

Japan Economic Monthly

The Abe Administration's Economic Policies Take Root

~ Monetary Easing, Fiscal Spending, Growth Strategy ~

Economic Research Office

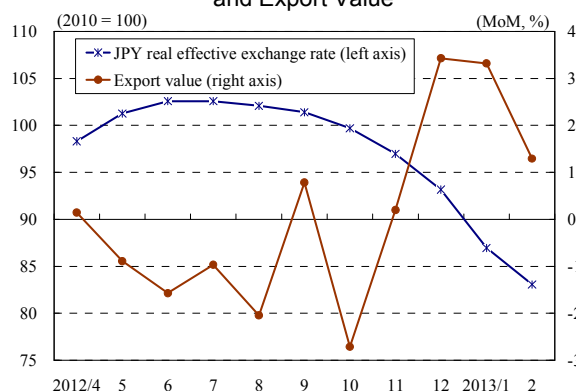
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

1. The Real Economy

The Abe Administration's economic policies continue to take effect. Even after the BoJ's Monetary Policy Meeting agreed to introduce a price stability target of 2% and boost monetary easing at its January 21-22 meeting, the JPY has continued to weaken, primarily because of expectations of further easing under the new Governor and Deputy Governors. The strong JPY trend that had long weighed on Japan's economy has been shifting course. The JPY's real effective exchange rate, which adjusts for differences in domestic and overseas inflation rates, had weakened by 19% through February from the recent peak in June and July last year. This has nearly completely reversed the JPY's 25% strengthening through mid-2012 since the collapse of Lehman Brothers. Because of this, Japanese exports have risen on-year for four straight months from last November (Figure 1). Although import growth has been gaining faster recently (import values were up +6.8% MoM in February, versus +1.3% MoM for export values), export values are expected to start to rise as import values fall because of the impact of the weaker JPY on trade volume. The FY12 supplementary budget was also passed on February 26. The JPY10 trillion-plus in economic stimulus focusing primarily on public works projects will soon start to have effect. If all goes as planned, the outlays are expected to boost economic growth considerably in FY13.

Amidst these developments, the Abe Administration on March 15 formally announced its intent to participate in the TPP talks. The Government at that time also released its estimate of the macroeconomic effects of tax eliminations related to participation in the TPP. According to the Government, Japan's real GDP would be boosted by 0.66%, or JPY3.2 trillion, every year after 10 years of loosened trade (Table 1). The benefits of participating in the TPP would likely well exceed the disadvantages. If all goes smoothly, Japan's participation in the talks is expected to be confirmed in June or July. The Government will also release its new growth strategy at that time. Expectations are high that the third prong of Abe's economic plan—the first and second prongs are economic and fiscal policy—will strongly take form.

Figure 1: The JPY's Real Effective Exchange Rate and Export Value



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

Table 1: Macro Economic Impact of TPP Tariff Elimination (Government Estimate)

	Amount (JPY tm)	% of Real GDP
Impact on Real GDP = ①+②+③+④	3.2	+0.66
① Increased consumption due to imports of cheaper farm goods	3.0	+0.61
② Increased investment within Japan	0.5	+0.09
③ Increased exports including manufactured goods	2.6	+0.55
④ Increased imports including farm goods	-2.9	-0.60
Impact on production value of farm, forestry, and marine products	-3.0	—

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

2. Financial Markets

(1) Monetary Policy & Long-Term Yields

On March 20, the BoJ's new Governor, former Asian Development Bank President Haruhiko Kuroda, and two Deputy Governors, former Gakushuin University Professor Kikuo Iwata and former BoJ Executive Director Hiroshi Nakaso, took office. At his Diet confirmation hearing before inaugural and press conference after inaugural, Governor Kuroda stressed his commitment to conducting bold monetary policy both qualitatively and quantitatively by buying JGBs with long durations remaining in order to achieve the price stability target of 2% (Table 2). Deputy Governors Iwata and Nakaso also expressed their positive stances toward further easing, including expanding purchases of longer-term JGBs. The BoJ, under the new leadership, is expected to engage in expanded monetary easing, primarily by increasing purchases of long-term JGBs and extending the durations of assets eligible for purchase. These means are likely to be relatively widely supported even within the BoJ and could be implemented quickly. On the other hand, Governor Kuroda has expressed caution regarding other possible easing methods, eliminating interest payments on excess reserves and expanded purchases of risk assets. He noted that 'there are both pros and cons, and they should be sufficiently debated' and 'the impact on the market must be adequately considered.'

Long-term yields have been declining, pushed by heightening speculation that the BoJ will engage in further monetary easing. The yield on the 10Yr JGB has been around the 0.5% mark recently. The yield's decline to the 0.5% level has been the first since June 2003, when the BoJ introduced quantitative easing.

(2) Exchange Rates

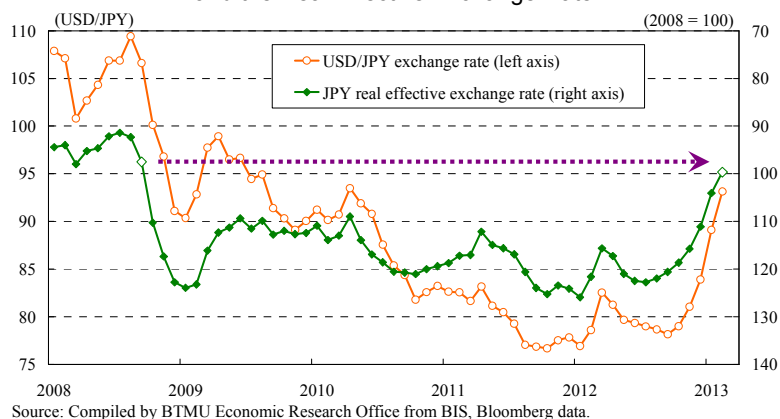
The JPY has continued to weaken roughly across the board since last fall, but a sense that the JPY has bottomed has begun to emerge. Against the USD, despite JPY-weakening factors since March like heightening speculation about further easing by the BoJ and improving economic news in the US and a subsequent rise in long-term yields, the JPY has treaded water at approximately the USD/JPY95 level. The JPY's real effective exchange rate has fallen to near the level of September 2008, when Lehman Brothers collapsed (Figure 2). The correction of an excessively-strong JPY seems to have slowed. Further, the JPY has reversed course against the EUR and strengthened by more than JPY5 since its peak in early February due to growing uncertainty about the Italian Government and confusion about the terms of the Cyprus financial bailout.

Table 2: Main Points in Diet Confirmation Hearings and Inaugural Press Conference

	Governor Kuroda	Deputy Governor Iwata	Deputy Governor Nakaso
Expanded purchases of long-term JGBs, extending durations of JGBs eligible for purchase	positive Large-scale purchases of long-term JGBs would cause long-term yields to fall. This would work to reduce expectations of deflation.	positive Has the feeling that the 2% inflation would be achieved within two years if long-term JGBs are purchased.	positive May have had to expand current comprehensive easing measures a little more.
Lifting of interest payment on excess reserves	neutral Because there are both pros and cons, this should be sufficiently deliberated by the Policy Board.	positive Feels that paying no interest would be fine.	negative Central banks share the belief that the interest rate should not be cut to 0% in order to leave some market functions, however small.
Expanded purchases of risk assets	positive to neutral Although this should be considered, market scale and the impact on financial capital markets should be sufficiently considered.	negative Agrees that purchases need not include risk assets, but eliminating policy measures in advance is dangerous.	(No direct comments)

Note: positive, neutral, and negative marks indicate BTMU determinations of degree of aggressiveness.
Source: Compiled by BTMU Economic Research Office from various media reports.

Figure 2: USD/JPY Exchange Rate and the Real Effective Exchange Rate



(Yasuhiro Ishimaru, Rei Tsuruta)

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Apr. 8, 2013

	Fiscal 2010	Fiscal 2011	2012			2012			2013	
			2Q	3Q	4Q	OCT	NOV	DEC	JAN	FEB
Real GDP Growth Rate <% changes from previous period at SA annual rate>	3.4	0.3	-0.9 (3.9)	-3.7 (0.4)	0.2 (0.5)	***	***	***	***	***
Index of All Industries Activity	2.0	0.2	-0.1 (2.6)	-0.5 (-0.2)	0.2 (-0.3)	0.3 (0.2)	-0.4 (0.1)	1.6 (-1.0)	-1.4 (-0.5)	
Industrial Production Index	9.3	-1.0	-2.0 (5.3)	-4.2 (-4.6)	-1.9 (-5.9)	1.6 (-4.5)	-1.4 (-5.5)	2.4 (-7.9)	0.3 (-5.8)	-0.1 (-11.0)
Production										
Shipments	9.4	-2.0	-0.2 (8.0)	-5.4 (-4.5)	-2.1 (-6.0)	-0.1 (-4.9)	-0.8 (-5.6)	4.0 (-7.5)	-0.3 (-3.9)	0.8 (-9.5)
Inventory	3.9	9.6	0.0 (6.3)	0.3 (4.8)	-2.5 (3.5)	-0.1 (3.8)	-1.2 (3.1)	-1.2 (3.5)	-0.4 (1.0)	-2.0 (-0.5)
Inventory/Shipments Ratio (2005=100)	108.4	116.4	121.8 [121.1]	127.9 [116.5]	127.1 [115.0]	127.6 [116.6]	127.2 [115.6]	126.5 [112.7]	122.5 [113.5]	121.3 [110.4]
Domestic Corporate Goods Price Index	0.7	1.4	-0.2 (-1.0)	-0.8 (-1.9)	0.0 (-0.8)	-0.3 (-1.0)	0.0 (-0.9)	0.3 (-0.6)	0.2 (-0.3)	0.4 (-0.1)
Consumer Price Index(SA, total, excl.fresh foods)	-0.8	0.0	0.3 (0.0)	-0.3 (-0.2)	0.0 (-0.1)	0.0 (0.0)	-0.1 (-0.1)	0.0 (-0.2)	0.0 (-0.2)	0.0 (-0.3)
Index of Capacity Utilization (2005=100)	88.0	87.4	89.8 [79.8]	85.0 [87.5]	83.1 [89.3]	82.4 [89.9]	82.2 [88.1]	84.6 [89.9]	86.0 [92.8]	
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	9.1	6.2	-4.1 (-1.7)	-1.1 (-4.6)	2.0 (-0.8)	2.6 (1.2)	3.9 (0.3)	2.8 (-3.4)	-13.1 (-9.7)	
Manufacturing	18.3	5.9	-5.8 (-7.6)	-3.2 (-9.5)	-3.9 (-11.1)	-3.6 (-13.3)	3.9 (-10.5)	3.0 (-9.8)	-13.2 (-19.0)	
Non-manufacturing Excl.Electric Power & Ship building	2.7	6.6	0.0 (3.1)	0.1 (-1.3)	6.3 (7.4)	2.8 (13.3)	6.2 (9.1)	-8.0 (1.6)	-6.3 (-1.5)	
Shipments of Capital Goods (Excl.Transport Equipment)	21.4	5.4	0.7 (0.9)	-4.8 (-5.3)	-6.0 (-11.4)	-6.7 (-11.2)	0.0 (-12.9)	8.4 (-9.9)	-5.8 (-9.5)	2.7 (-15.9)
Construction Orders	-5.2	7.1								
Private	-2.6	3.7	(6.1)	(6.3)	(-2.7)	(-13.8)	(-2.1)	(4.8)	(-3.7)	(16.3)
Public	-12.1	22.7	(29.7)	(11.7)	(-7.3)	(-39.7)	(-2.0)	(21.5)	(-0.9)	(11.6)
Public Works Contracts	-8.8	-0.5	(15.5)	(13.3)	(17.7)	(28.2)	(6.2)	(15.6)	(6.7)	(-4.8)
Housing Starts 10,000 units at Annual Rate, SA	81.9 (5.6)	84.1 (2.7)	87.6 (6.2)	87.6 (-1.1)	91.8 (15.0)	96.8 (25.2)	90.6 (10.3)	88.0 (10.0)	86.3 (5.0)	94.4 (3.0)
Total floor	(9.0)	(2.5)	(5.1)	(-2.7)	(12.2)	(20.1)	(8.5)	(8.4)	(7.2)	(3.5)
Sales at Retailers	1.1	0.8	(2.5)	(0.1)	(-0.0)	(-1.2)	(0.9)	(0.2)	(-1.1)	(-2.3)
Real Consumption Expenditures of Households over 2 persons (SA)	-0.9	-1.2	1.7 (2.7)	-1.4 (0.9)	-0.7 (-0.2)	0.4 (-0.1)	0.1 (0.2)	-0.1 (-0.7)	1.9 (2.4)	2.2 (0.8)
Propensity to Consume (SA,%)	73.4	73.3	74.1 [74.0]	74.4 [73.1]	74.8 [74.2]	73.9 [72.8]	74.7 [73.8]	75.0 [74.1]	76.7 [73.7]	77.8 [72.7]
Overtime Hours Worked (All Industries, 5 employees or more)	7.9	0.8	0.0 (4.0)	-2.8 (-0.9)	-0.3 (-2.5)	-0.8 (-3.1)	0.5 (-2.2)	1.1 (-2.2)	-0.6 (-1.9)	0.9 (-2.0)
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	0.5	-0.3	(-0.5)	(-0.7)	(-1.0)	(-0.4)	(-0.8)	(-1.7)	(0.1)	(-0.7)
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	23	52	138	131	133	134	128	137	26	17
Ratio of Job Offers to Applicants (SA,Times)	0.56	0.68	0.80 [0.61]	0.81 [0.65]	0.82 [0.71]	0.81 [0.69]	0.82 [0.71]	0.83 [0.72]	0.85 [0.74]	0.85 [0.75]
Unemployment Rate (SA,%)	5.0	5.0	4.4	4.3	4.2	4.2	4.2	4.3	4.2	4.3
Economy Watcher Survey (Judgment of the present condition D,I,%)	44.2	44.9	47.3 [38.0]	43.0 [48.4]	41.6 [46.0]	39.0 [45.9]	40.0 [45.0]	45.8 [47.0]	49.5 [44.1]	53.2 [45.9]
Bankruptcies (Number of cases)	13,065 (-11.3)	12,707 (-2.7)	3,127 (-5.5)	2,924 (-5.9)	2,889 (-6.8)	1,035 (6.0)	964 (-11.9)	890 (-13.7)	934 (-5.1)	916 (-11.7)

(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 Apr. 8, 2013

	Fiscal	Fiscal	2012		2013	2012		2013		
	2011	2012	3Q	4Q	1Q	NOV	DEC	JAN	FEB	MAR
Customs Clearance(Exports in Yen Terms)	-3.7		(-8.2)	(-5.5)		(-4.1)	(-5.8)	(6.3)	(-2.9)	
Value	0.7		(0.6)	(4.2)		(3.6)	(7.3)	(13.0)	(15.3)	(15.0)
Volumes	-4.3		(-8.7)	(-9.3)		(-7.5)	(-12.2)	(-5.9)	(-15.8)	
Imports(In Yen terms)	11.6		(0.3)	(0.4)		(0.9)	(1.9)	(7.1)	(11.9)	
Value	9.2		(-2.6)	(1.1)		(1.8)	(1.8)	(1.9)	(8.2)	(12.0)
Volumes	2.2		(2.9)	(-0.6)		(-0.9)	(0.0)	(-1.1)	(-0.1)	
Current Balance(100 mil. yen)	76,180		16,210	▲ 1,096		-2,224	▲ 2,641	-3,648	6,374	
Trade Balance(100 mil. yen)	-34,698		-15,144	-18,654		-8,475	-5,676	-14,793	-6,770	
Services(100 mil. yen)	-18,265		-8,092	-8,270		-1,901	-2,801	-1,802	-536	
Capital and Financial Accounts(100 mil. yen)	29,618		-23,904	-60		-3,274	9,134	6,075	-1,317	
Gold & Foreign Exchange Reserves(\$1mil.)	1,288,703	1,254,356	1,277,000	1,268,125	1,254,356	1,270,848	1,268,125	1,267,299	1,258,809	1,254,356
Exchange Rate(V/\$)	79.05	83.08	78.62	81.16	92.38	80.87	83.64	89.18	93.21	94.75

3. Financial Market Indicators

	Fiscal	Fiscal	2012		2013	2012		2013		
	2011	2012	3Q	4Q	1Q	NOV	DEC	JAN	FEB	MAR
Uncollateralized Overnight Call Rates	0.077	0.083	0.085	0.084	0.083	0.086	0.082	0.083	0.087	0.078
			[0.078]	[0.079]	[0.083]	[0.077]	[0.078]	[0.080]	[0.085]	[0.084]
Euro Yen TIBOR (3 Months)	0.331	0.312	0.327	0.318	0.270	0.318	0.308	0.292	0.269	0.250
			[0.330]	[0.329]	[0.331]	[0.329]	[0.329]	[0.331]	[0.332]	[0.332]
Newly Issued Japanese Government Bonds Yields (10 Years)	1.050	0.760	0.780	0.757	0.655	0.700	0.795	0.740	0.665	0.560
			[1.043]	[1.030]	[0.968]	[1.065]	[0.980]	[0.965]	[0.955]	[0.985]
Average Contracted Interest Rates on Loans and Discounts(City Banks)	1.269		1.245	1.226		1.239	1.226	1.220	1.203	
(% changes from previous period)			(-0.010)	(-0.019)		(-0.003)	(-0.013)	(-0.006)	(-0.017)	
The Nikkei Stock Average (TSE 225 Issues)	10,084	12,398	8,870	10,395	12,398	9,446	10,395	11,139	11,559	12,398
			[8,700]	[8,455]	[10,084]	[8,435]	[8,455]	[8,803]	[9,723]	[10,084]
M2(Average)	(2.9)		(2.4)	(2.3)		(2.1)	(2.6)	(2.7)	(2.9)	
Broadly-defined Liquidity(Average)	(0.2)		(0.3)	(0.6)		(0.4)	(1.0)	(1.2)	(1.3)	
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(-0.1)	(0.8)	(1.0)		(1.0)	(1.1)	(1.3)	(1.5)
		Banks	(-0.1)	(1.1)	(1.2)		(1.2)	(1.4)	(1.6)	(1.9)
		City Banks etc.	(-1.8)	(-0.4)	(-0.1)		(-0.2)	(0.2)	(0.6)	(1.1)
		Regional Banks	(1.9)	(2.9)	(3.1)		(3.2)	(3.1)	(3.1)	(3.2)
		Regional Banks II	(1.1)	(1.4)	(0.4)		(0.5)	(0.5)	(0.4)	(0.4)
		Shinkin	(-0.5)	(-0.8)	(-0.7)		(-0.7)	(-0.6)	(-0.5)	(-0.6)
Deposits and CDs (Average)	Total(3 Business Condition)	Total(3 Business Condition)	(2.7)	(2.2)	(2.0)		(1.7)	(2.3)	(2.3)	(2.9)
		City Banks	(1.9)	(2.1)	(1.7)		(1.1)	(2.1)	(2.1)	(2.7)
		Regional Banks	(3.7)	(2.3)	(2.6)		(2.5)	(3.0)	(3.0)	(3.4)
		Regional Banks II	(2.8)	(2.2)	(1.1)		(1.0)	(1.2)	(0.9)	(1.4)

(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.

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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.

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