

# Japan Economic Monthly

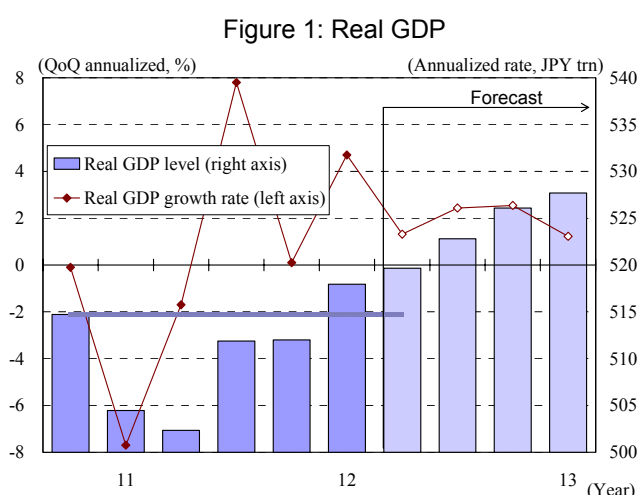
## Japanese Economy Regains Momentum As Risk Factors Abound Both at Home and Abroad

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

### 1. The Real Economy

The Japanese economy has been regaining momentum since the beginning of the year. According to the second preliminary report released June 8, real GDP rose an annualized +4.7% QoQ in Jan-Mar, much faster than the annualized rate of +0.1% QoQ of Oct-Dec (Figure 1). By final demand component, private consumption remained steady, while public demand and exports increased again. On the other hand, residential investment and private fixed investment decreased; however, their declines were an annualized rate of -6.0% QoQ and -8.2% QoQ, less than in the first preliminary report. As a result, real GDP has surpassed the level of Oct-Dec 2010, prior to the 2011 March earthquake. The Japanese economy's post-earthquake recovery appears to be shifting into a second phase, marked by sustainability, stability and industrial and regional expansion. All attributes were missing in the first phase in early-FY11. In addition, the GDP deflator, which reflects whole price trends, turned positive on-quarter in Jan-Mar for the first time in 13 quarters, while the nominal GDP growth rate of +4.9% QoQ annualized exceeded the real GDP growth rate of +4.7% QoQ annualized. This is a return to normal conditions.

While the second phase of the recovery is expected to continue, driven by full-on reconstruction and restoration activities, caution about a re-stalling is warranted. Conditions in Europe are once again strained and the JPY has been trending higher, especially against the EUR. Amidst such circumstances, the leading CI among the Indexes of Business Conditions, which track the movements of economically-sensitive monthly indicators, declined in April after a long interval. The four straight months of rise through March was a strong performance rarely seen, and a decline did not come as a surprise. That said, in the past, the economy has often retreated or grown sluggish after a break in a continuous rise of the CI (Table 1). Preparation for downside risks, including swings in overseas economies and domestic electric power supply constraints, is critical.



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

Table 1: Economic Conditions After Continuous Rise in Leading CI of Indexes of Business Conditions is Broken

		(MoM, %)							Trend thereafter
		Initial change	1 month later	2 months later	3 months later	4 months later	5 months later	6 months later	
After four straight months of rise	(1)1993/6~	-0.6	-0.2	-0.1	-0.2	-1.6	-0.4	-0.5	down
	(2)2011/3~	-2.7	-2.1	1.5	1.9	1.7	-0.4	-1.4	mix
	(3)2012/4~	-1.0							?
After five straight months of rise	(1)1996/1~	-0.2	1.1	-0.1	1.8	0.0	-1.1	1.4	mix
	(2)2000/9~	-0.3	-0.3	-0.2	0.1	-2.9	-1.0	-0.9	down
	(3)2002/6~	-0.7	0.2	0.0	-0.7	-0.2	0.7	-0.9	mix
	(4)2004/8~	-1.4	0.3	0.1	0.6	-0.3	-0.2	-0.5	mix
After six straight months of rise	(1)1999/5~	-0.5	2.2	1.4	0.2	0.9	0.8	0.7	up
	(2)2003/11~	-2.0	1.2	1.4	-0.1	1.8	0.5	0.8	up

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

## 2. Financial Markets

### (1) Monetary Policy & Long-Term Yields

At the June 14-15 Monetary Policy Meeting, the Bank of Japan voted to leave current monetary policy unchanged. The BoJ has revised up its economic assessment to “*Japan’s economic activity has started picking up moderately*” in this month’s statement from “*economic activity has remained more or less flat*” in the prior statement and appears to have determined that there is little need for additional monetary easing. However, the BoJ seems to be more cautious about financial market movements related to the European debt crisis and appears to stand ready to immediately implement additional monetary easing in response as economic conditions warrant.

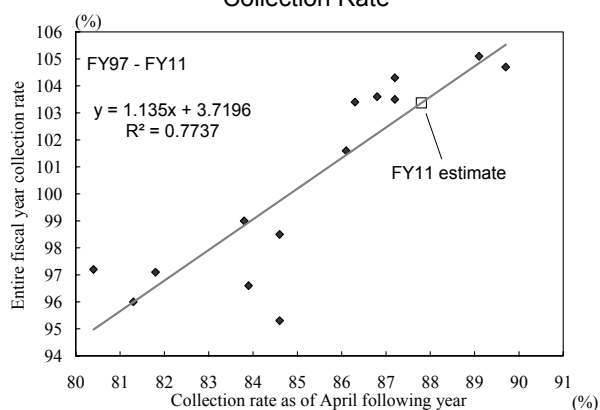
Long-term interest rates have been low amidst flight to quality conditions. On June 4, the yield on newly-issued 10Yr JGBs dipped below the 0.8% mark to 0.79% for the first time in approximately nine years. The yield is currently hovering around the mid-0.8% level now. One reason for the low and stable long-term yield is the recovery in tax revenue. FY11 tax and recordation stamp revenues reached JPY36.9 trillion, a 3.8% YoY rise, in April. (The FY11 tax payment period is through May 2012.) Whole-year tax revenue is likely to exceed budgeted revenue, with JPY42.03 trillion, or 87.8%, of the FY11 budget collected already, the third highest rate in the past 15 years. An estimated 103.4% of the FY11 budget is expected to be collected, approximately JPY1.4 trillion over the budget figure (Figure 2).

### (2) Exchange Rates

In foreign exchange markets, JPY appreciation pressures have emerged due to uncertainty over Greece and Spain and the slowing in the US economy (Figure 3). Through early June, the JPY strengthened especially against the EUR and on June 1 rose to the EUR/JPY95 level,

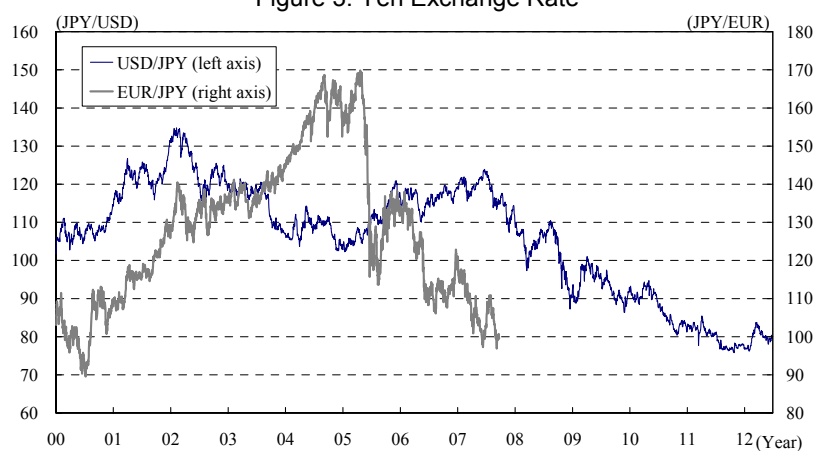
the highest since November 2000. Later, the EUR recovered to around EUR/JPY100, but remains below EUR/JPY105, the assumption exchange rate for the fiscal year ending March 2013 for many large manufacturers. On the other hand, the JPY's appreciation against USD has been relatively small, and JPY currently stands at approximately USD/JPY78-79. (Many large manufacturers' assumption rates are around USD/JPY80). However, if the US economy slows further and speculation of sizeable monetary easing by the Fed emerges, the JPY could appreciate more against the USD. Also, a rapid rise by the JPY against the EUR due to the troubles in Europe bears watching.

Figure 2: Tax and Recordation Stamp Revenue Collection Rate



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

Figure 3: Yen Exchange Rate



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

(Yasuhiro ISHIMARU, Shin TAKAYAMA)

## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

## 1. Main Economic Indicators

As of Jun. 28, 2012

	Fiscal 2010	Fiscal 2011	2011		2012	2012				
			3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Real GDP Growth Rate <% changes from previous period at SA annual rate>	3.2	-0.0	7.8 (-0.5)	0.1 (-0.6)	4.7 (2.8)	***	***	***	***	***
Index of All Industries Activity	2.0	0.2	2.1 (-0.1)	0.5 (0.0)	-0.1 (2.4)	-0.7 (-0.1)	-0.1 (1.6)	-0.3 (5.5)	0.1 (4.1)	
Industrial Production Index	9.3	-1.0	5.4 (-0.9)	0.4 (-1.6)	1.3 (4.8)	0.9 (-1.6)	-1.6 (1.5)	1.3 (14.2)	-0.2 (12.9)	
Shipments	9.4	-2.0	7.0 (-1.6)	0.3 (-2.2)	0.8 (4.1)	-1.1 (-1.5)	0.3 (1.5)	0.5 (11.9)	0.6 (16.0)	
Inventory	3.9	9.6	1.8 (6.0)	-1.4 (3.8)	5.9 (9.6)	2.1 (2.5)	-0.5 (1.0)	4.3 (9.6)	2.0 (10.8)	
Inventory/Shipments Ratio (2005=100)	108.4	116.4	116.5 [108.7]	115.0 [111.0]	113.1 [107.7]	113.5 [108.4]	110.4 [105.9]	115.3 [108.8]	123.2 [126.6]	121.5 [121.5]
Domestic Corporate Goods Price Index	0.7	1.7	-0.1 (2.6)	-0.9 (1.5)	0.2 (0.5)	0.0 (0.5)	0.2 (0.6)	0.5 (0.5)	0.2 (-0.3)	-0.4 (-0.5)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.1 (-0.3)	-0.2 (-0.1)	-0.1 (0.1)	0.1 (-0.1)	0.2 (0.1)	0.1 (0.2)	0.1 (0.2)	
Index of Capacity Utilization (2005=100)	88.0	87.4	87.5 [88.4]	89.3 [88.4]	92.1 [85.9]	92.8 [91.4]	91.2 [93.3]	92.4 [73.1]	91.8 [72.1]	81.6 [81.6]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	9.1	6.2	1.6 (5.8)	-0.7 (6.7)	0.9 (3.3)	0.7 (5.7)	2.8 (8.9)	-2.8 (-1.1)	5.7 (6.6)	
Manufacturing	18.3	5.9	0.0 (4.4)	-0.7 (4.1)	0.1 (-0.5)	-1.3 (-0.6)	9.5 (6.7)	-8.4 (-4.8)	3.4 (3.5)	
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	3.6 (7.2)	-0.5 (8.6)	0.5 (6.4)	1.4 (11.7)	2.1 (10.8)	-3.9 (1.7)	5.7 (9.0)	
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	1.4 (4.0)	1.2 (2.1)	-2.5 (7.0)	-3.5 (2.2)	-0.8 (6.4)	0.2 (10.8)	-1.6 (3.4)	
Construction Orders	-5.2	7.1	(-0.6)	(13.1)	(3.6)	(24.6)	(-1.8)	(-0.3)	(16.2)	
Private	-2.6	3.7	(-2.1)	(9.7)	(-3.6)	(22.6)	(-7.1)	(-9.6)	(22.6)	
Public	-12.1	22.7	(21.7)	(19.6)	(28.7)	(39.0)	(18.6)	(30.7)	(22.1)	
Public Works Contracts	-8.8	-0.5	(-3.4)	(3.6)	(10.3)	(8.5)	(16.8)	(8.0)	(5.4)	(36.7)
Housing Starts 10,000 units at Annual Rate, SA	81.8 (5.6)	84.1 (2.7)	88.3 (7.9)	79.6 (-4.5)	86.2 (3.7)	82.2 (-1.1)	91.7 (7.5)	84.8 (5.0)	89.6 (10.3)	
Total floor	(9.0)	(2.5)	(8.6)	(-4.4)	(2.3)	(-2.7)	(6.8)	(3.1)	(7.2)	
Sales at Retailers	0.8	0.8	(-1.0)	(0.8)	(5.2)	(1.8)	(3.4)	(10.3)	(5.7)	(3.6)
Real Consumption Expenditures of Households over 2 persons (SA)	-0.9	-1.2	0.4 (-2.8)	0.4 (-1.0)	0.2 (1.1)	-0.2 (-2.3)	1.8 (2.3)	-0.1 (3.4)	-0.8 (2.6)	
Propensity to Consume (SA,%)	73.4	73.3	73.1 [75.2]	74.2 [74.0]	71.8 [72.4]	73.7 [75.9]	72.2 [72.3]	72.9 [72.4]	73.0 [72.1]	73.4 [73.4]
Overtime Hours Worked (All Industries, 5 employees or more)	7.9	0.8	1.6 (0.3)	1.4 (1.9)	1.0 (1.8)	-1.2 (0.6)	1.0 (0.6)	1.0 (4.3)	-1.3 (5.3)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	-0.3	(-0.4)	(-0.1)	(0.0)	(-1.2)	(0.1)	(0.9)	(0.2)	
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	23,384	52,083	27,711 21,464	25,350 28,038	127,239 33,848	128,676 32,797	126,431 32,772	126,610 35,975	131,038 28,654	24,914
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.66 [0.54]	0.69 [0.57]	0.75 [0.61]	0.73 [0.60]	0.75 [0.61]	0.76 [0.62]	0.79 [0.62]	0.62 [0.62]
Unemployment Rate (SA,%)	5.0	5.0	4.4 [5.0]	4.5 [5.0]	4.6 [4.7]	4.6 [4.9]	4.5 [4.7]	4.5 [4.7]	4.6 [4.7]	4.6 [4.6]
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.2	44.9	48.4 [45.4]	46.0 [43.0]	47.3 [40.1]	44.1 [44.3]	45.9 [48.4]	51.8 [27.7]	50.9 [28.3]	47.2 [36.00]
Bankruptcies (Number of cases)	13,065 (-11.3)	12,707 (-2.7)	3,108 (-3.8)	3,103 (-5.9)	3,184 (-0.8)	985 (-5.3)	1,038 (5.1)	1,161 (-1.8)	1,004 (-6.6)	1,148 (7.1)

(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 at FY2011 and 3Q in 2011.

## 2. Balance of Payments

As of Jun. 28, 2012

	Fiscal	Fiscal	2011		2012	2012				
	2010	2011	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(0.5)	(-5.5)	(-1.6)	(-9.2)	(-2.7)	(5.9)	(7.9)	(10.0)
Value	0.1	0.6	(1.6)	(-0.5)	(1.4)	(1.0)	(1.2)	(2.1)	(3.1)	(0.6)
Volumes	14.7	-4.3	(-1.1)	(-5.0)	(-3.1)	(-10.1)	(-3.8)	(3.7)	(4.7)	(9.3)
Imports(In Yen terms)	16.0	11.6	(13.8)	(12.4)	(9.9)	(9.6)	(9.3)	(10.6)	(8.1)	(9.3)
Value	3.4	9.1	(12.1)	(10.9)	(6.5)	(6.3)	(5.9)	(7.3)	(6.1)	(0.9)
Volumes	12.4	2.2	(1.5)	(1.3)	(3.1)	(3.1)	(3.2)	(3.1)	(1.9)	(8.4)
Current Balance(100 mil. yen)	166,595	78,935	31,007	9,257	23,299	-4,373	11,778	15,894	3,338	
Trade Balance(100 mil. yen)	64,955	-34,495	-1,762	-9,446	-12,753	-13,816	1,021	42	-4,639	
Services(100 mil. yen)	-12,730	-18,524	-5,146	-6,658	-1,680	-930	-1,304	554	-4,986	
Capital and Financial Accounts(100 mil. yen)	-97,221	78,287	4,590	83,422	-18,672	901	-6,806	-12,767	-304	
Gold & Foreign Exchange Reserves(\$1mil.)	1,116,025	1,288,703	1,200,593	1,295,841	1,288,703	1,306,668	1,302,877	1,288,703	1,289,542	1,277,716
Exchange Rate(US\$)	85.69	79.05	77.84	77.39	79.28	76.97	78.45	82.43	81.49	79.70

## 3. Financial Market Indicators

	Fiscal	Fiscal	2011		2012	2012				
	2010	2011	3Q	4Q	1Q	JAN	FEB	MAR	APR	MAY
Uncollateralized Overnight Call Rates	0.091	0.077	0.078 [0.093]	0.079 [0.090]	0.083 [0.088]	0.080 [0.085]	0.085 [0.093]	0.084 [0.085]	0.075 [0.062]	0.084 [0.069]
Euro Yen TIBOR (3 Months)	0.356	0.331	0.330 [0.364]	0.329 [0.336]	0.331 [0.336]	0.331 [0.335]	0.332 [0.335]	0.332 [0.336]	0.332 [0.333]	0.332 [0.332]
Newly Issued Japanese Government Bonds Yields (10 Years)	1.127	1.050	1.043 [0.987]	1.030 [1.072]	0.968 [1.242]	0.965 [1.215]	0.955 [1.255]	0.985 [1.255]	0.885 [1.200]	0.830 [1.150]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.357	1.269	1.315 (-0.034)	1.292 (-0.023)	1.269 (-0.023)	1.294 (0.002)	1.280 (-0.014)	1.269 (-0.011)	1.268 (-0.001)	
The Nikkei Stock Average (TSE 225 Issues)	9,755	10,084	8,700 [9,369]	8,455 [10,229]	10,084 [9,755]	8,803 [10,238]	9,723 [10,624]	10,084 [9,755]	9,521 [9,850]	8,543 [9,694]
M2(Average)	(2.7)	(2.9)	(2.8)	(3.0)	(3.0)	(3.1)	(2.9)	(3.0)	(2.6)	(2.1)
Broadly-defined Liquidity(Average)	(0.6)	(0.3)	(0.5)	(0.3)	(0.5)	(0.2)	(0.3)	(0.5)	(0.5)	(0.4)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	(-1.9)	(-0.1)	(-0.5)	(0.2)	(0.6)	(0.6)	(0.7)	(0.3)	(0.3)
	Banks	(-2.0)	(-0.1)	(-0.5)	(0.3)	(0.8)	(0.7)	(0.8)	(0.9)	(0.4)
	City Banks etc.	(-4.2)	(-1.8)	(-2.6)	(-1.3)	(-0.4)	(-0.6)	(-0.5)	(-0.2)	(-1.3)
	Regional Banks	(0.6)	(1.9)	(1.9)	(2.1)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
	Regional Banks II	(-0.4)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.1)	(1.3)	(1.3)
Deposits and CDs (Average)	Shinkin	(-1.3)	(-0.5)	(-0.5)	(-0.4)	(-0.5)	(-0.5)	(-0.5)	(-0.4)	(-0.6)
	Total(3 Business Condition)	(2.6)	(2.7)	(2.3)	(3.0)	(2.9)	(3.3)	(2.9)	(2.5)	(2.0)
	City Banks	(2.6)	(1.9)	(1.0)	(2.1)	(2.2)	(2.9)	(2.3)	(1.4)	(0.6)
	Regional Banks	(3.1)	(3.7)	(3.9)	(4.0)	(3.7)	(3.8)	(3.6)	(3.7)	(3.5)
	Regional Banks II	(0.6)	(2.8)	(2.8)	(3.1)	(3.2)	(3.3)	(3.3)	(3.2)	(2.8)

(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.

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[ ] 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.

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ  
(Chief Manager Date) Tel: 03-3240-3204

Written by Yasuhiro Ishimaru <yasuhiro\_ishimaru@mufg.jp>

Shin Takayama <shin\_takayama@mufg.jp>

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