

The Outlook for the Japanese Economy

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

Likely to Pull Out of Lull Soon, Return to Improvement Track

1. The Real Economy

(1) Overview of the Economy

Negative GDP growth again after four quarters in Oct-Dec Japan's economy entered a short lull from last fall. Real GDP growth in Oct-Dec fell at an annualized rate of -1.1%, the first contraction in five quarters. The drop was propelled by exports starting to decline as overseas economies slowed and on adjustments of electronic parts inventories around the world, as well as weak private consumption due to the hike in cigarette prices and the end of the government's Ecocar subsidy plan. Also, a plunge in public works spending impacted GDP growth as the economic stimulus measures ended.

However, the end of the economic lull is becoming clearer. Exports have bottomed and production has started to improve since November. Also, household sentiment is starting to show signs of optimism, with the consumer sentiment index beginning to rise again after six months in January.

Table 1 : Main Economic Indicators

(percent changes from previous quarter or month)

| | 2010/4-6 | 7-9 | 10-12 | 2010/10 | 11 | 12 | 2011/1 |
|---|----------|-------|-------|---------|-------|-------|--------|
| Nominal GDP Growth Rate (annualized; q/q) | ▲ 2.4 | 2.3 | ▲ 2.5 | - | - | - | - |
| Real GDP Growth Rate (annualized; q/q) | 2.1 | 3.3 | ▲ 1.1 | - | - | - | - |
| Index of Business Conditions (coincident index) | 102.1 | 102.7 | 102.2 | 100.7 | 102.4 | 103.5 | |
| Index of Business Conditions (leading index) | 100.6 | 99.5 | 99.9 | 97.7 | 100.6 | 101.4 | |
| Industrial Production | 1.5 | ▲ 1.8 | ▲ 1.6 | ▲ 2.0 | 1.0 | 3.3 | |
| Machinery Orders (private, excl. shipping and electric power) | 0.3 | 9.6 | ▲ 6.9 | ▲ 1.4 | ▲ 3.0 | 1.7 | |
| Shipments of Capital Goods (excl. transport equipment) | 7.4 | 1.8 | 1.2 | 2.8 | ▲ 1.4 | ▲ 0.7 | |
| Number of Employees (nonagricultural industries) | ▲ 0.3 | 0.3 | 0.3 | 0.6 | 0.0 | 0.2 | |
| Nominal Cash Earnings (5 or more workers) | 1.3 | 0.9 | 0.2 | 0.5 | 0.2 | 0.1 | |
| Unemployment Rate (SA,%) | 5.2 | 5.1 | 5.0 | 5.1 | 5.1 | 4.9 | |
| Aggregated Consumption Index (SA) | 0.1 | 1.1 | ▲ 1.2 | ▲ 1.9 | 1.8 | ▲ 0.8 | |
| Consumer Confidence (general households, q/q) | ▲ 0.4 | ▲ 0.8 | 0.7 | ▲ 0.3 | ▲ 0.5 | ▲ 0.3 | 1.0 |
| Exports Volume | 6.7 | ▲ 2.6 | ▲ 1.7 | ▲ 2.6 | 1.5 | 3.3 | ▲ 2.9 |
| Imports Volume | 3.5 | 2.6 | ▲ 0.9 | ▲ 2.4 | 4.9 | ▲ 3.0 | 5.6 |
| Consumer Prices (excl. fresh food) | ▲ 1.2 | ▲ 1.0 | ▲ 0.5 | ▲ 0.6 | ▲ 0.5 | ▲ 0.4 | |

Notes: 1. Results for the number of employees, total cash earnings and domestic corporate goods prices are % changes from previous year.

2. Quarterly data for Index of business conditions are results for the end of each quarter.

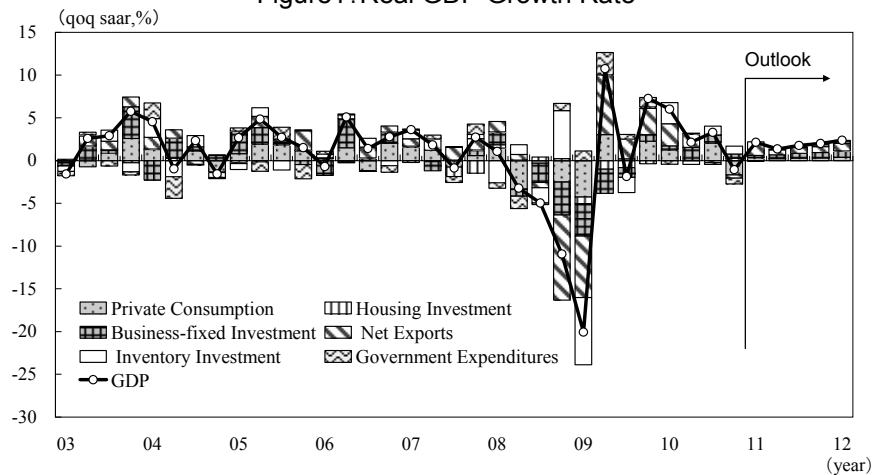
Sources: Compiled by the Research Office, Bank of Tokyo-Mitsubishi UFJ based on Cabinet Office *National Accounts*, *Orders Received for Machinery*, *Consumer Confidence Survey*; METI *Industrial Production*; MOF *Trade Statistics*; Ministry of Health, Labour and Welfare *Monthly Labor Statistics*, Ministry of Internal Affairs and Communications *Consumer Price Index*, *Labour Force Survey*

(2) Outlook

Shift to self-sustaining recovery, however gradual, in H2 FY11

Japan's economy is very likely to emerge from its lull and once again start to recover soon. The reactionary drop in automobile and cigarette sales is winding down, and real GDP growth is expected to become positive again in Jan-Mar. Since the beginning of FY11, the sense of overcapacity in employment and facility has been gradually easing, with the continuing recovery in exports and production as tailwinds, and it appears the economy will shift to a self-sustaining recovery phase, however gradual, in the second half. We forecast that real GDP growth will rise 3.0% YoY in FY10 and 1.5% YoY in FY11 (Figure 1).

Figure1: Real GDP Growth Rate



Source: Compiled by BTMU Economic Research Office, based on Cabinet Office "National Accounting"

Deflation projected to end in FY12 or later

Although prices are declining at a slower pace, we project that the downward trend will continue because of the persisting deflationary gap. We think consumer prices (excluding fresh foods) will start to rise in FY12 or later. We think more time is probably needed before the inflation rate can be expected to hit the Bank of Japan's precondition level ('around 1%' YoY) to lift the zero interest rate policy, as explained in the central bank's understanding of price stability. The BoJ will likely hold its target level for the policy rate at the current 0-0.1% for a considerably long time.

(1) Corporate Sector

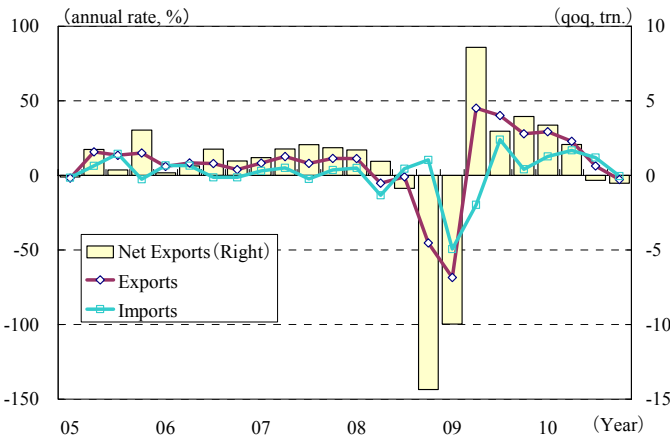
② Exports, Production

Decline in Oct-Dec exports a temporary drop

Exports (in terms of real GDP) declined at an annualized rate of -2.8% in Oct-Dec, falling from Jul-Sept (annualized +6.3%) and the first drop in seven quarters (Figure 2). By destination, although exports to the Asia region and US

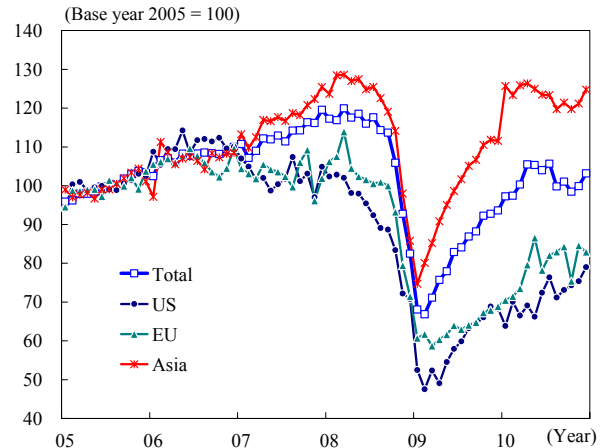
slowly improved, October shipments to the EU—where sovereign debt problems festered—were weak, bringing down exports as a whole (Figure 3). However, in monthly terms, an improving trend emerged more clearly through December.

Figure 2: Real Imports and Exports for Goods and Services



Source: Compiled by BTMU Economic Research Office based on Cabinet Office, National Accounting

Figure 3: Export Volume by Destination Region

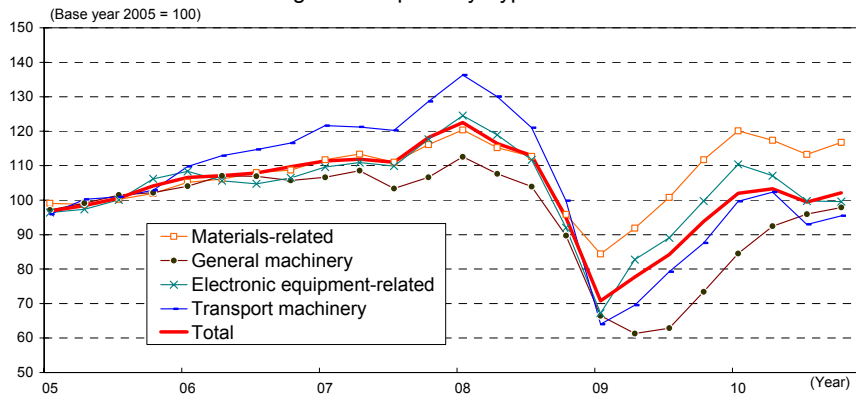


Source: Compiled by BTMU Economic Research Office based on Cabinet Office, Export Volume Index.

Improvements in shipments of even individual goods growing clearer

According to the Ministry of Finance's *Trade Statistics*, shipments of materials-related, transport equipment, and electronics-related goods—which had all been declining—improved (Figure 4). Shipments of general machinery and materials-related goods to Asia, which have been increasing, have been supported by the recovering economies in that region, and exports of plastic products and motors rose.

Figure 4: Exports by Type of Goods

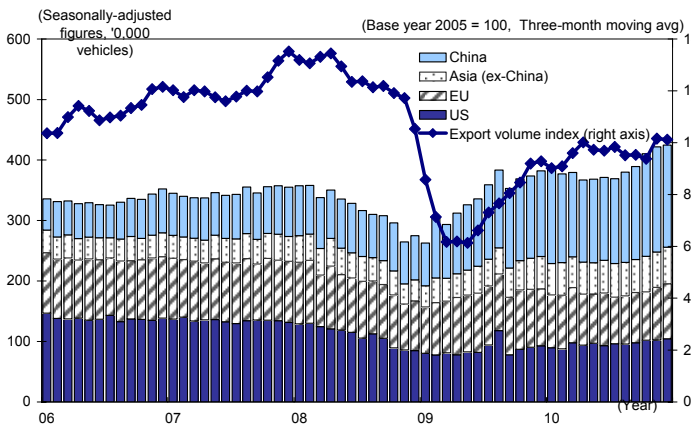


Notes: Adjusted for seasonality by BTMU Economic Research Office.
 Real exports = Export value ÷ Export prices; *Electronic equipment related* is electronic equipment and precision machinery.
Materials-related is fibers, non-metallic minerals, chemicals, and metals and metal products.
 Source: Compiled by BTMU Economic Research Office from Ministry of Finance *Trade Statistics*.

Exports of transport equipment rose, driven by recovering automobile sales in the US. Figure 5 shows vehicle sales by major export destination. The US

has been improving strongly and the Asia region also grew (Figure 5), and these supported exports of transport machinery. The recovery in exports has been gradual compared to the pace of growth for vehicles sold, and this appears to be because the share of Japanese autos in Asian countries—including China, which is currently motorizing—is lower than their share in US (Table 2). It appears that current exports of transport equipment exports are being supported more by the recovery in the US automobile market.

Figure 5: Automobile Sales by Major Destination



Note: Adjusted for seasonality by BTMU Economic Research Office. Asia includes South Korea, Taiwan, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
 Source: Compiled by BTMU Economic Research Office from Bloomberg and CEIC materials and Ministry of Finance Trade Statistics.

Figure 12: Share of Japanese Vehicles in US, China Automobile Markets

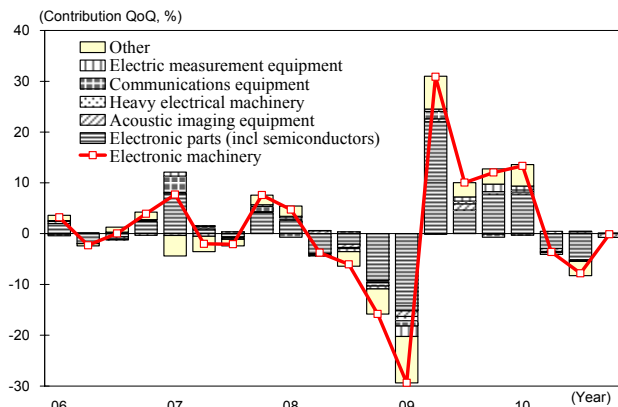
(*'0,000 vehicles, %)

| | 2010 US | China |
|------------------|---------|--------|
| Japn manufacture | 448 | 268 |
| Share | (38.8) | (19.5) |
| European manufac | 98.5 | 236.5 |
| Share | (8.5) | (17.2) |
| Domestic manufac | 520 | 628 |
| Share | (45.0) | (45.7) |

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

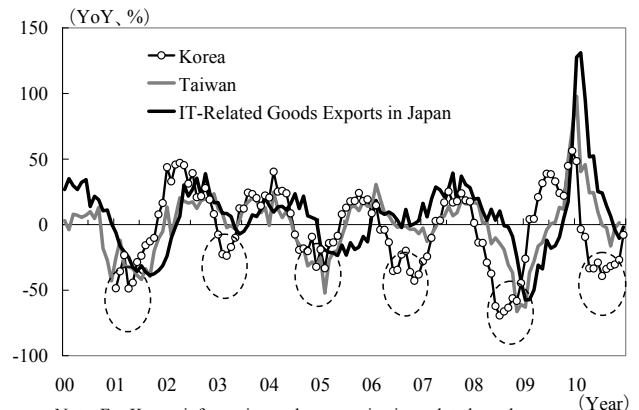
Electronics-related exports have shown signs of bottoming as shipments of electronic parts to Asia, especially China, have started to rise (Figure 6). The silicon cycle, which has a big impact on exports of Japanese electronic parts, is starting to get better after bottoming, as shown by the improving shipment-inventory balances for South Korean and Taiwanese IT-related equipment. The upward path of the silicon cycle will also likely be a tailwind for Japanese exports through the latter half of FY11 (Figure 7).

Figure 6: Real Exports of Asian Electronic Equipment



Note: Adjusted for seasonality by BTMU Economic Research Office. Real exports = Export value + Export prices.
 Source: Compiled by BTMU Economic Research Office from Ministry of Finance Trade Statistics.

Figure 7: Shipment-Inventory Balance of IT Goods



Note: For Korea, information and communication-related goods;

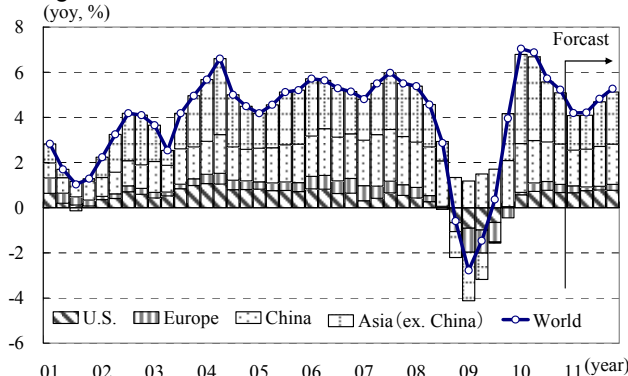
For Taiwan, computers, communication equipment, AV equipment, and electronic parts

Source: Compiled by BTMU Economic Research Office, based on CEIC

Exports to re-accelerate as overseas economies improve

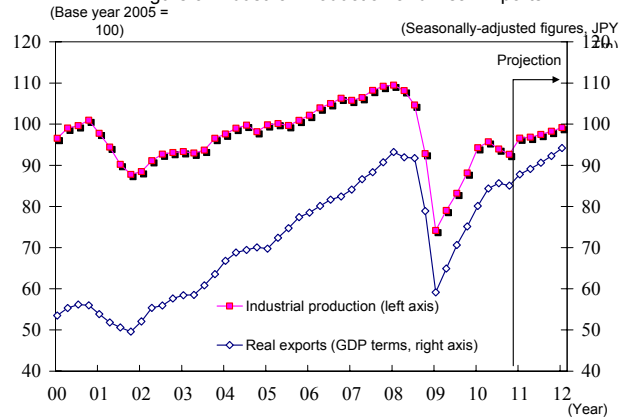
In addition, the economies of major export destinations are anticipated to re-accelerate (Figure 8). Because Asian economies in particular are expected to continue to outpace advanced economies, this will likely support strong export growth to Asia, especially China. Further, we think that the recovery in consumption in the US will contribute to export growth. European countries are likely to become more fiscally austere because of the sovereign debt problems; this situation bears continued watching. Exports are likely to start improving going forward as the economies of main destination countries, especially in Asia and the US, recover (Figure 9).

Figure 8: GDP Growth Rate for Main Destinations



Note: GDP growth rate for Japan's main export destinations is the weighted average of the GDP growth rates for main destinations: U.S., Eurozone, U.K., China, NIEs, ASEAN4 and India, based on the value of Exports to the countries.
Source: Compiled by BTMU Economic Research Office, based on Cabinet Office National Accounting; Ministry of Finance, Trade Statistics, etc.

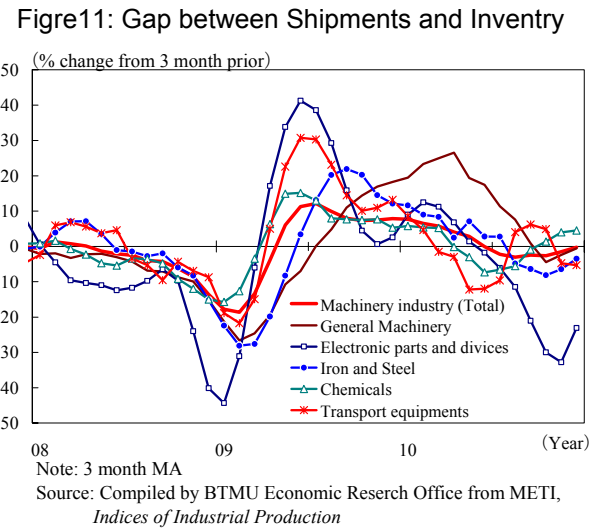
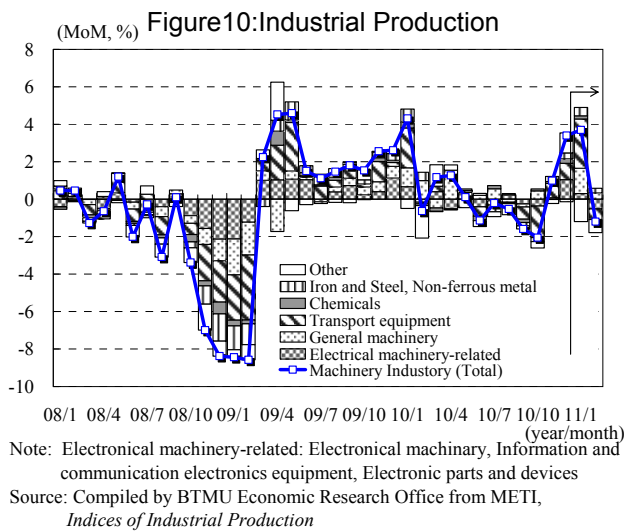
Figure 9: Industrial Production and Real Exports



Source: Compiled by BTMU Economic Research Office from Cabinet Office System of National Accounts and METI Indices of Industrial Production.

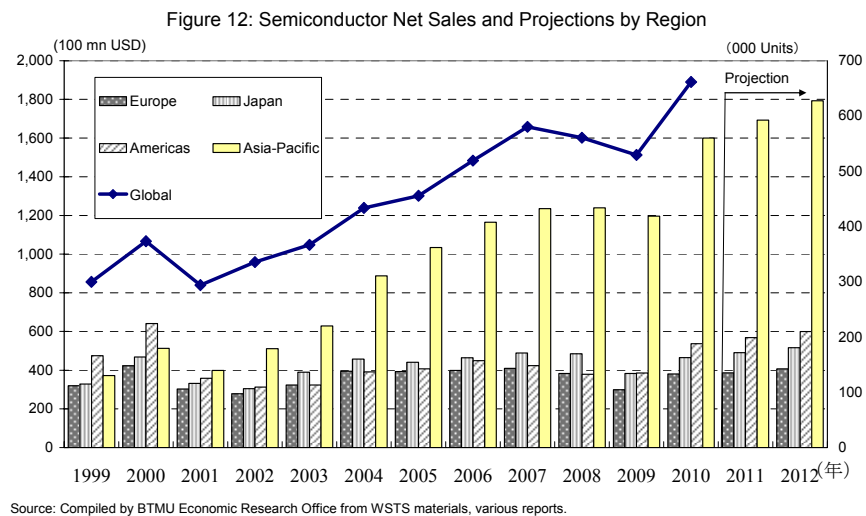
Production has started to recover

Production, driven by solid external demand, has started to recover (Figure 10). Oct-Dec quarterly production fell -1.6% QoQ, but output of transport equipment and electronics-related goods, which had dropped in October, rose, and production increased in November and December. The shipment-inventory balance indicates that inventories of electronic parts and devices and transport equipment, which had been a weight, are being adjusted (Figure 11). Although there had been concerns about a buildup in automobile inventories because the effects of the Ecar purchase subsidies have worn off, this has been avoided because of prior adjustments to production and inventories as well as improving external demand. Furthermore, as Asia motorizes and the car recall issue in the US abates, we anticipate that automobile production will continue to increase, driven by external demand.



Production drives exports and is expected to recover

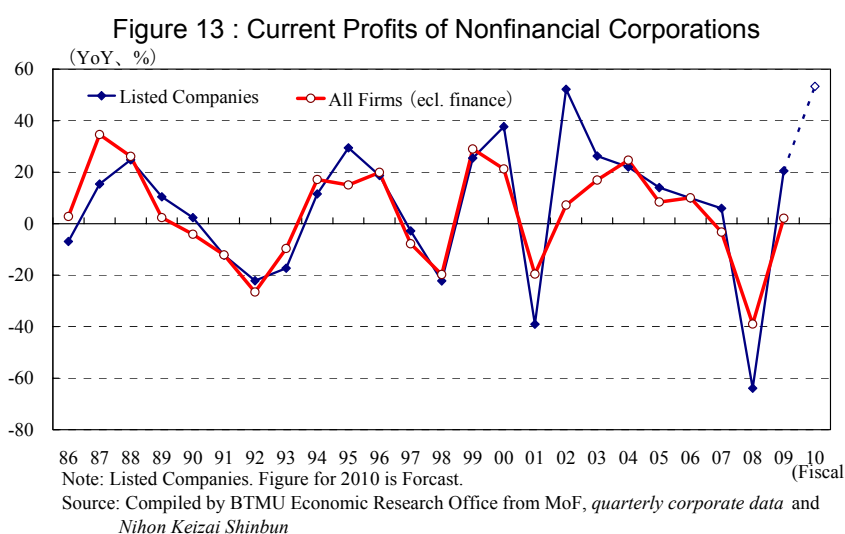
Meanwhile, inventory levels of electronic parts and devices have remained high because of falling demand for semiconductors worldwide causing shipments to drop. However, semiconductor demand recovered globally in December (Figure 12), and the shipment-inventory balance has improved. We therefore think that inventories accumulations will be worked through. However, production of electronic parts and devices, which is driven by semiconductors, will likely take some time to improve, until inventories are drawn down. The increasing popularity of smartphones is also boosting demand for semiconductors, so electronic parts and devices output is likely to rise. In short, we think that production will gradually recover going forward, driven by an improvement in exports, especially of transport equipment and semiconductors.



② Capital Expenditures

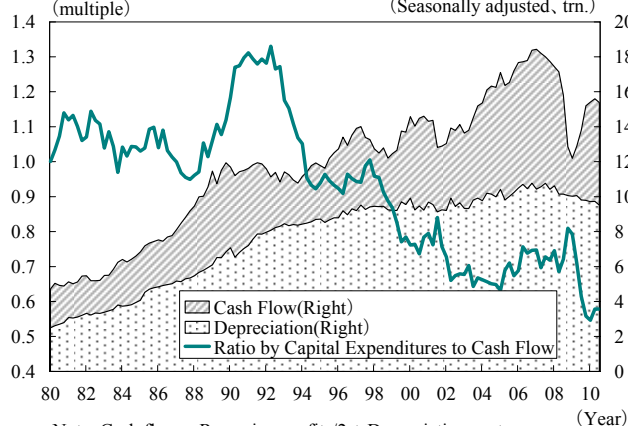
Corporate earnings recovering, but capital expenditures continue to slow

While capital expenditures (in terms of GDP) rose at an annualized pace of +3.7% in Oct-Dec, this was a slowdown from the pace in Jul-Sept (+6.0% annualized). Corporate profits, which fund capital spending, have improved considerably on higher net sales and reduced costs. Listed companies reported recurring profits approximately 80% higher than year-earlier levels in Apr-Dec, and even FY10 full-year profits are projected to increase by approximately 50% YoY. Among corporations overall, Apr-Sept profits were strong, rising 68.8% YoY, and are expected to surge for the full year (Figure 13).



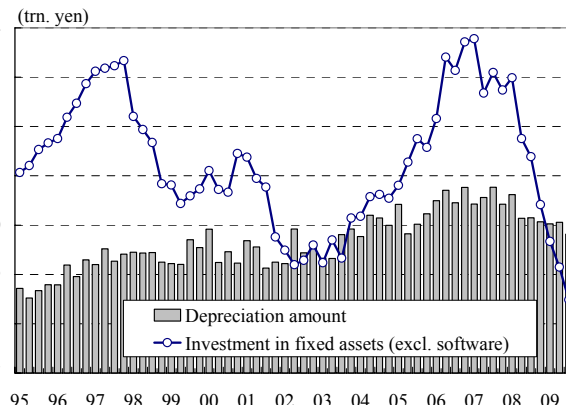
Although cash flow has been recovering with rising recurring profits, the capital expenditures-cash flow ratio, which shows how much cash flow is used to fund capital expenditures, continues to fall (Figure 14). This indicates that companies are refraining from making capital expenditures, and instead using cash flow to build up cash and deposits or to repay interest-bearing debt. Furthermore, this also suggests that the level of capital expenditures is falling below depreciation, and replacement investment is being limited (Figure 15). Even though capital expenditures have started to rise, spending remains at low levels.

Figure14: Ratio by Capital Expenditures to Cash Flow
(multiple) (Seasonally adjusted, trn.)



Note: Cash flow = Recurring profits/2 + Depreciation costs.
Source: Compiled by BTMU Economic Research Office from MoF, *Financial Statements Statistics of Corporations by Industry*

Figure15: Capital Expenditures and Depreciation
(trn. yen)

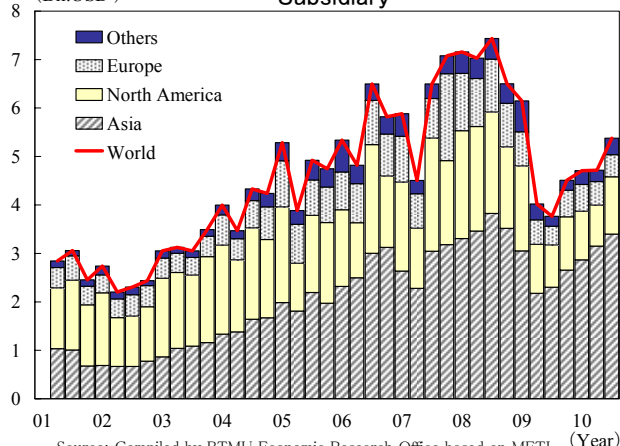


(Note) Seasonally adjusted by the BTMU Economic Research Office. (Year)
(Source) Compiled by BTMU Economic Research Office based on MoF, *Financial Statements Statistics of Corporations by Industry*

To continue trading water for some time

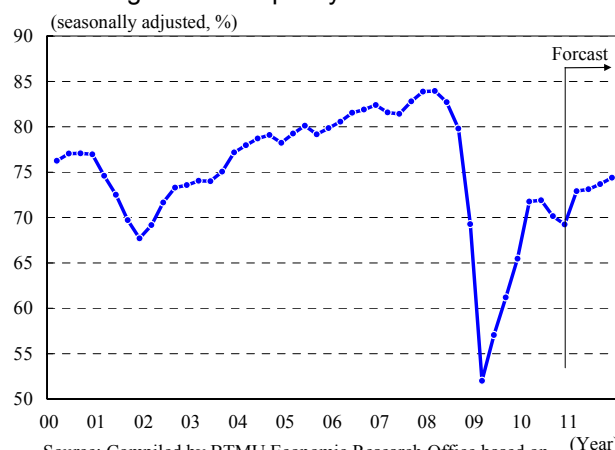
Meanwhile, overseas capital expenditures, which are not included in GDP figures, are rising more strongly. By region, overseas local subsidiaries of Japanese companies are spending more for capital expenditures in Asia, especially China and the ASEAN region (Figure 16). Although capital spending domestically will be slow in H1 2011 due to little sense of over-capacity (Figure 17), we expect growth to gradually rise from mid-year as capacity utilization rates increase as production recovers and cash flows accumulate.

Figure 16: Fixed Investment by Overseas Subsidiary
(Bil.USD)



Source: Compiled by BTMU Economic Research Office based on METI "Quarterly Survey of Overseas Subsidiaries"

Figure 17 : Capacity Utilization Ratio
(seasonally adjusted, %)



Source: Compiled by BTMU Economic Research Office based on METI, *Indices of Industrial Production*

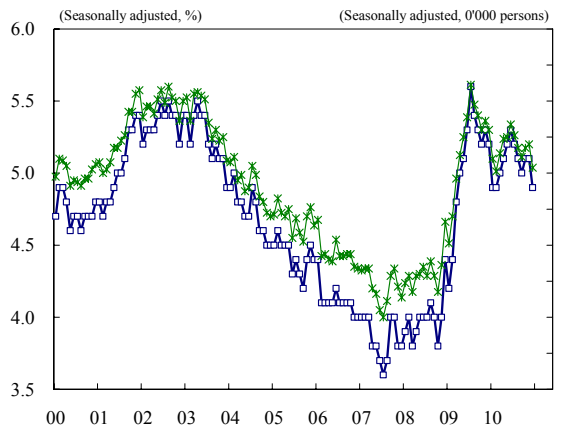
(2) Household Sector

① Employment, Income

Employment Bright spots in employment conditions have started to increase, despite the conditions showing recent strong sense that the improvement is stagnating, like the sustained signs of emerging from recovery lull

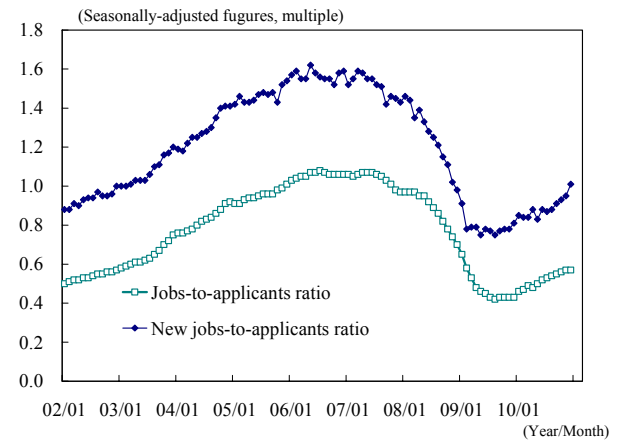
overall high unemployment rate. The jobs-to-applicants ratio has been rising, and the December unemployment rate (4.9%, -0.2 ppt MoM) dipped below 5% for the first time in ten months (Figures 18, 19).

Figure 18: Unemployment Rate and Number



Source: Compiled by BTMU Economic Research Office from MIC Labor Force Survey.

Figure 19: Jobs-to-Applicants Ratio



Source: Compiled by BTMU Economic Research Office from MHLW Employment Referrals for General Workers.

Although worker number figures remain at critical levels in the manufacturing and construction sectors, the figures have been supported by increases in the medical/welfare and education/learning support services categories and are firming (Table 3).

Table 3: Number of Employees

| | 2010/01 | 2010/02 | 2010/03 | 2010/04 | 2010/05 | 2010/06 | 2010/07 | 2010/08 | 2010/09 | 2010/10 | 2010/11 | 2010/12 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total (Non-farming) | | | | | | | | | | | | |
| YoY (%) | ▲ 0.7 | ▲ 0.6 | 0.4 | ▲ 0.2 | ▲ 0.4 | ▲ 0.2 | 0.1 | 0.0 | 0.7 | 0.6 | 0.0 | 0.2 |
| YoY (0'000 pesons) | ▲ 37.0 | ▲ 30.0 | 19.0 | ▲ 12.0 | ▲ 22.0 | ▲ 11.0 | 5.0 | 1.0 | 37.0 | 35.0 | 1.0 | 9.0 |
| Construction | | | | | | | | | | | | |
| YoY (0'000 pesons) | 4.0 | ▲ 13.0 | ▲ 29.0 | ▲ 11.0 | ▲ 20.0 | ▲ 21.0 | ▲ 15.0 | ▲ 28.0 | ▲ 8.0 | ▲ 19.0 | ▲ 30.0 | ▲ 21.0 |
| Manufacturing | | | | | | | | | | | | |
| YoY (0'000 pesons) | ▲ 61.0 | ▲ 42.0 | ▲ 25.0 | ▲ 25.0 | ▲ 24.0 | ▲ 8.0 | ▲ 8.0 | ▲ 6.0 | 6.0 | 6.0 | ▲ 12.0 | ▲ 29.0 |
| Information/Communication | | | | | | | | | | | | |
| YoY (0'000 pesons) | 1.0 | ▲ 5.0 | ▲ 3.0 | 6.0 | 16.0 | 16.0 | 3.0 | 1.0 | 10.0 | 5.0 | ▲ 3.0 | ▲ 9.0 |
| Transportation/Postal Service | | | | | | | | | | | | |
| YoY (0'000 pesons) | 2.0 | ▲ 5.0 | ▲ 19.0 | ▲ 12.0 | 8.0 | 9.0 | ▲ 4.0 | 3.0 | ▲ 1.0 | 2.0 | 24.0 | 22.0 |
| Wholesale/Retail Sale | | | | | | | | | | | | |
| YoY (0'000 pesons) | 3.0 | 4.0 | 19.0 | 18.0 | 1.0 | ▲ 16.0 | ▲ 10.0 | ▲ 5.0 | 3.0 | 15.0 | 28.0 | 24.0 |
| Finance/Insurance | | | | | | | | | | | | |
| YoY (0'000 pesons) | ▲ 6.0 | ▲ 5.0 | ▲ 9.0 | ▲ 11.0 | ▲ 4.0 | ▲ 3.0 | 7.0 | 13.0 | 2.0 | ▲ 6.0 | ▲ 5.0 | ▲ 9.0 |
| Real Estate | | | | | | | | | | | | |
| YoY (0'000 pesons) | ▲ 3.0 | 1.0 | 2.0 | 2.0 | ▲ 3.0 | ▲ 11.0 | ▲ 5.0 | 3.0 | 6.0 | 1.0 | 2.0 | 6.0 |
| Academic Research | | | | | | | | | | | | |
| YoY (0'000 pesons) | 2.0 | 9.0 | 12.0 | 6.0 | ▲ 4.0 | 4.0 | 13.0 | ▲ 2.0 | ▲ 8.0 | 2.0 | 8.0 | 13.0 |
| Accommodation/Food Service | | | | | | | | | | | | |
| YoY (0'000 pesons) | 1.0 | 13.0 | 21.0 | 0.0 | 10.0 | 9.0 | 5.0 | 4.0 | 10.0 | 13.0 | ▲ 1.0 | 12.0 |
| Life-related Service/Entertainment | | | | | | | | | | | | |
| YoY (0'000 pesons) | 5.0 | 0.0 | 5.0 | ▲ 1.0 | ▲ 4.0 | ▲ 1.0 | ▲ 1.0 | ▲ 2.0 | 0.0 | ▲ 12.0 | ▲ 6.0 | 7.0 |
| Education | | | | | | | | | | | | |
| YoY (0'000 pesons) | ▲ 6.0 | ▲ 14.0 | ▲ 6.0 | ▲ 8.0 | ▲ 15.0 | ▲ 5.0 | 3.0 | 13.0 | 6.0 | 3.0 | 11.0 | 16.0 |
| Medical/Welfare Service | | | | | | | | | | | | |
| YoY (0'000 pesons) | 33.0 | 43.0 | 52.0 | 31.0 | 40.0 | 24.0 | 11.0 | 23.0 | 38.0 | 41.0 | 33.0 | 11.0 |

Source: Compiled by BTMU Economic Research Office from MIC Labor Force Survey

Although employment conditions still seem to be stagnant, we think that an improvement will become clearer in H2 FY11. In addition to the introduction and expansion of employment support measures by the government (Table 4) and projected continued strength in the medical/welfare sectors, worker adjustments in the manufacturing sector will wind down and are also expected to contribute to an improvement in employment conditions.

Table 4: Employment Measures

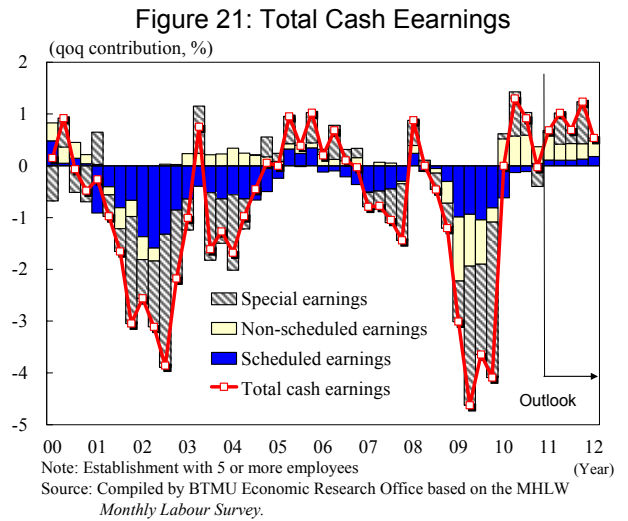
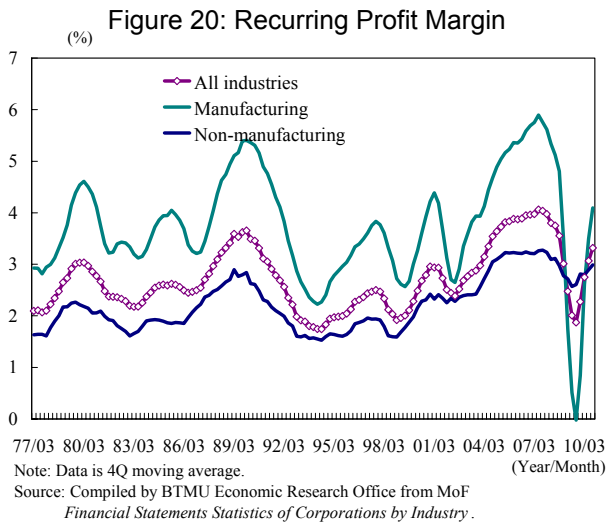
| 【New graduates, younger workers support】 | | |
|---|--|--|
| Measure | Details, Budget | Status |
| ① Job search support for new graduates | <ul style="list-style-type: none"> • Fund to expand employment of recent (within 3 years) and new graduates (JPY15.7 billion) • Fund for trial employment of recent graduates (within 3 years) (JPY22.5 billion) • Fund to support training of recent graduates (JPY11.3 billion) | <ul style="list-style-type: none"> • As of January 9, 2011 -458 persons formally employed -Trial hires 5,442 persons • As of January 17, 2011 -1,839 persons appointed -Employed determined for 15,892 persons Sept-Dec 2010 |
| ② Increase number of Job Supporters | <ul style="list-style-type: none"> • Increase from 928 staff to 2,003 staff (JPY2.25 billion) • FY11 budget (JPY11.0 billion) support 2,003 workers | |
| ③ Job search support for new graduates & Hello Work support | <ul style="list-style-type: none"> • Establish new graduate support office in all prefectures (JPY260 million) • Establish Hello Work support for new graduates in 56 locations | |
| ④ SME internships | <ul style="list-style-type: none"> • JPY9.8 billion | <ul style="list-style-type: none"> • Internships for 1,289 persons since Oct 2010 • To support 10,000 persons through FY11 |
| 【Employment support, Life support】 | | |
| Measure | Details, Budget | Status |
| ① Promotion of direct hires of temporary wo | <ul style="list-style-type: none"> • Increase spending from JPY4.8 billion initially in FY10 to JPY5.7 billion • Additional JPY11.6 billion in FY11 budget, further JPY420 million in related budget | |
| ② Personal Support Model project | <ul style="list-style-type: none"> • Start model projects (appoint personal supporters, etc.) (JPY2.9 | <ul style="list-style-type: none"> • Begin primary model projects in five places • Select 14 locations for secondary model project |
| 【Employment generation, Personnel development】 | | |
| Measure | Details, Budget | Status |
| ① Create employment in critical fields | <ul style="list-style-type: none"> • FY10 JPY150.0 bn • JPY200.0 already added; additional training, research, etc., for targeted sectors | <ul style="list-style-type: none"> • JPY92.41 billion in 46 prefectures • JPY42.37 billion in 18 prefectures |
| ② Free job training for persons not covered by employment insurance • Livelihood support payments | <ul style="list-style-type: none"> • Establish emergency personnel development support projects with FY09 supplementary budget • Extend system until end-Sept 2011 (additional JPY100.0 billion) • Create job seeker support system in FY11 | |
| ③ Job training support for growth sector con | <ul style="list-style-type: none"> • Create personnel development support project in growth sectors (JPY50.0 billion) | |

Source: Compiled by BTMU Economic Research Office from Cabinet Office, Ministry of Health, Labor, and Welfare, and Ministry of Economy, Trade, and Industry

Wages likely to continue improving gradually going forward, especially unscheduled wages

The rise in unscheduled wages, which had been driving the recovery in wages, has weakened as exports have decelerated and production has contracted. The rate of wage rise is currently slowing, with the increase in wages contracting so much that cash wages in Oct-Dec were roughly level on an on-year basis.

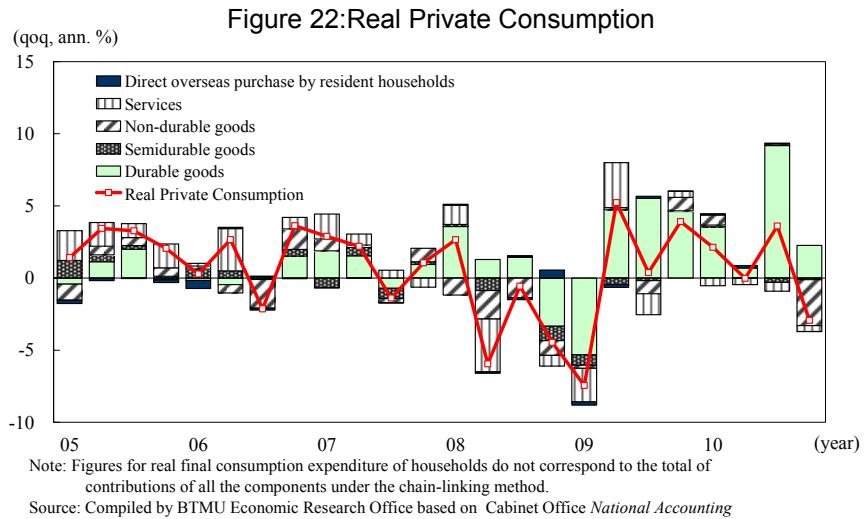
That said, we expect unscheduled working hours and wages to once again rise going forward, as exports and production increase as the global economy re-accelerates. Also, wages will likely remain firm as corporate earnings steadily recover (Figure 20) and scheduled wages—which had been recovering only slowly—rise above year-earlier levels (Figure 21).



②Private Consumption

Oct-Dec private consumption down as policy effects wear off and measures shrink

Real private consumption fell at an annualized rate of -2.9% QoQ in Oct-Dec, the first drop in seven quarters. The decline was due to plunging automobile sales as the government's Ecocar subsidy program ended and on pushed-forward demand ahead of the cigarette tax hike (Figure 22).

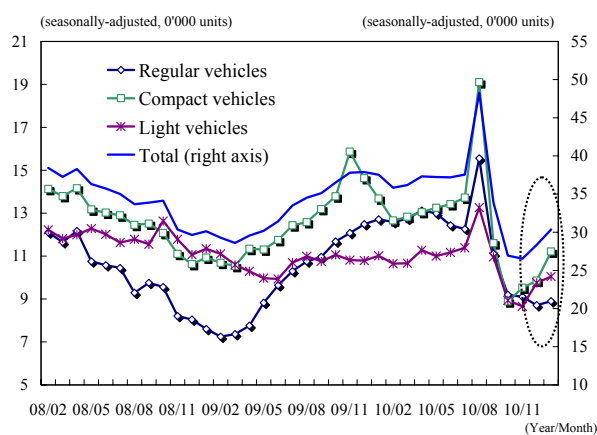


However, automobile sales have started to improve again recently, especially small passenger vehicles and light four-wheel passenger cars. The reactionary drop following the surge in buying is probably ending (Figure 23).

The Ecopoint system was scaled back in December and the number of points awarded for some purchases was cut in half, pushing forward purchases of

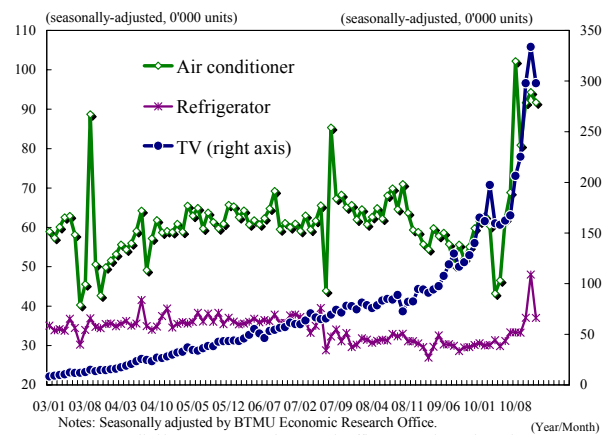
eligible products in November. Even sales of refrigerators, demand for which had had little support from the Ecopoint system compared to other products, jumped in November, and a subsequent reactionary plunge has occurred (Figure 24). Further, purchases of flat-screen TVs plunged in November. According to household surveys, 7.8 sets were sold to every 100 households in November due to demand brought forward; in December sets sold fell to 2.3 sets per 100 households. However, we expect another round of demand brought forward ahead of July's switch to digital terrestrial broadcasting and the end of the Ecopoint program in March.

Figure 23 : Vehicle Sales



Source: Compiled by BTMU Economic Research Office based on Japan Automobile Manufacturers Association New Registrations, Mini-Vehicles Sales.

Figure 24: Ecopoint System Home Appliance Sales



Notes: Seasonally adjusted by BTMU Economic Research Office.
Sources: Compiled by BTMU Economic Research Office Japan Electronics and Information Technology Industries Association Domestic Shipments of Major Consumer Electronic Equipment.

We have calculated the potential demand for TVs after the Ecopoint system ends in April, using per-household TV ownership figures and penetration rates, and have found that there is still replacement demand for approximately 40 million sets (Figure 5). This indicates that a gradual improvement can be expected even after the reactionary drops end following the conclusion of the Ecopoint system and the shift to digital terrestrial broadcasting.

Table 5: Thin Screen TV Potential Demand

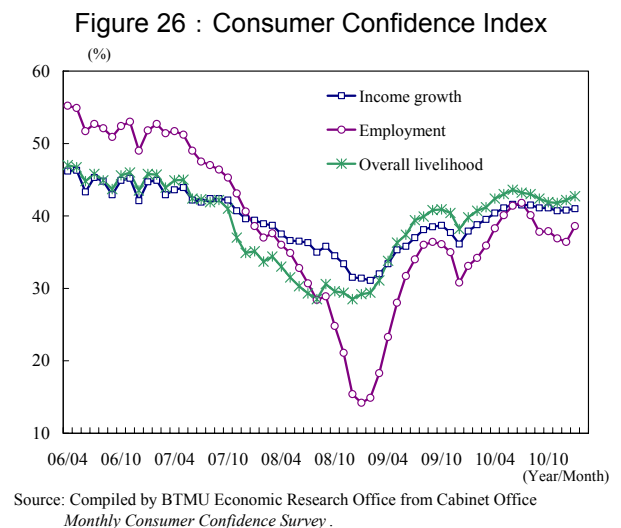
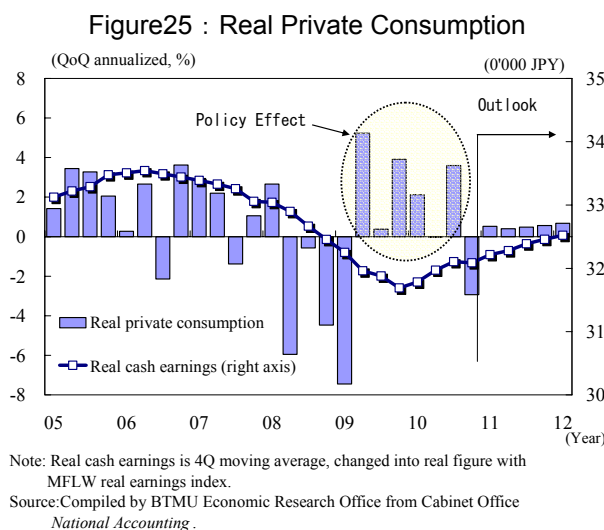
| | | | |
|--|--|---|--|
| ◆ Households in 2010 50.287 (Mn households) | ◆ Number of TV sets per household (As of Mar 2010) 2.43 (Sets) | ◆ Number of thin-screen TVs per household (As of Mar 2010) 1.08 (Sets) | ◆ Total thin-screen TVs sold (Annualized rate of average number of sets sold Apr-Dec 2010) 27.2 (Mn sets) ...③ |
| ◆ TVs owned nationwide (As of Mar 2010) 122.20 (Mn sets)...① | ◆ Thin-screen TVs owned nationwide (As of Mar 2010) 54.6 (Mn sets)...② | ◆ Potential demand for thin-screen TVs from Apr 2011 40.4 (Mn sets) ...①-②-③ | |

Note: Potential demand after Ecopoint system ends, assuming that replacement purchases continue apace until end of system.
Number of thin-screen TVs sold from Apr 2010 to end-Mar 2011 using annualized rate of Apr-Dec 2010 monthly average.
Source: Compiled by BTMU Economic Research Office from National Institute of Population and Social Security Research Japan Household Projections and Cabinet Office Consumer Confidence Survey.

Private consumption expected to improve as policy effects fade, reactionary drops end and as employment and wage conditions improve

Going forward, holding off of cigarette purchases and sluggish automobile sales are starting to wind down, and private consumption is expected to start improving once again with improved labor and income conditions, which are based on consumption (Figure 25). However, durable goods consumption, which has been supported by policy measures, will inevitably decline, and private consumption is likely to lack momentum for some time. Further, there are concerns that the recent surge in commodities prices will cause primary goods prices to rise, squeezing household spending, and this will suppress consumption.

That said, while consumers will be less likely to feel that the timing is right to buy durable goods as policy support measures end, sentiment has been improving recently in terms of the upward direction of income and rising living standards and employment conditions. This will support a recovery in consumption overall going forward (Figure 26).



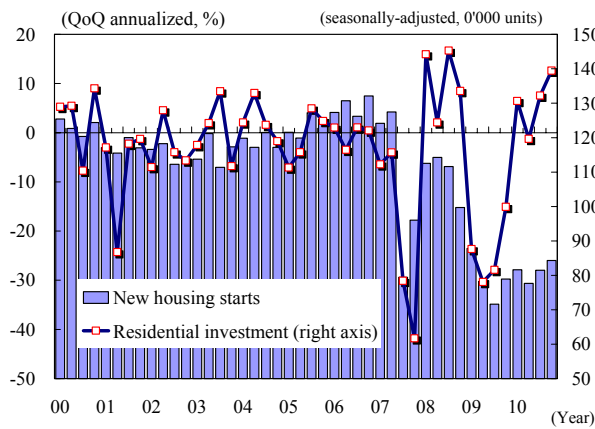
③ Residential Investment

Residential investment improving

Residential investment improved considerably in Oct-Dec, by an annualized rate of +12.6% QoQ, remaining firm after Jul-Sept (Figure 27). Housing starts have exceeded an annual pace of 800,000 homes for four straight months, and it appears that starts have finally begun to improve. By usage, owned home and detached home starts remain firm, supported by low interest rates and home purchase support measures. Also, condominium sales have started to improve, primarily in the Tokyo and Kinki regions, and starts have bottomed with inventory adjustments. However, vacancy rates for rental homes remain high and the real estate investment market remains cool, and the weakness persists

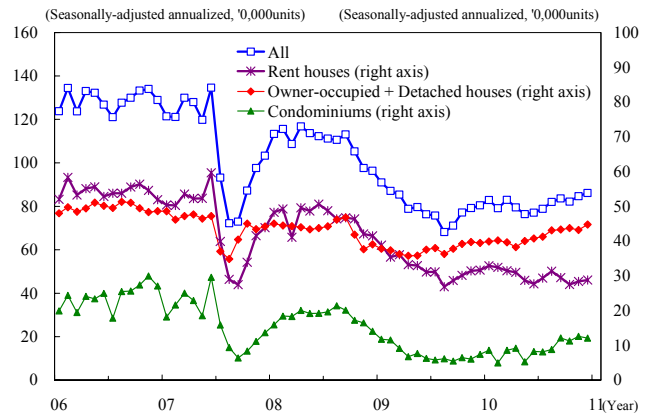
(Figure 28).

Figure 27: Residential Investment and Housing Starts



Source: Compiled by BTMU Economic Research Office from Cabinet Office National Accounting and MLIT Housing Starts.

Figure 28: New Housing Starts by Owner-Occupant Relation

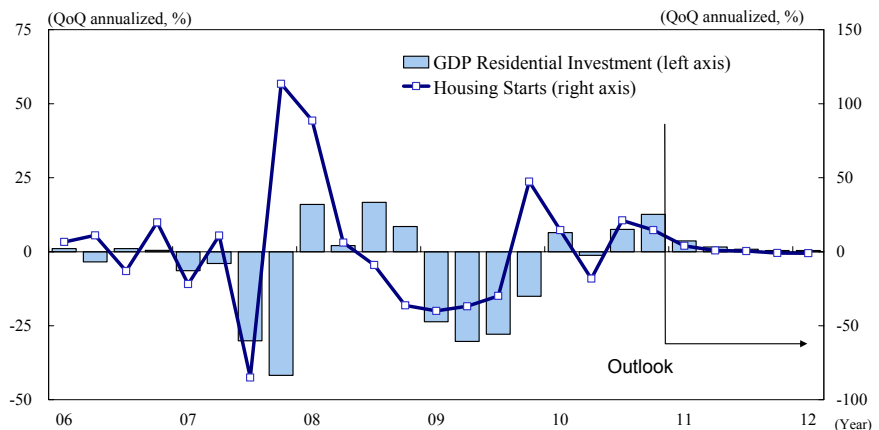


Note: Owned homes + Subdivided detached homes, Condominiums and Rent homes seasonally adjusted by BTMU.
Source: Compiled by BTMU Economic Research Office from MLIT Housing Starts

Residential investment expected to continue improving due to preferential tax treatment, etc.

Residential investment is expected to continue to improve as employment and wage conditions get better (Figure 29). Although the maximum tax credit for home mortgages will start to shrink starting this year, low interest rates and other preferential tax treatments will be supporting factors, and residential investment—primarily owned homes, detached homes and condominiums—is likely to remain firm. Also, expanded preferential treatment for gift and inheritance taxes related to home acquisition is expected with the FY11 tax reform, and this is expected to contribute to home acquisitions by younger households (Table 6).

Figure 29: Residential Investment and Housing Starts



Source: Compiled by BTMU Economic Research Office from the Cabinet Office National Accounting and MLIT Statistics on Building Construction Starts

Table 6 :Home Purchase Tax Benefits

| Mortgage Tax Reduction Amounts | | | | | Changes in Inheritance, Gift Taxes | |
|--------------------------------|-------------------------------|----------------|------------|-------------------------|--|--|
| Year | Maximum year-end loan balance | Exemption rate | Maximum | Total Maximum exemption | Current | Amendment·Expansion Points |
| 2009 | ¥50 mn | 1.0% | JPY500,000 | ¥5 mn | 【Tax calculation at time of inheritance】 • Recipients must be heir apparents only • Giver must be age 65yrs or older 【Gifts of funds for home acquisition】 • Gift tax tax exclusions apply only to residences (do not apply to land) | 【Tax calculation at time of inheritance】 • Recipients may include <u>grandchildren age 20 years old or older</u> • Giver age lowered to <u>60yrs or older</u> Gifts of funds for home acquisition】 • Gift tax residence tax exclusion to now include <u>funds used to acquire land, etc., prior to construction of new home.</u> |
| 2010 | ¥50 mn | 1.0% | JPY500,000 | ¥5 mn | | |
| 2011 | ¥40 mn | 1.0% | JPY400,000 | ¥4 mn | | |
| 2012 | ¥30 mn | 1.0% | JPY300,000 | ¥3 mn | | |
| 2013 | ¥20 mn | 1.0% | JPY200,000 | ¥2 mn | | |

Note: For general homes.

Note: Homes must be constructed by March 15 of following year after gift funds received.

Revision to apply to gift taxes for residences acquired on or after January 1, 2011, from gift funds.

Source: Compiled by BTMU Economic Research Office from MoF *Outline of Home Mortgage Tax Exemptions* and Cabinet Office *FY 2011 Tax Revisions*.

Decline in number of younger households, rise in home ownership rates could cause residential demand to decline over medium to long term

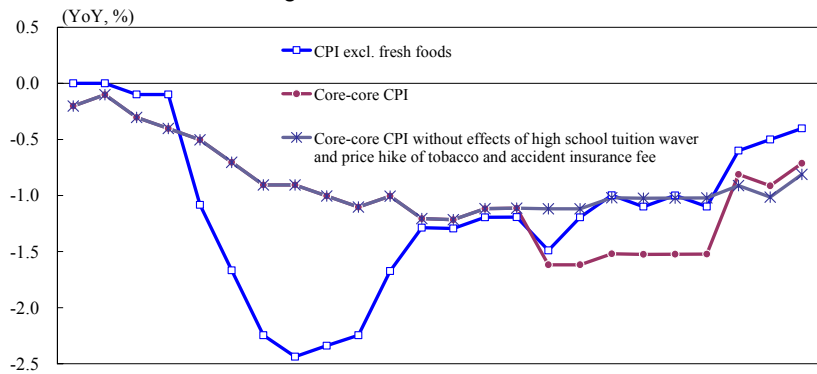
However, the number of first-time home buyers age 40 and below is expected to decline and Japan already has an excess supply in the residential market. Thus, although residential investment is expected to improve over the near term, over the longer term, demand for new construction is expected to decline. Also, the rate of home ownership among younger generations has been rising more quickly than other age groups because of mortgage tax credits and low interest rates, and there is concern that future demand is being eaten into with various housing support measures.

(3) Inflation

Deflationary pressures easing, but price declines slowing extremely gradually

Consumer prices (overall, excluding fresh foods, and also known as the core CPI) have fallen at a slower pace the last three months, due largely to rising energy prices because of higher oil prices. Even the core-core CPI, which does not include energy prices, is declining more slowly, with food (excluding fresh foods) and durable goods prices showing signs of bottoming (Figure 30).

Figure 30: Consumer Price Index



Note: Effects of high school tuition waiver from 2010/04 and price hike of tobacco and accident insurance fee from 2010/10 are included.

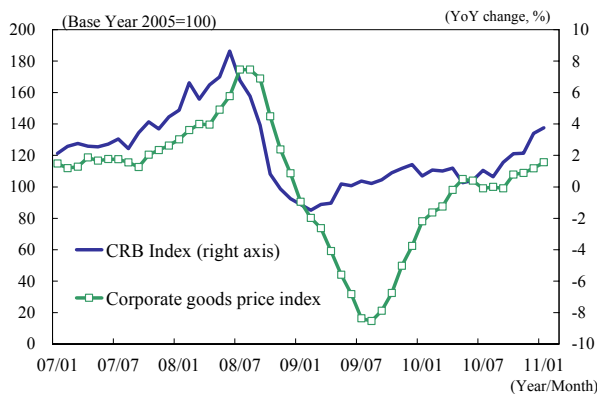
Source: Compiled by BTMU Economic Research Office from MIC *Consumer Price Index*.

Meanwhile, corporate prices continue to rise as the JPY strengthening has paused and on poor climate conditions and tightening supply-demand for food around the world (Figure 31).

We project that the core CPI will start to rise in FY12

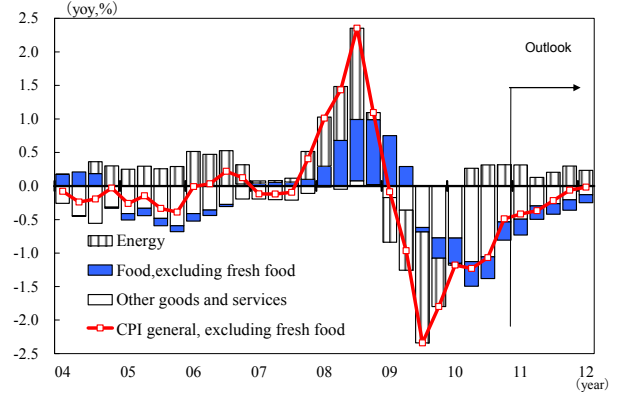
Going forward, we think that deflationary pressures will start to ease, though extremely gradually. Tight food supply and demand conditions are expected to persist especially in emerging countries, and this is very likely to continue to push corporate goods prices higher. However, with the slow pace of Japan's economic recovery, rising corporate goods prices are at this time unlikely to spread to consumer prices, and we think the core CPI will not turn positive until FY12 (Figure 32).

Figure 31: CRB Index and Corporate Goods Price Index



Note: The Reuters/Jefferies CRB Index is a futures index showing movements of international commodities markets calculated from futures trading prices of 19 commodities including crude oil, natural gas, gold, copper, soybeans, wheat, and sugar.
Source: Compiled by BTMU Economic Research Office from Bloomberg data, BoJ Corporate Goods Price Index.

Figure 32: Consumer Price Index



Note: Energy="Electricity", "Gas, manufactured & piped", "Liquefied propane", "Kerosene", "Gasoline."
High school tuition waiver from 2010/04 and tobacco price hike from 2010/10 included
Source: Compiled by BTMU Economic Research Office based on MIC Consumer Price Index.

Also, the criteria for the CPI will be revised in August this year. The impact from policy measures cannot be ignored—with consumption of durable goods surging from the Ecopoint and Ecocar subsidies and the waiving of high school tuitions—and the contributions to those components are expected to be cut relatively. The possibility of the end of deflation being pushed back due to technical factors in determining statistics must be considered.

3. The Financial Markets

(1) Monetary Policy, Short-Term Interest Rates

Virtually zero interest rate policy likely to continue for some time

The Bank of Japan, which last October agreed to implement 'comprehensive monetary easing measures' (below, comprehensive easing), has continued its easy money policy operations (Table 7). The Bank also introduced a JPY35 trillion fund for asset purchases as part of the comprehensive easing measures;

as of end-January, the central bank had supplied JPY27.2 trillion through asset purchases (Table 8), and the Bank's current account balance has risen to JPY20 trillion (up approximately 20% YoY). The BoJ has indicated that it plans to continue the virtually zero interest rate policy until it can project a rate of rise of consumer prices of 1% YoY, and it is very likely that the target rate for the policy rate will remain at 0-0.1% for a fairly long period.

Table 6: BoJ Asset Purchase Funds

(Bn JPY)

Comprehensive Monetary Easing

| |
|--|
| <ul style="list-style-type: none"> •Uncollateralized overnight call rate target rate of 'around 0.1 percent' to 'around 0 to 0.1 percent.' •Clarification of policy time horizon based on the 'understanding of medium- to long-term price stability.' •Establishment of fund for purchase of assets (JPY35 trillion): Fixed-rate funds supplying operations (JPY30 trillion); Long-term JGBs (JPY3.5 trillion); CP, ABCP (JPY1 trillion); ETFs, J-REITs (JPY500 billion) (Terms) Long-term JGBs, corporate bonds with remaining maturities of 1-2 years eligible Long-term JGBs purchased with funds exempt from BoJ Banknote Rule |
|--|

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

| Assets to be purchased | Planned purchases ① | Balance as of January ② | |
|------------------------------|---------------------|-------------------------|---------|
| | | | ①-② |
| JGBs | 1,500.0 | 451.8 | 1,048.2 |
| Treasury discount bills | 2,000.0 | 899.8 | 1,100.2 |
| CP, etc. | 500.0 | 116.6 | 383.4 |
| Corporate bonds, etc. | 500.0 | 102.7 | 397.3 |
| ETF | 450.0 | 43.1 | 406.9 |
| J-REITs | 50.0 | 2.2 | 47.8 |
| Pooled collateral operations | 30,000.0 | 25,630.4 | 4,369.6 |
| Total | 35,000.0 | 27,246.6 | 7,753.4 |

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

Rising international commodities prices to have limited impact on monetary policy

Note that whether or not there will be secondary effects from rising international commodities prices—more widespread price imputations and/or higher wages—will be a point to watch. There is currently an excess of supply in the macro supply-demand balance, and it is unlikely that secondary effects will appear in the labor market, in which supply-demand conditions are loose. Rather, rising prices of primary goods will likely work to increase deflationary pressures by hitting corporate profits and constraining household spending. We therefore think that rising international commodities prices will have a limited impact in changing the easy money policy at least through FY11.

Short-term interest rates to continue falling, but at slower pace

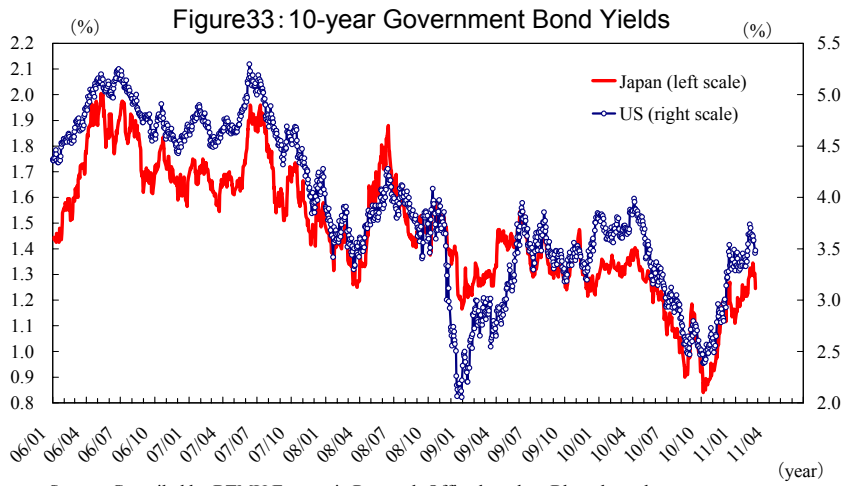
Short-term interest rates continue to move downward, and the euroyen TIBOR 3-month contract has fallen to the 0.33% range, the lowest level since 2006. However, the rate of decline for short-term interest rates has slowed since the end of last year, and we think that there is now less room for decline.

(2) Benchmark JGB Yield

Benchmark JGB yield has risen to 1.3% level

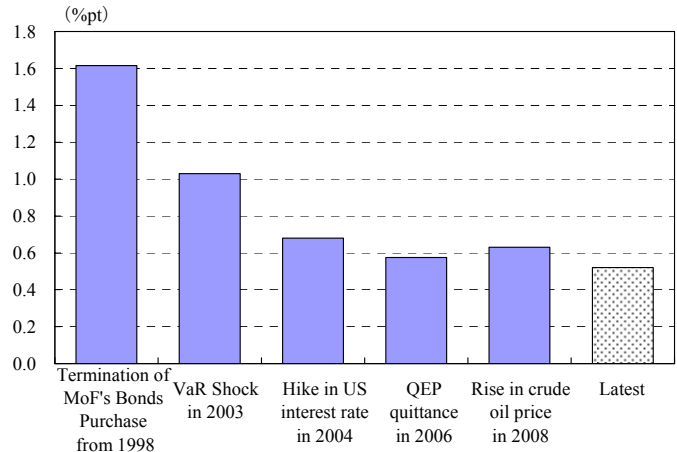
After the yield on newly-issued 10Yr JGBs fell to the lower 0.8% level in early October, it started to rise sharply as share prices rebounded and the US benchmark yield rose, hitting 1.36% at one point on February 16. This was the highest level since last April (Figure 33). Looking back over strong rises in the benchmark JGB yield since the late 1990's, the yield has frequently risen by

approximately 0.6ppt (except for extreme occurrences like the 1998 MoF Trust Fund Bureau event and the 2003 VaR shock) (Figure 34). Thus, the yield may rise to 1.4% this time. However, the yield has plunged a number of times after rising suddenly, and we think the JGB benchmark yield will be volatile going forward. We project that, aside from such volatility, the benchmark JGB will gradually trend upward as the economy recovers and the inflation rate falls at a slower pace.



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

Figure 34: Previous big jumps in Benchmark JGB yield



Source: Compiled by BTMU Economic Research Office from Bloomberg

Deliberation of special bond act a destabilizing factor

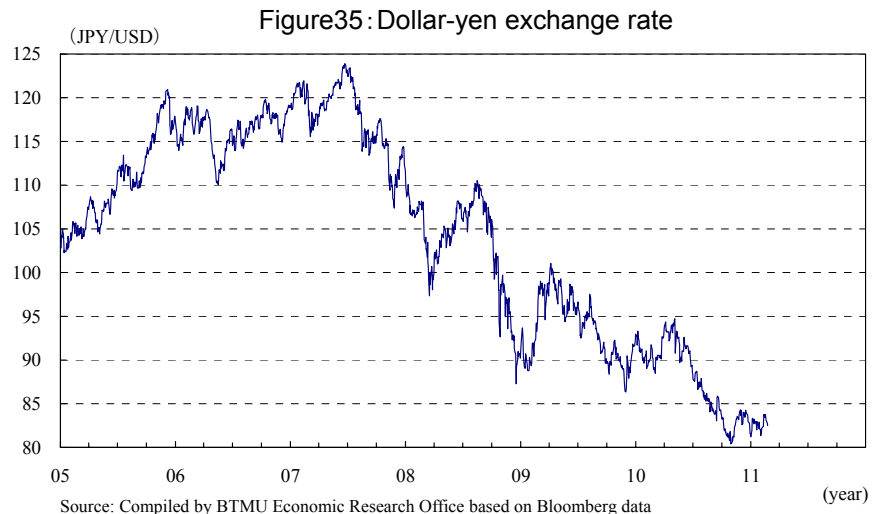
Note that the skewed Diet's difficulty in addressing budget-related legislation should be watched as a factor that could destabilize the JGB yield. If a government bond special act, the basis for issuing deficit bonds, is not passed, budget implementation will be obstructed and in the worst case, interest payments and redemptions of JGBs will stall. Investors are growing increasingly cautious regarding the direction of Diet deliberations, and we cannot reject the possibility of JGB prices falling (and the benchmark yield rising).

(3) Exchange Rates

JPY strengthening pressures ebbing

In the foreign exchange markets, JPY-strengthening pressures have been ebbing since the end of last year, and the JPY now continues to trade in the JPY/USD81-84 range (Figure 35). Looking ahead, we think there is a good possibility that the JPY will remain in the lower JPY/USD80-85 range through the first half of FY11. Rising US interest rates and a subsequent widening in US-Japan spreads will help weaken the JPY, while risk aversion triggered by sovereign debt worries in Europe is expected to cause JPY-buying pressure to continue. Thus, a trend is unlikely to form either way, toward JPY

strengthening or weakening, for a while. As a self-sustaining recovery in the US gains strength in H2 of FY11, the FRB will start to be increasingly focused on an exit strategy, and we think the JPY will gradually start to weaken.



(Shin TAKAYAMA, Mikiko NISHIMURA, and Yuka MAEHARA)

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

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

Written by Mikiko Nishimura (Household Sector) mikiko_nishimura@mufg.jp

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

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online

Outlook for the Japanese Economy

Economic Research Office
Bank of Tokyo-Mitsubishi UFJ
(%, billion yen)

| | 2009 | | | | 2010 | | | | 2011 | | | | 2012 | FY2009 | FY2010 | FY2011 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|--------|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | | | |
| (percentage change from the previous period at seasonally-adjusted annual rates) | | | | | | | | | | | | | | | | |
| Nominal GDP | ▲19.2 | 4.0 | ▲3.1 | 3.4 | 6.8 | ▲2.4 | 2.3 | ▲2.1 | 1.3 | 0.9 | 1.5 | 1.9 | 2.4 | ▲3.7 | 1.0 | 1.1 |
| Real GDP | ▲20.1 | 10.8 | ▲1.9 | 7.3 | 6.0 | 2.1 | 3.3 | ▲1.1 | 2.1 | 1.4 | 1.8 | 2.0 | 2.4 | ▲2.4 | 3.0 | 1.5 |
| GDP Deflator | | | | | | | | | | | | | | ▲1.3 | ▲1.9 | ▲0.5 |
| Private consumption | ▲7.4 | 5.2 | 0.4 | 3.9 | 2.1 | ▲0.0 | 3.6 | ▲2.9 | 0.5 | 0.4 | 0.5 | 0.6 | 0.7 | ▲0.0 | 1.2 | 0.2 |
| Housing investment | ▲23.7 | ▲30.3 | ▲27.9 | ▲15.1 | 6.5 | ▲1.2 | 7.6 | 12.6 | 3.6 | 1.6 | 0.8 | 0.4 | 0.4 | ▲18.2 | ▲0.1 | 3.2 |
| Private business fixed investment | ▲23.5 | ▲18.1 | ▲8.1 | 5.9 | 2.8 | 12.2 | 6.0 | 3.7 | 1.6 | 3.0 | 4.1 | 4.5 | 5.3 | ▲13.6 | 5.4 | 3.6 |
| Business inventories (billion yen) | ▲3,481 | ▲3,399 | ▲5,754 | ▲5,556 | ▲2,306 | ▲2,852 | ▲1,477 | ▲211 | ▲300 | ▲150 | 50 | 350 | 650 | ▲4,208 | ▲1,229 | 206 |
| Government expenditures | 5.3 | 11.7 | 2.4 | 4.8 | ▲1.8 | 0.4 | ▲0.9 | ▲3.0 | 0.0 | ▲0.1 | 0.4 | 0.7 | 0.7 | 5.2 | ▲0.2 | ▲0.1 |
| Public investment | 14.0 | 56.4 | ▲5.5 | 8.7 | ▲5.5 | ▲15.4 | ▲8.0 | ▲21.1 | ▲7.0 | ▲5.9 | ▲3.9 | ▲1.2 | ▲1.2 | 14.2 | ▲9.6 | ▲6.6 |
| Exports | ▲68.4 | 45.1 | 40.1 | 28.0 | 29.3 | 22.9 | 6.3 | ▲2.8 | 13.4 | 6.1 | 7.0 | 7.4 | 8.7 | ▲9.6 | 18.0 | 6.8 |
| Imports | ▲49.4 | ▲19.7 | 24.0 | 4.1 | 12.7 | 16.8 | 12.0 | ▲0.5 | 4.1 | 3.6 | 4.1 | 4.7 | 4.9 | ▲11.0 | 10.8 | 4.0 |
| (<> contribution of overseas demand) | ▲7.2 | 6.9 | 2.3 | 3.1 | 2.6 | 1.6 | ▲0.2 | ▲0.4 | 1.6 | 0.6 | 0.7 | 0.7 | 0.9 | <▲0.2> | <1.4> | <0.6> |
| Final Demand (Private Demand) | ▲9.7 | 1.2 | ▲3.8 | 3.8 | 1.8 | 1.2 | 3.7 | ▲1.3 | 0.8 | 0.9 | 1.2 | 1.3 | 1.6 | ▲3.0 | 1.5 | 0.9 |
| Industrial Production Index (MOM,%) | ▲20.1 | 6.6 | 5.3 | 5.9 | 7.0 | 1.5 | ▲1.8 | ▲1.4 | 4.2 | 0.2 | 0.7 | 0.8 | 0.9 | ▲8.9 | 9.7 | 3.7 |
| Domestic Corporate Goods Price Index (YOY,%) | (▲1.9) | (▲5.5) | (▲8.2) | (▲5.2) | (▲1.7) | (0.2) | (▲0.1) | (1.0) | (0.7) | (0.3) | (0.6) | (0.8) | (0.9) | (▲5.2) | (0.4) | (0.6) |
| Consumer Price Index (excl. fresh food YOY, %) | (▲0.1) | (▲1.0) | (▲2.3) | (▲1.8) | (▲1.2) | (▲1.2) | (▲1.0) | (▲0.5) | (▲0.4) | (▲0.4) | (▲0.2) | (0.0) | (0.0) | (▲1.6) | (▲0.8) | (▲0.2) |
| Trade Balance (billion yen) | ▲288 | 1,042 | 1,352 | 1,906 | 2,370 | 1,798 | 2,046 | 1,738 | 1,318 | 1,434 | 2,087 | 1,895 | 1,680 | 6,670 | 6,901 | 7,096 |
| Current Balance (billion yen) | 2,181 | 3,516 | 3,626 | 3,966 | 4,654 | 3,777 | 4,423 | 4,164 | 3,790 | 3,966 | 4,678 | 4,547 | 4,391 | 15,762 | 16,153 | 17,582 |
| Uncollateralized overnight call rate | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0.1 | 0-0.1 | 0-0.1 |
| Euro-Yen TIBOR (3-mo.) | 0.72 | 0.60 | 0.55 | 0.51 | 0.45 | 0.40 | 0.37 | 0.34 | 0.34 | 0.34 | 0.34 | 0.33 | 0.32 | 0.53 | 0.36 | 0.33 |
| Newly Issued 10-Year Government Bonds Yield | 1.28 | 1.44 | 1.34 | 1.31 | 1.3 | 1.3 | 1.0 | 1.0 | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.4 | 1.1 | 1.3 |
| Exchange Rate (Yen / U.S.\$) | 93.7 | 97.4 | 93.5 | 89.9 | 91.6 | 92.2 | 85.8 | 82.5 | 82.8 | 82.8 | 82.7 | 84.0 | 85.5 | 93.1 | 85.8 | 83.7 |
| | 93.7 | 97.4 | 93.5 | 89.9 | 92 | 92 | 86 | 82 | 81 | 81 | 82 | 84 | 85 | 93 | 85 | 83 |

Note: Uncollateralized overnight call rate is end-of-period rate. Euro-Yen TIBOR (3-mo.), newly issued 10-year government bonds yield, and exchange rate (Yen/U.S.\$) are period average. Domestic Corporate Goods Price and Consumer prices reflect 2005 base revision.

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Feb 25, 2011

| | Fiscal 2008 | Fiscal 2009 | 2010 | | | 2010 | | | | |
|---|------------------|------------------|------------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|-----------------------|
| | | | 2Q | 3Q | 4Q | SEP | OCT | NOV | DEC | JAN |
| Real GDP Growth Rate <% changes from previous period at SA annual rate> | -4.1 | -2.4 | 2.1 (3.1) | 3.3 (4.9) | -1.1 (2.2) | *** | *** | *** | *** | *** |
| Index of All Industries Activity | -4.5 | | 0.8 (3.4) | 0.7 (3.1) | -1.1 (1.9) | -0.8 (2.7) | -0.3 (1.3) | -0.2 (2.3) | -0.2 (1.9) | |
| Industrial Production Index | -12.7 | -8.9 | 1.5 (21.0) | -1.8 (13.5) | -1.6 (4.9) | -1.6 (11.5) | -2.0 (4.3) | 1.0 (5.8) | 3.3 (4.9) | |
| Production | | | | | | | | | | |
| Shipments | -12.6 | -8.4 | 1.6 (21.8) | -1.2 (14.3) | -1.6 (5.8) | -0.5 (12.6) | -3.0 (4.1) | 2.6 (8.1) | 1.2 (5.4) | |
| Inventory | -5.2 | -6.0 | 3.4 (1.2) | 0.4 (3.4) | -1.2 (3.7) | 0.1 (3.4) | -1.0 (3.8) | -1.8 (1.9) | 1.6 (3.7) | |
| Inventory/Shipments Ratio (2005=100) | 121.9 | 120.4 | 106.2 [136.4] | 108.1 [124.3] | 111.5 [114.7] | 108.8 [120.9] | 117.9 [118.7] | 108.1 [115.5] | 108.5 [110.0] | [108.0] |
| Domestic Corporate Goods Price Index | 3.1 | -5.2 | 0.6 (0.2) | -0.2 (-0.1) | 0.3 (1.0) | 0.0 (-0.1) | 0.1 (0.8) | 0.1 (0.9) | 0.4 (1.2) | 0.5 (1.6) |
| Consumer Price Index(SA, total, excl.fresh foods) | 1.2 | -1.6 | 0.0 (-1.2) | -0.2 (-1.0) | 0.3 (-0.5) | -0.1 (-1.1) | 0.4 (-0.6) | 0.2 (-0.5) | 0.2 (-0.4) | 0.2 (-0.2) |
| Index of Capacity Utilization (2005=100) | 88.7 | 80.0 | 90.4 [71.8] | 88.2 [77.0] | 87.1 [81.8] | 87.3 [78.0] | 85.3 [79.4] | 86.7 [81.9] | 89.3 [84.1] | 89.3 [90.1] |
| Machinery Orders(Private Demand, Excl.Electric Power and Ship building) | -14.1 | -20.6 | 0.3 (3.3) | 9.6 (13.0) | -6.9 (4.9) | -10.3 (4.2) | -1.4 (7.0) | -3.0 (11.6) | 1.7 (-1.6) | |
| Manufacturing | -22.4 | -27.8 | -8.6 (13.2) | 12.2 (34.3) | -4.4 (11.6) | -20.7 (19.6) | 1.4 (4.2) | 10.6 (25.0) | -1.9 (8.3) | |
| Non-manufacturing Excl.Electric Power & Ship building | -6.8 | -15.8 | 5.8 (-2.4) | 9.9 (2.3) | -10.1 (-0.3) | 3.0 (-3.3) | -8.7 (6.2) | -10.5 (3.9) | 3.9 (-7.9) | |
| Shipments of Capital Goods (Excl.Transport Equipment) | -17.6 | -24.3 | 7.4 (29.6) | 1.8 (31.4) | 1.2 (26.1) | 0.2 (28.7) | 2.8 (29.9) | -1.4 (27.0) | -0.7 (22.6) | |
| Construction Orders | -12.3 | -14.2 | | | | | | | | |
| Private | -19.0 | -15.3 | | | | | | | | |
| Public | 23.5 | -11.1 | | | | | | | | |
| Public Works Contracts | 0.1 | 4.9 | | | | | | | | |
| Housing Starts 10,000 units at Annual Rate, SA | 103.3 (0.3) | 77.6 (-25.4) | 77.6 (-1.1) | 81.5 (13.8) | 84.3 (6.9) | 83.6 (17.7) | 82.1 (6.4) | 84.7 (6.8) | 86.1 (7.5) | |
| Total floor | | | | | | | | | | |
| Sales at Retailers | -1.1 | -0.4 | | | | | | | | |
| Real Consumption Expenditures of Households over 2 persons (SA) | -2.8 | 1.0 | -1.6 (-0.2) | 2.1 (0.6) | 0.0 (2.0) | -0.4 (0.0) | -0.9 (-0.4) | 1.0 (-0.4) | -3.3 (-3.3) | |
| Propensity to Consume (SA,%) | 73.3 | 74.7 | 71.9 [74.8] | 75.8 [74.7] | 0.0 [74.5] | 74.9 [74.0] | 70.2 [73.2] | 75.7 [73.9] | 74.3 [75.6] | 74.3 [73.5] |
| Overtime Hours Worked (All Industries, 5 employees or more) | -7.0 | -8.5 | 0.9 (10.8) | 0.6 (9.6) | -0.8 (5.7) | -2.1 (7.6) | 0.0 (6.2) | 0.5 (6.1) | 0.6 (5.1) | |
| Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more) | -1.1 | -3.3 | | | | | | | | |
| Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y) | 29076.0 | -77894.3 | 10188.4 [-96,970.8] | 21463.6 ##### | 28037.5 ##### | 24835.5 ##### | 28054.1 ##### | 28971.3 ##### | 27087.2 [-110,435.1] | 27087.2 [-6,870.6] |
| Ratio of Job Offers to Applicants (SA,Times) | 0.78 | 0.45 | 0.50 [0.46] | 0.54 [0.43] | 0.57 [0.43] | 0.55 [0.43] | 0.56 [0.43] | 0.57 [0.43] | 0.57 [0.43] | 0.57 [0.46] |
| Unemployment Rate (SA,%) | 4.1 | 5.2 | 5.2 [5.1] | 5.1 [5.4] | 5.0 [5.2] | 5.0 [5.3] | 5.1 [5.2] | 5.1 [5.3] | 4.9 [5.2] | 4.9 [5.0] |
| Economy Watcher Survey (Judgment of the present condition D.I,%) | 25.6 | 39.9 | 48.3 [37.7] | 45.4 [42.4] | 43.0 [36.7] | 41.2 [43.1] | 40.2 [40.9] | 43.6 [33.9] | 45.1 [35.4] | 44.3 [38.8] |
| Bankruptcies (Number of cases) | 16,146 (12.3) | 14,732 (-8.7) | 3,323 (-15.9) | 3,232 (-14.5) | 3,299 (-6.5) | 1,102 (-4.5) | 1,136 (-9.9) | 1,061 (-6.2) | 1,102 (-2.9) | 1,041 (-2.0) |

(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 Feb 25, 2011

| | Fiscal 2008 | Fiscal 2008 | 2010 | | | 2010 | | | | |
|--|----------------|----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | | 1Q | 2Q | 3Q | SEP | OCT | NOV | DEC | JAN |
| Customs Clearance(Exports in Yen Terms) | -16.4 | -17.1 | (33.2) | (17.8) | (10.0) | (14.3) | (7.8) | (9.1) | (13.0) | (1.4) |
| Value | -3.3 | -7.0 | (0.3) | (-0.7) | (1.2) | (-1.5) | (2.4) | (-0.1) | (1.4) | (-0.8) |
| Volumes | -14.3 | -9.9 | (32.8) | (18.6) | (8.6) | (16.1) | (5.3) | (9.2) | (11.4) | (2.3) |
| Imports(In Yen terms) | -4.1 | -25.2 | (27.9) | (14.5) | (11.2) | (10.0) | (8.8) | (14.2) | (10.6) | (12.5) |
| Value | 0.6 | -18.5 | (7.3) | (0.1) | (1.5) | (-0.5) | (2.9) | (-1.1) | (2.7) | (1.1) |
| Volumes | -5.7 | -7.3 | (19.3) | (14.4) | (9.6) | (10.5) | (5.8) | (15.5) | (7.8) | |
| Current Balance(100 mil. yen) | 123,362 | 157,817 | 36,116 | 48,791 | 35,577 | 20,175 | 14,362 | 9,262 | 11,953 | |
| Trade Balance(100 mil. yen) | 11,589 | 65,996 | 20,358 | 19,787 | 19,414 | 9,110 | 9,129 | 2,597 | 7,688 | |
| Services(100 mil. yen) | -20,469 | -18,185 | -5,219 | -2,756 | -4,609 | -495 | -2,745 | -993 | -871 | |
| Capital and Financial Accounts(100 mil. yen) | -173,053 | -123,113 | -16,465 | -36,631 | -18,433 | -2,513 | -4,433 | -5,187 | -8,813 | |
| Gold & Foreign Exchange Reserves(\$1mil.) | 1,018,549 | 1,042,715 | 1,050,235 | 1,109,591 | 1,096,185 | 1,109,591 | 1,118,121 | 1,101,031 | 1,096,185 | 1,092,980 |
| Exchange Rate(V/\$) | 100.46 | 92.80 | 92.01 | 85.86 | 82.59 | 84.38 | 81.87 | 82.48 | 83.41 | 82.63 |

3. Financial Market Indicators

| | Fiscal 2008 | Fiscal 2008 | 2010 | | | 2010 | | | | | |
|---|-----------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|------------------|--------------------|--------------------|--------|
| | | | 1Q | 2Q | 3Q | AUG | SEP | OCT | NOV | DEC | |
| Uncollateralized Overnight Call Rates | 0.363 | 0.102 | 0.093 [0.103] | 0.093 [0.103] | 0.090 [0.104] | 0.091 [0.102] | 0.091 [0.106] | 0.091 [0.105] | 0.087 [0.101] | 0.085 [0.096] | |
| Euro Yen TIBOR (3 Months) | 0.805 | 0.516 | 0.388 [0.579] | 0.364 [0.543] | 0.336 [0.498] | 0.355 [0.537] | 0.336 [0.525] | 0.335 [0.508] | 0.335 [0.462] | 0.335 [0.452] | |
| Newly Issued Japanese Government Bonds Yields (10 Years) | 1.438 | 1.353 | 1.208 [1.420] | 0.987 [1.338] | 1.072 [1.317] | 0.930 [1.295] | 0.920 [1.405] | 1.185 [1.260] | 1.110 [1.285] | 1.215 [1.315] | |
| Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period) | 1.619 | 1.449 | 1.420 (-0.029) | 1.392 (-0.028) | 1.382 (-0.010) | 1.392 (-0.020) | 1.398 (0.006) | 1.401 (0.003) | 1.382 (-0.019) | | |
| The Nikkei Stock Average (TSE 225 Issues) | 8,110 | 11,090 | 9,383 [9,958] | 9,369 [10,133] | 10,229 [10,546] | 9,369 [10,133] | 9,202 [10,035] | 9,937 [9,346] | 10,229 [10,546] | 10,238 [10,198] | |
| M2(Average) | (2.1) | (2.9) | (3.0) | (2.8) | (2.6) | (2.8) | (2.8) | (2.6) | (2.3) | (2.3) | |
| Broadly-defined Liquidity(Average) | (0.1) | (0.8) | (1.5) | (0.5) | (0.1) | (0.3) | (0.2) | (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) | (-1.8) | (-2.0) | (-2.0) | (-1.8) |
| | Banks | | (2.7) | (0.8) | (-2.0) | (-1.9) | (-2.1) | (-1.8) | (-2.1) | (-2.1) | (-1.9) |
| | City Banks etc. | | (1.9) | (-0.4) | (-3.8) | (-3.8) | (-4.6) | (-3.9) | (-4.4) | (-4.7) | (-4.5) |
| | Regional Banks | | (3.9) | (2.4) | (0.0) | (0.4) | (0.9) | (0.6) | (0.7) | (0.9) | (1.1) |
| | Regional Banks II | | (2.4) | (1.3) | (-0.4) | (-0.7) | (-0.5) | (-0.6) | (-0.6) | (-0.5) | (-0.4) |
| Deposits and CDs (Average) | Shinkin | | (0.9) | (0.8) | (-1.4) | (-1.4) | (-1.3) | (-1.3) | (-1.3) | (-1.3) | (-1.0) |
| | Total(3 Business Condition) | | (1.7) | (2.9) | (2.8) | (2.7) | (2.7) | (3.1) | (3.1) | (2.7) | (2.1) |
| | City Banks | | (1.7) | (3.0) | (2.7) | (2.9) | (3.0) | (3.7) | (3.7) | (3.2) | (2.0) |
| | Regional Banks | | (1.9) | (3.1) | (3.3) | (3.1) | (3.0) | (3.1) | (3.2) | (2.9) | (3.1) |
| | | Regional Banks II | | (1.3) | (1.8) | (1.0) | (0.4) | (0.1) | (0.3) | (0.0) | (0.1) |

(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.