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Japan Economic Monthly

～Signs of Resilience Gradually Appearing in the Wake of the March 11 earthquake～

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The Bank of Tokyo-Mitsubishi UFJ, Ltd.

1. The Real Economy

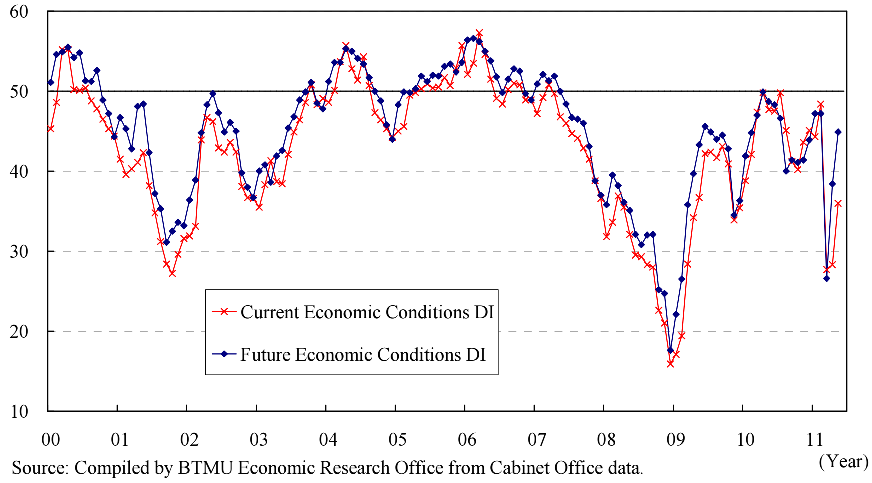
(1) Overview of the Economy

Signs of improvement even in indicators that plunged following the earthquake

Japan's economy, which suddenly chilled following the massive earthquake that struck Japan's Northeast on March 11, has recently been showing some scattered signs of picking up. One such sign has been the Economy Watchers Survey, a sensitive reflector of the direction of economic activity. The DI in the March survey, taken immediately following the earthquake, fell -20.7 points MoM for current conditions and -20.6 points MoM for future conditions two to three months out. This was the biggest plunge since the survey was launched in January 2000. However, the DI has now risen for two straight months, April and May (Figure 1). And the margin of rise has been striking—the May current conditions DI jumped +7.7 points MoM, the biggest increase since March 2009, while the total rise of +18.3 points MoM over the past two months for the future conditions DI (April +11.8 points MoM and May +6.5 points MoM) was the biggest in the history of the survey. In the Tohoku Region alone, the current conditions DI surged +12.2 points MoM in May and the future conditions DI was up +8.7 points MoM.

Further, as we describe below, after plunging by the greatest margin since the data set began in 1953—by -15.5% MoM in March—industrial production rose slightly, by +1.6% MoM, in April. Further, according to the manufacturers' production forecast survey, industrial production is projected to rise fairly strongly, by +8.0% MoM in May and +7.7% MoM in June. If these projections are borne out, manufacturing production levels overall will recover to pre-quake levels in June.

Figure 1: Economy Watchers Survey - Economic Conditions DI

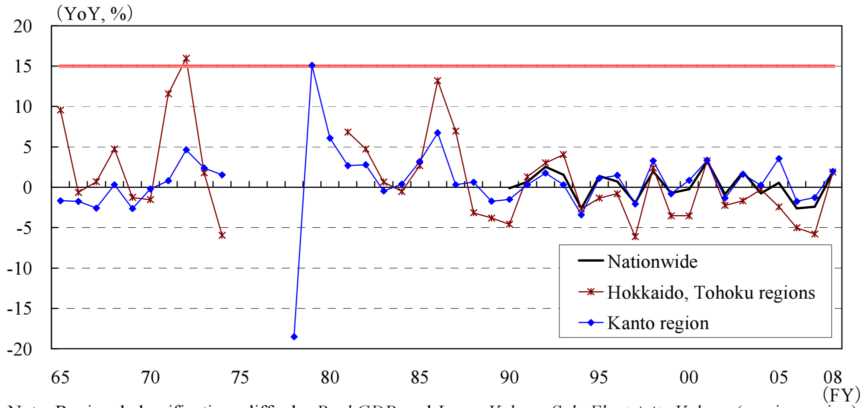


Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

The success of electricity supply measures will be the key to economic recovery for the time being

However, most indicators have rebounded slightly following big plunges, and only gradually return to pre-quake levels. Therefore, there is little sense of a recovery, and it will be some time before conditions will feel robust. Furthermore, summer is near and concerns about electricity shortages are looming. In mid-May, the government introduced targets to cap electricity at 15% below last summer's peak usage levels in Tohoku Electric Power Co and TEPCO service areas. (Some areas are exempted or under eased restrictions. Large-lot usage is covered by Article 27 of the Electricity Business Act.) Of course, if electricity usage could be cut by 15% merely by improving efficiency, production would not be impacted, but based on developments over the past two decades, energy efficiency has been roughly flat on average since FY90 and improving efficiency by 15% would be fairly difficult (Figure 2). Therefore, production over the summer months will inevitably be pressured downward. Assuming that a 15% reduction in electricity usage is directly linked to production declines in Tohoku Electric and Tokyo Electric Power Co service areas, we calculate that nationwide GDP will inevitably plunge more than 20% QoQ annualized in Jul-Sept. A temporary negative impact even greater than at the time of the Lehman Brothers collapse (when real GDP fell -11.6% QoQ annualized in Oct-Dec 2008 and -18.0% QoQ annualized in Jan-Mar 2009) will inevitably occur. The issue is also growing further, such as with Kansai Electric Power Co also seeking a 15% reduction in electricity usage from last summer's peak level. Somehow overcoming this summer's electricity supply restrictions will be important in order not to disrupt the signs of recovery that are starting to appear following the March 11 earthquake.

Figure 2: Energy Efficiency
(Real GDP ÷Large Volume Sale Electric Power Supply)



Note: Regional classifications differ by *Real GDP* and *Large Volume Sale Electricity Volume* (service region).
Source: Compiled by BTMU Economic Research Office from Cabinet Office, Federation of Electric Power Companies of Japan data.

(2) Fiscal

Concern that political confusion could block policy implementation

Though reconstruction demand in the aftermath of the earthquake disaster reconstruction is building, concerns are high that confusion in the political sphere could block policy implementation. There is no possibility a bill will be passed soon to allow the government to issue deficit bonds this fiscal year. If the current paralysis lasts until autumn, the government will face considerable cash management difficulties.

On June 20th, a bill outlining earthquake disaster reconstruction, named Great Eastern Japan Earthquake Reconstruction Act, was passed (Table 1). The government abandoned its bill submitted in May, re-submitting a new bill reflecting opposition parties' opinions in order to facilitate passage. The bill establishes a legal foundation for setting up a headquarters office for disaster reconstruction (Figure3), creating a reconstruction agency and issuing reconstruction bonds. Reconstruction efforts are making progress. However, a number of individual bills for concrete policies are under discussion (Table 2), and there is a concern that a tangled political situation could delay implementation.

Table 1: Outline of Basic Law on Great Eastern Japan Earthquake Reconstruction

【Basic Principles】
・To promote drastic measures to not only reconstruct following the natural disaster, but to revive a dynamic Japan

【Funding】
・Thoroughly review budget related to measures apart from reconstruction measures
・Actively tap zaito-related and private funds

【Reconstruction bonds】
・Issue public bonds as established by law separately in order to procure fund necessary for reconstruction
・Administer separation of reconstruction and other government bonds
・Clarify redemption channels

【Special Reconstruction Region System】
・ Utilize system to enact preferential regulatory measures and other special measures

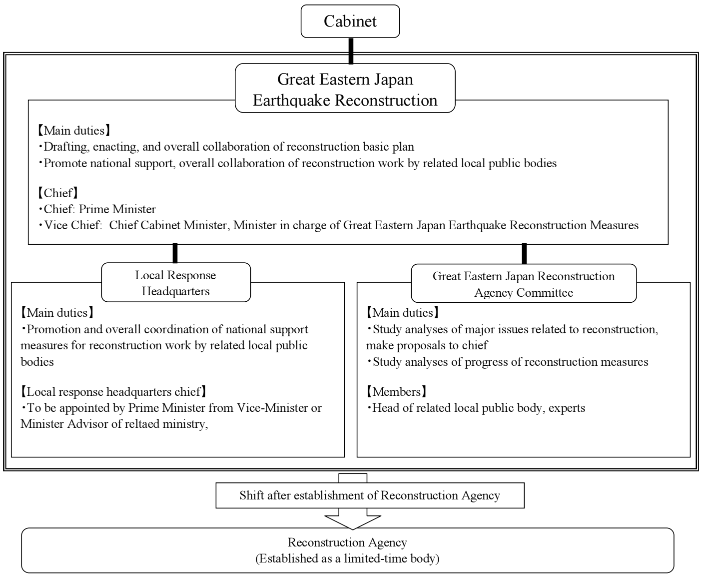
【Great Eastern Japan Earthquake Reconstruction Headquarters】
・Establish a Disaster Reconstruction Headquarters in the Cabinet Office, to be headed by the Prime Minister
・Establish local response headquarters and Great Eastern Japan Reconstruction Agency Council

【Nuclear accident region】
・Establish a council body for the reconstruction of the region affected by the nuclear reactor accident as needed

【Reconstruction Agency】
・Establish a Reconstruction Agency within the Cabinet Office as soon as possible
・Abolish Great Easter Japan Earthquake Reconstruction Headquarters and shift duties to Reconstruction Agency once agency is established

Source: Compiled by BTMU Economic Research Office from House of Representatives materials.

Figure 3: Organizational Structure as Outlined in Great Eastern Japan Earthquake Reconstruction Act



Source: Compiled by BTMU Economic Research Office from House of Representatives materials.

Table 2: Major Earthquake-Related Acts

Act	Details	Status
Bill to Ease Overlapping Loans	Establish a public agency to buy loans of SMEs in disaster zone and draft support measures for residents' home loans (LDP proposal)	Not yet drafted
Bill to Establish Agency to Support Compensation for Nuclear Reactor Damages	Draft funding support scheme for TEPCO	June 14 Diet vote
Amendment Bill to Strengthen Reconstructuring of Agricultural Trust Business	Promote capital infusion by using funds of Agricultural and Fishery Cooperative Savings Insurance Corporation for damaged agricultural and fishing coops	Under consideration by Lower House (submitted June 3)
Bill to Reduce Salaries of National Civil Servants	Cut salaries by 8% average through FY13 as needed to address severe fiscal conditions and disaster relief	Under consideration by Lower House (submitted June 3)
Amendment Bill for Special Measure to Strengthen Financial Functions	Establish a public capital infusion schemd for financial institutions in the disaster area	Under consideration by Lower House could be passed June 9)
Amendment Bill for Cabinet Law	Increase number of government ministers that can be increased as necessary from three to six	Under consideration by Lower House (submitted May 13)
Special Bill for Digital Terrestrial Broadcasting	Extend completion date of switch to digital terrestrial broadcasting from July 24, 2011, by up to one year for Iwate, Miyagi, and Fukushima prefectures.	Passed June 9
Land Improvement Special Measures Law	Reduce the prefectures' burdens for land improvement work related to disaster recovery, and also carry out land improvement projects to address salt damage in agricultural land	Passed May 2
Special Financial Support Bill	Reduce burden related to special financial support for local public bodies and social insurance subscribers, and carry out measures related to special aid for financial support for farming, forestry, and fisheries workers and SMEs	Passed May 2
Local Tax Allocation Special Bill	Increase FY11 local allocation tax by JPY120 billion	Passed May 2
Construction Restrictions Special Bill	Extend construction limit period up to eight months from two months after disaster as in Construction Basic Law, prevent outbreak of chaos in disaster area reconstruction	Passed April 28
Disaster Reconstruction Project Implementation Bill	Allow national government to carry out infrastructure reconstruction projects as requested by local governments	Passed April 28
Disaster Tax System Special Bill	Reduce income and residence taxes, refund corporate taxes, grant exemptions for automobile taxes	Passed April 27

Note: *Status* as of June 14, 2011.
Source: Compiled by BTMU Economic Research Office from House of Representatives materials.

Government now considering smaller supplementary budget

Also, the government reversed course at a June 14 informal Cabinet meeting on plans to draft a large second supplementary budget after August, and is now considering drafting a smaller budget (Table 3). The budget bill will likely be submitted to the Diet in early July, but passage will inevitably be fraught with difficulty due to the current political situation.

Table 3: Items Under Consideration for Future Supplemental Budgets

【Measures】
・Establish a public-private fund for 'overlapping loans'
・Government contribution (JPY120.0 billion) based on Nuclear Power Damage Compensation Support Agency Act
・Raise national coffers share of relief funds (grant up to JPY3 million to victims with homes at least half destroyed)
・Contribute to expenses to remove debris from ocean
・Tax allocations for local governments in disaster region for any use (JPY500.0 billion)
・Generate reserve costs for reconstruction and rebuilding

【Scale, Resources】
・Planned amount: Approximately JPY2 trillion
・Avoid new issuance of government bonds
・Tap FY10 JPY1.4 trillion in surplus funds from extra tax revenue from FY10 budget
・A special act will be necessary to use the supplementary budget for half of surplus funds
(In principle, one-half or more of general account surplus funds must be transferred to the Government Bonds Consolidation Fund Special Account)
(Public Finance Act Article 6, Item 1)

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

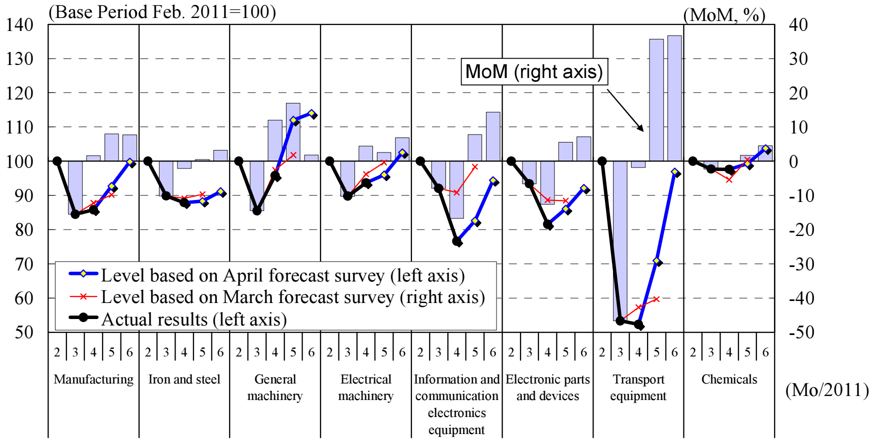
(3) Corporate Sector

① Production

Production facilities and supply chain being restored at faster pace than expected, and if forecast survey is realized, production levels expected to return to pre-quake levels in June

Damage to production facilities and supply chain confusion greatly curtailed production in the wake of the March 11 earthquake, but restoration appears to be proceeding at a faster pace than earlier projected. In fact, industrial production rose +1.6% MoM in April, a quick rebound and shift to growth (Figure 4). Furthermore, according to the manufacturers' production forecast survey, May (+8.0% MoM) and June (+7.7% MoM) production is expected to increase considerably. Then, if production increases as much as projected, output overall would return to pre-quake levels in June. By major sectors, general machinery, electronic machinery, and chemical industries are expected to exceed pre-quake levels. Also, production of transport machinery, which plunged following the earthquake, is expected to return to roughly pre-March 11 levels in June. This can be considered a positive factor for the economy overall considering the size of the ripple effect on other sectors.

Figure 4: Production Level by Industry



Note: Monthly rate of change is results through April, May and June forecast as of April forecast survey.
Source: Compiled by BTMU Economic Research Office from METI data.

Biggest risk to production is electricity supply shortage spreading across Japan

On the other hand, the electricity supply shortages, which are spreading throughout the country, are a concern. On top of the continued serious situation at the Fukushima Dai-ichi nuclear reactor and the government-sought suspension of operations at the Hamaoka nuclear plant, re-starting operations at other reactors following scheduled inspections is growing more difficult in terms of ensuring safety. Amidst such developments, electricity restriction targets of 15% from last summer's peak levels have been introduced in the Tohoku Electric and TEPCO service areas. Recently even Kansai Electric has sought cuts of 15%, while Hokuriku Electric will also call for conserving electricity consumption while not setting numerical targets. As described above, restoring production facilities and supply chains appear to be proceeding faster than earlier projected, but there is a risk that electricity supply restrictions across the country will curtail production through the summer months.

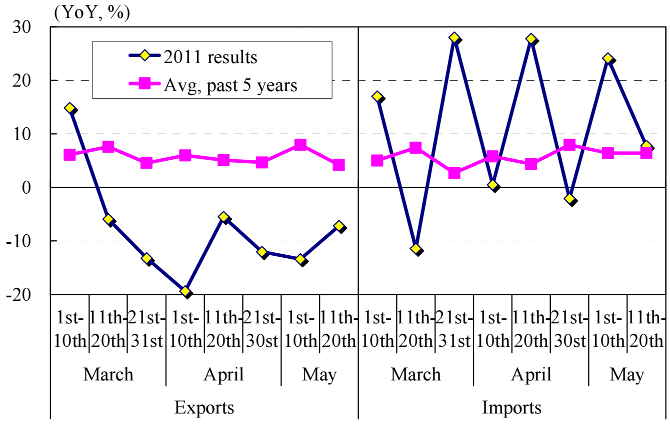
② Exports and Imports

Although exports to improve again at some point, a trade deficit persists following a jump in imports

Exports have continued declining on-year from the middle of March just after the earthquake struck through mid-May (Figure 5). In early May, the margin of decline was -13.4% YoY and in mid-May -7.2% YoY, both sizeable drops. However, demand for Japanese exports is expected to remain strong, given the firmness of overseas economies overall. If output recovers, with production facilities and the supply chain restored, exports are expected to stop falling and start improving.

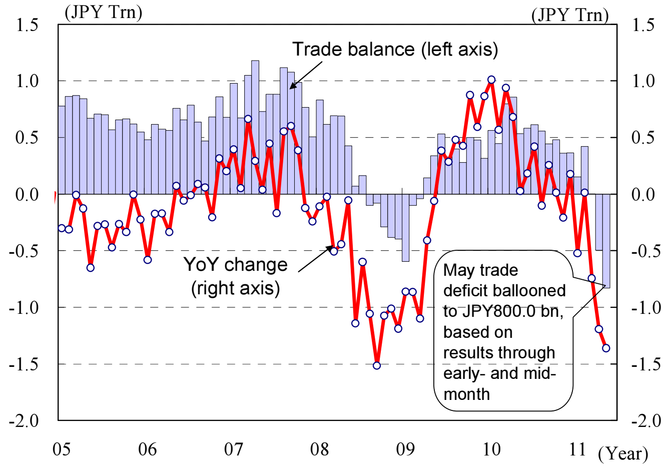
Further, concerns are building about the expanding trade deficit as imports surge. In fact, the April trade balance turned into a big trade deficit of JPY561.1 billion (seasonally-adjusted, Figure 6). Furthermore, the May trade deficit has exceeded JPY1 trillion from early through mid-May (not seasonally-adjusted), and it is increasingly likely that the monthly trade deficit will exceed April's figure. The main reason for the surge in imports has been bigger demand for fuel for thermal power generation, and fuel imports are expected to increase further through the summer months, when demand for electricity also increases. Needless to say, an increase in imports acts to push down the GDP growth rate. Any improvement in exports will be offset by a rise in imports, and it is likely that a contribution to growth from net external demand and net exports will be limited.

Figure 5: Nominal Exports, Imports by Time



Note: Average past 5 years is simple average of YoY growth of nominal export value during same period over last 5 years.
Source: Compiled by BTMU Economic Research Office from METI materials.

Figure 6: Trade Balance



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

③ Capital Expenditures

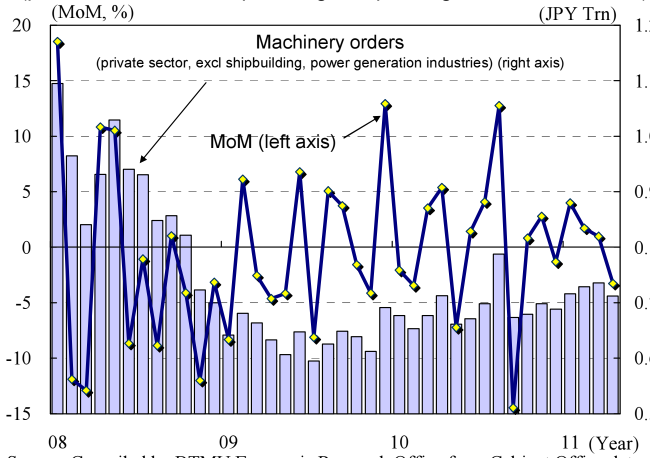
Despite slowing, capital expenditures expected to rise due to reconstruction demand

Corporate capital expenditures have slowed somewhat. In fact, April machinery orders (excluding volatile orders) dropped -3.3% MoM, the first decline in four months (Figure 7). Although this was partly due to a reaction from strong figures in March, it could also be due to some companies, especially manufacturers (-2.7% MoM), reviewing their capital spending plans in the wake of the March 11 earthquake. However, reconstruction demand is expected to appear for damaged plants and facilities. We do not think excessive concern is warranted at this stage.

Machinery orders from abroad have decreased two straight months

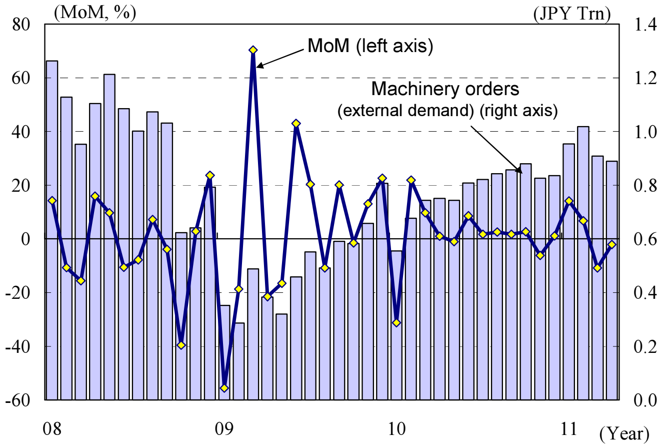
Foreign machinery order demand has declined for two consecutive months, and this is the bigger concern in regard to the April data (-10.8% MoM in March and -2.7% MoM in April, Figure 8). In order to avoid delays due to disruptions in the supply chain in the wake of the March 11 earthquake, overseas customers may be temporarily shifting to foreign providers. More fundamentally, however, this could be an indication that overseas economies are slowing, particularly in emerging countries. In fact, measures to cool economies, including rate hikes, are being implemented in Asia and other emerging economies in attempts to control inflation as primary goods prices rise. This will likely be a point to watch going forward.

Figure 7: Machinery Orders
(private sector, excl shipbuilding and power generation industries)



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

Figure 8: Machinery Orders (external demand)



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

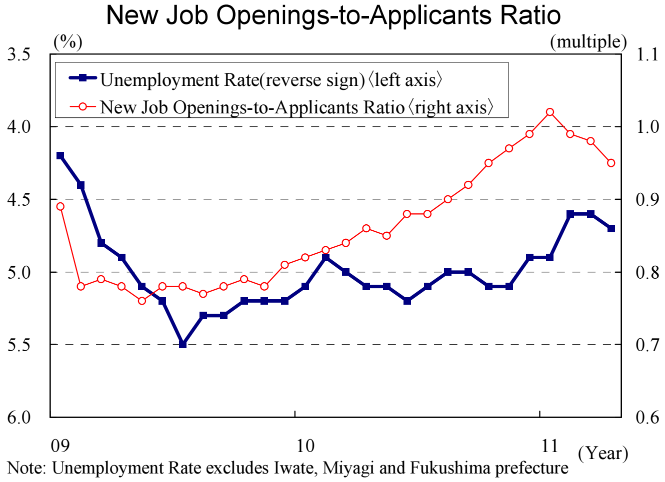
(4) Household Sector

① Employment, Wages

Employment conditions worsen nationwide in the wake of the March 11 earthquake

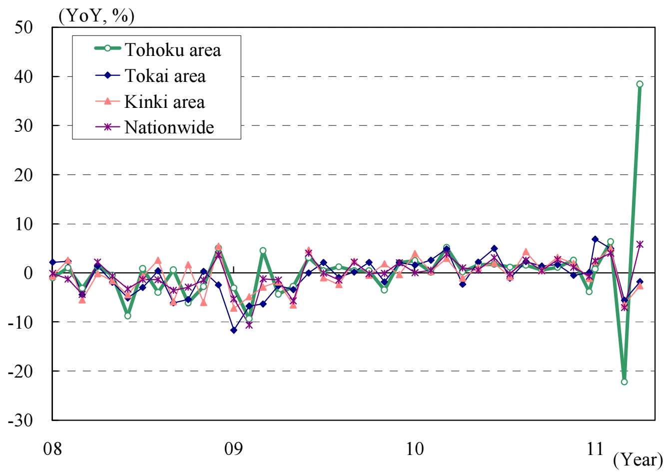
Japan's unemployment rate rose +0.1% points to 4.7% in April, an increase from the March rate, which had been flat from February at 4.6% (Figure 9). The April figure excludes the March 11 earthquake zone of Iwate, Miyagi and Fukushima prefectures as same as the March figure, and shows that employment conditions are worsening nationwide. Figure 9 also shows that the new job-openings-to-applicants ratio fell -0.03 points MoM. New job openings jumped sharply in April in the devastated Tohoku area after dropping in March (Figure 10) due to government employment support, indicating that mismatches in supply and demand are increasing, not that employment is improving. Either way, employment conditions will likely remain challenging for some time.

Figure 9: Unemployment Rate and New Job Openings-to-Applicants Ratio



Note: Unemployment Rate excludes Iwate, Miyagi and Fukushima prefecture
Source: Compiled by BTMU Economic Research Office from MHLW and MIC data.

Figure 10: New Job Openings by area

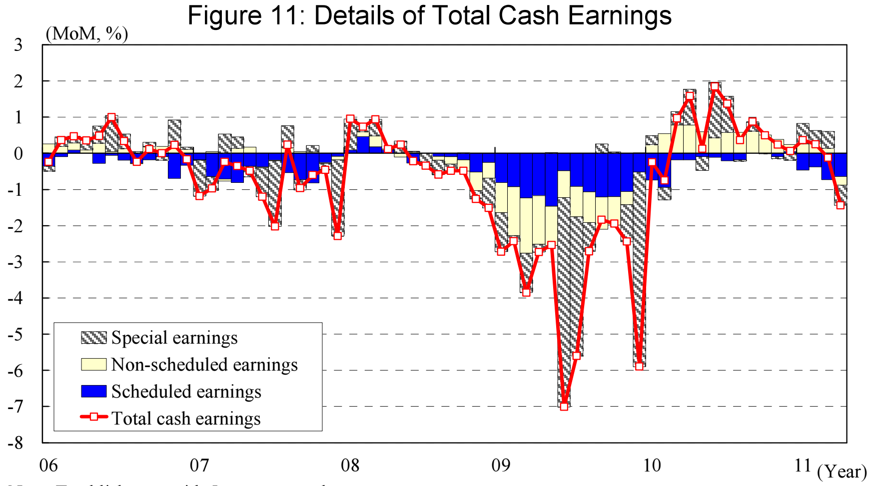


Source: Compiled by BTMU Economic Research Office from MHLW data.

Adverse impacts on wages appearing more clearly

Wage conditions are also getting worse. Total cash earnings decreased -1.4% YoY in April, following the drop of -0.1% YoY in March, the first decline in 13 months (Figure 11). Broken down, non-scheduled earnings and special earnings declined for the first time in 16 months. This is mainly due to reduced working hours because of electricity shortages. Non-scheduled working hours declined -5.7% YoY in April, more sharply than the -1.0% YoY decline in March.

Figure 11: Details of Total Cash Earnings



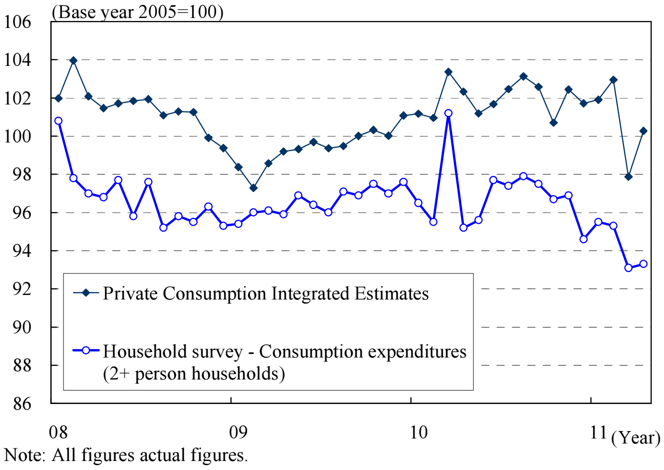
Note: Establishment with 5 or more employees
Source: Compiled by BTMU Economic Research Office based on the MHLW data.

② Private Consumption

Signs of resilience appearing in private consumption

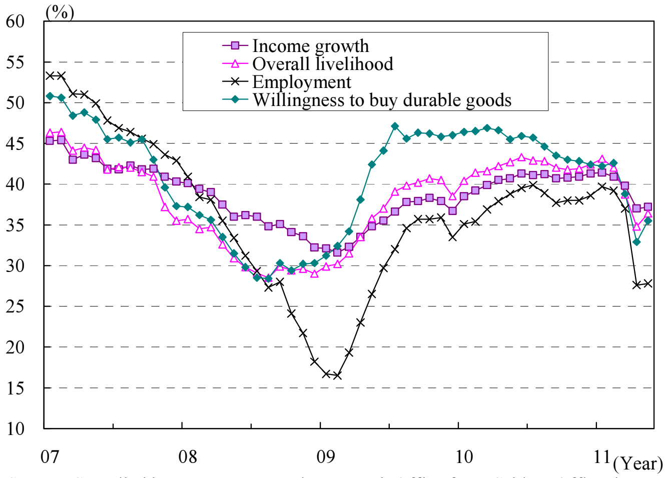
Private consumption plunged in March, then rebounded slightly in April. According to the household spending survey (households of two persons or more), real consumption spending rose +0.2% MoM in April (Figure 12). Also, the private consumption integrated estimates declined -4.9% MoM but then rose +2.4% MoM. The sharp plunge in domestic new car and department stores sales following the March 11 earthquake has alleviated. Furthermore, all indicators in the consumer confidence survey have started to improve (Figure 13). Consumer sentiment has started to recover.

Figure12: Consumption Indices



Note: All figures actual figures.
Source: Compiled by BTMU Economic Research Office from MIC, CAO data.

Figure13: Indicators in the Consumer Confidence Survey



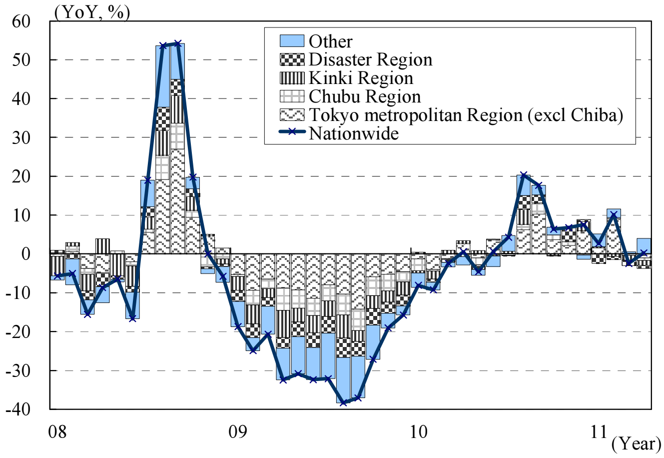
Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

③ Residential Investment

Residential investment down, especially in earthquake area

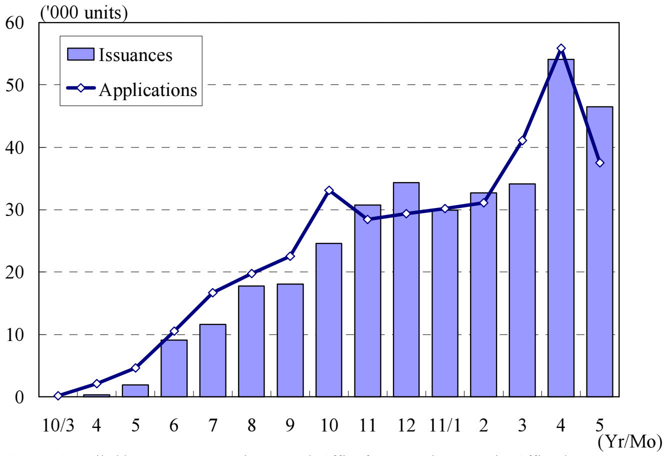
New residential construction starts decreased -2.4% YoY in March but increased +0.3% YoY in April, mainly because subdivided apartments jumped +11.8% YoY (figure14). By region, drops in the disaster region and the Tokyo metropolitan region were offset by increases in other regions. It seems residential reconstruction demand has not yet appeared. In addition, the Housing Ecopoint program was was shortened, and the program will now expire in July 2011 rather than December 2011. However, the number of issuances peaked in April, so rush demand is unlikely to appear (Figure 15).

Figure 14: Residential Construction Starts by Region



Note: Disaster region includes Iwate, Miyagi, Fukushima, Chiba, Ibaragi, and Tochigi prefectures.
Source: Compiled by BTMU Economic Research Office from MLIT data.

Figure 15: Housing Ecopoint Applications, Issuances
(New Construction)



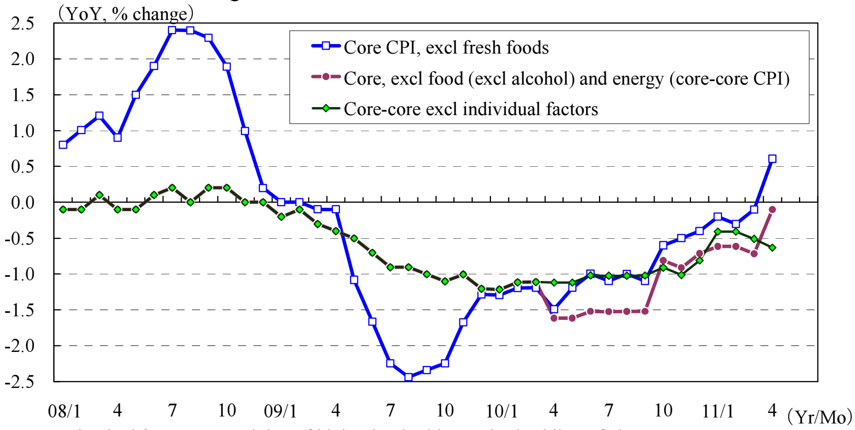
Source: Compiled by BTMU Economic Research Office from Housing Ecopoint Office data.

(5) Inflation

Downward trend in consumer prices persists

The Consumer Price Index (overall, excluding fresh foods, or the core CPI) stood at +0.6% YoY, the first rise in 26 months. Further, the margin of decline in the core-core CPI, which excludes food (except for alcoholic beverages) and energy, shrank considerably to -0.1% YoY (Figure 16). However, these results are largely due to the negating of the impact of last April's waiving and lowering of high school tuitions. Also, recently the CPI has been supported by last October's cigarette price hikes and higher casualty insurance premiums. Discounting these individual factors, April's core-core CPI would have stood at -0.6% YoY. Furthermore, the core CPI is projected to be revised down -0.5% points with the base revision scheduled for this August. In terms of direction, the CPI could be considered to still be trending downward.

Figure 16: 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.
Source: Compiled by BTMU Economic Research Office from MIC data.

2. Finance

(1) Monetary Policy

The Bank of Japan has established a new loan framework for its growth base support fund

At the June 13-14 Monetary Policy Board meeting, the Bank of Japan agreed to introduce a new framework for its funds supplying program to support growth areas (Table 4). Through the measure, the BoJ is providing funds at low interest rates to private financial institutions lending to or investing in 18 sectors, such as environment and energy businesses and medical, nursing care, and other health-related businesses. Total funding has almost hit the initial limit of JPY3 trillion at the end of May.

Table 4: Outline of Funds Supplying Framework
to Support Strengthening of Growth Base

	Existing framework	New framework
Funds supply method	New pooled collateral operations-type loans once every quarter	
Introduction period	Application period starts: end-Aug 2010 Loan application deadline: End-March 2012 (Limit reached May 2011)	Application period starts: Undetermined Loan application deadline: end-March 2012
Loan term	In principle, up to three refinancings per year (up to four years)	In principle, one refinancing every two years (up to four years)
Loan interest rate	0.10%	
Total loan amount	JPY3 trillion	JPY500 billion
Eligible loans and investments	Loans and investments of one year or longer JPY10 mn+ /loan	Investments and loans with equity-like features, and "asset-based lending(no term limit) JPY1 mn+ /loan
Maximum lending for each financial institution	JPY150.0 billion	JPY50.0 billion

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

The new limits only apply to capital injections (investments or loans for capital injection) and asset backed loans (ABL). They exclude ordinary loans such as those with mortgage collateral or personal guarantees because the BoJ has determined that financial institutions' expanding financial instruments could contribute to further strengthening the foundations for growth. Another reason is that a simple increase in limit could encourage competition in cutting lending rates. Further, the BoJ has changed the lower limit for investments and loans eligible to JPY1 million from the previous JPY10 million. This is because the BoJ intends to bolster investments and loans to SMEs and venture companies without sufficient land or other assets.

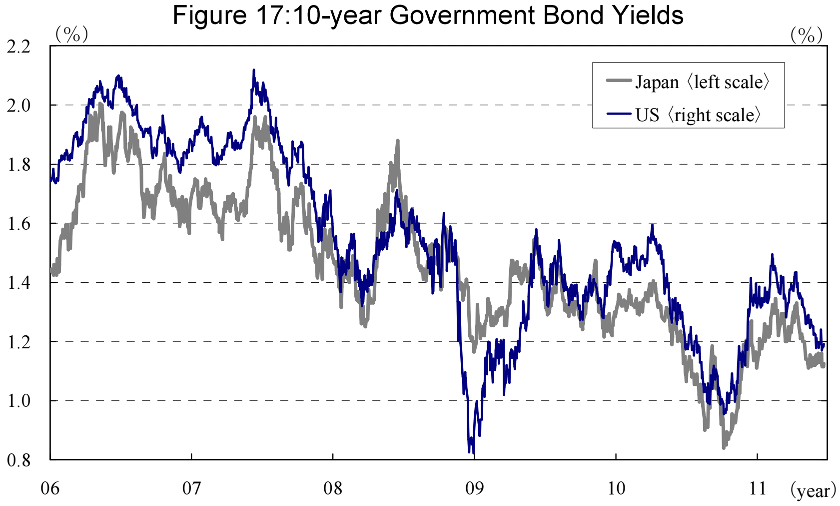
At an interview following the June meeting, BoJ Governor Shirakawa said that funding demand for earthquake reconstruction will probably not appear for some time, and the BoJ will consider other measures then.

(2) Long-term Interest Rates

Long-term interest rates appear to have stopped falling, even while in YTD low range

The newly-issued 10Yr JGB yield has traded in the 1.1% range since mid-May, the lowest range so far this year (Figure 17). The JGB benchmark yield is being held down by slowing economic recoveries overseas, especially in the US. However, compared to the recent downward trend of 10Yr US Treasury yields, Japan's 10Yr yield appears to be supported. We think this is because of the impact of the deep uncertainties concerning Japan's fiscal conditions, including political confusion and the lack of clear plans to enact a special public bond law, as well as little information about a clear scale of bond issuance in the wake of the March 11 earthquake.

Figure 17:10-year Government Bond Yields



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

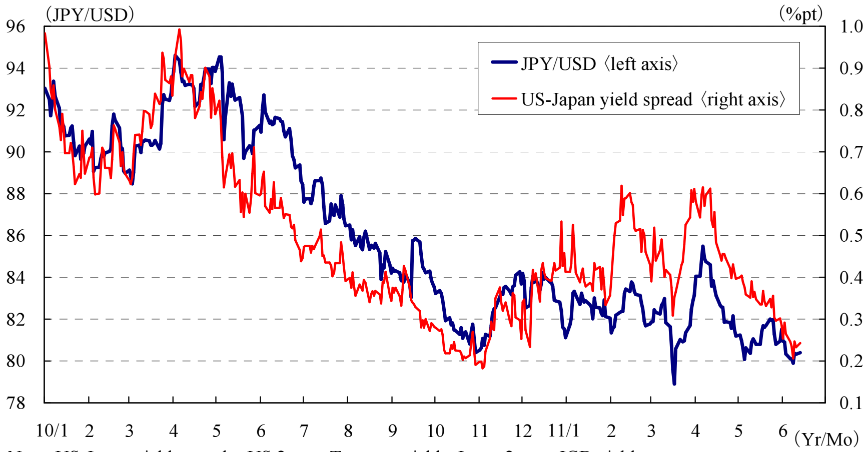
US rating agency Moody's announced on May 31 that it was downgrading the Japanese sovereign bond rating. However, the reaction from the market was muted. Not only had S&P already downgraded Japan's rating in January, but Moody's reasoning for the downgrade (the *weak policy response* to the effects of the March 11 natural disaster and cutting the fiscal deficit) appears to have already been fully factored in by the markets.

(3) Exchange Rates

JPY strengthens, hitting JPY/USD70 range

JPY-strengthening and USD-weakening pressures continue to mount, and the JPY has recently traded in the JPY/USD80-81 range, hitting the JPY/USD70 sphere (Figure 18). This was because of growing caution regarding the outlook for the US economy, triggered by May's ISM Manufacturing Index and weak employment data. The JPY/USD exchange rate and the US-Japan 2Yr yield spread (2Yr Treasury yield - 2Yr JGB yield), which are highly correlated, widened to the 60bps range in April, when speculation about a near-term interest rate hike in the US emerged. However, the spread has since narrowed to the 20bps range, the narrowest since last December.

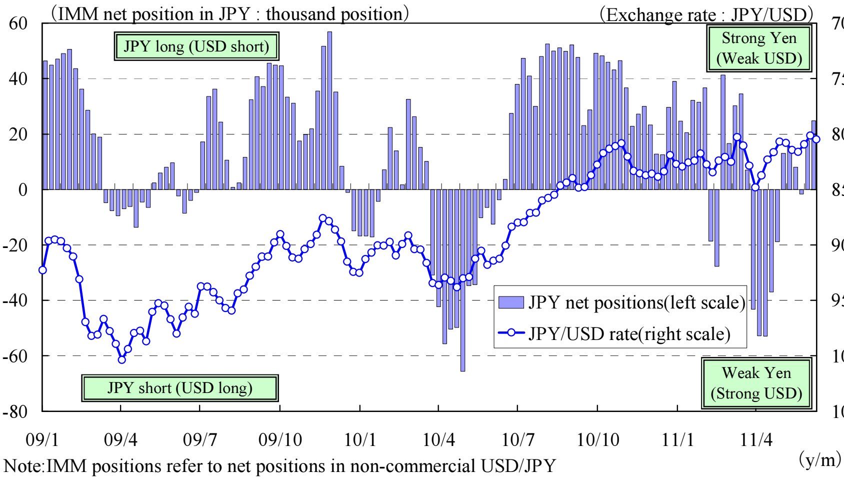
Figure 18:JPY/USD Exchange Rate and US-Japan Yield Spread



Note: US-Japan yield spread = US 2-year Treasury yield - Japan 2-year JGB yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

Also, futures positions, which strongly impact the direction of exchange rates over the relative short term, stood at approximately 25,000 JPY net buying contracts on June 14 (non-commercial dealers). (The exchange rate that day stood at JPY/USD80.51.) Net JPY buying positions has hit as much as 50,000 at peak times, so we think there is room for further JPY strengthening over the near term (Figure 19). However, we think that the softening in US economic indicators is a temporary phenomenon, and there is little likelihood the FRB will embark on substantial additional monetary easing (Note 1). Therefore, although it is possible the JPY could further strengthen over the near term, we do not think the JPY will become a fixture in the JPY/USD70 range.

Figure 19:Net IMM Position in JPY



Note:IMM positions refer to net positions in non-commercial USD/JPY
Source: Compiled by BTMU Economic Research Office based on data from CFTC, Bloomberg

(Note 1) For details on the US economy, please see our *Economic Monthly-US*.

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MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Jun 24, 2011

	Fiscal	Fiscal	2010		2011	2011				
	2009	2010	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from	-2.4	2.3	3.6	-2.9	-3.5	***	***	***	***	***
previous period at SA annual rate>			(5.0)	(2.2)	(-1.0)					
Index of All Industries Activity	-4.2	2.0	0.7	-0.2	-1.9	-0.5	0.9	-6.4	1.5	
			(3.2)	(2.1)	(-0.5)	(1.4)	(2.0)	(-4.5)	(-4.1)	
Industrial Production Index	-8.8	8.9	-1.0	-0.1	-2.0	0.0	1.8	-15.5	1.6	
Production			(14.0)	(5.9)	(-2.5)	(4.6)	(2.9)	(-13.1)	(-13.6)	
Shipments	-8.3	9.3	-0.8	-0.3	-1.9	-0.8	3.3	-14.6	-2.6	
			(14.4)	(6.4)	(-2.6)	(3.2)	(3.6)	(-12.1)	(-16.1)	
Inventory	-6.1	3.5	0.4	-0.6	1.0	3.9	1.5	-4.2	0.5	
			(3.5)	(3.8)	(3.5)	(7.0)	(6.9)	(3.5)	(3.3)	
Inventory/Shipments Ratio	120.4	108.2	108.7	111.0	106.9	107.9	104.3	108.6	124.8	
(2005=100)			[124.3]	[114.7]	[106.3]	[108.0]	[107.4]	[103.4]	[105.0]	[107.5]
Domestic Corporate Goods Price Index	-5.2	0.7	-0.3	0.4	1.1	0.5	0.2	0.6	0.9	-0.1
			(-0.2)	(1.0)	(1.7)	(1.5)	(1.7)	(2.0)	(2.5)	(2.2)
Consumer Price Index(SA, total, excl.fresh foods)	-1.6	-0.8	-0.2	0.3	-0.3	0.0	0.0	0.2	0.2	
			(-1.0)	(-0.5)	(-0.2)	(-0.2)	(-0.3)	(-0.1)	(0.6)	
Index of Capacity Utilization	80.0	88.0	88.4	88.4	86.1	91.1	93.7	73.6	72.8	
(2005=100)			[77.0]	[81.8]	[89.5]	[88.7]	[89.7]	[90.1]	[90.0]	[90.5]
Machinery Orders(Private Demand,	-20.4	9.1	5.6	-4.3	5.6	4.0	1.7	1.0	-3.3	
Excl.Electric Power and Ship building)			(13.9)	(5.6)	(8.9)	(5.6)	(11.5)	(9.1)	(-0.2)	
Manufacturing	-27.9	18.3	13.2	-1.7	5.3	3.8	3.1	-0.8	-2.7	
			(34.4)	(11.5)	(16.3)	(11.2)	(18.0)	(18.3)	(7.4)	
Non-manufacturing	-14.7	2.7	2.5	-5.1	1.4	4.8	1.6	0.1	2.9	
Excl.Electric Power & Ship building			(2.3)	(0.3)	(3.5)	(0.9)	(6.5)	(3.1)	(-5.2)	
Shipments of Capital Goods	-24.2	21.3	4.1	1.2	-2.4	-3.0	8.2	-13.9	8.0	
(Excl.Transport Equipment)			(30.8)	(23.9)	(6.6)	(16.4)	(12.9)	(-3.1)	(1.9)	
Construction Orders	-14.2	-5.2								
			(-8.0)	(2.0)	(-4.9)	(-10.7)	(19.5)	(-11.0)	(31.4)	
Private	-15.3	-2.6								
			(-9.4)	(4.8)	(1.5)	(-10.2)	(21.8)	(-1.4)	(33.5)	
Public	-11.1	-12.1								
			(-6.2)	(-3.6)	(-20.1)	(-12.5)	(-4.7)	(-28.2)	(31.0)	
Public Works Contracts	4.9	-8.8								
			(-12.6)	(-14.8)	(-3.2)	(-9.9)	(4.2)	(-3.5)	(-11.2)	(-14.1)
Housing Starts	77.6	81.9	81.5	84.3	84.2	84.7	87.2	80.7	79.8	
10,000 units at Annual Rate, SA	(-25.4)	(5.6)	(13.8)	(6.9)	(3.2)	(2.7)	(10.1)	(-2.4)	(0.3)	
Total floor	(-21.5)	(9.0)	(15.1)	(11.0)	(6.0)	(7.3)	(12.0)	(-0.5)	(1.1)	
Sales at Retailers	-0.4	0.8								
			(3.2)	(-0.4)	(-3.0)	(0.1)	(0.1)	(-8.3)	(-4.8)	
Real Consumption Expenditures	1.0	-1.0	1.2	-1.5	-2.4	1.0	-0.2	-2.3	0.2	
of Households over 2 persons (SA)			(0.6)	(2.0)	(2.0)	(-1.0)	(-0.2)	(-8.5)	(-3.0)	
Propensity to Consume	74.7	73.4	75.2	74.5	71.8	74.1	71.5	72.3	72.9	
(SA,%)			[74.2]	[74.8]	[74.1]	[72.6]	[72.9]	[78.0]	[72.7]	[72.9]
Overtime Hours Worked	-8.5	6.8	0.2	-0.6	1.2	1.3	0.6	-3.4	-1.8	
(All Industries, 5 employees or more)			(9.6)	(5.7)	(1.7)	(3.2)	(3.0)	(-1.0)	(-3.9)	
Total Cash Earnings (Regular Employees	-3.3	0.6								
Only; All Industries, 5 employees or more)			(0.9)	(0.2)	(0.1)	(0.4)	(0.3)	(-0.1)	(-1.4)	
Employment Index(Regular Employees Only;'All Industries,	-77894.3	23384.5	21463.6	28037.5	33848.2	32797.3	32772.3	35975.0	28654.1	
5 employees or more) (Change over the M/Q/Y)			[-106,546.5]	[-109,742.7]	[1,682.9]	[-6,870.6]	[5,834.7]	[6,084.6]	[3,912.2]	[15,832.6]
Ratio of Job Offers to Applicants	0.45	0.56	0.54	0.57	0.62	0.61	0.62	0.63	0.61	
(SA,Times)			[0.43]	[0.44]	[0.47]	[0.46]	[0.47]	[0.48]	[0.48]	[0.50]
Unemployment Rate	5.2	5.0	5.1	4.8	4.7	4.9	4.6	4.6	4.8	
(SA,%)			[5.4]	[5.3]	[5.0]	[5.1]	[5.0]	[5.1]	[5.1]	[5.1]
Economy Watcher Survey	39.9	44.2	45.4	43.0	40.1	44.3	48.4	27.7	28.3	36.0
(Judgment of the present condition D.I,%)			[42.4]	[36.7]	[42.8]	[38.8]	[42.1]	[47.4]	[49.8]	[47.7]
Bankruptcies (Number of cases)	14,732	13,065	3,232	3,299	3,211	1,041	987	1,183	1,076	1,071
	(-8.7)	(-11.3)	(-14.5)	(-6.5)	(-7.3)	(-2.0)	(-9.4)	(-9.9)	(-6.7)	(4.8)

(Notes)
Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.
The figures in ( ) indicate % changes from previous year.
[ ] show the comparable figure of the previous year.

２. Balance of Payments

As of Jun 23, 2011

	Fiscal 2009	Fiscal 2010	2010 3Q	2010 4Q	2011 1Q	2011 JAN	FEB	MAR	APR	MAY
Customs Clearance(Exports in Yen Terms)	-17.1	14.9	(17.8)	(10.0)	(2.5)	(1.4)	(9.0)	(-2.3)	(-12.4)	(-10.3)
Value	-7.0	0.2	(-0.7)	(1.2)	(-0.0)	(-0.9)	(-0.2)	(1.0)	(-0.9)	(0.5)
Volumes	-9.9	14.6	(18.6)	(8.6)	(2.4)	(2.3)	(9.2)	(-3.3)	(-11.6)	(-10.8)
Imports(In Yen terms)	-25.2	16.0	(14.9)	(11.3)	(11.4)	(12.2)	(10.0)	(12.0)	(9.0)	(12.3)
Value	-18.4	3.3	(0.4)	(1.6)	(4.0)	(0.9)	(4.9)	(6.2)	(7.5)	(6.5)
Volumes	-7.3	12.4	(14.5)	(9.6)	(7.2)	(11.2)	(4.9)	(5.5)	(1.3)	(5.5)
Current Balance(100 mil. yen)	157,817	159,209	48,791	36,482	37,820	4,619	16,410	16,791	4,056	
Trade Balance(100 mil. yen)	65,996	65,069	19,787	19,233	5,691	-3,945	7,233	2,403	-4,175	
Services(100 mil. yen)	-18,185	-12,678	-2,756	-3,984	-719	-893	-369	543	-4,213	
Capital and Financial Accounts(100 mil. yen)	-123,113	-100,277	-36,631	-10,192	-37,357	-16,930	-10,113	-10,314	11,466	
Gold & Foreign Exchange Reserves($1mil.)	1,042,715	1,116,025	1,109,591	1,096,185	1,116,025	1,092,980	1,091,485	1,116,025	1,135,549	1,139,524
Exchange Rate(\/$)	92.80	85.69	85.86	82.59	82.32	82.63	82.53	81.79	83.35	81.23

３. Financial Market Indicators

		Fiscal 2009	Fiscal 2010	2010 3Q	2010 4Q	2011 1Q	2011 JAN	FEB	MAR	APR	MAY
Uncollateralized Overnight Call Rates		0.102	0.091	0.093	0.090	0.088	0.085	0.093	0.085	0.062	0.069
				[0.103]	[0.104]	[0.098]	[0.096]	[0.101]	[0.097]	[0.093]	[0.091]
Euro Yen TIBOR		0.516	0.356	0.364	0.336	0.336	0.335	0.335	0.336	0.333	0.332
(3 Months)				[0.543]	[0.498]	[0.443]	[0.452]	[0.442]	[0.434]	[0.396]	[0.388]
Newly Issued Japanese Government Bonds Yields		1.353	1.127	0.987	1.072	1.242	1.215	1.255	1.255	1.200	1.150
(10 Years)				[1.338]	[1.317]	[1.337]	[1.315]	[1.300]	[1.395]	[1.280]	[1.260]
Average Contracted Interest Rates		1.449	1.357								
on Loans and Discounts(City Banks)				1.392	1.382	1.357	1.377	1.371	1.357	1.359	
(% changes from previous period)				(-0.028)	(-0.010)	(-0.025)	(-0.005)	(-0.006)	(-0.014)	(0.002)	
The Nikkei Stock Average		11,090	9,755	9,369	10,229	9,755	10,238	10,624	9,755	9,850	9,694
(TSE 225 Issues)				[10,133]	[10,546]	[11,090]	[10,198]	[10,126]	[11,090]	[11,057]	[9,769]
M2(Average)		(2.9)	(2.7)	(2.8)	(2.6)	(2.4)	(2.3)	(2.4)	(2.6)	(2.7)	(2.7)
Broadly-defined Liquidity(Average)		(0.8)	(0.5)	(0.5)	(0.1)	(-0.1)	(-0.2)	(-0.1)	(-0.1)	(-0.3)	(-0.5)
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(0.8)	(-1.9)	(-1.8)	(-2.0)	(-1.8)	(-1.8)	(-1.9)	(-1.7)	(-0.9)	(-0.7)
	Banks	(0.8)	(-2.0)	(-1.9)	(-2.1)	(-1.9)	(-1.9)	(-2.0)	(-1.8)	(-1.0)	(-0.8)
	City Banks etc.	(-0.4)	(-4.2)	(-3.8)	(-4.6)	(-4.6)	(-4.5)	(-4.6)	(-4.6)	(-3.1)	(-2.7)
	Regional Banks	(2.4)	(0.6)	(0.4)	(0.9)	(1.2)	(1.1)	(1.2)	(1.2)	(1.4)	(1.4)
	Regional Banks Ⅱ	(1.3)	(-0.4)	(-0.7)	(-0.5)	(-0.0)	(-0.4)	(-0.5)	(0.8)	(0.7)	(0.7)
	Shinkin	(0.8)	(-1.3)	(-1.4)	(-1.3)	(-1.1)	(-1.1)	(-1.1)	(-1.0)	(-0.6)	(-0.5)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.9)	(2.6)	(2.7)	(2.7)	(2.2)	(2.0)	(2.0)	(2.6)	(2.7)	(2.6)
	City Banks	(3.0)	(2.6)	(2.9)	(3.0)	(1.8)	(1.5)	(1.4)	(2.6)	(2.5)	(2.1)
	Regional Banks	(3.1)	(3.1)	(3.1)	(3.0)	(3.1)	(3.1)	(3.3)	(2.9)	(3.0)	(3.4)
	Regional Banks Ⅱ	(1.8)	(0.6)	(0.4)	(0.1)	(0.9)	(0.2)	(0.5)	(1.9)	(1.9)	(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.