

## Economy's Virtuous Cycle Remains Uninterrupted Despite Private Consumption Stumble

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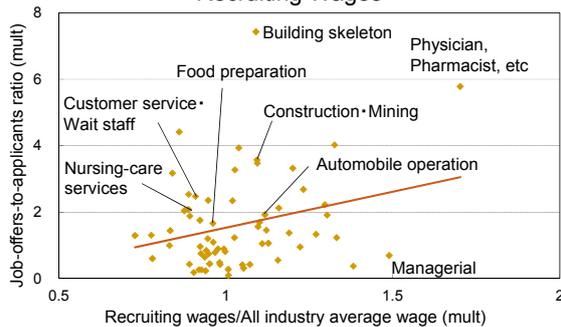
### 1. The Real Economy

Japan's recovering private consumption appears to have stumbled recently. The Private Consumption Integrated Estimates, related to private consumption in GDP data, slumped in April when the consumption tax was hiked, then improved on month-to-month basis in May and June before slipping once again in July. As a result, the weakness of private consumption, which comprises approximately 60% of Japan's GDP, is stoking concerns about the post-consumption tax hike economy.

However, companies continue to actively hire as macro-level supply and demand tighten, and household incomes—the basis of consumer activity—remain firm. The job-offers-to-applicants ratio and recruiting wages (by job type) show that wages are relatively higher for job types with bigger labor shortages, and that company recruiting activities and wage rises are basically linked (Figure 1). In fact, macro-level employment and wage figures show that wages have also been slowly increasing as the number of workers has steadily risen (Figure 2). Not only have unscheduled wages continued to be in increasing trend since last fiscal year, scheduled wages have also been higher than year-earlier levels for two straight months after the spring wage negotiations succeeded in gaining fairly large wage hikes. The labor shortage bears watching as it has still not been adjusted sufficiently by wage hike in particular job types and it may limit production activity. However, the positive impacts have been considerable from a household income perspective.

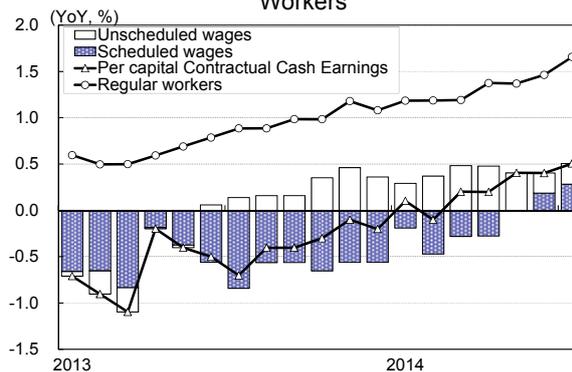
Household incomes continue to rise, largely supporting the private consumption recovery. The recent pause in the private consumption recovery has been largely due to irregular weather conditions over the summer. Further, the Jul-Sept Business Outlook Survey released September 11 showed that capital expenditure plans have been revised up from the previous survey, particularly among manufacturers. The economic virtuous cycle has not been disrupted by company's positive headcount increasing and investment activity, and the economy is expected to once again pick up once temporary factors abate.

Figure 1: Job-Offers-to-Applicants Ratio and Recruiting Wages



Note: Job-offers-to-applicants ratio and Recruiting wages are average figures as of June 2014 for Tokyo, Saitama, Chiba, Kanagawa, Ibaragi, and Yamanashi prefectures  
Source: Compiled by BTMU Economic Research Office from MHLW data.

Figure 2 : Per Capita Contractual Cash Earnings and Workers



Note: Companies with five or more employees.  
Source: Compiled by BTMU Economic Research Office from MHLW data.

## 2. Monetary Policy and Financial Markets

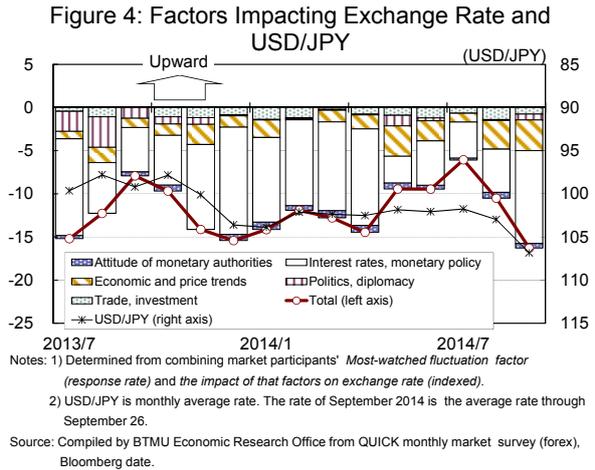
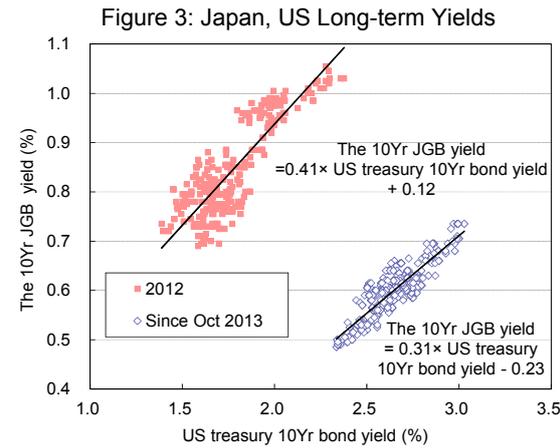
### (1) MONETARY POLICY & LONG-TERM YIELDS

At its September 3-4 Monetary Policy Meeting, the Bank of Japan agreed to hold current monetary policy intact. Governor Haruhiko Kuroda, at a press conference following his meeting with Prime Minister Shinzo Abe September 11, noted, “I told the Prime Minister that if we face difficulty achieving the goal, we would adjust monetary policy without hesitation, even if it takes the form of additional easing or anything else.” The comment was made just as concerns about the economic outlook are growing, and more market participants are expecting additional monetary easing.

The 10Yr JGB yield dipped below 0.5% between end-August and early September, then rose to the higher 0.5% range as the expectation for an impending rise in interest rate increased in the US. A comparison between two phases—1) 2012, before Japan introduced quantitative and qualitative monetary easing (QQE), and 2) after October 2013, when half a year had passed since the introduction of QQE and the effects had affected to the market interest rates—show that the 10Yr JGB yield, even while shifting downward, has maintained its correlation to the US treasury 10yr bond yield (Figure 3). As US long-term yields rise as a rate hike nears, upward pressure on Japan’s long-term yields will also likely build.

## (2) EXCHANGE RATES

USD/JPY moved out from a narrow trading range around USD/JPY102 since February, with JPY-selling picking up recently. The JPY's weakening appears to be because market participants have been watching interest rates and monetary policy more closely (Figure 4). The FRB is expected to end its asset purchase program as early as October, and—depending on the state of the economy—an interest rate hike may even be near at hand. Meanwhile, the BoJ plans to maintain monetary easing by purchasing huge amounts of JGBs. With the degrees of monetary easing varying more, the narrowing US-Japan long-term yield gap has started to widen once again. USD/JPY appears to be factoring in these developments.



## MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

### 1. Main Economic Indicators

As of Oct. 23, 2014

	Fiscal 2012	Fiscal 2013	2013	2014		2014				
			4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP
Real GDP Growth Rate <% changes from previous period at SA annual rate>	0.7	2.3	-0.5 (2.5)	6.0 (3.0)	-7.1 (-0.1)	***	***	***	***	***
Index of All Industries Activity	0.1	1.9	0.3 (1.9)	1.6 (3.2)	-3.4 (-0.9)	0.5 (-1.5)	-0.3 (-0.5)	-0.4 (-1.7)	-0.1 (-2.5)	
Industrial Production Index	-2.9	3.2	1.8 (5.8)	2.9 (8.2)	-3.8 (2.7)	0.7 (1.0)	-3.4 (3.1)	0.4 (-0.7)	-1.9 (-3.3)	
Production										
Shipments	-1.8	2.9	2.6 (6.5)	4.6 (7.4)	-6.8 (1.3)	-1.0 (-0.8)	-1.9 (2.2)	0.7 (-0.1)	-2.1 (-3.7)	
Inventory	-3.0	-1.4	-1.9 (-4.3)	0.2 (-1.4)	4.6 (2.8)	3.0 (0.8)	2.0 (2.8)	0.9 (2.9)	0.9 (4.6)	
Inventory/Shipments Ratio (2010=100)	114.4	106.2	104.6 [117.7]	102.6 [113.4]	107.7 [108.3]	107.8 [106.3]	111.5 [110.3]	109.1 [109.2]	118.5 [110.7]	[108.2]
Domestic Corporate Goods Price Index	-1.1	1.9	0.2 (2.5)	0.3 (2.0)	3.0 (4.3)	0.3 (4.3)	0.2 (4.5)	0.4 (4.4)	-0.2 (3.9)	-0.1 (3.5)
Consumer Price Index(SA, total, excl.fresh foods)	-0.2	0.8	0.3 (1.1)	-0.1 (1.3)	2.7 (3.3)	0.3 (3.4)	0.2 (3.3)	0.2 (3.3)	-0.2 (3.1)	
Index of Capacity Utilization (2010=100)	95.4	100.0	100.2 [93.1]	106.0 [95.1]	101.4 [96.3]	102.3 [97.0]	98.9 [96.0]	98.1 [97.8]	96.4 [96.7]	[98.9]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-3.0	11.5	1.9 (13.3)	4.2 (16.4)	-10.4 (-0.4)	-19.5 (-14.3)	8.8 (-3.0)	3.5 (1.1)	4.7 (-3.3)	
Manufacturing	-10.1	10.2	2.0 (14.8)	3.9 (22.1)	-8.5 (4.1)	-18.6 (-3.8)	6.7 (-1.3)	20.3 (13.4)	-10.8 (2.5)	
Non-manufacturing Excl.Electric Power & Ship building	2.8	12.1	4.9 (12.4)	-1.0 (11.8)	-6.7 (-3.1)	-17.8 (-19.9)	4.0 (-4.1)	-4.3 (-7.4)	10.7 (-7.0)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.0	5.6	4.8 (10.8)	10.8 (16.8)	-8.0 (8.1)	-1.5 (5.1)	-0.1 (10.0)	5.2 (11.1)	-7.7 (2.0)	
Construction Orders	2.4	20.1								
Private	2.6	14.2								
Public	5.3	31.2								
Public Works Contracts	10.3	17.7								
Housing Starts 10,000 units at Annual Rate, SA Total floor	89.3 (6.2) (4.8)	98.7 (10.6) (9.9)	102.6 (12.9) (13.8)	93.9 (3.4) (0.5)	88.8 (-9.3) (-13.4)	87.2 (-15.0) (-19.4)	88.3 (-9.5) (-13.6)	83.9 (-14.1) (-18.2)	84.5 (-12.5) (-16.9)	
Sales at Retailers	0.3	2.9								
Real Consumption Expenditures of Households over 2 persons (SA)	1.6	0.9	-0.2 (0.6)	4.6 (2.3)	-9.0 (-5.2)	-3.1 (-8.0)	1.5 (-3.0)	-0.2 (-5.9)	-0.3 (-4.7)	
Propensity to Consume (SA,%)	74.8	75.5	74.6 [74.5]	78.8 [76.2]	73.8 [74.0]	70.3 [74.0]	74.8 [73.0]	75.3 [73.4]	73.0 [74.3]	[75.6]
Overtime Hours Worked (All Industries, 5 employees or more)	-0.3	4.4	1.6 (6.0)	2.1 (7.1)	0.6 (5.1)	-0.5 (4.9)	-1.2 (3.9)	-0.6 (2.9)	-1.4 (1.0)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-0.7	0.1								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	107	45	49	54	65	65	69	77	77	
Ratio of Job Offers to Applicants (SA,Times)	0.82	0.97	1.01 [0.82]	1.05 [0.85]	1.09 [0.90]	1.09 [0.90]	1.10 [0.92]	1.10 [0.94]	1.10 [0.95]	[0.96]
Unemployment Rate (SA,%)	4.3	3.9	3.9	3.6	3.6	3.5	3.7	3.8	3.5	
Economy Watcher Survey (Judgment of the present condition D.I,%)	46.3	54.0	53.7 [41.6]	55.2 [53.3]	44.8 [55.1]	45.1 [55.7]	47.7 [53.0]	51.3 [52.3]	47.4 [51.2]	47.4 [52.8]
Bankruptcies (Number of cases)	11,719 (-7.7)	10,536 (-10.0)	2,571 (-11.0)	2,460 (-11.4)	2,613 (-8.0)	834 (-20.1)	865 (-3.5)	882 (-13.9)	727 (-11.2)	827 (0.8)

(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. 23, 2014

	Fiscal	Fiscal	2013	2014		2014				
	2012	2013	4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP
Customs Clearance (Exports in Yen Terms)	-2.1	10.8	(17.4)	(6.6)	(0.1)	(-2.7)	(-1.9)	(3.9)	(-1.3)	(6.9)
Value	4.0	10.2	(12.5)	(6.0)	(1.1)	(0.7)	(-0.3)	(2.9)	(1.6)	(4.0)
Volumes	-5.8	0.6	(4.3)	(0.7)	(-1.0)	(-3.4)	(-1.6)	(1.0)	(-2.9)	(2.8)
Imports (In Yen terms)	3.4	17.4	(24.1)	(17.6)	(2.7)	(-3.5)	(8.5)	(2.4)	(-1.4)	(6.2)
Value	2.5	14.6	(18.4)	(10.3)	(2.1)	(0.5)	(1.2)	(2.7)	(3.3)	(3.1)
Volumes	1.0	2.3	(4.8)	(6.5)	(0.5)	(-4.0)	(7.2)	(-0.3)	(-4.6)	(3.0)
Current Account (100 mil. yen)	42,233	8,312	-14,311	-8,187	3,112	5,112	-3,679	4,167	2,871	
Goods (100 mil. yen)	-52,474	-109,709	-31,002	-41,190	-20,230	-6,930	-5,453	-8,281	-8,318	
Services (100 mil. yen)	-41,864	-34,522	-11,319	-6,194	-9,586	-458	-2,186	-4,590	-2,508	
Financial Account (100 mil. yen)	20,255	-23,521	-28,031	-13,285	18,908	9,862	9,646	4,463	6,790	
Gold & Foreign Exchange Reserves (\$1mil.)	1,254,356	1,279,346	1,266,815	1,279,346	1,283,921	1,283,921	1,276,027	1,278,011	1,264,405	
Exchange Rate (¥/\$)	83.08	100.23	100.45	102.78	102.13	101.79	102.05	101.72	102.96	107.09

## 3. Financial Market Indicators

	Fiscal	Fiscal	2013	2014		2014				
	2012	2013	4Q	1Q	2Q	MAY	JUN	JUL	AUG	SEP
Uncollateralized Overnight Call Rates	0.083	0.073	0.072	0.074	0.067	0.068	0.067	0.066	0.069	0.068
			[0.084]	[0.083]	[0.073]	[0.073]	[0.074]	[0.073]	[0.073]	[0.072]
Euro Yen TIBOR (3 Months)	0.312	0.223	0.220	0.215	0.211	0.210	0.210	0.210	0.210	0.210
			[0.318]	[0.270]	[0.228]	[0.228]	[0.228]	[0.228]	[0.228]	[0.228]
Newly Issued Japanese Government Bonds Yields (10 Years)	0.560	0.640	0.735	0.640	0.565	0.570	0.565	0.530	0.490	0.525
			[0.795]	[0.560]	[0.855]	[0.860]	[0.855]	[0.795]	[0.720]	[0.680]
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	1.184	1.077	1.102	1.077	1.067	1.077	1.067	1.066	1.061	
			(-0.023)	(-0.025)	(-0.010)	(-0.001)	(-0.010)	(-0.001)	(-0.005)	
The Nikkei Stock Average (TSE 225 Issues)	12,398	14,828	16,291	14,828	15,162	14,632	15,162	15,621	15,425	16,174
			[10,395]	[12,398]	[13,677]	[13,775]	[13,677]	[13,668]	[13,389]	[14,456]
M2(Average)	(2.5)	(3.9)	(4.2)	(4.0)	(3.3)	(3.3)	(3.0)	(3.0)	(3.0)	(3.0)
Broadly-defined Liquidity(Average)	(1.0)	(3.7)	(4.3)	(3.9)	(3.1)	(3.0)	(2.9)	(3.0)	(3.1)	(3.2)
Principal Figures of Financial Institutions										
Loans and Discount (Average)	Banks & Shinkin	(0.9)	(2.0)	(2.2)	(2.2)	(2.2)	(2.2)	(2.3)	(2.2)	(2.3)
	Banks	(1.1)	(2.3)	(2.4)	(2.4)	(2.4)	(2.4)	(2.5)	(2.3)	(2.3)
	City Banks etc.	(-0.2)	(1.7)	(1.8)	(1.6)	(1.3)	(1.3)	(1.4)	(1.0)	(1.0)
	Regional Banks	(2.9)	(3.3)	(3.2)	(3.4)	(3.6)	(3.6)	(3.8)	(3.7)	(3.7)
	Regional Banks II	(0.8)	(1.4)	(2.0)	(2.4)	(2.5)	(2.5)	(2.6)	(2.8)	(2.9)
	Shinkin	(-0.7)	(0.3)	(0.5)	(0.9)	(1.2)	(1.2)	(1.3)	(1.4)	(1.4)
Deposits and CDs (Average)	Total(3 Business Condition)	(2.2)	(3.8)	(3.9)	(3.6)	(2.8)	(2.9)	(2.6)	(2.6)	(2.8)
	City Banks	(1.8)	(3.7)	(3.7)	(3.2)	(2.1)	(2.4)	(1.7)	(2.0)	(2.4)
	Regional Banks	(2.8)	(4.3)	(4.5)	(4.2)	(3.6)	(3.6)	(3.4)	(3.2)	(3.2)
	Regional Banks II	(1.8)	(2.5)	(3.2)	(3.1)	(3.0)	(3.0)	(3.1)	(3.3)	(3.2)

(Notes)

Newly Issued Japanese Government Bonds Yields and 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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