

Japan Economic Monthly

Japanese Economic Recovery Becomes Broader-Based

Economic Research Office

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

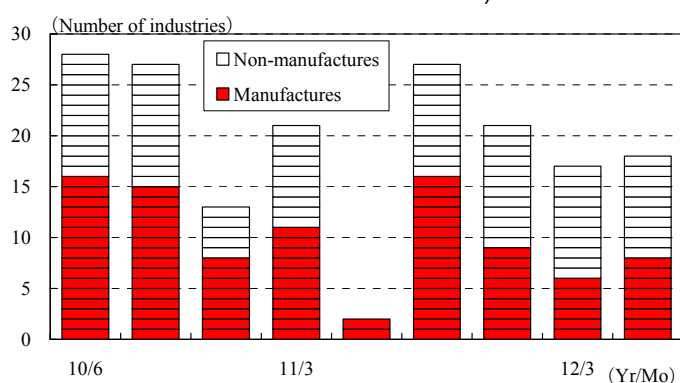
1. The Real Economy

Japan's economy continues on its recovery trend. The improvement appears to have begun to spread in various ways, including among the industrial sector. According to the BoJ's June TANKAN survey released earlier this month, Business Condition DIs of 18 out of 30 industries improved from March—eight of 17 manufacturers and 10 of 13 non-manufacturers (Figure 1). The number of industries reporting improvement since March increased by two among manufacturers and one among all industries. Among manufacturing industries, the materials sector (especially the chemicals and the paper & pulp sectors) improved markedly, propelled by falling crude oil prices. Among non-manufacturers, the construction industry has improved for the fourth straight quarter because of reconstruction and restoration activities following the March 2011 earthquake, while the accommodations, eating & drinking service industries and real estate sector have made large improvements. Also, by company size, the Business Conditions DIs of large and medium-sized enterprises rose by 3% points from the March survey, while the DI of small companies was unchanged. As in March, there was no change from the previous survey.

Further, the *Regional Economic Report* ("Sakura Report"), similarly compiled by the BoJ, showed that the economic recovery has been spreading geographically. Indeed, the latest economic assessments in July improved compared to three months ago in all nine regions of Japan (Figure 2). Despite disparities in level of assessments—between the Tohoku region's *a wide range of economic activities exceeding pre-earthquake levels* or Tokai's *the economy has been recovering moderately* and the Kinki region's *the economy continues to pause generally, although there are signs of picking up*—this was the first time in nearly three years, since October 2009, that the assessments for all regions have been upgraded all at once.

BTMU has projected that reconstruction and restoration demand, the starting points for boosting the Japanese economy in FY12, will stimulate production activities broadly both in the Tohoku and other regions and affect various industries. Because this outlook has been borne out by actual developments, expectations regarding the recovery's future are growing steadily. Of course, some concerns, including overseas economies slowing because of Europe and the JPY's further appreciation, persist, but those concerns are unlikely to spread excessively for now.

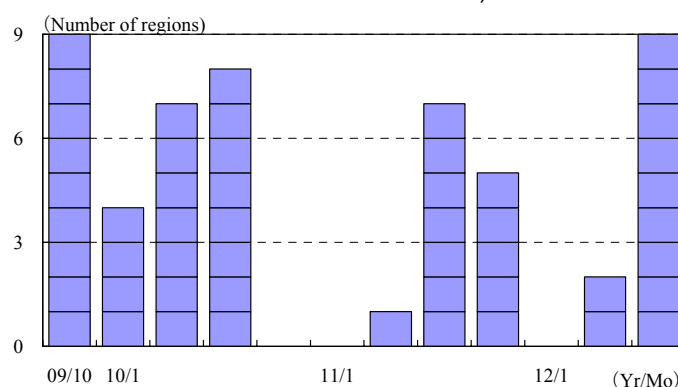
Figure 1: BoJ Tankan - Business Conditions DI by Industry
(Number of Industries with Higher DI than Three Months Earlier)



Note: 'Manufacturers' includes 17 industries; 'Non-manufacturers' includes 13 industries. 30 industries total.

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

Figure 2: Regional Economic Report - Economic Conditions
(Number of Regions Reporting Positive Changes from Three Months Earlier)



Note: Hokkaido, Tohoku, Hokuriku, Kanto-Koshinetsu, Tokai, Kinki, Chugoku, Shikoku, Kyusyu, Okinawa, 9 regions total.

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

2. Financial Markets

(1) Monetary Policy & Long-Term Yields

At the July 11-12 Monetary Policy Meeting, the BoJ agreed to a change in operations for its asset purchasing fund (Table 1). Though the amendment was not defined as additional monetary easing but as a technical change, the move has encouraged steady monetary easing and the effects of easing can therefore be expected. In particular, the elimination of a minimum bid yield for outright purchases of treasury discount bills has added downward pressure on short-term interest rates. Further, at the July meeting, the FY12 consensus forecast of policy board members in the *Outlook Report* was downgraded slightly; real GDP growth was revised to +2.2% YoY (from +2.3% YoY in April) and the Consumer Price Index (all items excluding fresh food) was revised to +0.2% YoY (from +0.3% YoY in April). However, the FY13 forecasts for real GDP growth of +1.7% YoY and CPI (all items excluding fresh food) of +0.7% YoY were not changed from April. The BoJ appears to have determined the economy is moving generally as expected in April.

Long-term yields have declined further due to the European debt problem and concerns about the global economy deteriorating (Figure 3). On July 23, the yield on newly-issued 10Yr JGBs dipped to 0.72%, the lowest level since June 2003. The Japanese Government is also considering drafting a supplementary budget to prevent the economy from stalling and to promote earthquake-related reconstruction activities. This would be funded by approximately JPY2 trillion at least from unused budgeted funds from FY11 and greater-than-projected FY11 tax revenues. The supplementary budget is also expected to be passed this fall through the end of the year.

(2) Exchange Rates

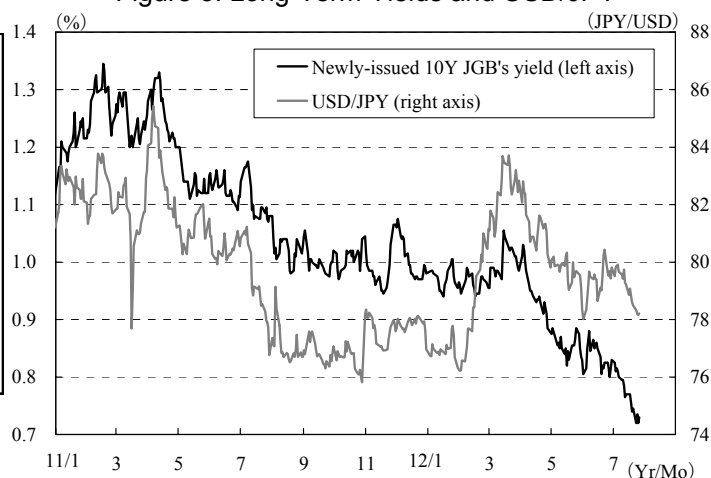
Upward pressures on the JPY are gradually emerging in the foreign exchange markets. On July 23, USD/JPY temporarily hit the JPY77 range, the lowest level since early June (Figure 3). The sluggish US economy is behind the JPY's current appreciation. Concerns about the US economic outlook are building as the employment recovery slows, the manufacturing and non-manufacturing ISM indexes decline, and retail sales slump. Further, speculation in some quarters about a third round of quantitative monetary easing, or QE3, by the FRB, appears to be leading JPY buying and USD selling.

Table1: BoJ Monetary Policy Decisions, July 11-12, 2012

- | |
|--|
| <p>(1) A reduction in the maximum outstanding amount of the Bank's fixed-rate funds-supplying operation against pooled collateral by about 5 trillion yen and an increase in the outright purchases of treasury discount bills by about 5 trillion yen.
 ~ Reduce fixed-rate funds-supplying operations, which are most frequently under-subscribed, and transfer the shares to treasury</p> <p>(2) A removal of the minimum bidding yield (currently 0.1 percent per annum) for the outright purchases of treasury discount bills and CP.
 ~ Promote smooth buying of short-term JGBs even when market yields fall below 0.1%</p> <p>(3) An integration of loan durations (currently "3 months" or "6 months") into "within 6 months" under the fixed-rate funds-supplying operation against pooled collateral.
 ~ Respond flexibly to liquidity demand by financial institutions</p> |
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Source: Compiled by BTMU Economic Research Office from Cabinet Office data.

Figure 3: Long-Term Yields and USD/JPY



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 Jul. 30, 2012

	Fiscal 2010	Fiscal 2011	2011		2012	2012				
			3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
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)	-0.1 (1.6)	-0.3 (5.5)	0.1 (4.1)	-0.3 (3.2)	
Industrial Production Index	9.3	-1.0	5.4 (-0.9)	0.4 (-1.6)	1.3 (4.8)	-1.6 (1.5)	1.3 (14.2)	-0.2 (12.9)	-3.4 (6.0)	-0.1 (-2.0)
Shipments	9.4	-2.0	7.0 (-1.6)	0.3 (-2.2)	0.8 (4.1)	0.3 (1.5)	0.5 (11.9)	0.6 (16.0)	-1.3 (11.7)	-1.5 (-1.6)
Inventory	3.9	9.6	1.8 (6.0)	-1.4 (3.8)	5.9 (9.6)	-0.5 (1.0)	4.3 (9.6)	2.0 (10.8)	-0.7 (4.7)	-1.4 (6.1)
Inventory/Shipments Ratio (2005=100)	108.4	116.4	116.5 [108.7]	115.0 [111.0]	113.1 [107.7]	110.4 [105.9]	115.3 [108.8]	123.2 [126.6]	118.6 [121.5]	123.4 [115.2]
Domestic Corporate Goods Price Index	0.7	1.4	0.1 (2.2)	-1.1 (1.1)	0.2 (0.3)	0.2 (0.4)	0.5 (0.3)	0.1 (-0.4)	-0.5 (-0.7)	-0.6 (-1.3)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.1 (-0.3)	-0.2 (-0.1)	-0.1 (0.1)	0.2 (0.1)	0.1 (0.2)	0.1 (0.2)	-0.3 (-0.1)	-0.3 (-0.2)
Index of Capacity Utilization (2005=100)	88.0	87.4	87.5 [88.4]	89.3 [88.4]	92.1 [85.9]	91.2 [93.3]	92.4 [73.1]	91.8 [72.1]	89.8 [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)	2.8 (8.9)	-2.8 (-1.1)	5.7 (6.6)	-14.8 (1.0)	
Manufacturing	18.3	5.9	0.0 (4.4)	-0.7 (4.1)	0.1 (-0.5)	9.5 (6.7)	-8.4 (-4.8)	3.4 (3.5)	-8.0 (-6.3)	
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	3.6 (7.2)	-0.5 (8.6)	0.5 (6.4)	2.1 (10.8)	-3.9 (1.7)	5.7 (9.0)	-6.4 (7.6)	
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	1.4 (4.0)	1.2 (2.1)	-2.5 (7.0)	-0.8 (6.4)	0.2 (10.8)	-1.6 (3.4)	5.6 (5.1)	-4.1 (-5.1)
Construction Orders	-5.2	7.1								
Private	-2.6	3.7								
Public	-12.1	22.7								
Public Works Contracts	-8.8	-0.5								
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)	91.7 (7.5)	84.8 (5.0)	89.6 (10.3)	90.3 (9.3)	
Total floor	(9.0)	(2.5)	(8.6)	(-4.4)	(2.3)	(6.8)	(3.1)	(7.2)	(9.0)	
Sales at Retailers	0.8	0.8								
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)	1.8 (2.3)	-0.1 (3.4)	-0.8 (2.6)	1.5 (4.0)	
Propensity to Consume (SA,%)	73.4	73.3	73.1 [75.2]	74.2 [74.0]	71.8 [72.4]	72.2 [72.3]	72.9 [72.4]	73.0 [72.1]	74.6 [73.4]	[72.6]
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)	1.0 (0.6)	1.0 (4.3)	-1.3 (5.3)	1.9 (5.6)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	-0.3								
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	126,431 32,772	126,610 35,975	131,038 28,654	142,285 24,914	30,531
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.66 [0.54]	0.69 [0.57]	0.75 [0.61]	0.75 [0.61]	0.76 [0.62]	0.79 [0.62]	0.81 [0.62]	[0.63]
Unemployment Rate (SA,%)	5.0	5.0	4.4 [5.0]	4.5 [5.0]	4.6 [4.7]	4.5 [4.7]	4.5 [4.7]	4.6 [4.7]	4.4 [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]	45.9 [48.4]	51.8 [27.7]	50.9 [28.3]	47.2 [36.0]	43.8 [49.60]
Bankruptcies (Number of cases)	13,065 (-11.3)	12,707 (-2.7)	3,108 (-3.8)	3,103 (-5.9)	3,184 (-0.8)	1,038 (5.1)	1,161 (-1.8)	1,004 (-6.6)	1,148 (7.1)	975 (-16.3)

(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 Jul. 30, 2012

	Fiscal	Fiscal	2011		2012	2012				
	2010	2011	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(0.5)	(-5.5)	(-1.6)	(-2.7)	(5.9)	(7.9)	(10.0)	(-2.3)
Value	0.1	0.6	(1.6)	(-0.5)	(1.4)	(1.2)	(2.1)	(3.1)	(0.6)	(0.1)
Volumes	14.7	-4.3	(-1.1)	(-5.0)	(-3.1)	(-3.8)	(3.7)	(4.7)	(9.3)	(-2.3)
Imports(In Yen terms)	16.0	11.6	(13.8)	(12.4)	(9.9)	(9.3)	(10.6)	(8.1)	(9.3)	(-2.2)
Value	3.4	9.1	(12.1)	(10.9)	(6.5)	(5.9)	(7.3)	(6.1)	(0.9)	(-1.6)
Volumes	12.4	2.2	(1.5)	(1.3)	(3.1)	(3.2)	(3.1)	(1.9)	(8.5)	(-0.7)
Current Balance(100 mil. yen)	166,595	76,180	31,007	9,257	20,544	12,026	13,074	3,338	2,151	
Trade Balance(100 mil. yen)	64,955	-34,698	-1,762	-9,446	-12,956	953	-12	-4,639	-8,482	
Services(100 mil. yen)	-12,730	-18,265	-5,146	-6,658	-1,421	-995	783	-4,986	-928	
Capital and Financial Accounts(100 mil. yen)	-97,221	68,806	4,590	83,422	-28,153	-11,134	-14,926	-304	-7,446	
Gold & Foreign Exchange Reserves(\$1mil.)	1,116,025	1,288,703	1,200,593	1,295,841	1,288,703	1,302,877	1,288,703	1,289,542	1,277,716	1,270,547
Exchange Rate(US\$)	85.69	79.05	77.84	77.39	79.28	78.45	82.43	81.49	79.70	79.32

3. Financial Market Indicators

	Fiscal	Fiscal	2011		2012	2012					
	2010	2011	3Q	4Q	1Q	FEB	MAR	APR	MAY	JUN	
Uncollateralized Overnight Call Rates	0.091	0.077	0.078 [0.093]	0.079 [0.090]	0.083 [0.088]	0.085 [0.093]	0.084 [0.085]	0.075 [0.062]	0.084 [0.069]	0.076 [0.069]	
Euro Yen TIBOR (3 Months)	0.356	0.331	0.330 [0.364]	0.329 [0.336]	0.331 [0.336]	0.332 [0.335]	0.332 [0.336]	0.332 [0.333]	0.332 [0.332]	0.335 [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]	0.955 [1.255]	0.985 [1.255]	0.885 [1.200]	0.830 [1.150]	0.830 [1.130]	
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)	1.280 (-0.014)	1.269 (-0.011)	1.268 (-0.001)	1.268 (0.000)		
The Nikkei Stock Average (TSE 225 Issues)	9,755	10,084	8,700 [9,369]	8,455 [10,229]	10,084 [9,755]	9,723 [10,624]	10,084 [9,755]	9,521 [9,850]	8,543 [9,694]	9,007 [9,816]	
M2(Average)	(2.7)	(2.9)	(2.8)	(3.0)	(3.0)	(2.9)	(3.0)	(2.6)	(2.2)	(2.2)	
Broadly-defined Liquidity(Average)	(0.6)	(0.2)	(0.3)	(0.1)	(0.3)	(0.3)	(0.4)	(0.4)	(0.1)	(0.2)	
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)	(0.2)	(0.7)
	Banks		(-2.0)	(-0.1)	(-0.5)	(0.2)	(0.8)	(0.7)	(0.9)	(0.3)	(0.8)
	City Banks etc.		(-4.2)	(-1.8)	(-2.6)	(-1.3)	(-0.4)	(-0.5)	(-0.2)	(-1.3)	(-0.7)
	Regional Banks		(0.6)	(1.9)	(1.8)	(2.0)	(2.3)	(2.2)	(2.3)	(2.3)	(2.6)
	Regional Banks II		(-0.4)	(1.1)	(1.2)	(1.2)	(1.2)	(1.1)	(1.3)	(1.3)	(1.4)
Deposits and CDs (Average)	Shinkin		(-1.3)	(-0.5)	(-0.5)	(-0.4)	(-0.5)	(-0.5)	(-0.6)	(-0.7)	(-0.5)
	Total(3 Business Condition)		(2.6)	(2.7)	(2.3)	(3.0)	(2.9)	(2.9)	(2.5)	(2.0)	(1.5)
	City Banks		(2.6)	(1.9)	(1.0)	(2.1)	(2.2)	(2.3)	(1.4)	(0.6)	(1.4)
	Regional Banks		(3.1)	(3.7)	(3.9)	(4.0)	(3.7)	(3.6)	(3.7)	(3.5)	(3.0)
	Regional Banks II		(0.6)	(2.8)	(2.8)	(3.1)	(3.2)	(3.1)	(3.2)	(2.8)	(2.5)

(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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