Japan Economic Monthly

Japan's Economy Needs a Boost Soon

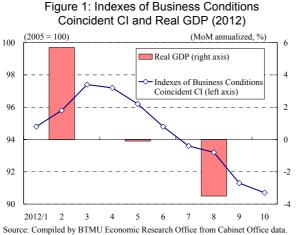
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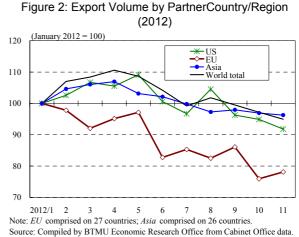
1. The Real Economy

Economic indicators released this month showed that Japan's economic downturn is deepening. The coincident CI in the Indexes of Business Conditions, a composite of monthly indicators sensitive to the economy, has declined for seven straight months (Figure 1). The October index dropped -0.7% points MoM to 90.7 (base year 2005 = 100). The aggregate decline since April has been -6.9% points, returning to the level of around May 2011. The Cabinet Office lowered its assessment of the economy to '*signaling a possible turning point*' in its revision of September results in November, then in December cut its evaluation even further to '*worsening*,' signaling a strong possibility that the economy has entered a downturn.

On the other hand, although second preliminary GDP figures were unchanged, showing that Japan's economy contracted -3.5% QoQ annualized in Jul-Sept, Apr-Jun GDP growth was cut from +0.3% QoQ annualized to -0.1% QoQ annualized. As a result, the economy shrank for two straight quarters in H1 FY12. Looking back, successive declines in real GDP have often coincided with economic downturns. Although it will be some time before it will ultimately be known whether Japan's economy has entered a downturn or not, the economy has clearly worsened and is nearing a downturn. Note that if the Cabinet Office determines that the economy has entered a downturn, this would be the first in three years, since February 2008 – March 2009.

Japan's economy is expected to continue to struggle going forward. As exports have been sluggish as overseas economies have slowed, the addition of worsening Japan-China relations has caused the export decline to widen and deepen (Figure 2). Domestic production rose in October, but only by a small margin (+1.6% MoM after dropping a total of -6.6% in Jul-Sept), and the Manufacturing Production Forecast Survey points to another fall in November. The new administration that emerged from the December 16 elections also appears to view quick support for the economy as an urgent issue.





2. Financial Markets

(1) Monetary Policy & Long-Term Yields

The Bank of Japan increased its asset purchase fund by JPY10 trillion at its December 19-20 Monetary Policy Board meeting. The BoJ also released details of its lending support scheme for financial institutions and agreed to address setting the price stability goal in the medium to long term at its next meeting in January. A number of Policy Board members hold the view that the economy has struggled even more recently and may already be in a downturn. Although the BoJ has little further room for policy maneuvers, BoJ is likely to continue to bolster its monetary easing going forward. On the other hand, the LDP, which won in a landslide in the recent general elections, wishes to strengthen ties between the government and the BoJ and feels that monetary easing on a greater scale is needed. The BoJ will likely consider various policy options while maintaining its autonomy (Table 1). A proposal was made to eliminate the interest rate on excess reserves at the December meeting, but the suggestion was roundly defeated.

The 10Yr JGB yield hovered around the mid-0.7% mark in mid-November, before dipping into the 0.6% range following aggressive statements about monetary policy by LDP leader Shinzo Abe. The yield has recovered to the upper 0.7% level following the general election as share prices have risen and the JPY weakened.

(2) Exchange Rates

The JPY has weakened against the USD since mid-November on speculation that the BoJ would boost monetary easing and rising US interest rates, falling to the JPY84 range. In the US, the FRB agreed to bolster monetary easing on December 12, and the JPY was expected to accelerate its appreciation in reaction of sudden weakening. However, conditions favoring JPY weakening and USD strengthening could continue as the US economy proves to be firm.

The JPY is also weakening against the EUR. The European debt crisis appears to have hit a lull after a number of twists and turns, and diminishing excessive risk aversion rooted in unease about Europe appears to be behind the EUR strengthening. The JPY hit a post-Lehman Brothers collapse high against the EUR of JPY/EUR94, and is now around the JPY111 level (Figure 3).

	Means	Planned size of fund (as of end-Dec 2013)	End-November status		
ses	Increase purchases of long- and short-dated JGBs	JPY68.5 trn	JPY31.1 trn		
purcha	Increase purchases of CP, corporate bonds	JPY5.4 trn	JPY4.9 trn		
Increase funds for asset purchases	Increase purchases of ETFs,J-REITs	JPY2.2 trn	JPY1.6 trn		
	Increase supply of fixed-interest rate pooled collateral funds	JPY25.0 trn	JPY27.0 trn		
	Extend durations of long-term JGBs eligible for purchase	_	1-3 years		
	Eliminate minimum yield for long-term JGBs purchased	_	0∼0.1% approximately		
Lower in	erest rate for excess reserve deposits	_	0.1%		
Raising ta	arget level for medium- to long-term price stability	_	1% YoY rise in consumer prices		
Purchase	s of foreign bonds	_	_		

Table 1: Further Easing Options for the BoJ

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

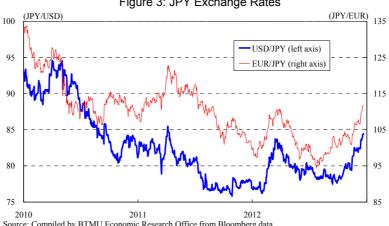


Figure 3: JPY Exchange Rates

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

(Yasuhiro Ishimaru, Rei Tsuruta)

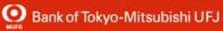
MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

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(Judgment of the present condition D.I,%) [40.1] [38.0] [48.4] [52.6] [47.3] [45.9]	40
3ankruptcies (Number of cases) 13,065 12,707 3,184 3,127 2,924 1,026 967 931 1,035 (-11.3) (-2.7) (-0.8) (-5.5) (-5.9) (-5.7) (-6.9) (6.0)	9

(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 De	c. 28, 2012	
	Fiscal	Fiscal	2012			2012					
	2010	2011	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV	
Customs Clearance(Exports in Yen Terms)	14.9	-3.7	(-1.6)	(4.8)	(-8.2)	(-8.1)	(-5.8)	(-10.3)	(-6.5)	(-4.1	
Value	0.1	0.6	(1.4)	(1.2)	(0.6)	(2.4)	(-1.6)	(0.9)	(1.7)	(3.6	
Volumes	14.7	-4.3	(-3.1)	(3.5)	(-8.7)	(-10.2)	(-4.2)	(-11.1)	(-8.1)	(-7.5	
Imports(In Yen terms)	16.0	11.6	(9.9)	(5.1)	(0.2)	(2.2)	(-5.3)	(4.2)	(-1.5)	(0.9	
Value	3.4	9.1	(6.5)	(1.8)	(-2.6)	(-4.5)	(-3.3)	(-0.1)	(-0.5)	(1.8	
Volumes	12.4	2.2	(3.1)	(3.2)	(2.9)	(7.0)	(-2.1)	(4.2)	(-1.1)	(-0.9	
Current Balance(100 mil. yen)	166,595	76,180	20,544	11,377	15,837	6,254	4,547	5,036	3,769		
Trade Balance(100 mil. yen)	64,955	-34,698	-12,956	-11,298	-14,894	-3,736	-6,445	-4,713	-4,503		
Services(100 mil. yen)	-12,730	-18,265	-1,421	-8,303	-8,488	-3,462	-2,225	-2,801	-3,568		
Capital and Financial Accounts(100 mil. yen)	-155,633	29,618	-30,956	-30,182	-26,433	-7,329	-11,472	-7,632	-5,920		
Gold & Foreign Exchange Reserves(\$1mil.)	1,116,025	1,288,703	1,288,703	1,270,547	1,277,000	1,272,777	1,273,242	1,277,000	1,274,160	1,270,848	
Exchange Rate(V\$)	85.69	79.05	79.28	80.17	78.62	79.02	78.66	78.17	78.97	80.87	

3. Financial Market Indicators

			Fiscal	Fiscal	2012			2012					
			2010	2011	1Q	2Q	3Q	JUL	AUG	SEP	OCT	NOV	
Uncollateralized Overnight Call Rates		0.091	0.077	0.083	0.078	0.085	0.084	0.086	0.085	0.085	0.086		
					[0.088]	[0.067]	[0.078]	[0.073]	[0.081]	[0.080]	[0.081]	[0.077	
Euro Yen TIBOR			0.356	0.331	0.331	0.333	0.327	0.327	0.327	0.327	0.326	0.318	
(3 Months)					[0.336]	[0.332]	[0.330]	[0.332]	[0.329]	[0.329]	[0.329]	[0.329]	
Newly Issued Japa	nese Govern	ment Bonds Yields	1.127	1.050	0.968	0.848	0.780	0.780	0.795	0.765	0.775	0.70	
(10 Years)					[1.242]	[1.160]	[1.043]	[1.080]	[1.030]	[1.020]	[1.045]	[1.065	
Average Contracte	d Interest Ra	tes	1.357	1.269									
on Loans and Discounts(City Banks)				1.269	1.255	1.245	1.252	1.257	1.245	1.242			
(% changes from p	revious perio	d)			(-0.023)	(-0.014)	(-0.010)	(-0.003)	(0.005)	(-0.012)	(-0.003)		
The Nikkei Stock Average		9,755	10,084	10,084	9,007	8,870	8,695	8,840	8,870	8,928	9,44		
(TSE 225 Issues)				[9,755]	[9,816]	[8,700]	[9,833]	[8,955]	[8,700]	[8,988]	[8,435		
M2(Average)			(2.7)	(2.9)	(3.0)	(2.4)	(2.4)	(2.3)	(2.4)	(2.4)	(2.3)	(2.1	
Broadly-defined Lie	quidity(Avera	je)	(0.6)	(0.1)	(0.3)	(0.2)	(0.3)	(0.0)	(0.3)	(0.5)	(0.5)	(0.3	
Principal Figures o	f Financial In	stitutions											
Banks & Shinkin		(-1.9)	(-0.1)	(0.6)	(0.3)	(0.8)	(0.7)	(0.8)	(0.9)	(0.8)	(1.0		
Loans and	В	anks	(-2.0)	(-0.1)	(0.8)	(0.5)	(1.1)	(0.9)	(1.1)	(1.2)	(1.1)	(1.3	
Discount		City Banks etc.	(-4.2)	(-1.8)	(-0.4)	(-1.1)	(-0.4)	(-0.5)	(-0.4)	(-0.4)	(-0.4)	(-0.1	
(Average)		Regional Banks	(0.6)	(1.9)	(2.3)	(2.4)	(2.9)	(2.6)	(2.8)	(3.2)	(3.2)	(3.2	
		Regional Banks II	(-0.4)	(1.1)	(1.2)	(1.3)	(1.4)	(1.3)	(1.5)	(1.2)	(0.3)	(0.5	
	Shinkin		(-1.3)	(-0.5)	(-0.5)	(-0.7)	(-0.8)	(-0.9)	(-0.8)	(-0.7)	(-0.8)	(-0.5	
Total(3 Business Condition)		(2.6)	(2.7)	(2.9)	(1.8)	(2.2)	(2.0)	(2.3)	(2.3)	(2.1)	(1.7		
Deposits		City Banks	(2.6)	(1.9)	(2.2)	(0.7)	(2.1)	(1.7)	(2.1)	(2.5)	(1.9)	(1.1	
and CDs		Regional Banks	(3.1)	(3.7)	(3.7)	(3.0)	(2.3)	(2.3)	(2.4)	(2.1)	(2.5)	(2.5	
(Average)		Regional Banks II	(0.6)	(2.8)	(3.2)	(2.8)	(2.2)	(2.3)	(2.4)	(1.9)	(1.1)	(1.0	

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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