaces with five or more workers (Figure 16). Although scheduled wages, the bulk of total cash wages, continued to decline slightly or merely remained level on-year, unscheduled wages like overtime payments have steadily risen since early 2010 and appear to be supporting wages overall. Furthermore, for the first two months of 2011, recovering bonuses and other special wages have also supported wages overall. However, as noted above, the adverse impacts of the March earthquake disaster are expected to spread to employment conditions, and the outlook for wages will not be bright for some time.

Figure 16: Total Cash Wages



Note: For workplaces with five or more workers.
Source: Compiled by BTMU Economic Research Office from MHLW data.

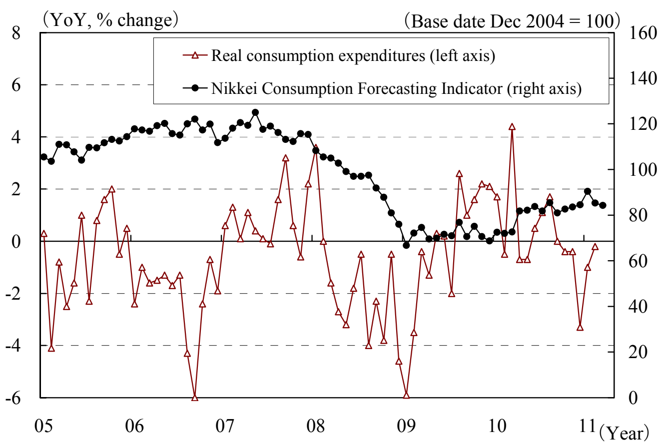
② Private Consumption

Private consumption has also deteriorated further following the disaster

Real consumption spending (according to a household spending survey of households of two persons or more) fell -0.2% YoY in February, the fifth straight month of decline (Figure17). Month on month, the decline was also -0.2%. By component, the big drops in spending on transportation and communication (-3.0% YoY), including automobile purchases and automobile maintenance charges, and clothing and apparel (-6.7% YoY) continued to be striking. Private consumption is likely to have already been weakening (the assessment of the Ministry of Internal Affairs and Communication, which conducted the survey) even before the earthquake.

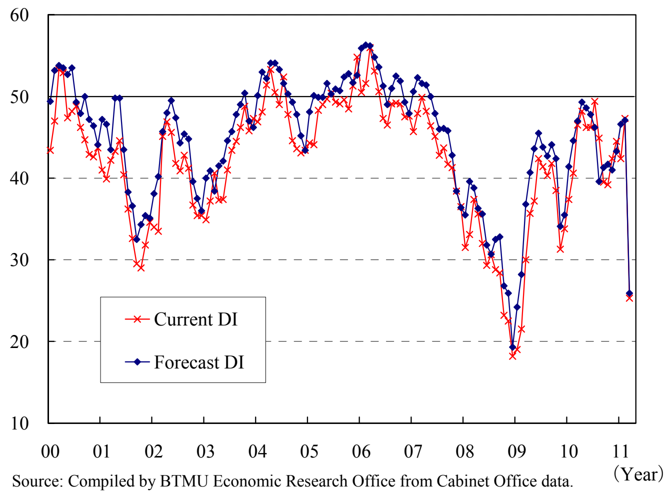
Spending appears to have worsened further in March after the earthquake struck. The *Nikkei* calculated the *Nikkei* Consumption Forecasting Indicator based on its own survey. The index stood at 84.3 (base point of December 2004 was 100) in March (survey was conducted between March 3-13). This was a -1.0 point decline since February （Figure17）. Seven percent of the responses were collected after the March 11 earthquake, and these showed an even greater drop of -23.8 points. Further, the March *Economy Watchers Survey* also showed steep declines in household spending related DIs (respondents included retailers, dining establishments, and travel and leisure companies): -22.0 points MoM for current business conditions and -21.2 points for the future DI （Figure18）.

Figure 17: Real Consumption Expenditures and *Nikkei* Consumption Forecasting Indicator



Source: Compiled by BTMU Economic Research Office from MIC, *Nikkei* data.

Figure 18: *Economy Watchers Survey* Household-Related



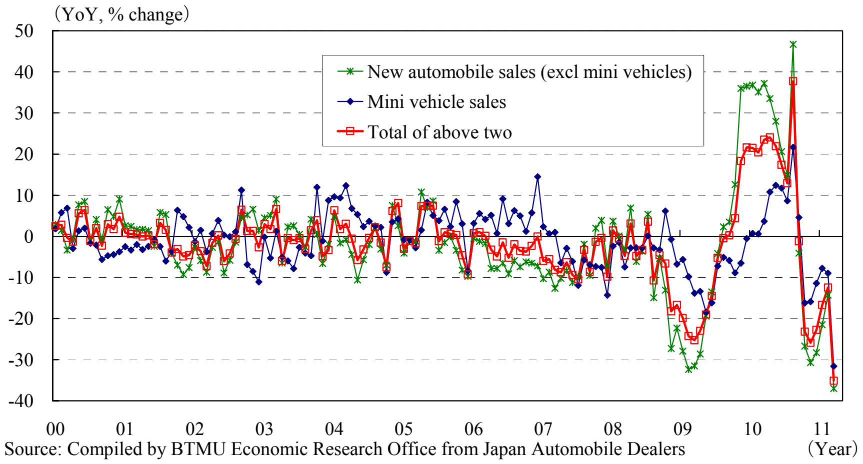
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Sales of automobiles and some home electronics as well as department store sales plunged in March

In micro terms, the weakness in automobile sales has been striking. New car sales (total registrations) plunged -37.0% YoY in March, the rate of decline accelerating again after four months （Figure19）. The drop was -35.1% YoY including mini-vehicles, which fell -31.6% YoY. For comparison purposes, the March rate of decline was the biggest ever since data was first collected in 1969. Even in terms of vehicles sold, sales were the lowest since March 1974, immediately following the first oil shock. Furthermore, though a surge of demand for household electronics like thin screen TVs (-10% YoY, according to GfK Japan) and refrigerators (-10.6% YoY) had been anticipated at the end of March prior to the end of the Ecopoint subsidy program, but this was wiped out by the March disaster. At the three big department store chains, sales of higher-priced goods like clothing and jewelry struggled, particularly in the Kanto region, with existing store sales down by -10% to -20% YoY in March.

Some strong areas were seen in March—like the big five convenience store chains that achieved higher sales of +5% YoY to +10% YoY (for existing stores) and movie theaters that tapped family-friendly demand as accessible leisure facilities, like movie theaters. However, overall, conditions for private consumption are extremely challenging. We think that the impact of curtailed consumption due to shorter working hours at companies facing restricted electricity supply as well as chilled consumer sentiment will weigh on private consumption for some time.

Figure 19: Automobile Sales



Source: Compiled by BTMU Economic Research Office from Japan Automobile Dealers Association, Japan Mini Vehicles Association data.

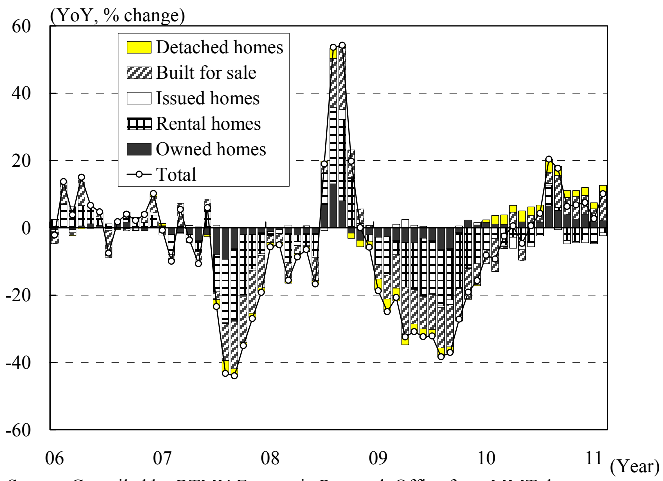
③ Residential Investment

Real estate investment, which had been recovering, now has uncertain outlook

New home starts jumped +10.1% YoY in February, the ninth straight month of rise （Figure20）. Although starts of rental homes continued to fall (-3.8% YoY, the fifth straight month of decline), the surge in starts condominiums (+103.9% YoY, the ninth straight month of increase) and steady rise in owned homes (+6.0% YoY, the 16th straight month of increase) contributed to the overall increase. Also, new home starts began to increase in month-over-month terms (+3.0% MoM) to an annualized rate of 872,000 homes. This was the strongest pace in 25 months.

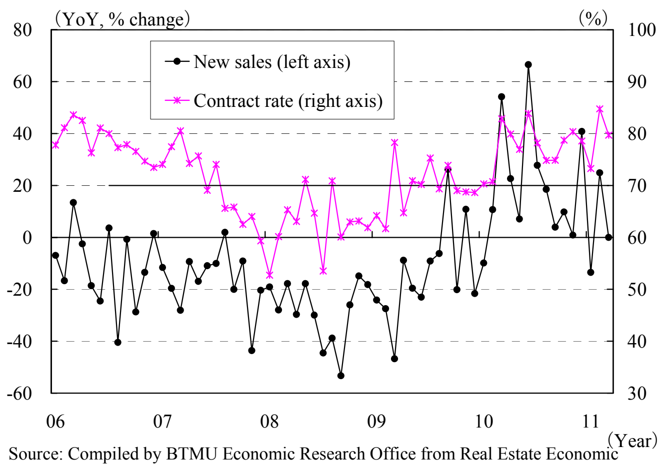
The outlook for the housing market is supported by continued low interst rates, the housing Ecopoint program and bigger exemptions for gift taxes for individuals purchasing and constructing homes for their own use. On the other hand, the outlook has clearly been clouded by the March earthquake. Capital region sales of new condominiums were merely flat on-year in March at 3,685 homes (sales within the 23-ward area of Tokyo in particular fell by -27.0% YoY), 12% below the projection as of the previous month (4,200 homes). The March contract rate was 79.9%, above the boom or bust dividing line of 70%, but this was -5.1 ppt down from the February level. （Figure21. Homes sold in the Kinki Region rose by +2.1% YoY, but this was a slowdown from the +4.3% YoY rate in February. Although neither region was directly impacted by the disaster, the Great Eastern Japan Earthquake appears to be dampening home purchasing willingness overall. Residential investment is likely to be subdued nationwide until conditions settle down and rebuilding activity begins for damaged and destroyed homes in the disaster region.

Figure 20: New Home Starts



Source: Compiled by BTMU Economic Research Office from MLIT data.

Figure 21: Tokyo Area New Condominium Sales and Contract



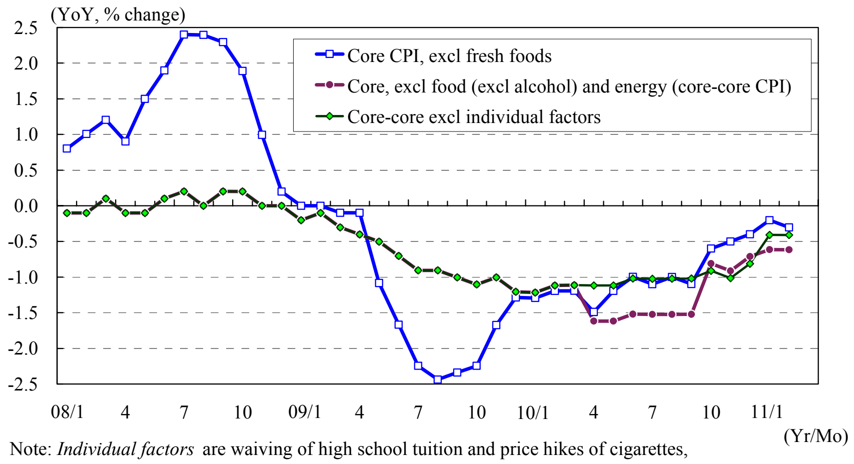
Source: Compiled by BTMU Economic Research Office from Real Estate Economic Institute data.

(5) Inflation

CPI rate of decline slowing

Though the deflationary trend persists, the pace of decline is slowing. The February consumer price index (core CPI, excluding fresh foods) stood at -0.3% YoY, a considerable slowing in decline since the peak of -2.4% YoY (August 2009, Figure 22). Although the impact of individual factors like rising energy prices and cigarette price hikes is not insignificant, the rate of decline is slowing even when discounting these factors.

Figure 22: Consumer Price Index



Note: *Individual factors* are waiving of high school tuition and price hikes of cigarettes, medical treatment individual-borne costs, and casualty insurance premiums.

March 11 earthquake to boost prices over the medium term

The Great East Japan Earthquake will cause consumer sentiment to deteriorate and spending to fall due to a mood of restraint, and this will act to suppress prices. However, after some time has elapsed, the macro supply-demand balance will tighten as reconstruction demand builds, and we think this will act to push up on prices. Also, in addition to higher prices for food and daily goods following the earthquake, rising international commodities prices (eg., oil) could boost expectations of inflation.

2. Finance

(1) Monetary Policy

BoJ considering introducing new operations and easing collateral conditions

At its April 6-7 Monetary Policy Board meeting, the Bank of Japan agreed to consider introducing support operations for financial institutions in the disaster-struck regions as well as easing collateral conditions in response to the March 11 earthquake. The financial institution support operations would involve the BoJ extending loans to financial institutions with operations in the disaster region for a period of one year at a low interest rate of 0.1% (Table 4). The BoJ implemented a similar measure in response to the Kobe Earthquake in 1995. This time, total funding is JPY1 trillion, or twice as much as the 1995 operation, because of the vast scale of earthquake damage.

Table 4：BoJ Funds-Supplying and Other Disaster Measures

Name	Support Loans for Hanshin-Awaji Great Earthquake Reconstruction	Funds Supplying Operations to Support Disaster Region Financial Institutions
Date implemented	July 1, 1995	Undetermined
Areas affected	Toyonaka City, Kobe City, Amagasaki City, Akashi City, Nishinomiya City, Ashiya City, Itami City, Takarazuka City, Kawanishi City, Tsuna-gun Tsuna Town, Hokudan Town, Ichinomiya Town, Goshiki Town, Higashiura Town	All of Iwate, Miyagi, and Fukushima prefectures Parts of Aomori, Ibaragi, Tochigi, and Chiba prefectures
Loan term	1 year (later extended another year)	1 year
Loan size	500 Bn	1,000 Bn
Interest rate	When appropriate collateral offered: Official discount rate Collateral - Credits for damaged company: Official discount rate + 0.25% (Official discount rate initially 1.00%, lowered to 0.50% from Sept 1995)	0.10%

Source: Compiled by BTMU Economic Research Office from BoJ materials.

BoJ support operations appear to be an anticipatory measure

However, the actual amount of the 1995 measure was JPY271.5 billion, substantially below the limit of JPY500 billion (Table 5). The actual scale of this operation is also expected to fall considerably below the limit. This is because deposits are increasing and the BoJ has been aggressively supplying funds since before the earthquake, financial institutions generally have ample capacity to lend and need for the new operation is not expected to be strong. We think that this operation is an anticipatory measure in case of an unexpected increase of funding needs.

Table 5: Actual Reconstruction Support Lending Following Hanshin-Awaji

(Bln)

Total	Regional banks	Tier 2 Banks	Credit unions	Credit associations	Other
271.5	26.5	102.0	99.0	32.0	12.0

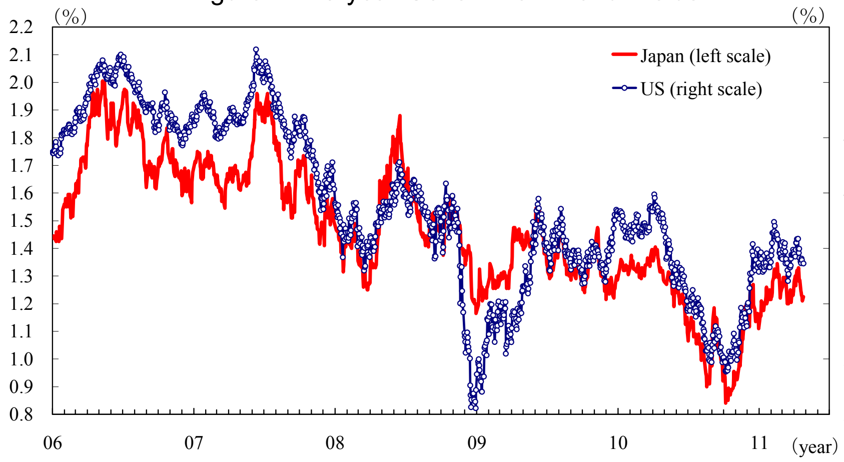
Source: Compiled by BTMU Economic Research Office from BoJ materials.

（2）Long-term Interest Rates

Long-term interest rates rising

Long-term interest rates have been on a rising trend since late March, and the yield on newly issued 10-year JGBs hit 1.355%, the highest level in approximately two months (Figure 23). Higher overseas long-term yields, as well as speculation regarding more JGBs issuance caused by the Great East Japan Earthquake, have pushed up the JGB yields. In overseas financial markets, speculation regarding higher interest rates is growing following the European Central Bank’s rate hike April 7, hawkish comments by US Federal Reserve Board officials, and rising resource prices.

Figure 24:10-year Government Bond Yields



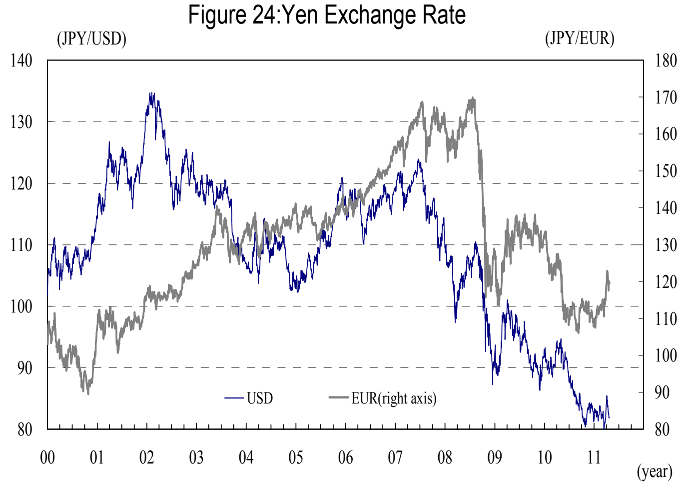
Source: Compiled by BTMU Economic Research Office based on Bloomberg data

(3) Exchange Rates

JPY weakening on speculation of widening Japanese-overseas interest rate spreads

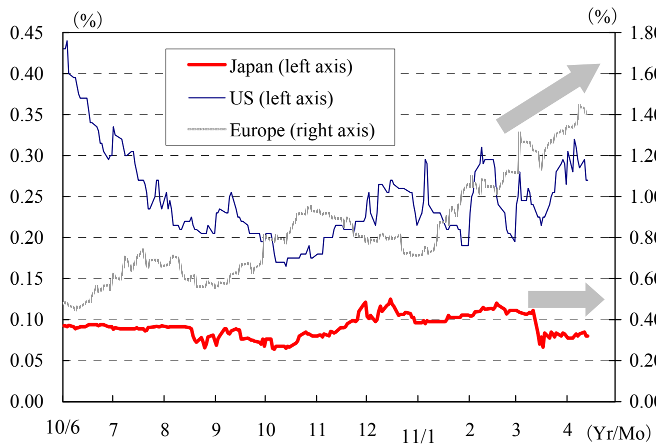
From late March, the JPY weakened and on April 6 the currency hit the mid-JPY/USD85 point, the lowest level since last September (Figure 24). Against the EUR, the JPY declined further, marking JPY/EUR123 on April 8, the lowest level since last May. While speculation had grown regarding further ECB additional rate hikes and the Fed's exit strategy, market participants assumed the BoJ's low interest rate policy would be protracted and sold the JPY (Figure 25). However, although risk-averse sentiment resulting from quake aftershock damage and the Fukushima nuclear reactor plant's increasing seriousness could push the JPY up, and we think that any room for further JPY weakening will be limited.

Figure 24:Yen Exchange Rate



Source: Compiled by BTMU Economic Research Office based on Bloomberg data.

Figure 25: Market Forecasts of Policy Rate, Nine Months Ahead



Note: Japan and Europe rates are OIS trading, US rate is FF interest rate futures.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

For further details, please contact the Economic Research Office
(Chief Manager Sakuma) Tel: 03-3240-3204

Directed by Yasuhiro Ishimaru (Household Sector) Yasuhiro_Ishimaru@mufg.jp

Written by Shin Takayama (Financial Markets, Inflation) shin_takayama@mufg.jp

Written by Yuka Maehara (Corporate Sector) yuka_maehara@mufg.jp

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1．Main Economic Indicators

As of Apr 27, 2011

	Fiscal	Fiscal	2010			2010		2011		
	2008	2009	2Q	3Q	4Q	NOV	DEC	JAN	FEB	MAR
Real GDP Growth Rate <% changes from	-4.1	-2.4	2.1	3.3	-1.3	***	***	***	***	***
previous period at SA annual rate>			(3.2)	(4.9)	(2.2)					
Index of All Industries Activity	-4.5		0.8	0.7	-1.1	-0.1	-0.3	2.9	#N/A	
			(3.4)	(3.1)	(1.9)	(2.4)	(1.9)	(1.7)	#N/A	
Industrial Production Index	-12.7	-8.8	0.7	-1.0	-0.1	1.6	2.4	0.0	1.8	
Production			(21.3)	(14.0)	(5.9)	(7.0)	(5.9)	(4.6)	(2.9)	
Shipments	-12.6	-8.3	0.7	-0.8	-0.3	2.9	1.3	-0.8	3.3	
			(21.7)	(14.4)	(6.4)	(8.7)	(5.9)	(3.2)	(3.6)	
Inventory	-5.2	-6.1	2.6	0.4	-0.6	-1.7	1.6	3.9	1.5	
			(1.2)	(3.5)	(3.8)	(2.0)	(3.8)	(7.0)	(6.9)	
Inventory/Shipments Ratio	121.9	120.4	106.5	108.7	111.0	108.0	108.0	107.9	104.3	
(2005=100)			[136.4]	[124.3]	[114.7]	[115.5]	[110.0]	[108.0]	[107.4]	[103.4]
Domestic Corporate Goods Price Index	3.1	-5.2	0.5	-0.3	0.4	0.0	0.4	0.5	0.2	0.6
			(0.2)	(-0.2)	(1.0)	(0.9)	(1.2)	(1.5)	(1.7)	(2.0)
Consumer Price Index(SA, total, excl.fresh foods)	1.2	-1.6	0.0	-0.2	0.3	0.2	0.2	0.0	0.0	
			(-1.2)	(-1.0)	(-0.5)	(-0.5)	(-0.4)	(-0.2)	(-0.3)	
Index of Capacity Utilization	88.7	80.0	89.8	88.4	88.4	88.2	90.2	91.1	93.7	
(2005=100)			[71.8]	[77.0]	[81.8]	[81.9]	[84.1]	[88.7]	[89.7]	[90.1]
Machinery Orders(Private Demand,	-14.1	-20.6	0.3	9.6	-6.9	-3.0	1.7	4.2	-2.3	
Excl.Electric Power and Ship building)			(3.3)	(13.0)	(4.9)	(11.6)	(-1.6)	(5.9)	(7.6)	
Manufacturing	-22.4	-27.8	-8.6	12.2	-4.4	10.6	-1.9	7.2	11.1	
			(13.2)	(34.3)	(11.6)	(25.0)	(8.3)	(11.0)	(18.0)	
Non-manufacturing	-6.8	-15.8	5.8	9.9	-10.1	-10.5	3.9	-2.7	-4.5	
Excl.Electric Power & Ship building			(-2.4)	(2.3)	(-0.3)	(3.9)	(-7.9)	(2.1)	(0.9)	
Shipments of Capital Goods	-17.6	-24.2	4.7	4.1	1.2	-1.3	0.8	-3.0	8.2	
(Excl.Transport Equipment)			(29.1)	(30.8)	(23.9)	(24.0)	(20.7)	(16.4)	(12.9)	
Construction Orders	-12.3	-14.2								
			(-9.9)	(-8.0)	(2.0)	(-5.3)	(13.1)	(-10.7)	(19.5)	
Private	-19.0	-15.3								
			(-8.0)	(-9.4)	(4.8)	(-2.4)	(7.7)	(-10.2)	(21.8)	
Public	23.5	-11.1								
			(-13.3)	(-6.2)	(-3.6)	(10.4)	(26.0)	(-12.5)	(-4.7)	
Public Works Contracts	0.1	4.9								
			(-3.5)	(-12.6)	(-14.8)	(-6.3)	(-18.1)	(-9.9)	(4.2)	(-3.5)
Housing Starts	103.3	77.6	77.6	81.5	84.3	84.7	86.1	84.7	87.2	
10,000 units at Annual Rate, SA	(0.3)	(-25.4)	(-1.1)	(13.8)	(6.9)	(6.8)	(7.5)	(2.7)	(10.1)	
Total floor	(-2.3)	(-21.5)	(3.9)	(15.1)	(11.0)	(10.2)	(12.8)	(7.3)	(12.0)	
Sales at Retailers	-1.1	-0.4								
			(3.7)	(3.2)	(-0.4)	(1.5)	(-2.2)	(0.1)	(0.1)	
Real Consumption Expenditures	-2.8	1.0	-0.8	1.2	-1.5	0.2	-2.4	1.0	-0.2	
of Households over 2 persons (SA)			(-0.2)	(0.6)	(2.0)	(-0.4)	(-3.3)	(-1.0)	(-0.2)	
Propensity to Consume	73.3	74.7	72.4	75.2	74.5	75.6	74.1	74.1	71.5	
(SA,%)			[75.3]	[74.2]	[74.8]	[74.0]	[75.3]	[72.6]	[72.9]	[78.0]
Overtime Hours Worked	-7.0	-8.5	1.1	0.2	-0.6	1.0	0.5	1.3	0.6	
(All Industries, 5 employees or more)			(10.8)	(9.6)	(5.7)	(6.1)	(5.1)	(3.2)	(3.0)	
Total Cash Earnings (Regular Employees	-1.1	-3.3								
Only; All Industries, 5 employees or more)			(1.3)	(0.9)	(0.2)	(0.2)	(0.1)	(0.4)	(0.3)	
Employment Index(Regular Employees Only;'All Industries,	29076.0	-77894.3	10188.4	21463.6	28037.5	28971.3	27087.2	32797.3	32772.3	
5 employees or more)（Change over the M/Q/Y)			[-96,970.8]	[-106,546.5]	[-109,742.7]	[-110,971.6]	[-110,435.1]	[-6,870.6]	[5,834.7]	[6,084.6]
Ratio of Job Offers to Applicants	0.78	0.45	0.50	0.54	0.57	0.57	0.58	0.61	0.62	
(SA,Times)			[0.46]	[0.43]	[0.44]	[0.43]	[0.44]	[0.46]	[0.47]	[0.48]
Unemployment Rate	4.1	5.2	5.1	5.0	5.0	5.1	4.9	4.9	4.6	
(SA,%)			[5.1]	[5.4]	[5.3]	[5.3]	[5.2]	[5.1]	[5.0]	[5.1]
Economy Watcher Survey	25.6	39.9	48.3	45.4	43.0	43.6	45.1	44.3	48.4	27.7
(Judgment of the present condition D.I,%)			[37.7]	[42.4]	[36.7]	[33.9]	[35.4]	[38.8]	[42.1]	[47.4]
Bankruptcies (Number of cases)	16,146	14,732	3,323	3,232	3,299	1,061	1,102	1,041	987	1,183
	(12.3)	(-8.7)	(-15.9)	(-14.5)	(-6.5)	(-6.2)	(-2.9)	(-2.0)	(-9.4)	(-9.9)

2. Balance of Payments

As of Apr 27, 2011

	Fiscal 2008	Fiscal 2008	2010 1Q	2010 2Q	2010 3Q	2010 NOV	2010 DEC	2011 JAN	2011 FEB	2011 MAR
Customs Clearance(Exports in Yen Terms)	-16.4	-17.1	(33.2)	(17.8)	(10.0)	(9.1)	(12.9)	(1.4)	(9.0)	(-2.2)
Value	-3.3	-7.0	(0.3)	(-0.7)	(1.2)	(-0.1)	(1.4)	(-0.9)	(-0.2)	(1.0)
Volumes	-14.3	-9.9	(32.8)	(18.6)	(8.6)	(9.1)	(11.4)	(2.3)	(9.2)	(-3.2)
Imports(In Yen terms)	-4.1	-25.2	(28.1)	(14.9)	(11.3)	(14.3)	(10.8)	(12.2)	(10.0)	(11.9)
Value	0.6	-18.4	(7.4)	(0.4)	(1.6)	(-1.0)	(2.8)	(0.9)	(4.9)	(6.0)
Volumes	-5.7	-7.3	(19.3)	(14.5)	(9.6)	(15.4)	(7.8)	(11.2)	(4.9)	(5.5)
Current Balance(100 mil. yen)	123,362	157,817	36,116	48,791	36,482	9,554	11,979	4,619	16,410	
Trade Balance(100 mil. yen)	11,589	65,996	20,358	19,787	19,233	2,562	7,635	-3,945	7,233	
Services(100 mil. yen)	-20,469	-18,185	-5,219	-2,756	-3,984	-658	-752	-893	-369	
Capital and Financial Accounts(100 mil. yen)	-173,053	-123,113	-16,097	-36,631	-10,192	-2,613	-1,783	-16,930	-10,113	
Gold & Foreign Exchange Reserves($1mil.)	1,018,549	1,042,715	1,050,235	1,109,591	1,096,185	1,101,031	1,096,185	1,092,980	1,091,485	1,116,025
Exchange Rate(\/$)	100.46	92.80	92.01	85.86	82.59	82.48	83.41	82.63	82.53	81.79

3. Financial Market Indicators

	Fiscal 2008	Fiscal 2008	2010 1Q	2010 2Q	2010 3Q	2010 OCT	2010 NOV	2010 DEC	2011 JAN	2011 FEB
Uncollateralized Overnight Call Rates	0.363	0.102	0.093	0.093	0.090	0.091	0.087	0.085	0.093	0.085
			[0.103]	[0.103]	[0.104]	[0.105]	[0.101]	[0.096]	[0.101]	[0.097]
Euro Yen TIBOR	0.805	0.516	0.388	0.364	0.336	0.335	0.335	0.335	0.335	0.336
(3 Months)			[0.579]	[0.543]	[0.498]	[0.508]	[0.462]	[0.452]	[0.442]	[0.434]
Newly Issued Japanese Government Bonds Yields	1.438	1.353	1.208	0.987	1.072	1.185	1.110	1.215	1.255	1.255
(10 Years)			[1.420]	[1.338]	[1.317]	[1.260]	[1.285]	[1.315]	[1.300]	[1.395]
Average Contracted Interest Rates	1.619	1.449								
on Loans and Discounts(City Banks)			1.420	1.392	1.382	1.401	1.382	1.377	1.371	
(% changes from previous period)			(-0.029)	(-0.028)	(-0.010)	(0.003)	(-0.019)	(-0.005)	(-0.006)	
The Nikkei Stock Average	8,110	11,090	9,383	9,369	10,229	9,937	10,229	10,238	10,624	9,755
(TSE 225 Issues)			[9,958]	[10,133]	[10,546]	[9,346]	[10,546]	[10,198]	[10,126]	[11,090]
M2(Average)	(2.1)	(2.9)	(3.0)	(2.8)	(2.6)	(2.6)	(2.3)	(2.3)	(2.4)	(2.7)
Broadly-defined Liquidity(Average)	(0.1)	(0.8)	(1.5)	(0.5)	(0.1)	(0.1)	(-0.1)	(-0.1)	(-0.0)	(0.1)
Principal Figures of Financial Institutions										
Loans and Discount (Average): Banks & Shinkin	(2.4)	(0.8)	(-1.9)	(-1.8)	(-2.0)	(-2.0)	(-2.0)	(-1.8)	(-1.9)	(-1.7)
Banks	(2.7)	(0.8)	(-2.0)	(-1.9)	(-2.1)	(-2.1)	(-2.1)	(-1.9)	(-2.0)	(-1.8)
City Banks etc.	(1.9)	(-0.4)	(-3.8)	(-3.8)	(-4.6)	(-4.7)	(-4.7)	(-4.5)	(-4.6)	(-4.6)
Regional Banks	(3.9)	(2.4)	(0.0)	(0.4)	(0.9)	(0.9)	(1.1)	(1.1)	(1.2)	(1.2)
Regional Banks Ⅱ	(2.4)	(1.3)	(-0.4)	(-0.7)	(-0.5)	(-0.5)	(-0.4)	(-0.4)	(-0.5)	(0.8)
Shinkin	(0.9)	(0.8)	(-1.4)	(-1.4)	(-1.3)	(-1.3)	(-1.3)	(-1.1)	(-1.1)	(-0.8)
Deposits and CDs (Average): Total(3 Business Condition)	(1.7)	(2.9)	(2.8)	(2.7)	(2.7)	(2.7)	(2.1)	(2.0)	(2.0)	(2.7)
City Banks	(1.7)	(3.0)	(2.7)	(2.9)	(3.0)	(3.2)	(2.0)	(1.5)	(1.4)	(2.7)
Regional Banks	(1.9)	(3.1)	(3.3)	(3.1)	(3.0)	(2.9)	(2.9)	(3.1)	(3.3)	(2.9)
Regional Banks Ⅱ	(1.3)	(1.8)	(1.0)	(0.4)	(0.1)	(0.0)	(0.1)	(0.2)	(0.5)	(1.9)

(Notes) Interest rates are averages. The Nikkei Stock Average is as of month-end.

(Sources) Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.