

Japan Economic Monthly

Pace of Recovery Eases as Exports and Production Weaken

Economic Research Office

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

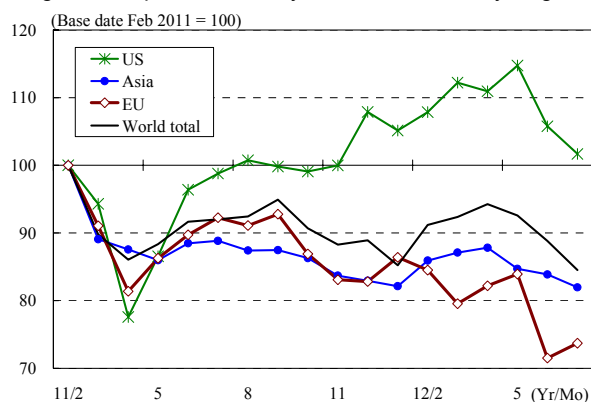
1. The Real Economy

While Japan's economy is still on a recovery trajectory, the pace has slowed sharply recently. The deceleration has been triggered by slowing economies overseas, which have caused exports to weaken. According to the Apr-Jun second preliminary GDP report released on September 10, exports growth have fallen short of imports, and overall external demand has cut -0.3% off real GDP annualized growth. Further, monthly export volume to Europe plunged 14.8% MoM in June, then declined again by 3.3% in August (Figure 1). Another concern has been a gradual slowdown in exports to Asia, which comprise more than half of all export value from Japan. Shipments to Asia have declined for four straight months since May.

Amidst these developments, adverse impacts are starting to appear for domestic Japanese production. In fact, the most recent figures from July show that industrial production slipped -1.0% MoM, the third slippage in four months since April (Figure 2). According to the Production Forecast Survey, manufacturers project industrial production will rise +0.1% MoM in August, then fall -3.3% MoM in September. If these projections are borne out, Jul-Sept industrial production would drop a sizeable -2.8% QoQ. This would be further acceleration from the Apr-Jun -2.0% QoQ fall.

On the other hand, public works orders continue to jump, even based on national figures that exclude the disaster-struck region. Private sector machinery orders (excluding shipbuilding and power generation industries) have also risen on-month for two straight months in June and July. Investment-related leading indicators have been solid. Further, employment conditions continue to be firm, propping up private consumption, a pillar of domestic demand. The economic recovery trend still appears intact, but Japan's economy may be facing the possibility of facing extremely challenging conditions before reconstruction activities fall off further in FY3/14. The risk of the economic recovery ending soon appears to warrant even more caution than before.

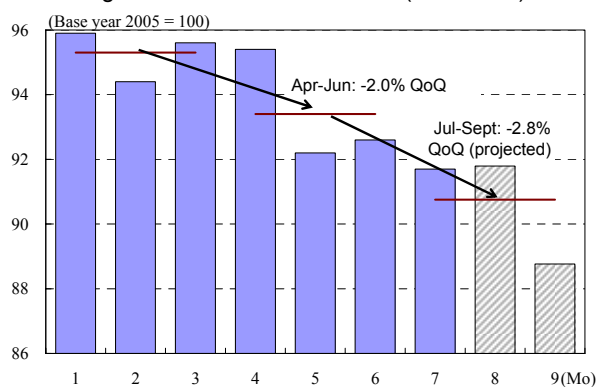
Figure 1: Export Volume, by Destination Country/Region



Note: *Asia* includes 26 countries, *EU* includes 27 countries.

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

Figure 2: Industrial Production (2012 YTD)



Note: *August* and *September* are projected figures based on Manufacturers' Production Forecast Survey.

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

2. Financial Markets

(1) Monetary Policy & Long-Term Yields

The BoJ agreed to further boost monetary easing policy at its September 18-19 Monetary Policy Board meeting. The Board increased funds for asset purchases from JPY70 trn to JPY80 trn and extended the period for purchasing long-dated JGBs through end-December 2013 (Table 1). The BoJ further eliminated the minimum bid yield (previously 0.1%) for purchases of long-term JGBs and corporate bonds. Overall, the actions exceeded expectations, and the market appears to have reacted positively to the BoJ showing a clearer commitment to easing.

The further easing appears to be the response to Japan's economy weakening more than anticipated in reaction to slowing overseas economies and the growing risk of further downside. The BoJ downgraded its assessment of the economy to *[t]he pick-up in Japan's economic activity has come to a pause from Japan's economic activity has started picking up moderately*. Also, the BoJ indicated its awareness that the timing of Japan's economy returning to a sustainable recovery path would be later than earlier projected, noting *Japan's economy is expected to level off more or less for the time being*. Although further easing is a possibility depending on developments, and any buoying effects are by no means clear. There is a sense that the BoJ's hands are tied with monetary policy.

The 10Yr JGB yield rose to the mid-0.8% level in mid-August on heightened expectations of a US recovery. Thereafter, the yield returned to the 0.8% neighborhood due to weaker-than-expected US employment data and further monetary easing in Europe and the US. The yield has not moved notably even after the BoJ's additional easing measures.

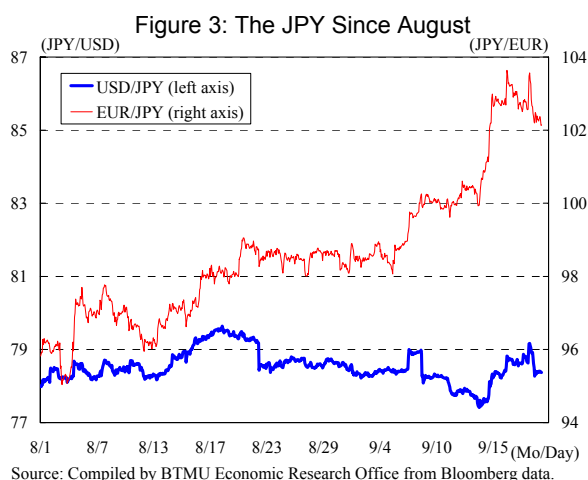
(2) Exchange Rates

The JPY rose against the USD in mid-August on stronger speculation of further monetary easing by the FRB, nearly hitting the USD/JPY77 mark the day QE3 was announced (Figure 3). After that, the JPY halted because of concerns about forex intervention and returned to the lower USD/JPY level after the BoJ announced its further monetary easing measures. On the other hand, the JPY continues to weaken against the EUR, following the announcement of details about the ECB’s government debt-buying program in early September as well as a reversal of excessive risk aversion that had stemmed from European debt jitters.

Table 1: BoJ Monetary Policy Meeting Decisions, Sept 18-19 Meeting

- (1) Boost Asset Purchase Fund from JPY70 trn to JPY80 trn. The JPY10 trn increase would be used to buy short-dated JGBs (JPY5 trn) and long-dated JGBs (JPY5 trn). Also, end of long-term JGB purchases extended to end-December 2013.
~To ease corporate and household financing conditions by lowering longer-term interest rates and support an economic recovery.
- (2) Minimum bid yield for purchases of long-term JGBs eliminated (currently 0.1%)
~Although focus is on facilitating purchases of long-term JGBs, long-term yield also expected to be pressured downward.

Source: Compiled by BTMU Economic Research Office from BoJ



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

(Yasuhiro Ishimaru, Rei Tsuruta)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Oct. 4, 2012

	Fiscal 2010	Fiscal 2011	2011			2012			2012		
			4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG	
Real GDP Growth Rate <% changes from previous period at SA annual rate>	3.3	-0.0	0.3 (-0.7)	5.3 (2.9)	0.7 (3.2)	***	***	***	***	***	
Index of All Industries Activity	2.0	0.2	0.5 (0.0)	-0.1 (2.4)	-0.1 (2.6)	0.1 (4.1)	-0.2 (3.3)	0.3 (0.6)	-0.6 (0.5)		
Industrial Production Index Production	9.3	-1.0	0.4 (-1.6)	1.3 (4.8)	-2.0 (5.3)	-0.2 (12.9)	-3.4 (6.0)	0.4 (-1.5)	-1.0 (-0.8)	-1.3 (-4.3)	
Shipments	9.4	-2.0	0.3 (-2.2)	0.8 (4.1)	-0.2 (8.0)	0.6 (16.0)	-1.3 (11.7)	-0.9 (-1.1)	-3.1 (-1.8)	0.4 (-3.1)	
Inventory	3.9	9.6	-1.4 (3.8)	5.9 (9.6)	0.0 (6.3)	2.0 (10.8)	-0.7 (4.7)	-1.2 (6.3)	2.9 (9.4)	-1.6 (5.9)	
Inventory/Shipments Ratio (2005=100)	108.4	116.4	115.0 [111.0]	113.1 [107.7]	121.8 [121.1]	123.2 [126.6]	118.6 [121.5]	123.6 [115.2]	128.2 [116.6]	124.5 [115.2]	
Domestic Corporate Goods Price Index	0.7	1.4	-1.1 (1.1)	0.2 (0.3)	-0.1 (-0.9)	0.1 (-0.4)	-0.5 (-0.7)	-0.7 (-1.4)	-0.5 (-2.2)	0.3 (-1.8)	
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	-0.2 (-0.2)	-0.1 (0.1)	0.3 (0.0)	0.1 (0.2)	-0.3 (-0.1)	-0.3 (-0.2)	0.0 (-0.3)	0.0 (-0.3)	
Index of Capacity Utilization (2005=100)	88.0	87.4	89.3 [88.4]	92.1 [85.9]	89.8 [79.8]	91.8 [72.1]	89.8 [81.6]	87.7 [85.7]	88.1 [86.8]		
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	9.1	6.2	-0.7 (6.7)	0.9 (3.3)	-4.1 (-1.7)	5.7 (6.6)	-14.8 (1.0)	5.6 (-9.9)	4.6 (1.7)		
Manufacturing	18.3	5.9	-0.7 (4.1)	0.1 (-0.5)	-5.8 (-7.6)	3.4 (3.5)	-8.0 (-6.3)	-2.9 (-16.2)	12.0 (4.0)		
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	-0.5 (8.6)	0.5 (6.4)	0.0 (3.1)	5.7 (9.0)	-6.4 (7.6)	2.6 (-4.6)	-2.1 (-1.0)		
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	1.2 (2.1)	-2.5 (7.0)	0.7 (0.9)	-1.6 (3.4)	5.6 (5.1)	-3.5 (-4.5)	-1.8 (-4.5)	-3.6 (-7.7)	
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	81.9 (5.6)	84.1 (2.7)	79.6 (-4.5)	86.2 (3.7)	87.8 (6.2)	89.6 (10.3)	90.3 (9.3)	83.7 (-0.2)	87.0 (-9.6)	88.8 (-5.5)	
Total floor	(9.0)	(2.5)	(-4.4)	(2.3)	(5.1)	(7.2)	(9.0)	(-0.4)	(-9.6)	(-7.7)	
Sales at Retailers	0.8	0.8									
Real Consumption Expenditures of Households over 2 persons (SA)	-0.9	-1.2	0.4 (-1.0)	0.2 (1.1)	1.7 (2.7)	-0.8 (2.6)	1.5 (4.0)	-1.3 (1.6)	-1.3 (1.7)	2.2 (1.8)	
Propensity to Consume (SA,%)	73.4	73.3	74.2 [74.0]	71.8 [72.4]	74.1 [74.0]	73.0 [72.1]	74.6 [73.4]	72.0 [72.6]	75.4 [71.9]	73.2 [74.0]	
Overtime Hours Worked (All Industries, 5 employees or more)	7.9	0.8	1.4 (1.9)	1.0 (1.8)	0.0 (4.0)	-1.3 (5.3)	1.9 (5.6)	-2.6 (1.2)	-2.2 (-0.8)	-0.8 (-0.9)	
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	25,350 28,038	127,239 33,848	138,382 28,033	131,038 28,654	142,285 24,914	141,824 30,531	130,161 28,860	134,239 29,735	
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.69 [0.57]	0.75 [0.61]	0.81 [0.62]	0.79 [0.62]	0.81 [0.62]	0.82 [0.63]	0.83 [0.65]	0.83 [0.66]	
Unemployment Rate (SA,%)	5.0	5.0	4.5	4.6	4.7	4.6	4.4	4.3	4.3	4.2	
Economy Watcher Survey (Judgment of the present condition D.I,%)	44.2	44.9	46.0 [43.0]	47.3 [40.1]	47.3 [38.0]	50.9 [28.3]	47.2 [36.0]	43.8 [49.6]	44.2 [52.6]	43.6 [47.3]	
Bankruptcies (Number of cases)	13,065 (-11.3)	12,707 (-2.7)	3,103 (-5.9)	3,184 (-0.8)	3,127 (-5.5)	1,004 (-6.6)	1,148 (7.1)	975 (-16.3)	1,026 (-5.0)	967 (-5.7)	

(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 Oct. 4, 2012

	Fiscal	Fiscal	2011	2012		2012				
	2010	2011	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(-5.5)	(-1.6)	(4.8)	(7.9)	(10.0)	(-2.3)	(-8.1)	(-5.8)
Value	0.1	0.6	(-0.5)	(1.4)	(1.2)	(3.1)	(0.6)	(0.1)	(2.4)	(-1.6)
Volumes	14.7	-4.3	(-5.0)	(-3.1)	(3.5)	(4.7)	(9.3)	(-2.3)	(-10.2)	(-4.2)
Imports(In Yen terms)	16.0	11.6	(12.4)	(9.9)	(5.1)	(8.1)	(9.4)	(-2.2)	(2.1)	(-5.4)
Value	3.4	9.1	(10.9)	(6.5)	(1.8)	(6.1)	(0.9)	(-1.5)	(-4.6)	(-3.4)
Volumes	12.4	2.2	(1.3)	(3.1)	(3.2)	(1.9)	(8.5)	(-0.7)	(7.0)	(-2.1)
Current Balance(100 mil. yen)	166,595	76,180	9,257	20,544	9,822	3,338	2,151	4,333	6,254	
Trade Balance(100 mil. yen)	64,955	-34,698	-9,446	-12,956	-12,001	-4,639	-8,482	1,120	-3,736	
Services(100 mil. yen)	-12,730	-18,265	-6,658	-1,421	-7,849	-4,986	-928	-1,935	-3,462	
Capital and Financial Accounts(100 mil. yen)	-97,221	68,806	83,422	-28,153	-27,980	-304	-7,446	-20,230	-7,329	
Gold & Foreign Exchange Reserves(\$1mil.)	1,116,025	1,288,703	1,295,841	1,288,703	1,270,547	1,289,542	1,277,716	1,270,547	1,272,777	1,273,242
Exchange Rate(US\$)	85.69	79.05	77.39	79.28	80.17	81.49	79.70	79.32	79.02	78.66

3. Financial Market Indicators

	Fiscal	Fiscal	2011	2012		2012					
	2010	2011	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG	
Uncollateralized Overnight Call Rates	0.091	0.077	0.079	0.083	0.078	0.075	0.084	0.076	0.084	0.086	
			[0.090]	[0.088]	[0.067]	[0.062]	[0.069]	[0.069]	[0.073]	[0.081]	
Euro Yen TIBOR (3 Months)	0.356	0.331	0.329	0.331	0.333	0.332	0.332	0.335	0.327	0.327	
			[0.336]	[0.336]	[0.332]	[0.333]	[0.332]	[0.332]	[0.332]	[0.329]	
Newly Issued Japanese Government Bonds Yields (10 Years)	1.127	1.050	1.030	0.968	0.848	0.885	0.830	0.830	0.780	0.795	
			[1.072]	[1.242]	[1.160]	[1.200]	[1.150]	[1.130]	[1.080]	[1.030]	
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.357	1.269	1.292	1.269	1.255	1.268	1.268	1.255	1.252	1.257	
			(-0.023)	(-0.023)	(-0.014)	(-0.001)	(0.000)	(-0.013)	(-0.003)	(0.005)	
The Nikkei Stock Average (TSE 225 Issues)	9,755	10,084	8,455	10,084	9,007	9,521	8,543	9,007	8,695	8,840	
			[10,229]	[9,755]	[9,816]	[9,850]	[9,694]	[9,816]	[9,833]	[8,955]	
M2(Average)	(2.7)	(2.9)	(3.0)	(3.0)	(2.3)	(2.6)	(2.2)	(2.2)	(2.2)	(2.4)	
Broadly-defined Liquidity(Average)	(0.6)	(0.2)	(0.1)	(0.3)	(0.2)	(0.4)	(0.1)	(0.0)	(-0.0)	(0.3)	
Principal Figures of Financial Institutions											
Loans and Discount (Average)	Banks & Shinkin	(-1.9)	(-0.1)	(0.2)	(0.6)	(0.3)	(0.2)	(0.2)	(0.6)	(0.7)	(0.9)
	Banks	(-2.0)	(-0.1)	(0.2)	(0.8)	(0.5)	(0.3)	(0.4)	(0.8)	(0.9)	(1.1)
	City Banks etc.	(-4.2)	(-1.8)	(-1.3)	(-0.4)	(-1.1)	(-1.3)	(-1.3)	(-0.7)	(-0.5)	(-0.4)
	Regional Banks	(0.6)	(1.9)	(2.0)	(2.3)	(2.4)	(2.3)	(2.3)	(2.6)	(2.6)	(2.9)
	Regional Banks II	(-0.4)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)	(1.2)	(1.4)	(1.3)	(1.5)
	Shinkin	(-1.3)	(-0.5)	(-0.4)	(-0.5)	(-0.7)	(-0.6)	(-0.7)	(-0.7)	(-0.9)	(-0.6)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.6)	(2.7)	(3.0)	(2.9)	(1.8)	(2.0)	(1.5)	(1.9)	(2.0)	(2.3)
	City Banks	(2.6)	(1.9)	(2.1)	(2.2)	(0.7)	(0.6)	(0.1)	(1.4)	(1.7)	(2.1)
	Regional Banks	(3.1)	(3.7)	(4.0)	(3.7)	(3.0)	(3.5)	(3.0)	(2.4)	(2.3)	(2.4)
	Regional Banks II	(0.6)	(2.8)	(3.1)	(3.2)	(2.8)	(3.2)	(2.8)	(2.5)	(2.3)	(2.4)

(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.

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>

Rei Tsuruta <rei_tsuruta@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.