

Japan Economic Monthly

Japanese Economy Embarks on Second Post–Earthquake Recovery Phase

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The Bank of Tokyo-Mitsubishi UFJ, Ltd.

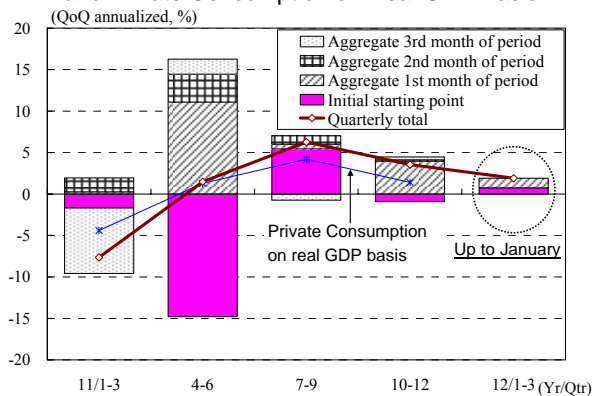
1 . The Real Economy

March 11 marked a full year since the massive earthquake in eastern Japan that wrought damage across wide areas of the country. Looking back over the past year, real GDP dropped precipitously by an annualized -6.9% QoQ in the Jan-Mar quarter just after the disaster, but the contraction then narrowed to an annualized rate of -1.2% QoQ in Apr-Jun. Growth then hit a high annualized rate of 7.1% QoQ in Jul-Sept. This marked the first recovery phase, the partial reconstruction of earthquake-damaged private facilities, residential stock and social infrastructure and restoration of supply chains. Thereafter, as the effects of slowing overseas economies and JPY appreciation appeared more through the end of 2011, real GDP once again turned negative in Oct-Dec. However, according to revised figures released March 8, the Oct-Dec negative growth rate was only an annualized -0.7% QoQ. Further, by component, while external demand was sluggish, internal demand appeared to be steady. Private consumption increased for a third straight quarter and private fixed investment surged an annualized 20.7% QoQ.

The tug-of-war between the downward pressures of sluggish overseas economies and the recent JPY appreciation and the upward pull of emerging reconstruction demand appears to be persisting in the Jan-Mar quarter. Although export volume decreased again in January, the Private Consumption Integrated Estimates, an indicator of private spending, rose for the fourth straight month (Figure 1). The indicator average has momentum so far this quarter to exceed last quarter, and the Jan-Mar real GDP growth rate can be expected to turn positive as well. Moreover, leading indicators have improved further recently. The leading Indexes of Business Conditions, synthesized from various monthly indicators, rose for a third straight month in January, recovering to 99% of the pre-March 11, 2011, level (Figure 2). In particular, the rise in reconstruction demand-related leading indicators such as public construction orders, machinery orders, and housing starts has been striking.

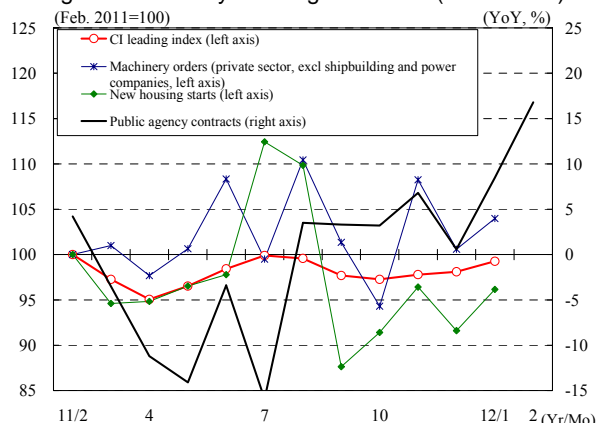
The Japanese economy's post-March 11 recovery appears to be entering a second phase in which reconstruction projects are fully underway and impacts are not limited to the disaster areas but spill over to the entire country. Real GDP growth is thus expected to remain high throughout 2012.

Figure 1: Private Consumption Integrated Estimates and Private Consumption on Real GDP Basis



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

Figure 2: Monthly Leading Indicators (Feb. 2011-)



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

2 . Financial Markets

(1) Monetary Policy & Long-Term Yields

At the March 12-13 Monetary Policy Meeting, the Bank of Japan agreed to extend the period and range of The Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (The Growth-Supporting Funding Facility) (Table 1). Specifically, the BoJ prolonged the terms of existing measures, increased fund limits, and agreed to introduce new measures targeting small lot and foreign currency-denominated investments and loans which had not been eligible for the facility. Additionally, the deadline for new loan applications under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, introduced in response to the March 11 earthquake, was extended by one year to April 30, 2013. Also, at the March meeting, one Board member proposed increasing the amount of the asset purchase program by approximately JPY5 trillion, but the proposal was voted down. However, the BoJ has declared that it will keep forcefully promoting monetary easing, pursuing its goal of a +1% YoY CPI. There is thus potential for additional monetary easing in the near future.

Long-term yields have been pushed up somewhat since late February due to stock market rallies and higher US long-term yields. Newly-issued 10Yr JGB yields, which had been moving in a range of around 1% since the beginning of this year, temporarily rose to 1.06% on March 15, the highest level since last November. However, the potential for further BoJ monetary easing would limit room for higher long-term yields.

(2) Exchange Rates

In the foreign exchange market, the JPY has dropped against the USD by over JPY7 since early February and has been trading in the range of USD/JPY 82 ~ 84. Several factors together have devalued the JPY significantly: improving US economic indicators, diminishing

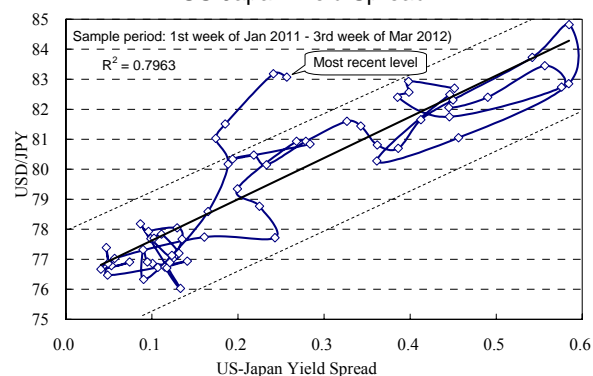
speculation of additional FRB monetary easing, easing concern over the European sovereign debt issue due to the progress in Greek debt restructuring negotiations, and the BoJ's additional monetary easing in February. Also, in that period, EUR/JPY has risen by approximately JPY10. However, the current JPY depreciation appears to have somewhat overshot. Though the spread between 2Yr US and Japanese bond yields, which is highly correlated with USD/JPY, has clearly widened, the JPY has weakened more than the spread suggests (Figure 3). Potential that the JPY will bounce back against the USD persists.

Table 1: Overview of the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

	Main rules	Special rules for equity investments and asset-based lending	Special rules for small-lot investments and loans	Special rules for loans in the U.S. dollar
Time of establishment	March 2010	June 2011	March 2012	A preliminary outline is released in March 2012
Total amount of loans	3 trillion yen increased to 3.5 trillion yen	0.5 trillion yen	0.5 trillion yen	U.S. dollar funds equivalent to 1 trillion yen
Eligible investments and loans	Those with the size of 10 million yen or more	Equity investments and ABL with the size of 1 million yen or more	Those with the size of 1 million yen or more but less than 10 million yen	Those denominated in foreign currencies
Duration of loans	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)
Loan rates	0.1 percent per annum	0.1 percent per annum	0.1 percent per annum	Prevailing U.S. dollar market interest rate
Deadline for applications for new loans	March 31, 2012 extended to March 31, 2014	March 31, 2012 extended to March 31, 2014	31-Mar-14	31-Mar-14
Amount outstanding as of March 13, 2012	2.9998 trillion yen	89.1 billion yen	-	-

Note: Shadowed parts indicate decisions made at this Monetary Policy Meeting.
Source: Compiled by BTMU Economic Research Office based on the information from BOJ.

Figure 3: USD/JPY Exchange Rate and US-Japan Yield Spread



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

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MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1 . Main Economic Indicators

As of Mar. 29, 2012

	Fiscal 2009	Fiscal 2010	2011			2011			2012	
			2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-2.1	3.1	-1.2 (-1.7)	7.1 (-0.4)	-0.7 (-0.6)	***	***	***	***	***
Index of All Industries Activity	-4.2	2.0	-0.4 (-1.7)	2.0 (-0.4)	0.1 (-0.4)	0.9 (0.2)	-1.0 (-1.1)	1.6 (-0.2)	-1.0 (-0.1)	
Industrial Production Index	-8.8	8.9	-4.0 (-6.8)	4.3 (-2.1)	-0.4 (-2.8)	2.2 (0.1)	-2.7 (-4.2)	3.8 (-4.3)	1.9 (-1.3)	
Production										
Shipments	-8.3	9.3	-5.9 (-8.4)	6.6 (-2.0)	-0.6 (-2.7)	0.2 (-0.3)	-1.6 (-4.6)	4.6 (-3.0)	-0.9 (-1.5)	
Inventory	-6.1	3.5	3.2 (4.0)	1.9 (5.5)	-2.6 (3.4)	0.9 (7.0)	-0.6 (8.2)	-2.9 (3.4)	3.0 (2.5)	
Inventory/Shipments Ratio (2005=100)	120.4	108.2	119.1 [106.5]	116.8 [108.7]	115.4 [111.0]	118.1 [117.0]	116.2 [108.0]	111.9 [108.0]	113.5 [107.9]	[104.3]
Domestic Corporate Goods Price Index	-5.2	0.7	1.2 (2.5)	-0.1 (2.6)	-0.9 (1.5)	-0.8 (1.6)	0.0 (1.6)	0.0 (1.2)	-0.1 (0.5)	0.2 (0.6)
Consumer Price Index(SA, total, excl.fresh foods)	-1.6	-0.8	0.5 (-0.3)	-0.1 (0.2)	-0.2 (-0.1)	-0.1 (-0.1)	0.0 (-0.2)	0.0 (-0.1)	0.1 (-0.1)	
Index of Capacity Utilization (2005=100)	80.0	88.0	80.4 [89.8]	87.2 [88.4]	88.5 [88.4]	89.3 [86.7]	86.7 [88.2]	89.4 [90.2]	92.4 [91.1]	[93.7]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-20.4	9.1	2.5 (9.8)	1.5 (5.8)	-2.6 (6.7)	-6.9 (1.5)	14.8 (12.5)	-7.1 (6.3)	3.4 (5.7)	
Manufacturing	-27.9	18.3	-0.2 (17.2)	2.5 (4.4)	-2.8 (4.1)	5.5 (2.4)	4.7 (7.1)	-7.1 (3.0)	-1.8 (-0.6)	
Non-manufacturing	-14.7	2.7	5.0 (4.2)	5.0 (7.2)	-2.3 (8.6)	-7.3 (1.0)	6.2 (16.0)	-6.0 (9.0)	2.3 (11.7)	
Excl.Electric Power & Ship building										
Shipments of Capital Goods (Excl.Transport Equipment)	-24.2	21.3	6.1 (9.0)	-0.1 (4.1)	-0.7 (2.3)	3.5 (1.0)	0.7 (3.1)	1.7 (2.7)	-3.7 (2.3)	
Construction Orders	-14.2	-5.2	(18.0)	(-0.6)	(13.1)	(24.3)	(21.0)	(1.5)	(24.6)	
Private	-15.3	-2.6	(20.1)	(-2.1)	(9.7)	(7.1)	(18.0)	(5.8)	(22.6)	
Public	-11.1	-12.1	(15.1)	(21.7)	(19.6)	(115.8)	(-10.7)	(-0.6)	(39.0)	
Public Works Contracts	4.9	-8.8	(-9.3)	(-3.4)	(3.6)	(3.2)	(6.8)	(0.6)	(8.5)	(16.8)
Housing Starts (10,000 units at Annual Rate, SA)	77.5 (-25.4)	81.8 (5.6)	82.4 (4.1)	88.3 (7.9)	79.6 (-4.5)	78.1 (-5.8)	82.4 (-0.3)	78.3 (-7.3)	82.2 (-1.1)	
Total floor	(-21.5)	(9.0)	(3.8)	(8.6)	(-4.4)	(-5.8)	(-0.1)	(-7.3)	(-2.7)	
Sales at Retailers	-0.4	0.8	(-1.7)	(-1.0)	(0.8)	(1.9)	(-2.2)	(2.5)	(1.8)	(3.5)
Real Consumption Expenditures of Households over 2 persons (SA)	1.0	-0.9	0.1 (-2.1)	0.4 (-2.8)	0.4 (-1.0)	0.3 (-0.4)	-0.4 (-3.2)	-0.1 (0.5)	-0.1 (-2.3)	
Propensity to Consume (SA,%)	74.7	73.4	74.0 [72.3]	73.1 [75.2]	74.2 [74.0]	72.7 [71.7]	74.1 [75.7]	74.5 [74.3]	73.7 [75.9]	[72.3]
Overtime Hours Worked (All Industries, 5 employees or more)	-8.5	6.8	-2.6 (-2.0)	1.3 (-0.6)	1.1 (0.9)	-0.1 (1.0)	0.0 (0.0)	2.3 (1.8)	0.5 (1.0)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-3.3	0.6	(-0.4)	(-0.3)	(0.0)	(0.0)	(-0.2)	(0.1)	(0.0)	
Employment Index(Regular Employees Only; All Industries, 5 employees or more) (Change over the M/Q/Y)	-77,894	23,384	28,033 10,188	27,711 21,464	25,350 28,038	21,493 28,054	28,986 28,971	25,572 27,087	21,322 32,797	32,772
Ratio of Job Offers to Applicants (SA,Times)	0.45	0.56	0.62 [0.50]	0.66 [0.54]	0.69 [0.57]	0.68 [0.56]	0.69 [0.57]	0.71 [0.58]	0.73 [0.60]	[0.61]
Unemployment Rate (SA,%)	5.2	5.0	4.7 [5.1]	4.4 [5.0]	4.5 [5.0]	4.4 [5.0]	4.5 [5.0]	4.5 [4.8]	4.6 [4.9]	[4.7]
Economy Watcher Survey (Judgment of the present condition D.I,%)	39.9	44.2	38.0 [48.3]	48.4 [45.4]	46.0 [43.0]	45.9 [40.2]	45.0 [43.6]	47.0 [45.1]	44.1 [44.3]	45.9 [48.40]
Bankruptcies (Number of cases)	14,732 (-8.7)	13,065 (-11.3)	3,312 (-0.3)	3,108 (-3.8)	3,103 (-5.9)	976 (-14.0)	1,095 (3.2)	1,032 (-6.3)	985 (-5.3)	1,038 (5.1)

(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 Mar. 29, 2012

	Fiscal	Fiscal	2011			2011			2012	
	2009	2010	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Customs Clearance(Exports in Yen Terms)	-17.1	14.9	(-8.1)	(0.5)	(-5.5)	(-3.8)	(-4.5)	(-8.0)	(-9.2)	(-2.7)
Value	-7.0	0.1	(0.0)	(1.6)	(-0.5)	(0.2)	(-0.1)	(-1.5)	(1.0)	(1.2)
Volumes	-9.9	14.7	(-8.1)	(-1.1)	(-5.0)	(-4.0)	(-4.4)	(-6.6)	(-10.1)	(-3.7)
Imports(In Yen terms)	-25.2	16.0	(10.5)	(13.8)	(12.4)	(17.9)	(11.5)	(8.2)	(9.5)	(9.3)
Value	-18.4	3.4	(7.4)	(12.1)	(10.9)	(11.3)	(12.5)	(8.9)	(6.2)	(5.8)
Volumes	-7.3	12.4	(2.8)	(1.5)	(1.3)	(6.0)	(-1.0)	(-0.7)	(3.1)	(3.2)
Current Balance(100 mil. yen)	157,817	161,255	15,372	31,007	10,044	5,624	1,385	3,035	-4,373	
Trade Balance(100 mil. yen)	65,996	64,955	-10,534	-1,762	▲ 9,370	-2,061	-5,851	-1,458	-13,816	
Services(100 mil. yen)	-18,185	-12,730	-5,040	-5,146	-5,449	-2,754	-1,151	-1,544	-930	
Capital and Financial Accounts(100 mil. yen)	-123,113	-97,221	8,947	4,590	80,739	-5,277	77,048	8,968	901	
Gold & Foreign Exchange Reserves(\$1mil.)	1,042,715	1,116,025	1,137,809	1,200,593	1,295,841	1,209,882	1,304,763	1,295,841	1,306,668	1,302,877
Exchange Rate(¥/\$)	92.80	85.69	81.70	77.84	77.39	76.77	77.54	77.85	76.97	78.45

3 . Financial Market Indicators

	Fiscal	Fiscal	2011			2011			2012		
	2009	2010	2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB	
Uncollateralized Overnight Call Rates	0.102	0.091	0.067 [0.093]	0.078 [0.093]	0.079 [0.090]	0.081 [0.091]	0.077 [0.091]	0.078 [0.087]	0.080 [0.085]	0.085 [0.093]	
Euro Yen TIBOR (3 Months)	0.516	0.356	0.332 [0.388]	0.330 [0.364]	0.329 [0.336]	0.329 [0.336]	0.329 [0.335]	0.329 [0.335]	0.331 [0.335]	0.332 [0.335]	
Newly Issued Japanese Government Bonds Yields (10 Years)	1.353	1.127	1.160 [1.208]	1.043 [0.987]	1.030 [1.072]	1.045 [0.920]	1.065 [1.185]	0.980 [1.110]	0.965 [1.215]	0.955 [1.255]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.449	1.357	1.349 (-0.008)	1.315 (-0.034)	1.292 (-0.023)	1.317 (0.002)	1.313 (-0.004)	1.292 (-0.021)	1.294 (0.002)		
The Nikkei Stock Average (TSE 225 Issues)	11,090	9,755	9,816 [9,383]	8,700 [9,369]	8,455 [10,229]	8,988 [9,202]	8,435 [9,937]	8,455 [10,229]	8,803 [10,238]	9,723 [10,624]	
M2(Average)	(2.9)	(2.7)	(2.8)	(2.8)	(3.0)	(2.8)	(3.0)	(3.2)	(3.1)	(2.9)	
Broadly-defined Liquidity(Average)	(0.5)	(0.6)	(-0.0)	(0.5)	(0.3)	(0.1)	(0.3)	(0.4)	(0.3)	(0.3)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin		(0.8)	(-1.9)	(-0.8)	(-0.5)	(0.2)	(-0.0)	(0.2)	(0.4)	(0.6)
	Banks		(0.8)	(-2.0)	(-0.8)	(-0.5)	(0.3)	(0.1)	(0.2)	(0.5)	(0.8)
	City Banks etc.		(-0.4)	(-4.2)	(-2.8)	(-2.6)	(-1.3)	(-1.6)	(-1.4)	(-1.0)	(-0.5)
	Regional Banks		(2.4)	(0.6)	(1.5)	(1.9)	(2.1)	(2.0)	(2.1)	(2.2)	(2.3)
	Regional Banks		(1.3)	(-0.4)	(0.9)	(1.2)	(1.2)	(1.2)	(1.1)	(1.2)	(1.2)
Deposits and CDs (Average)	Shinkin		(0.8)	(-1.3)	(-0.7)	(-0.5)	(-0.4)	(-0.4)	(-0.4)	(-0.5)	(-0.3)
	Total(3 Business Condition)		(2.9)	(2.6)	(2.7)	(2.3)	(3.0)	(2.5)	(3.0)	(3.3)	(2.9)
	City Banks		(3.0)	(2.6)	(2.3)	(1.0)	(2.1)	(1.2)	(2.2)	(3.0)	(2.9)
	Regional Banks		(3.1)	(3.1)	(3.4)	(3.9)	(4.0)	(4.1)	(4.0)	(3.8)	(3.6)
Regional Banks		(1.8)	(0.6)	(2.0)	(2.8)	(3.1)	(3.2)	(3.1)	(3.1)	(3.1)	

(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.

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