

The Outlook for the Japanese Economy

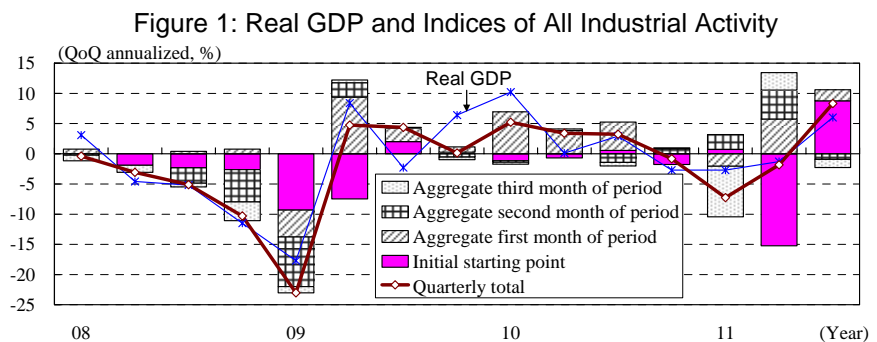
Economic Research Office
 The Bank of Tokyo-Mitsubishi UFJ, Ltd.

~ Japanese Economy Expected to Keep Growing Despite Persisting Downside Risks and Deflationary Gap ~

1. Current Economic Conditions

Jul-Sep real GDP jumped, confirming recovery progress

The Japanese economy has maintained its recovery trajectory, overcoming the summer's feared electricity shortage problem. Indeed, real GDP growth for the Jul-Sep quarter was an annualized +6.0% QoQ, a return to positive growth for the first time in four quarters and the highest rate since the Jan-Mar 2010 quarter (annualized rate of +10.2% QoQ, Figure 1). By expenditure items, household consumption (+3.9% QoQ annualized), residential investment (+21.7% QoQ annualized), corporate capital expenditures (+4.4% QoQ annualized) as well as exports (+27.4% QoQ annualized) all rose, clearly recovering from the March earthquake shock.



Note: 1. *Initial starting point* is quarterly rate of change when indicator level of final month of previous quarter is sustained.
 2. *Aggregate first month of period* is quarterly rate of change when two-month future level is unchanged from first month (flat MoM) minus *Initial starting point*.
 3. *Aggregate second month of period* is quarterly rate of change when third month level is unchanged from second month level minus *Initial starting point* and *Aggregate first month of period*.
Aggregate third month of period also calculated the same way.

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

Economic activities pause recently

However, the Indices of All Industrial Activities (excluding agriculture, forestry and fishery sectors), released every month and similar in concept to real GDP, clearly showed that the rapid growth in Jul-Sep could be attributed to a high starting point due to steady growth in Apr-Jun (Figure 1). In the Jul-Sep quarter, the index rose slightly in July, but declined for two straight months in August and September. The index's three-month change over the

Jul-Sep quarter discounting the high starting point was actually slightly negative. Furthermore, a number of other monthly economic indicators including the Industrial Production Index stalled short of pre-earthquake levels. The impacts of slowing overseas economies and the JPY's appreciation may have started to slowly appear.

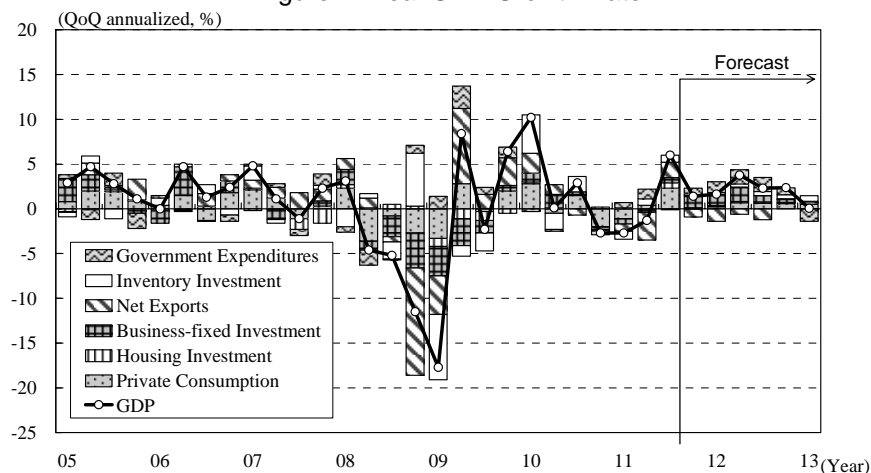
2. Outlook

< Summary >

Economy to maintain a recovery course, gaining more momentum

We expect reconstruction demand to help the Japanese economy maintain its recovery trajectory, although downward pressure from slowing overseas economies and a stubbornly-strong JPY will persist. Reconstruction demand had been expected to act as a driver for the economy, but has only recently begun to show signs of picking up. In fact, public construction orders, a leading indicator of public investment, have jumped since July, primarily in Iwate, Miyagi, and Fukushima prefectures, where much of the earthquake devastation was concentrated. Private residential investment and capital expenditures are expanding as well. In addition, the FY2011 third supplementary budget, which includes a large amount of earthquake-related expenditures, has at last passed, and this is likely to boost reconstruction activity. Our current Main Scenario is that these upward driving forces will exceed downward pressures, and the Japanese economy's momentum will increase steadily. The real GDP growth rate, which turned positive in Jul-Sept, is likely to remain high through 2012 (Figure 2). We expect the growth rate on a fiscal year basis will be a slightly positive +0.4% YoY in FY2011, but rebound to +2.5% YoY in FY2012.

Figure 2: Real GDP Growth Rate



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

Scattered downside risks continue to warrant watch

End to deflationary trend still out of sight

On the other hand, there are still many risk factors for our Main Scenario, most of them to the downside. Future potential Risk Scenario triggers include: a global recession or financial crisis; a higher JPY against other currencies, with JPY/USD below 70 and JPY/EUR below 90; a bigger impact from the floods in Thailand on the Japanese economy; and electric power restrictions greatly exceeding last summer's.

Also, the Consumer Price Index (excluding fresh foods, or the core CPI) turned positive on-year in July. However, price fluctuations by some component items have significantly impacted the core CPI, and it is unlikely that Japan's deflationary trend can be considered over. Indeed, the October core CPI once again turned negative on-year. Because real GDP remains below potential GDP and a negative GDP gap (or a deflationary gap) persists, Japan's core CPI is expected to continue to decline for a while.

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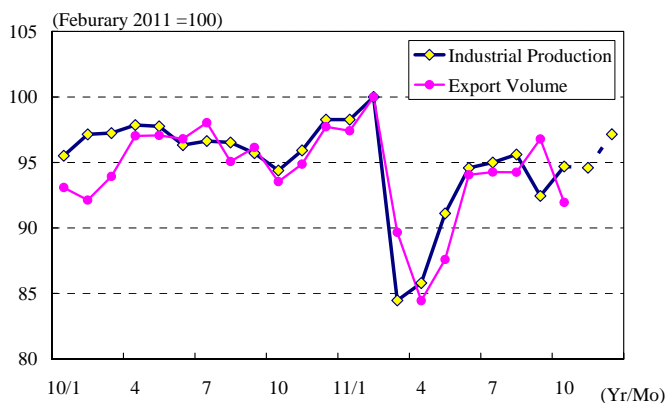
(1) Corporate Sector

Exports and Production

Exports and production losing steam because of slowing overseas economies and a persistently-strong JPY

Although industrial production and exports have both recovered steadily since the earthquake, August export volume and September industrial production fell for the first time since the disaster (Figure 3). October production recovered, to +2.4% MoM, and the manufacturers' forecast survey projects a small decline in November (-0.1% MoM), then an increase again in December (+2.7% MoM). However, slowing overseas economies and a persistently-strong JPY have started to hobble the recovery, with industries relying heavily on exports showing lower production levels.

Figure 3: Industrial Production and Export Volume



Exports and production to stall through the end of 2011, but projected to reaccelerate in 2012

August OECD leading indicators, which precede exports by three to four months, fell in the U.S., Europe, and China. This implies that economies will continue to decelerate worldwide and exports to stall through the end of this year. However, exports are expected to slowly recover again as overseas economies start to revive. At the same time, industrial production is expected to decline on-year in Oct-Dec, but accelerate next year without falling dramatically, supported by domestic demands (Figure 4).

Corporate Profits, Capital Expenditures

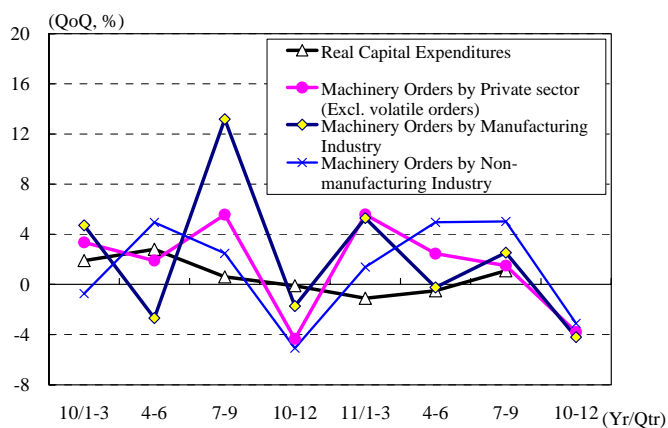
Corporate profits outperformed in H1, but H2 features a number of downside risks

Real capital expenditures in GDP data rose an annualized +4.4% QoQ in Jul-Sept, the first increase in four quarters, as corporate profits recovered sooner than anticipated in H1 and on reconstruction demand starting to be felt (Figure 5). On the other hand, a number of concerns, including a slowing world economy and strong JPY, are persisting in H2, and machinery orders (private sector demand, excluding the shipbuilding and power generation companies)—a leading indicator of capital expenditures—are expected to decline in Oct-Dec for the first time in four quarters.

Reconstruction demand to support capital expenditures amidst weak profit conditions, embarking on self-sustaining growth from mid-2012

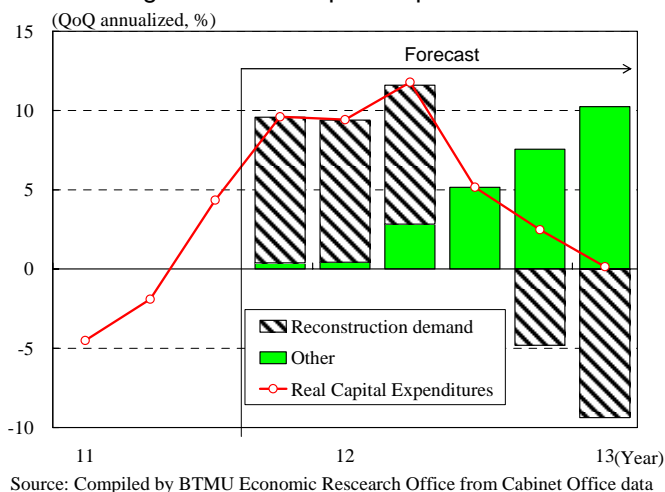
Looking ahead, the challenging corporate profit conditions are expected to persist for some time. Of course, investment demand is weak from a fundamentals perspective, and profits will rely on reconstruction demand. Fortunately, reconstruction demand related to the third supplementary budget recently passed is expected to be steady, and overall capital expenditures are expected to increase at a fast pace through mid-2012 (Figure 6). Furthermore, corporate profits and fundamentals are expected to recover in mid-2012, and thus capital expenditures are expected to continue rising even as reconstruction demand fades.

Figure 5: Real Capital Expenditures and Machinery Orders



Note: 1. Oct-Nov 2011 is forecasted by Cabinet office.
 2. Volatile orders are orders for ships and those from electric power companies.
 Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 6: Real Capital Expenditures



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

(2) Household Sector

Employment, Wages

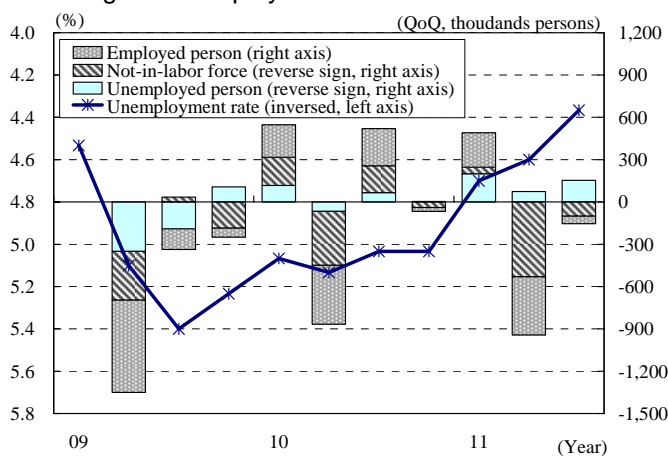
Employment conditions avert dramatic deterioration, lurching forward in September

The unemployment rate improved -0.2ppts QoQ in Jul-Sept to 4.4%, for the third straight quarter of decline, excluding data from Iwate, Miyagi, and Fukushima prefectures (Figure 7). The number of unemployed also declined for the third straight quarter. The number of employed fell and the number of those not in the labor force increased, both for two straight quarters after the March 11 earthquake. Although by no means robust, labor market employment conditions have been able to maintain some level. Further, the number of employed and workers increased and the number of unemployed and those not in the labor force decreased in September, showing that the unemployment rate is improving in a more desirable manner. (However, the unemployment rate reversed course in October, rising +0.3ppt MoM.)

With the employment level remaining steady, working hours expected to rise again and compensation to moderately recover

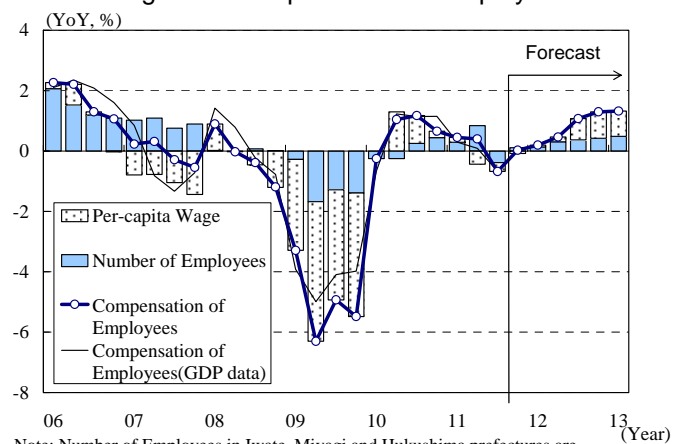
After the March 11 earthquake, employment conditions did not deteriorate as much as feared. This was because of policy measures such as easing benefit conditions for employment subsidies as well as company responses prioritizing cuts in working hours, especially overtime hours, rather than layoffs. We believe that the subsidies will continue to underpin the employment, while the companies' expanding production is likely to result not only in maintaining employment levels but also in increasing working hours again. An increase in working hours will also boost unscheduled wages, or scheduled wages that have fallen slightly, are likely to recover. As a result, number of employees and per capita wage which together make up compensation of employees, are expected to rise gradually (Figure 8).

Figure 7: Employment Related indicators



Note: The Labor Force survey excludes Iwate, Miyagi and Fukushima prefectures.
Source: Compiled by BTMU Economic Research Office from MHLW data.

Figure 8: Compensation of Employees



Note: Number of Employees in Iwate, Miyagi and Fukushima prefectures are added by BTMU after March 2011.
Source: Compiled by BTMU Economic Research Office based on MHLW and MIC data.

Private Consumption

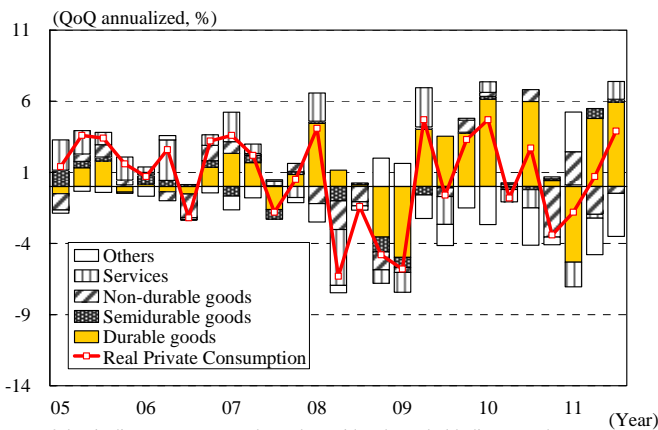
Private consumption has still not recovered

Real private consumption rose at an annualized rate of +3.9% QoQ in Jul-Sept, showing higher growth than the +0.7% QoQ annualized pace in Apr-Jun (Figure 9). By item, consumption of durable goods rose at an annualized rate of +38.0% QoQ, while non-durable goods and services increased at annualized rates of +3.2% QoQ and +2.4% QoQ. On the back of these, we think that demand was strong for automobiles (as the supply chain recovers) and home electrical appliance and clothing (due to energy conservation measures). However, the fact that both factors appear to be merely temporary is a cause for concern. In addition, the Consumption Composite Index rose mainly because the initial starting point was high and the index declined across the board, however slightly, over Q3. Also, the level has not reached the pre-quake level, so private consumption remains unsteady and sensitive.

Consumption to stabilize as confidence, wages improve

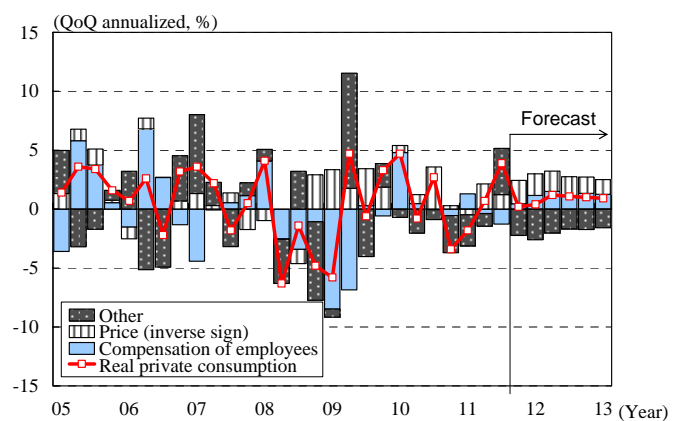
On the other hand, consumer sentiment is improving. For example, the Consumer Confidence Index jumped 9.7% QoQ in Jan-Sept. Although confidence was flat once again in October, sentiment that employment conditions will improve has risen for two straight months. Confidence is likely to continue to improve. Furthermore, as noted above, we expect that employee incomes will gradually rise. Private consumption is thus expected to maintain steady growth due to better sentiment and incomes (Figure 10).

Figure 9: Real Private Consumption by Goods



Note: Other is direct overseas purchases by resident household, direct purchases within Japan by non-resident household (exemption), and statistical error.
Source: Compiled by BTMU Economic Research Office based on Cabinet Office data.

Figure 10: Real Private Consumption



Note: Other is multiplying Ratio of disposable income to worker compensation by Consumption trend.
Source: Compiled by BTMU Economic Research Office from Cabinet Office materials.

Residential Investment

Residential investment surged after a post-quake plunge

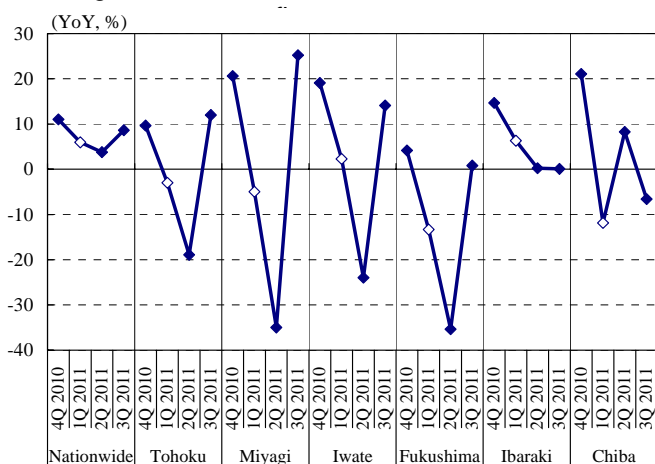
Real residential investment surged by an annualized +21.7% QoQ in Jul-Sept, rising again after two quarters, at the fastest pace since 1999 Apr-Jun. New residential floor space, which is highly correlated to residential investment, rose steeply by +46.3% QoQ annualized and 8.6%

YoY. Starts are surging around the country, but especially in the metropolitan area (Figure 11). This is likely due to demand that had been held back in the wake of the earthquake being triggered by reconstruction and nearing deadlines for programs to support home purchases. Home starts in Iwate, Miyagi and Fukushima prefectures in particular—which were hardest-hit by the March disaster—rebounded strongly. Reconstruction demand is very likely to slowly gain speed, with the Tohoku region overall turning positive on-year for the first time in three quarters.

Strong growth expected to continue with greater reconstruction demand and policy measures

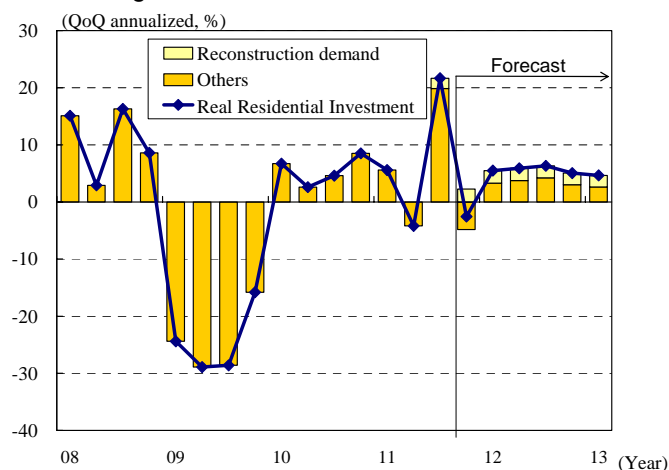
Looking forward, reconstruction activity is expected to continue, and home purchase assistance programs like the Flat 35S preferential interest rate program and Housing Eco-point program, which was re-adopted in the third supplemental budget, will drive residence purchases. Residential investment is very likely to post stable growth after showing a reactionary drop in Oct-Dec (Figure 12).

Figure 11: New residential construction starts



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

Figure 12: Real Residential Investment



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

(3) Public Sector

Jul-Sept public demand dips

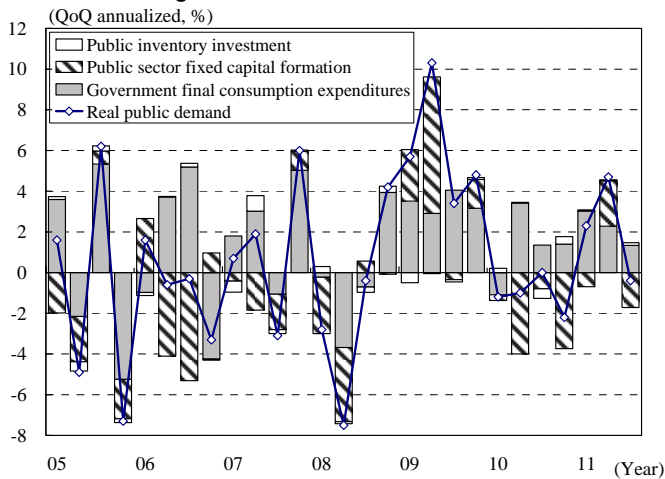
In the Jul-Sep quarter, real public demand declined slightly due to falling public fixed capital formation (Figure 13). This is because urgent restoration of transportation infrastructure damaged by the March earthquake and temporary home construction wound down.

Reconstruction to boost GDP by more than 2% through 2012

The full implementation of the supplementary budgets, which include restoration projects following the earthquake, will push up public demand going forward. This fiscal year's general budget totals JPY106.4 trn, an increase of 11.6% over the FY2010 budget, and includes three supplementary budgets. The Cabinet Office estimates the supplementary budgets will increase real GDP by 2.6%. Also, past experience shows that additional demand's peaks resulting from economic measures appears clearly

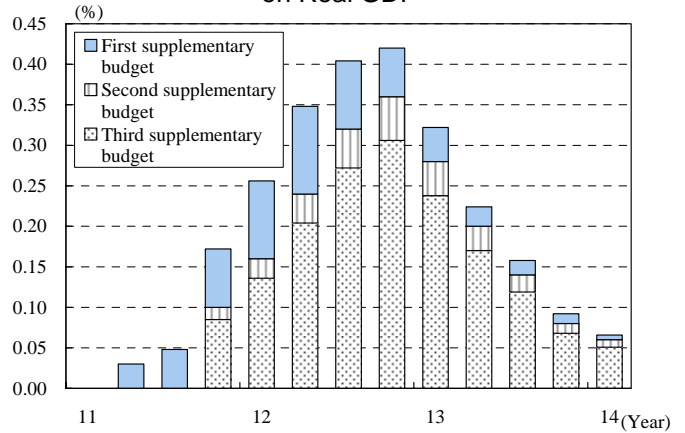
after four or five quarters, so the effects this time are expected to build up through the end of 2012 (Figure 14).

Figure 13: Real Public Demand



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

Figure 14: Impact of FY11 Supplementary Budgets on Real GDP



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

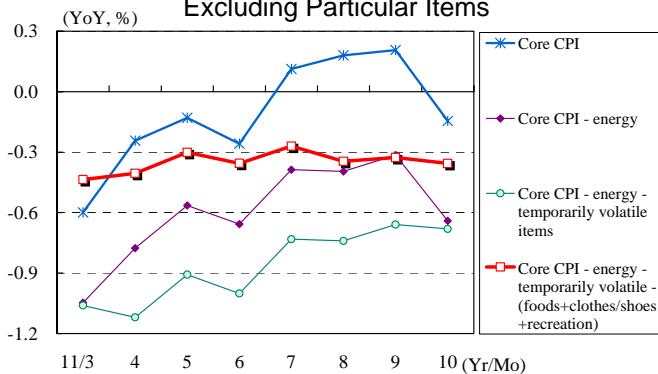
(4) Inflation

Consumer prices started to rise, but mainly due to temporary volatility factors

Consumer prices (excluding fresh foods) rose for three consecutive months in Jul-Sept (July: +0.1% YoY, August: +0.2% YoY, and September: +0.2% YoY). The Jul-Sept quarterly average also turned positive for the first time in 11 quarters. Core-core CPI (excluding foods except alcohol beverages and energy) strengthened in Jul-Sept from Apr-Jun (-0.5% YoY and -0.9% YoY, respectively). However, these results are mainly due to some temporary volatility factors¹, and discounting these items, the CPI's downward trend remains unchanged (Figure 15).

- 1: Temporary volatility factors include: 1) rising energy prices; 2) upward contributions from the cigarette tax hike and higher casualty insurance premiums; 3) slowing declines in food items, 4) rising clothes and shoes prices, and 5) higher package tour prices in the recreational category.

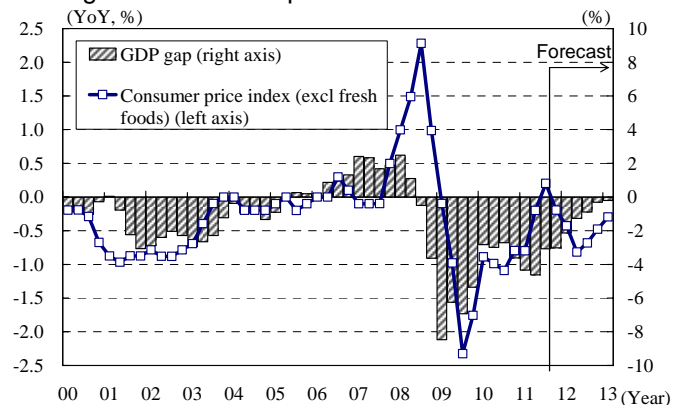
Figure 15: Consumer Price Index Excluding Particular Items



- Notes: 1. Energy is electricity, city gas, propane gas, kerosene, and gasoline.
 2. Temporarily volatile items are cigarette, casualty insurance premium, auto liability insurance premium, and high school tuitions.
 3. Foods excludes fresh foods.

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

Figure 16: GDP Gap and Consumer Price Index



- Notes: 1. GDP Gap = (Real GDP- Potential GDP) / Potential GDP.
 2. Potential GDP is calculated by BTMU Economic Research Office.

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

Deflationary gap to persist and core-CPI to stay in negative territory over forecast period

Price-elevating factors like the cigarette tax hike and higher casualty insurance premiums will fall off in October. In addition, energy prices are expected to slow, reflecting peaking oil prices, and this will drag core CPI back into negative territory again. (In fact, October core CPI was -0.1% YoY, Figure 16). Especially through mid-year, higher oil prices of the previous year will very likely push down the core CPI. Even thereafter, core CPI is projected to stay in negative territory at least until FY2012 because of a persisting deflationary gap.

3 . Monetary Policy, Financial Markets

(1) Monetary Policy

In October the BoJ implemented additional monetary easing

At the October 27 monetary policy meeting, the BoJ agreed to increase asset purchase funds by raising the limit of long-term government bond purchases from JPY5 trn to JPY9 trn, judging that economic downside risk had increased due to the stronger JPY. However, the financial markets have reacted little to the BoJ's additional monetary easing since the BoJ introduced the comprehensive monetary easing policy in October 2010 (Table 1). The BoJ's decision in October is unlikely to cause a turnaround in the markets.

Table 1: Financial Market Reaction After Additional Monetary Easing Implemented

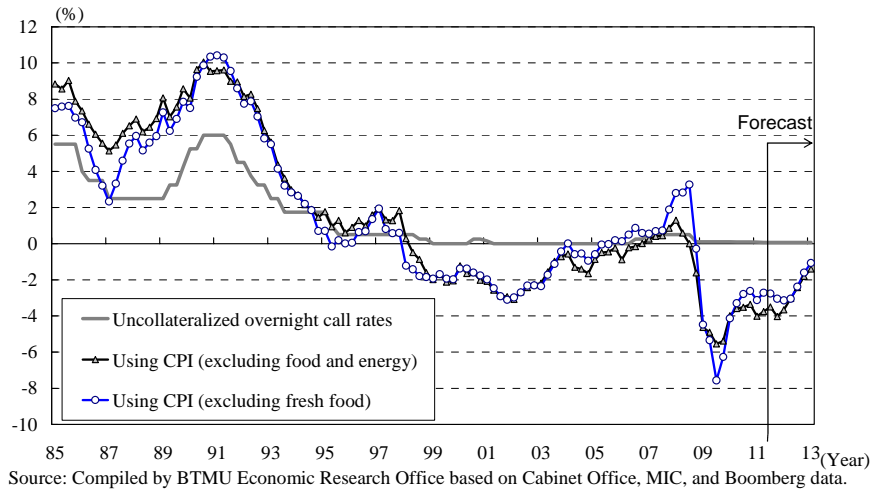
		Yield on newly-issued 10Yr JGB (%)	Nikkei Average share price (JPY)	USD/JPY exchange rate (JPY)
Oct 5, 2010 Comprehensive monetary easing introduced	Day before	0.935	9,381.1	83.4
	1 week later	0.850	9,388.6	81.8
	3 months later	1.155	10,380.8	83.3
Mar 14, 2011 Asset Purchase Fund increased	Day before	1.270	10,254.4	81.9
	1 week later	1.250	9,608.3	81.1
	3 months later	1.145	9,547.8	80.5
Aug 4, 2011 Asset Purchase Fund increased	Day before	1.015	9,637.1	77.1
	1 week later	1.040	8,981.9	76.9
	3 months later	0.985	8,801.4	78.2
Oct 27, 2011 Asset Purchase Fund increased	Day before	0.985	8,748.5	76.3
	1 week later	0.995	8,640.4	78.1

Note: JPY weakened due to intervention measures on Oct 31 for 3 months later for Aug 4, 2011 and 1 week later for Oct 27, 2011
Source: Compiled by BTMU Economic Research Office from Bloomberg materials.

BOJ likely to adopt more accommodative policies in accordance with economic conditions in the future

We expect the Japanese economy will stay on a recovery course, but the policy rate based on the Taylor Rule using our economic outlook above remains below zero through the end of FY2012 (Figure 17). The European sovereign debt problem and a further sudden appreciation by the JPY could very well continue to increase economic downside risk. Therefore, room for additional monetary easing will persist.

Figure 17: Estimated Policy Interest Rates According to Taylor's Rule

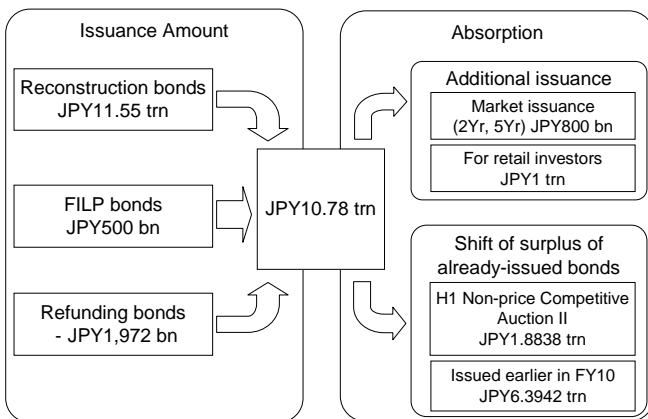


(2) 10Yr JGB Yield

Long-term interest rates to move in same range

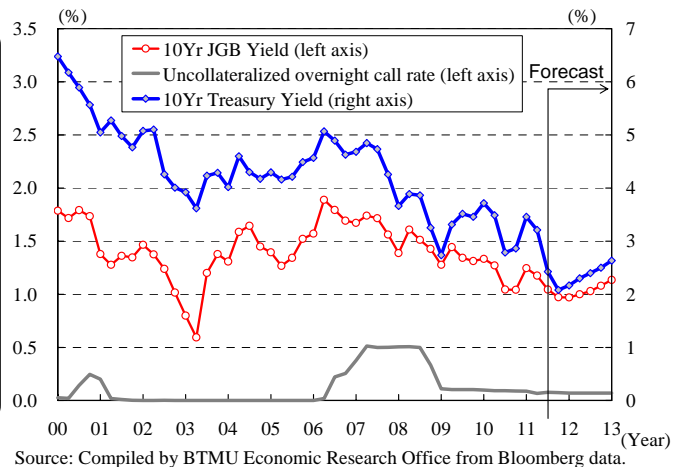
The yield on newly-issued 10Yr JGBs remains at a low level of around 1% due to risk aversion triggered by the European sovereign debt problem. Yields will continue to move in the same range against concerns about slowing by the domestic and overseas economies and the BoJ's virtually zero percent interest policy. An additional JPY11.55 trn of reconstruction bonds are slated to be issued this year, but the impact on bond markets will be limited because several adjustments will slash issuance amount in markets (Figure 18). Also, from the second half of FY2012, we expect yields to rise somewhat along with US long-term interest rates (Figure 19).

Figure 18: Changes in JGB Issuance Plans Based on FY11 Third Supplementary Budget



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

Figure 19: US-Japan Long-Term Yields and Uncollateralized Overnight Call Rate



(3) Exchange Rates

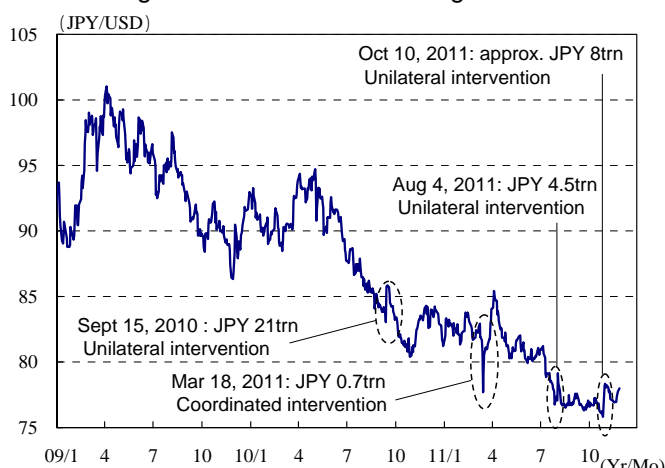
Forex market intervention by Japanese government and BoJ achieved limited results

JPY to remain strong on European debt problem and narrow US- Japanese interest rate spread

On October 31, after the JPY appreciated to the lower JPY/USD75 level, the Japanese government and the BoJ intervened to sell JPY and buy USD. This was the fourth intervention during the current JPY appreciation phase (Figure 20). Though the intervention resulted in the JPY falling to the upper JPY/USD79 level temporarily, thereafter, the JPY rose again. Following the past three interventions, the JPY later appreciated even further, so we think it is difficult to reverse the JPY strengthening only by intervention.

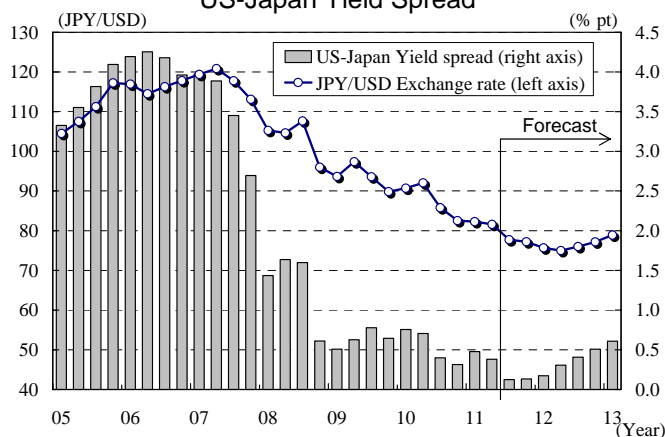
The JPY is likely to stay high due to the European debt problem and a narrow US- Japanese interest rate spread (Figure 21). We expect that growing speculation of higher US interest rates will quell JPY appreciation pressure somewhat in the second half of FY2012, but the JPY's decline will be limited unless the European debt problem appears to be near a resolution.

Figure 20: JPY/USD Exchange Rate



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

Figure 21: JPY/USD Exchange Rate and US-Japan Yield Spread

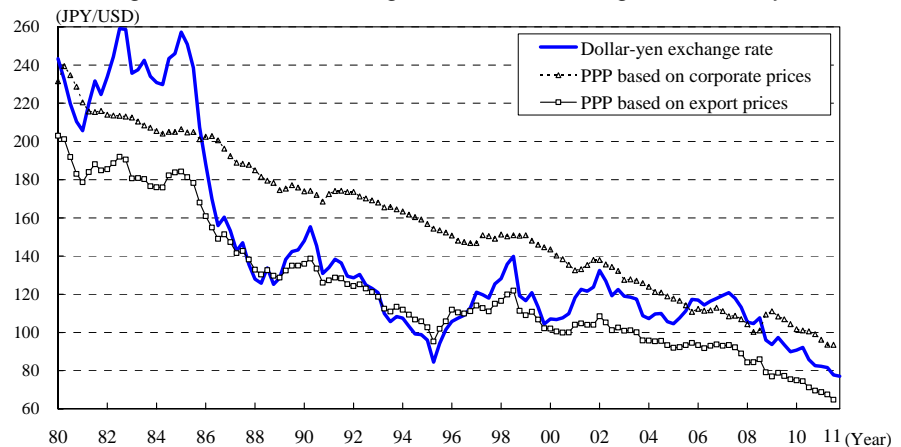


Note: US-Japan yield spread is US 2Yr Treasury yield minus 2Yr JGB yield.
Source: Compiled by BTMU Economic Research Office from Bloomberg data.

Purchasing power parity indicates potential of further JPY appreciation

Also, in terms of purchasing power parity, it should be considered that the JPY tends to rise against the USD, reflecting a lower inflation rate in Japan than in the US (Figure 22). As we have seen in past reversals, in order for the JPY to start to decline, the Fed must implement consecutive rate hikes or there must be international agreement to stop the USD's weakness.

Figure 22 : Yen Exchange Rate : Purchasing Power Parity



Note: 1. Purchasing power parity = exchange rate for a base year (Average of 1973: JPY271.40 per dollar)
 \times (Japanese price index/U.S. price index)

2. Data for export prices are the averages of those based on corporate prices and those based on GDP deflator.

Source: Compiled by BTMU Economic Research Office from Bank of Japan, Cabinet Office, U.S. DOL, U.S. DOC, and Bloomberg data.

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Outlook for the Japanese Economy

30-Nov-2011

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

Forecast →

	2010				2011				2012				2013	FY2010	FY2011	FY2012
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			
1. The Real Economy (QoQ annualized change)																
Real GDP	10.2	0.1	2.9	-2.7	-2.7	-1.3	6.0	1.4	1.6	3.8	2.3	2.4	0.1	2.4	0.4	2.5
Private Consumption	4.7	-0.8	2.7	-3.4	-1.8	0.7	3.9	0.2	0.4	1.2	1.1	1.0	0.9	1.0	0.4	1.0
Housing Investment	6.7	2.6	4.6	8.5	5.6	-4.2	21.7	-2.6	5.5	5.9	6.3	5.1	4.7	-0.2	5.0	5.5
Private Business Fixed Investment	7.7	11.6	2.3	-0.4	-4.5	-1.9	4.4	9.6	9.4	11.8	5.2	2.5	0.1	4.2	1.5	7.3
Business Inventory (Contribution)	4.3	-1.8	1.7	-0.1	-0.9	0.7	0.8	0.1	0.2	0.3	0.4	0.5	0.6	0.5	0.3	0.4
Government Expenditures	-1.2	-1.0	0.0	-2.2	2.3	4.7	-0.4	3.6	5.3	7.1	6.9	3.3	-5.8	0.1	2.2	4.6
Public Investment	-1.6	-21.5	-4.8	-21.6	-4.5	15.7	-10.8	6.1	12.6	19.3	18.3	8.2	-15.1	-9.8	-0.5	10.5
Net Exports (Contribution)	2.2	1.1	-0.7	-0.2	-0.8	-3.1	1.7	-0.8	-1.4	-0.6	-1.2	0.1	0.2	0.9	-0.7	-0.6
Exports	28.9	29.2	0.6	-1.9	1.0	-18.4	27.4	-2.5	1.8	8.3	10.2	8.7	8.2	17.1	-0.7	7.1
Imports	12.0	23.0	6.3	-0.8	6.8	0.4	14.5	4.1	15.5	17.0	24.9	10.6	8.8	10.9	5.8	15.0
Nominal GDP	9.9	-3.4	0.5	-3.5	-4.3	-5.8	5.6	0.7	0.6	2.9	0.9	1.3	-1.3	0.4	-1.5	1.5
GDP Deflator (YoY)	-2.8	-2.0	-2.3	-1.7	-1.9	-2.2	-1.9	-1.8	-1.5	-0.7	-1.1	-1.0	-1.0	-2.0	-1.9	-1.0
Industrial Production Index (QoQ)	7.3	0.7	-1.0	-0.1	-2.0	-4.0	4.3	0.0	2.1	1.2	2.9	1.9	1.6	9.0	-2.0	7.6
Domestic Corporate Goods Price Index (YoY)	-1.6	0.2	-0.1	1.0	1.8	2.5	2.6	2.0	1.2	0.5	0.8	0.9	0.9	0.7	2.1	0.7
Consumer Price Index (excl. fresh food, YoY)	-0.9	-1.0	-1.1	-0.8	-0.8	-0.2	0.2	-0.2	-0.4	-0.9	-0.7	-0.4	-0.3	-0.9	-0.2	-0.5
2. Balance of Payments																
Trade Balance (billion yen)	2,380	1,811	1,967	1,778	910	-1,249	-148	-440	-996	-94	208	143	249	6,465	-2,833	506
Current Balance (billion yen)	4,531	3,904	4,405	4,321	3,260	1,899	2,592	2,330	1,834	2,795	3,157	3,153	3,319	16,126	8,654	12,425
3. Financial																
Uncollateralized overnight call rate	0.1	0.1	0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1
Euro-Yen TIBOR (3-mo.)	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3
Newly Issued 10-Year Government Bonds Yield	1.3	1.3	1.0	1.0	1.2	1.2	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.2	1.0	1.1
Exchange Rate (Yen / U.S.\$)	91	92	86	83	82	82	78	77	76	75	76	77	79	86	78	77

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 Nov 30, 2011

	Fiscal 2009	Fiscal 2010	2010			2011				
			4Q	1Q	2Q	JUN	JUL	AUG	SEP	OCT
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-2.4	2.4	-2.7 (-1.0)	-1.3 (-1.1)	6.0 (0.0)	***	***	***	***	***
Index of All Industries Activity	-4.2	2.0	-1.9 (-0.5)	-0.4 (-1.7)	2.0 (-0.4)	2.2 (0.2)	0.4 (-0.8)	-0.3 (0.2)	-0.9 (-0.8)	
Industrial Production Index	-8.8	8.9	-2.0 (-2.5)	-4.0 (-6.8)	4.3 (-2.1)	3.8 (-1.7)	0.4 (-3.0)	0.6 (0.4)	-3.3 (-3.3)	2.4 (0.4)
Production										
Shipments	-8.3	9.3	-1.9 (-2.6)	-5.9 (-8.4)	6.6 (-2.0)	8.1 (-1.8)	0.1 (-3.0)	0.2 (0.2)	-2.0 (-2.9)	0.6 (0.1)
Inventory	-6.1	3.5	1.0 (3.5)	3.2 (4.0)	1.9 (5.5)	-2.8 (4.0)	-0.1 (4.1)	2.1 (5.8)	-0.1 (5.5)	0.8 (6.9)
Inventory/Shipments Ratio (2005=100)	120.4	108.2	106.9 [106.3]	119.1 [106.5]	116.8 [108.7]	111.9 [106.9]	116.4 [109.0]	114.8 [108.0]	119.2 [109.1]	117.9 [117.0]
Domestic Corporate Goods Price Index	-5.2	0.7	1.2 (1.8)	1.2 (2.5)	-0.1 (2.6)	0.0 (2.5)	0.2 (2.8)	-0.2 (2.6)	-0.1 (2.5)	-0.7 (1.7)
Consumer Price Index(SA, total, excl.fresh foods)	-1.6	-0.8	-0.3 (-0.8)	0.5 (-0.3)	-0.1 (0.2)	-0.3 (-0.2)	0.0 (0.1)	0.1 (0.2)	0.0 (0.2)	-0.1 (-0.1)
Index of Capacity Utilization (2005=100)	80.0	88.0	86.1 [89.5]	80.4 [89.8]	87.2 [88.4]	86.4 [88.9]	86.9 [88.5]	89.0 [88.5]	85.8 [88.1]	87.7 [86.7]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-20.4	9.1	5.6 (8.9)	2.5 (9.8)	1.5 (5.8)	7.7 (17.9)	-8.2 (4.0)	11.0 (2.1)	-8.2 (9.8)	
Manufacturing	-27.9	18.3	5.3 (16.3)	-0.2 (17.2)	2.5 (4.4)	9.3 (21.1)	-5.2 (3.2)	13.7 (5.0)	-17.5 (4.8)	
Non-manufacturing Excl.Electric Power & Ship building	-14.7	2.7	1.4 (3.5)	5.0 (4.2)	5.0 (7.2)	15.7 (15.4)	-1.4 (5.8)	-6.1 (-0.1)	8.5 (13.2)	
Shipments of Capital Goods (Excl.Transport Equipment)	-24.2	21.3	-2.4 (6.6)	6.1 (9.0)	-0.1 (4.1)	1.1 (9.3)	0.6 (7.5)	-3.0 (8.1)	-6.0 (-1.3)	3.8 (1.3)
Construction Orders	-14.2	-5.2								
Private	-15.3	-2.6								
Public	-11.1	-12.1								
Public Works Contracts	4.9	-8.8								
Housing Starts	77.6	81.9	84.2	81.0	87.8	81.7	95.5	93.4	74.5	77.4
10,000 units at Annual Rate, SA	(-25.4)	(5.6)	(3.2)	(4.1)	(7.9)	(5.8)	(21.2)	(14.0)	(-10.8)	(-5.8)
Total floor	(-21.5)	(9.0)	(6.0)	(3.8)	(8.6)	(4.6)	(22.5)	(14.5)	(-10.3)	(-5.8)
Sales at Retailers	-0.4	0.8								
Real Consumption Expenditures of Households over 2 persons (SA)	1.0	-0.9	-2.8 (-3.0)	0.4 (-2.1)	0.9 (-2.8)	0.8 (-3.5)	0.7 (-2.1)	-0.1 (-4.1)	0.9 (-1.9)	0.3 (-0.4)
Propensity to Consume (SA,%)	74.7	73.4	71.9 [74.1]	74.1 [72.4]	73.0 [75.2]	73.6 [71.8]	71.9 [75.4]	73.8 [75.5]	74.3 [75.1]	71.8 [70.8]
Overtime Hours Worked (All Industries, 5 employees or more)	-8.5	6.8	1.2 (1.7)	-2.6 (-2.0)	0.0 (-0.6)	2.2 (0.0)	-0.1 (-1.0)	-1.0 (-2.1)	1.1 (1.0)	-1.2 (0.0)
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-3.3	0.6								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	-77,894	23,384	33,848 1,683	28,033 10,188	27,711 21,464	30,531 10,821	28,860 20,627	29,735 18,928	24,538 24,836	20,159 28,054
Ratio of Job Offers to Applicants (SA,Times)	0.45	0.56	0.62 [0.47]	0.62 [0.50]	0.66 [0.54]	0.63 [0.52]	0.64 [0.53]	0.66 [0.54]	0.67 [0.55]	0.67 [0.56]
Unemployment Rate (SA,%)	5.2	5.0	4.7	4.7	4.7	4.6	4.7	4.3	4.1	4.5
Economy Watcher Survey (Judgment of the present condition D.1.%)	39.9	44.2	40.1 [42.8]	38.0 [48.3]	48.4 [45.4]	49.6 [47.5]	52.6 [49.8]	47.3 [45.1]	45.3 [41.2]	45.9 [40.20]
Bankruptcies (Number of cases)	14,732	13,065	3,211 (-7.3)	3,312 (-0.3)	3,108 (-3.8)	1,165 (1.4)	1,081 (1.4)	1,026 (-3.5)	1,001 (-9.1)	976 (-14.0)

(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.

Unemployment Rate excludes Iwate, Miyagi, and Fukushima prefectures from March to August 2011.

2 . Balance of Payments

As of Nov 30, 2011

	Fiscal 2009	Fiscal 2010	2010		2011		2011				
			4Q	1Q	2Q	JUN	JUL	AUG	SEP	OCT	
Customs Clearance(Exports in Yen Terms)	-17.1	14.9	(2.5)	(-8.1)	(0.5)	(-1.6)	(-3.4)	(2.8)	(2.3)	(-3.8)	
Value	-7.0	0.2	(-0.0)	(0.2)	(1.6)	(1.1)	(2.0)	(1.9)	(0.9)	(0.2)	
Volumes	-9.9	14.6	(2.4)	(-8.3)	(-1.1)	(-2.7)	(-5.3)	(0.9)	(1.5)	(-3.9)	
Imports(In Yen terms)	-25.2	16.0	(11.4)	(10.4)	(13.8)	(9.8)	(9.9)	(19.2)	(12.2)	(17.9)	
Value	-18.4	3.3	(4.0)	(7.4)	(12.1)	(8.0)	(12.9)	(12.5)	(11.1)	(11.2)	
Volumes	-7.3	12.4	(7.2)	(2.8)	(1.5)	(1.7)	(-2.6)	(6.0)	(1.0)	(6.0)	
Current Balance(100 mil. yen)	157,817	161,255	39,866	15,372	29,825	5,389	9,902	4,075	15,848		
Trade Balance(100 mil. yen)	65,996	64,955	5,577	-10,534	-1,982	1,299	1,233	-6,947	3,732		
Services(100 mil. yen)	-18,185	-12,730	-771	-5,040	-6,068	-1,046	-3,062	-1,826	-1,180		
Capital and Financial Accounts(100 mil. yen)	-123,113	-97,221	-34,301	8,947	5,578	-1,783	-7,531	31,005	-17,896		
Gold & Foreign Exchange Reserves(\$1mil.)	1,042,715	1,116,025	1,116,025	1,137,809	1,200,593	1,137,809	1,150,877	1,218,501	1,200,593	1,209,882	
Exchange Rate(V/\$)	92.80	85.69	82.32	81.70	77.84	80.51	79.47	77.22	76.84	76.77	

3 . Financial Market Indicators

	Fiscal 2009	Fiscal 2010	2010		2011		2011					
			4Q	1Q	2Q	JUN	JUL	AUG	SEP	OCT		
Uncollateralized Overnight Call Rates	0.102	0.091	0.088	0.067	0.078	0.069	0.073	0.081	0.080	0.081		
			[0.098]	[0.093]	[0.093]	[0.095]	[0.094]	[0.095]	[0.091]	[0.091]		
Euro Yen TIBOR (3 Months)	0.516	0.356	0.336	0.332	0.330	0.332	0.332	0.329	0.329	0.329		
			[0.443]	[0.388]	[0.364]	[0.381]	[0.373]	[0.363]	[0.355]	[0.336]		
Newly Issued Japanese Government Bonds Yields (10 Years)	1.353	1.127	1.242	1.160	1.043	1.130	1.080	1.030	1.020	1.045		
			[1.337]	[1.208]	[0.987]	[1.085]	[1.055]	[0.975]	[0.930]	[0.920]		
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.449	1.357	1.357	1.349	1.315	1.349	1.338	1.337	1.315	1.317		
			(-0.025)	(-0.008)	(-0.034)	(0.003)	(-0.011)	(-0.001)	(-0.022)	(0.002)		
The Nikkei Stock Average (TSE 225 Issues)	11,090	9,755	9,755	9,816	8,700	9,816	9,833	8,955	8,700	8,988		
			[11,090]	[9,383]	[9,369]	[9,383]	[9,537]	[8,824]	[9,369]	[9,202]		
M2(Average)	(2.9)	(2.7)	(2.4)	(2.8)	(2.8)	(2.9)	(3.0)	(2.7)	(2.7)	(2.7)		
Broadly-defined Liquidity(Average)	(0.5)	(0.6)	(-0.3)	(-0.0)	(0.5)	(0.3)	(0.7)	(0.4)	(0.2)	(-0.1)		
Principal Figures of Financial Institutions												
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(0.8)	(-1.9)	(-1.8)	(-0.8)	(-0.5)	(-0.6)	(-0.5)	(-0.3)	(0.0)	
		Banks	Banks	(0.8)	(-2.0)	(-1.9)	(-0.8)	(-0.5)	(-0.6)	(-0.6)	(-0.5)	(-0.1)
			City Banks etc.	(-0.4)	(-4.2)	(-4.6)	(-2.8)	(-2.6)	(-2.7)	(-2.7)	(-2.6)	(-2.3)
			Regional Banks	(2.4)	(0.6)	(1.2)	(1.5)	(1.9)	(1.7)	(1.8)	(1.8)	(1.9)
			Regional Banks	(1.3)	(-0.4)	(-0.0)	(0.9)	(1.2)	(1.1)	(1.3)	(1.2)	(1.2)
	Shinkin	(0.8)	(-1.3)	(-1.1)	(-0.7)	(-0.5)	(-0.6)	(-0.5)	(-0.4)	(-0.2)		
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(2.9)	(2.6)	(2.2)	(2.7)	(2.3)	(2.8)	(2.6)	(2.1)	(2.3)	
		City Banks	(3.0)	(2.6)	(1.8)	(2.3)	(1.0)	(2.2)	(1.5)	(0.6)	(0.9)	
		Regional Banks	(3.1)	(3.1)	(3.1)	(3.4)	(3.9)	(3.7)	(4.0)	(3.8)	(4.0)	
		Regional Banks	(1.8)	(0.6)	(0.9)	(2.0)	(2.8)	(2.2)	(2.6)	(2.7)	(2.9)	

(Notes)

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

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.

(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.